

## Future Perspective of FDI in Insurance Sector in India

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### ABSTRACT

India is a growing economy and attractive country to invest in different sectors, especially in its fast growing and developing insurance market. Indian insurance industry has a great growth potential. Foreign Direct Investment (FDI) plays an important role in the economic development of any country. However, Foreign Direct Investment (FDI) is released in the insurance industry, and after a long debate finally the limit of FDI has been increased up to 49% in insurance sector. Due to economic liberalization started in 1990's FDI in India continuously increasing and most of the global firms shown keen interest in investing in India. 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 and to know the future prospective of the same in India.

**Key Words:** *Foreign, Investment, Policy, Regulations, Insurance*

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### INTRODUCTION

A contract of insurance may be defined as a contract whereby, one person, called the 'insurer', undertakes, in return for the agreed consideration, called the 'premium' to pay to another person, called 'assured', a sum of money or its equivalent on the happening of a specified event. The aim of all insurance is to make provisions against dangers which beset human life and dealings. Those who seek it endeavour to avert disasters from themselves by shifting possible losses on the shoulders of others who are willing for pecuniary consideration, to take risk thereof, and in the case of life assurance, they endeavour to assure to those dependent on them a certain provision in case of their death, or to provide a fund out of which their creditors can be satisfied. In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra).

The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

### **HISTORY OF INSURANCE**

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834. 1870 saw the enactment of the British Insurance Act. This era, however, was dominated by foreign insurance offices which did good business in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies— 245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint

venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. In December, 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national reinsurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are a number of private sector insurance companies.

### **GROWTH AND MARKET SIZE**

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national reinsurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. Out of 28 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

India's life insurance sector is the biggest in the world with about 36 crore policies which are expected to increase at a compound annual growth rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020, and could top the US\$ 1 trillion mark in the next seven years. The total market size of India's insurance sector is projected to touch US\$ 350-400 billion by 2020 from US\$ 66.4 billion in FY13. The general insurance business in India is currently at Rs 77,000 crore (US\$ 12.41 billion) premium per annum industry and is growing at a healthy rate of 17 per cent. The Rs 12,606 crore (US\$ 2.03 billion) domestic health insurance business account for about

a quarter of the total non-life insurance business in the country. Investment corpus in India's pension sector is anticipated to cross US\$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, according to a joint report by CII-EY on Pensions Business in India. Indian insurance companies are expected to spend Rs 117 billion (US\$ 1.88 billion) on IT products and services in 2014, an increase of five per cent from 2013, as per Gartner Inc. Also, insurance companies in the country could spend Rs 4.1 billion (US\$ 66.11 million) on mobile devices in 2014, a rise of 35 per cent from 2013.

### **FDI IN INSURANCE SECTOR**

FDI in insurance sector inculcates the savings habit, which in turn generates long-term investible funds for infrastructure building. In India, insurance sector is one of the most viable sectors as it ensures constant inflow of funds – the payout is staggered and contingency related – thereby making it readily available for investment on infrastructure building. Insurance Sector contribute to GDP, is quite insignificant. Insurance Sector, in India had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to 26 per cent. When it was done, many private companies are now into the insurance business. But now the new government in 2014, through The Insurance Laws (Amendment) Bill aims to raise the ceiling on foreign direct investment (FDI) in insurance to 49 per cent from the current 26 per cent limit. Recently the Cabinet Committee on Economic Affairs headed by Prime Minister Narendra Modi has approved the limit of Foreign Direct Investment (FDI) in Insurance sector to 49 percent from the existing 26 percent. The cabinet has cleared the FDI limit in insurance companies through FIPB route which necessitates the management control with the Indian promoters. This was a long due reform which the Modi government has undertaken and is surely bound to benefit the insurance sector. The stock market has reacted positively to the news and the shares of Reliance Capital and Max India gained more than 4.5% in intra-day trade today. The higher FDI cap will immensely help the insurance sector which is extremely short on investments. This will mark the new beginning in the insurance sector and will bring a lot of capital.

### **GOVERNMENT INITIATIVES AND THEIR IMPACT**

The Government of India has taken a number of initiatives to boost the insurance industry. Some of them are as follows:

- The Reserve Bank of India (RBI) has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions.
- The select committee of the Rajya Sabha gave its approval, permitting 49 per cent composite foreign equity investment in insurance companies. A broad agreement has also been achieved with the states on most of the issues concerning the implementation of the single goods and services tax (GST), which is scheduled to be rolled out from April 1, 2016.
- The Government of India plans to implement a Rs 1,900 crore (US\$ 306.41 million) e-governance project called 'Panch Deep' to automate transactions of the Employees State Insurance Corporation (ESIC), said Mr Bandaru Dattatreya, Union Minister for Labour and Employment with Independent Charge, Government of India. Under the project, enterprise resource planning (ERP) solution would be installed across the country which will give a unique card to the employees and facilitate clearance of third party bills.
- The Government of India plans to launch a new insurance scheme to protect farmers and their incomes against production and price risks.
- Under the Pradhan Mantri Jan Dhan Yojana, it has been decided that even those accounts which had been opened prior to August 28, 2014 and have zero balance will get Rs 100,000 (US\$ 1,612.55) insurance cover.

Following will be the effect of the increase in the threshold in the Indian economy:

- Firstly, through this Insurance Laws (Amendment) Bill, a rise to 49% will be a composite cap – which means that foreign capital can flow in either as direct investment or via the portfolio route, or as a combination of both. So foreign investors can either directly buy equity from the company or can buy shares on the stock market.
- Secondly, it will lead to hike foreign holding in insurance joint ventures to 49 per cent which means that there will lot of foreign player coming to Indian market for direct investment.
- Thirdly, the laws will also provide for insurance companies to list on stock exchanges, which in turn will lead to barring public sector insurance companies, all other insurance companies will potentially benefit from a higher FDI cap. So there might be a

possibility that public sector undertakings will face huge competition from the private sector undertakings.

- Fourthly, there was huge cry in the Indian market that through this increase there will be a situation where in the Indian entities might lose control but the bill provides that management must remain with India companies and the companies will have to go for approval of the Foreign Investment Promotion Board (FIPB) will be needed on any investment over 26 per cent.
- Fifthly there will be a huge inflow of money once the bill will be cleared in the parliament, which will in turn, infuse a higher foreign direct investment limit in insurance which could result in inflows of Rs. 40,000 crore to Rs. 60,000 crore over time, and immediate inflows of around Rs. 20,000 crore.
- Sixthly the increase in the Cap will help to increase Infra Investment with the help of private players or the foreign entities, in the Indian Market.
- Seventhly, with the increase in the cap, there will be enough chances to bring in new technologies and products in the insurance market, which was not available during the cap of 26%. Public Sector Undertakings were unable to provide enough chances to its customers to invest in their various policies. But now due to increase in the cap, the private entities will definitely provide new policies which will in turn bring lead to opening up the Insurance sector.
- India's insurable population is anticipated to touch 75 crore in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.
- The future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.
- India's insurable population is expected to grow at a high speed; 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 favourable demographics, 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 for further growth and development.

### **FUTURE PROSPECTS**

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 with respect to over-all premiums underwritten annually. This is far less as compared to Japan which has an insurance penetration of more than 10 percent. 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.

**1. 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.

**2. 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.

**3. Job Creation** – 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.

**4. Favourable 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.

**5. 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.

### **CONCLUSION**

In coming time Indian insurance industry will grow at a fast speed as it is a very large capital intensive industry. Most of the foreign companies also attract to this sector due to increased role of foreign capital in insurance sector which may lead to the possibility of exposing the Indian economy in coming time. Still eighty percent of total population of India is without life and health insurance. This sector can provide a huge investment for infrastructure and

other basic sectors. 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.

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