House of Commons Foreign Affairs Committee Inquiry
Global Britain and India

Introduction

1. The Association of British Insurers (ABI) welcomes the opportunity to respond to the inquiry into Global Britain and India. As the Brexit negotiations unfold, it will become increasingly important for the UK Government to refine its priorities for its Global Britain trade strategy, and in particular with India, which is an important market for British (re)insurers.

2. The ABI is the leading trade association for insurers and providers of long term savings. Our 250 members include most household names and specialist providers who contribute £12 billion in taxes to the UK economy and manage investments of £1.7 trillion.

Executive Summary

3. The UK insurance industry is the largest in Europe and the fourth largest in the world (after the United States, Japan and China), and is a valuable export for the UK economy. The UK is an international hub for insurance and has a highly developed specialty insurance sector.

4. Financial services was the largest contributor to the increase in trade in services surplus in 2017, with insurance accounting for £16.5 billion[1]. In 2017, the insurance and pensions sector was the fifth largest trade in services exported[2]. The UK market is very developed with a high insurance penetration (10% of GDP).[3] Insurance and pensions make up 7% of all UK service exports and so we believe that the UK is now presented with an opportunity to further support this UK export going forward.

5. While many ABI members operate in a wide number of non-EU markets, the ABI has identified India as one of the priority markets for British insurers. India has the 12th largest insurance market globally, giving it a 1.6% share of worldwide premiums, but having a significantly underinsured population.[4] It has a low insurance penetration at 3% of GDP, and one of the lowest insurance density of any country at $55 GWP per capita.

[1] Office for National Statistics; Pink Book 2018 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/bulletins/unitedkingdombalanceofpaymentsthepinkbook/2018
[2] Office for National Statistics; Pink Book 2018 https://www.ons.gov.uk/economy/nationalaccounts/balanceofpayments/datasets/3tradeinservicesthepinkbook2016
[3] Insurance penetration is the premiums as a percentage of GDP. It measures the level of development in the insurance sector of an economy.
[4] SwissRe Economic Research & Consulting

6. The ABI believes there is significant opportunity to reduce the barriers to market entry and moreover welcome the UK Government efforts to improve bilateral and economic ties with India. We would strongly support the UK Government, as part of its Global Britain strategy, to use all multilateral platforms possible to champion the benefits of global trade, in both goods and services.

7. While we recognise that a Free Trade Agreement (FTA) with India is unlikely to be secured in the near future, the ABI would encourage other tools the Government has to build the trade relationship with India, such as the annual Economic and Financial Dialogue (EFD) and Joint Economic and Trade Committees (JETCO).

Inquiry Questions

What is the UK's foreign policy towards India?

8. The ABI is not in a position to respond to this question.

How strong is the UK-India relationship at present? What are India's perceptions of the Global Britain strategy?

9. As the Committee rightly points out, the UK-India relationship is significant, both historically and currently through the Commonwealth. The size of India cannot be ignored, particularly with its growing population. It has a growing middleclass with more disposable income but also an ageing population needing suitable products for retirement.

10. While we recognise that the Committee is interested in the UK-India relationship beyond trade, the ABI would like to highlight the importance of securing a future relationship with India from an insurance perspective, as there is significant opportunity for UK (re)insurers.

11. India has the 12th largest insurance market globally, giving it a 1.6% share of worldwide premiums, but having a significantly underinsured population.[5] It has a low insurance penetration at 3% of GDP, and one of the lowest insurance density of any country at $55 GWP per capita.

12. The Indian insurance market grew by 8% in 2015 – faster than in any other major economy other than China. Life insurance currently dominates the sector, accounting for 79% of all insurance in India (in terms of GWP),[6] however the general insurance market is particularly underdeveloped. There is potential for further growth with India set to be the third largest owner of cars in the world.

13. British insurers are pleased to have played a role in increasing insurance penetration in India, particularly following the original insurance reforms by the Vajpayee government in 1999. These reforms have led to the creation of a wider social safety net and enabled former monopoly insurers to show their ability to innovate and adapt in the face of private sector competition.

14. British insurers look for markets that offer both growth prospects as well as regulatory and political stability. Of course, more technical regulations governing products will always be scrutinized for improvement by regulators; companies generally support this as it maintains consumer trust and the reputation of the industry. However, regulation of fundamental aspects of the business model

[5] SwissRe Economic Research & Consulting
[6] SwissRe Economic Research & Consulting

should be revised less often to help ensure high levels of legal certainty.

What is the Government's approach to leveraging soft power in the relationship between the UK and India?

15. Given the importance of the UK-India relationship, we would encourage the UK Government to continue to build on the trust and familiarity that already exists with the Indian Government through its existing communication channels.

What should be the main objectives for the UK's future relationship with India?

15. While the ABI cannot advise the overall objectives for the UK's future relationship, we will suggest areas which will benefit the UK insurance market by bringing down the barriers to entering the Indian market.

16. India's population of 1.3 billion remains largely untapped when it comes to insurance, presenting huge growth potential. At 3.4%, insurance penetration is low compared to 10% in the UK and 11% in Japan. The general insurance market in India is relatively underdeveloped. In 1973, it was nationalised and subsequently only reopened to private companies in 2000. As a result, India lags behind other markets but has potential for growth, presenting an opportunity for foreign insurers.

17. Given the opportunities that the Indian market presents from an insurance perspective, the ABI believes the UK can focus on the following opportunities and barriers when developing the bilateral relationship:

a) <u>Pensions opportunities with an ageing population</u>

18. In India, it is expected that by 2050, up to 30% of the population will be above the age of sixty. In the absence of an active social security framework, it is important that people are encouraged to buy annuities to provide for their golden years. Under the current laws, an individual can commute up to one third of policy proceeds which is received tax free. The other two third of the fund is converted to an annuity policy, which is taxable. Considering the Indian Government's objective to improve pension penetration, we encourage it to amend the Income Tax Act to ensure all annuities received are tax free under Section 10 (10A).

19. In addition, we would encourage the Indian Government to make the necessary amendments so that the deductions allowed under the Income Tax Act to contributions in the National Pension Scheme (NPS) are also extended to pension policies issued by life insurers[7]. Life Insurance Companies should benefit from the same playing field as the NPS as the product issued is similar. Crucially, life insurance companies will also contribute towards the growth of the economy through majority investments in government securities, infrastructure and housing sector.

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[7] Accordingly, enhanced limit for premium paid on Pension Policy under section 80CCC read with section 80CCE should be provided as follows:

1. Additional deduction for Rs 50,000 for premium paid for pension policy issued by the life insurance company similar to that provided in section 80CCD(1B) of the Act.
2. Further additional deduction under section 80CCC to the extent of 10% of salary similar to section 80CCD(2) of the Act.

20. Another suggestion to give further impetus for investment in life insurance policies is that the returns on policies which do not qualify for exemption under Section 10 (10 D), should be treated at par with normal investments such as bank fixed deposits, investments in mutual funds and equities etc. wherein only accretion of income is taxable. This view is in line with the view taken by the government in the past where it has been clarified that tax should be levied on accretion and not the premium paid. Accordingly, considering that life insurance/ pension policy is a capital asset, only the gain should be taxable on maturity or surrender and not the complete amount received from insurance companies. This should be accordingly clarified by way of an explanation to section 2(14) of the Act.

b) Foreign ownership restrictions

21. The increase of the equity stake that foreign insurers can own in a foreign/local insurance joint venture in 2014 from 26% to 49% was a positive move in opening up the Indian market for foreign insurers.

22. Over the past years, India has endeavoured to make it easier to do business for insurers, principally with the insurance reforms by the Vajpayee Government in 1999. These far sighted reforms led to the creation of a wider social safety net and enabled former monopoly insurers to show their ability to innovate and adapt in the face of private sector competition. This helped to increase insurance penetration in India, in which British insurers are pleased to have played a role.

23. While the 9^{th} UK-India EFD in 2017 further reiterated India's intention to address potential discriminatory treatment of foreign investors, we would encourage the UK Government to seek further improvements. In an ideal world, UK insurers would want the 49% foreign ownership cap be removed entirely and this to be implemented over an agreed period of time. It is also important that the foreign ownership cap is not counteracted by the Indian Owned and Controlled Norms, which could in effect dilute it. Importantly, this restriction prevents foreign insurers from fully serving the Indian market and has further caused operational and governance problems in managing such Joint Ventures.

24. Further, this would also be beneficial to the Indian insurance market. By allowing foreign insurers to have a greater equity stake, this would help to ease the financial burden on domestic operators by allowing foreign insurers to help share the burden, particularly in the early years of the partnership. We would expect this to be particularly beneficial to the Indian population with the increase in the range of products that could be offered as a result, particularly in the pensions and savings space.

c) Improving product approval processes

25. The time period for product approvals, including direct products, can take up to 5 months, which is an unnecessary burden. Having a swifter product approval time would also benefit Indian consumers by providing them with a wider range of products to choose from, and also increasing competition amongst providers.

26. (Re)insurers are facing difficulties with regulators taking longer than the existing recommended time limits of (maximum) 30 days for granting product approvals. The result of the many regulators raising last minute queries is causing delays and is increasing the uncertainty over exactly how

long the time period for product approvals should take. This impacts heavily on the business' ability to plan and invest. By comparison, other jurisdictions do not require prior approval, such as in Italy, France, Singapore and the UK, although compliance with local regulatory laws is required.

d) FinTech – sharing best practice

27. Under the Modi Government, India has undergone a number of positive reforms to help digitalise its economy and encouraging its citizens to move towards a cashless society. FinTech has played a crucial role in supporting the Government's policy of 'Digital India' and 'Made in India' and its role in improving outcomes for consumers and increasing financial inclusion was recognised in the 9th UK-India EFD.

28. UK insurers are at the forefront of digital innovation, driving developments in FinTech further. Given that India is still undergoing changes in this area, we would encourage the UK Government to share its own experience and expertise in regulating innovative digital concept, such as the Financial Conduct Authority's Regulatory Sandbox.

e) Insufficient consultation

29. From our members' experience from operating in India, when the Insurance Regulatory and Development Authority of India (IRDAI) makes regulatory changes, these changes often have a short consultation period which risks not capturing industry and consumer viewpoints. As a result, this can make it difficult for businesses to prepare and plan, given the lack of legal certainty.

30. Having a greater degree of consultation would also allow consumer groups and individuals to provide their views on proposed changes. This, combined with industry input and expertise, would help to build better policy as a diverse range of viewpoints could then be considered.

31. We would therefore as for a greater degree of consultation and coordination by the regulators with the insurance and long-term savings industry on potential legislative changes, and their impact on the industry, within a reasonable timeframe.

f) Pensions and tax treatment

32. The 9th UK-India EFD recognised the importance of developing strong pension systems and that the UK and Indian Government would share their respective experiences in this area.

33. India is experiencing similar demographic challenges to the UK with an ageing population. By 2050, it is expected that 30% of the Indian population will be over the age of sixty, and so India shares the UK's objective to improve the uptake of pension and savings products.

34. Automatic enrolment (AE) has been a major policy success in the UK, with over 9 million people saving into a pension scheme since its introduction in October 2012. By utilising the power of inertia through opting people into a scheme, AE has helped to address the challenge of how to encourage people to save whilst keeping costs low, including the provision of advice. Specifically, its automatic nature removes the need for anyone to make a personal recommendation to join a scheme, which can be costly.

35. The Indian pensions system faces similar balancing issues in terms of providing advice and keeping costs low whilst increasing coverage. As such, we believe it would be helpful if the UK Government could utilise its experience of automatic enrolment to inform its Indian counterparts of the benefits of this approach for consumers and how such a model might be developed.

36. Given that India does not have a comprehensive social security framework, we would encourage individuals to look to annuities to provide for them in old age. Current Indian legislation means that an individual can commute up to one third of policy proceeds tax free. The remaining two thirds can then be converted into an annuity policy, which is taxable.

37. In order for Indian consumers to fully benefit from their savings into these products, we would recommend that this piece of legislation, the Income Tax Act, should be amended to allow the entire annuity to be received tax free.

What should be the appropriate balance between political, strategic and trade issues in setting objectives for the UK-India relationship?

38. The ABI would advocate for a fair balance between political, strategic and trade issues when determining and developing its relationship with India.

39. While we cannot comment on the political position the UK Government ought to take, we would encourage a targeted approach to be taken when developing this relationship. Considerations such as which sectors in the UK not only have highest exports to India, but also have the highest potential for growth to the benefit of both nations.

In which areas can the UK and India work effectively towards shared objectives within multilateral settings, such as in the UN and the G20? And where do their objectives, values and interests differ significantly?

40. The ABI would strongly support the UK Government, as part of its Global Britain strategy, to use all multilateral platforms possible to champion the benefits of global trade, in both goods and services. As there has not been much progress in the liberalisation of trade in services in recent years, we also need to recognise the challenges that the UK Government will encounter in addressing this.

41. The number of regulatory and other barriers to entering global markets has grown and it will be important for the UK Government to have a robust and compelling argument to counter this and truly open up foreign markets for insurers. The G20 and the UN are two good examples of where the UK can use its voice to influence and cooperate with other jurisdictions, including India.

World Trade Organisation

42. Another platform would include the World Trade Organisation (WTO), where India is becoming more of a key player in directing the body's overall direction. This has been illustrated with India convening a mini-Ministerial WTO meeting in March 2018, following the eleventh WTO Ministerial Conference (MC11) in December 2017. Interestingly, India was keen to secure agreements in areas of commonality, where particular jurisdictions could come together to work and agree on issues of mutual interest.

43. The UK Government must take a multi-pronged approach to trade policy by engaging with the

WTO, but also looking to establish bilateral trade agreements and arrangements which can often provide greater legal certainty for insurers. As previously mentioned, the liberalisation of trade in services agenda has not made as much progress as expected, largely due to the rise of protectionist policies and increase anti-globalisation sentiment, and also the nature of trade in services. However, the UK can play a positive leadership role in reinvigorating the trade in services agenda, as a champion of global, free trade, through forum such as the WTO.

44. As a founding member of the WTO, we would support the UK to continue the promotion of liberalisation of trade in services agenda once we leave the EU. We support recent UK Government efforts to engage with key events, and supporting WTO initiatives, such as establishing principles for good regulation. We also support the UK Government's approach to pursue plurilateral agreements and arrangements, if multilateral agreements cannot be secured.

45. We would be strongly supportive for the UK Government to advance the mandate provided by the General Agreement on Trade in Services (GATS), particularly with respect to insurance, and work with India to influence their agenda. We have recently seen protectionist and discriminatory measures being implemented in many WTO member countries which put foreign insurers at a competitive disadvantage. It will be important for the UK to vocalise the benefits of having open and liberal trade to all WTO members.

Organisation for Economic Cooperation and Development

46. While India is not a member of the OECD, there has been a working relationship between India and the OECD since 1995. As the UK will remain a member of the OECD post-Brexit, we would suggest that the OECD will be another avenue for how the UK and India can cooperate going forward.

How effective are the FCO and other parts of Government in building effective relations with India and capitalising on shared objectives and values?

47. In the ABI's experience, the Foreign and Commonwealth Office, along with the Department for International Trade (including in post) have made positive steps towards building efficient relationships with key individuals in the Indian Government.

How should relations between the UK and India be managed in the run-up to and after Brexit? Are the FCO and other parts of Government preparing effectively?

48. The ABI would encourage continued use of the annual EFD and JETCO between the UK and India. Both dialogues are useful in allowing for a constructive discussion between both parties.

49. While the JETCO addresses general market liberalisation and market access across all sectors, the EFD can be a more useful and targeted tool for insurers in securing incremental changes and improved access to the Indian market.

How will the relationship between India, the UK and the EU be managed?

50. The ABI is not in a position to respond to this question.

What impact does the UK's visa regime have on our relationship with India? Does it help facilitate the type of relationship the Government seeks with India?

51. The ABI is not in a position to respond to this question.

What are the implications of the Government's 'All of Asia' policy for the UK's relations with India?

52. The ABI is supportive of the UK Government's All-of-Asia policy, to the extent that the UK Government builds relationships across the region. The members of the ABI have identified ten priority markets for international trade[8]. This includes eight markets in Asia: India, China, Hong Kong, Indonesia, Japan, Malaysia, Singapore and South Korea. These particular markets have been chosen based on growth opportunities and existing relationships that the ABI and our members have developed through their local presence.

53. These relationships will become increasingly important post-Brexit and for British insurers given the growth opportunities in the region. However, it is important to note that these markets are at different stages of maturation with respect to insurance and each presents a different opportunity for UK insurers.

[8] The other two priority markets are Canada and Switzerland.