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IMPACT OF FOREIGN DIRECT INVESTMENT IN THE INDIAN GENERAL INSURANCE SECTOR

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Abstract:

Foreign Direct Investment is a direct investment to production in a country by a company in another country, either by buying a company in the target country or by expanding operations of an existing business in that country. The investing company may make to overseas investment in a number of ways-either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. India is the third most attractive foreign direct investment destination in the world. Due to growing demand for insurance, more and more insurance companies are now emerging in the Indian insurance sector. Insurance is an important part of financial sector in the country. Life and general insurance in India is still an important sector with huge potential for various global players. Due to time constraint this study is limited to the impact of FDI in the general insurance sector only. It provides the relevant information about the economy, insurance density and different companies in Indian general insurance sector and will find the problems of FDI in this sector and performance of general insurance sector. The main objectives of the study are; to study the pattern of FDI in general insurance sector in India, to study the current trend in general insurance sector in India, to study the effect of FDI in the general insurance sector and to analyse the significance of FDI for Indian general insurance sector. The study is based on secondary data collected from the reports published by IRDA, insurance journals and the websites.

Index Terms: General Insurance, Foreign Direct Investment, Insurance Penetration, Insurance Density & IRDA

1. Introduction:

India is the most attractive foreign direct Investment destination in the world. Due to the growing demand for insurance, more and more insurance companies are now emerging in the Indian insurance sector. In fact FDI provides a win to win situation for the host country and the home country. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. Owing to the steady and fast growing Indian economy, India has become one of the most famous destinations for foreign direct investment. The rapid growth is all the business sectors in India is reciprocated by liberal trade policies, development in telecommunication and technology, expansion of markets and low restrictions from FDI. India now becomes the second most wanted FDI destination in the world. Indian insurance sector, especially general insurance sector is totally dominated by the government owned insurance company. With the increased percentage of FDI, various private insurance companies are likely to benefit the most.

2. Foreign Direct Investment:

Foreign Direct Investment Foreign Direct investment is the direct investment to production in a country by a company in another country or by expanding operations of an existing business in that country. The investing company may make its overseas investment in a number of ways- either by setting up a subsidiary or associate company in the foreign country, by acquiring shares of an overseas company, or through a merger or joint venture. It is a controlling ownership in a business enterprise in one country by an entity based in another country FDI is a measure of foreign ownership of productive assets, such as factories, mines and land. Increasing foreign investment can be used as one measure of growing economic globalization. The largest flows of foreign investment occur between industrialised countries, but flow of non-industrialised countries is increasing sharply.

3. Benefit of FDI:

- ✓ FDI increases investment level and their by income and employment.
- ✓ FDI increases tax income of the government.
- ✓ It facilitates transfer of technology.
- ✓ FDI encourage managerial revolution through professional management.
- ✓ It increase exports and reduce import requirements.
- ✓ FDI increase competition and breakdown domestic monopolies.
- ✓ It improves quality and reduces cost of inputs.

4. Factors Affecting FDI:

- ✓ Profitability: Attract when return on investment is higher.
- ✓ Cost of production: Encouraged by lower costs of production like raw material, labour etc.
- ✓ Economic conditions: Market potential, infrastructure, size of population, income level etc.
- ✓ Government policies: Policies like foreign investment, foreign collaboration, remittances, profits, taxation, foreign exchange control, tariffs etc.
- ✓ Political factors: Political stability, nature of important political parties and relation with other countries.

5. Need and Importance of the Study:

It is important to know the different sources of capital as well as a source of advanced and developed technologies that are involved in FDI and it also helps to study its influence in increasing employment and how FDI helps in promoting international trade.

6. Review of Literature:

Sudhir Naib (2005) in his book 'Disinvestment in India- Policies, Procedures and Practices' stated that state owned enterprises reforms have many dimensions such as privatization, introduction of competition in product and factor markets, hard budget constraint, financial sector reforms and changes in the relationship between the government and state owned enterprises managers. Reforms are motivated by a variety of goals and present complex strategic choices. These are creating a market economy, encouraging private enterprises, promoting competition, improving self-sufficiency and distribution of income, reducing the influence of labour union etc.

Dr. Santhosh Dhar (2007) in his article 'Insurance Industry in India- an Insight' mentions that in the new economic reality of globalization, insurance companies ace a dynamic global business environment. Radical changes are taking place owing to the internationalization of activities, the appearances of new risks, new types of covers to match with new risk situations, and unconventional and innovative ideas in customer services. Low growth rate in developed markets, changing customer needs and the uncertain economic conditions in the developing world are excreting pressure on insurer's resources, while testing their ability to survive.

Dr. Nalini Prave Thripathy (2007) in his article 'Indian Insurance Industry-The Paradigm Shift'pointed out that Indian economy is in transition over the last 20 years owing to the initiation of major economic reforms affecting almost all sectors. The paradigm shift from a mixed economic organization to a market oriented organization has exposed all sectors to an innate competition. Insurance being one among the players in the financial service sector. Indian insurance business is the most significant one among them. General insurance industry deals with exposure of risks to goods and property.

Dr. Pramod Pathak (2007) in his article 'Life insurance Corporation- the leader on the back foot' pointed that the insurance industry in India has witnessed a sea change ever since it was opened up to private players in 1999. The liberalization transformed the industries outlook towards the huge Indian market. The sudden rise in the number of players has brought about innovation in product development and distribution channels. The Indian consumer thus has a whole new range of insurance products to choose from. There is choice for every societal segment.

Dr. Raj Agarwal (2007) in his article 'GATS Provision and Indian Insurance Sector' mention that liberalization of trade in financial services in conjunction with transparency, in regulatory regime benefits countries in many ways and not merely at the financial service sector, as it contributes to an overall health of their economies.

Nirmala Choudary (2007) in his article 'General Insurance Industry in India- issues and challenges' pointed out that the general insurance market in India is about Rs.13000 crore, out of which 12590 is contributed by four public sector general insurance companies and rest by the private players. The general insurance business was only Rs.24 crores in the year 1951 in pre nationalization era. The industry was at Rs.130 crore, at the time of nationalization in 1971. The total market share of public sector is 85.79% and of private sector is 14.21%.

Shipper Harold D and Mack Robinson (2000) in their study gave an in-depth knowledge on the issue and concerns of insurance market liberalization. Dozens of countries have deregulated and liberalized their insurance markets with the belief that competitive markets are better at enhancing consumer choice and welfare than the rigidly regulated markets.

Kikeri and Nellis (2004), in his study suggests that liberalization and deregulation together promote efficiency but to what extend the mere change of ownership or the strengthening of competition is responsible for an efficiency gain is still unclear.

Fenn Paul and Chris O'Brien (2008) estimated the cost and profit efficiency of major European countries in the wake of insurance liberalization. Their study was based on the 14 major European countries from the period 1995-2001 and used Stochastic Frontier methodology to model. The efficiency of the companies during the deregulation period.

Sterzynski Maciej.L.L.M (2003) studied the impact of liberalization and deregulation processes in European community which was enabled to create a single insurance market under the Third Generation Insurance Directives. They found out that there was general reduction in number of companies while a serious increase in gross premium growth was observed.

Thomas Url (2003), measured the effects of liberalization on technical efficiency and productivity development of the Austrian Insurance Industry. He used data Envelopment Analysis to seven years individual firm level data.

Turchetti. G and Weiss. M. A (1996) studied an analysis of technical efficiency and productivity growth in the Italian insurance industry. The analysis made use of data based on a sample of 94 Italian life and non-life insurance companies over the period 1985-1993.

S. G. Banarjee (2008) explained the relationship between market liberalization and insurance firm performance in emerging markets and developing countries to specifically determine whether or not market liberalization has a positive impact on insurance firm performance. Their results suggested that market liberalization indeed have significant direct effect on firm profitability for all insurance operating in the host country.

Ranade Ajith and Rajeev Ahuja (1998) in their study identified the emerging strategic issues in light of liberalization and private sector entry in to the life insurance. They justified the need for private sector entry on the basis of enhancing the efficiency of operations, achieving a greater density and penetration of life insurance in the country.

Rao Tripathi (1999) studied the pattern and growth of life insurance business in India since its nationalization since 1956. His analysis focused specifically in the growth of new business, business in force, income and outgo of life fund. He found that there was a significant growth in new business both in terms of policies and sum assured.

Rajendran and Natarajan (2009) found that the remarkable improvements that the acceptance and adoption of liberalization, privatization and globalization has brought about in the Indian life insurance industry. Their analysis concluded that LPG was incorporating a positive influence on the performance of LIC of India.

7. Objectives of the Study:

- ✓ To study the pattern of FDI in general insurance sector in India.
- ✓ To study the current trend in the general insurance sector
- ✓ To study the effect of FDI on Indian general insurance sector.
- ✓ To analyze the significance of FDI for Indian general insurance sector.

8. Methodology:

The study is based on secondary data sources collected from the Annual Reports of Insurance Regulatory Development Authority, various journals, research articles and websites. An attempt is made to evaluate the effect of reforms on Indian insurance sector.

9. Meaning and Definition of Insurance:

Insurance may e defined as a social device to reduce or eliminate risks of loss of life and property. It is a provision man makes against inevitable contingencies, loss of misfortune. The aim of all types of insurance is to make provision against such dangers in our life. Any risk contingent upon these types of dangers may be insured against a premium a commensurate with the risk involved. In short collective bargaining of risk is insurance.

According to John Magee, "Insurance is a plan by which large number of people associates themselves and transfer to the shoulders of all, risks that attach to individuals."

According to Boone and Kurtz, "Insurance is a substitution for a small known loss (the insurance premium) for a large unknown loss which may or may not occur."

10. Types of Insurance:

Insurance can be broadly classified as life insurance and general insurance or non-life insurance. General insurance can be again classified as motor insurance, Fire insurance, Health insurance, Marine insurance etc.

11. Insurance Penetration and Density:

Insurance penetration is measured as the ratio of the premium to the GDP. Insurance density is measured as a ratio of the premium to the total population both insurance penetration and insurance density are at the low level in India. The measure of insurance density and insurance penetration reflect the level of development of the insurance sector in the country. These low penetration levels suggested that the insurance sector in India has a promising potential for growth. Additionally a rising population, a growing economy, increased domestic savings and greater awareness of insurance products are positive signs for growth for the insurance industry.

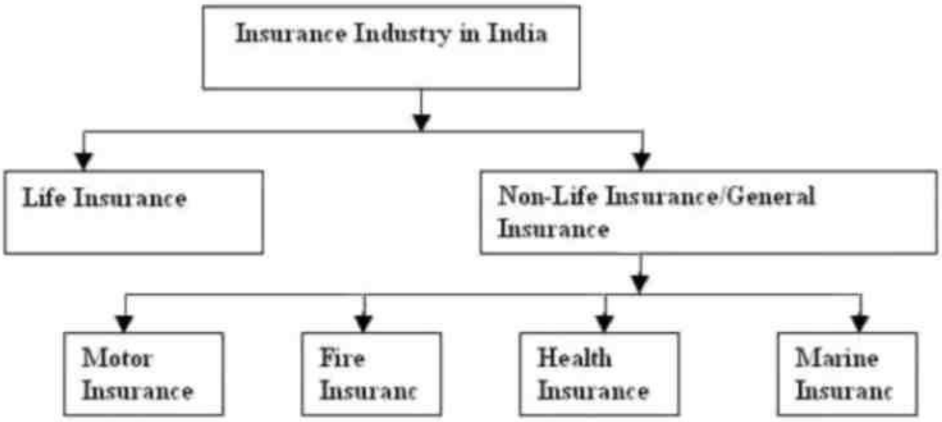

Table 1: Global Comparison of Insurance Premiums, Penetration and Density

Country	**Premium (US$ million**	**Penetration (% of GDP)**	**Density (US$ Per Capita)**
India	46206	6.6	48.1
Malasia	5682	2.9	206.9
Tailand	6212	2.4	91.9
China	09175	2.3	81.1
Sri Lanka	233	0.6	11.8
Philippines	1563	1.0	17
Pakistan	543	0.3	3

Source: IRDA web site

The above table shows that India is likely to have the fast growing insurance market. India and China are the two most promising insurance markets. India's insurance penetration appears higher. Taiwan has the highest insurance penetration in the world.

12. General Insurance Industry in India:

Insurance in India started without any regulation in the 19th century. After independence, the LIC was nationalized in 1956, and general insurance business nationalised in 1972. In 1999, private insurance companies were allowed back to the insurance business, with a maximum of 26% of foreign holding. Government of India now decide foreign investment ceiling in the insurance sector to 49%. Firstly domestic private sector companies were permitted to enter both life and non-life insurance business, secondly, foreign companies were allowed to participate with a shareholding of 49%. IRDA has been taking steps to promote insurance sector and also protect interest of people.

Table 2: List of General Insurance Companies operating in India

Insurers	
PUBLIC SECTOR	
1	New India Assurance
2	National Insurance
3	Oriental Insurance
4	United India Insurance
PRIVATE SECTOR	

1	Royal Sundaram
2	Reliance General
3	IFFCO TOKIO
4	TATA AIG
5	Bajaj Alliance
6	Cholamandalam MS
7	ICICIC Lombard
8	HDFC ERGO
9	Future General India
10	Universal Sompo
11	Sriram General
12	Bharati AXA General
13	Raheja QBE
14	SBI General
15	L&T General
HEALTH INSURERS	
1	Star Health & Allied Insurance
2	Apollo Munch
3	Max Bupa
SPECIALISED INSURERS	
1	Export Credit Guarantee Corporation
2	Agricultural Insurance Company
REINSUERER	
1	General Insurance Corporation of India

In 1999, there were only four only four public sector non-life insurers in India. Now there were 15 private non-life insurers in India. In addition there were 3 health insurers, 2 specialised insurers and one reinsurer that is General Insurance Corporation of India. It is evident from the table that with the introduction of reforms in the insurance sector in India, many large and well established world class private companies have entered in to the scene. It leads to new opportunities to the insurance sector in India.

13. Role of FDI in General Insurance Sector:

Even after the liberalization of the insurance sector, the public sector insurance companies have continued to dominate the insurance market, enjoying over 90% of the market share. FDI in insurance would increase the penetration of insurance in India. FDI can meet India's long term capital requirements to found the building of infrastructure. Insurance sector has the capability of raising long term capital from the masses.. An increase in FDI in insurance would indirectly help the Indian economy. The role of FDI in the present world is noteworthy. It acts as the life blood in the growth of the developing countries. The wave of liberalization, privatization and liberalization sweeping across the world has opened many national markets for international players. IRDA is in favour of an increase in foreign investment. India as the most promising, emerging insurance market in the world. The public sector insurance companies have continued to dominate in the insurance market.

14. Current Status of FDI in General Insurance Sector:

The present government has approved the hike of FDI in the insurance sector to 49% from the current level of 26%. The private sector companies in the general insurance sector would now be open to higher inflow of funds from foreign investors. FDI is introduced to the insurance sector as it was facing severe shortage of funds.

Table 3: General Insurance –Policies issued (2006-2014)

Year	No. of policies issued(in million)
2006-07	60.4
2007-08	65.6
2008-09	67.1
2009-10	88.5
2010-11	91.7
2011-12	100.3
2012-13	109.5
2013-14	116.7

Table-7 shows that, the number of policies issued by the general insurance companies in India during the period 2006 to 2014. Throughout the period the number of policies is increasing. In 2014 it reached to 116.7 million. It clearly indicates the growth of general insurance in India.

Table 4: Claims handled by general insurance companies (2009-2014)

Year	No.of claims (in million)	
	Public	Private
2009-10	8.02	8.26
2010-11	12.68	3.85
2011-12	9.63	2.63
2012-13	9.81	2.49
2013-14	5.33	10.26

Gross direct premium is one of the important and main indicators of the performance of the insurance business. The gross direct premium of the general insurance companies during the period 2006 to 2014 is given below

Table 5: Gross Direct premium income of general insurance companies (2006-2014)

Year	Premium Income (in crores)
2006-07	26,110
2007-08	29,498
2008-09	32,488
2009-10	38,043
2010-11	46,949
2011-12	55,090
2012-13	69,186
2013-14	77,525

The above table shows that the trend in gross direct premium. There is an upward trend in the gross direct premium income.

Table 6: Growth rate in premium (2007-2014)

Year	Growth rate in premium (in %)
2007-08	13.0
2008-09	10.1
2009-10	17.1
2010-11	23.4
2011-12	23.7
2012-13	19.1

2013-14	12.1

The above table shows the growth rate in premium income. There is variation in the growth rate in premium income.

Table 7: General insurance companies

Companies	No. of companies	Profitable companies
Public	4	4
Private	17	9
FDI received in 2012-13		1586 (16.67%)

Table 8: FDI inflow in India since 1999

Period	FDI Inflows (in US Billion dollar)
1999-2004	19.52
2004-09	114.55
2009-14	172.82

Table 9: Total equity shares of foreign investors in general insurance companies in India

Year	Equity shares (in crores)
2009	621.72
2010	898.32
2011	1090.08
2012	1324.45
2013	1586.63

Benefits of FDI:

- ✓ Improved insurance penetration:- The insurance penetration in the country is only around 3% of the GDP. This is less compared to other countries like Japan, USA etc.
- ✓ Increased capital inflow.
- ✓ Job creation.
- ✓ Consumer friendly.

Defects of FDI:

- ✓ Domestic companies may lose their business
- ✓ Small companies fear that they may not be able to compete with world class large companies and may ultimately be edged out of business.
- ✓ Government has less control over of such companies.

15. Suggestions:

- ✓ Investment regulations for insurers should be liberalized to a reasonable extend keeping adequate controls on the exposure of insurers funds to the unapproved investment in general stock market.
- ✓ New insurers can profitably focus on the retail segment, especially in general insurance.
- ✓ Providing insurance cover to lower income strata of society through various schemes, micro insurance need urgent attention.
- ✓ E-Commerce and market conducts are two important areas which will strengthen the relationship between companies, consumers and regulators.

16. Conclusion:

The reforms have changed the whole scenario of Indian insurance industry. Its character has changed altogether in the wake of transition from a controlled to a competition-driven market. Several new players have entered into the insurance business. The foreign insurers have entered through the joint venture route. Their entry into the field has generated a tough competition in the market which resulted into better customer service. The quality and price of insurance products has greatly improved. The range of products and services has increased so as to give a wider choice to the customers. There is no doubt that the government monopoly over the insurance business had to end. There is crying need for better service, more innovation and a comprehensive insurance cover. The obvious changes in the insurance market are there for all to see in new brands, new products, fresh advertising and smart agents-all adding up to the excitement. Innovation of products, services, speed and adaption of technology and professionalism and above all operation cost will decide the future fate of insurance industry.

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