

WEDAPT INSURANCE NEWSLETTER

February'24



Indian Insurance Industry in the Era of GIFT City: A Comprehensive Analysis

Introduction to GIFT City

Gujarat International Finance Tec-City (GIFT City) is a well-planned urban and business centre established to propel India's vision to emerge as a pivotal hub for international trade and investment. With an aim to be a world class Finance and Tech zone, it is embedded with all the latest technologies and state-of-the-art infrastructure to be at par with renowned financial centres like London, New York, Singapore, etc. The city has been strategically divided into two zones – the Domestic Zone and a Multi-Service Special Economic Zone (SEZ), where the latter is known as India's first International Financial Service Centre (IFSC).

An International Financial Services Centre (IFSC) is a specialized financial zone designed to cater to international financial services and transactions, focusing on non-residents of the domestic economy and facilitating the flow of finance, financial products, and services in the global market. GIFT IFSC has been deemed a special offshore jurisdiction within India, which allows registered entity, including branches, to operate. This is achieved by creating a business and regulatory environment within the IFSC that is on par with prominent international financial hubs such as London and Singapore.

The IFSC at GIFT City provides an opportunity to global investors to set up businesses in the areas of:

- banking,
- investments (especially green finance and social impact capital),
- insurance and re-insurance,
- capital market and,
- asset management.

Indian companies setting up at GIFT IFSC can provide these services to non-residents, both individuals and businesses, participating in the global market. These companies also can sell their financial products and services to other IFSCs around the world. This broadens the reach of Indian companies' expertise to a global audience and contributes to the expansion of their international market presence. GIFT IFSC allows Indian companies, as well as overseas branches and subsidiaries of financial institutions, to perform financial services and transactions that are currently carried out by offshore financial centres, from within India by setting up offices in the GIFT City.

Some Interesting Facts

- The GIFT Tower, also known as the Diamond Tower, is the tallest building in Gujarat, standing at a height of approximately 122 meters.
- Insurance plans are not limited to the standard life & health products. Some unique insurance products include
 - Wedding Insurance
 - Handbag and Designer Clothes Insurance
 - Pet Insurance
 - Body part Insurance

By allowing companies to conduct international operations from within India, GIFT City saves the high costs of setting up branches in foreign lands. This strategic move not only encourages Indian businesses to expand globally, but also fosters economic growth and enhances the nation's global financial presence. The tax contributions further elevate the country's revenue, while the creation of jobs within GIFT City enhances employment opportunities. Additionally, the ease of doing business in GIFT City serves as an added advantage for the financial hub, translating into manifold economic benefits for India.

Regulatory and Tax Framework

In October 2020, the Government of India set up the International Financial Services Centres Authority (IFSCA) as a unified regulator focused on development of financial ecosystem and oversight at GIFT IFSC. IFSCA has been vested with the regulatory power of four sectoral regulators, viz. RBI, SEBI, IRDAI and PFRDAI. The IFSCA is designated with the responsibility for developing and prescribing regulations with respect to financial services and financial products in IFSC.

To attract international businesses, IFSCs typically offer favourable tax regimes. Consequently, GIFT City also offers a myriad of tax privileges to units set up in IFSC, some of these are as follows -

- 100% tax exemption for 10 consecutive years
- No Minimum Alternate Tax (MAT) liability for companies opting for New Tax Regime.
- No GST on services received by units in the IFSC.
- Very competitive tax regime for capital market business

The Government of Gujarat has also rolled out recent State Subsidy Incentives, offering support to businesses in various forms such as capital subsidies, assistance for operating expenses, interest subsidies, and reimbursement of provident funds. Further, IFSC Companies can take advantage of significant exemptions provided under the Companies Act. These initiatives reflect the government's commitment to creating a favourable environment for businesses in the region, encouraging growth and development.

IFSC AND INSURANCE SECTOR

The GIFT IFSC, functioning as a foreign territory, primarily engages in offshore business activities. Consequently, the shareholding restrictions for foreign insurers or reinsurers do not apply within the IFSC. This grants foreign direct insurers the option to establish operations directly without the requirement of a local partner.

An Indian insurer/reinsurer can open an IFSCA Insurance Office (IIO) in IFSC. An IIO is a place of business (such as a branch) that conducts direct insurance or reinsurance business, in freely convertible foreign currencies, excluding Indian rupees, as permitted by the IFSCA, from within IFSC, to other SEZs and from outside India.

An overseas insurer/reinsurer can also set up a branch in an IFSC. These companies are required to secure registration or licensing in their country of origin or the jurisdiction where they are incorporated or domiciled. The foreign insurer can sell services to entities or individuals based within the IFSC or to other insurance companies in the Domestic Traffic Area (DTA), following certain rules. It is important to note that foreign insurers setting up branches at IFSC cannot sell insurance policies directly to residents of India.

In the realm of re-insurance business, IIO at GIFT City holds the authority to engage in re-insurance transactions under specified conditions. Firstly, it can accept re-insurance business from companies within GIFT City for risks coming from other special economic zones (SEZs) and from outside India. Secondly, it can also take on re-insurance business from insurers working in regular areas (DTA) following a specific order of preference set by the IRDAI regulations from 2018.

Current Landscape in Insurance

Prominent entities such as ECGC, GIC, HDFC International Life and Re Co, ICICI Lombard, Tata AIA, and India First Life Insurance Co. have been successfully registered within the IFSC. These firms are actively progressing towards the creation of innovative insurance solutions denominated in dollars for the global market. These companies can do business by offering customized products directly to people in special economic zones (SEZs), International Financial Services Centre (IFSC), and even in foreign locations.

As a matter of fact, HDFC International has already launched a Global Education Plan to create dollar-based corpus to meet future expenses for their child's overseas education. This product is designed to eliminate any future mismatch between the currency of investment and education fee.

There is a notable focus on the pensions sector, with attention drawn to the significant number of individuals in the Indian diaspora employed abroad who prefer saving in dollars. Recognizing this opportunity, a dedicated team is actively pursuing initiatives to cater to this specific demographic.

Following their reporting, the IFSCA plans to introduce a set of pension regulations, allowing individuals to manage their pension savings within the GIFT City IFSC. This strategic move aims to provide a convenient and viable option for those interested in saving in foreign currency, adding a valuable dimension to the array of financial services offered within GIFT City.

The vision to develop GIFT City as a global reinsurance hub presents a significant opportunity for India. The IRDAI, in collaboration with the IFSCA, has approved key amendments to the Reinsurance Regulations, aiming to position India as a major global reinsurance hub. Changes include reducing the minimum capital requirement for FRBs and simplifying regulatory processes. These efforts signal India's commitment to becoming a significant player in the global reinsurance landscape, fostering growth and international recognition in the insurance sector.

Opportunities and Challenges at IFSC for Insurers

In the dynamic landscape of GIFT City, the streamlined regulations and unified regulatory framework create a business-friendly atmosphere, minimizing compliance costs and promoting smooth operations within the established guidelines. This appealing regulatory landscape is poised to attract foreign direct insurers, injecting valuable foreign direct investment (FDI) into the Indian economy.

The establishment of insurance operations in GIFT City contributes to job creation and skill development, providing employment opportunities for skilled professionals in the insurance sector and enhancing the overall talent pool.

Transactions within GIFT City's International Financial Services Centre (IFSC) are conducted in freely convertible foreign currencies, providing a seamless platform for international financial operations. This unique feature allows insurers to diversify their currency exposure, effectively manage risks, and cater to clients who prefer transactions in non-Indian currencies.

Setting up branch offices as International Insurance Offices (IIOs) in IFSC GIFT City comes with a significant perk – the flexibility in capital requirements. Unlike the obligation to infuse capital into the IFSC, these units can choose to maintain the minimum capital at their head office. This not only simplifies operational procedures but also brings a financial advantage, making IFSC GIFT City more appealing for international insurers and reinsurers. Other advantages of opting for IIOs include cost savings at an enterprise level, access to a skilled talent pool in India, and tapping into the vast Indian market.

GIFT IFSC opens avenues for Indian insurers to venture into the global market, tapping into international clienteles and expanding their horizons beyond domestic boundaries. This global outlook fosters an environment of innovation and customization in the insurance sector. Insurers operating here have the

opportunity to tailor their products to meet the specific needs and preferences of an international customer base, leading to a diverse range of insurance solutions.

Moreover, GIFT City places a strong emphasis on technology and encourages the integration of new ideas in financial technology (fintech). Insurers can leverage advanced technologies such as blockchain and artificial intelligence, not only improve their operations but also enhancing the overall customer experience. This commitment to technological advancement positions insurers at GIFT City competitively on a global scale in the insurance business, ensuring they stay ahead in the rapidly evolving financial landscape.

Partnerships and collaborations are encouraged, allowing insurers to explore collaborations with financial institutions, fintech startups, and global insurance players. Such partnerships can foster knowledge exchange, promote industry best practices, and lead to the development of innovative solutions. The IFSC platform also facilitates collaboration between Indian insurers and global reinsurers, leading to the development of sophisticated reinsurance solutions, improved risk management practices, and the sharing of expertise between international and domestic players.

However, when insurance companies operate in the diverse setting of GIFT City, they face a challenge known as Asset-Liability Mismatch (ALM) risks. This means that the liabilities and the assets to meet those liabilities might not always align perfectly due to the nature of global financial dealings.

The ability to conduct transactions in foreign currencies adds another layer of risk because the value of the currencies (for example, dollars) can change, affecting the overall financial picture. To deal with these challenges, insurers need strong risk management strategies in place to navigate the complexities and uncertainties of the financial world in GIFT City.

Conclusion

In conclusion, GIFT City emerges as a game changer in the global financial landscape, embodying India's aspirations to become a key player in international finance. With its forward-thinking regulatory framework, tax incentives, and a strategic focus on sectors like insurance and reinsurance, GIFT City invites businesses to flourish in an exciting and forward-looking environment. The city's commitment to technological advancements, partnerships, and collaborations fosters a culture of growth and adaptability. Though it encounters challenges, especially in building a strong market ecosystem, GIFT City's proposal to empower IFSCA for independent groundwork reveals a determined approach. As Indian insurers step into the global market and navigate complexities, GIFT City stands as a symbol of India's ambition, offering a promising landscape where the nation not only participates but excels in shaping the future of international finance.

Latest Industry Updates

HDFC Life International announces new health cover for Indian students studying abroad.

Amidst skyrocketing healthcare costs in popular student destinations such as the UK, USA, Germany, Australia, and Canada, HDFC Life International has launched a new health insurance product that caters to the healthcare needs of Indian students studying in these locations. The policy will be cashless and will be paid in US dollars that will be targeted towards students in the age bracket of 12-40.

IRDAI proposes launch of Bima Sugam.

Bolstering its aim of increasing insurance penetration in the country, the IRDAI has proposed to launch Bima Sugam, an electronic one-stop solution for all insurance needs, be it purchasing, servicing or settlement of insurance claims. Bima Sugam will be an online platform where customers can choose an insurance product that suits their needs from a plethora of options from various insurance companies. Operating as a non-profit scheme, the platform will enable all insurance requirements, including Life, General or Health insurance, to be met.

IRDAI has granted in-principle license to Policy Bazaar for composite insurance brokering.

Policy Bazaar has been granted in-principle license from the IRDAI to upgrade itself from Direct Insurance Broker to a composite Insurance Broker. Apart from selling Life and General insurance products, a composite insurance brokers undertakes added services such as risk management, selling reinsurance products and maintaining claims data. This is a welcoming move in the industry as it will accelerate insurance growth and penetration.

IRDAI mulls enhanced Free-look period for insurance policies.

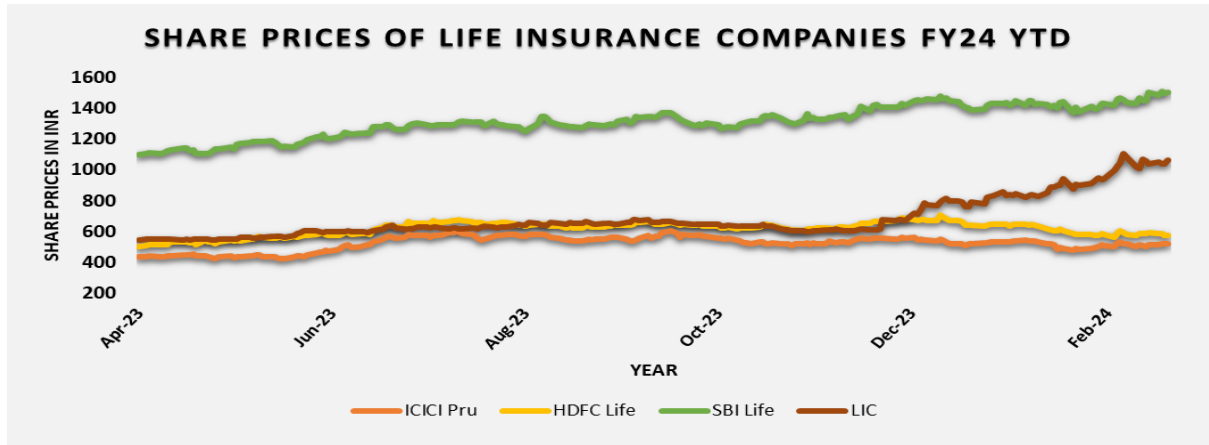
The IRDAI has proposed to increase the free-look period for insurance policies from 15 days to 30 days. This move will further ensure policyholder protection and ultimately increase trust in the insurance industry.

Health Insurance might get a new regulator.

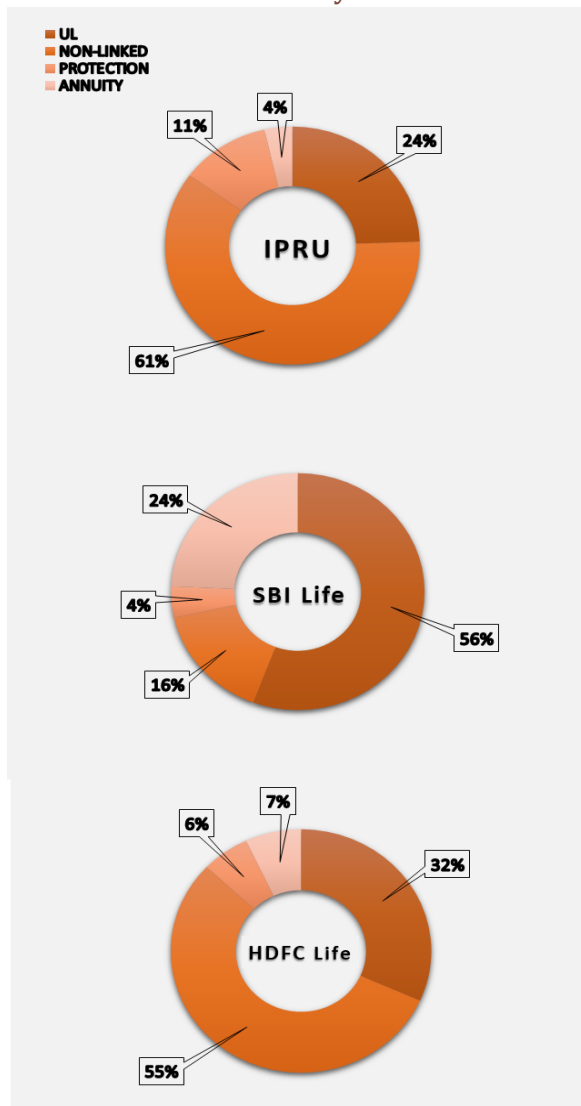
According to a recent report by the National Insurance Agency, over 40 crores or every third individual lack adequate health insurance in the country. Primary reasons for this are lower penetration, coverage inadequacy and rising healthcare costs. To address these challenges, the GOI is exploring the idea of a sectoral regulator for the health insurance industry that will enact as the industry watchdog and help standardizing and lowering treatment costs.

Listed Companies Key Performance Indicators

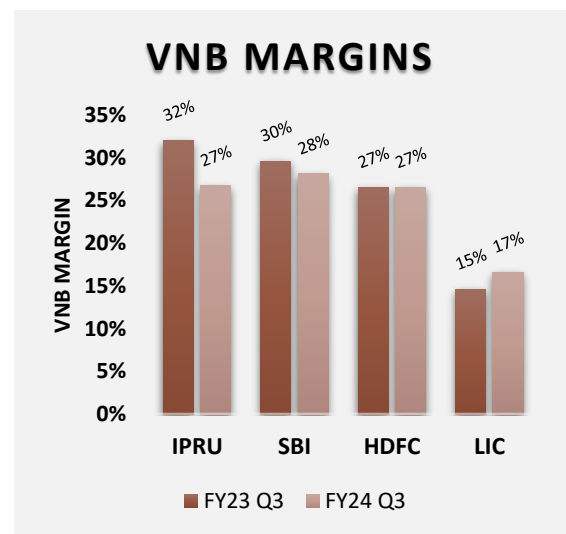
Movement in Share Prices of Listed Companies



Product mix by LOB



VNB Margins



About the Authors



Harshil Rustagi is a Senior Consultant working with WeDapt. He is a nearly qualified actuary and has around five years of experience working in the Life Insurance industry with rich experience on actuarial modelling, Embedded Value, With-Profits and Experience Analysis.

Harshil.rustagi@wedapt.in



Riya Arora is an Actuarial Analyst working with WeDapt. She has hands-on experience in Retirement valuations and have worked on various Life Insurance projects encompassing actuarial Modelling, Pricing and Valuation.

Riya.arora@wedapt.in

Contact Us

WeDapt Services Private Limited

GF 16, Augusta Point
Dlf Phase 5, Sector 53,
Gurugram - 122009
+91 81301 32005
www.wedapt.in

© 2024 WeDapt. All rights reserved. This content is for general purposes only and should not be used as a substitute for consultation with professional advisors. The reference to any product, or entity does not constitute an endorsement or recommendation by WeDapt. The views expressed by the author(s) are their own and doesn't reflect the view of the company.