

Making headway with raising FDI caps

After insurance intermediaries, focus turns to aviation, single-brand retail

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High on confidence in its second term, the BJP-led government has indicated its willingness to move fast on Foreign Direct Investment (FDI) reforms. Union Budget 2019-20 has raised the limit for insurance intermediaries to 100 per cent while setting the ball rolling for more liberalisation of the aviation, media (animation), insurance and single-brand retail sectors.

"India's FDI inflows in 2018-19 remained strong at \$64.37 billion, marking a 6 per cent growth. I propose to further consolidate the gains in order to make India a more attractive FDI destination," Finance Minister Nirmala Sitharaman said.

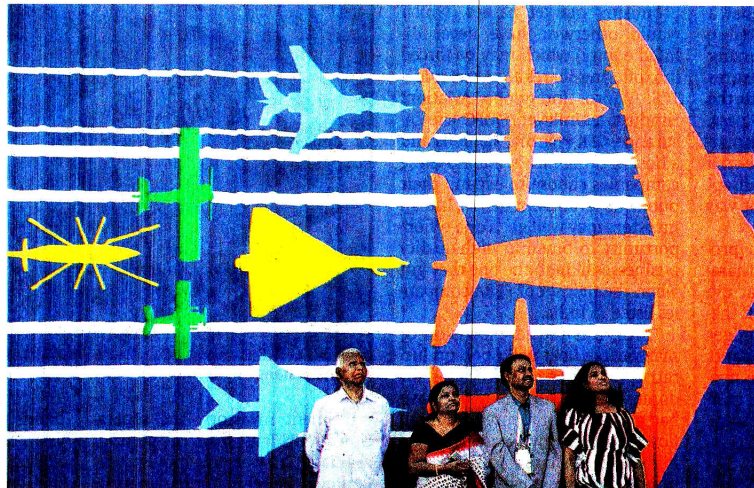
"Increase (proposed) in FDI limits in sectors like aviation and insurance is a

huge positive since these sectors are highly capital-intensive and there was a constant request by India Inc for such a move," said Rajesh Thakkar from Tax & Regulatory Services.

Notification likely soon

The Modi government, in its first term, faced tremendous pressure to liberalise the FDI sector, from foreign investors and trade partners such as the US and the EU, but it was not able to move much in sectors such as insurance, aviation and retail because of domestic sensitivities.

The Finance Minister announced unambiguously that 100 per cent FDI will now be permitted for insurance intermediaries (up from 49 per cent), which indicates that a government notification on the decision



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will be out soon. "The announcement on insurance intermediaries is a progressive move as it will bring in cost effective capital for several insurers who are investing in technology and digital solutions and want to expand network to grow... Also, the insurance penetra-

tion in India is lower than other Asian countries, and more FDI will help in driving this positively," said Ashish Vohra, ED & CEO, Reliance Nippon Life Insurance.

The Minister also said that local sourcing norms will be eased for FDI in single-brand retail, a demand being

pushed by multinationals such as IKEA and Apple.

For the other sectors, though, there will be more consultations.

"The Government will examine suggestions of further opening up FDI in aviation, media (animation, visual effects, gaming and

comics) and insurance sectors in consultation with all stakeholders," she said.

The Bharatiya Mazdoor Sangh, the trade union affiliate of the RSS, cautioned that trade unions needed to be consulted on certain matters, including the FDI policy, and the "plus and minus" of its impact on the economy.

Welcome move

The proposed increase in FDI in media and animation services is a welcome development, said Jehil Thakkar, Partner, Deloitte India.

"Greater investment in this sector is key to taking advantage of the opportunities created by the drop in data charges. While one will need to see how this gets implemented, India has the potential to become a global animation and visual effects hub, which will create more employment as well," he said.

With inputs from K Srivats and Meenakshi Verma Ambwani