

July 27, 2005

Mr. Kamal Nath
Minister of Commerce
Ministry of Commerce and Industry
Room Number 146
Udyog Bhawan
New Delhi – 110011
India

Dear Minister Nath:

On behalf of the undersigned companies and associations, many of which have substantial investments in India, we wish to express our serious concern that the cap on foreign equity in the insurance sector will not be raised to 49% as supported by IRDA and the Finance Minister. We are particularly concerned that India may decide to lock in the unacceptably low existing percentage of 26% in its revised WTO services offer.

We have seen remarkable growth in India's insurance sector since its opening up in 2000, including the creation of over one million jobs (including direct and indirect employment in insurance companies and the business process outsourcing industry (BPO)). Clearly there is room for further growth, which can be fostered, in part, by raising the current foreign equity ceiling.

The Insurance Regulatory and Development Authority (IRDA) and the Finance Minister both support the increase of the foreign direct investment (FDI) cap from 26% to 49%. This would be a significant step towards the freedom from restrictions that foreign direct investors in the insurance sector would, ultimately, prefer. In fact the 2004–05 budget of the Congress Party committed that the FDI limit in insurance would be raised to 49% from the existing 26%. We are confident that raising foreign direct investment in the insurance sector will be good for consumers, the entire insurance industry, and India's economy.

Foreign insurers and insurance intermediaries have already invested significantly in India's capital markets and contributed to the country's infrastructure development. Given demographic shifts in India, the increase in urbanization and rapid industrialization, significant long-term capital for infrastructure projects will be needed. Insurance companies by their nature and by regulatory direction invest in long-term financial assets. Raising the equity cap in the insurance sector will encourage further foreign capital infusion and lead to faster capital market development.

Current IRDA regulations require the actual or available solvency margin of 1.5 times the required solvency margin for life insurers, which requires the local partner to continuously expand its equity base as the business grows. Raising the equity cap would assist the local joint venture partners in meeting their ongoing capitalization requirements, allowing their local partners to invest in other areas.

Indian insurance companies have come of age and now compete against multinational companies worldwide. They have come to expect and receive substantially better treatment overseas. While India restricts branches and reinsurance, the Life Insurance Corporation of India (LIC), has overseas branches in the UK, Mauritius and Fiji as well as a subsidiary in Bahrain and also recently announced its entry into the Saudi Arabian market. The General Insurance Corporation of India (GIC) has reinsurance operations in South East Asia, Middle East, and Africa primarily on a cross border basis, while foreign providers are restricted from offering similar lines. New India Assurance has operations in 23 countries worldwide and 18 of those are branches.

We trust you will consider the factors favorably and take steps to amend the legislation towards increasing the FDI cap to 49% as per the commitments made by your government. This will cover both insurers and insurance intermediaries. Studies have shown that the incremental FDI from existing players will be at least US\$ 500 million, with several new players bringing in additional FDI if the cap is raised. Foreign insurers and intermediaries are committed to a long-term engagement in the Indian economy and playing an essential role in financing India's economic development.

Thank you for your consideration of our views and recommendations.

Sincerely,

ACE INA
American Council on Life Insurers
American Insurance Association
American International Group, Inc. (AIG)
Association of British Insurers
Australian Services Roundtable
Canadian Life and Health Insurance Association
Comité Européen des Assurances
Council of Insurance Agents and Brokers, The
Coalition of Service Industries (U.S.)
European Services Forum
Fédération Française des Sociétés d'Assurance
Financial Leaders Group, The
General Insurance Association of Japan, The
International Financial Services London
MetLife
New York Life
Principal International, Inc.
Sun Life Financial
U.S. India Business Council
World Federation of Insurance Intermediaries

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cc: Mr. Palaniappan Chidambaram, Minister of Finance

Mr. Montek Singh Ahluwalia, Deputy Chairman Planning Commission