

# 100 % FDI IN INDIAN INSURANCE SECTOR

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## Abstract

Growth in flow of F.D.I into India in the time period of the past two decades is one of the most notable and spectacular advancement in the global economy. The notable progress in the economic landscape with regard to F.D.I flow as of 1990 all over the world makes the flow of F.D.I an important and unavoidable segment in enhancement process in both developed and evolving economies and preparations are alignment with a well-defined goal to orchestrate internal torrents. F.D.I is a mutually beneficial stream for both the host and where they invest. It is no hidden fact that both the nation of origin and host nation benefits from F.D.I. As a tradition F.D.I refers to foreign inflow of capital and cast resources into the generation threshold of the economy and are preferred more than other type of funds since they are of stable profit and are determined by financial specialists. F.D.I inflow motivates nations to create explicit, expensive and persuasive arrangement condition for issues related to venture and assemble both financial and intellectual property to execute the plan. This paper aims in exploring the scenario of Indian Insurance sector to know its advantages of outside direct venture expansion in the segment to understand the arrangement of the government.

**Keywords:** *FDI, Global, Capital, Nations, Insurance*

## I. Introduction

Insurance is a type of arrangement by a company or a local body who undertakes the guarantee to help people to get compensations for any specified event suffered by them, or for ailment or demise in return for a monthly-payments to the Insurance company or premium paid to the Insurance Company on a timely basis as per the Insurance plan. Insurance is a means to reduce financial risk and it is the means to evade unexpected losses. Insurer is the party or entity who provides Insurance. Insurance is a way for any tax payer to get tax deductions from their income which thereby lowers their tax load. It also helps individual tax payers by inspiring them to start saving their money for the imminent. There are 53 companies in the Insurance sector of India, out of which 29 companies are part of the non-life Insurance companies and 24 companies are part of the life Insurance companies. Life Insurance Corporation is the sole public sector company among the life Insurance companies. There are six public sector insurers in non-life Insurance companies sector. General Insurance Corporation of India is a solitary national re-insurer company in the Insurance sector of India. Individual agents and business agents, assessors, negotiators, third party overseers are few among the other stakeholders in the Insurance sector companies in India. Indian Insurance sector is thriving industry in the Indian market with a rapid growing rate which includes both national and international players. The India Insurance sector together with the banking and real estate Indian market constitutes 12.9% of the Indian GDP. The Indian Insurance sector rules were made less strict by the year

2001 and which led to the entry of many large Insurance companies around the world to India as those countries have found out that Indian market is one of the emerging markets in the world which will come to one of the top five countries in the world in all aspects. Indian Insurance sector have undertaken very big changes during the last 18 years.

Defined by the constitution of India in the Seventh Schedule says that Indian Insurance sector is one of the most economic sector in India with a yearly growth rate of 30%. \$41 billion is the current worth of the Indian Insurance sector which is still growing. As per the statistical reports India is presently fifth ranked in the Insurance companies in the world as a country and is said to reach the top Insurance providing country in the world as Indian Insurance market is a flourishing market in the world Insurance industry. I.R.D.A.I is having talks to allow 100 % of F.D.I in Insurance intermediaries and Insurance brokers. But it is not considered to result in an increased foreign capital inflow to the Indian Insurance sector. The F.D.I Policy of India as defined by the Department of Industrial Policy and Promotions (DIPP) allows third party managers, overseas Insurance companies, Insurance broking, loss evaluators and surveyors to do overseas direct investment of 49% in the Insurance sector of India. The Department of Policy and Promotions is a part of the commerce and industry ministry which helps in making the business in the country easier and also it deals with the F.D.I related matters of India. It is expected to raise the F.D.I. cap in the Insurance sector of India after increasing the F.D.I.s of the Aviation sector, Broadcasting sector, The CCEA which is the India Cabinet Committee on Economic Affairs and the Multi-brand Retail sector of India. India's Insurance penetration was 3 % while comparing to the world average of 8 % in 2017-18. So India have to strengthen their distribution network to help improve the Insurance sector as a whole.

## **II. REVIEW OF LITERATURE**

Insurance sector in India has faced a lot of improvements in the last few decades. It is really beneficial for the foreign country who makes the investment and the domestic country. Both countries get a lot of benefits from this kind of investments. **(Shikhare, 2015)**

In this paper they are studying about the structure of the Indian insurance sector. They also explain about what is insurance and its components. They also made a study on the life insurance for the people, its maturity, dates of intervals. **(Naik, 2018)**

In this paper they are studying about the increase in the F.D.I in insurance in India during the past two decades. Also they study about how the Indian insurance sector can grow and what are the needed things for that and also how can India try improve it. **(Yadav & Mohania, 2016)**

In this paper they study about the importance of F.D.I in globalization of a country. How F.D.I helps in transferring technology and infrastructure from one country to another country. The study also shows us the

challenges faced by the insurance sector in India in its growth. They are also comparing between the main two components of the financial sector that is insurance and banking sector. (K & Gowda, 2016)

In this paper they are mainly saying about the growth of insurance sector in India during the last two decades. The FDI growth was immense with a beginning of 12 companies in 1999 to 53 companies at present. Their work is mainly to find the opportunities in FDI in insurance in India and also the part of the government in the same. (Pavithra, Ramu, Sciences, & Sciences, 2018)

### ***III. HISTORY OF INSURANCE***

In simple words, Insurance was nothing but an agreement between two parties such that one party has to pay another party a premium on a time basis as per the agreement and then is obligated to pay a sum to the party who was subject to the specific event explicit in the contract. The two parties may be cited as insurer and insure depending upon the position. The agenda of Insurance from historic period was to mitigate risks and take a covenant from dangers bound to happen in the future. It was a way of preventing solvency in case of a disaster. Insurance is not a new concept in India since it was even mentioned in the Manusmriti, Dharmaśāstra, and Arthashastra. The concept revolving in these scriptures were of bringing together resources to protect the population at the time of a calamity whether it be natural or man-made. Insurance has taken many steps from this initial stage had undergone a significant development and change along with many reforms.

### ***IV. Global Overview of Insurance sector***

Insurance sector globally is facing a lot of risk and increasing competition, which has led to the companies to become more efficient in their activities, enhance their technological processes and change their business models. Insurance companies around the world is trying to enhance their activities, alter their business models, improve their technology related processes, remove all the overheads charges they incur as the return from the investments are reducing. The Insurance companies have to strengthen their product lines, investments strategies and their corporate infrastructure as the Insurance sector competition around the world is increasing very faster.

### ***V. DATA ANALYSIS***

#### ***F.D.I development hits the lowest in the last five years***

According to the statistical data of DIPP the F.D.I growth during the financial year 2017-18 was the least with a growth of 3 % to \$44.85 billion USD.

The F.D.I growth during the last five years were as follows:

<b><u>Financial year</u></b>	<b><u>F.D.I growth</u></b>
2017-18	3 %
2016-17	8.67%
2015-16	29 %
2014-15	27%
2013-14	8%

However, the F.D.I growth during the financial before that, that is 2012-13 recorded a % of negative 38 %. India has done a wonderful job in gaining its rank in the Insurance sector in India in conditions of doing the business very easily.

### ***The Pre-Independence Era***

With the founding of the Kolkata extra Security Organization in the year 1818 made the debut for Life coverage policies as a business opportunity in India. The colonizers bought into being, the British protection act. The act bought about in 1912 which was Indian life confirmation organization act played the pivotal role in controlling all business related to Insurance. Then came Indian Insurance Agencies Act which forced the different bodies to bring together quantitative data concerning different types of Insurance products. Then later after ten years in order to make it better the old statements were merged with protection demonstration for ensuring blanket control of backup plans.

### ***The Nationalized Period***

The year 1950 bought about the Insurance Amendment act which drew the curtains for principal agencies. The number of players in the Insurance sector was high which resulted in fierce competition as well. This was also the time when unfair trade practices sprouted all over the country. At this point in time, the Indian Government decided to Nationalize the Insurance practices in the country. This is when Life Insurance Corporation of India Absorbed 154 home and 16 foreign insurers. The L.I.C was able to hold the monopoly in the motherland of India till the beginning of the new millennium when after the crisis of 1991 came L.P.G which opened the gates of India to foreign investment and lead to the growth of private sector.

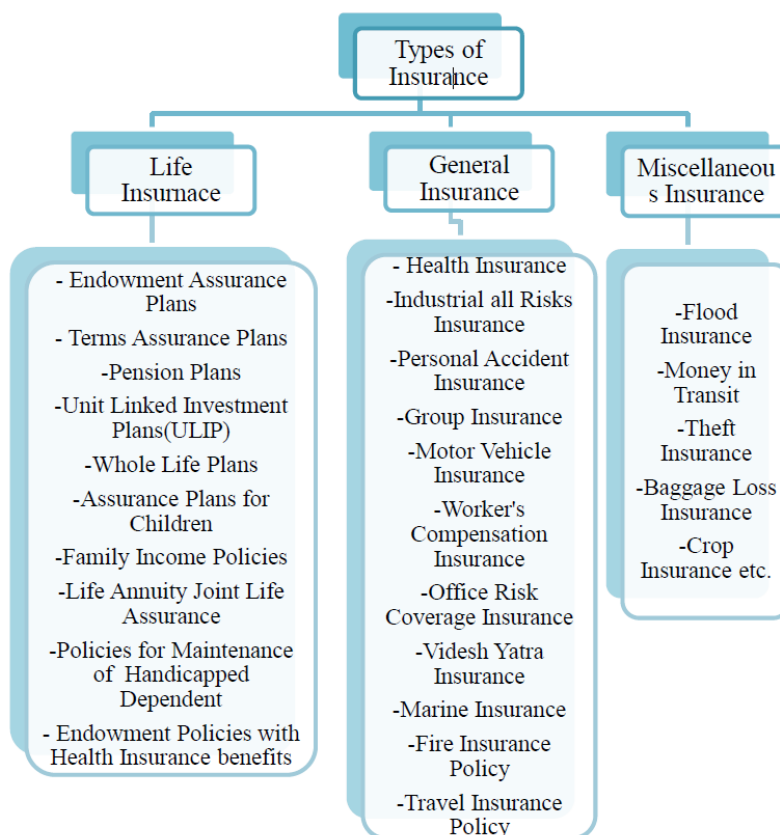
### ***The Liberalization Period***

The I.R.D.A was instituted as an independent Body to monitor, regulate, and develop the Insurance sector. August was the month in which I.R.D.A started accepting registration. It came with allowing a 26 percent F.D.I in domestic companies. Now many players have come into the Insurance sector. This 26 % was increased to a big number which is 49%. Now discussions are going on to increase from the existing 49% to 100% and I.R.D.A is in strong support of this opinion. The Table shown below displays the Insurance company breakup in the sector.

Type of Business	No. of Public sector companies	No. of Private sector companies	Total companies
Life Insurance	01	23	24
General Insurance	06	22	28
Re Insurance	01	0	01
Total	08	45	53

Source: I.R.D.A.I. official Website [www.irda.org](http://www.irda.org)

The following is the type of Insurance in India:



***F.D.I. In India.***

An F.D.I is when one country shows interest and invests in the domestic business in another country which isn't their home country. It has been a major source of non-debt option for the economic betterment of India. F.D.I mainly comes to India to exploit the cheap availability of labor. Most shared services are a great example of this phenomenon. It also means that there is a steady flow of knowledge through F.D.I which is one of the major impacts when we dissect the impact.

***Insurance Penetration and Density in India.***

Insurance Penetration is calculated by taking into account the percent of Insurance premium divided by G.D.P. Density Of Insurance in calculated by dividing or taking the ratio between population and premium of Insurance (Last Name, Year)



### ***Benefits of increasing the F.D.I in the Insurance sector of India***

Narendra Modi headed cabinet committee of India has approved and made the F.D.I limit of India to 49 % from 26 %. It was a long point in time reform which the Modi government wanted to approve and which got approved will benefit the Indian Insurance sector.

### ***The issues faced by the F.D.I in the Indian Insurance sector***

- 1) Efficiency of the foreign companies F.D.I- As the Insurance sector was opened for the private contribution in 1999, F.D.I was 26 %. in 1999, following the 26 % 12 companies in the private sector entered to contribute. As the limit is increased to 49 % will lead to a higher participation of the companies.
- 2) Foreign Companies credibility- The dispute that the increase in the F.D.I will increase the knowledge and infrastructure came to an end during the last financial crisis where the top companies such as the Goldman sachs, American international group and the Lehman brothers.
- 3) A lot of investments are made into the Insurance sector of India every year. this helps the Insurance sector of India to channelize the flow of capital to different sectors in the Indian economy which helps for the gathering of savings.

### ***Advantages of F.D.I in Indian Insurance sector***

- 1) Employment opportunities- As a lot of funds are coming into India the Insurance sector can increase the job opportunities for the people by increasing the infrastructure and the operations of their Insurance services.
- 2) Consumer gracious- It is of great favor to the consumers of India as they are getting benefitted by great offers offered by the various Insurance companies working in India. As it become more competitive for the companies going concern they will improve their services in their market as well as they will improve the claim clearance ratio.
- 3) Constructive for the Pension sector of India- As the pension sector bill is connected to the F.D.I bill in the Insurance sector will benefit the pension sector bill if the F.D.I bill in the Insurance is increased to 49 %.
- 4) Increased F.D.I in India- As many players are entering into the Insurance sector of India from the foreign companies, the amount of F.D.I made to India will also increase which will help in the economic growth of India.
- 5) As India is having around 135 crores of population, India needs much higher penetration of Insurance as of now which is around 3 % of India's gross domestic product. This is very less as in contrast with the Insurance penetration of Japan which is around 10 % of the gross domestic product and the global Insurance penetration average is around 8 %. As the F.D.I is increased to 49 % and will make stronger further, a lot of overseas players will enter the Indian market making it more competitive enabling a number of people to

buy life covers and non life covers for them which thereby will help in the Insurance penetration of India to increase.

6) As the F.D.I of Indian Insurance sector is increased to 49 %, the companies in the Insurance sector will get a high level partaking field. currently the life Insurance corporation owned by the Insurance sector of India is around 70 % of total.

7) F.D.I in India will increase the capital enlargement of India thereby helping India to surge the infrastructure of India which has been a peril all this long which reduced the growth of India.

## **VI. Conclusion**

Studies have always been abundant regarding Insurance and F.D.I in India and it suggests that there is even a possibility of a 125 percent growth in the decade to come. Since India is seen to the world as one of the fastest economy in terms of growth which has led to policies in favor of cash inflow from other nations to finance in Indian domestic sectors. The main problem is that the cap in India still lies at a stagnant forty-nine percent which isn't very appealing to foreign players. In order to make it appealing to foreign players a cent percent F.D.I is needed. So from the study we understand that at the inception of Insurance sector in India, there were very few number of players and it has drastically increased due to increase of F.D.I from 26 to 49 percent. India has the tenth rank in regard to foreign investments in Insurance sector. Since day by day more people are being aware of risk mitigation strategies, the scope of Insurance is on the rise and should not go unnoticed. The Insurance penetration has deepened and since there is huge population out there uninsured a 100% F.D.I will be appealing to Foreign Players judging from the market size and possibility. So we understand from this study that there is new avenue yet to be opened to foreign players which mutually benefits the host as well as India.

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