

RAJYA SABHA

***SUPPLEMENT
TO
SYNOPSIS OF DEBATE**

(Proceedings other than Questions and Answers)

Thursday, March 18, 2021 / Phalguna 27, 1942 (Saka)

GOVERNMENT BILL

The Insurance (Amendment) Bill, 2021 - *Contd.*

***SHRI SUBHASH CHANDRA BOSE PILLI:** This Bill seeks to amend the Insurance Act of 1938. It is very unfortunate that this Bill, if passed, would increase the limit on foreign investment in Indian insurance companies from the present 49 per cent to 74 per cent. Employees of the insurance companies and experts from insurance sector are feeling insecure. India is presently the 10th largest life insurance market globally. There is no imminent danger as of now. India is the 15th largest non-life insurance market globally. The Insurance sector in India has seen major growth during the last decade. Though, this sector is in profits, there is much scope for achieving better results. After the outbreak of Coronavirus, the country has realized the importance of insurance like never before. I request the government to consider all these factors. My Party supports this Bill.

*** This Synopsis is not an authoritative record of the proceedings of the Rajya Sabha.**

*** Spoke in Telugu.**

SHRI VISHAMBHAR PRASAD NISHAD:I oppose this Bill. These private companies are being brought in to eliminate the government companies of our country. I demand this Bill to be referred to the Standing Committee. Foreign companies should not have ownership over the policy holders of our country. If these companies declare themselves bankrupt, how will the policyholders get their money back. There is also no mention in the Bill that the insolvent insurance company will not get entry into India and they will be banned. Today the government is abolishing GIC which employs millions of employees of our country. This will put their future in danger. Their pension will be discontinued. Reservation of SC / ST and OBC class people will be over. People of the country have faith in LIC, but the government is going to destroy it by bringing 74 percent FDI in it. Due to the current law in the country, people are not able to get justice from consumer insurance companies. there are thousands of cases in courts. These companies will promise to give pension after 40 years, but in 40 years neither the company will remain nor the people will their get money. Refer this Bill to the Standing Committee. This Bill is not beneficial for the people of the country. Many farmers are not getting their claim under crop insurance. You have given a guarantee to the insurance company to recover the loss, but the government has not given any guarantee for the farmer. We oppose foreign insurance companies. We oppose this bill.

SHRI RAM CHANDRA PRASAD SINGH: I support this Bill. When the process of reform has started, it will go to the logical end. We cannot stop reform. This amendment will also create a win-win situation for the insurance companies as there will be capital infusion and technology and skill will come. If more companies of insurance come here then people will get the option and it will be more competitive. This will definitely increase investment in our country. Employment opportunities will be available and people will get better insurance facilities. So, I support the Bill.

SHRIMATI JHARNA DAS BAIDYA:I oppose the Bill on behalf of my Party. India's life insurance sector was nationalised in 1956 after a series of failures and scandals in the private insurance companies. We are going back to those days. The number of persons covered is significant. This number can increase depending upon the

rising levels of income and savings. Insurance, especially life insurance, mobilises small savings of the people and converts them into capital for long-term investments in social and infrastructure projects. The aggregate holdings of equity shares by foreign investors including portfolio investors should not exceed fifty per cent of the paid-up equity capital of such Indian insurance company. I urge the government to reconsider on the Bill.

PROF. MANOJ KUMAR JHA: We know that a substantial population of our country lives in villages. But foreign insurance companies have the tendency to have a low rural penetration. Instead, what we find is that they place greater emphasis on machinery, construction and intellectual property. There is also a possibility that the household organisations could face the possibility of having their business taken over by foreign organisations. If you are keen to do it, I like many of my colleagues would urge you to send it to the Standing Committee. My another question is when you open up this sector, would you be able to ensure implementation of the Constitutional provisions with regard to reservation? I believe that, without coming under pressures from anyone, we should decide that each edifice that is built here, has humans and human relationships, crores of families at the root of it. If we don't think about them, history will consider us guilty as well.

SHRI PRAFUL PATEL: Through LIC, we have been able to reach the last person. Now you have brought this bill all of a sudden. As such, what should we argue about it? You sidelined the process of the Standing Committee. Today, HDFC, Tata, Reliance, Bajaj, Max and many other insurance companies are already in the country, having tie-ups with the world's best insurance companies. So I am not willing to accept that it is going to get more money from outside or we need it. Crop insurance for farmers was earlier done by our government insurance companies. Look at the rate of claim settlement at that time and compare it with the claim settlement rate with respect to private insurance companies that do crop insurance today. Today, you will get complaints about this and if these outsiders come, they will not be aware of and sensitive to the condition of our villages. They will only think about profits. This can further compound the problems faced by

our small farmers. I would say in the end that this bill which has been brought in haste, should be sent to the Standing Committee for study.

SHRI ANIL DESAI: The Bill proposes to allow foreign ownership and control with safeguards. Under the new structure, the majority of directors on board and key management persons would be Resident Indians with at least 50 per cent of directors being independent directors and specified percentage of profits will be retained as general reserve. All this will have no meaning when ownership goes in the hands of foreign investors. Before 2000, insurance sector was the monopoly of state-owned companies like the LIC for life sectors; four general insurance companies, namely New India Assurance, United India, Oriental Insurance and National Insurance; and General Insurance Corporation of India was meant for reinsurance purposes. With the objective to encourage competition and enhance insurance penetration under the aegis of IRDA, the insurance regulator, the Government of the day threw open the insurance sector to private players. The expected Foreign Direct Investment looks elusive as foreign investors too would study the terms and conditions, the new structure of directors on board, any conditionality and regulatory approvals attached to the payment of dividend and then take cautious steps of investing in Indian insurance sector. Even in case a good response emerges from foreign investors, the insurance sector will always remain under threat of foreigners who will capture the entire insurance industry and will make huge profits and flight of capital cannot be stopped by the Government authorities. Public sector insurance companies like LIC and four general insurance companies will fall prey to private insurance companies owned by foreigners. I would, therefore, urge the Government to reconsider the step of raising FDI limit in insurance sector to 74 per cent and instead boost the State-owned Government insurance companies by infusing capital to enable them to cater to the insurance needs of the Indian people.

SHRI KANAKAMEDALA RAVINDRA KUMAR: Insurance companies are in existence in the country prior to Independence itself. Over the years, these companies have created vast assets. The real strength of these companies is demonstrated through the build-up of huge reserves and surplus and their large asset base. These companies have also maintained solvency margins consistently higher

than what is prescribed by IRDA. Such strong financials demonstrate the ability of these companies to generate resources internally. In a developing country like India, the Government needs to retain some control over domestic savings instead of allowing foreign investors to enjoy control over Indian savings. Further increase in the FDI limit will lead to the feeling of uncertainty in the mind of the people. Under these circumstances, it is not desirable to permit to raise the FDI limit from 49 per cent to 74 per cent. I urge the Government to have a re-look into the issue.

SHRI SUSHIL KUMAR MODI: I support the Insurance (Amendment) Bill, 2021. This 74 per cent is not mandatory for each and every insurance company. It is only an enabling provision. The government is not forcing the Indian companies that they must have 74 per cent of foreign equity. If any company wishes to have a foreign equity, foreign collaboration then it can go up to 74 per cent and it is not being forced on any company. It is for them to decide how much equity they want and it is for the foreign collaborators to decide, how much they are going to invest in that particular company. There may be Indian companies who will be 100 per cent Indian companies. There may be about a dozen companies in the insurance sector who have not gone for foreign collaboration, who haven't exhausted the FDI limit and who will not like to share the equity with anyone else. Majority of the Directors in the Board and key management persons like CEO, CFO, CRO, all of them will be resident Indians. Only a small part of the Act is being amended. No insurer shall directly or indirectly invest outside India the funds of the policymakers. All the three general insurance companies are in financial distress and their insolvency margin is much below 150 per cent. In this financial year, the Government of India is going to infuse Rs.13,500 crores as capital in these insurance companies as they require more and more capital infusion for their survival. This is the capital intensive industry, requiring huge capital and it is a risky business. No big industrialists of this country are ready to invest in insurance sector because of its high risk factor and because of its long gestation period. When time changes, there is a need of change in people. Today there are 56 insurance companies in the country as a result of private participation and liberalization in FDI. Therefore, no one can deny the role of private sector. It is the willpower of this government that it has

introduced this Bill to increase it from 49 percent in 2015 to 74 percent . There are hundreds of foreign companies operating in India, but we have made provision for safeguards. Detailed guidelines for investment have been prepared. Level of competition will bring better products with lower costs. It will be an effective vehicle for household savings. It will be creating long-term assets in the economy, faster growth and employment generation. With the coming of foreign companies, poor children of India will get employment through it. I will request all that this Bill may be passed unanimously.

DR. AMEE YAJNIK: The Bill seeks to amend the Insurance Act, 1938 and raise the cap on foreign direct investment in the insurance sector from 49 per cent to 74 per cent. The insurance sector plays an important role in economic development. The Statement of Objects and Reasons mentions only one clause and that is, 'substitution of sub-clause (b) in the definition of "Indian insurance company" in clause (7A) of section 2 of the Insurance Act, 1938, so as to raise the limit of foreign investment in an Indian insurance company from the existing 49 per cent to 74 per cent, and to allow foreign ownership and control with safeguards'. Foreign ownership and control itself speaks a lot. Further, you have mentioned, 'thereby to enhance insurance penetration and social protection, it has been decided to raise the limit.' The word 'social protection' does not deserve to be here when you are not understanding the meaning of it. This sector has a low penetration. The sector is capital intensive. But, the sector has been doing very well in a sense that it reaches the people of this country. We should not say that the Indian players in the domestic market can't bring this kind of capital. The Indian companies are doing very well after the privatization and liberalisation. And, they are also committed to the social justice. The FDI definitely comes with the technological know-how, all kinds of infrastructure and management. But, definitely, it does not consider any issue of local wages or social development. The safeguards which the hon. Finance Minister speaks are awaited. What safeguards are we talking of? The Regulatory Development Authority of India of 1999 has the guidelines on corporate governance, the private equity investment, etc. There is the Companies Act and the Contracts Act. We are also talking of several risks. The main point is that the hon. Finance Minister has not clarified what the rationale is and what the intent of raising this cap is, suddenly in FDI, when you have not

placed the data from 2015 to 2019. And there is no mention about the employee concerns and social development at the local-level. You have not talked about what is going to be the guarantee of capital infusion after this, when the cap is raised. The most important part here is, no views of the stakeholders are heard. So, I would like to ask the hon. Finance Minister as to what the hurry is that has made you bring this FDI in the sector without any basis.

DR. AMAR PATNAIK: The insurance sector should help maximum number of people of this country. Undoubtedly, people need insurance. The statistics says that in 2019, our insurance penetration was 3.76 per cent against the global average of 7.23 per cent. In fact, we need to have more insurance cover for the people of this country and this Bill essentially tries to do the same. The objective of this Bill is to supplement domestic long-term capital, technology and skills. But, equity capital for infrastructure financing has not been very successful in this country so far, and therefore, this particular method of opening up the sector for equity capital is welcome. And, the innovations in the products can come into the insurance market because of the private players, particularly, Foreign Direct Investors. There are two aspects which are very important in insurance, i.e. the cost of the product and the return. The second one would be commissions, the intermediation cost. How much would that be? Now, if it is very high, then actually, the relationship of the insurer and the person who is getting insured becomes unequal. The insured person really doesn't get the benefit. The market dynamics should ordinarily take care of this particular aspect by decreasing the cost and also removing intermediation. In fact, there are problems of regulation. And, the moment we open this sector to FDI and are getting foreign players into the market, our regulation has to become even more robust and stringent. The biggest problem in the insurance sector is mis-selling. In fact, the Government should make the regulation mechanism even more stringent. The mis-selling also results in something called as the lapse ratio, i.e. many people are not having the ability to buy a product because they are looking at it as an investment as well as an insurance product. High premiums have to be paid and the returns are low. In the end, after some years, they drop out and that money goes back to the company. This particular aspect has to be stopped. Similarly, the disclosures have to be made much more transparent and the

accountability mechanism should be much more stringent. As regards the sector arbiters, the SEBI has addressed the investor much more successfully when compared to IRDA and, therefore, I would once again reiterate my demand to look at the IRDA's functioning. The risks of regulatory failures are always there. What could be the regulatory failures – cartelization. Therefore, the presence of a public sector insurer has to be there. The Bill does not really take it away. It is only an enabling provision. Therefore, even though there is a risk, we can minimize that risk by continuing with a public sector insurer. The other risk is audit and inspection failure. A number of insurance regulatory authority's activities depend on inspection, surveillance and audit. But, we have seen, previously, that there have been several failures. If such a failure happens, what would be the response of the regulatory authority and how do they mitigate this kind of risk is something that they have to work on. The other point is that regulation is always one step behind market. Therefore, it is very important that our regulator has the intellectual capital, competence and expertise to analyze and quickly jump into mitigating action and, in some cases, maybe, punitive action if there is failure. This is one area where the regulatory authority has to look into. Hon. Finance Minister must address this. The last point is relating to removing sub-section (7) to Section 27. We have heard of asset bubbles. I know having those safeguard clauses of Director being located in India, transferring a part of the profit to reserves, etc. Are they adequate to address the issue of claims not being supported by adequate asset cover? This provision was there in the Act is now being removed. I think, this aspect may require a revisit. Besides, if a certain player decides to pullout suddenly from the market, it will completely vitiate the market in the short-term or, maybe, even in the long-term, what are the safeguards for that? This is also another point that has to be addressed.

SHRI SYED ZAFAR ISLAM: I strongly support this Bill. Insurance sector is an important segment of our economy. Insurance sector and its growth is very critical for the overall framework of the financial sector, because it contributes majorly to the Indian economy. Insurance sector is primarily a service sector and contributes more than 50 per cent to our GDP. Service sector is contributing more than 50 per cent and insurance is a part of the service sector. But, in the non-life insurance sector, our performance and track record is very abysmal,

one-fourth of the global average. The common man needs protection, needs insurance products which are affordable and owing to this fact, our Government had proposed in the last Budget to open the sector from 49 per cent to 74 per cent. It will not only attract investment, but it will also create a lot of job opportunities. To attract more and more investments from global players the Government has proposed these amendments in the existing Insurance Act. There is a regulator, the IRDA which has prescribed some investment guidelines and all the insurance companies have to necessarily comply with those guidelines. Investment by insurance companies in the country amounts to 42 trillion rupees. In the Budget, the hon. Finance Minister has proposed to set up Development Financial Institutions. These institutions will attract investment from insurance companies and, in turn, will lend to infrastructure companies, thereby bringing a lot of momentum and growth in the economy. The U.S. has around 6,000 insurance companies whereas a giant country like India has only 56 insurance companies though twenty per cent of world's population live in this country. More insurance companies should come to India and this Amendment will ensure that we will attract more investment, more capital and more number of insurance companies in the country. By opening up the insurance sector, we will have more and more insurance companies which will bring a lot of benefits to the countrymen. I request the hon. Finance Minister to ensure that innovative products across the world is introduced and the digital intervention required for all the administrative work and distribution is put in place. Only then all those products will be cost effective and affordable for the common man.

SHRI BINOY VISWAM: These days whole employees of the financial sector are on a struggle path. Bank employees, GIC employees, LIC employees are on strike. They feel that the Government is going through a very wrong path. This Bill is not for the common man. FDI cannot take care of the common man. The whole insurance sector of this country is given to the FDI. The Government is trying to kill the PSUs in the financial sector -- the banks, the GIC and the LIC. Investment of the insurance sector in the country's progress is 78,596 crores. Government's religion is greed. If this Bill is passed in the present form, it would be against the country's concept of freedom and

independence. It is demanded that the Bill should be changed considerably and it should be taken to a Standing Committee.

SHRI SANJAY SINGH: Privatisation will harm the youth desirous of government jobs. Privatisation will dry up jobs. Government have decided to sell railways, SAIL, coal, airports, ports, roads, electricity and stadiums. BJP, which once claimed to be biggest advocate of indigenisation is today the biggest supporter of foreignization. When there are no government jobs, there can be no reservation of jobs. Government have not been able to reach 49 per cent in FDI and now it is going to raise it to 74 per cent. Claims in crop insurance scheme have not been paid. Allowing FDI in insurance sector would pave the way for loot by big capitalists. Government have ruined the banks and it wants to privatise each sector. It should be checked and it should be sent to standing committee.

THE MINISTER OF FINANCE; AND THE MINISTER OF CORPORATE AFFAIRS (SHRIMATI NIRMALA SITHARAMAN), replying to the discussion, said: The insurance sector regulator actually approves every product that is sold. This enabling Amendment is only to allow them to receive some money, but it should not exceed 74 per cent. Policyholders' money, which is going to be collected, will have to be invested within India only. When there is greater competition, common people of India will have a better deal, better negotiative premium, and the overall insurance package. We are all enjoying the benefits of that opening up of economy that started in 1991. Parliamentary Standing Committee, headed by BJP leader, Shri Yashwant Sinha, had recommended retaining FDI cap at 26 per cent, the Government has gone for the higher cap so as to meet the growing capital requirement. IRDAI consulted sixty insurance companies, a number of promoters, leading industry leaders and chambers, and, then, reported a clear support of the Indian insurers and stakeholders for, increasing the FDI limit from 49 per cent to 74 per cent, and, further, on this basis, amending the requirement of Indian owned and controlled companies also. It was asked what will happen to the reservation. Insurance companies are broadly categorized in the two categories, life insurance and general insurance. In life insurance, there is one company in public sector, while there are 23 in the private sector. In general insurance, there are four in the public sector while there are 22

in the private sector. As far as agricultural insurance is concerned, there is one in public sector and there is none in the private sector. In re-insurance, there is one company in public sector and eleven companies in private sector. There are a total of 68 insurance-related companies, Public sector, life and the general category put together, has 1,65,000 people. Private sector, again, life and general category put together, has 2,67,000 Indians. The number of total employees and agents in public sector is around 17,10,000 whereas in private sector, 23,71,000 people are working both as employees and agents. In 2015, the limit was raised to 49 per cent of the paid up equity capital .Rs. 26,000 crores have come post the increase in the FDI limit of 2015. Twelve new insurance companies have come into play. Each of them has come with 26 per cent FDI . The total asset and management saw a 76 per cent increase in five years. Therefore, there is need for more and more resources so that the companies can compete healthily. In 2015, where there was 'zero' listed insurance companies. Today, there are 'six' listed companies. The stock market regulator regulates them. Continuous monitoring is done by the regulator. So when insurance companies face liquidity pressures, they need more money to come in. Today the borrowings of both the Centre and the States are also growing. The regulator also flagged this point that if the FDI has to be raised, then it has to be raised with adequate safeguards. Insurance is capital intensive. Gestation in life is ten years and breakeven is acquired only by that time. Foreign capitalists are required, who can come in and function within the laws of India, so that insurance can penetrate deep into this country. FDI Policy is brought in only to supplement domestic long-term capital. With the additional funds insurance cover in the country will be enhanced. Jan Dhan Yojana brought the financial inclusion. Digitized records of the land are being given to poor. Poor do not have papers with them and without papers they cannot get loans from banks. Government is giving the attention to the suggestions made by small parties also. Poor wants gas cylinders, water from tap at his home. Poor is happy with this Government because every programme of the Government is reaching to him. Pradhan Mantri Jeevan Jyoti Bima Yojana is launched and one can secure himself by investing Rs.1/- per day. To give insurance cover to all, Insurance companies need more money. Government is allowing FDI for this purpose.

In 1999 there were only six insurance companies in India but there are 70 insurance companies in 2019. In 2001 insurance penetration was 2.71 per cent now it has increased to 3.76% in 2019-20. In China it is 4.3%, in South Korea it is 10.73% and in Taiwan it is 19.97%. There is immense opportunity for our insurance sector to grow. FDI limit for insurance was enhanced in September, 2019. In 2018-19 public sector insurance premium as a market share was 40.52, whereas now it is 38.78 in 2019-20. The private sector insurance premium in 2018-19 was 47.9 and in 2019-20 it is 48. As regards the control, the majority of Directors, and Key Management persons in Board will be resident Indian which means that every law of the land will be made applicable on them. This should remove all doubts saying that foreigners are going to put money. The law of the land is mature and it can control every operation. The Malhotra Committee in 1994 had recommended non-controlling stake of foreign partners. In 1999 the Government made it clear that insurance companies would be forced to have foreign equity partnership. The Standing Committee in 1999 recommended 26% of foreign participation in insurance sector. At present out of 56 direct insurance companies in India 22 companies have already received around 40 per cent of FDI. The average FDI in private direct insurance is about 31 per cent at present. They have below 49%. Many Members spoke about safeguard. It is clearly mentioned in Section 27E that no insurer shall directly or indirectly invest outside India the funds of the policyholders. So the Indian insurance companies having foreign investment will be required to retain specific percentage of the profit as a general reserve. This will ensure that the reserves are available for meeting the policyholders claims regardless of a foreign investors own financial condition. So citizen's claims are being protected by this reserve. The majority of Directors, Key Management Persons of Indian Insurance companies will be resident Indian. 50 per cent of Directors will be independent Director. So the company's decisions can be monitored very well. This will address every concerns. FDI in Indian insurance companies is over Rs.26000/- crore post 2015. FDI worth Rs. 20000/- crore came in the country post amendment in 2015. The reservation policy is fully implemented in public sector insurance companies.

This Government has fulfilled its commitment towards providing reservation to the persons of SCs, STs and OBCs. Reservation policy is applied to all public sector undertakings. Therefore reservation is protected in those undertakings.

The motion for consideration of the Bill was adopted.

Clauses etc., were adopted.

The Bill, was passed.

Desh Deepak Verma,
Secretary-General.

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**ERRATA TO THE SYNOPSIS OF DEBATE
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Page No.	Line No.	Correction
397	27	Read 'Dr. Sasmit Patra' for 'Shri Sasmit Patra'.
398	24	Read 'anaemic' for 'anemic'.
400	15-18	Remove 'I request.....Karnataka' after 'Karnataka'.
412	23-24	Read 'The interest of the nation is paramount' for 'The paramount..... is safe '.