

Foreign Direct Investment In India Life Non - Life Insurance Sector (An Analytical Study)

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ABSTRACT

The Department for Promotion of Industry and Internal Trade (DPIIT) has amended the foreign direct investment (FDI) policy to allow 100% FDI for insurance intermediaries, which includes insurance broking, insurance companies, third party administrators, surveyors and loss assessors. Insurance intermediaries are brokers or agents who liaise between insurance companies and customers. Till now, FDI in the insurance sector was capped at 49% under the automatic route. According to the policy, FDI for insurance company is still capped at 49%. The government's latest decision to ease FDI norms for the insurance sector will enable foreign brokerage companies to buy stake in Indian companies. This will bring in global practices in the country, which will include new insurance products and selling strategy. As a result, the right kind of product will be sold to the right client. Finance minister Nirmala Sitharaman in the Union Budget last year said that 100% FDI will be permitted for insurance intermediaries. According to the policy that insurance intermediary with majority shareholding of foreign investors will have to be incorporated as a limited company under the provisions of the Companies Act 2013. At least one from among the chairman of the board of directors or the Chief Executive Officer (CEO) or principal officer or MD of the company shall be a resident Indian citizen, it said. Besides, any non-insurance company, for instance, a bank with more than 50% revenue from non-insurance business will have adhere to respective FDI limit for that particular sector.

1. Introduction

"FDI inflows into India have remained robust despite global headwinds. Global Foreign Direct Investment (FDI) flows slid by 13% in 2018, to \$1.3 trillion from \$ 1.5 trillion the previous year--the third consecutive annual decline, according to UNCTAD's World Investment Report 2019... I propose to further consolidate the gains in order to make India a more attractive FDI destination," Sitharaman had said in the Budget speech in July last year.

The government may raise the overseas investment limit in insurance to 74% in the February budget, up from 49% now, possibly paving the way for foreign control of companies, said people with knowledge of the matter. The Insurance Regulatory and Development Authority of India (IRDAI) sought the views of various stakeholders on the matter in a December 2 letter at the direction of the government, they said. The letter to insurance companies and others has called for suggestions on ..The insurance industry may soon see an influx of foreign capital as the government has increased the foreign investment limit on insurance intermediaries to 100% from 49% earlier. The announcement is set to bring capital for companies investing in technology solutions which is to help Indian insurance sector achieve better penetration rates which at 3.6% is much lower than the global average of over 6.1%. the domestic investments. The foreign investments are complementary to economic growth and development in developing countries like India. Investment in an economy raises output and improves standard of living of the people. Keeping this end in view both developed and developing countries are trying their best to undertake investment programmes. Since the large that FDI in one way or other would be assisting the economy in its growth.

But the foreign stakeholders did not show much interest due to the presence of deterrents in the Indian economy such as attitude of public towards foreign contributions, high rates of corporate taxes, inappropriate policy framework, limitations on their further expansions, legal and bureaucratic controls, etc. When even after the government's approbation, the foreign capitalists did not turn up, then it became an area to be studied analytically and it was decided that the reasons leading to scarcity of foreign capital in India should be revealed and 129 suggestive measures should be recommended so that our country may be viewed by the foreigners as their favourable location to invest. FDI in India is a very vast topic to be studied as it has impact on a number of sectors like telecommunication, pharmacy, retailing, banking, insurance etc. At the same time, it also affects a number of variables like employment, imports, exports, price level, production, etc. FDI in Indian Insurance sector is taken as an area to be studied as Insurance sector plays a pivotal role in the progress of the country. A lot of literature is studied in context of FDI-FDI in Life Insurance sector and FDI in Non Life Insurance sector. A lot of newspapers, magazines, articles, research papers, dissertations and websites are gone through to gather knowledge regarding this field. FDI Policy framework was also reviewed for this purpose. Not only was this, the annual reports of IRDA (Insurance Regulatory and Development Authority) also deeply studied in order to identify the trends and patterns of FDI in Insurance. The annual reports of RBI are analysed to acknowledge ourselves about the different cumulative figures. The opinions, views and ideas of experts are also gathered to enhance the significance of the research study. But still, there is a dearth of study material to actually know the plight of FDI in

Insurance sector. Thus, the need of the hour is to conduct a lot more researches yet. The first and foremost objective of conducting the research was to analyse the performance of FDI sector-wise, country-wise and year-wise. The other objective can be stated as examining the pattern and plight of FDI in Insurance sector of India. Attempts are also made to know the future prospects of FDI and the implications of FDI in the Sectors of Indian economy. Our study has examined the pattern of foreign investments i.e. FDI, before liberalization and after liberalization. The fluctuations in the amount of capital contributed is analysed with regard to different sectors, different years and that too is done year-wise. What is the situation of foreign capital in the developed economies and what is the situation in the developing economies is differentiated before 1991 and after 1991. Which countries of Asia are contributing more in the Indian economy and which are the least preferred are also made known here. Which countries are promising and which are potential investors so that they can be looked upon by India in future. The condition of FDI in Indian life Insurance and general insurance (Public sector and Private sector) is examined analytically on the basis of its impact on their profits, investments, claims paid ratio, number of offices, number of registered insurers, number of agents-individuals and corporate, equity 130 share capital etc. Finally, on the basis of data of inflow of FDI in different years in the life and general insurance sector, a trend is established to know the significance of foreign capital. At last, most importantly, on the basis of the entire research study, efforts are made to suggest the reasons that are restricting the flow of FDI in India so that these causes can be overcome to improve the plight of the Indian economy. Moreover, certain measures are also recommended in the light of the problems prevailing here. These suggestive measures should be reviewed over and over again as per the requirements of the dynamic International markets. The main objective of the present study was to find out the measures to translate the developing Indian Economy into a developed one with the assistance of different developed nations. Another motive of the research is to make India a favourable and attractive destination for the foreign stakeholders which would ultimately help India to grow as an advanced nation. Thus, we can report the findings, conclusions and suggestions with regard to FDI in Indian Insurance sector in the following ways: Findings of the Study 1. During the pre-liberalization period, aggregate flow of FDI which stood at Rs.28.8 million in mid-1948 increased to Rs.122.7 million in the year 1990. It means a net increase of 426 per cent in March 1990 over the base year mid-1948. 2. India attracted total FDI of Rs.28.8 million in 1948 just one year after India got freedom. In the end of 1961, per cent share in Direct Foreign Investment was 92.46 which was highest upto March 1990 and also with highest growth rate of 98. 3. During the post-liberalization period, the total FDI of US\$ 97 million in 1990- 91 increased to US\$ 26953 million in 2013-14 with increase of approximately 278 times. 4. Maximum amount of FDI during the total journey of 23 years is US\$ 46553 in 2011-12 which is 15.74 per cent in total FDI. It is also found that upto 2012- 13, total foreign investment inflow was made at US\$ 295748 million (61.39 per cent) as FDI and US\$ 186009 million (38.61 per cent) as portfolio investment. 131 5. During the pre-liberalization period, developed economies have 40.09 per cent inflow as compared to the minimum share of 0.19 per cent inflow towards least

developed economies. 6. In the post-liberalization period, amount of FDI inflows to developed economies have increased from US\$ 144.3 billion to 560.72 during the period under reference, whereas per cent share of FDI inflow was decreased from 32.26 to 20.68. FDI inflows to developing economies have also increased from US\$ 70.23 billion to US\$ 702.83 billion and per cent share was also increased from 15.69 to 25.91 during the same period. 7. During the pre-liberalization period, maximum share of FDI outflow is 155.58 US\$ billion from world economies which is near to developing economies i.e. 155.54 as compared to FDI outflow from developed, other developed and least developed economies. 8. It is also found that total amount of FDI outflow from all economies have been geometrically increased from 1991-95 to 2012 whereas percentage share of FDI outflow for developed, and other developed economies have been increased during this period. 9. The trend of total FDI outflow from world and developed economies is increasing from 1991-95 to 2011 with minor decrease in 200-05. Whereas FDI outflow trend of developed economies shows fluctuating trend from 1991-95 to 2001-05 but showing a decreasing trend from 2006-10 to 2012. 10. During pre-liberalization period, USA has topped as the main sources of FDI inflow in India every year from 1985 to 1990, although per cent share has decreased from 53.87 per cent to 26.94 per cent whereas Singapore has the lowest rank with an increased amount of FDI inflow by US\$ 17213 million and per cent share has also increased from 3.82 to 3.84. 11. During the post-liberalization period, Mauritius has topped as the main source of FDI inflow in India with a major cumulative per cent share of 38 per cent but percentage share is decreased from 41.08 (2008-09) to 28.31(2011) whereas UAE has the lowest rank having 1per cent share in cumulative total FDI inflow in the same period. 12. FDI inflow from all the countries in 2012-13 has decreased as compare to FDI inflow of 2011-12 but trend of FDI inflow from Netherlands is increasing. 132 Total amount of FDI inflow of US\$ 35,121 million with 18.48per cent share in cumulative FDI inflow up to January 2013 is the highest as compare to other periods. 13. In the year 1995, 2010, 2011 and 2012 maximum FDI outflow was made by USA whereas maximum amount of FDI outflow was contributed by UK in 2005. Mauritius has the lowest rank in terms of FDI outflow in the year 1995, 2000, 2005 and 2011. UK, Canada and Sweden have an increasing trend of FDI outflow during the year 2010, 2011 and 2012 whereas trend of FDI outflow made by Germany is decreasing during the same period. USA has topped the position of total outflow with 40.40 per cent share in the total amount, 2nd and 3rd rank was achieved by UK and Germany respectively.

2. Review of literature and methodology

Basically concerned with the review of literature done for the present study and the methodology adopted for the research. Here, in this research study, in order to analyse the impact of FDI in Insurance sector, the secondary data is made use of. After going through the retrospective study of the Insurance sector in India- Life and Non Life- we have analysed the various published and unpublished data on FDI in India. Various reports of IRDA (Insurance Regulatory and Development Authority) from the year 2000-01 to 2013-14 have been gone through analytically. These reports are studied systematically in order to establish their impact on the

Insurance sector of the Indian economy. Information from different newspapers, magazines and articles has also been gathered and made use of. So, in general, secondary data is more in use here. But simultaneously, the views and opinions of experts have also been considered here. Review of Literature A large number of restricted research studies have been conducted on FDI in general and FDI in insurance sector in particular. Almost all the studies are based on secondary data. Some scholars have also focused the significance of FDI in different angles. The review of some important and relevant studies will facilitate in identifying some of the issues in this area of proposed research work. Many a research studies have been conducted on FDI in general but so far as FDI in insurance sector is concerned we come across very few studies in this area in particular. Almost all the studies are based on secondary data. Some scholars have also focused the significance of Foreign Direct Investment in different angles. The review of some important and relevant studies have facilitated in identifying some of the issues in this area of present research work.

Singh and Gupta (2013) discussed India's foreign capital policy since 1947. They concluded that the policy framework in India dealing with foreign private investment has changed from cautious welcome policy during 1948-66 to selective and restrictive policy during 1967 to 1979. In the decade of eighties, it was the policy having partial

Singh, Pramila and Gupta, D.C. (2013) "India's Foreign Capital Policy Since 1947" Foreign Direct Investment and Financial Crisis(Ed.), New Century Publications New Delhi, pp.1-27 26 liberalization with many regulations. Liberal investment climate has been created only since 1991.

Boopath (2013) revealed that the Press Council of India has commented on synergic alliance" or equity participation by way of Foreign Direct Investment. The council opined that Foreign Direct Investment should be allowed to break or halt the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers.

Jampala, Lakshmi and Srinivasa (2013) discussed Foreign Direct Investment Inflows into India in the Post-reforms period. They concluded that "as far as the economic interpretation of the model is concerned; the size of domestic market is positively related to Foreign Direct Investment. The greater the market, the more customers and more opportunities to invest." **Pradeep (2013)** made an attempt to study of foreign direct investment in India. He emphasized that Investment, or creation of capital, is an important determinant of economic growth. In general, investment may lead to creation of physical capital, financial capital and human capital. In combination with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Other things being the same, less investment leads to lower economic growth with attendant consequences on reduction in income, consumption and employment. Foreign investment can reduce domestic savings gap. Hence, notwithstanding the

domestic savings gap, economic growth can be increased in an open economy with inflow of foreign investment. The foreign investment in India would stimulate

3. Summary, conclusions and suggestions

The research study is contains the findings and conclusions derived on the basis of the entire research work carried out on the growth pattern of flow of FDI in India since liberalisation. Insurance sector is taken as the field of study. It generally pacts with the consequences, eventualities and conclusions drawn from the different chapters of research and on the basis of these inferences and recommendations, it provides a number of different dimensions to boost the inflow of FDI in the insurance sector in India and it also offers different proposals to rejuvenate and revamp the Indian Insurance Sector. Therefore, the most significant objective of the present chapter is to provide FDI policy connotations on the basis of the study conducted and to suggest references to make India appealing, proactive and an attractive terminus. Summary Presently, the topic of FDI in India is a burning topic to be discussed upon, for it is very much responsible for the growth, development and advancement of the Indian economy. When this area was taken as the field for research, we came to know that after Independence and before liberalization i.e. prior to the introduction of economic reforms in India, certain severe restrictions were placed before the foreign investors who were planning to come and invest. And these restrictions were put just due to the fear of the Indian Government that the resources may be drained away by the capitalists and it would lead to the exploitation of our resources-physical, financial and human. Even in spite of that suspicion, Indian government showed courage and assured the general masses at. These both Asian countries got the same rank in the year 1988, 1989 and 1990 in terms of total amount of FDI inflows. India could contribute only US\$ 864 million with 1.34 per cent share which is more than only one Asian country i.e. Sri Lanka. Hence, position of India in this regard is not satisfactory during this period under reference as far as year wise analysis is concerned total FDI inflow of US\$ 16012 million with 24.89 per cent share was made in the year 1990 whereas minimum FDI inflow of US\$ 4224 million with 6. 57 per cent share was marked during 1982-85. 15. During the post-liberalization period, in the total amount, maximum FDI has been shared by China i.e. 42.47 per cent during the period of 22 years and Hong Kong got 2nd rank in this regard. As far as our country India is concerned, a total amount US\$ 247.334 million FDI was made which is 7.9 per cent in total FDI inflows. India got 4th rank among ten Asian countries. India has 59.77 per cent of share in total FDI inflows of South Korea, Malaysia, Philippines, Thailand, Sri Lanka and Pakistan but 10 per cent share in total FDI of Hong Kong, China and Singapore. 16. During the pre-liberalization period, maximum FDI outflow was made by Hong Kong amounted to US\$ 1.833 million out of total FDI outflow with 58.54per cent.

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