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A study of investment in Indian insurance sector through FDI

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Abstract
In this paper the strong relationship between foreign investment and economic growth. Larger inflows of foreign investments are needed for the country to achieve a sustainable high trajectory of economic growth. A major role played by the insurance sector is to mobilize national savings and channelize them into investments in different sectors of the economy. FDI in insurance would increase the penetration of insurance in India; FDI can meet India’s long term capital requirements to fund the building of infrastructures. The present paper focuses on the overview of the Indian insurance sector along with the opportunities due to expansion of FDI in insurance in India and the major challenges that it faces.

Keywords: Investment, study, insurance, FDI, economy, foreign

Introduction
Insurance today has become an integral part of one’s life and has occupied a primal position in the financial planning processes in both social and economic hemispheres. The financial safety has become more important than anything else in family. The cost of living which is increasing day by day has made insurance an indispensable component which cannot be neglected at all. It is in this context that insurance is very important especially to safeguard the interests of the family when the sole bread winner in the family meets with an untoward incident. The aspirations and the dreams of the family members must be kept intact and such an aspiration must be ensured it continues and doesn’t fatter for want of funds. Insurance plays a pivotal role in an individual’s life and more so is one of the crucial elements for the safety and security and security of the family. Insurance as a matter of fact is given as birth right to every citizen in developed countries. However in most of the developing nations it is not given by the government as a birth right but individuals themselves procure the required coverage by paying the required sum to protect their lives and lives of near and dear ones.

Foreign direct investment
Foreign Direct Investments started to flow into India post 2000 when the Indian economy was opened up for foreign participation in the year 1991 with the introduction of New Economic Policy, flood gates of investments started to open up and flow into the different sectors of the industry. The wave was capitalized by almost all the industries and insurance sector companies no different. The industry in the beginning started to receive foreign capital from major insurance players of the world vis-à-vis Standard Life, Prudential, Allianz during the year 2000, later on when the IRDA permitted other players also and allowed them to conduct business in India, global majors like Aviva, Sun Life, BNP Paribas, New York Life started its operations in India. Globalisation has opened up the avenues of investments; it has increased the borders in terms of doing business. Foreign Direct Investments is viewed as one of the very important sources for economic development of the country and is directly proportional to the revenue creators and to that of the growth of business. In the present days every nation is being more open when it comes to seeking foreign direct investment. FDI in its literal meaning is the inflow of cash as a fraction of investment which also includes management and acquiring the required autonomy and power in a business establishment in the country of investment made. It is in other words investing money by a foreign nation in a country other than its own.

There are several reasons why FDI is happening they are

- To acquire proximity to the nation and also to the firm in which investment is sought for
- To diversify the business operations across the borders
- To ensure a strong and firm strategy for merger or acquisition or takeover in later days
- To oversee the business growth of the firm for more expansion and spread.

These are several arguments which are in the favour of FDI they are

- It will expand the employment opportunities for the home country,
- There can be optimal utilisation of resources due to stringent policies adopted by the joint venture fire
- There can be flow of technology knowhow and expertise coming into the home country along with the investment
- Quality of production process may get a boost due to the intervention of foreign technology the country and also the running Government can have global face look when it comes to global participation
- It will help the economy of the country by contributing to the GDP of the nation
- There can be healthy competition among businesses which can lead to better products and services that can compete in the global markets
- Customers can have good number of choices and better prices
- The infrastructure can be positively reshaped.

At the same time there are certain points which are against the FDI they are

- Inflation can still more worsen due to the pressure from the foreign players
- Industries can have biased concentration which will lead disequilibrium status may have a hit in the long run and may not sustain
- Quality of the products and services may vary due to stiff competition and business can go wrong
- Local traders may suffer due to tougher competition from the foreign funded firm.

Types of foreign direct investments

FDI are of three types

- Horizontal FDI means the host nation will perform every single task what is has been doing in its home country
- Vertical FDI means the host nation does different activities in the country it has invested in, it could be forward vertical FDI which pushes closer to the market or backward vertical FDI where it is directed towards production process.
- Conglomerate FDI means when the host nation, is ready to enter into a new country for doing business as well as venture into a newer industry altogether thereby experiencing the difficult challenge.
- Greenfield entry refers to units which assembles all the essentials exactly from scratch as Honda did in the UK.
- Foreign takeover is a means of acquiring an existing foreign company, also by the way of mergers and acquisitions

In the work done by Pathayat, notes that in spite of the foreign direct investments and the liberalisation of the insurance sector, the public sector giant LIC still enjoys the majority market share and have a notable control on the insurance market. A very important role played by the sector is to promote the habit of savings and then route them towards investments into other sectors of the economy. FDI will help the nation to look into the long-term needs of the capital requirements which is required for the purposes of infrastructure and other developmental activities.

Insurance can provide the much needed capital to diversify into the economy and FDI proves to be incredible project to this element. It is a favourable tool for developing nations.

Need for FDI in insurance sector

As per the reports published by IRDA, India is the most preferred destination as far as Foreign Direct Investment is concerned. Indian Insurance sector offers number of plans to its customers and are nowadays suits the needs and requirements of the policy holders. This has been the value added point for the progressive rise in the business of Insurance. Altogether, FDI has proved to give the break and a win-win situation for both the firm and the policy holders.

Insurance sector is seeing an incredible trend when it comes to attracting FDI from major players across the globe in the insurance market. India is almost seeking a good amount of raise in the FDI since 2000. In the early stages of 2000 FDI was restricted to 26% but the passing of the Insurance bill in the year 2015 saw the FDI share increased to 49% which naturally brought in the gleeful moments for the Private insurance operators who were desperately looking for funds for expansion and other developmental activities.

In the article Trends and Determinants of FDI by Sahni in the year 2012 it says financial reforms were running in the foremost and especially lot of plans were in place for the growth and development of the insurance market, since the opening up of economy for Foreign investments in the year 1991. The number of life insurance companies rose from 13 to 24 from the year 2003 March to 2016 March year ending.

FDI into the insurance sector has grown by 40% and has the capacity to enhance to the extent of US $ 0.46 billion in next two years. The Indian economy is destined to display one of the highest growth rates by choosing a FDI figure and projecting a GDPO level of over US$ 7,700 billion by purchasing power parity in the year 2018.

This kind of upper trend in FDI will help the Indian insurance sector to seek much required capital from foreign countries and can also look out for registering into the stock exchanges. The limit of FDI which is currently at 49% with complete management and control through the FDPB (Foreign Investment Promotion Board) route. FDI however, will benefit only the private players. Sri T S Vijayan Chairman of IRDA in a new article to moneycontrol.com opined that Rs. 15,000 crores of FDI has come into India during last year and some more investments are in pipeline; During the last fiscal year there was a 12% growth in Life, 14% growth in non-life, if this kind of growth is incremental, then the financial year 2017-2018 can look out higher ratification in the insurance business. Lot of private companies are also looking out for expansion through IPOs HDFC, ICICI are the ones which has lately announced their IPO plans. FDI to the insurance sector will bring in that much needed capital requirements; infrastructure can be addressed properly in all states, employment opportunities will multifold, standard of living will also increase as a result, the access for insurance to GDP should match the global averages. Higher FDI participation will give competitive products to the customers, better and improvised services, and improve the economy in total.

Conclusion

The fundamental regulatory changes in the insurance sector would be significant for the future growth and would have huge impact on various sectors of economy. Active foreign participation is crucial for the sector as it would bring the best know how and implementing the best practices. India is one of the fastest growing insurance market and it is expected that Indian insurance industry can grow up to 125% in the next decade. However there is also a risk that unless given the management control the foreign insurers would be reluctant to invest in India.

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