We hosted a conference call with Mr. Ashwin Parekh, a veteran in the financial services industry, for assessing the impact of recent insurance reforms and the way forward for the industry. Following are the key highlights from the call:

- **Insurance sector reforms – Higher FDI limit is allowed; but that’s not the only reform:** As a much sought after insurance reform, FDI limit in insurance has been hiked to 49% v/s 26% earlier. Other important reforms that were passed by the parliament recently - (i) Health insurance will be recognized as a separate segment and the regulator, IRDAI, would soon announce the guidelines for the same, (ii) IRDAI may encourage standalone health insurance companies to promote all health products though the existing players will be allowed to continue as well, (iii) Re-insurance industry to be developed to lower the dependence on foreign reinsurers. Both domestic companies and foreign reinsurers will be encouraged to set-up their branches in India, (iv) Regulator has been bestowed with more powers now and can take its own independent decisions. This will help in better regulation and policy making for the sector, and (v) International brokers will be allowed to set-up business in India, though more clarity is needed here.

- **Issues around transfer pricing needs a closer look:** Recent debate on fair value transfer to foreign partner needs to be given a careful thought as in many cases it was agreed between the partners that as and when the FDI ceiling would be relaxed, the foreign players would increase their stake to 49% through automatic route at par value or pre-determined price. Foreign partners took significant risks while entering and in many cases have infused capital in the joint ventures at premium pricing unlike their domestic counterparts. It may appear unfair not to allow foreign partners to execute originally drafted predetermined pricing agreement when they have taken higher risk and any decision here needs to be given a careful thought. Ministry of finance at the policy level should address this concern and they should have a proper policy, ratified by the parliament, to address this issue.

- **Capital requirement & growth; health insurers to need higher capital:** Mr. Parekh highlighted that the bill has solved issues surrounding capital availability for the insurers; however, the capital requirement as such has declined significantly. For several large insurers, the portfolio has started generating adequate value and the actuarial surplus is now available for the life insurance companies to write further business. Moreover, the industry growth has also moderated leading to lower capital requirement for the life insurers. However, health insurers would need much higher capital, given low operating profits/high combined ratio (claims plus operating cost as percentage of premium income) and huge growth potential. Besides implementing government’s “Rashtriya Swastha Bima Yojana” (RSBY) would also necessitate higher capital requirements, which the government currently is not in a position to provide.
 Strict vigil on Indian control: Mr. Parekh highlighted that the foreign partner must ensure both at the board and at the executive level that there should be enough evidence to suggest that there is Indian management control. This means that majority of board members should have Indian interest or independent directors should be chosen from India. Also, foreign ownership limit will not distinguish between FDI, FII and NRI investments.

 Capital instruments to be limited in the near term; focus remains on equity capital: Mr. Parekh and other committee members have earlier suggested to the regulator to allow additional capital instruments to augment the capital base for life insurers but at this stage IRDAI appears to be keen on equity capital. IRDAI wants to take the current capital mechanism to a certain level of maturity before introducing more capital instruments. We note that even globally, insurance regulators do not recognize or encourage different classes of capital instruments in the life insurance sector.

 Listing options are open; relaxation on retail shareholding and discussions on foreign partner holding are key factors: Insurance companies can now file for listing with the prior approval of IRDAI and SEBI. Important factors here are the (i) quantum of divestment that the companies would like to do as in many ventures, foreign partners are willing to acquire more stake and (ii) relaxations on minimum public holding, especially as government is also keen on offering equity in four general insurance public sector companies.

 Claim settlement trend to improve; high focus on fulfilling social obligations: With IRDAI being vested with more powers, the authority will strictly go after insurance companies with regards to both claim settlement and social obligation levying high penalties in case of non-compliance. However if government suggests that in health insurance areas all the RSBY programs would be covered by four public sector companies, then private sector insurance companies will find it extremely difficult to fulfill social obligations.

 What’s next - Health insurance reforms? IRDAI is expected to announce the guidelines for standalone health insurers. The segment’s potential also is extremely high as health insurance moves to wellness insurance (as it happened in international market). Of the total health spending, only ~3.8% is covered by the health insurance at this point in time which highlights the huge potential of this segment. Introduction of OPD as a permissible expenditure and improvement in distribution channels (health spas, gyms) etc. would further attract more business in this sector.
**Directions for Writing a Research Report:**

1. **Abstract:** Begin with a brief summary of the research, including the objectives, methodology, and key findings.
2. **Introduction:** Introduce the topic, state the research question, and outline the objectives of the study.
3. **Methodology:** Describe the research design, data collection methods, and analysis techniques.
4. **Results:** Present the findings, including statistical analyses and graphical representations.
5. **Discussion:** Interpret the results, discuss their implications, and compare them with existing research.
6. **Conclusion:** Summarize the key findings, indicate the limitations of the study, and suggest areas for future research.
7. **References:** List all sources cited in the research report.

**Preparing a Research Report:**

- **Clarity:** Ensure the report is clear and well-organized.
- **Conciseness:** Keep the language concise and to the point.
- **Accuracy:** Double-check facts and figures.
- **Professionalism:** Maintain a formal tone throughout.
- **Ethics:** Adhere to ethical standards in research and reporting.

**Ethical Considerations:**

- **Confidentiality:** Protect the privacy of participants.
- **Avoiding Plagiarism:** Cite all sources accurately.
- **Conflict of Interest:** Declare any potential conflicts.
- **Data Integrity:** Ensure the data is accurate and reliable.

**Conclusion:** Summary of the key findings, implications, and recommendations for further research.