

GROWTH LINKAGES OF FDI & LIFE INSURANCE SECTOR OF INDIA

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ABSTRACT: FDI is a global concept and now a day it is not only the need of developing or developed countries. Not withstanding the global concept of FDI there is also an urgent need of FDI for India to face the economic challenges and for the economic development. FDI makes it easy for international trade and commerce to happen; as well it helps in transfer of skills and technology, creates job opportunities and improves infrastructure facilities between the countries. FDI is helpful to insurance sector by infusing capital at regular intervals. During the then Atalbihari Bajpai's government the Govt of India has taken a numerous steps to boost the insurance industry and 49% of FDI is one of them. The liberalization followed by privatization in insurance sector has brought in various fundamental changes in india's insurance business. After Liberalization and Privatization the market shares of public sector companies continued to enjoy 90% but due to increased capital inflow through FDI, the situation has been changed and the market share of the private insurance companies increased up to 60%. The entry of private players with FDI has led to tremendous changes in Indian life insurance industry. Since opening up, the number of participants in the industry has gone up from seven insurers in the year 2000 to 52 insurers in 2014, operating in the life, non-life and re-insurance segments. As at the end of September 2014, there are 24 life insurance companies operating in India, of which one is LIC the state owned Life Insurance Corporation and the remaining 23 are in private sector. The primary aim of this paper is to analyze the impact of FDI in Life Insurance Sector in terms of Number of Companies, Market share, Premium underwritten, Density, Penetration, No of Policies sold, Investment made by Companies and Profit made by them.

Index Terms: Premium, Market share, underwriting, Density, Penetration, Investment

1. INTRODUCTION

Insurance Regulatory and Development Authority permitted global insurers to setup and register a domestic company to undertake insurance business in India. However regulations stipulate that they should have a capital base of at least US \$20 million and their investment in such company is capped at 26 percent (now it is 49%). Thus to participate in the market they must form a joint venture with an Indian partner that is able to invest the remaining funds. The entry of private players with FDI has led to tremendous changes in Indian life insurance industry. Since opening up, the number of participants in the industry has gone up from seven insurers in the year 2000 to 52 insurers in 2014, operating in the life, non-life and re-insurance segments. As at the end of September 2014, there are 24 life insurance companies operating in India, of which one is LIC the state owned Life Insurance Corporation and the remaining 23 are in private sector. The given table shows total amount of FDI inflows in insurance sector.

2. FOREIGN DIRECT INVESTMENT

A foreign direct investment (FDI) is an investment made by a company in one country, into a company in another country. It refers to an investment made to acquire lasting or long-term interest in company or entity based operating outside of the economy of the investor. The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise. FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries. Foreign Direct Investment can further be divided into: Greenfield Foreign Direct Investment & Brownfield Foreign Investment.

3. BENEFITS OF INCREASE IN FDI IN LIFE INSURANCE SECTOR OF INDIA:-

- Increase in wide and innovative insurance products and services in India.
- Better competitive market.
- Better exposure of technology and other services from foreign partner.
- Increase in insurance penetration and density.
- Increase in employment opportunities.

4. DRAWBACK OF INCREASE IN FDI IN INSURANCE SECTOR OF INDIA:-

- Possibility of rise in unethical practices due to less control of government of India over Insurance sector.
- Higher mobilization of Indian Saving amount to foreign countries.
- Will affect 50 million merchants in India

- Profit distribution, investment ratios are not fixed
- An economically backward class person suffers from price raise
- Retailer faces loss in business
- Market places are situated too far which increases traveling expenses
- Workers safety and policies are not mentioned clearly
- Inflation may be increased

5. REVIEW OF LITERATURE:

The research literature on Life Insurance is vast and covers a number of dimensions. The following section provides a brief summary of research in different areas of life insurance research.

- **Manjit Singh and Rohit Kumar (2008)**, in the paper, “Indian Insurance Industry Outlook in the Post Reform period”, highlight that insurance penetration and density has witnessed an increasing trend in the post- reform period, but has a long way to go to even come close to the developed nations. The study also indicates huge unexplored and untapped market in India and shows huge opportunities for insurance companies to capture the business from competitive market; the survival of companies will depend on their strategies and efforts to increase their penetration levels and tap the new business positions especially in rural India.
- **Supriyachopra, Satvinder Kaur etl. (2014)** in his paper “Analysis of FDI Inflows and Out flows in India” tried to find out the Determinants of FDI Inflows, the pattern and Direction of it and factors responsible for lesser FDI Inflow in India. She focussed that for achieving a higher level of economic development and technological upgradation the FDI should allowed to India. She found that Market size, cost factors, real exchange rates, rate of inflation etc. are the determinants of FDI inflows. She pointed out that there is an increasing trend of FDI in a developing country like India, where the scare resources like capital usually required for economic development.
- **Balasubramanyam V. N Sapsford David (2007)** in their article “Does India need a lot more FDI” compares the levels of FDI inflows in India and China, and found that FDI in India is one tenth of that of china. The paper also finds that India may not require increased FDI because of the structure and composition of India’s manufacturing, service sectors and her endowments of human capital.
- **Alok Mittal and Akash Kumar (2003)**, in their study “An Exploratory Study of Factors Affecting Selection of Life Insurance Products” have attempted to identify the factors which are affecting the consumers in taking into consideration before selecting a life insurance product and determining the extent to which these factors are taken into consideration for choosing life insurance products. The study highlighted that consumers take into consideration factors like product attributes, customer delight, payment mode, product flexibility, risk coverage, grace period, professional advisor, and maturity period as important before making a decision on selection of a life insurance product but most important factors which are of vital importance was product attributes, and the least important was maturity period.
- **Albuquerque (2003)**, in his article —The composition of international capital flowsl examines that global factors have increased importance in explaining FDI flows. The researchers used a large cross country time series data set to analyse the driving factors of FDI across the countries. They indentify capital market liberalization and integration as the key driver of FDI. The study finds that global drivers are increasing in importance; however the domestic drivers like growth in local productivity, trade openness, financial depth and macroeconomic stability still account for a sizeable amount of inter country variation in Foreign Direct Investment.
- **Dr. P.K. Gupta (2000)**, in the article named “Exploring Rural markets for Private Life Insurance Players in India” has tried to examine the present state of affairs of rural life insurance in India and attempts to explore the causes, which led to poor penetration of rural life insurance markets for which a survey of 2000 sample of rural customers was been conducted to examine their perception and attitude towards buying life insurance products. The study brought out interesting facts to lights like rural households with head of the family more educated but with less family income are more likely to purchase a life insurance policy than those with better social security but lesser education & rural customers consider safety of invested funds as the most important factor in buying a life insurance followed by claims settlement and assistance in policy purchases. On the distribution side the research stated that a firm belief among the insurance companies is that agents are best suited for tapping the rural segments. But the research concluded that the keys to success in insurance penetration in rural areas for private players are accessibility, reasonably priced products, effective communication and after-sales service.
- **Ranade Ajith and Rajeev Ahuja (1998)** in their study identified the emerging strategic issues in light of liberalization and private sector entry in to the life insurance. They justified the need for private sector entry on the basis of enhancing the efficiency of operations, achieving a greater density and penetration of life insurance in the country.
- **Rajendran and Natarajan (2009)** found that the remarkable improvements that the acceptance and adoption of liberalization, privatization and globalization has brought about in the Indian life insurance industry. Their analysis concluded that LPG was incorporating a positive influence on the performance of LIC of India.
- **Rao Tripathi (1999)** studied the pattern and growth of life insurance business in India since its nationalization since 1956. His analysis focused specifically in the growth of new business, business in force, income and outgo of life fund. He found that there was a significant growth in new business both in terms of policies and sum assured.

6. OBJECTIVES

- To investigate impact of FDI in Indian Life Insurance Sector

- To study the current trend in the Life insurance sector
- To find changes taken place to this industry after inflow of capital through FDI
- To analyze the significance of FDI for Indian Life insurance sector.

7. METHODOLOGY OF THE STUDY:-

It focuses on how to analyze the performance of Life insurance Companies of private sector bank as well as Public sector for the period of 2007-2017. This research methodology is basing from secondary data provided by assured organizations.

The procedure that I have followed is to study performance both and also find out T/Z test. The comparison is made between total Private and Public sector life insurance companies. In order to make analysis more simple statistical techniques are used. The techniques are by

- Coefficient of Co relation
- Variance
- Z TEST
- T TEST

8. TYPES OF LIFE INSURANCE

- Term insurance
- Unit Linked Plans (ULIPs)
- Endowment Plans
- Money Back Life Insurance
- Whole Life Insurance
- Child Plan
- Retirement Plan

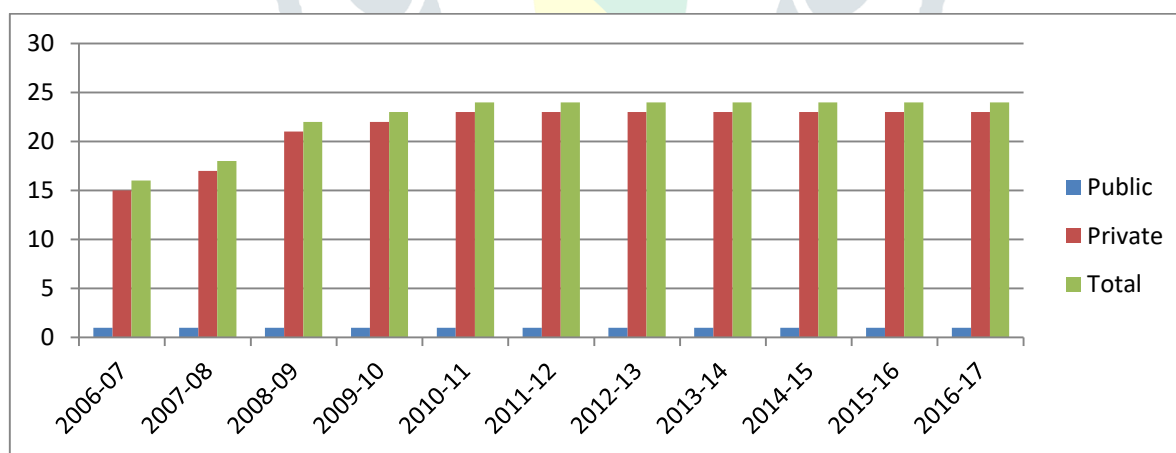
9. DATA ANALYSIS

(a) NUMBER OF LIFE INSURANCE COMPANIES EXISTING IN INDIA

Number of Life Insurance Companies from 2006 to 2017(Table-1)

Years	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public	1	1	1	1	1	1	1	1	1	1	1
Private	15	17	21	22	23	23	23	23	23	23	23
Total	16	18	22	23	24	24	24	24	24	24	24

Figure – 1



The above graph reflects that Table-1 shows that, the Number of Life Insurance companies in India during the period 2007 to 2017. Throughout the period the Number of private Life Insurance Company is increasing and public general insurance company is constant. Series-1 shows the number of public company and series-2 shows the private company and series-3 shows total number of Life insurance companies in India.

t-Test: Paired Two Sample for Means

	<i>l</i>	<i>15</i>
Mean	1	22.1
Variance	0	3.655556
Observations	10	10
Pearson Correlation	#DIV/0!	
Hypothesized Mean Difference	0	
Df	9	
t Stat	-34.8984	
P(T<=t) one-tail	3.22E-11	
t Critical one-tail	1.833113	
P(T<=t) two-tail	6.43E-11	
t Critical two-tail	2.262157	

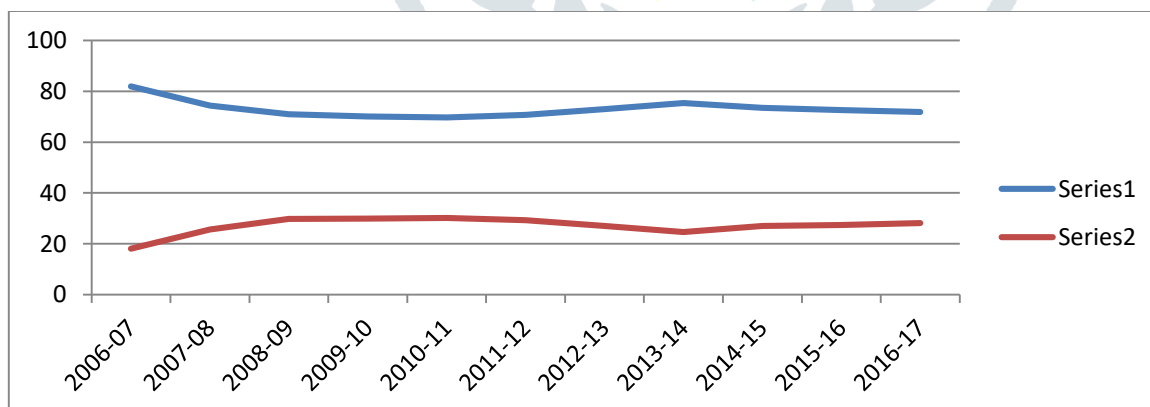
(b) MARKET SHARE OF LIFE INSURANCE

Table-2

Market Share of Life Insurance companies (in %)											
YEARS	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
PUBLIC	81.9	74.39	70.92	70.1	69.78	70.68	73	75.39	73.5	72.61	71.81
PRIVATE	18.1	25.61	29.8	29.9	30.22	29.32	27	24.61	26.95	27.39	28.19

Correlation=-1

Figure – 2



The above Line graph reflects that Table-2 shows that, Market Share of Life Insurance companies in Indian during the period 2007 to 2017. Throughout the period the Number of private Life insurance Company is increasing and public general insurance company is constant. Series-1 shows the number of public company and series-2 shows the private company and series-3 shows total number of Life insurance companies in India.

z-Test: Two Sample for Means

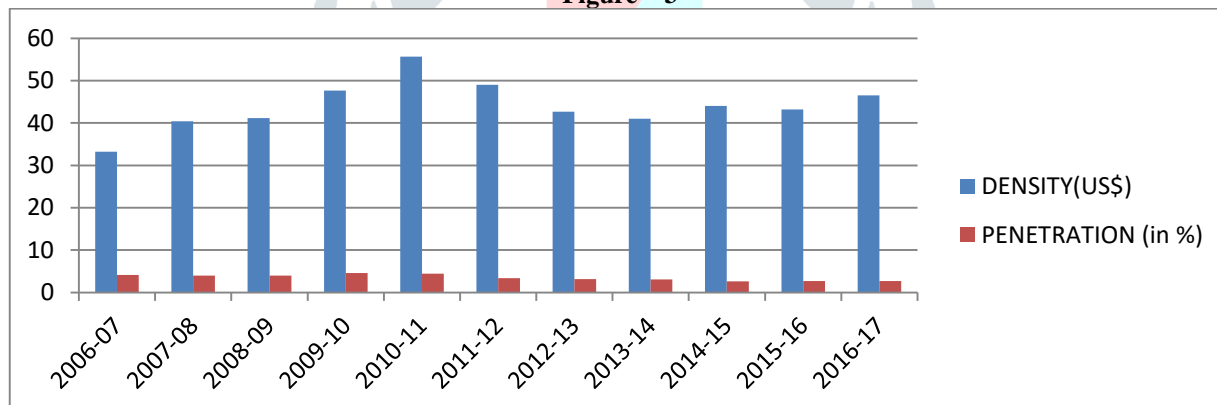
	74.39	25.61
Mean	71.92667	28.07333
Known Variance	3.429201	3.429201
Observations	9	9
Hypothesized Mean Difference	0	
Z	50.23569	
P(Z<=z) one-tail	0	
z Critical one-tail z Critical two-tail	1.644854 1.959964	

(c) LIFE INSURANCE PENETRATION AND DENSITY IN INDIA

Table - 3

YEARS	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
DENSITY(US\$)	33.2	40.4	41.2	47.7	55.7	49	42.7	41	44	43.2	46.5
PENETRATION (in %)	4.1	4	4	4.6	4.4	3.4	3.17	3.1	2.6	2.72	2.72

Figure - 3



The measure of insurance penetration and density reflects the level of development of Public and Private Life Insurance sector in India. In the above Bar Graph Series 1 shows total life insurance density has experienced an upward trend, increasing from 2007 to 2017 and Insurance penetration of life sector had gone down from 2017 to 2017.

z-Test: Two Sample for Means

	33.2	4.1
Mean	45.14	3.471
Known Variance	33.05673	0.517696
Observations	10	10
Hypothesized Mean Difference	0	
Z	22.74096	
P(Z<=z) one-tail	0	

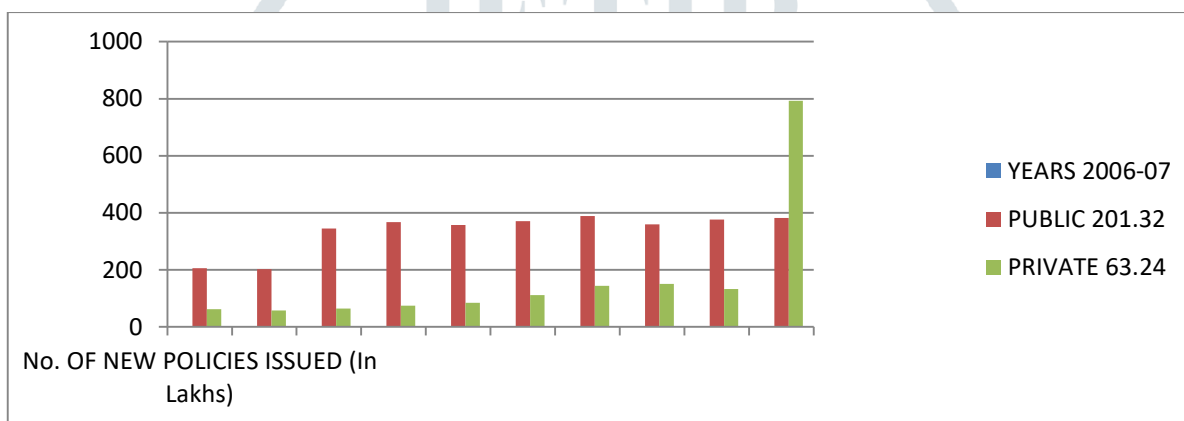
z Critical one-tail	1.644854	
P(Z<=z) two-tail	0	
z Critical two-tail	1.959964	

(d) NEW POLICIES ISSUED IN LIFE INSURANCE SECTOR

Table-4

No. OF NEW POLICIES ISSUED (In Lakhs)											
YEARS	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
PUBLIC	201.32	205.47	201.71	345.12	367.82	357.51	370.38	388.63	359.13	376.13	382.29
PRIVATE	63.24	61.92	57.37	63.6	74.5	84.42	111.14	143.61	150.1	132.61	792.22

Figure-4



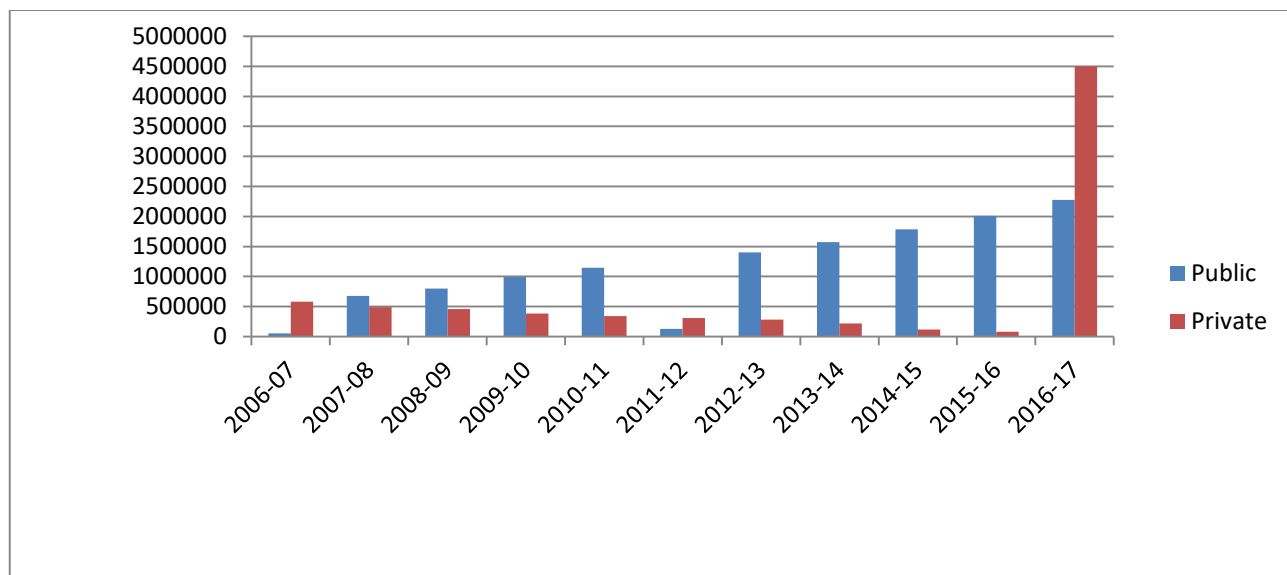
The number of policies sold of life insurance companies in India during the period 2007 to 2017. Throughout the period the number of policies issued in private life insurance company is increasing and public Life insurance company is decreasing.

(e) INVESTMENT BY COMPANIES (in Crore)

Table – 5

YEAR	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public	559203	678403	799593	992331	1148589	126970	1402991	1574296	1786312	2009119	2275277
Private	578917	492949	461210	383169	341920	312188	281528	220127	116772	78567	4497924

Figure - 5



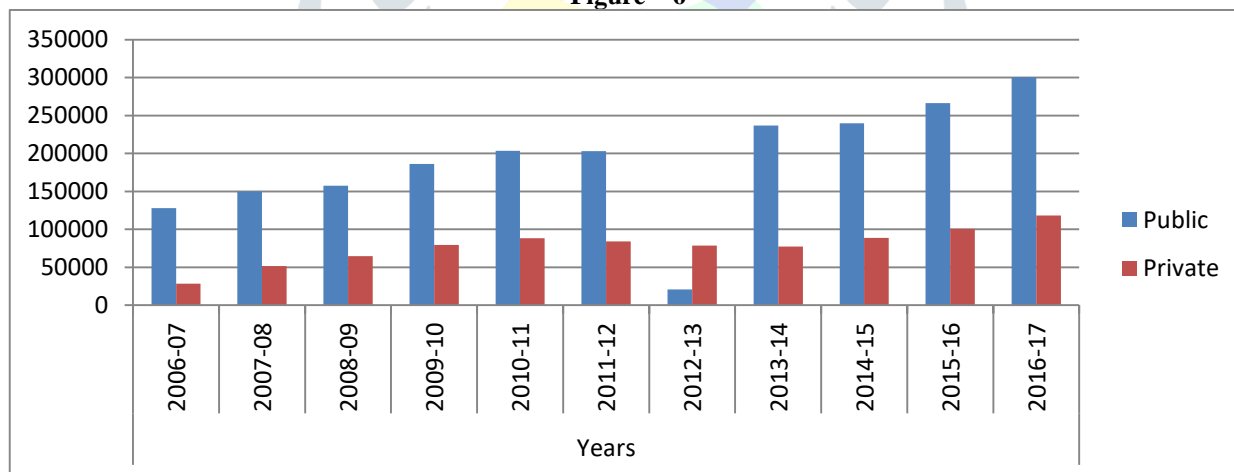
(f) INVESTMENT BY COMPANIES (in Crore)

Table - 6

Total Premium paid in Life Insurance sector (in Crore)

Insurers	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Public	12782.28	14979.0	15728.8	186077.3	203473.4	202889.3	20883.6	23694.23	23966.77	26644.42	300487.3
Private	28242.48	51561.42	64497.43	79373.06	88131.6	84182.83	78398.91	77359.36	88434.36	10049.903	117989.25

Figure - 6



The upper BarGraph reflects the Total premium paid by Life Insurance sector in both Public (LIC) and Private Insurers involving years 2007 to 2017. Table- 6 shows that, the total premium of life insurance companies in India during the period 2007 to 2017. Throughout the period the overall premium of private general insurance company is increasing and public general insurance company is also increasing.

z-Test: Two Sample for Means		
	127822.8	28242.48
Mean	215186.3	83042.72

Known Variance	2.67E+09	5.71E+08
Observations	10	10
Hypothesized Difference	Mean 0	
Z	7.337367	
P(Z<=z) one-tail	1.09E-13	
z Critical one-tail	1.644854	
P(Z<=z) two-tail	2.18E-13	
z Critical two-tail	1.959964	

10. FINDINGS

The findings from the study are:

- Wider Scope for Growth FDI in protection would expand the infiltration of protection in India, where the entrance of protection is wretchedly low with protection premium at around 3% of GDP against around 8% worldwide.
- Life insurers continue to contribute a major share of total investments made by the industry with a share of 93.33 per cent of total investments. Similarly, public sector companies continue to contribute a major share (80 per cent) in total investments though investments by private sector insurers are growing at a fast pace in recent years.
- Expanded Insurance Penetration– With the number of inhabitants in excess of 100 crores, India requires Life Insurance more than some other country.
- Expanded Capital Inflow – Most of the private segment insurance agencies have been making impressive misfortunes. The expanded FDI restrain has conveyed some truly necessary help to these organizations as the inflow of in excess of 10,000 crore is normal in the close term. This could go up to 40,000 crore in the medium to long haul, contingent upon how things work out.

11. SUGGESTIONS:

- Investment regulations for insurers should be liberalized to a reasonable extend keeping adequate controls on the exposure of insurers funds to the unapproved investment in general stock market.
- New insurers can profitably focus on the retail segment, especially in life insurance.
- Providing insurance cover to lower income strata of society through various schemes, micro insurance need urgent attention.
- E-Commerce and market conducts are two important areas which will strengthen the relationship between companies, consumers and regulators.

16. CONCLUSION:

The reforms have changed the whole scenario of Indian life insurance industry. Its character has changed altogether in the wake of transition from a controlled to a competition-driven market. Several new players have entered into the insurance business. The foreign insurers have entered through the joint venture route. Their entry into the field has generated a tough competition in the market which resulted into better customer service. The quality and price of insurance products has greatly improved. The range of products and services has increased so as to give a wider choice to the customers. There is no doubt that the government monopoly over the insurance business had to end. There is crying need for better service, more innovation and a comprehensive insurance cover. The obvious changes in the insurance market are there for all to see in new brands, new products, fresh advertising and smart agents-all adding up to the excitement. Innovation of products, services, speed and adaption of technology and professionalism and above all operation cost will decide the future fate of insurance industry.

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