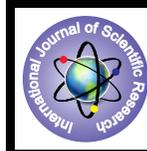


Fdi in Financial Services: Investors Perception and Investment Protection



Commerce

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ABSTRACT

Foreign direct investment (FDI) as a strategic component of investment is needed by India for achieving the economic reforms and maintains the pace of growth and development of the economy. The paces of FDI inflows in India initially were low due to regulatory policy framework but there is a sharp rise in investment flows from 2005 onwards because of the new policy has broadened. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. It can act as a catalyst for domestic industrial development. FDI entered in financial services such as insurance sector, banking private sector and public sector, foreign venture capital funds, pension funds, merchant banking etc. This study is concentrated on the current status of FDI in India and investors perception towards FDI.

INTRODUCTION

Foreign direct investment is one of the measures of growing economic globalization. Investment has always been an issue for the developing economies such as India. The world has been globalizing and all the countries are liberalizing their policies for welcoming investment from countries which are abundant in capital resources. The countries which are developed are focusing on new markets where there is availability of abundant labors, scope for products, and high profits are achieved. Therefore Foreign Direct Investment (FDI) has become a battle ground in the emerging markets. The objective behind allowing FDI is to complement and supplement domestic investment, for achieving a higher level of economic development and providing opportunities for technological up gradation, as well as access to global managerial skills and practices. Foreign Direct Investment (FDI) as an important driver of growth.

It is an important source of non debt financial resources for country for economic development. Besides it is a means of achieving technical knowhow and employment generation of employment. However, many are of the view that FDI is a big threat to sovereignty of host and domestic business houses. Faster exploitation of natural resources for profit may deprive host from such resources in long run. Midst of

debate on pros and cons of FDI, world economy has observed a phenomenal change in volume and pattern of FDI. There is clearly an intense global competition of FDI.

Definition of FDI

FDI stands for Foreign Direct Investment, a component of a country's national financial accounts. Foreign direct investment is investment of foreign assets into domestic structures, equipment, and organizations. FDI is defined as "an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity or a company based in one country, into a company or entity based in another country"

STATEMENT OF THE PROBLEM

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. India presents a vast potential for overseas investment and is actively encouraging the entrance of foreign players into the market. Now, FDI entered in financial services such as insurance sector, banking both private sector and public sector, foreign venture capital funds, pension funds, merchant banking etc. This study is concentrated on the current status of FDI in India and investors perception towards FDI.

SCOPE OF THE STUDY

The scope of the study is limited to Salaried employees in Kollam district having monthly income more than Rs50000 and minimum 10 yrs experience.

OBJECTIVES OF THE STUDY

To make an assessment of the current trend of FDI in India.

To assess investors perception and investors protection to avail in capital market

METHODOLOGY

The study is of descriptive in nature

Sampling:

The Salaried employees having monthly income more than 50000 and minimum 10 yrs experience are selected as the universe of the study. The respondents were selected on the basis of random sampling. The total sampling unit was 20.

Data collection:

Both primary data and secondary data are used for the study. The primary data was collected by using structured interview schedule. And secondary sources are from various books, journals, seminar reports, research articles, study reports of the expert committee and commission, working paper etc

FDI IN FINANCIAL SERVICES

FDI has helped Indian economy to grow, develop and attain financial stability globally. Foreign Direct Investment in India has helped India in overcoming many of the problems which our economy was suffering and in facing the global challenges from the global economy. Money from FDI has helped to boost those sectors of economy which needed financial motivation or boost. Indian stock market has always attracted the world's powerful and major investors to come and invest in Indian economy. India has always tried to promote the business environment which is healthy and favourable for foreign investors and provoked them to invest in our Indian economy. Presently, FDI is allowed to invest in financial services which include banking also along with financial sector which does not include banking services. Expanding markets of India from business point of view is attracting large number of foreign investors to put their money in Indian stock market. Indian government is supporting Foreign Direct Investment in India by giving liberty to foreign investors in trade policies. Government is also trying to loosen restrictions on foreign

investment which is a benefit for foreign investors and is giving them a golden opportunity to invest in Indian stock market. Technological development in India along with strong telecommunication networks is helping the foreign investors to reap benefits from Indian stock market.

Foreign investment in other financial services, other than those indicated below, would require prior approval of the Government

Assets Re-construction Companies: FDI is 49% of paid up capital of ARC and the entry route is through government.

Banking sector:

New bank (After august 2011) % of FDI 49%

Private sector banks: India is allowed up to 74% where FDI up to 49% is allowed through automatic route and FDI beyond 49% but up to 74% is allowed through government approval route.

Public sector banks: Limit for FDI in public sector banks in the case of nationalized banks as well as SBI and its associate banks, the overall statutory limit of 20% as FDI

Insurance Sector: FDI is 26% and the entry route is automatic.

Non- Banking finance companies (NBFC): FDI in NBFC IS 100%. Foreign investment in NBFC is allowed under the automatic route in only the following activities:

- Merchant Banking
- Under Writing
- Portfolio Management Services
- Investment Advisory Services
- Financial Consultancy
- Stock Broking
- Asset Management
- Venture Capital
- Custodian Services
- Factoring
- Credit Rating Agencies
- Leasing & Finance
- Housing Finance
- Forex Broking
- Credit Card Business
- Rural credit
- Micro credit

FDI IN INDIA

FDI in India has played an important role in the development of the Indian economy. India has continually sought to attract FDI from the world's major investors. FDI in India has in a lot of ways enabled India to achieve a certain degree of financial stability, growth and development. This money has allowed India to focus on the areas that needed a boost and economic attention, and address the various problems that continue to challenge the country. It is the intent and objective of the Government of India to attract and promote foreign direct investment in order to supplement domestic capital, technology and skills, for accelerated economic growth. The Government has put in place a policy framework on Foreign Direct Investment, which is transparent, predictable and easily comprehensible. This framework is embodied in the Circular on Consolidated FDI Policy, which may be updated every year, to capture and keep pace with the regulatory changes, effected in the interregnum. In 1998 and 1999, the Indian national government announced a number of reforms designed to encourage

and promote a favorable business environment for investors. FDIs are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal or mining industries. A number of projects have been implemented in areas such as electricity generation, distribution and transmission, as well as the development of roads and highways, with opportunities for foreign investors. Currently, FDI is allowed in financial services, including the growing credit card business. These also include the non-banking financial services sector.

DETERMINANTS OF FDI

Stable policies: India stable economic and socio policies have attracted investors across border.

Economic factors: Different economic factors encourage inward FDI. These include interest loans, tax breaks, grants, subsidies and the removal of restrictions and limitation

Cheap and skilled labour: There is abundant labour available in India in terms of skilled and unskilled human resources.

Basic infrastructure: India though is a developing country, it has developed special economic zone where there have focused to build required infrastructure such as roads, effective transportation and registered carrier departure worldwide, Information and communication network/technology, powers, financial institutions, and legal system and other basic amenities which are must for the success of the business. A sound legal system and modern infrastructure supporting an efficient distribution of goods and services in the host country

Unexplored market: In India there is large scope for the investors because there is a large section of markets have not explored or unutilized.

Availability of natural resources NEED FOR FDI

As India is a developing country, capital has been one of the scarce resources that are usually required for economic development. Capital is limited and there are many issues such as Health, poverty, employment, education, research and development, technology obsolescence, global competition. The flow of FDI in India from across the world will help in acquiring the funds at cheaper cost, better technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms. The following arguments are advanced in favor of foreign capital

Sustaining a high level of investment: As all the under-developed and the developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level of investment substantially. Due to poverty and low GDP the saving are low. Therefore there is a need to fill the gap between income and savings through foreign direct investments

Technological gap: In Indian scenario we need technical assistance from foreign source for provision of expert services, training of Indian personnel and educational, research and training institutions in the industry. It only comes through private foreign investment or foreign collaborations

Exploitation of natural resources: in India we have abundant natural resources such as coal, iron and steel but to

extract the resources we require foreign collaboration

Improvement in balance of payment position: The inflow FDI will help in improving the balance of payment. Firms which feel that the goods produced in India will have a low cost, will produce the goods and export the same to other country. This helps in increasing the exports

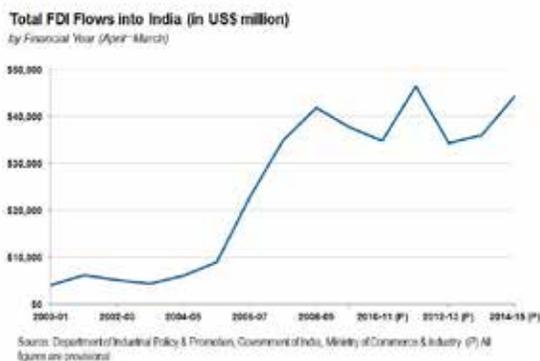
Increase the competition: Foreign firms have always come up with better technology, process, and innovations comparing with the domestic firms. They develop a completion in which the domestic firms will perform better it survive in the market

**Status of FDI in India
FDI FLOWS INTO INDIA**

Financial Year (April-March)	FDI FLOWS INTO INDIA	
	Total FDI Flows	Percentage growth over previous year (in US\$ terms)
2000-01	4,029	-
2001-02	6,130	(+) 52 %
2002-03	5,035	(-) 18 %
2003-04	4,322	(-) 14 %
2004-05	6,051	(+) 40 %
2005-06	8,961	(+) 48 %
2006-07	22,826	(+) 155 %
2007-08	34,843	(+) 53 %
2008-09	41,873	(+) 20 %
2009-10	37,745	(-) 10 %
2010-11 (P)	34,847	(-) 08 %
2011-12 (P)	46,556	(+) 34 %
2012-13 (P)	34,298	(-) 26%
2013-14 (P)	36,046	(+) 5%
2014-15 (P)	44,291	(+) 23%
2015-16 (P) (Apr - June 2015)	12,362	-

Source: RBI's Bulletin July, 2015 dt.10.08.2015 (Table No. 34 – FOREIGN INVESTMENT INFLOWS)

Foreign Direct Investment (FDI) Flows into India



Foreign direct investment (FDI), which dictates the percentage of an Indian company that can be owned by non-Indian investors, is another important factor to consider when

looking at India's resilience, particularly in up-and-coming areas such as the railway industry, defence and insurance. In July of this year, India's Prime Minister Narendra Modi helped spur the Indian government to nearly double the foreign investment limit in insurance companies to 49% from 26%.

FDI inflows hit a record high in 2015 – gross inflows were up 22.25% the previous fiscal year – while foreign portfolio investor ownership of Indian stocks hit an all-time high, which we see as a sign that Modi's reforms are headed in the right direction.

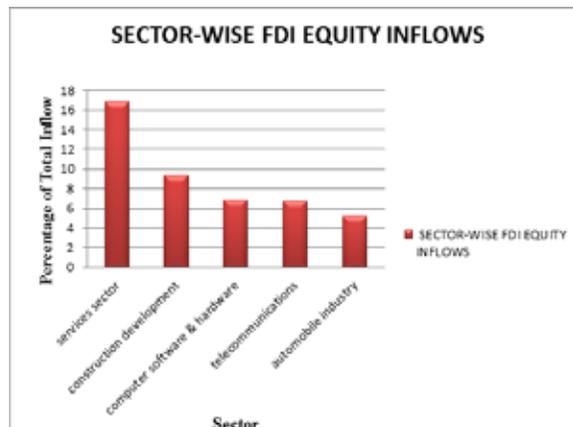
While recent global volatility has sparked some FDI outflows, India's macroeconomic adjustments in the past 18-24 months have helped rebalance domestic savings. As a part of overall household savings, there has been an increased allocation to financial investments in India, particularly in the equity markets. As a result, inflows into domestic equity funds have picked up strongly, offsetting recent outflows from foreign investors.

While investments in equities have increased, currently only 2.3% of domestic household savings in India are invested in equities. So, we think more favorable regulations for investors, along with good demographics, a supportive growth environment and better investor education, could result in a strong increase in domestic investment flows into Indian equities in the medium to long run. This, in turn, could not only support the domestic equity asset class but also reduce the correlation of Indian stock markets to global markets, potentially helping to contain volatility.

STATEMENT ON COUNTRY-WISE FDI EQUITY INFLOWS FROM APRIL 2000 TO JUNE 2015

Rank	Country	Amount of Foreign Direct Investment Inflows (In Rscore)	Percentage with Inflows
1	Mauritius	438,892.83	34.74
2	Singapore	190,477.19	13.90
3	United Kingdom	110,409.19	8.65
4	Japan	96,312.05	7.29
5	Netherlands	81,381.00	5.94
6	U.S.A	70,838.85	5.57
7	Germany	42,006.79	3.18
8	Cyprus	39,971.34	3.15
9	France	23,464.77	1.80
10	Switzerland	15,812.31	1.22

Sector wise distribution of FDI inflows:



RESULTS AND DISCUSSIONS:

Ranking of investment schemes on the basis of respondent's preference:

While consider the preference of the college teachers in different schemes such as Shares in stock exchange, IPO, Gold, Bonds and debentures, Life Insurance, Real estate, Provident fund, Bank deposits, Mutual funds, Chitties and private money lenders, majority of them give 1st rank to Bank deposits and 2nd rank to PF, then to gold, real estate etc. And least ranks are given to Shares in Stock exchange, Mutual funds, IPO, and Chitties and Private money lenders.

Interpretation:

Most of them prefer to regular return and safety for their investment and they are not interested to take high risk by investing in stock market

Nature of annual investment in amount:

Most of the respondents invest an average amount of Rs 200000 in bank, Rs 35000 in Gold and RS5000 in stock market.

Whether Indian Capital market is protected.

Majority (95%) of them have the opinion that Indian capital market is moderately protected. And 5% of them have the opinion that Indian capital market is not protected.

Interpretation:

Most of them have the opinion that SEBI has taken necessary steps to protect our capital market. But still there are lot of stock market clashes which will made the respondents reluctant to invest in the Indian Stock market.

FDI will influence capital market

Most of them (75%) of them considered the influence of FDI as an opportunity rather than a threat. But 10% of them considered it was a threat to the Indian capital market.

Interpretation:

Foreign Direct Investment (FDI) as a strategic component of investment is needed by India for its sustained economic growth and development through creation of jobs, expansion of existing manufacturing industries, short and long term project in the field of healthcare, education, research and development (R & D) etc. So majority of them considered it as an opportunity. But in recent period FII impacted the economy in adverse way. It is observed that FII affected on Indian stock market & value of rupee against us \$.

Recommendations:

Government should design the FDI policy such a way where FDI inflow can be utilized as means of enhancing domestic production, savings and exports through the equitable distribution among states by providing much freedom to states, so that they can attract FDI inflows at their own level.

CONCLUSION:

FDI plays an important role in the development process of a country. It has potential for making a contribution to the development through the transfer of financial resources, technology and innovative and improved management techniques along with raising productivity. Developing countries like India need substantial foreign inflows to achieve the required investment to accelerate economic growth and development. It can act as a catalyst for domestic industrial development. Further, it helps in speeding

up economic activity and brings with it other scarce productive factors such as technical knowhow and managerial experience, which are equally essential or economic development.

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