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FDI HIKE IN INSURANCE SECTOR: A STUDY ON THE NEED AND SIGNIFICANCE FOR THE INDIAN ECONOMY

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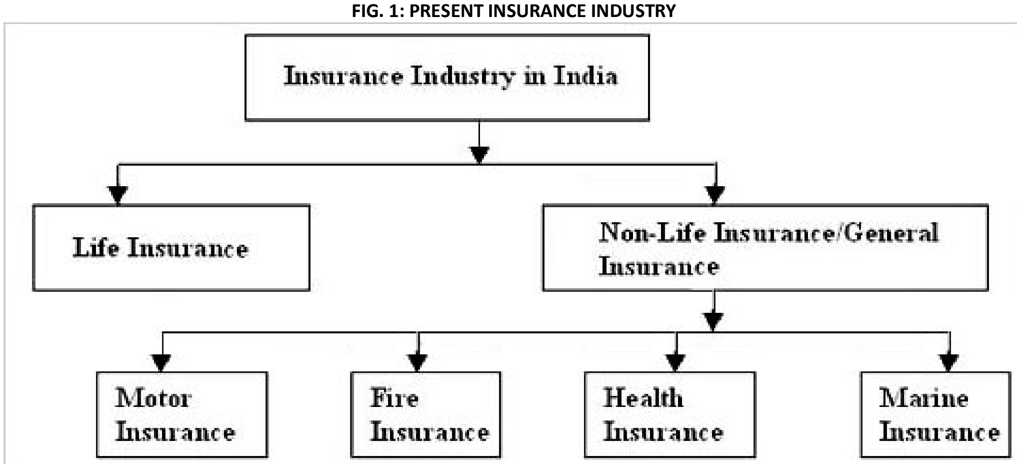
ABSTRACT

Our country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years. With the FDI in insurance been raised to 49%, our country still bears the tag of one of the least penetrated insurance market in the world. There is no doubt that the insurance sector needs capital. The projection of India's insurable interest to touch 750 million by 2020 and the savings through life insurance to reach 35% by 2020 signals growth for the industry. Despite being the biggest insurance industry in the world with 360 million policies still with so much of diverse policies available, the penetration is just 4% of the Indian economy. There is a strong need for the regulators to create a favorable environment for a competitive market through constructive engagement and effective consultation with industry, emphasizing on proper market conduct, good governance, customer centricity and efficient distribution. This article is an attempt to the present a picture of the insurance industry of the pre-reform period and also to capture the threats and opportunities after the raise in the FDI to 49%.

KEYWORDS
FDI, life insurance, penetration.

INTRODUCTION
THE BUSINESS OF INSURANCE
Insurance in India refers to the market for insurance in India which covers both the public and private sector organizations. It is listed in the Constitution of India in the Seventh Schedule as a Union List subject, meaning it can only be legislated by the Central government. The insurance sector has gone through a number of phases by allowing private companies to solicit insurance and also allowing foreign direct investment. India allowed private companies in insurance sector in 2000, setting a limit on FDI to 26%, which was increased to 49% in 2014.

AN ANALYSIS OF THE PRESENT INSURANCE INDUSTRY
FIG. 1: PRESENT INSURANCE INDUSTRY



The Indian insurance industry consists of 53 insurance companies. Out of these 53 companies 24 are in life insurance business and 29 are non-life insurers. Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers and one sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. Out of 29 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd.

FOREIGN DIRECT INVESTMENT (FDI)
Foreign Direct Investment is an attempt made by a company or individual in one country in business interests in another country, in the form of either establishing business operations or acquiring business assets in the country, such as ownership or controlling interest in a foreign company.

THE NEED AND SIGNIFICANCE OF FDI IN INSURANCE
The Insurance Law (Amendment Bill) was passed by the Parliament in the year 2015. It was first passed in LokSabha on 4 March 2015 and later in Rajya Sabha on 12 March 2015. The main objective was to bring in major improvements and revision related to the insurance business in India. The old FDI limit of 26% was raised to 49% with an expectation that this radical change will bring in at least 20000-25000 crore of short funds. There is a strong relation between foreign investments and economic growth. FDI in insurance can lead to better penetration of insurance in India.

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. The level of insurance penetration depends on a large number of factors like level of economic development of the country, the extent of the savings in financial instruments and the size and reach of the insurance sector. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). Penetration of insurance critically depends on the availability of insurance products and services. Huge untapped market, proliferation of schemes, new product innovations, perception of insurable risks of Indian consumers, competitive pressures arising from integration of bank and insurance, impact of information technology, and the role of insurance industry in financial services industry are some of the forces which shape the competitive structure of the insurance industry. A close look on the views and opinion of the eminent personalities of the Insurance Industry

Ashwin Parekh, the managing Director of eponymously named Advisory Services is of the view that the insurance sector needs capital. The general insurance sector needs it even more as their combined loss in 2013-14 was Rs 7,549 crore and that capital can only come from their overseas partners. For the additional capital, the companies need to do a valuation exercise for themselves. He also said that it is the process of price discovery.

Keki Mistry, CEO, HDFC and on the board of directors of HDFC Ergo is of the view that the company has the ability or the option and agreement to take the stake to 49 per cent based on the valuation which would be done by two independent values.

Varun Dua, CEO, Coverfox has said that the company is reasonably well funded but will start the fresh fund raise process within few months and has also talked existing investors as well as to some global funds

As per The Indian Express, the raise in the FDI Limit has made the life of some of the largest insurance companies difficult.

THE MARKET POTENTIAL

India's insurable population is expected to rise by 750 million by 2020, with the life expectancy reaching 74 years. The savings in the form of life insurance is expected to be 35% of the income against 26% by 2020. The other driver for the industry are explained with the diagram below

FIG. 2: THE MODEL SHOWS THE VARIOUS GROWTH DRIVERS FOR THE INDUSTRY

Growth of finance industry as a whole
- ✓ Increasing disposable income,
- ✓ Working population and awareness

Growth in the life as well as non-life insurance
- ✓ Strong need to invest for the security of self and family
- ✓ Consumer goods, automobiles, travel and facilities necessitates the need for cover

Promoting innovation and removing inefficiency
- ✓ Increasing universe of potential insurance takers
- ✓ Professionalization of the companies

Growth of specific insurance products
- ✓ Micro insurance, motor insurance health insurance

Competition and orderly growth
- ✓ Regulations which are conducive for growth and expansion
- ✓ Large number of providers

Though there are many drivers for the raise in the FDI limit for the insurance sector but the most significant one is the poor market penetration necessitating the need for liberalising the FDi limit. The table below shows the year wise penetration of the insurance industry.

TABLE 1

Year	Premium as a percentage of the GDP
2004-05	3.17
2005-06	3.14
2006-07	4.8
2007-08	4.7
2008-09	4.6
2009-10	5.2
2010-11	5.1
2011-12	4.1
2012-13	3.96
2013-14	3.9
2014-15	3.3

Source: Swiss Re's Sigma Study

ADAPTING TO THE NEW MEASURE

At least 12 insurance companies have sent their applications to the Foreign Investment Promotion Board (FIPB) to increase the stake held by their foreign partners. Bharti Enterprises became one of the first businesses to state that its overseas investor, AXA, would step up its equity investment in the life and general insurance companies to 49 per cent. Shortly afterwards, it applied to FIPB.

AXA increased its stake in Bharti AXA Life Insurance and Bharti AXA General Insurance to 49 per cent after receiving approvals from FIPB and the Insurance Regulatory and Development Authority of India (IRDAI) in the month of December. AXA's proposal to invest Rs 1,290 crore in Bharti AXA Life and General Insurance is approved by FIPB

FDI INFLOW IN INSURANCE

The table below presents a list of the insurance companies with additional funds and the stake of their partners.

TABLE 2

Insurer	Additional funds via FDI(crore)	Foreign partner stake(%)
AEGON Religare Life	560.00	23
Bharti AXA life	858.60	23
Bharti AXA General	431.40	23
Birla Sun Life Insurance	1664.00	23
Cholamandalam MS General Insurance	882.60	14
Edelweiss Tokio Life	540.00	23
HDFC ERGO	1122.00	22.90
HDFC Life	1705.00	9
ICICI Lombard	1550.00	9
ICICI Prudential lifeInsurance	1950.00	6
Max Bupa Health Insurance	191.00	23
Reliance Life Insurance	2265.00	23

Source: company statements

The table proves the contribution of the foreign institutions in the Indian Insurance Industry and also signals the further that increase in the FDI for insurance will help in better penetration and coverage of the market.

CONCLUSION

Insurance not only helps people hedge different kinds of risk but also acts as one of the important medium to channelize the savings of the people into different sectors with promising returns. FDI has always worked as life blood for the developing nations. India has the largest number of policies to offer and raising the FDI limit for the Insurance sector means welcoming benefits in terms of economic prosperity healthy competition and better market penetration and coverage.

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