



Standing Committee Report Summary

The Insurance Laws (Amendment) Bill, 2008

- The Department-Related Parliamentary Standing Committee on Finance submitted its Report on 'The Insurance Laws (Amendment) Bill, 2010' on December 13, 2011. The Chairperson was Mr. Yashwant Sinha.
- The Bill proposes to increase foreign direct investment in insurance companies from 26 per cent to 49 per cent. The Committee recommends that the government should consider the alternate route of formulating guidelines enabling companies to tap the domestic market for capital requirements.
- The Bill proposes to include Lloyd's, covered by the Lloyd's Act, 1871 of the UK under the definition of "foreign company". The Committee proposes that only those syndicates of Lloyd's that have underwriting desks in India be covered under the definition of "foreign company".
- The Committee proposes to revise the term "health insurance business" to clearly stipulate that health insurance policies would cover sickness benefits for domestic as well as international travel. It also proposes that "life insurance business" as defined by the Bill be revised to stipulate that life insurers can also offer health insurance cover.
- The Bill prescribes the minimum capital requirements for insurance companies (health, life, general and reinsurance) to operate in India. The Committee asks for the exclusion of any preliminary expenses incurred in the formation and registration of insurers from the requirements. It also recommends that any change in the stipulation of capital structure of insurance companies be made only by moving an amendment to the Bill.
- The Bill proposes a minimum paid up capital of Rs. 50 crore for starting a health insurance business. The Committee recommends that the minimum paid up capital for a health insurance company be increased to Rs. 100 crore in order to ensure that companies are fully equipped with modern infrastructure and other facilities.
- The Bill enables foreign insurers to operate in SEZs without being subjected to regulatory control. It bestows discretion on the government to make any of the provisions of the Insurance Act applicable to insurers operating in SEZs. It also provides an exemption to SEZ properties from the prohibition of getting insurance from foreign insurers. The Committee observes that permitting unregistered foreign entities to operate in SEZs would not serve the purpose of developing a well-regulated insurance market in India and would risk domestic capital flight.
- The Bill proposes to omit the requirement of Indian promoters having to reduce their stake to 26 per cent within 10 years. The Committee suggests that this requirement be retained, and that divestment of shares may be done at any time before 10 years.
- The Bill provides for the cancellation of license of an insurance company if its foreign partner is debarred from its parent country. The Committee proposes that IRDA be allowed to decide on cancellation by taking into consideration facts of individual cases.
- The Bill provides for the investigation of an insurance intermediary by the authority, but does not provide for a mechanism of appeal. The Committee proposes that a mechanism of appeal be provided.
- The Bill increases the penalty to Rs. 5 lakh for cases where policies are sold to customers on the basis of monetary incentives rather than the benefits of the policies. The Committee agrees with the proposal.
- The Bill seeks to amend the time frame in which an insurer can question a policy on any ground from the term of the policy to five years. The Committee expresses that this should be amended to three years.
- The Committee recommends that the bill should specifically debar speculative assignments of policies instead of leaving it to the discretion of insurers. It proposes that appropriate modifications be carried out in the relevant provisions.
- The Bill proposes to do away with stipulations on the percentage of premium payable to agents as commission and leave the matter to IRDA regulations. It also seeks to empower insurance companies to appoint agents instead of IRDA licensing agents. The Committee expresses its disagreement with these proposals.

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