REVIEW OF RESEARCH
IMPACT FACTOR : 5.7631(UIF) UGC APPROVED JOURNAL NO. 48514 ISSN: 2249-894X

VOLUME - 8 | ISSUE - 4 | JANUARY - 2019

IMPACT OF FDI IN INSURANCE SECTOR IN INDIA

Dr. Jagdish Biradar
Asst. Professor , Veerappa Nisty Engineering College , Shorapur.

ABSTRACT :

Parliament has passed Insurance Laws (Amendment) Bill, 2015. It was first passed in LokSabha on 4 March 2015 and later in RajyaSabha on 12 March 2015, which will become an Act when the President signs it. The amendment bill aims to bring improvements and revisions in the existing laws relating to insurance business in India. The bill also seeks to remove archaic provisions in previous laws and incorporate modern day practices of insurance business that are emerging in a changing dynamic environment, which also includes private participation. It is expected that the foreign investment would bring about `20,000-`25,000 crore in short funds. The amendment bill hikes Foreign Direct Investment (FDI) cap in the insurance sector to 49 percent from present 26 percent. The foreign investment in insurance would be routed under foreign direct investment,foreign portfolio investment,foreign venture capital investment,depositoryreceipts,andnon residentindians. Insurance companies are permitted to raise capital through instruments other than equity shares. Instruments would be specified through separate regulations by the Insurance Regulatory and Development Authority of India (IRDA). However, the voting rights of shareholders are restricted only to equity shares. Sale of shares over 1% of the total equity share capital and purchase of shares resulting in total equity share capital of more than 5%, requires the prior approval of the IRDA. It also adds provision for the establishment of Life Insurance Council and the General Insurance Council.

KEYWORDS : *Foreign Direct Investment (FDI) , foreign venture capital investment,depositoryreceipts.*

INTRODUCTION

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 re-insurer, 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 [1].

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.

Insurance in India is a flourishing industry in India with both national and international players competing and growing at rapid rate. Together with banking and real estate it constitutes 12.9% of GDP in India. However the penetration of insurance coverage for both life and non life insurance is still very less and was 3.9% in 2013.

Indian insurance sector was liberalized in 2001. Liberalization has led to the entry of the largest insurance companies in the world, who have taken a strategic view on India being one of the top priority emerging markets. The Insurance industry in India has undergone transformational changes over the last 14 years. With raising the cap on FDI into Indian insurance companies to 49% from the 26% would allow global reinsurance companies to set up branches in India .

According to the insurance amendment bill (2015), the section 24 of the Pension Fund Regulatory and Development Authority (PFRDA) Act provides that the foreign investment limit in the pension sector will be linked with the ceiling in the insurance sector, which has gone up to 49% from 26%. Under the legislation, while up to 26 per cent foreign capital will be under the automatic route, the balance 23 per cent has to secure approval from the Foreign Investment Promotion Board (FIPB). According to the General Insurance Business (Nationalization) Act, 1972 (GIBNA, 1972) the four general insurance companies (GICs) had to be 100% government owned, however The Insurance Laws (Amendment) Bill, 2015 — passed by the RajyaSabha on March 12 and by the LokSabha on March 4 — will change that. The GICs “are now allowed to raise capital, keeping in view the need for expansion of the business in the rural and social sectors, meeting the solvency margin for this purpose and achieving enhanced competitiveness subject to the government equity not being less than 51% at any point of time. The amendment also clearly defines health insurance business to include travel and personal accident cover. It is also expected that the proposed increase in the FDI limit will have a follow on impact on other sectors, including the pension industry creating further momentum

OBJECTIVES OF THE STUDY AND METHODOLOGY

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.

GLOBAL OVERVIEW OF INSURANCE SECTOR

The global insurance industry is facing increasing competition, which has put significant pressure on companies to become more efficient, enhance their technology-related processes and alter their business models. Globally, most insurance companies are trying to enhance the efficiency of their underwriting process, cut their overheads and reduce claims leakage since returns from investment are shrinking. With high competition in the insurance industry, companies will need to strengthen their product lines, investment strategies and corporate infrastructure .

According to the latest study performed by the global re-insurer Swiss Re on world insurance in 2013, India ranked 15th in terms of premium volume, from 14th in 2012. According to the swiss Re report the premiums written in the global insurance industry was 2.5 percent in 2012 and it grew by 1.4 percent in real terms to $4 641 billion in 2013 [5]. The reason behind the slowdown was mainly due to weakness in the life sector in the advanced markets. In Swiss Re’s sigma study, India’s life insurance penetration was 3.1 per cent, while in non-life insurance it was 0.8 per cent. A premium as a percentage of Gross Development Product is referred to as insurance penetration whereas insurance density refers to per capita premium or premium per person. The study also revealed that the insurance penetration in India fell to 3.9 percent in 2013 when compared to four percent in 2012. Also in terms of insurance density India stood at $52 when compared to $53 in 2012, thus in simple words both insurance penetration and density was low Indian insurance sector

Protection in India is recorded in the Constitution of India in the Seventh Schedule as a Union List subject, which means it must be administered by the Central government. The historical backdrop of protection date backs to 1818, when Oriental Life Insurance Company was begun. In 1870, Bombay Mutual Life Assurance Society turned into the main Indian back up plan. In the year 1912, the Life Insurance Companies Act and the Provident Fund Act was passed to direct the protection business. This was the primary statutory measure to control disaster protection business. In 1928, the Indian Insurance Companies Act was instituted to empower the Government to gather factual data about both life and non-life business executed in India by Indian and remote guarantors including opportune protection social orders. In 1938, with the end goal of securing the enthusiasm of the Insurance open, the previous enactment was combined and revised by the Insurance Act, 1938 with complete arrangements for compelling power over the exercises of safety net providers. The Government of India issued an Ordinance on 19 January 1956 nationalizing the Life Insurance division and Life Insurance Corporation appeared around the same time. The Life Insurance Corporation (LIC) consumed 154 Indian, 16 non-Indian safety net providers as additionally 75 fortunate social orders—245 Indian and remote back up plans on the whole. In 1972 the parliament passed General Insurance Business (Nationalization) Act, and therefore, General Insurance business was nationalized with impact from 1 January 1973. 107 back up plans were amalgamated and assembled into four organizations, in particular National Insurance Company Ltd., the New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was fused as an organization in 1971 and it begin business on 1 January 1973.

In 1993, the Government set up a panel under the chairmanship of RN Malhotra, previous Governor of RBI, to propose proposals for changes in the protection segment. Following the proposals of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was comprised as a self-governing body to direct and build up the protection business. The IRDA was fused as a statutory body in April, 2000. The key goals of the IRDA incorporate advancement of rivalry in order to improve consumer loyalty through expanded shopper decision and lower premiums, while guaranteeing the money related security of the protection advertise.

The IRDA opened up the market in August 2000 with the welcome for application for enlistments. Remote organizations were permitted responsibility for to 26%. The Authority has the ability to outline guidelines under Section 114A of the Insurance Act, 1938 and has from 2000 onwards encircled different guidelines running from enrollment of organizations for carrying on protection business to assurance of policyholders' interests [7].

The LIC had imposing business model till the late 90s when the Insurance area was revived to the private segment. Prior to that, the industry comprised of just two state back up plans: Life Insurers (Life Insurance Corporation of India, LIC) and General Insurers (General Insurance Corporation of India, GIC). GIC had four backup organizations. With impact from December 2000, these auxiliaries have been de-connected from the parent organization and were set up as free insurance agencies: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited and United India Insurance Company Limited [8].

REGISTERED INSURERS IN INDIA

At the end of March 2014, there are 53 insurance companies operating in India, out of which 24 are in the life insurance business and 28 are in the non-life insurance business.

LIFE INSURANCE

The Life insurance industry recorded a premium income of Rs.3,14,283 crore during 2013-14 as against Rs.2,87,202 crore in 2012- 13 registering a growth of 9.43%. While private sector insurers posted 1.35% decline in their premium income,LIC recorded 13.48% growth District level distribution of life insurance offices.

As at 31st March, 2014, the sole public sector life insurer, LIC of India had its offices in 597 districts out of 640 districts (As per the Decennial Census -2011) in the country. As such, it covered 93.28 per cent of all districts in the country, whereas the private sector insurers had offices in 560 districts covering 87.50 per cent of all districts in the country. In total, both LIC and private insurers together covered 94.37 per cent of all districts in the country. The number of districts with no presence of life insurance offices stood at 36 in the country. Out of these, 23 districts belong to the six of the north eastern states namely Arunachal

Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Sikkim. In 21 states/union territories (out of a total of 35 states/union territories in the country), all their districts were covered through life insurance offices

NON-LIFE INSURANCE

The non-life insurance industry had underwritten a total premium of Rs.70610 crore in India for the year 2013-14 as against Rs. 62973 crore in 2012-13, registering a growth of 12.13 per cent as against an increase of 19.10 per cent recorded in the previous year. The public sector insurers exhibited growth in 2013-14 at 10.21 per cent; over the previous year's growth rate of 14.60 per cent. The private general insurers registered growth of 14.52 per cent, which is lower than 25.26 per cent achieved during the previous year.

SEGMENT WISE PREMIUM OF NON LIFE INSURANCE

The Motor insurance business continued to be the largest nonlife insurance segment with a share of 47.90 per cent (47.05 per cent in 2012-13). It reported growth rate of 14.15 per cent (22.24 per cent in 2012-13). The premium collection in health segment continued to surge ahead at 15663 crore in 2013-14 from `13,975 crore of 2012- 13, registering a growth of 12.08 per cent. However, the market share of health segment which is 22.18 has remained more or less at the same levels of previous year which was 22.19 per cent in the year. The premium collection from Fire and Marine segments increased by 11.01 per cent and 4.13 per cent respectively in 2013-14 whereas for the previous year the growth rate in the Fire and Marine segments were 22.63 and 5.36 respectively.

NUMBER OF NON LIFE INSURANCE OFFICES-TIER WISE

When compared to life insurance, the proportion of districts covered by non-life insurers is less. While the four public sector nonlife insurer has offices at 601 districts out of 640 districts in the country (94 per cent), the private sector insurers cover only 45 per cent of the districts in the country by having offices in 286 districts. There are 39 districts (6 per cent of districts) in the country, which do not have any non-life insurance office. Private sector insurance offices have not yet opened any offices in 354 districts. Further only 19 States/ Union Territories (out of 35 States/ UnionTerritories) have non-life insurance offices in all of their districts.

INSURANCE PENETRATION AND DENSITY IN INDIA

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP.

.

FDI IN INDIA

A foreign direct investment (FDI) is a controlling ownership in a business enterprise in one country by an entity based in another country. Apart from being a critical driver of economic growth, foreign direct investment (FDI) is a major source of non-debt financial resource for the economic development of India. Foreign companies invest in India to take advantage of cheaper wages, special investment privileges like tax exemptions, etc. For a country where foreign investments are being made, it also means achieving technical know-how and generation of employment.

FORMS IN WHICH BUSINESS CAN CONDUCTED BY FOREIGN COMPANY IN INDIA

A foreign company planning to set up business operations in India may: Incorporate a company under the Companies Act, 1956, as a Joint Venture or a Wholly Owned Subsidiary. Set up a Liaison Office / Representative Office or a Project Office or a Branch Office of the foreign company which can undertake activities permitted under the Foreign Exchange Management (Establishment in India of Branch Office or Other Place of Business) Regulations, 2000.

PROCEDURE FOR RECEIVING FOREIGN DIRECT INVESTMENT IN AN INDIAN COMPANY

AUTOMATIC ROUTE

FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/ sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

GOVERNMENT ROUTE

FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance.

OPPORTUNITIES DUE TO EXPANSION OF FDI

INCREASE INSURANCE 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 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. More companies would enter the insurance sector, which would lead to higher competition and cheaper insurance premium for the customers

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.

INCREASED CAPITAL FLOW

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 `20,000-`25,000 crore is expected in the near term. This could go up to `40,000-`60,000 crore in the medium to long term, depending on how things pan out.

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.

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.

CHALLENGES

Foreign investment of up to 26% of the total paid up equity of the insurer would be allowed through the automatic route and the increase of FDI from 26% to 49% (i.e.23%) would be allowed through Foreign Investment Promotion Board, and not through automatic route, which means that FIPB would issue guidelines regarding the management control,which would lie with the Indian counterpart,also there are concerns about the voting rights of the foreign shareholders,which should not go beyond 26%. FIPB guidelines would also decide on the appointments of CEO’s and CFO’s of the insurance joint ventures.

Another issue is the stability of Indian financial markets as there is a possibility of insurance companies bringing in contagion risk such as risky derivatives and contaminated balance sheet. The government is looking primarily on how much funds the insurance companies can bring with them, and not on the amount of business which these companies could generate as it is expected that their rural penetration would be low. To get listed on bourse to raise FIIs may not be attractive for all insurance companies. According to Insurance Regulatory and Development Authority (Irda) norms, companies whose embedded value is two times their paid-up capital can list on the bourses. Embedded value is a common valuation measure in the insurance industry calculated by adding the adjusted net asset value and the present value of future profits of a firm. The present value of future profits considers the potential profits that shareholders will receive in the future, while adjusted net asset value considers the funds belonging to shareholders that have been accumulated in the past. Another issue could arise when insurers list their shares on stock exchanges. Indian law requires 25 per cent of a listed company to be owned by public. So if an insurer launches an initial public offering and the foreign partner increase its stake, then the Indian company would end up with a smaller holding in the joint venture..

Some of the Major Highlights of the Insurance Law (Amendment) Bill 2015 are

Capital availability

In addition to the provisions for enhanced foreign equity, the amended law will enable capital raising through new and innovative instruments under the regulatory supervision of IRDAI. The four public sector general insurance companies, presently required as per the General Insurance Business (Nationalization) Act, 1972 (GIBNA, 1972) to be 100% government owned, are now allowed to raise capital, keeping in view the need for expansion of the business in the rural and social sectors, meeting the solvency margin for this purpose and achieving enhanced competitiveness subject to the Government equity not being less than 51% at any point of time.

Consumer welfare

Laws will empower the premiums of buyers to be better off through arrangements like those empowering punishments on delegates/insurance agencies for offense and refusing staggered advertising of protection items so as to shorten the act of mis-selling. The changed Law has a few arrangements for exacting higher punishments extending from up to '1 Crore to ' 25 Crore for different infringement including mis-selling and deception by operators/insurance agencies. So as to serve the enthusiasm of the arrangement holders better, the period during which a strategy can be denied on any ground, including mis-articulation of realities and so forth., will be bound to three years from the initiation of the approach and no strategy would be brought being referred to on any ground following three years. The changes accommodate a simpler procedure for paymentto the chosen one of the approach holder, as the safety net provider would be released of its legitimate liabilities once the installment is made to the candidate. It is presently compulsory in the law for insurance agencies to guarantee outsider engine vehicle protection according to IRDAI guidelines.

Strengthening

The Act will endow duty of delegating protection specialists to back up plans and accommodates IRDAI to direct their qualification, capabilities and different angles. It empowers operators to work all the more comprehensively crosswise over organizations in different business classifications; with the shield that irreconcilable situation would not be permitted by IRDAI through reasonable guidelines. IRDAI is engaged to direct key parts of Insurance Company activities in regions like dissolvability, speculations, costs and commissions and to detail guidelines for installment of commission and control of the executives costs. It engages the Authority to control the capacities, set of principles, and so on., of surveyors and misfortune assessors. The onus to refute that an announcement was not set aside a few minutes of taking the strategy would lie with the policyholder and not the insurance agency, for example on the off chance that an individual kicks the bucket and his widow and kids should demonstrate why the spouse or father owned an off-base expression, for example in the event that an individual passes on and his widow and kids should demonstrate why the spouse or father owned an off-base expression. A protection strategy can't be tested on any ground following three years. This implies if an extortion is recognized three years after the arrangement has been in power, insurance agencies should pay the strategy holder. It likewise extends the extent of protection middle people to incorporate protection merchants, re-protection representatives, protection advisors, corporate specialists, outsider heads, surveyors and misfortune assessors and such different substances, as might be informed by the Authority every once in a while. Further, properties in India would now be able to be protected with an outside back up plan with earlier consent of IRDAI; which was prior to be finished with the endorsement of the Central Government.

Medical coverage

It enables the Authority to direct the capacities, set of principles, and so on., of surveyors and misfortune assessors. It additionally extends the extent of protection mediators to incorporate protection representatives, reinsurance specialists, protection advisors, corporate operators, outsider managers, surveyors and misfortune assessors and such different elements, as might be informed by the Authority now and again. Further, properties in India would now be able to be guaranteed with an outside back up plan with earlier authorization of IRDAI; which was prior to be finished with the endorsement of the Central Government.

Advancing reinsurance business in india

The changed law empowers outside reinsurers to set up branches in India and defines're-protection' to signify "the protection of part of one guarantor's hazard by another safety net provider who acknowledges the hazard for a commonly satisfactory premium", and in this manner bars the likelihood of 100% surrendering of hazard to a re-back up plan, which could prompt organizations going about as front organizations for different guarantors. Further, it empowers Lloyds and its individuals to work in India through setting up of branches with the end goal of reinsurance business or as speculators in an Indian Insurance Company inside the 49% top.

Reinforcing of industry committees

The Life Insurance Council and General Insurance Council have now been made automatic bodies by enabling them to outline bye-laws for decisions, gatherings and toll and gather expenses and so on from its individuals. Consideration of agents of self improvement gatherings and protection helpful social orders in protection chambers has additionally been empowered to wide put together the portrayal with respect to these Councils.

Vigorous redrafting process

Claims against the sets of IRDAI are to be liked to SAT as the revised Law accommodates any back up plan or protection go-between abused by any request made by IRDAI to incline toward an intrigue to the Securities Appellate Tribunal (SAT).

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.

REFERENCES

1. Bhat R (2005) Insurance Industry in India-Structure, performance and future challenges. Vikalpa 30: 3-5
2. Budhiraja L (2010) Indian Insurance Sector Challenges and opportunities. IJRIME 3.
3. Chaturvedi I (2011) Role of FDI in Economic Development of India: Sectoral Analysis International Conference on Technology and Business Management.
4. https://www.irda.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1
5. Neha S, Prachi B (2008)Distribution channels in life insurance.Bimaquest 8.
6. www.policyholder.gov.in/Annual_Reports.aspx
7. Sonika C, Priti K (2011)Life Insurance Industry in India: Current Scenario. IJMBS 3.
8. http://tsb.org.tr/images/Documents/sigma3_2014_en.pdf