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In this issue:

Government clarifies FDI Policy in Insurance Sector

Department of Industrial Policy and Promotion (DIPP) has issued a press note elucidating the FDI Policy in Insurance Sector by specifically providing that foreign investment will include portfolio investment and investment by non-resident Indians (NRIs). While the allowed limit of up to 26% through the automatic route in the Insurance Sector remains intact.

Although foreign investment including foreign institutional investment (FII) and investments by NRIs was already allowed, as the same is provided by the Insurance Act, 1938 but there was a need to incorporate the same in FDI Policy so as to bring clarity. Now that this is done it is expected to bring in further investment in Insurance Sector.

Other earlier condition that such foreign investment is subject to the condition that companies bringing in FDI shall obtain necessary license from the Insurance Regulatory & Development Authority for undertaking insurance activities is needless to say, still applicable. Furthermore, the press note also provides that the revised policy will apply to insurance companies, insurance brokers, third party administrators, surveyors and loss assessors.

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FIPB clears Investment Proposals

From February, 2006 since the inception of FDI Policy in retail, up to December, 2013 Foreign Investment Promotion Board (FIPB) has approved about 76 proposals. Other than retail, the major sectors in which the FIPB has approved foreign investment includes banking, non-banking financial service,s commodity exchanges, defence, telecom services, civil aviation, broadcasting, asset reconstruction companies, print media, courier services, construction development, and brownfield pharma.

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RBI releases Framework for Revitalising Distressed Assets in the Economy

On 30th January 2014, Reserve Bank of India released framework for Revitalising Distressed Assets in the Economy. This step is to check the increasing bad loans and thus the framework outlines corrective action plan that will incentivise early identification of problem cases, timely restructuring of accounts which are considered to be viable, and taking prompt steps by banks for recovery or sale of unviable accounts. The main features of the Framework are:

i. Early formation of a lenders' committee with timelines to agree to a plan for resolution.
ii. Incentives for lenders to agree collectively and quickly to a plan: better regulatory treatment of stressed assets if a resolution plan is underway, accelerated provisioning if no agreement can be reached.
iii. Improvement in current restructuring process: Independent evaluation of large value restructurings mandated, with a focus on viable plans and a fair sharing of losses (and future possible upside) between promoters and creditors.
iv. More expensive future borrowing for borrowers who do not co-operate with lenders in resolution.
v. More liberal regulatory treatment provided for asset sales:
    a. Lenders can spread loss on sale over two years provided loss is fully disclosed.
    b. Take-out financing/refinancing possible over a longer period and will not be construed as restructuring.
    c. Leveraged buyouts will be allowed for specialised entities for acquisition of 'stressed companies'.
    d. Steps to enable better functioning of Asset Reconstruction Companies mooted.
    e. Sector-specific Companies/Private equity firms encouraged to play active role in stressed assets market.

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