

# Implications of Foreign Direct Investment on Insurance Sector in India

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**Abstract-** The study conducted that income in foreign direct investment (FDI) 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 FDI and it enhance overall performance of insurance sector. The bill also seeks to remove archaic provisions in previous laws and incorporated modern day practices of insurance business that are emerging in a changing dynamic environment, which also includes private participation. The insurance sector in India has a great potential even during the downtrend and FDI flow is expected to rise in the mere future. Objective of the study is to analyse the benefits of FDI in insurance sector in India. Using Descriptive research and secondary data for this study. Conclude that Foreign direct investment can help to development of Insurance Sector in India and amount of Foreign direct investment increasing year by year.

## 1. INTRODUCTION

Life insurance in its modern form came to India from England in the year 1818. Oriental life Insurance Company, started by Europeans in Calcutta was the first life Insurance company on Indian soil. Before 1912 India had no Legislation to Regulate Insurance Business. In 1912 two sets of legislation were passed are : 1. Provident Insurance Societies Act in 1956 LIC of India was set up Indian Government and Nationalization of Indians insurance companies in 1956. 2. In 1999 Government in India Passed the Insurance Regulatory and Authority of India Act (IRDA). After making a proper regulation to Insurance Sector, Indian government can give new licenses are being given to private companies. After introduction of liberation, globalization and privatization in India increase the FDI. Today given 49% to Insurance sector.

## 2. BACKGROUND OF THE STUDY

To understand what FDI in insurance means, one must know what FDI actually means, what happens when a country's sector accepts investment from another country. Or FDI is a direct investment into production or business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country. Liberalization policy has been introduced in India since 1991 by the finance minister Dr. Manmohan Singh, thought the contribution of public sector insurance company in the Indian business in immense and noticeable and having 90% of the total business of it. FDI can serve many purposes for the welfare and development of the infrastructure . Insurance sector still have a huge potentiality for building long term finance at least for next 30 years or more.

## 3. LITERATURE REVIEWS

Singh and Gupta<sup>1</sup> (2013) discussed India's foreign capital policy since 1947. They concluded that the policy framework in India dealing with foreign private investment has changed from cautious welcome policy during 1948-66 to selective and restrictive policy during 1967 to 1979. In the decade of eighties, it was the policy having partial liberalization with many regulations. Liberal investment climate has been created only since 1991. Boopath<sup>2</sup> (2013) revealed that the Press Council of Indian has commented on synergic alliance or equity participation by way of Foreign Direct Investment. The council opined that Foreign Direct Investment should be allowed to break or halt

the growing monopoly of a few media giants in India who offer uneven playground and unhealthy competition to small and medium papers. Jampala, Lakshmi and Srinivasa<sup>3</sup>(2013) discussed Foreign Direct Investment Inflows into India in the Post-reforms period. They conclude that “as far as the economic interpretation of the model is concerned; the size of domestic market is positively related to Foreign Direct Investment. The greater the market, the more customers and more opportunities to invest.”

Pradeep<sup>4</sup>(2013) made an attempt to study of Foreign Direct Investment in India. He emphasized that Investment, or creation of capital, financial capital and human capital. In combination with other factors of production and technology, investment determines the levels and growth through changes in production and consumption of goods and services. Other things being the same, less investment leads to lower economic growth with attendant consequences on reduction in income, consumption and employment. Narayana<sup>5</sup>(2012) explained that one of the major concern of planners and policy makers in India is attracting more and more Foreign Direct Investment. He analysed the Foreign Direct Investment in particulars. Juan Pineiro et. Al<sup>6</sup>(2008) in the paper namely “ Does Growth and Quality of Capital markets Drive Foreign capital. The case of cross, Border M and As “examined the association between the quantum of FDI in a firm and the quality of capital market growth of that firm. The period of study was from 1987 to 2006. After a comparative study of “both the than other variables. They concluded that higher reforms in capital markets may result into higher increase in firm level Foreign Direct Investment”.

Ningombam, Jayanti<sup>7</sup>(2007) in one of the article entitled “Globalization and Foreign Direct Investment in North East India: A Perspective” has made an attempt to highlight the constraints faced by the north east region (NER) consisting of eight states viz “Assam, Arunachal Pradesh, Manipur Meghalaya focused on the emerging patterns and trends in the inflows of foreign investment particularly Foreign Direct Investment has been concentrated in relatively developed states. Nalsar and Prasad<sup>8</sup>(2007) in a paper titled “Foreign Direct Investment and the Legal Profession in India” have investigated into the results of permitting “ FDI and foreign collaboration in the

legal services sector in India. Many segments of the Indian economy are now moderately open to foreign venture, with few exception“. “The government has imposed certain restrictions on Foreign Direct Investment in some highly sensitive sectors, e.g. agriculture, retail trading, railways and real estate. According to them some sectors still entail government support. Within the global economy the significance of trade in services currently amounts to well over two trillion US dollars, a sixth of total world trade”. Mann and Lalit<sup>9</sup> (2007) in a paper on “Indian Shining: Investment Destination for Retail Segment” have made an attempt to evaluate and appreciate the “flow of Foreign Investment in India”. “A thread bare discussion has been made on factors affecting Foreign Direct Investment in Indian Retailing Sector, and factors against the Foreign Direct Investment in retail”. “This paper suggests that, India needs today to lessen the rural-urban divide. This can be done through the help of big pocket entrepreneurs entering the country”.

#### 4. OBJECTIVE OF THE STUDY

The study is to analyse the benefits of FDI in insurance sector in India.

#### 5. RESEARCH METHODOLOGY

In this study using secondary data form internet sources and using descriptive research methodology. Sampling size is using nine years from 2008 to 2018.

#### 6. DATA ANALYSIS

Foreign direct investment on insurance sector in India from 2008 to 2018. This study objectives is to know about benefits of foreign direct investment in India on insurance sector. Using secondary data for this analysis.

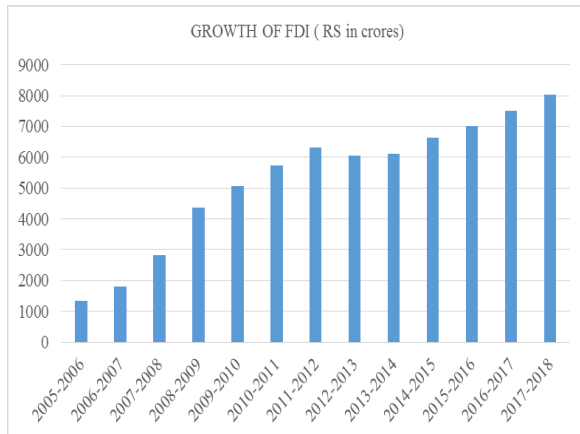
Growth of Foreign Direct Investment in India in crores

Table -6.1 Growth of FDI in India

| Year      | FDI ( RS in crores) |
|-----------|---------------------|
| 2005-2006 | 1335.35             |
| 2006-2007 | 1809.75             |
| 2007-2008 | 2821.63             |
| 2008-2009 | 4354.50             |

|           |         |
|-----------|---------|
| 2009-2010 | 5053.98 |
| 2010-2011 | 5723.81 |
| 2011-2012 | 6324.27 |
| 2012-2013 | 6045.91 |
| 2013-2014 | 6113.38 |
| 2014-2015 | 6643.21 |
| 2015-2016 | 7020.32 |
| 2016-2017 | 7498.56 |
| 2017-2018 | 8031.00 |

Chart-6.1 Growth of FDI in India



In the above graph says that foreign direct investment in India in insurance sector. Foreign direct investment increasing continuously by expect in the year 2010-2013. In the year 2012-2013 FDI amount will decreased compare to other years.

## 7. RESULTS AND DISCUSSION

- Increasing the growth rate of 2005-2006 to 2017-2018 is 6695.65 crore (1335.35 – 8031.00).
- Gross premiums written in India reached Rs 5.53 Trillion (US\$ 94.48 billion) in FY 2018, with Rs 4.58 trillion (US\$ 71.1 billion) from life insurance and Rs 1.51 trillion (US\$ 23.38 billion) from non life insurance. Year on Year growth rate of 12.65 percent.
- In October 2018, VMware, a leading software innovating enterprise of US has announced investment of US\$ 2 billion in India between by 2023.

## 8. CONCLUSION

Foreign direct investment in Indian insurance sector is changed in the year 2014 by government of India 26% to 49% after 15 years long. The Foreign direct

investment of insurance sector is increasing continuously expect in the year 2012-2013. The insurance sector play a vital role in the economic development by providing various useful services like mobilising savings, intermediating in finance, promoting investment, stabilising financial markets and managing both the social and financial risk. FDI helps insurance industry capitates with their competitors and provides more services and products to their customers and help to infrastructure development in India.

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