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Impact of F.D.I. on Life Insurance Sector in India

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Abstract

Life insurance sector has opened for private sector and foreign player after the establishment of the Insurance Regulatory and Development Authority (IRDA) in April, 2000. Foreign Direct Investment has been allowed in private life insurance in India up to a limit of 26%, but on 4th October 2012, Government of India approved to enhance the FDI cap from 26% to 49%. At present the upper limit of FDI in 74%. Currently 23 life insurers are working in life insurance sector but Life Insurance Corporation of India is holding approx. 73% of the life insurance market. The objective of this research is to analyze the result of penetration ratio, density ratio and collected premium by different life insurance companies in Indian. This study highlighted current scenario of Life Insurance Sector in India. Secondary data was collected from the various reports issued by IRDA and published various research papers in repute journal for the years 2011 to 2021. As per the analysis of data, the penetration of life insurance industry in India is fluctuating for the last few years. The study suggested some corrective measure to improve penetration rate in India. Previous studies have been done up to 2019 and this study tried to inculcate the penetration ratio and density ratio in Life Insurance sector up to 2021.

Key Words: Life Insurance, FDI, Density, Penetration

Introduction

The Insurance sector in India governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalisation) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts. With such a large population and the untapped market area of this population Insurance happens to be a very big opportunity in India. Today it stands as a business growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP .In spite of all this growth the statistics of the penetration of the insurance in the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance. This is an indicator that growth potential for the insurance sector is immense in India. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system suitable for the requirements of the economy was the main idea behind this reform. Since then the insurance industry has gone through many sea changes .The competition LIC started facing from these companies were threatening to the existence of LIC .since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. The entry of the private players and the increased use of the new distribution are in the limelight today. The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.

Insurance

The term 'insurance' can be defined in both financial and legal terms. The financial definition focuses on an arrangement that redistributes the cost of unexpected losses. It is the collection of small premium payments from all the suspected and distribute it to those suffering actual losses. The legal definition focuses on the contractual arrangement whereby one party agrees to compensate the loss of other party. Thus the financial definition provides for the funding of the losses whereas the legal definition provides for the legally enforceable contract that spells out the legal rights, duties and obligations of all the parties to contract.

Life Insurance

Life insurance is a contract that pledges payment of an amount to the person assured (or his nominee) on the happening of the event insured against.

The contract for the life insurance is valid for payment of the insured amount during following three conditions:

(i). The date of maturity, or

(ii). Specified dates at periodic intervals, or (iii). Unfortunate death, if it occurs earlier.

Among other things, the contract also provides for the payment of premium periodically to the life insurer by the policyholder. Life insurance is universally acknowledged to be an institution, which eliminates 'risk', substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of death of the breadwinner.

By and large, life insurance is civilisation's partial solution to the problems caused by death and/or inability to earn money. Life insurance, in short, is concerned with two hazards that stand across the life-path of every person:

1. That of dying prematurely, leaving a dependent family to fend for itself.

2. That of living till old age without visible means of support.

History of Life Insurance in India

Before independence in India 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 nationalising 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.

In 1993, the Government set up a committee under the chairmanship of RN Malhotra, 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 (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

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% initially, which is now increased to 49%. Up to December 2011, in Indian life insurance sectors 23 private and one public life insurers are registered.

Foreign Direct Investment:

Foreign Direct Investment (F.D.I) is an investment made by a company in one country, into a company in another country. It refers to an investment made to acquire lasting or long-term interest in company or entity based operating outside of the economy of the investor. The investment is direct because the investor, which could be a foreign person, company or group of entities, is seeking to control, manage, or have significant influence over the foreign enterprise. FDI is a major source of external finance which means that countries with limited amounts of capital can receive finance beyond national borders from wealthier countries.

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 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.

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.

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.

Insurance Penetration

It is measured as a percentage of insurance premiums underwritten in a given year to the Gross Domestic Product (GDP).

Insurance Density

Insurance density is the per capita premium, which is calculated as a ratio of a premium underwritten in a given year to the total population. So it is a ratio of premium to the population. This is expressed in US dollars for international comparison. In any country, the potential and performance of its insurance sector are assessed with reference to two parameters. They are Insurance penetration and insurance density. These measures reflect the level of development of insurance sector in that country.

Review of Literature

Harpreet Singh & Preeti Singh(2011)[1], in their research, "An Empirical Analysis Of Insurance Industry In India" have analysed the overall performance of Life Insurance Industry of India between pre- and post economic reform era and also measure the current status, volume of competitions , challenges faced by the

Life Insurance Corporation of India. They have highlighted the role of LIC as a primary player in life insurance and how there is growth in performance of Indian Life Insurance industry and LIC due to the policy of LPG.The study indicates the increasing competition from private sector. ICICI prudential is becoming a stronger and stronger player by taking over a lot of business of LIC due to aggressive and flexible product range. But still there is a lot of scope of development in the life insurance industry where private sector will be a challenge in the front of LIC.

Malik and Predham (2011)[2] found that product features like tax rebate, investments, advertising and agents' knowledge, low premium are the key factors in determining selection of an insurance company. They suggested that proper training should be given to the agents in all aspects like product knowledge, behavioural aspects, communication, that greater focus should be given to advertisements to reach the customers, and that premium-setting should be done carefully, considering the target customers.

Singh (2011)[3] also suggested that low premium, proper induction to agents, effective advertisement strategy, friendly policy, and easy accessibility to insurance company has motivated customers to acquire a policy

Syed Ibrahim (2012)[4], in his research "Consumers' Grievance Redressal System in the Indian Life Insurance Industry - An Analysis" attempts to review on consumer protection and the awareness with reference to the grievances settlement operations of the Life Insurance Industry in India. The study was based on relevant secondary data which was been collected mainly through the data bases of Insurance Regulatory Development Authority of India (IRDA), Reserve Bank of India (RBI), various reports and other studies for a period of 5 years. The research based on various statistical analyses revealed that LIC has succeeded in resolving consumer's grievances when compared to the private insurers but even private players were active in resolving the grievances only in performance year ends .The paper also highlight that IRDA has recently established the Consumer Affairs Department to give a special focus to and oversee the compliance by insurers of the IRDA Regulations for Protection of Policyholders' Interests and also to empower consumers by educating them regarding details of the procedures and mechanisms that are available for grievance redressal.

Yadav and Tiwari (2012)[5] examined the factors which influence customers' policy buying decision and also analyse the preferences of customers while life policy investment decision-making. They found that LIC is the most accepted and popular brand in life insurance, and that the market share of private insurers are gradually increasing with people trust and better services offered by them. They suggested that insurance companies should spread more awareness about life insurance, reduce premium amounts, and focus on need-based innovative products. Also, they found that demographic factors play a major role in deciding the purchase of life insurance policies.

Anuradha (2012)[6] studied the factors influencing the customers to purchase the insurance products, including the type of insurance company and media as source of information. She also studied the age group which was more interested with life and health insurance policies, and whether the customer prefer public or private insurers.

Yogesh Jain (2013)[7], in his article, " Economic Reforms and World Economic Crisis: Changing Indian Life Insurance market place" reviews on life insurance scenario in India, the challenges of the sector and the issues .The author has revealed that Since opening up of Indian insurance sector for private participation, India has reported increase in insurance density for every subsequent year and for the first time reported a fall in the year 2011, but when we compare real growth of premium with world insurance market Indian Life market declining very sharply during last financial year except year 2009-10.Then the author has discussed few imperatives like life insurers should conduct more extensive market research before introducing insurance products, Life insurers should streamline their grievance Redressal machinery for efficient and effective service& In present stiff market competition, a focus on niche segment can be an effective way of marketing for insurers to differentiate from the competitors etc Sonal Nena (2013), in her study-"Performance Evaluation of Life Insurance Corporation (LIC) of India" has tried to analyse growth and performance of LIC. She analysed the major source of income (Premium Earned) of the LIC, as well as the significant heads of expenses of LIC to measure the performance .This study has proved that LIC has been success in terms of creating value for its policyholders. The performance evaluation also showed consistent increase in its business. During the study period there was no major change in the performance of the LIC. So it was finally concluded that performance remained unchanged and LIC has maintained the market value of their products.

Mathur and Tripathi (2014)[8] identified nine factors affecting customers' choice of insurance company, of which the most important factors were computerization and online transactions, connectivity with bank, speed and efficiency in transactions, and clear communication.

Objectives of the study:

1. To find out the penetration ratio of Indian Life Insurance Industry
2. To find out the density ratio of Indian Life Insurance Industry

Research Methodology:

The present study is completely based on secondary data collected from annual reports and Handbook of insurance statistics 2011-12 to 2021-22 of IRDA. The collected information is then analyzed with the help of growth percentages, tabulated, graph and depicted. The total study is based on secondary data collected from annual reports of LIC and IRDA and Handbooks of insurance statistics of IRDA. Available information is taken for study and analysis.

The source of data was heavily depends on secondary data which was obtained from different relevant books, published and unpublished materials, journals, articles, annual reports which is prepared by the IRDA and the Life Insurance Company.

Analysis and Interpretation :

Life Insurance Penetration

Table 1.1

YEAR	% Life Insurance Penetration (Insurance Premium /GDP)
2011	4.40
2012	3.40
2013	3.17
2014	3.10
2015	2.60
2016	2.72
2017	2.72
2018	2.76
2019	2.74
2020	2.82
2021	3.20
2022	3.20

Sources: IRDA reports.

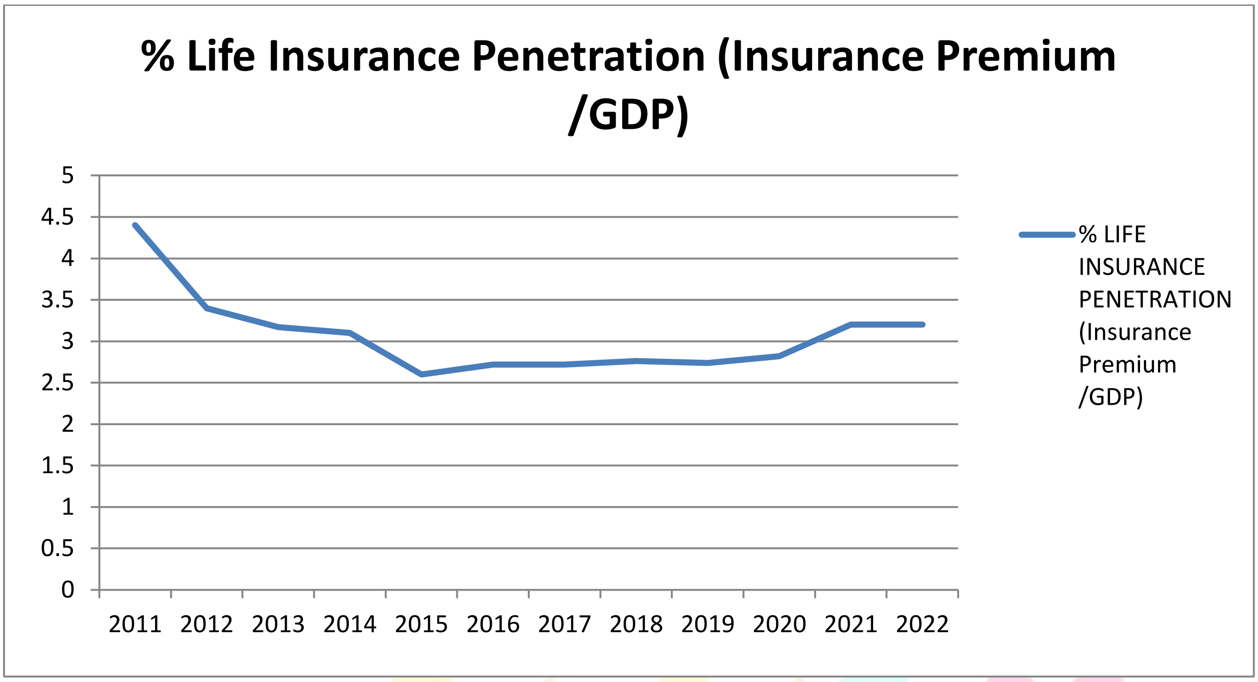

Figure 1.1

As seen from the above table 1.1 and figure 1.1 it can observe that, there is decrease in the insurance penetration in our country from 2011 to 2015. Post 2015 to 2022 there is increasing in the percentage which is major due to increased in FDI. In order to overcome this, central government has increased the limit of Foreign Direct Investment (F.D.I) from 49 percent to 74 percent.

Life Insurance Density

Table 1.2

YEAR	Life Insurance Density (USD)ratio of premium to population
2011	55.70
2012	49.00
2013	42.70
2014	41.00
2015	44.00
2016	43.20
2017	46.50
2018	55.00
2019	55.00
2020	58.00
2021	59.00
2022	69.00

Sources: IRDA reports.

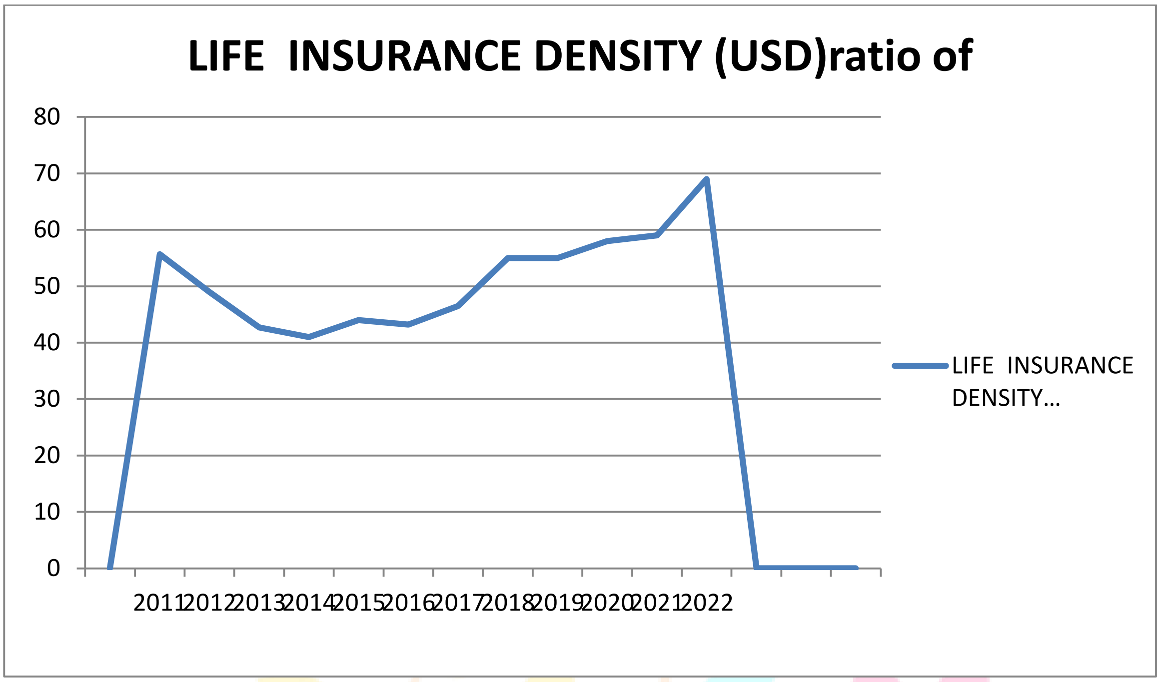

Figure 1.2

The above information (Table.1.2 and figure 1.2) indicates that since 2011 life insurance density has been increasing. The density has increased from 55.70 (2011) to 69.00 (2022) except 42.0 (2013). On the whole it is significant growth in life insurance industry. It is result due to the increased proportion of FDI in life insurance industry. Central government has increased the limit of Foreign Direct Investment (F.D.I) from 49 percent to 74 percent in life insurance industry.

Conclusion:

Increase in foreign direct investment (F.D.I.) is optimistic move for the future of Indian Life Insurance Sector, since this sector need huge amount of capital investment which can be done effectively only through increase in F.D.I. and it enhance overall performance of insurance sector. As of now, Insurance companies are in hesitation about to take positive steps towards F.D.I. There are good chances that increase in F.D.I. will improve the Insurance penetration and density. Along with that innovative insurance product and services, better use of technology, increase in employment and competition etc. are by-product of increase in F.D.I. in insurance Sector. Government of India through Insurance Regulatory and Development Authority of India (I.R.D.A.I) and Reserve Bank of India (R.B.I.) need to keep regular check on the outflow of India currency.

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