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FDI inflows in Indian Insurance Sector –An Analysis

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Abstract:

Indian insurance sector is totally dominated by the Life Insurance Corporation, General Insurance Corporation and its subsidiaries. With the increased percentage of FDI in insurance sector, monopolistic business of LIC will be eliminated. It results in better customer services and help to improve the variety and price of insurance products. It speeds up the spread of life and general insurance. Because of FDIs, various private insurance companies are likely to benefit a lot. The economy will receive the benefits of increased FDI in long term. While the insurance industry still struggles to move out of the shadows cast by the challenges and uncertainties of the last few years, the strong fundamentals of the industry augur well for a roadmap to be drawn for sustainable long-term growth.

Key words: *milestone, monopoly, roadmap, Liberalization*

Introduction

A milestone was achieved when the nation decided to privatize the insurance industry along with requisite regulations. The industry functioned under a monopoly for several decades thereafter. However, other problems surfaced such as limited reach and penetration of enterprise and deteriorating servicing standards. 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 12 years. FDI in insurance remains a widely debated and heated issue in India's economic and political environment. Changes in the regulatory environment had path-breaking impact on the development of the industry. While the insurance industry still struggles to move out of the shadows cast by the challenges and uncertainties of the last few years, the strong fundamentals of the industry augur well for a roadmap to be drawn for sustainable long-term growth.

Insurance Industry in India – Overview

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a pre cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

Pre Liberalization Period

In 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life

Insurance Company in Calcutta. This Company however failed in 1834. And in 1870 saw the enactment of the British Insurance Act. This era, however, was dominated by foreign insurance offices which did good business in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Nationalized Period

In nationalized period an Ordinance was issued on 19th January, 1956 nationalizing 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. Due to new economic policy i.e., liberalization, privatization and globalization, the insurance sector was reopened to the private sector.

In 1993, the Malhotra Committee was constituted by the government for conducting a study on insurance, in its report in 1994 stated that only 22% of the Indian population are insured and recommended that the private sector be permitted to enter the insurance industry. On recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority was constituted as an autonomous body to regulate and develop the insurance industry.

Post Liberalization Period

The IRDA opened up the market in August 2000 with the invitation for application for registrations. The bill allows foreign equity stake in domestic private insurance companies to maximum of 26% of the total paid-up capital and seeks to provide statutory status to the insurance regulator.

Foreign companies were allowed ownership of up to 26%. In December 2000, the subsidiaries of the General Insurance Corporation of India were restructured as independent companies and at the same time GIC was converted into a national reinsurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are 45 private sector insurance companies.

Type of Business	No. of Public Sector Companies	No. of Private Sector Companies	Total Companies
Life Insurance	01	23	24
General Insurance	06	22	25
Re Insurance	01	0	1
Total	08	45	53

FDI in Insurance – A Historical Perspective

Insurance in India started without any regulations in the nineteenth century. After the independence, the Life Insurance Company was nationalized in 1956, and then the general insurance business was nationalized in 1972. The LIC had monopoly till the late 1990swhen the insurance sector was reopened to the private sector. In 1998 the cabinet decides to allow 40% foreign equity in private insurance companies and 26% to foreign companies and 14% to non-resident &investors (FIIs) but again in 1999 the committee decides that foreign equity in private insurance should be limited to 26%. In 1999, the Insurance Regulatory and Development Authority (IRDA) were constituted as an autonomous body to regulate and develop the insurance industry .Since end of 2000; While Life insurance has been privatized. Indian Government has opened the entry door for foreign players with a maximum of 26 per cent of foreign holding and private companies in Life insurance sector (World Bank Economic Review 2000).

At present there are 44 private insurance companies authorized by the Insurance Regulatory and Development Authority (IRDA) operating in the country. These comprise of 23 life insurance, 17 general insurance and 4 health insurance companies, since the insurance sector was opened for private sector in the year 2000. These are all joint ventures between the Indian promoters who hold up to 76% and foreign insurance companies who hold up to 26% as mandated by the law.

The government created a specific Board to deal with promotion of FDI in India and to be the sole agency to handle matters related to FDI. The 'Foreign Investment Promotion Board' (FIPB) as it is known, is chaired by the Secretary Industry (Department of Industrial Policy & Promotion or DIPP) within the office of the Prime Minister. Its key objectives are to promote FDI in India with investment promotion activities both domestically and internationally by facilitating investment in the country via international companies, NRIs (non-resident Indians) and other forms of foreign investors.

More Foreign Investments: Global insurers such as Britain's Prudential, which holds a minority stake in India's biggest private life insurer ICICI Prudential Life, will now be able to increase their stake. According to Minister of State For Finance Jayant Sinha, foreign capital to the tune of Rs.25,000 crore is likely to flow into the insurance sector. SBI's Arundhati Bhattacharya expects an "immediate" inflow of Rs.20,000 crore. According to Nomura, the passing of the insurance bill will result in higher FDI inflows, which should over time encourage a stable source for Financing The current account deficit.

Higher Penetration, Lower Premiums: Insurance penetration, or (ratio of premium to GDP), was 3.9 per cent in 2013, less than the world average of 6.3 per cent, according to Mr Sinha. Higher insurance penetration will help increase domestic savings, which can be used for infrastructure development. Higher foreign flows into the insurance sector will help incumbents to expand their presence in the country. More companies are likely to enter into the insurance sector as well, leading to higher competition and cheaper insurance premiums.

Listing of Insurance Companies: According to SOTP or sum-of-the-parts valuation done by domestic brokerage Motilal Oswal, the insurance business contributes 28 per cent to Reliance Capital's business, 10 per cent to Exide's business, 7 per cent to SBI's business, 9 per cent to ICICI Bank's and HDFC Bank's business. The passage of the insurance bill may pave the way for listing of many insurance firms. HDFC Life, a joint venture between HDFC and Britain's Standard Life Plc, could come with the biggest initial public offer of this year, analysts say.

INSURANCE STOCKS

BSE price in ₹

	Mar 11	Mar 12	% chg
Reliance Capital	441.70	489.95	10.92
Max India	462.80	488.20	5.49
Exide Ind	183.45	192.35	4.85
Bajaj Finserv	1,454.85	1,480.10	1.74
ICICI Bank	332.85	338.10	1.58
HDFC	1,322.25	1,332.95	0.81
SBI	285.14	287.20	0.72

Compiled by BS Research Bureau

SOME INSURERS PROMOTED BY PUBLIC SECTOR BANKS: LIKELY CANDIDATES FOR HIGHER FDI?

Insurer	Bank partners	Stake (in%)
Star Union Dai-ichi Life Insurance	Bank of India	48
	Union Bank	26
IndiaFirst Life Insurance	Bank of Baroda	44
	Andhra Bank	30
SBI Life Insurance	State Bank of India	74
IDBI Federal Life Insurance	IDBI Bank	48
	Federal Bank	26

Note: The foreign partner holds 26 per cent stake in all the above entities
Source: Companies

Conclusion

UNCTAD (United Nations Conference on Trade and Development) survey projected India as the second most important FDI destination (after China) for transnational corporations during 2010-2012. As per the data, the sectors that attracted higher inflows were services, telecommunication, construction activities and computer software and hardware. Mauritius, Singapore, US and UK were among the leading sources of FDI. Nine from ten largest companies investing in India (from April 2000 to January 2011) are based in Mauritius.

Though the FDI limit has been raised, the Insurance Bill says that the management control of insurance companies will be with the Indian companies only. It helps to increase the penetration of insurance business to the rural people. It also helps for job creation, development of other sectors and provides capital to the Government for long-term infrastructure projects. Till now, Indian insurance sector is totally dominated by the Life Insurance Corporation, General Insurance Corporation and its subsidiaries. With the increased percentage of FDI in insurance sector, monopolistic business of LIC will be eliminated. It results in better customer services and help to improve the variety and price of insurance products. It speeds up the spread of life and general insurance. Because of FDIs, various private insurance companies are likely to benefit a lot. The economy will receive the benefits of increased FDI in long term.

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