FDI in Indian Non-Life Insurance Sector: Boost Market Potential

M. Surya, B. Sudha, T. Priyanka

Abstract*: FDI brings up the capital inflows from abroad which is invested in the production capacity of the economy and are preferred as external finance because they are non-debt creating, non-volatile and their returns depend on the performance of projects financed by investors. It expedites international trade and transfer of information and technology. Thus, 'FDI acts as a catalyst for the growth nation'. The Indian insurance market is expected to grow up to 125 percent in the next decade which would indirectly be a boost for the Indian Economy. Increased FDI limit up to 100 percent will allow more new players to enter and strengthen the existing companies. This will promote higher competition, innovative products, digital distribution channels and cheaper policy premium for their customers. Therefore, this paper primarily focuses on the FDI in the Insurance sector in India and its significance. In the Budget 2015-16 the government announced, three ambitious Social Security Schemes about Insurance and Pension Sector (a) PradhanMantri Suraksha Bima Yojana (b) PradhanMantri JeevanJyoti Yojana and (c) Atal Pension Yojana. These schemes help to create universal social security system for all Indians, especially the poor and underprivileged. The health insurance scheme Ayushman Bharat will provide good quality health care up to Rs.5 lakh per family per year at government and private hospitals all over India. This scheme will be available for 50 crore Indians and covers 10.74 beneficiaries. In this backdrop, this article aims to analyze the performance of Non-life Insurance sector in India after the increase of FDI from 26 percent to 49 percent (which has come into force from 16 March 2016).

***Keywords* : FDI, Non-life insurance, Net premium, Capital, and Foreign companies.**

I. INTRODUCTION

India is among the world's fastest developing economies which has a top market for foreign direct investments (FDI). Foreign companies invest directly in the fast rising private Indian businesses to take more benefits of low-cost wages and fluctuating business environment. FDI brings up the capital inflows from abroad that invest in the production capacity of the economy and are generally preferred over the other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. It also expedites international trade and transfer of information, skills, and technology. Thus, 'Foreign Direct Investment acts as a catalyst for the growth of the nation'. FDI in India has followed a positive trend since the launch of Make in India. FDI inflow from April 2014 to March 2019 (US$ 286 billion) is 46.94% (approx.) of the overall FDI received in the country since April 2000 (US$ 592.08 billion). For the 1st time, India crossed the US$ 60 billion mark in FY 2017 - 18 with US$ 55.55 billion in FDI, due to the investment friendly policies and opening of FDI allowance in various sectors. As from the recent data 2018-19, indicates that the service sector has attracted the highest FDI equity inflow of US $ 9.16 billion.

Insurance in India is a burgeoning industry with both national and international players competing and growing at rapid rate. However the penetration of insurance coverage for both life and non-life insurance is still very less and was 3.69% in 2017. 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 rising of the cap on FDI into Indian insurance companies to 49% from the 26% would allow global reinsurance companies to set up branches in India.

The Indian insurance market is one of the fastest-growing markets and is expected to grow up to 125 percent in the next decade. FDI in the insurance sector would indirectly be a boost for the Indian Economy. Increased FDI limit up to 100 percent will allow more new players to come in and will also strengthen the existing companies. This will promote higher competition, innovative products, digital distribution channels and cheaper policy premium for their customers. In the Budget for 2015-16 the government announced, three ambitious Jan Suraksha Schemes or Social Security Schemes about Insurance and Pension Sector (a) Pradhan Mantri Suraksha Bima Yojana and (b) Pradhan Mantri Jeevan Jyoti Yojana and (c) Atal Pension Yojana. Pradhan Mantri Vaya Vandana Yojana to protect elderly aged 60 years and above was initially opened for subscription for one year i.e. from 4th May 2017 to 3rd May 2018. The

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M.Surya, Ph D Scholar, Department of Commerce, Alagappa University, Karaikudi

B.Sudha, Associate Professor, Department of Banking Management, Alagappa Institute of Management, Alagappa University, Karaikudi

T.Priyanka , Ph D Scholar, Department of Commerce Alagappa University, Karaikudi

above schemes help to create a universal social security system for all Indians, especially the poor and the underprivileged. The health insurance scheme Ayushman Bharat scheme will provide good quality health care of up to Rs.5 lakh per family per year at government and private hospitals all over India. This scheme will be available for 50 crore Indian citizens and covers 10.74 beneficiaries. So it can be analyzed that the performance of Non-life Insurance sector in India depends on the increase of FDI from 26 % to 49 % which has come into force from 16 March 2016.

II. OBJECTIVE OF THE STUDY

- To study the significance of Foreign Direct Investment in the Indian insurance sector.
- To analyze the performance of Non-life Insurance sector in India after the increase of FDI from 26% to 49%.

III. FOREIGN DIRECT INVESTMENT (FDI)

Foreign direct investment (FDI) in India is the most important monetary source for economic development of the country. Foreign direct investment can be defined as an investment made by an individual or an organization of one country into another organization/company of another country, which happens when an enterprise wants to expand into another country or want to have a 'lasting interest' in the company of another company. The Organization for Economic Co-operation and Development (OECD) states that if any foreign investor has 10% or more ownership of the voting power in the organization of another country, it is said as 'lasting interest', which helps the foreign individual or the organization to have a meaningful influence on the management of the company.

Methods of FDI

Two things becomes important when a company of a different country invests in the business of another country or want to expand their horizon in another country, i.e. how they should build up their business or influence to generate enough revenue in a foreign country. And another is what would be the most profitable methods of FDI. So there are two broad methods of FDI i.e. greenfield investments and brownfield investments.

Greenfield Investments: Greenfield Investments occur when a parent company or government begins a new venture by constructing new facilities in a country outside where the firm is headquartered. For example the companies like McDonald and Starbucks the prominent brands in India have made greenfield investments. According to the reports, India remained the top recipient of greenfield FDI from commonwealth, more than doubling the amount received over 10 years between 2005 and 2016.

Brownfield Investments: In this method the foreign businesses expand their business by either going for cross-border mergers or an acquisition which allows them to start their business with the existing infrastructure. The example of this is Tata Motors' acquisition of Jaguar, where the Tata Motors didn't need to build a new factory in the UK but started running the business from the existing factory of Jaguar.

IV. TYPES OF FDI

There are two types of foreign direct investment. One is a horizontal foreign direct investment and another is the vertical foreign direct investment.

Horizontal FDI: It is the most common types of foreign direct investment where one company merges with another company of another country to get stronger in the market and the products/services offered are of a homogeneous nature. This is done to have a piece of market share in the foreign market and next to reduce competition.

Vertical FDI: When a company of one country acquires or merges with another company of different country just to add more value to their value chain, it would be called vertical FDI. For example, if a company invests in a foreign company just to have a supplier producing raw materials for them which is a vertical FDI.

V. 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 the GDP 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

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.

VI. NON-LIFE INSURANCE- OVERVIEW

Insurance companies are in the core business of managing risk. When a risk goes uninsured, it becomes an economic loss and this loss falls on the government to fund and rebuild. India is among the world's vulnerable countries to climate change and is incurring losses to the tune of 9-10 billion dollar every year and it is estimated that 80% of the loss remain uninsured. Therefore the non-life insurance sectors have witnessed significant growth and winds of change which implies that there is a strong relationship between foreign investment and economic growth. As larger inflows of foreign investments are needed for the country to achieve a sustainable high trajectory of economic growth, where insurance sector plays a major role in 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; it can meet India's long term capital requirements to fund the building of infrastructures

FDI in the insurance sector would indirectly be a boost for the Indian Economy. Where the increased FDI limit up to 100 percent will allow more new players to come in and will also strengthen the existing companies. This will promote higher competition, innovative products, digital distribution channels and cheaper policy premium for their customers. The FDI in insurance sector is allowed from 26 % to 49 % which has come into force from 16 March 2016. The foreign equity investment cap of 49 percent shall apply on the same terms as above to Insurance company, Insurance Brokers, Third Party Administrators, Surveyors and Loss Assessors and Other 48 Insurance Intermediaries appointed under the provisions of the Insurance Regulatory and Development Authority Act,1999 (41 of 1999) under automatic route. This hovering of the cap on foreign direct investment into Indian insurance companies to 49% from the 26% would lead global reinsurance companies to set up branches in India.
Therefore the following tables will show the changes in non-life insurance sector after the increase of FDI from 26 percent to 49 percent (which has come into force from 16 March 2016).

TABLE 1:TOTAL REAL PREMIUM GROWTH RATEDURING THE YEAR 2016-17 AND 2017-18 (in percent)

Regions/Countries	**Life**		**Non-Life**		**Total**	
	2016-17	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**
Advanced Countries	-0.5	-2.7	2.3	1.9	0.7	-0.6
Emerging Markets	16.9	14.0	9.6	6.1	13.5	10.3
Asia	7.4	5.6	8.9	5.8	7.9	5.7
India	8.0	8.0	12.9	16.7	9.1	10.1
World	**2.5**	**0.5**	**3.7**	**2.8**	**3.1**	**1.5**

Source: Swiss Re, Sigma No.3/2017 and 3/2018.

From the table 1 it can be illustrated that the total real premium growth rate from the period 2016-17 to 2017-18 of non-life insurance sector in India has increased by 3.8% whereas the life insurance sector is constant to 8.0%. Overall the Indian insurance sector has shown a growth from the previous year. The Indian non-life insurance sector showed a growth of 16.7 percent (inflation adjusted) during 2017, whereas the growth in global non-life premium was 2.8 percent. The share of Indian non-life insurance premium in global non-life insurance premium was at 1.11 percent and India ranked 15th in global non-life insurance markets.

TABLE 2:**REGISTERED INSURERS IN INDIADURING THE YEAR 2016-2018**

Type of business	**Public Sector**		**Private Sector**		**Total**	
	2016-17	**2017-18**	**2016-17**	**2017-18**	**2016-17**	**2017-18**
Life Insurance	1	1	23	23	24	24
Non-Life Insurance	6	6	17	21	23	27
Health	0	0	6	6	6	6
Reinsurance	1	1	8	10	9	11
Total	**8**	**8**	**54**	**60**	**62**	**68**

Source: IRDA Annual Report 2017-18

The table 2 shows the number of insurance companies registered under IRDA as on March 2018. There are total 68 insurance companies of which 24 are in life insurance business and 35 are non-life insurers including reinsurance insurance. During the year 2016 to 2018, the following 6 new companies have been registered as General Insurance Companies in India:

1. Aditya Birla Health Insurance Co. Ltd (Date of Registration: 11.07.2016, Reg no.153)

2. ITI Reinsurance Limited(Date of Registration: 30.12.2016, Reg no.154)

3. DHFL General Insurance Limited (Date of Registration: 22.05.2017, Reg no.155)

4. Acko General Insurance Limited (Date of Registration: 18.09.2017, Reg no:157)

5. Go Digit General Insurance Limited (Date of Registration: 20.09.2017, Reg no.158)
6. Edelweiss General Insurance Company Limited (Date of Registration: 18.12.2017, Reg no.159)

There are nine Foreign Reinsurer's Branches (FRBs) registered in India after the year 2016, they are:
1. Munich Re, Germany (Date of Registration: 21.12.2016)

2. Swiss Re, Switzerland (Date of Registration: 21.12.2016)

3. Hannover Re, Germany (Date of Registration: 21.12.2016)

4. SCOR SE, France (Date of Registration: 21.12.2016)

5. RGA Re, Canada (Date of Registration: 21.12.2016)

6. Lloyd's, United Kingdom (Date of Registration: 17.01.2017)

7. XL Catlin SE, United Kingdom(Date of Registration: 01.02.2017)

8. General Reinsurance AG (Date of Registration: 09.05.2017)

9. AXA France Vie (Date of Registration: 28.07.2017)

So from the table it can be concluded that six new general insurance company and nine Foreign Reinsurer's Branches (FRBs) have been registered after the increase of FDI rate from 26% to 49%.

Table 3: Indian Non- Life Insurance Penetration And Density From The Year 2015 To 2017

Year	**Non-Life Insurance**	
	Density (USD)	**Penetration (percentage)**
2015	11.5	0.72
2016	13.2	0.77
2017	18.0	0.93

Source: Annual report of IRDA 2017-18

The table 3 represents the Non- Life Insurance penetration and density of India during the year 2015 to 2017. The measure of insurance penetration and density reflects the level of development of insurance sector in a country. However the insurance penetration is measured as the percentage of insurance premium to GDP and insurance density is calculated as the ratio of premium to population (per capita premium). Thus the table shows that the penetration of non-life insurance sector has gone up from 0.56 in 2001 to 0.93 in 2017(0.77 in 2016). Its density has gone up from USD 2.4 in 2001 to USD 18.0 in 2017(13.20 in 2016), which witnessed a high growth after the increase of FDI from 26% to 49%.

Table 4:Profit After Tax Of General And Health Insurers (` Crore)

Insurer	**2016-17**	**2017-18**
Public Sector Insurers	-2,551.00	2542.70
Private Sector Insurers	2763.00	3798.33
Standalone Health Insurers	27.00	-102.19
Specialised Insurers	606.00	669.95
Grand Total	**845.00**	**6908.80**

Source: Annual report of IRDA 2017-18

The table 4 estimates the Profit after Tax (PAT) of General and Health insurance companies of India from the period 2016-17 to 2017-18. During the year 2017-18, the total PAT of general insurance industry was `6909 crore as against a profit of `845 crore in 2016-17. The public sector companies reported a profit after tax of `2543 crore against a loss of `2551 crore in 2016-17. The private sector insurers reported a PAT of `3798 crores against a PAT of `2763 crore in 2016-17 and specialized insurers have reported `670 crore PAT against a PAT of `606 crores in 2016-17 whereas the standalone health insurers reported loss of `102 crores against a profit after tax of `27 crores in 2016-17. So overall the Non-life insurers have shown a good return in the company after the increase of FDI from 26% to 49%.

Table 5:Number Of Non-Life Insurance Offices

(as on 31st march)

Sector	2016	2017	2018
Public Sector	8331	8518	8296
Private Sector	1869	1946	2043
Specialized Insurers	83	83	86
Total	10283	10547	10425

Source: Annual report of IRDA 2016-17 and 2017-18

From the table 5, it is reported that as on 31st March 2018, the number of non-life insurance offices operating from all over the country are 10425 offices (excluding standalone health insurers) as against 10547 offices for FY 2016-17, so there is a decrease of 122 offices from the previous FY year. But as compared to FY 2015-16 there has been a rise in the number of non-life insurance offices.

VII. CONCLUSION AND SUGGESTION

Foreign direct investment (FDI) in India is a major monetary source for economic development. If the FDI limit is increased up to 100 % in the insurance sector, then it will allow more new players to come in and will also strengthen the existing companies, which will promote higher competition, innovative products, digital distribution channels and cheaper policy premium for their customers. And also if the fundamental regulatory changes in the insurance sector are taken then it will lead to significant future growth and would have huge impact on various sectors of economy.

So from this paper it can be concluded that after the increase of FDI from 26% to 49% from the year 2016, there has been an increase in the penetration and density of non-life insurance sector, the number of foreign insurer is increased and the total real premium are also raised. So the active foreign participation is crucial for the sector as it would bring and implement the best practices. India is one of the fastest growing insurance markets and it is expected that Indian insurance industry can grow up to 125% in the next decade.

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