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Ownership Rule Change May Spur Foreign Investment in Indian Insurance

By
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MUMBAI—India's plans to allow more foreign investment in the insurance industry could attract billions of dollars to the struggling sector, industry officials and experts say.

India's Finance Minister Arun Jaitley proposed on Thursday that foreign companies be allowed to own up to 49% of insurance companies in India. The investment cap currently is 26%.

And while legislation still has to be passed by Parliament, industry experts welcomed the proposal, saying that if it is completed, foreign partners of insurance companies in India will look to increasing their stakes. The change in the ownership law is seen by many industry experts as likely to pass.

"The industry has been waiting for this for a very long time," said Roopam Asthana, chief executive officer of Liberty Videocon General Insurance Co., a joint venture between India's [Videocon Group](#) [511389.BY](#) -0.92% and the Boston-based Liberty Mutual Group. India opened its insurance sector to private and foreign ownership in 2000, and most of the top international insurers have since entered India. A majority of India's 52 life and general insurance companies are partly held by foreign companies, including [MetLifeInc.](#), [MET](#) -1.68% of the U.S., France's [AXA](#) S.A. [CS.FR](#) -0.60% , Germany's [Allianz SE](#), [ALV.XE](#) -0.38% and Japan's Nippon Life Insurance Co.

While only a small percentage of India's population of more than a billion people has insurance, the industry hasn't grown much in recent years. The life insurance business has been hurt by regulatory changes, such as limits on commissions companies can pay to agents.

India's ratio of total insurance premiums to gross domestic product was only 3.96% in 2012, according to the most recent data available from the Insurance Regulatory and Development Authority. That level is down from 5.2% in 2009 and well below the 8% penetration rate in the U.S. and the more-than-12% rate in South Korea and Hong Kong.

While some international companies have pulled out of their Indian ventures after reassessing the market, including Dutch insurer [ING Groep](#) [ING](#) -3.77% NV and New York Life Insurance, there

are others eager to enter the country, looking to capitalize on the burgeoning need for life, health and other insurance products.

In February, American insurer [Cigna Corp.](#) [CI +0.56%](#) set up a health insurance affiliate with the south-Indian conglomerate TTK Group.

India's insurance industry is "very attractive from a long-term perspective," said Munish Sharda, managing director and chief executive officer of Future Generali India Life Insurance Co, which is partly owned by Italy's [Generali Group.](#) [G.MI -0.26%](#)

It may take months, but \$1 billion-\$2 billion in insurance investment could come in to the country if the foreign investment cap is raised, estimates R. Krishnamurthy, managing director at consulting firm Towers Watson.

Mr. Krishnamurthy expects international insurers that aren't present in the country to take a closer look at it, especially the health insurance sector.

Indian insurance companies need additional investment to invest in expansion of branches, training sales staff and improving technology. "Over the past few years, a capital shortage had plagued the sector," said Anuraag Sunder, insurance sector expert at PricewaterhouseCoopers India, adding that this will now hopefully change.