GENERAL INSURANCE PENSIONERS' ALL INDIA FEDERATION

(Regd.under T.U. Act 1926 No. ALC/Karyasan-17/11087}
HO: C/o GIEAIA, 3rd Floor, Sterling Cinema Building, 65, Murzban Road, Fort, Mumbai- 00001

1st October, 2020.

Dear Shri Adityaji,
Cabinet minister of Tourism & Environment,
Government of Maharashtra.

As discussed with you in our last week discussion, please find attached technical paper on IRDAI in Mumbai. This has been submitted to Government and Finance Department. But still action is continued to shift the IRDAI office to Gandhinagar from Hyderabad.

For your information the IRDAI has one big office at Churchgate in Royal Insurance Building. It has acquired huge premise, at least contracted in Mumbai, It has five flats for residential purpose, and has huge funds collected from companies as fees. So much so that Government is insisting to transfer that fund to Finance Ministry.

Please add that IRDAI has yet to establish regular inspection etc. of companies through papers and physical visit to plug loopholes. Industry is expanding and IRDAI has to recruit people if it is in Mumbai and naturally recruitment will take place in Mumbai. Allied work also will creat employment.

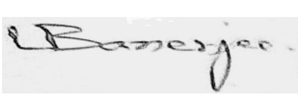
At present Mumbai being the financial capital of the Insurance (Life & General) Companies are having their Head Officer here, which help IRDAI to work from Mumbai more over if the IRDAI H Q is shifted here more number of broker office, claim settlement office and Insurance Education Institutions will come up in the city and widen up the scope of various jobs in near future.

Kindly go through the enclosed note which will enlighten you how the IRDAI will function from Mumbai and what advantage the state will derive by bring the Head Office here.

Trust you will pick up the issue on priority basis and to some extent open the scope of job creation and Maharashtra State will also prosper at the same time.

We look forward for your positive response and expect a further detailed hearing from our end

Thanking you,



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Developing an Indian Global (Re) insurance Centre at Mumbai

1. Why an Indian Global Re (insurance) Centre?

The Indian insurance penetration and density are amongst the lowest in the world, and have continued ever since. With 17.5% of the world's population, the Indian insurance market accounts for less than 1.5% of the world's total insurance premium. This is despite 2018 being the 18th year of market opening up; Government pushing for a fully insured and a fully pensioned India; and the insurance regulator having an obligation to develop the market. This places a disproportionate burden on both the Indian government and taxpayers to cover the cost of losses.

India is also one of the world's most vulnerable countries to climate change. For instance, at the Paris COP (Conference of the Parties) 21 Climate Risk conference in December 2015 India was identified by the UN Office for Disaster Risk Reduction (UNISDR) as the county with the second highest population in the world exposed to weather related disasters.

Global research establishes that a 1% rise in insurance penetration translates into 13% reduction in uninsured losses - an increased investment equivalent of 2% of national GDP, and a 22% reduction in the taxpayers' contribution. It is imperative, therefore, to have a globally competitive (re) insurance platform in India by 2022, led by Mumbai, to deepen penetration/density, and securing INCLUSION for all stakeholders - Policyholders', Shareholders (including minority shareholders), and for deepening the Indian economy.

2. Why Mumbai?

Mumbai is India's leading financial center where much of the commercial insurance business is conducted. Mumbai dominates the turnover and the total market capitalization of India's corporate sector. The National Stock Exchange (NSE) is the world's largest exchange in terms of number of equity traders. The city accounts for about 5% share in India's GDP, 25% of industrial output, 70% share of total maritime trade, and contributes over 33% of India's total income-tax collections. Mumbai is India's leading financial Centre – home to capital markets, most banks, Insurers and Reinsurers.

Mumbai is the leading center for the insurance market in India and it has the largest cluster and the eco system by far: most insurers, all reinsurers, most Brokers, the Life and Non-Life/General insurance Councils; associate bodies such as Brokers, Surveyors, Institute of Actuaries of India have their headquarters besides, Law Firms, Management Consulting firms whether local or international are all located at Mumbai. These firms offer services not only to domestic clients but international clients as well.

Mumbai is well connected to other parts of the country and major cities across the globe. It offers a diverse talent pool, which is also proficient in English. Having an Indian Global Re (Insurance) Center at Mumbai will have following benefits:

- ***a)*** Greater revenue generation via both direct and indirect taxes for the city. Fillip to Mumbai's educational institutions catering to insurance, chartered accountancy, engineering, business management, and actuaries etc. Fillip to Mumbai's estate industry, and allied services industry such as couriering, stationery, print and Hospitality industry etc. The global (re) insurance Center at Mumbai will provide jobs to many.
- ***b)*** Mumbai will become the intellectual capital on par with London and Singapore. Mumbai today is lower down the order as the global financial centers of the world (66th) – with insurance becoming global this position will improve significantly. Singapore, London and Hong Kong have been the preferred destinations for commercial arbitration for Indian parties. It is estimated that approximately 30% of cases taken up by the Singapore International Arbitration Centre involve at least one Indian party. Mumbai being a megacity in the Indian subcontinent can offer the same arbitrational services, which, would be in fact be cost effective for domestic as well as international insurance companies. The Mumbai Centre for International Arbitration (MCIA), IMC International ADR Center (IIAC) and the Bombay Chambers can offer the required expertise to handle domestic and International insurance disputes.

All global (re) insurance centers such as London, Singapore, Dubai and Hong Kong etc. are all clusters where the regulators and market constituents interface all the time giving them distinct edge over other global markets. A cluster a system of interconnected firms and institutions whose value as a whole is greater than the sum of its parts. More importantly, the presence of a cluster not only increases the demand for specialized inputs but also increases their supply.

Yet, the Indian insurance regulatory office sits in Hyderabad, and the ‘insurance market’ goes to Hyderabad rather than the regulator being part of the ‘market cluster at Mumbai’ entailing millions every single year. There is another missing piece in the jigsaw puzzle: Mumbai has no complementing synergies with the International Financial Services Center (IFSC) at GIFT, Gandhinagar on insurance. GIFT is the only Financial Services Special Economic Zone in India that has tax, legal, regulatory and other incentives on offer, and unless the IFSC and Mumbai dovetail in most innovative ways the Indian insurance market will continue to be a loser vis a vis London, Singapore, Hong Kong etc.

3. Underpinnings of Global (Re) insurance Hubs

The global centers of excellence for (re) insurance services, share certain key characteristics:

1. A robust, proficient and transparent legal, regulatory and tax environment as well as modern Dispute Resolution Mechanisms.
2. The ability to attract and develop talent and build a strong infrastructure of supporting services.
3. A commercial and entrepreneurial business environment.

Models of best practice for encouraging the development of a financial services hub can be drawn from the examples of London, Singapore, Dubai and New York, amongst other global centers of commerce. In these markets, a cluster effect has developed as expertise in underwriting, professional intermediation and related support services have been attracted by commercially-viable trading and regulatory regimes and high-quality and politically stable institutional environments. Besides:

a) It takes an entrepreneur just 2.5 working days to get a new business going in Singapore. This has contributed to making Singapore one of the most competitive countries in the world – recognized as first in the world for ease of doing business, according to the World Bank.
b) In Dubai and Singapore, the development of each as a global financial center has benefitted from a dedicated division within the regulator, or a separate body, for promotional activities. The DIFC in Dubai, the Monetary Authority of Singapore (MAS) and the Maritime and Port Authority (MPA) in Singapore have each played an important role. Both regulators have been extremely proactive in engaging with international insurers, offering financial incentives including free or discounted office space, and communicating the benefits of doing business in the market, as the regulator is uniquely positioned to do.
c) In the UAE, a completely separate set of civil and commercial laws, consistent with English common law and an independent judicial system have been established within the Dubai International Financial Centre (DIFC). The DIFC Courts have exclusive jurisdiction over all civil and commercial disputes arising within the DIFC or relating to bodies and companies registered in the DIFC.
d) Hubs around the world are sometimes associated with a liberal tax regime. In the DIFC there is 0% tax on corporate income and profits (this is guaranteed until 2054, and may be renewed beyond this), as well as other financial incentives, including no municipal or local authority taxes, levies or charges payable by institutions operating in DIFC (guaranteed for a similar period), and the freedom to repatriate all capital and profits.
e) Simple and relatively liberal tax regimes have also attracted foreign investment in London where the corporate tax rate is 20% (it might be worth noting that rate reductions are already enacted in UK – the rate will be 17% by April 2020). In London, international businesses also benefit from no withholding tax on dividends, normally no capital gains tax for non-residents, and interest deductions on loans financing foreign equity investments (subject to certain limits). In Singapore, the taxation rates are 10% and 17% respectively for non-Singaporean and Singaporean policies respectively.
f) London and Singapore are both principally broker-driven markets. Brokers play an important role as intermediaries by facilitating the flow of business, but also as expert service providers, delivering research, analytics and modeling, and driving innovation in the market. In addition,

professional intermediaries may also act as part of the distribution function for insurers – through the delegation of underwriting authority.

g) Mature markets such as London have in recent times taken significant strides in enhancing the response times of their processes to deal with claims through simplified agreement processes, and the use of electronic systems to improve document collection. In addition, where markets are broker-driven, delegating claims settling authority to professional intermediaries is common place and a valuable selling point to buyers. Efficient and prompt claims services should be complemented by speed of access to courts and transparent arbitration and/or dispute resolution procedures.

4. Indian Market Regulations

According to the International Monetary Fund (IMF):

1. The Insurance Regulatory and Development Authority of India (IRDAI) must develop a sound risk-based regulatory framework for the industry and modernize its supervision and regulations on investments of insurers and the products they offer.
2. The IRDAI needs to modernize its solvency framework, with a strategy and timetable for implementation; the solvency framework to be developed should be in line with the new International Association of Insurance Supervisors' (IAIS') Insurance Capital Standards (ICS). This would also enable comparability with internationally active insurance companies: The IRDAI should introduce its approach to coincide with the introduction of the International Financial Reporting Standards, and if introduced earlier, the IRDAI will be in a position to draw on the valuation framework being developed by the IAIS for its ICS.
3. The IRDAI inspections or supervision is focused mainly on compliance and not enforcement; The regulator should encourage an off-site and on-site strategy to supervise key risks.
4. The organizational structure of the IRDAI lacks coordination between its different departments. Its current resources are inadequate as the demand for staff with expertise and skills keeps increasing.
5. Investment regulations by the IRDAI as the investment regulations need to encourage high investment quality standards.
6. Further changes recommended by the IMF:
   - Reducing dependence on approving new products and creating a 'new' product governance framework;
   - Reviewing the work and position of actuaries as there is a risk of over-dependence on the appointed actuary;
   - Developing a peer review process;
   - Improving cross-border bi-lateral agreements with foreign regulators; and
   - Reviewing its approach to branches of foreign reinsurance companies
7. Lastly, the Government and the IRDAI should implement measures to level the playing field for insurers so that the perception that there are undue (strategic) advantages in favor of public sector insurers goes.

A significant amendment brought about by the Insurance Amendment Act 2015 was the opening up of the Indian reinsurance market to branch offices of foreign reinsurers. The precursor to the Act amendment was 41st report from the Parliamentary Standing Committee on Finance (December, 2011) that recommended for the Foreign Branches since the Branches would leverage the financial strength of its parent. The assumptions were that, amongst other things, it would pave the way for India becoming the Reinsurance Hub for the Asian Reinsurance region. The subsequent regulations do not help Government's vision. With an uneven playing field, higher reinsurance costs in India due to higher taxes, higher regulatory and compliance requirements and higher capital charges, the Government's vision to see India become a Global Reinsurance Hub is facing real hardships.

Ministry of Finance (DFS) Notification of 27 March, 2015 dealing with IRDAI (Regulation of Insurance Business in Special Economic Zone) Rules 2015 and the Ministry of Finance (DFS) Notification of 27 March, 2015 in exercise of the powers conferred by Section 2CA of the Insurance Act, 1938 not only act in isolation (with no coordinated action plan along with Taxation and Legal support systems) but they are strategically short on creating right support system to create the Indian Global Reinsurance hub to rival Singapore/Dubai etc., especially when the Government/IRDAI has the authority to write a scheme from ground up, to counter the lack of insurance/reinsurance ecosystem at GIFT and the dual licensing requirements at Mumbai and IFSC, GIFT.

Best global practices demand TRANSFORMATION based on specialized knowledge and enabling administration to build Ease of Doing Insurance Business. India is currently 164th ranked in the world whereas China has already transformed itself in the last one decade. India thus has to catch up, fast.

5. Conclusion

The Government's Vision of "**INCLUSIVE INSURANCE by 2022"** requires a transformative and cohesive agenda that has no place for the competing local interests between Mumbai, Gandhinagar and Hyderabad. The agenda should clearly mandate providing India a modern, transparent and progressive insurance framework and a global (re) insurance platform at Mumbai.

The Government of India, Government of Maharashtra and the IRDAI have to realize this Vision together. The Government of Maharashtra must additionally:

1. Help Mumbai become the Indian Global (Re) insurance Centre.
2. Help IRDAI either shift its headquarters to Mumbai or put a strong leadership team functioning from Mumbai.
3. Help Mumbai either become an IFSC or nudge IRDAI allow (re) insurers located at GIFT IFSC / located at Mumbai undergo no dual registrations and yet enjoy IFSC provisions such that India competes well with other leading global (re) insurance centers.

The Indian insurance market deserves a catalyst in the form of an integrated Indian Global (Re) insurance Centre at Mumbai supported by globally benchmarked regulatory/legal/tax policies that are prudent and proficient.

Background Papers:

- Monograph on "A Transformative Agenda for The Indian Insurance Industry and its Policy Framework – H Ansari and Arun Agarwal

- Monograph2: An Implementation Agenda for IRDAI to Transform its Regulatory Framework to serve "The INDIA of 2022" – H Ansari and Arun Agarwal

- Special Interest Paper – Volume II, "Taxation Reforms – Fostering Development of the Indian Insurance Sector" - City of London & JMP Advisors