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An Economic Analysis of Foreign Direct Investment in Life Insurance Industry in India

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Abstract

Foreign Direct Investment is fund flow between the countries in the form of inflow or outflow by which one can able to gain some benefit from the investment whereas another can exploit the opportunity to enhance the productivity and find out better position through performance. In this research work, the researcher makes an attempt to study the impact and growth of FDI in life Insurance industry in India. Secondary data were used for the study, data collected from annual Reports published by IRDA 2001-02 to 2020-2021. The research work concluded that FDI made positive and competitive impact in life insurance industry in India.

Keywords: FDI, Life Insurance, Competition, India

Introduction

India is third most attractive FDI destination in world. India is no doubt a growth economy and many consider it an attractive country to invest in, particularly in its rapidly growing and changing insurance market. Indian insurance industry is one of the sunrise sectors with large growth potential. Due to growing demand for insurance, more and more insurance companies are emerging in Indian insurance sectors. Foreign direct investment plays an important role in the economic development of the country. This unprecedented growth of FDIin 1990 around the world make FDI an important and vital component of development strategy in both developed and developing nations and policies are design in order to stimulate inward flows. FDI provides a win- win situation to the host and home countries. Both countries are directly interested in inviting FDI, because they benefit a lot from such type of investment. The foreign Direct Investment (FDI) is released in the insurance industry, and despite many years of debate, the regulations are still not altered and there are still lots of restrictions.

Review of Literature

Singh and Gupta (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 (2013) revealed that the Press Council of India 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.

In recent central budget, government had decided to increase the Foreign Direct Investment limit from 49 percent to 74 percent. They thought that these reforms would make great impact on economy. This move is expecting to provide access to fresh capital to some insurers and benefit individual policyholders.

Statement of Problem

Increasing the FDI ceiling will make the Indian Insurance sector more vibrant and dynamic in the intermediate and long term. Increased competition coupled with wider variety of products will result into a healthy Industry. The growth of FDI in life insurance industry is dramatically innature. It is important to know how the growth of FDI in Life insurance industry on last 20 years with govt. policy implications. In this work researcher trying to analyzing the inflow of FDI in life insurance and its growth especially during the impact on Covid Pandemic.

Objectives

To analyses the growth of FDI in Life insurance industry in India

Research Methodology

Sample

The present study is based entirely on secondary data. It examines the growth rates of Foreign Direct Investment (FDI) in the life insurance industry in India over the period from 2001–02 to 2019–20.

Data Sources

The data for this research has been collected from reliable **secondary sources**, which include:

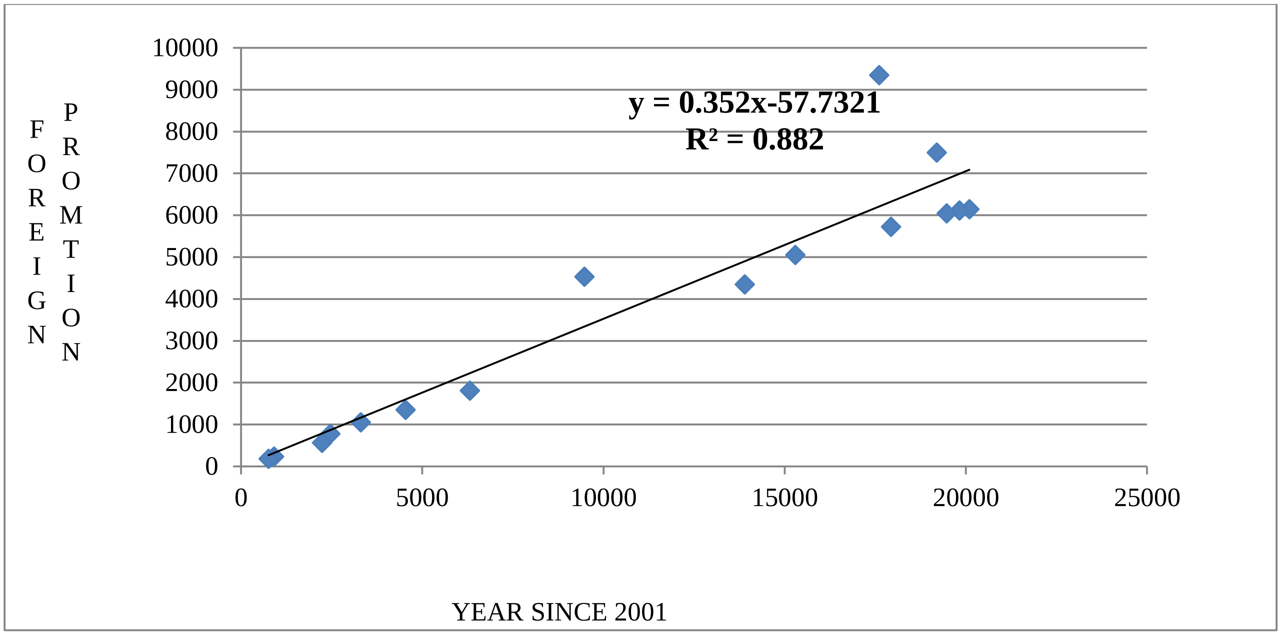
- Annual Reports published by the Insurance Regulatory and Development Authority (IRDA) from 2001–02 to 2019–20
- Academic journals and magazines relevant to the subject matter
- Newspapers and government publications addressing issues related to FDI and the insurance sector
- Other secondary sources such as:
- The Union Budget documents
- Resources available through UGC-Inflibnet and similar academic repositories

Analysis and findings

Relation between Indian Promotion and Foreign Promotion in Life Insurance

The Indian and Foreign promotions are the major determinants identifying the FDI growth in Indian Life Insurance Industry. It is necessary for the finding the significant relationship between Indian and foreign promotion for the FDI growth.

Liner Regressions between Indian Promotion and Foreign Promotion



Source: Computed by Researcher

The graph shows the linear regression model between Indian promotion and foreign promotion. The foreign promotion as a dependent variable, presented in vertical Y axis and Indian promotion as an independent variable, shows in a horizontal X axis, covering period from 2001-02 to 2019- 20

The below table 4.20 indicates the regression results of the Indian Promotion and Foreign promotion. The R-square and adjusted R-square of the model are 0.88 and 0.87 respectively more than 0.60.

Summary Outputs of Regression Statistics

Regression Statistics	
Multiple R	0.939194876
R Square	0.882087015
Adjusted R Square	0.873664659
Adjusted R Square	1043.887708

Adjusted R Square	16

Source: Computed by Researcher

ANOVA results of Relation between Indian Promotion and Foreign Promotion in Life Insurance

	Df	**SS**	**MS**	**F**	**Significance F**
Regression	1	114126210.7	114126210.7	104.7316221	7.01033E-08
Residual	14	15255821.66	1089701.547		
Total	15	129382032.3			

Source: Computed by Researcher

The above table describing the ANOVA results of the Indian Promotion and Foreign promotion. The F-Statistics is 104.73, the model are significant. The P-value is less than 1 percent of significant level.

Regression coefficients

	Coefficients	***Standard Error***	***t Stat***	***P-value***
Intercept	-57.73215739	458.5237729	-0.125908755	0.901594437
INDIAN PROMOTION	0.356216663	0.034807699	10.23384689	7.01033E-08

Source: Computed by Researcher

The table presents the regression results of the relationship between Indian promotion and foreign promotion. The Indian promotion increases by one unit holding other things constant then on the average foreign promotion increases by (0.35), and it influences statistically significant at 1 percent level.

FDI inflows are attractive in the beginning period of liberalization. The government liberalized the insurance industry in 2001. In initial stage the FDI growth was 19.5 in Indian Life insurance industry. FDI increased to 24 percent in 2004-05, and again increased to 28 percent in 2008-09. The amount of FDI inflows gradually reduced from the period of 2009-10. The FDI rate was 23.9 percent at that time. This is may be due to the global recession causes the declining economy growth and persistent high rate of inflation. Despite continuous efforts made by the government and IRDA, FDI inflow increased and reached in peak level at 34 percent in 2016-17. Currently it reached at 35 percent in 2019- 20.

Model Summary									
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.721[a]	.520	.485	.09714	.520	15.150	1	14	.002
a. Predictors: (Constant), Year									

The above table shows the regression analysis of Log-Lin model growth rate of FDI in Indian life insurance industry. The model depicts the moderate level of adjusted R-square, and model is significant at 1 percent level of significant. The model strongly agreed that the inflow of FDI will make growth in future.

Insurance companies weathered the crisis well and are now enjoying a strong rebound from the second quarter of 2020-2021 onward, thanks to aggressive steps to meet the changing needs and behaviors of customers. New business premiums have risen around 16% year-on-year (YOY) in the second quarter, mainly due to greater adoption of term plans as compared to unit-linked insurance plans (ULIPs). This was the result of a shift in customers' perception of life insurance as risk cover rather than an investment product. Due to the pandemic, many now consider insurance to be a necessary safeguard against unforeseen circumstances. So, while life insurance may still be some way from a pull product, it has definitely achieved the status of a nudge product.

Such changes in consumer mindset have reminded companies of the importance of customer centricity. Players have been quick to adapt and have introduced specific covers for pandemics, policies tailor-made to customer expectations and requirements, digital access to services, and enhanced claim settlement mechanisms.

Suggestions

- Pursue product innovation.
- Invest in digital access and mechanisms across the entire value chain.
- Ensure Agile teams and dynamic work processes.
- Reskill staff.
- Explore complementary and value-added services (e.g., hospital tie-ups, online consultations, pharmacy discounts).

Future Prospects

Increasing the FDI ceiling will make the Indian Insurance sector more vibrant and dynamic in the intermediate and long term. Increased competition coupled with wider variety of products will result into a healthy Industry. Insurance companies and other players have to gear-up and plan now to reap the future benefits The Indian insurance industry has always been an attractive market for global insurers to expand their business in the country, mainly due to demography profile and untapped business opportunities. This may help the insurer to expand their footprint to support Government’s objective of financial inclusion, through insurance inclusion in the country. However, there is a need that the Government should simplify the KYC norms and demand accounts to a single unit across all financial products, which will benefit the insurance inclusion in the country.

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