GLOBAL FEDERATION OF INSURANCE ASSOCIATIONS

To: Prime Minister Shri Narendra Modi
152, South Block, Raisina Hill
New Delhi-110011

Date: 14 October 2016

Subject: Letter to the Prime Minister of India on right of first priority in reinsurance

Dear Prime Minister Shri Narendra Modi,

The Global Federation of Insurance Associations (GFIA), which represents 41 regional and national insurance and reinsurance associations that account for 87% of global insurance and reinsurance premiums, commends the Indian government for adopting progressive measures to stimulate foreign investment in the Indian insurance industry.

GFIA works with governments to ensure that their insurance industry is well managed, and has the governance structure required to help support an appropriate and healthy growth of that industry. GFIA is committed to working with the Indian government to ensure a thriving and successful Indian insurance industry.

GFIA welcomed the recent changes in the insurance law that allows foreign reinsurers to set up branches onshore in India. Many reinsurance carriers from GFIA member jurisdictions have had a very long relationship with India and look forward to continuing to work with Indian insurance companies to help develop and grow the insurance market in a prudent manner. However, regulation 28(9) in the new *Registration and Operations of Branch Offices of Foreign Reinsurers other than Lloyd's (First Amendment) Regulations, 2016* could significantly undermine the progress made so far in facilitating foreign investment in the Indian insurance industry.

Regulation 28(9) requires all ceding companies in India to obtain at least four quotes for reinsurance contracts - one from the domestic reinsurance monopoly, and three from foreign reinsurer branches. The ceding company must first offer the quote and business that it deems to be best to the domestic reinsurance monopoly, before choosing the reinsurer that first offered best terms. The effect is to give the Indian reinsurance monopoly a "first order of preference" on all reinsurance business in India.

GFIA is concerned that this regulation will restrict the development of the insurance market in India, preventing Indian insurers from accessing global reinsurance markets. Overall, this right of first preference to a state-owned reinsurer is not consistent with other reinsurance regulations around the world. More specifically, the proposed rules may lead to:

- Limiting the ability of reinsurance branch offices to provide innovative products to Indian insurers, since product innovations and the terms and conditions of such products of one reinsurer may have to be shared with other reinsurers from whom quotes for best terms will have to be obtained. This may raise

Global Federation of Insurance Associations (GFIA)
Secretariat: rue Montoyer 51, 1000 Brussels, Belgium
Tel: +32 2 894 30 81 E-mail: secretariat@GFIAinsurance.org
www.GFIAinsurance.org

intellectual property concerns, and may lead reinsurers to reconsider introducing innovative and advanced products to the Indian market.

- Increasing concentration of risk in the Indian economy. An open reinsurance market creates opportunities for risk diversification, so that ceding insurers do not expose themselves to concentration risk by placing business with a small number of reinsurers. The ability to diversify risk across a wider number of reinsurers makes insurance markets more competitive, providing price and product advantages to consumers, and also has economic advantages for the country in which the insurers are located.
- Concentrating risk within India and in one company, potentially posing risks to financial stability:
  - If the monopoly company does not have the capacity to retain the risks it accepts from the Indian insurers, it may increase the retrocession outside India; this defeats the purpose of the original “first order of preference” cession - it would simply be more efficient to allow a free choice of reinsurers to Indian cedents.
  - India maintains a discriminating withholding tax on placement of reinsurance with certain lower tax jurisdictions, which further compounds concentration of risk concerns.

The new regulations note that *“Explanation - The [Insurance Regulatory and Development] Authority [of India] will undertake a review of the working of these regulations and in particular operation of Regulation 28(9) – order of preference for cessions by Indian insurers after a period of one year based on the reporting’s made to it.”* GFIA recommends that this review should result in all reinsurers who make investments in India via branches being put on an equal footing with Indian reinsurers and in line with global best practices. This would enable Indian insurers to access the widest variety of reinsurance expertise and build long-term relationships with reinsurance branch offices.

GFIA would welcome the opportunity to discuss in detail and constructively its concerns with Regulation 28(9) ahead of the one-year review envisaged in the regulation.

Yours sincerely,

Brad Smith
Chair of the GFIA Trade working group

About GFIA

Through its 41 member associations, the Global Federation of Insurance Associations (GFIA) represents the interests of insurers and reinsurers in 60 countries. These companies account for around 87% of total insurance premiums worldwide. The GFIA is incorporated in Switzerland and its secretariat is based in Brussels.