P: ISSN NO.: 2394-0344 RNI No.UPBIL/2016/67980 VOL-4* ISSUE-1* (Part-2) April- 2019
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A Study of the Impact of Foreign Direct Investment on the Private Life Insurance Sector in India

Abstract

Foreign Direct Investment (FDI) is the investment when any company or an individual invests in assets or ownership stakes of the company based in another nation. It is of great importance to the global economic growth. It acts as a promoter of strengthening the capital of the country, provide access to the technology that promotes productivity, generate new production opportunities, provides managerial skills that helps in increasing economic growth and therefore increases regional as well as global markets as they are non-debt creation and non-volatile. FDI in India plays a vital role in the economic growth and the development of India. Also the overall drift of FDI in the private life insurance sector is significant. Insurance industry in India has seen a significant growth over the last decades. It has the vigorous role in the wellbeing of the economy of India.In 2014, the Government increased the FDI limit from 26% to 49% in the insurance sector. The Indian life insurance sector has given it, the sun rising platform for the economic growth and development.

The present paper examines the role of FDI in the economic growth of India. The study works out the trends and pattern of FDI at the sectoral level and also its impact on the performance of the private sector life insurance in India.

Naincy Prajapati
Research Scholar,
Dept. of Commerce,
Dr. Shakuntala Misra National Rehabilitation University,
Lucknow, U.P., India

Sanjeev Gupta
Associate Professor,
Dept. of Commerce,
Dr. Shakuntala Misra National Rehabilitation University,
Lucknow, U.P., India

Keywords: Foreign Direct Investment, Economic Growth, Indian Insurance Sector, Private Life Insurance.

Introduction

Foreign Direct Investment (FDI) has been recognized as the powerful engine for the economic growth and development. It helps the under developed countries like India to build up physical capital, create employment opportunities, develop manufacturing capacity, increase the productivity by enhancing the skills of the local labor through transfer of the technological knowhow and managerial skills. FDI is a major vehicle of magnetizing international economic integration in an economy as it serves a link between savings and investments.

The Insurance sector is an important segment of the Indian economy as it instructs the saving habits from the people of the country which generates the long term funds for the infrastructure building. The life insurance sector is found to be the fastest growing sector in India because it is supported and empowered by the Govt of India by allowing private players and FDI from 26% to 49%.

Review of Literature

Dr.S.K.Hegde & Prof ShriharshaRanebennur(2014), in their study"Foreign Direct Investment in the Indian Insurance Industry, An Impact Analysis"concluded that all the selected private life insurance companies are improving their business and their life insurance businesses are expanding in urban, semi urban and rural areas. The foreign direct investment (FDI) has not a reverse impact on the working of private life insurance companies business in India, but it assists for infrastructure development, assists in better facilities and techniques for sales person,broker etc.

Rajesh K Yadav&SarveshMohania(2016), "Impact of F.D.I. on Life Insurance Sector in India" concluded that Increase in foreign direct investment (F.D.I.) is optimistic move for the future of Indian Life Insurance Sector, since this sector need huge amount of capital investment which can be done effectively only through increase in F.D.I. and it enhance overall performance of insurance sector. As of now, Insurance companies are in hesitation about to take positive steps towards F.D.I. There are good chances that increase in F.D.I. will improve the Insurance penetration and density.

Dr.Rajender Kumar (2014)in the study of "FDI and Economic Growth – A Case Study of India" he observes that FDI is a significant factor influencing the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of any country. No doubt, India can improve its economic performance and can achieve its target of double digit growth rate by creating conditions conducive to investment.

T.Vasanthi&S.Aarthi(2013) in their research "Impact of Foreign Direct Investment on Indian Economy" finds that FDI as a strategic component of investment is needed by India for achieving the objectives of its second generation of economic reforms and maintaining this pace of growth and development of the economy. Hence, FDI is a significant factor which influences the level of economic growth in India. It provides a sound base for economic growth and development by enhancing the financial position of the country. It also contributes to the GDP and foreign exchange reserves of the country.

Dr.Karnika Gupta &Ishu Garg(2015)in their article"Foreign Direct Investment and Economic Growth in India: An Econometric Approach"concluded that FDI leads to the economic growth of Indian economy. However, it requires a time period of three years to make its contribution to the economic growth in a significant and utmost favourable manner.

Bhavya Malhotra (2014) in her study"Foreign Direct Investment: Impact on Indian Economy"observes that for Indian economy which has tremendous potential, FDI has had a positive impact. FDI inflow supplements domestic capital, as well as technology and skills of existing companies. It also helps to establish new companies. All of these contribute to economic growth of the Indian Economy.

Mamta Sharma &Satinderpal Singh (2016)"Impact of FDI on Indian Economy" concluded that FDI incorporates an important role within the economic progression and development of India. FDI in India in numerous sectors will attain sustained economic growth and development through creation of jobs, growth of existing producing industries. There are various economic factors which affect the inflows of FDI. Even despite the fact that of many factors Indian economy has succeeded to attract FDI inflows. India due to variability and many FDI caps provided by the government and other factors hoard and providing opportunities to many foreign investor countries

Meaning of Insurance

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for the premium and can be thought of as a guaranteed known small loss to prevent a large, possibly devastating loss.

The life insurance industry provides millions of Indian families with protection against the risk of premature death, illness, disability and inadequate retirement income. Life insurers improve the quality of life for their policyholders by pooling the risk of mortality, illness and longevity among a large group of individuals and returning the benefits of this pooling in the form of guaranteed payments. Life insurance is vital to the modern economy to function efficiently because these are the key contributor to long term economic growth and improved living standard. Life insurance is seen as a global set of financial transactions and as a subject of national activities carried out by life insurance companies contributes to national product and to the national income in many ways. It has a bearing on savings and investments and on the allocation of economic resources. Insurance institutions employ people, promote training, pay taxes and more generally makes the national economic life richer.

Life Insurance Density in India

Source- IRDAI, IIFL Research

Interpretation

Insurance Density is used as an indicator for development of insurance within a country and is calculated as the ratio of total insurance premiums to whole population of a given country. Here, the data shows the life insurance density in India for the ten years from the financial year 2007 to the financial year 2017. The life insurance premium per capita collected in the year 2007 is Rupees 1336 and has increased up to Rupees 3112 in the year 2017.

Guidelines for FDI in Insurance Sector

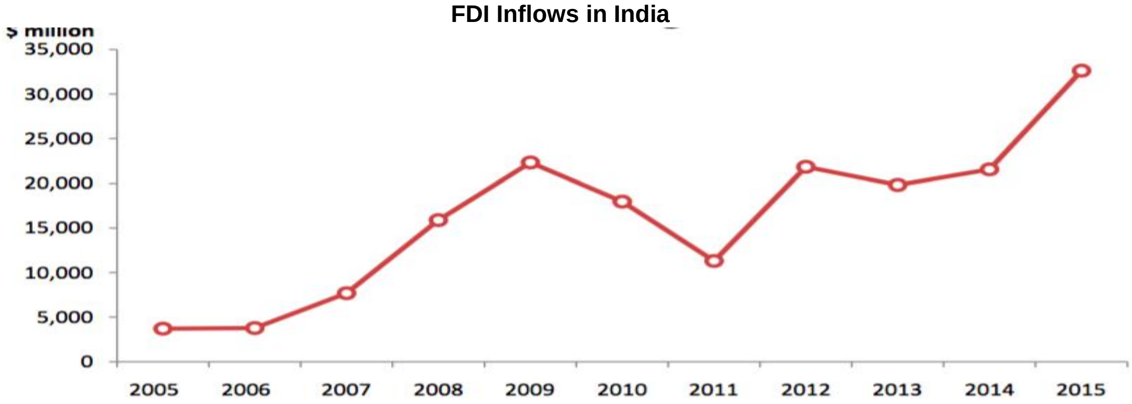
After the enactment of the Insurance Regulatory and Development Authority (IRDA) Act, 1999, the insurance sector was opened up for the private sector in 2000. This act allowed foreign companies to ownership up to 26% in insurance companies with the primary objective to provide better coverage and increase the penetration of insurance in India. The companies taking FDI shall obtain license for undertaking insurance activities from the IDRA. According to the insurance amendment Bill (2015), Sec 24 of the Pension Fund Regulatory and Development Authority Act provides the foreign investment cap in the insurance sector to 49% from 26%.

According to the recent news, IRDAI is in the favor of allowing 100% FDI in insurance intermediaries in addition to insurance brokers. The Govt is also bearing this proposal in mind to allow 100% FDI in insurance broking and has set up a committee including Secretaries of Department of Economic Affairs, Department of Financial Services and Department of Industrial Policy and Promotion (DIPP).

Foreign Direct Investment

Foreign Direct Investment (FDI) is an investment which is made by the enterprise or an individual of a country into the businesses located in another country. It is a non-debt and non-volatile way of capital inflow and is most preferred in any economy. It is seen as a means to supplement domestic investment for achieving a higher level of growth and development.FDI, in India, is one of the important source for the economic development of the country. Foreign companies invests directly into the fast growing private businesses in India to take benefits of cheaper wages and changing business environment. FDI was introduced in India in 1991 at the time of Liberalization, Privatization and Globalization to tackle the socio-economic problems like unemployment, deficit BOP, scarcity of foreign exchange, lack of capacity as well as poor technological ability. FDI plays a balancing role in the overall capital formation by filling the gaps between domestic savings and investments.It raises the level of investment in the host country which consequently leads to the generation of employment, increase in the income and savings, transfer of technology and knowledge which directly contributes to the economic growth of the country.

FDI Inflows in India

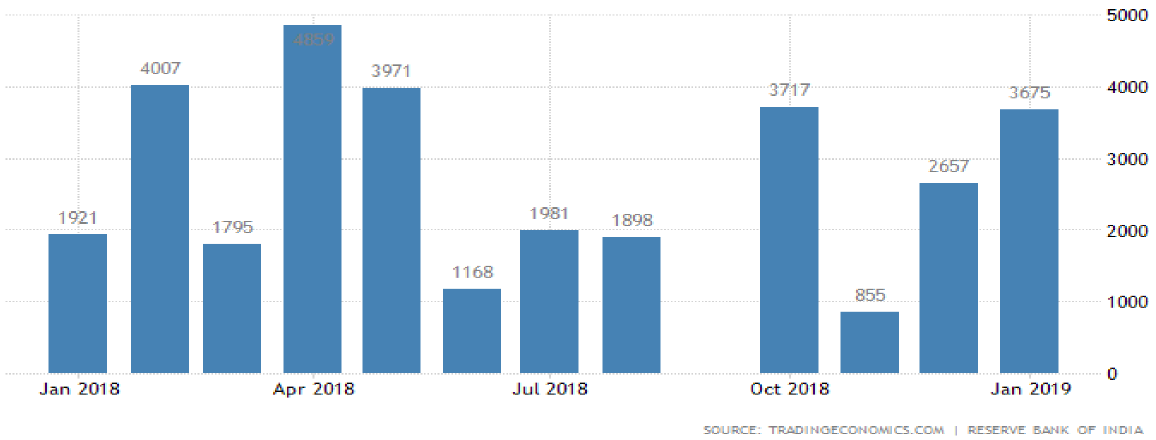


Source: RBI

Interpretation

In the following graph, it is clearly visible that the FDI inflows in India are in the increasing trend. The graph is presenting a data from the year 2005 to 2015. In the year 2005, the FDI inflow was less than five thousand million dollar but it has been increasing over more than thirty thousand million dollar in the year 2015.

FDI Inflow from JAN 2018 to JAN 2019



Source: RBI

Interpretation

From the above graph, we can clearly see that, in Jan 2019, FDI in India has been increased by 3,675 USD Million from Jan 2018. FDI has been averaged to 1341.88 USD Million until 2019.

FDI is permitted under the following forms of Investments

1. Through financial collaborations/capital/equity participation
2. Through Joint ventures and technical collaborations
3. Through capital markets
4. Through private placements or preferential allotment

Factors that attracts FDIs in India

1. In India, there is well developed network of banking, financial institutions and capital market which is open to foreign investors that attracts them to commence investments.
2. Private sector is a massive potential of young entrepreneurs. Their skills and competence is used as a base for carrying out productive activities and promote trade with neighboring countries.
3. In comparison to other companies, India has a vast potential of unskilled labor which is available at a cheaper rate.

Factors that discourage FDIs in India

1. High rates of taxation
2. Lack of infrastructural facilities
3. Favoritism is the selection of investment
4. Complicated rules & regulations and legal framework for FDIs into India
5. Lack of transparency

Approval of Foreign Direct Investments

FDIs are approves through two routes in India which are as follows-

Automatic Route

The Reserve Bank of India accords approval within a period of two weeks to all proposals involving:

1. Foreign equity up to 50% in 3 categories relating to mining activities (List 2)
2. Foreign equity up to 51% in 48 specified industries (List 3)
3. Foreign equity up to 74% in 9 categories (List 4)
4. When the items include in List 4 are also listed in List 3, the participation is allowed up to 74%

The automatic approval is given by Reserve Bank of India where investments are done in high priority sector industries and companies mainly engaged in exporting business.

The FIBP Route

The FIBP which stands for "Foreign Investment promotion Board" was organized for the purpose of promoting the foreign direct investment in India. It accepts all the other cases where the parameters of automatic route are not met because the approach of FIBP looms the liberal functionality and that too for all the sectors. In this route, it is not mandatory to hold the entire equity of the company if the foreign investor wishes to hold lesser shares and the non-proposed portion of equity can be offered to the public also. The processing time is 4 to 6 weeks normally in this route.

Impact of Foreign Direct Investmenton Insurance Sector

Capital Formation

FDI brings required and needed capital to the insurance companies because they need higher investment to achieve the targeted growth. This is a form of capital from which various other sectors are massively benefited. Capital formation helps in the rapid expansion and brings in significant changes in the technological transformation.

Investment through Foreign Players in Various Insurance Companies

Rs '000

Name of the Insurance Companies (Foreign Promoters)	March 31^{st} 2019		March 31^{st} 2018	
	No. of shares	% of Holding	No. of shares	% of Holding
ICICI- Prudential Life Insurance Company Ltd	317,517,279	22.11%	370,784,884	25.83%
TATA- AIG MEA Investments & Services LLC	235,950,000	26%	190,450,000	26%
HDFC Ltd- Standard Life(Mauritius Holdings) 2006 Ltd	497,444,274	24.66%	589,626,265	29.31%
Bajaj- Allianz SE	28,659,085	26%	28,659,085	26%
Aditya Birla Sun Life Insurance Company Ltd	931,591,920	49%	931,591,920	49%

Source: Annual Reports of all the Insurance Companies

Increase in Density& penetration of Insurance

FDI helps in increasing the density and penetration of insurance in India which assist the insurance companies to strengthen themselves and gives the opportunity to the new players to come and start insuring the lives of the people more and more.

Innovation in Insurance Products and Services

FDI promotes & Increases the innovation as well as develops advanced insurance products and services which makes the consumers happy in many ways.

According to the Annual Report of HDFC Life, as on 31^{st} March 2019, there are 38 Individual and 11 Group products in its portfolio along with optional rider benefits which caters to the need of distinct range of customers. HDFC Life has also launched a very new product which is named as Sanchay Plus which is getting popular among people so much.

Builds Infrastructure

FDI meets the long term requirements of the capital of building infrastructure. With the help of the FDI, insurance sector gets the ability to raise the long term funds from the mass of people because insurance sector itself is the only path where people invest in for 25 years and more also.

Investment in Infrastructure & Social Sector

(Long term & Short term)

As on 31^{st} March 2019

(Amount in thousands)

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HDFC Life
186,074,168
ICICI Prudential
140,195,033

Creates Healthy Competitive Market

FDI creates healthy competitive market for insurance companies.

Brings Technology, Management and Marketing Skills

This is the most important advantage of FDI because it brings in with itself the assets i.e., technology, managerial and marketing skills into the insurance companies in which they are crucially scarce in India. This advantage of FDI makes the insurance business more capable and competitive not only in their own country but they are made internationally competitive.

Increases Employment and Higher Wages

FDI increases the employment opportunities which are relatively in higher skill areas with higher wages by employing the nationals of the developing country like India especially in the service sector. It not only provides the direct employment, it also provides indirect employment opportunities as well.

Name of the Insurance Companies	Number of Employees as on 31st Mar, 2019
1. ICICI Prudential	15,780
2. HDFC Life	17,601
3. TATA AIG MEA	3,946
4. Aditya Birla	17,000
5. Bajaj Allianz	965

Source: www.owler.com

The Insurance Industry in India is also an vital source of part time as well as full time employment to the professionals with diverse levels of skills.

Number in '000s	31st March, 2017	31st March 2018	31st December, 2018
No. of agents (individual)	2089	2083	2137
No. of direct employees	250	266	278
Total	2338	2348	2415

Source: Life Insurance Council

Development of Backward Areas

FDIs in insurance sector are also responsible for the development of the backward areas because they are credited for establishing so many insurance industries which reaches the backward areas.

Reach of Insurance Companies to the Rural Areas:-

1. ICICI Prudential Life Insurance Company has reached the rural population with 21.2% of its total business of insurance in terms of number of policies issued to the rural people.
2. HDFC Life Insurance Company has made a reach with 20.10% of its total business as on 31st March, 2019.

Contribution of FDIin theEconomic Growth

FDI plays a major role in the development process of a country. It contributes to the growth and development through the transfer of financial resources, technological ability and improves managerial techniques which results in raising productivity. To accelerate the economic growth and development, developing country like India needs substantial foreign inflows for the requisite investment for the country. Following are the importance of FDI which helps in accelerating the rate of economic growth in the country:

1. Foreign players always try to introduce their capital and technology into the host developing countries business. This brings the integration of the economy with the global economy which bridges the resource gaps in the under developed country. FDI is an effective instrument for the integration with the world economy and it comes with its own risks.

Particulars	As at March 31st 2019		As at march 31st 2018	
	No. of shares	*% of Holding*	*No. of shares*	*% of Holding*
Promoters of the Insurance Companies				
Indian-*HDFC Ltd*	1,038,514,075	51.48%	1,038,514,075	51.62%
Foreign-*Standard Life (Mauritius Holding) 2006 Ltd*	497,444,274	24.66%	589,626,265	29.31%
Others-	481,422,808	23.86%	383,599,703	19.07%
Indian-*TATA Sons Private Ltd*	671,550,000	74%	542,050,000	74%
Foreign-*AIG MEA Investments & services LLC*	235,950,000	26%	190,450,000	26%
Indian-*ICICI Bank Ltd*	759,105,504	52.87%	787,816,604	54.88%
Foreign-*Prudential Corporation Holdings Ltd*	317,517,279	22.11%	370,784,884	25.83%
Others-	359,161,698	25.02%	276,897,222	19.29%
Aditya Birla Sun Life Insurance Company Ltd				
Indian	96,96,16,080	51%	96,96,16,080	51%
Foreign	93,15,91,920	49%	93,15,91,920	49%
Indian-*Bajaj Finserv Ltd*	8,15,68,165	74%	8,15,68,165	74%
Foreign-*Allianz SE*	2,86,59,058	26%	2,86,59,058	26%

Source: Annual Reports of all the Insurance Companies

2. India has been suffering from a balance of payment deficits. There is much demand of foreign exchange which is normally greater in excess of their ability to earn. FDI inflows provides the requisite foreign exchange resources to tackle the problem of deficit balance of payments and helps them to improve it which seeks higher growth rates.
3. FDI promotes exports of the developing countries. Foreign players, by exploiting their strengths such as their global network of marketing, possessing marketing information, technological knowhow promotes exports by introducing new and innovative products and increasing foreign currency thereby. The creation of SEZ and promotion of 100% export oriented units have helped increasing the exports from other countries.
4. RBI is responsible for maintaining the exchange rate through exchange control measures in the country. The constant flow of foreign exchange is must for the exchange rate stability which have been possible with more FDIs coming into the country and today RBI is having more than 1 billion dollars in the form of foreign exchange reserve.
5. FDIs in insurance sector are also responsible for the development of the backward areas because they are credited for establishing so many insurance industries which reaches the backward areas.
6. Due to FDIs, the natural resources of the developing countries can be put to the better uses without which they would have remained unutilized.

Conclusion

An important function of the insurance is to mobilize and organize the national savings and channelize them into fruitful investments. In India, life insurance is a sector which is developing very fast as it aims to encourage and boost the growth of the domestic insurer and endeavoring towards the welfare of the family of the insurer. Foreign Direct Investment in insurance increases the density and penetration of insurance in India due to the active participation of the foreign countries as it brings inflows from the foreign countries in the form of investments which helps in accomplishing the track of sustainable economic growth. The motive of introducing the FDI in the insurance sector, which is the protection division for the people of the country, will be very advantageous for the insurance buyers.

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