IMPACT OF FOREIGN DIRECT INVESTMENT ON INSURANCE INDUSTRY IN INDIA

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ABSTRACT

In the much acclaimed and debated globalisation process, FDI plays a key role in terms of financing, transferring of knowledge, skills and technology among the countries. In India the economic reforms have been initiated for the growth and opening up of the financial sector. Insurance and banking are the main components of finance sector. In India the reforms in insurance sector started in the year 2000 with the implementation of recommendations made by the Malhotra Committee. Indian insurance sector was opened up for private companies in the year 2000 with the enactment of IRDA Act.

The Insurance Law (Amendment) Bill 2015 was passed in Loksabha on 4th March, 2015 subsequently in Rajya Sabha on 12th March 2015. The aim of this bill was improvements and revisions in the present laws relating to insurance business in India. The Indian government approved to enhance the FDI capital from 26% to 49% to meet the capital requirement of private insurance companies.

In the last seventeen to eighteen years of age of the insurance sector has moved forward on multiple fronts. Today, Insurance industry is facing with multiple challenges. In the present scenario an attempt has been made to study the significance of FDI in socio-economic conditions as well as the challenges and prospects of insurance industries during the post reforms period. It was found that liberalisation in insurance sector has brought many positive changes in the industry. It is demanded to strengthen Customers Social Responsibility and Governance principles for sustainable growth in the industry.

KEYWORDS: FDI, Liberalisation, Insurance sector, Indian government.

1. INTRODUCTION

Insurance means protection from financial loss. This is systematic enforcement in the form of risk management primarily used to hedge against the risk of a contingent or uncertain loss. .In India, insurance has a deep history. Dating back until 1818, when Oriental Life Insurance Company was started by Anita Bhavsar in Kolkata to cater to the needs of European community. The first Indian insurer is Bombay Mutual Life Assurance Society in 1870. In the early of the twentieth century, many insurance companies were founded. The Life Insurance Company's act and Provident Fund Act were passed in the year 1912, to regulate the insurance business. The Government of India issued an Ordinance for nationalizing the Life Insurance sector and Life Insurance Corporation on 19th January 1956, and subsequently came into existence in the same year. The Life Insurance Corporation (LIC) absorbed 154 Indian, 16 non-Indian insurers and also 75 Provident Societies 245 Indian and foreign insurers in all. This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. This sector has reopened for private companies in the early 1990s.

The process of re-opening of the sector had begun in the early 1990s. Under the chairmanship of RN Malhotra Government of India had set up a committee in 1993 to study feasibility and propose recommendations for reforms in the insurance sector. As per the committee report the private sector should be permitted to enter the insurance industry. In April 2000 the IRDA was incorporated as a statutory body. The main aim of the IRDA philosophy is to give customer satisfaction through increased consumer choice and lower premiums as well as ensuring the financial security of the insurance market. The IRDA allowed foreign companies to take ownership of up to 26%.

2. SELECTION OF THE RESEARCH TOPIC

The Insurance is the vast area. It is impossible to study this topic by various aspects; therefore, the study is restricted to analysis of the impact of Foreign Direct Investment on Insurance industry in India.

3. OBJECTIVES OF THE STUDY :

a) To know the history of insurance sector.
b) To know the concept of Insurance and FDI in brief.
c) To study the guidelines for FDI in Indian Insurance Industry.
d) To know Issues and challenges in FDI in Insurance Sector.

4. RESEARCH METHODLOGY:

The research topic implies theoretical framework, and descriptive analysis. The present study is based on secondary data. The data has been collected from National and International Journals, Government publications and websites related to Insurance. On the basis of data available from various sources research finding and conclusion are been made.

5. MEANING OF INSURANCE

Insurance is a contract, represented in the form of policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. There are risks in every field of human life. With increasing modernization, industrialization and increased susceptibility to more prone risks. There are multiple chances of accidents of any type, gravity, or of the events causing losses to life are quite uncertain because these may or may not take place. Citizens facing common risks come together and make their small contributions in the common fund. When risks occur, the individual loss is reimbursed out of the common fund. In this commonality every participant shares the risks. In fact, they share the loss by payment of premium.

6. NATURE OF INSURANCE

6.1 Sharing of risk:

Insurance is a financial technique used to share the financial losses that might occur to an individual or his family on the happening of a specified event. The event may be death in case of life insurance, theft in case of theft and burglary insurance and motor accident in case of motor insurance etc. The losses occurring from these events if insured, are shared by all the insured in the form of premium. Hence, risk is carried out from one individual to group.

6.2 Cooperative nature

One of the features of each insurance plan is that highly co-operative instrument under which a group of persons who agree to share the financial loss agreed together. Insurer is able to pay the amount of loss by insuring a large number of persons. Since insurance plans are co-operative nature, but there is no compulsion to any person to purchase the insurance policy.

6.3. Risk factor:

The risk is evaluated before insuring to charge the amount of share of an insured, in the form of premium. Evaluation of risks can be done through different methods. If the risk is high, higher insurance premium may be charged.

6.4. Payment at happening of certain event:

The amount of insurance is paid for taking place of certain event. The insurance contract can be life and non-life insurance contract. The life insurance is the contract of certainty, as the contingency and the death or the expiry of insurance policies term, will definitely happen and the payment is certain. In case of certain life insurance policies the payment is not certain due to uncertainty of a specific contingency within a specific period. As in Term Insurance policies, the payment is made only when death of the insured person happened within the particular term or duration, may be one or two years or risk cover of the said period. Similarly in pure endowment payment is made only at the survival of the insured at the maturity of the insured period. In non-life insurance contracts payment is made only when the event is happened which is mention in the contract. Therefore, if the contingency happens, payment is made; otherwise no amount is given to the policy-holder.

6.5 Amount of payment

In case of non-life insurance, the purpose is to make-up the financial loss suffered by the insured to the property immovable assets. The amount of payment depends upon the value of loss suffered due to the specific insured risk. On the other hand, in life insurance policies, the insurer promises to pay a fixed sum on the occurrence of certain event. If the event takes place, the payment falls due if the policy is valid and in force at the time of the contingency.

6.6 Large number of insured persons:

In order to make insurance cheaper, large of number of persons should be covered. Larger the number of person, lower the cost of the insurance and lesser the amount of insurance premium. Large number of persons should be insured, to spread the loss immediately, easily and economically.

6.7 Insurance is not a gambling:

Insurance helps indirectly to increase the productivity of the community. The uncertainty of covering up of risk is changed into certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death.

6.8 Insurance is not as like charity:

Insurance is not possible without charging premium whereas charity is given without any consideration. It is a kind of business, in insurance against payment of premium it guarantees the payment of loss occurs. It provides security and safety to an individual as well to society. It is a business profession since at the time of disasters it provides adequate sources, monetary protection, wealth, support to live the life of dignity only at the expense of a nominal premium for the service. Therefore, Insurance is a matter of solicitation.

7. MEANING OF F.D.I.

A foreign direct investment is an investment made by a company in one country, into a company of another country. It refers to an investment made to acquire long-term interest in company or entity based operating outside of the economy of the investor. The investment is direct because the investor is a foreign person, company or group of entities, is seeking to control, manage and have significant influence over the foreign enterprise. FDI is a major source of external finance beyond national borders from wealthier countries.

8. GUIDELINES FOR F.D.I IN INDIAN INSURANCE MARKET

The Insurance Laws (Amendment) act 2015 has been permitted Foreign Direct Investment in the insurance sector up to 49. As per amendments to the Indian Insurance Companies (Foreign Investment) Rules, 2016 and the FDI Policy in March, 2016, insurance sector has allowed to increase FDI up to 49% through the automatic route i.e. prior approval of the Foreign Investment Promotion Board is not required for increase in foreign investment up to 49%.

The Insurance Regulatory set out some of the key points for foreign investment in an Indian insurance company.

a) If all investments, including foreign investments, in an Indian insurance company exceeding 1% of the paid up share capital of the company require prior approval of the IRDAI. While granting the approval, it is customary for the IRDAI to impose a lock-in period on the shares acquired.
b) All foreign investments must comply with applicable IRDAI regulations which prescribe the manner of computation of foreign shareholding in insurance companies.
c) The 49% limit will apply to all foreign investment. There are no separate caps on holding of a single foreign investor in an Indian insurance company
d) All Indian insurance companies must be "Indian owned and controlled", in the manner prescribed in the IRDAI's Guidelines on Indian Owned and Controlled ("Control Guidelines"). The rights of non-resident investors often need to be negotiated in light of the Control Guidelines, and the IRDAI's norms on corporate governance of insurance companies. From a regulatory perspective, it is imperative that investments are structured keeping in mind the foregoing mandates.
e) A foreign investor that has exited from an Indian insurance company cannot invest in a new insurance joint venture, till the completion of two financial years from the exit date.

These guidelines are applicable to Indian Insurance companies which came into existence after notification of the Act, propose to hike their foreign investment from the existing level and do not intend to increase their current foreign stake from the existing level.

9. ADVANTAGES OF INCREASE IN FDI

Following are some advantages from the increase of foreign direct investment in insurance sector in India from 26% to 49%.

a) Increased Insurance Penetration

India’s population is more than 125crores. But the insurance penetration in the nation is just around 3 percent of our Gross Domestic Product. This is very less with compare to Japan which has insurance holders of more than 10 percent. FDI permit, the new players to come in, thereby empowering more individuals to purchase life cover.

b) Level Playing Field

With the expansion in foreign direct investment to 49 percent, the insurance agencies will get the more playing fields. The state claimed Life Corporation of India controls around 70 percent of the life insurance market. Owing to the common belief of people that LIC is government undertaking, secured and balanced with funds and investment and even credibility through claim settlement.

c) Increased Capital Inflow

Most of the private sector insurance companies have been making considerable losses. By increased FDI limit which has brought much needed relief to insurance companies as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.

d) Job Creation

Due to increase in cash inflow the insurance agencies will have the capacity to make more employments to meet their objectives of wandering into under guaranteed advertises through enhanced framework, better operations and more manpower, which in turn empowers them to expand their capacities.

e) Favorable to the Pension Sector

If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent.

f) Consumer Friendly

Due to increase more players in this sector, there will undoubtedly be rivalry prompting to aggressive quotes, enhanced administrations and better claim settlement proportion. The environment in insurance sector becomes more consumers friendly.

g) Benefit to the common man & actuaries being

FDI increases capital of insurance companies. Since the capital is more than earlier Insurance companies have possible to diversify their sectors of insurance as like Motor, Mortgage, Health, Fire, Theft, etc. It is possible to take more risks than earlier since there is more money & more support. More competition leads to better offers, so better benefits for common man.

h) Effect on Economy

FDI brings more foreign capital flows into the Indian Economy. This investment will lead to demand for Indian Rupee in International Money Market. This is benefited to a common man for reduction of the cost of imported goods. More insurance business will lead to need risk protection & Insurance.

DISADVANTAGES IN THE INCREASE OF FDI

Just we discussed the advantages of FDI in Insurance sector; there are certain demerits of the FDI in the insurance sector as below.

a) Indian organizations might expect to get their businesses being taken over by the foreign organizations.
b) Small companies may fear that they might not be able to compete with the Multi National Companies and therefore, be forced to vacate the market.

c) Big foreign and Multi National organizations are not interested in investing in the wages of the local people of the country. They focus on investing more in the machinery, building, and intellectual property.
d) There is no proper control of Government over the working of such organizations as they generally work with completely possessed backup of an abroad organization.
e) Today our interest rates are high as 14 percent to 16 percent. It will not compare with the economies of the country which have an interest rate of 4 percent.

10. ISSUES IN FDI IN INSURANCE SECTOR

10.1 Efficiency of the companies with FDI

By opening up of this sector for private participation and allowed the private companies to have foreign equity up to 26 per cent, following this up, 12 private sector companies have entered the life insurance business. In General Insurance eight private companies have entered of which 6 have foreign equity of 26 per cent. The private player as like, Reliance and Cholamandalam in general insurance does not have any foreign equity. The aggregate loss of the private life insurers amounted to Rs. 38633 lakhs in contrast to the Rs. 9620 crores surplus (after tax) earned by the LIC. In General Insurance, 4 out of the 8 private insures suffered losses in 2002-03. The six private players with foreign equity made an aggregate loss of Rs. 294 lakhs. At the same time General Insurance made aggregate after tax profits of Rs. 62570 lakhs.

10.2 Credibility of foreign companies:

The argument that foreign companies shall bring in more expertise and professionalism in to the existing system is debatable after the recent incidents of the global financial crisis where firms like AIG, Lehman Brothers and others. The partner of ICICI, Prudential Financial Services in India faced an enquiry by the securities and insurance regulators in the United States on the basis of allegations having falsified documents and forged signatures and asking their clients to sign blank forms.

The settlement was made after a payment of $2.6 billion against class-action law suit attacking wrong sales insurance practices in 1997 and a $ 65million dollar fine from state insurance regulators in 1996. Royal Sun Alliance also shut down their profitable businesses in 2002. According to the report of Mercer Oliver Wyman the British, Swiss, German, French and insurers suffer from severe capital inadequacy, this is a resulted in to under taking risky investment in equity and debt instruments in the past. Hence FDI in insurance sector in India would expose our financial markets to the problematic and perilous activities of the foreign insurance companies at a time when the virtues of regulating such activities are being discussed in the foreign advanced countries.

10.3 Greater channelization of saving to insurance:

Insurance sector in India played important duties to mobilize national saving into investments in different sectors of the economy. Unfortunately no significant change has occurred as far as mobilizing savings by the insurance sector is concerned even after the liberalization of the insurance sector in 1999. Therefore the private or foreign participation has not been able to achieve the goal of mobilizing national saving in various sectors of economy.

10.4. Flow of funds to infrastructure

The basic aim of life insurance is mobilizing the savings for the development of the economy in long term investment in social and infrastructure sectors. But more than fifty percent of the policies they sell by Insurance companies are ULIPS where the investments go into the equity markets. As per a report, 95% of policies sold by Birla Sun Life and over 80 percent of policies sold by ICICI Prudential were unit-linked policies during 2003-04. Under these schemes, nearly 50 percent of the funds are invested in equities thus limited funds available for infrastructural investments. On the other hand, the LIC has invested Rs.40,000 crore as at 31.3.2003 in power generation, road transport, water supply, housing and other social sector activities.

11. CONCLUSION

The decision of government to increase FDI limit in insurance sector helps the industry to match with the competitiveness of the world. Government of India has taken various initiatives to boost the market in a positive manner. The first one is Tax implication, which offers Tax deduction under the health scheme and it has been increased to USD 409.43 from USD 245.66. The increase in FDI limit will empower the flow of FDI and Helps Company to raise capital and funds for expansion their future plan. In addition to that, Union Budget brings Insurance (Amendment) Bill 2015, expected to strengthen the IRDA with injection of regulations for gaining sustainable growth. With almost 70% of the total market share, LIC continues to be the market leader, followed by the ICICI prudential with 6.9% of market share. The contribution of private insurance companies in the non-life insurance product is 45.4% in the total revenue generation activities. There are good chances that increase in F.D.I. will improve the Insurance holders and density. The innovative insurance product and services, better use of technology, increase in employment and competition in Insurance Sector. Government of India through Insurance Regulatory and Development Authority of India (I.R.D.A.I) and Reserve Bank of India (R.B.I.) need to keep regular check, review of policies, technicalities in the schemes, even issuing new plans and also on the outflow of India currency.

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