

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:478
ANSWERED ON:23.02.2001
ENTRY OF FOREIGN COMPANIES IN INSURANCE SECTOR
V. VETRISELVAN

Will the Minister of FINANCE be pleased to state:

- (a) whether with the opening of insurance sector to foreigners and allowing repatriation of profits and surpluses, the fiscal deficit of the country will go up;
- (b) if so, the steps taken by Government to avoid this situation;
- (c) whether there is any plan that foreign entities or their collaborators will not transfer any cash, foreign exchange abroad but may transfer declared profits only but through export of Indian Goods and Service only;
- (d) if so, the details thereof;
- (e) whether the Reserve Bank of India propose to hold all foreign exchange in India and carryout foreign arbitrage; and
- (f) if so, the details thereof?

Answer

MINISTER OF STATE OF IN THE MINISTRY OF FINANCE(SHRIBALA SAHEB VIKHE PATIL)

- a) Foreign Direct Investment in the Insurance sector has been limited to 26% of the paid up equity capital of the Indian insurance companies. Profits can be repatriated by way of dividends only upto this limit. The IRDA has further estimated that it will be difficult for any new insurance company to make any profits in the first six or seven years. Hence, the opening up of the insurance sector is not likely to have any adverse impact on the fiscal situation of the country.
- b) In view of answer to (a) above, question does not arise.
- c) & d) Under the Insurance Act, the funds of the policy holders cannot be invested outside India. However, in the general insurance business a small percentage of premium income may be ceded abroad to seek re-insurance cover as is also being done presently by the public sector insurance companies. This is a normal practice in insurance business and is essential to ensure the safety of their operations. There is no plan to restrict transfer of dividends abroad through export of goods and services only. As explained in answer to (a) above, dividends upto a limit of 26% can be repatriated by foreign investors.
- e) No, Sir.
- g) Does not arise.