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A CHINESE THREAT SHOULD NOT MUDDLE INDIAN POLICY

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Concerns over a Chinese slice of ownership are not reason enough to reject Paytm's insurance venture, provided it follows sectoral rules. The use of money matters far more than its source

Paytm Insuretech's attempt to buy existing general insurer RahejaQBE has run aground, with the Insurance Regulatory Development Authority of India (IRDAI) having sent it back to the deal-makers, as reported. While the regulator's reason for this rejection remains unstated, officially, it can be inferred from the pattern of changes in the proposed insurer's ownership structure that a potential interest held by Chinese investors was the most likely stumbling block. The acquisition proposal's latest version involved Paytm Insuretech buying 100% of RahejaQBE, but also with global re-insurer Swiss Re taking a 23% stake in itself, a share that could be hiked to 74% under our rules on foreign direct investment (FDI) for the insurance sector, revised last year to allow overseas majority control. Paytm Insuretech, however, is a unit of One97 Communications, which counts Alibaba and Ant Financial as investors. Still, if this is a well-regulated market, what danger an indirect slice held by Chinese firms could pose India is far from clear.

Under an earlier plan announced by Paytm in July 2020, an insurance entity majority-owned by its chief Vijay Shekhar Sharma was to buy RahejaQBE. While this would have ensured an Indian majority in the envisaged insurer, it did not find IRDAI favour. Speculation arose at the time of a call option held on Sharma's shares by the other parent, which could have negated the equity buffer. Today, even after One97's public issue last year, only a sliver of its equity is widely held. So, while Swiss Re's interest in the venture is a novel aspect, Paytm's revised project does not seem to differ much in terms of parental Chinese participation. Whatever the regulator's eventual call, this episode illustrates the minefield we have laid in our effort to block Chinese influence in domestic markets deemed sensitive to national security. Paytm's proposal does not flout FDI limits, and while a haze over the degree of sway that parental investors could exercise may well be a valid opacity concern, the harm it might expose us to has not been spelt out. If actuarial and other Indian data could be put at risk of theft and misuse, then regulations ought to minimize this possibility. After all, leaks can occur from any insurer's database. What calls for a strict vigil is how investor funds are applied, not their source.

Most capital deployed globally has a sole purpose: to chase returns. In a complex world of often-inextricable cross-holdings, with China set to add large sums to the globe's capital stock, we need a proper cost-benefit analysis of the blockade we opted for in response to the border hostilities of 2020. Granted, only our security agencies may be privy to the specific threats we face. Yet, the burden of equity filters could dampen inward investment without sufficient gains to justify it. Going by the ban imposed in 2020 on a few hundred Chinese apps, with no studies cited on our vulnerability to espionage, etc, our policy on this front has been rather too sweeping to appropriately balance our need for security with the freedom of enterprise. As Chinese inputs remain in play across a range of other sectors, we have ended up with uneven barriers. Recent tax raids on a couple of Chinese smartphone makers suggest such companies are in for heavy scrutiny, but our larger goals lose coherence in the absence of an approach that's codified formally and calibrated closely by risk calculations. In trying to insure India against injury, we shouldn't push money away that could aid the rise of our economy.

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