Contractual Savings

37. Keeping in view the importance of contractual savings, the Government have taken steps to open up the insurance sector. The Insurance Regulatory Authority (IRA) Bill introduced in the Lok Sabha on December 15, 1998 allows 26 per cent foreign equity in domestic insurance companies and additional 14 per cent by investors comprising Non-Resident Indians, Overseas Corporate Bodies and FIIs. Measures to open the insurance business to the private sector can go a long way in faclitating the flow of contractual savings to the infrastructure sector (Box 4.3).

38. As an additional measure to increase the flow of contractual savings to productive sectors, the pattern of investment for incremental accretions by the non-Government Provident Funds, Superannuation Funds and Gratuity Funds has been liberalised by enabling the Trustees to invest 10 per cent in private sector bonds/securities which have an investment grade rating from at least two credit rating agencies. This provision is subject to the assessment of the risk-return prospects by the Trustees of the Fund. The modified investment pattern is shown below :

	Item	Percentage of incremental accretion
(i)	Central Government securities	25
(ii)	(a) State Government securities and/or (b) any other negotiable securities guaranteed by the Central Government other than (iii) (a) below.	15
(iii)	(a) Bonds/securities of PFIs including IDFC, public sector companies including public sector banks and/or (b) Certificate of Deposit issued by public sector banks	40
(iv)	Any of the above items as decided by Trustees with the proviso that 10 % may be invested in private sector bonds/securities	20

BOX 4.3
Private Sector Participation in Indian Insurance Business

- The decision to open the Indian insurance business to private sector implies participation by joint ventures also.
- Given the long term nature of insurance business, few players in the domestic private sector can be expected to participate, especially in the initial years.
- No financial returns can be expected to accrue in the initial 5 to 8 years. Besides, even after this period dividend would be limited by regulators to not more than 10 per cent.
- Excluding India, Myanmar, North Korea and Cuba are the only countries where foreign insurance companies are denied entry. China opened up its insurance business to foreign companies about a decade ago. Now 28 foreign companies operate in the Chinese insurance market.
- Both LIC and GIC have branches abroad. LIC and GIC together have 52 branches in 27 countries, including Japan, U.K. and Singapore.
- Foreign investment companies have large investments in USA, UK, EU and Japan where the regulators permit investment of funds abroad. Foreign participation in Indian isurance can therefore facilitate flow of funds to infrastructure sector.
- Experience in Asian countries has been encouraging in terms of growth in premium and employment.
- Joint venture with foreign equity participation would facilitate utilisation of foreign funds and expertise in the development of a wide variety of insurance products at low costs.
- However, adequate legislative safeguards are necessary to ensure utilisation of policy holders' savings only in India.