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ABSTRACT

India is one among the most promising emerging insurance markets in the world. Indian insurance sector was liberalised in 2001. The insurance industry in India has undergone transformational changes over the last 15 years. In July 2014, the Cabinet Committee on Economic Affairs (CCEA) approved 49% FDI in insurance from the previous level of 26%. This paper aimed at examining the impact of FDI on the performance of selected private sector insurance companies. The study is based on secondary data and it is a descriptive study. This paper found that FDI had a significant positive as well as negative impact on areas which were studied in the paper.

Keywords: FDI, Insurance sector.

1. INTRODUCTION :

In 1818, India saw the advent of western idea of life insurance business with the establishment of the Oriental Life Insurance Company in Kolkata by British. In these entire years insurance sector experienced three different phases, pre-nationalisation, nationalisation, FDI and privatisation. Beginning with pre-nationalisation era, nationalisation era as second stage, finally, FDI and privatisation era.

The insurance industry is a highly capital intensive industry. Foreign Direct Investment (FDI) is an inflow of investment by foreign partners. Department of Industrial Policy and Promotion (DIPP) define FDI as an investment by non-resident entity/ person resident outside India in the capital of an Indian company under Schedule 1 of Foreign Exchange Management (Transferor Issue of Security by a person resident Outside India) Regulations, 2000.

Especially for the developing nations, Foreign Direct Investment (FDI) is considered as the vitamin tablets, which are needed to boost the economic growth. Without such funds, even though, all other resources like human and natural are present, optimum utilisation is not possible or it will take a long period. FDI plays a major role not only in the short run, but is needed for the long run development of the nation. It is not just a source of capital, it provides technology, strengthens infrastructure, generates employment, and raises productivity.

After 2001 insurance sector is opened up for FDI of 26 percent and for private companies. By that step, insurance in India has become a flourishing industry as both national and international players are competing and growing at a rapid rate. India enjoyed robust growth of average of 7.2 percent from FY01 to FY10. However, the uncertain global business environment resulted in lower growth from FY10 to FY 14. With 52 insurance companies, India's insurance sector is one of the largest in the world. But it is still not all pervasive. Only 25 percent of the population is covered under insurance. To cover this uncovered portion as well as strengthen the sector, FDI was much awaited. In the year 2015 again the insurance sector has increased the FDI limit from 26 to 49 percent. Amendments to the Insurance Laws have been approved by both the Houses of Parliament on March 12, 2015 and the Insurance Laws (Amendment) Act 2015 was finally notified by the Government. This has raised the

Foreign Direct Investment- FDI limit in the insurance sector from 26% to 49%.
There are two procedure to receive FDI by Indian company (a) Automatic Route FDI and (b)Government Route FDI. Earlier, up to 26 per cent FDI is permitted in insurance sector through the automatic approval route. Seeking to attract more foreign investment, the government has relaxed FDI norms for the insurance.

2. LITERATURE REVIEW :

Sabitha (2013) emphasized that FDI is considered to be the life blood and an important vehicle for economic development as far as the developing nations are concerned. Dr. Ashish Barua (2015) highlighted that the Indian insurance industry is, suffering with a phenomenon called as the silent growth and undergoing consolidation, needs a major push in the form higher investments immediately. One must understand that Insurance being a capital intensive industry, this provides enormous amount of opportunity for greater penetration as well as product innovation suiting the needs of a larger economy like India, only requirement is investment which is direly needed in this sector, which can push the economic development engine of the country. Insurance is not as pervasive in India as it should be, as only about 25 percent of the people have general insurance cover. Muthusamy and Ibrahim (2017), had an opinion that FDI's ability to deal with the major obstacles, namely shortages of financial resources and technology and skills, has made of the centre of attraction to developing countries. Sailaja and Hariharan (2017) emphasized that foreign playerwho had very rich experience in life insurance industry from developed countries.

3. RESERCH VARIABLES :

In the present paper, impact of FDI is measured using two variables: amount of FDI and number of insurance advisors. Description of variables and their acronyms have been shown in Table 1.

Table1: Description of variables

S.No.	Variables	Acronyms
1.	FDI Contribution	FDIC
2.	Life Insurance Advisor	LIA

4. OBJECTIVES :

Specific objectives of the study are
- To study the impact of FDI on selected life insurance companies.
- To determine cause and effect relationship between FDIC and LIA

5. RESEARCH METHODOLOGY :

Nature of research study: The present study is descriptive and analytical in nature.
Insurance companies selected for study: Among the private life insurance companies most of the companies have FDI in their capital structure. Hence, sample of 4 companies which has started their business in the first year of privatization, i.e.in 2000-01, has been selected for the study. Insurance companies like ICICI Prudential, HDFC Standard, Birla Sunlife, and Max life have been selected for the study.
Data collection: The present data is mainly based on secondary data. The secondary data was collected from various annual reports published by IRDA.
Period of the study: the present study covers the period for the financial year 2000-01 and 2015-16.
Statistical tools and techniques: To address research objectives ratio analysis has been applied.

6. RESEARCH HYPOTHESIS :

Frame work of study has been designed keeping in mind the approach of ratio analysis. Hypothesis of the study are as follows:
H0: There is no cause and effect relationship between FDIC and LIA
H1: There is a cause and effect relationship between FDIC and LIA

7. DATA ANALYSIS :

Table2. Table showing information about life insurance companies.

Particulars	2000-01	2014-15
No. of life insurance co.	5	24
No. of branch	2199	11033

offices		
Insurance penetration	-	2.6%
Equity capital(crores)	859	26244

Source: Various issues of IRDA Report

The above table shows the number of life insurance company, branches, insurance penetration in India and total equity capital in the life insurance industry. Above data shows that there is growth in all aspects over the years.

Table3: Table showing selected life insurance companies and their foreign partners

Selected life insurance company	Foreign partner
Birla Sunlife Insurance Co Ltd.	SunLife Financial(India) Insurance Investment Inc. Canada
HDFC Standard Life Insurance Co. Ltd.	Standard Life(Mauritius Holdings) 2006 Ltd U.K.
ICICI Prudential Life Insurance Co. Ltd.	Prudential Corporation Holdings Ltd. U.K.
Max Life Insurance Co. Ltd	Mitsui Sumitomo Insurance co. Ltd Japan

Source: Compiled data from IRDA Annual Reports

The above table shows the foreign partners of selected four companies.

Table4: Selected Insurance companies and their equity capital (Rs. In Crores)

Particulars	**2000-01**	**2014-15**
Birla Sunlife	150.00	1901.21
HDFC Standard	168.00	1994.88
ICICI Prudential	190.00	1431.72
MaxLife	250.00	1918.81

Source: Compiled data from various annual Reports published by IRDA

The above table shows the total capital of the selected four companies over two periods. Capital of these companies has increased tremendously. As the insurance sector is a capital intensive industry, has attracted a huge volume of capital over a short span of time.

Table5: Table showing contribution of equity capital by both foreign and Indian promoter (Rs. In Crores)

Particulars	**In 2000-01**		**In 2014-15**	
	By FDI	**By Indian promoter**	**By FDI**	**By Indian promoter**
Birla Sunlife	39.00	111.00	494.31	1406.90
HDFCStandard	31.25	136.75	518.67	1476.21
ICICI Prudential	49.40	140.6	370.78	1060.94
MaxLife	65.00	185.00	498.89	1419.92

Source: Compiled data from various Annual Reports published by IRDA

The above table shows the equity capital introduced by Indian promoter as well as foreign partner. FDI amount has been increased over the years. At the same time fund introduced by the Indian promoter also increased. This has a direct impact on number of advisors which is shown in the next table of the article.

Table 5: Selected insurance companies and number of agents over two different time periods

Particulars	**2002**	**2016**
Birla Sunlife	2009	77964
HDFC Life	3214	93598
ICICI Prudential	10861	132062
MaxLife	2620	51236

Source: Compiled data from IRDA website

The above table shows the number of advisors in the year 2002 and2015. As capital information for the year 2001 as well as 2015 is considered for the study, advisor information for the immediate next year is considered. Below table shows the ratio between FDIC and LIA.

Table 6: Table showing ratio between FDIC and LIA

Year	Birla Sun life	HDFC Life	ICICI Prudential	Max Life
2002	1: 51.5	1:102.85	1:219.86	1:40.3
2016	1:157.7	1:180.46	1:356.17	1:102.70

The above table shows the relationship between FDIC and LIA in four different companies. For every crore rupee invested as FDI total number of advisors in that particular company is compared. Table shows that in all the four company ratio has increased in 2016. It shows that alternative hypothesis is proved in the study. There is a cause and effect relationship between the two variables.

Impact of FDI on productivity of insurance companies:

In the study productivity is considered on the basis of number of branches, claim settlement and premium collected. The study shows that FDI has made a positive impact on premium collection, number of individual agents, number of branchesand claim settlement. All private insurers taken together always have more offices than LIC. Success of any insurance company depends upon claim settlement. Quick settlement of claim is possible because of FDI.FDI will help insurance companies to break-even faster.

8. FINDINGS :

- It is found that FDI inflow has increased the employment opportunity. There has been a consistent growth in the number of individual agents in all the four selected companies.
- There is a cause and effect relationship between FDI and life insurance advisors.
- Increased FDI also resulted in increased domestic capital flow in the selected insurance companies.

9. SUGGESTIONS :

- In the years Max Life has attracted a huge FDI, but the study shows that it has not attracted more agents towards company. It is the lowest among all the selected companies. If it attracts more agents, it can increase its premium collection also.
- ICICI Prudential is the company with highest number of advisors and shows the highest ratio between two variables.

10. CONCLUSION :

Federation of Indian Chamber of Commerce and Industry (FICCI) and the Boston Consulting Group (BCG) report titled 'India Insurance – Turning 10, Going on 20' reveals that the insurance industry will continue to outpace the rapid economic growth to reach US$ 350–400 billion in premium income by 2020, making India amongst the top three life insurance markets and top 15 non– life insurance markets by 2020. On the whole, we can conclude that FDI will enable the insurers to set up offices in the rural areas which will enable people to be familiar with insurance concepts, to get insurance literacy and to buy more insurance policies, healthy competition among the various insurance players and increased employment opportunity. There is no doubt that FDI is the lifeblood of economic development, hence it has to be welcomed to accelerate the performance of insurance companies.

11. LIMITATIONS OF THE STUDY AND SCOPE FOR FURTHER RESEARCH :

The present study is only based on the secondary data. No statistical tool has been applied. So the inferences drawn from the present study cannot be generalised. There is a vast scope for further study on the impact of FDI on insurance sector. Further study can be made on a)impact of FDI in all insurance companies b) a comparative analysis on FDI on private insurance companies and non FDI insurance company (LIC) c) country wise study of the impact of FDI on Insurance Sector.

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