

Insurance Newsflash dated 1st November, 2008

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- Approval of Insurance Bill for comprehensive amendment of insurance laws including the 49% FDI in Insurance
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» Approval of Insurance Bill for comprehensive amendment of insurance laws including the 49% FDI in Insurance

As per the news article published on November 1, 2008 in the Economic Times and according to various other news sources, the Union Cabinet has approved a Bill for comprehensive amendment of insurance laws, including a proposal to raise the foreign direct investment (□FDI□) limit in insurance companies from the current 26 percent to 49 percent. The Government will now introduce a bill in Parliament to effect this change. However the bill may not be passed by the current Parliament for want of time.

Finance minister P Chidambaram on Friday, October 31, 2008 has announced that the Government would introduce Insurance (Amendment) Bill, 2008, for amendment to Insurance Act 1938, General Insurance Business (Nationalisation) Act, 1972, and Insurance Regulatory and Development Authority Act, 1999, in the Rajya Sabha on the basis of recommendations made by Group of Ministers. With the general elections due in the first half of 2009, the Government intends to introduce the Bill in the Rajya Sabha so that it does not lapse when the Lok Sabha is dissolved.

Mr. Chidambaram said that the bill was unlikely to be passed by the current Parliament, mainly due to lack of time, as it will go to a parliamentary committee. Parliament, which is having a recess now, will reconvene on December 10.

Apart from raising the foreign investment ceiling, another key amendment proposed is to give room to Indian promoters to continue to hold majority stakes in insurance companies. At present, the law requires Indian promoters to lower their stake to 26 per cent after the tenth year of operation. To enable state run companies to raise more capital, the Government will amend the General Insurance Business (Nationalisation) Act, 1972 to allow them to raise capital from market. The proposed change on FDI rules would not apply to public sector insurers like the Life Insurance Corporation of India, General Insurance Corporation and the four non-life insurance companies, which the Government owns.

Insurance industry has been stressing for the need to bring in more capital in order to maintain the growth momentum. The capital requirement for these companies has, in fact, increased recently due to losses on unit-linked products.

In case of any clarifications please contact our Insurance Team.

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