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ROLE OF FDI AND INSURANCE SECTOR: INDIAN PERSPECTIVE

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Abstract : India is no doubt a growth economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing insurance market. Indian insurance industry is one of the sunrise sectors with huge growth potential. Foreign direct investment plays an important role in the economic development of the country. However, Foreign Direct Investment (FDI) is released in the insurance industry, and despite many years of debate, the regulations are still not altered and there are still lots of restrictions. Foreign Investors are watching India, ready for a piece of the action in the insurance market, but there are still plethora of uncertainties, restrictions and potential socio-economic risks. However, the Government is gradually taking steps to open the sector. Due to economic liberalization started few years ago have started bringing in new investments from global giants and the government was hard pressed to facilitate global integration by lowering trade barriers for the free flow of technology , intellectual and financial capital. Thus liberalization of insurance creates an environment for the generation of long term contractual funds for infrastructural investments. This paper's objectives are to investigate the Indian insurance industry and review current policy and regulations with a viewpoint of foreign investors so as to gain an understanding of the current position on FDI, as well as an overview of the Indian Policy and Regulatory Environment.

Keywords: India, Foreign Investment, FDI, Inflows, Outflows, Insurance Industry.

1 INTRODUCTION

After increasing the FDI cap in the Multi-brand Retail sector, Aviation sector, Power Trading, and Broadcasting sector, the Indian Cabinet Committee on Economic Affairs (CCEA) is strongly expected to raise the FDI ceiling in the Insurance and Pension sectors and the Pharmaceutical sector of India. A robust proposal for raising FDI threshold to 49% in the Insurance sector from the existing limit of 26%, has been submitted to the cabinet for proper approval in the quickest possible period. Such an increment in the FDI ceiling in the insurance sector of India, will certainly be highly and greatly appreciated by domestic and foreign insurance companies, for the purpose of expanding and enriching their insurance and re-insurance businesses under diverse insurance categories. More information regarding the insurance sector of India, is separately offered in the following section in details. Here, it may be noted that, the existing limit of foreign direct investment in the insurance sector of India, which is just 26%, is permitted to be made through the Automatic Route with proper license from the Insurance Regulatory and Development Authority (IRDA) of India. It means that a foreign investor cannot acquire more that 26% stake in the private insurance companies anywhere in India. As in all other economic sectors of India, ours prestigious and globally reputed law firm well-based in India, has been providing perfect and swift legal services for secure and profitable foreign direct investment in the insurance sector of India or abroad, for a long successful period. Described explicitly in the Seventh Schedule of the Constitution of India, Insurance is one of the significant economic sectors of the country, which at present has extensive scope for expansion and development, to be at par with the insurance sectors in developed countries of the world. Progressing fast with an average yearly growth rate of over 30%, the current worth of Indian insurance industry is about $41 billion. Based on these statistical facts, the insurance industry of India has been ranked as the fifth largest and booming insurance market in the whole world. At present, merely two million Indians are covered under any insurance schemes like Mediclaim, which is just 0.2% of the total Indian population of one billion. In developed countries like USA, this percentage is about 75%. Hence, there is vast scope for development and refinement in the insurance sector of India in future times. But, at present, only about 50 life insurance and general insurance companies are active in the insurance sector of India. For such purposes, the Insurance Regulatory and Development Authority (IRDA) of India requires a capital infusion amounting to over US $12 billion in the next five years, by domestic and foreign insurance companies.

To understand what FDI in insurance means, one must know what FDI actually means, what happens when a country's sector accepts investments from another country.

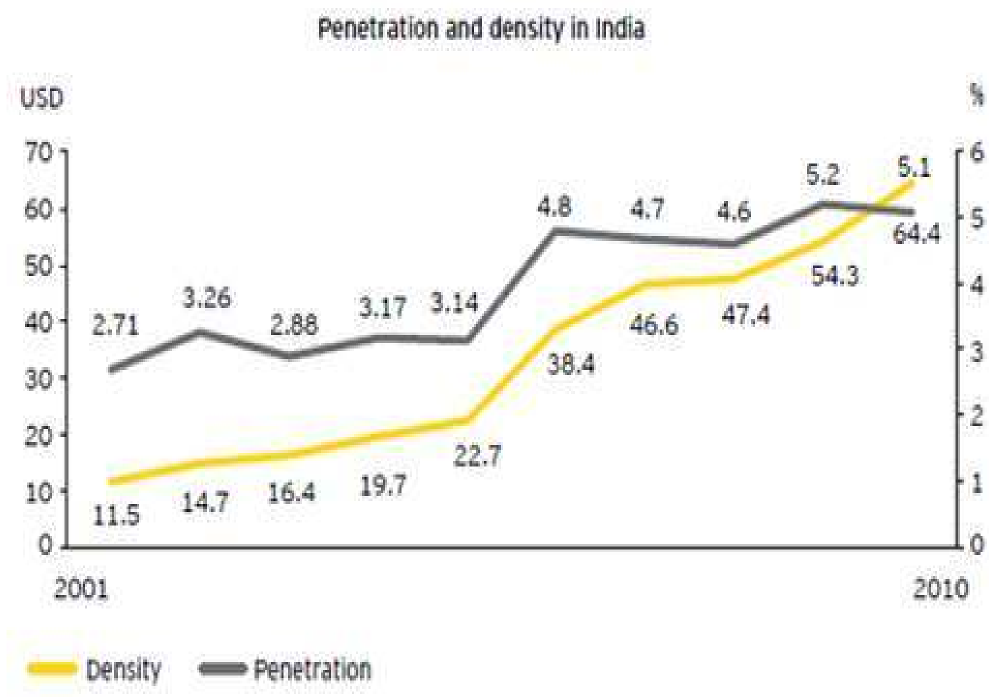
Foreign direct investment (FDI) is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country.

1WHAT IS THE STATE OF INDIA'S INSURANCE INDUSTRY?

✍ The Indian insurance industry seems to be in a state of flux.After a decade of strong growth, the Indian insurance industry is currently facing severe headwinds owing to reasons like:
✍Slowing Growth
✍Rising Costs
✍Reforms being stalled
✍Worsening distribution structure

2 IRDA Annual Report 2010-11:

To understand this better, let us have a look into IRDA's (Insurance Regulatory and Development Authority) report on Indian Insurance Industry landscape for the 10 year period between 2010 and 2010.



Despite strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrated market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales.

3 HOW DOES THE INDIAN GOVERNMENT PLAN TO REVIVE THE INDUSTRY?

The proposal to raise FDI cap has been pending since 2008 when the UPA Government came up with Insurance Laws (Amendment) Bill to hike foreign holding in insurance joint ventures to 49 per cent from the existing 26 per cent.

IRDA's annual report 2014:

At a glance

	No of companies	Profitable companies
Life Insurers	**24**	**17**
Public companies	1	1
Private companies	23	16
Non-life insurers	**21**	**13**
Public companies	4	4
Private companies	17	9

FDI received in 2012-13:

Life: 6045.9 cr (23.69% of capital)

Non-life: 1586.6 cr (16.67%)

(As per IRDA annual report released in Jan 2014)

- Proposal was pending since 2008
- ₹25,000 cr expected to flow in
- Once passed by Parliament, same investment norms will apply to the pension sector

India's current FM Mr. Jaitley had identified that benefits of insurance in India have not reached a large section of the people as insurance penetration and density are very low and proposed an increase in the foreign direct investment limit in the Budget.

4.WHAT ARE THE ULTIMATE BENEFITS OF INCREASED FDI IN INSURANCE SECTOR?

1.Insurance products: Private as well as government insurers will benefit from the proposed hike of FDI; these companies will offer better and wide range of insurance products to customers at larger competitive prices.
2.Smaller Companies: FDI will help smaller insurance companies to break-even faster and help monetize (convert into currency) the holdings of the promoters of the older life insurance companies.
3.Capital inflow: Immediate capital inflows of $2 billion and long term inflows of about $10 billion can be expected.
4.Aggression: The industry has been cautious in selling products which are capital intensive, it will be able to become more aggressive.
5.Technology: Insurers will not just get capital but also technology and product expertise of the foreign partner who is the domain expert.
6.New Players: We can expect about 100 life and non-life insurance companies to serve a market of our size. Increasing FDI could see 25-30 new insurers entering the market.
7.State-Run Companies: People in the country have more faith on government insurance companies and less on private ones, this hike will benefit the state-run companies more than the private ones.

8.Penetration: With the population of more than 100 crores, India requires Insurance more than any other nation. However, the insurance penetration in the country is only around 3 percent of our gross domestic product. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.
9.Employment: With more money coming in, the insurance companies will be able to create more jobs to meet their targets of venturing into under insured markets through improved infrastructure, better operations and more manpower.
10.Level Playing Field – With the increase in foreign direct investment to 49 percent, the insurance companies will get the level playing field. So far the state owned Life Corporation of India controls around 70 percent of the life insurance market.
11.Increased Capital Inflow – Most of the private sector insurance companies have been making considerable losses. The increased FDI limit has brought some much needed relief to these firms 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.
12.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. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.
13.Consumer Friendly – The end beneficiary of this amendment will be common men. With more players in this sector, there is bound to be stringent competition leading to competitive quotes, improved services and better claim settlement ratio.

2 THE ROAD AHEAD:

By 2020, India's insurable population is expected to touch 75 crore. As a result, the importance of life insurance in financial planning is only set to increase. With the new government's stress on reforms, steps taken by IRDA to make insurance more consumer-friendly and India's favorable demographic, the future of India's insurance industry looks good. However, it remains to be seen how this sector impacts the unbanked sections of India, in the years to come.

3 CONCLUSION:

There are always pros and cons of each decision, FDI will increase competition and basis economics would suggest that when the supply increases as compared to demand the prices will come down, thus benefiting the end customers. The insurance sector in India is still under developed as compared to developed countries, and despite private players now allowed to enter this sector, we only have a small number of providers. FDI would increase the number of insurance companies and may also make possible better plans at lower prices. But careful consideration is required to ensure that the investment stays for long term and does not get withdrawn, leaving the companies and their domestic customers in a miserable position, and not all profits are moved outside the country but some reinvested or spent in our country. Regulations need to be revisited to ensure that Insurance Companies are subject to relevant and strict governance.

4 FUTURE PERFECT:

Increasing the FDI ceiling will make the Indian Insurance sector more vibrant and dynamic in the intermediate and long term. Increased competition coupled with wider variety of products will result into a healthy Industry. Insurance companies and other players have to gear-up and plan now to reap the future benefits

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