ORIGINAL RESEARCH PAPER

Commerce

ROLE OF FOREIGN DIRECT INVESTMENT IN INSURANCE FOR THE REVIVAL OF INDIAN ECONOMY

KEY WORDS: Foreign Direct Investment (FDI), Insurance, Technology, Market, Financial capital, GDP, Economy.

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ABSTRACT

The growth story of India has a direct correlation with the emerging insurance industry. Despite so many hurdles in the economy, the insurance industry became an attractive spot for the foreign insurance players, as Foreign Direct Investment (FDI) has been increased from 49% to 74% in budget 2021. There will be a positive growth for the insurance sector and as well as it will help in the revival of the economy. Due to COVID 19 situation, the GDP fell down drastically but Insurance sector somehow manage to survive in the competitive market. The FDI will lead to generate more funds from overseas companies to develop infrastructure of the economy. Indian insurance industry is still not yet developed to its fullest; there is ample scope for developing this sector. Foreign Direct Investment plays an important role in the economic development of the country by making more employment opportunities and integrating the various resources. The Indian government helps in integrating global funds by lowering trade barriers for the free flow and exchange of innovative technology, intellectual capital and financial capital. The insurance density and insurance penetration is still very low in respect to population of India. The FDI will help in meeting out large untapped insurance market and creating an environment for generating long term contractual funds for infrastructural investments, which will help in the revival of the economy.

INTRODUCTION

With the emergence of FDI in Insurance sector, there is a wide scope of investment for foreign investors. FDI plays an important role in the overall development of an economy. The insurance sector contributes 4.2% in the GDP of India during FY 2021. The overall growth of global FDI around the world make FDI an important and vital component of development strategy in both developed and developing nations. The foremost objective of any FDI policies are to stimulate maximum inward flows from different nations. With more and more inflows of FDI from different nations, it provides a strong position to the host and the home countries as well. It will help in overall economic development of the two countries. The receiving countries want to take the advantage of the unexplored markets with the help of host innovative technology and managerial skills. It will help in supplement domestic savings and balancing foreign exchanges between the countries. There is a positive correlation between growth of insurance sector and the amount of Foreign Direct Investment. The emergence of global players in insurance sector has changed the financial markets drastically and this paves way to the explosive growth of FDI around the globe.

An Overall View

There is a historical background of FDI in India that can be traced back during the emergence of British period. The British came to India with lots of capital to invest during the colonial era. The majority of amount of FDI came from the British companies to enhance their trade with India. The objective of FDI policy which aims as a medium for acquiring advanced technology and mobilizing foreign exchange resources. With the passage of time, there have been changes in the FDI policy with respect to changes in economic and political regimes. The industrial policies aimed to venture with MNC's and allowed technical collaboration with India. However, there was a severe crisis in the form of foreign exchange and financial resource mobilization during the second and third five-year plans. Therefore, the government allowed more frequent equity participation from foreign enterprises, and to accept equity capital in technical collaborations. The government also promotes foreign investments many incentives in order to further boost inflows in the country. The government initially setup Foreign Investment Board and enacted Foreign Exchange Regulation Act in order to regulate flow of foreign capital and FDI flow to India. It was during this period the FDI inflow was gradually increasing in India. This economic reforms results in the partial liberalization and privatization of the Indian Economy.

There was a mismatch of inflow and outflow of foreign currency which gave a further jolt to Indian economy. The overall Balance of Payment reached in negative figures while the inflation reached at its highest level. It further impact on the Foreign reserves of the country. The continued Indian political instability during this period adds further to worsen the situation. These crises further led to fell in India's credit rating in the international market for both short- term and long- term borrowing. The Indian Government took a historical decision at this critical stage of Indian economy by introducing the macro–economic stabilization and structural adjustment program. As a result of these reforms introduced by the then Finance Minister, Dr. Manmohan Singh, India open its door to FDI inflows and adopted a more liberal foreign policy in order to restore the confidence of foreign investors. Further, under the new foreign investment policy Government of India constituted FIPB (Foreign Investment Promotion Board) whose main function was to invite and facilitate foreign investment through single window system from the Prime Minister's Office. The foreign investment cap was raised to 51 percent for the existing companies. Government had allowed the use of foreign brand names for domestically produced products which was restricted earlier. India also became the member of MIGA (Multilateral Investment Guarantee Agency) for protection of foreign investments. Government lifted restrictions on the operations of MNCs by revising the FERA Act 1973. New sectors such as mining, banking, telecommunications, highway construction and management were open to foreign investors as well as to private sector. Despite the setback caused by the COVID-19 pandemic, India's large market will continue to attract market-seeking investments. Increasing inflows of foreign investments will boost the domestic economy. Whether the gains from such investments will be distributed evenly across the country is worth examining. Wide variations in FDI inflows across the states will result in an unbalanced growth and can worsen inequality. Policymakers need to focus on ensuring balanced regional growth across the country, and improving the inflow of FDI to the regions. Lack of state-wise data on FDI in India is a major impediment to objective policymaking. Although the Department of Industry and Internal Trade (DPIIT) has published state-wise FDI values for the period October 2019 to March 2020, constructive policies will require understanding historical trends in regional FDI in India. For this purpose, the authors of this report have analyzed state-wise FDI inflows over the period 2005-06 to 2018-19, using a newly created database of state-

wise FDI.

Objectives

1. To identify the determinants of FDI which helps in the revival of Indian Economy.
2. To explore the current and future trends relating to FDI policy and regulations in India.
3. To understand the FDI policies in Indian Insurance sector.

Research Methodology

This present research is a descriptive study in nature and secondary data were collected from various journals, magazines, and websites particularly from the Department of Industrial Policy & Promotion, Ministry of Commerce and Industry, IBEF, IRDAI, Statista etc. The study is based on the time period from 2016-2021. Simple percentages with graphs and tables have also been used where ever required to depict statistical data of FDI and Insurance sector during the study period.

India's GDP

Mainly as a result of economic reforms initiated in 1991, long term trend rate of growth rate increased from 3.6% during the 1950-1970s, to 5.2% in the 1980s, 6.1% in the 1990s, and to more than 9% during from 2005-2007 (Asian Development Bank). "The growth rate of India declined to -6.6% during pandemic but is on track now to regain its 8-9% growth by the next fiscal year," according to recent projections released by the Finance Ministry and IMF. The pre economic reforms era of India was terrible because of foreign investors were not allowed to invest. With the increase in FDI's there has been lot of growth in sectors such as Retail sector, IT sector, banking and financial sector, Insurance, education sector etc.

Financial Year	GDP in %
2017	8.26
2018	6.80
2019	6.45
2020	3.74
2021	(-)6.60

Source-India Briefing News

FDI in India

With the change in the FDI policy there has been a drastic increase in foreign currency inflow, accompanied by a marked change in the investment attitude towards India. FDI flows have grown in importance with the changing forms of international capital flows and thus resulting in increase of world output. There has been change in the attitude towards foreign investment, now treated as an opportunity not as a fear of losing domestic resources. Foreign direct investment (FDI) in India has played an important role in the overall development of the Indian economy after 1991 era. FDI in India has helped in achieving a certain degree of financial independency, stability, growth and development.

This capital inflow in the form of FDI helped India to focus on the areas that may have needed economic attention and address various problems that continue to challenge the country. The factors that attracted investment in India are stable government, vibrant economic policies, availability of cheap and quality human resources, and opportunities of new unexplored markets. Mostly FDI are flowing in service sectors such as Insurance, Education, Telecommunication and manufacturing sector recorded very low investments. The investments in service sector is enhancing the flow of funds to the home country. Presently India is contributing about 18% of world total population but the share of GDP to world GDP is 3.28%. India jumped one notch up to attain the seventh position among top recipients of foreign direct investment (FDI) in calendar year 2021 even as flows shrank to $45 billion from $64 billion in 2020, according to the United Nations Conference on Trade and Development (UNCTAD).

According to the fact sheet on foreign direct investment dated March 2021, Mauritius is the highest FDI investment in equity inflows with 28% of the total inflow followed by Singapore, USA, and Netherlands and UK with 22%, 8%, 7% and 6% respectively. Service sector is the highest FDI attracting inflows with 16% of the total inflows, followed by computer software and hardware, telecommunication and trading with 13%, 7%, 7% and 6% inflows respectively. The states/UTs attracting highest FDI equities inflow as on March 2021was Gujrat 30%, Maharashtra 28%, Karnataka 14%, Delhi 11% and Tamil Nadu 4% respectively.

Determinants of FDI

The determinant of FDI varies from one country to another due to its application according to the characteristics and opportunities for the potential investors. Following are the specific determinants of FDI for India:

1. Stability:

The stability of India's economic and socio policies have attracted investors from the globe. Every investor prefers those countries which are economically and politically stable. There is a direct correlation between the government decision and its impact on the business. The business responds positively if the change of policy is not against the investor and vice versa.

2. Economic and Political Factors:

The economic and political factors encourage inward FDI by lowering interest loans, changing tax breaks, disbursing grants, government policies, subsidies and the removal of certain restrictions and limitation. The government of India has given many tax holiday, exemption and subsidies to the foreign investors to invest who would help in developing the economy in many ways.

3. Cheap and Skilled Human Resources:

There is abundant human resources as a labor available in India in terms of skilled and unskilled. The Foreign investors will try to take advantage of the difference in the cost of labor as we have cheap and skilled human resources. E.g., Various foreign firms like Genpect, Accenture etc. have invested in BPO's in India which require skilled labor and we have been providing the same.

4. Infrastructure:

India is a developing country but it has developed Special Economic Zone (SEZ) where there have focused to build required basic infrastructure such as roads, effective transportation and warehousing. The use of Information Technology and digital communication network/technology, financial institutions, legal system and other basic amenities which are must for the success of the business. A sound and updated legal system, proper tax structure and modern infrastructure supporting an efficient distribution of goods and services attracts the investors in the host country.

5. Market Opportunity:

There is a vast opportunity in India for the investors because there is a large section of markets have not been explored or unutilized. There is a potential customer market categorized with middle and low income group who would be target group for new markets for any investors in India. E.g., different BPO exploring the Indian markets where the service was provided with almost customer satisfaction.

6. Exploring Natural Resources:

India has a large volume of natural resources such as Coal, Iron ore, Natural gas etc. and can be utilized in attracting foreign investors. The abundant natural resources which are available can be used in production process or for extraction of mines by the foreign investors.

Need for FDI in India

India is a developing country with potential growth in terms of human capital, natural resources etc. It is one of the scare resources that are usually required for overall economic development of the economy. Capital and natural resources are limited in nature and there are many issues to conserve these resources such as Health, poverty, employment, education, research and development, technology obsolesce, global competition etc. The flow of FDI in India from across the globe will help in acquiring the funds at cheaper cost, modern and innovative technology, employment generation, and upgraded technology transfer, scope for more trade, linkages and spillovers to domestic firms. The following arguments can be taken into favor of Foreign Direct Investment.

a. Demand for Investment:
The developed and the developing countries want to industrialize and develop themselves, therefore it becomes necessary to raise the level of demand for investment substantially. There is a need to fill the gap due to poverty, low GDP growth and inequality between income and savings through foreign direct investments.

b. Technological Change:
The technology is changing in nature and we need update in the form of technical expert assistance from foreign source, training of Indian personnel and educational, research and training institutions in the industry. It is only possible through Foreign Direct Investment in concerned sectors or foreign collaborations.

d. Understanding the risk factor:
Risk is one of the deciding factors in developing countries, as capital is a scare resource, the risk of investments in new ventures or projects for industrialization is high. Therefore, foreign capital may play an important role in helping these investments which require high risk.

f. Positive Balance of payments position:
The inflow FDI and outflow of foreign capital will help in improving the balance of payment. The firms which feel that the goods produced in India will invest in India because of low cost and labor, will produce the goods and export the same to other country. This will help in boosting the exports of the country while minimizing the import at the same time.

g. Increasing the competition in the market:
The Foreign firms are having better and innovative technology, process, comparing with the domestic firms. They develop a completion in the market for which the domestic firms will have to perform better to survive in the market.

Meaning of Insurance
There are numerous risks in every field of life at any point of time. It is something commonly accepted phenomenon which may causes losses because these may or may not take place. Therefore, to combat the situation, people having common risks come together and make their small contributions in the common fund to face these uncertainties. Due to uncertainty in nature, it may not be possible to tell in advance, which person will suffer the losses, it is possible to divide the losses of one with the other persons. In this way one person shares the risks of each other by meeting the losses from common fund. In fact, they share the financial losses by payment of premium, which is calculated on the risks and likelihood of losses.

Insurance Sector in India
In India, insurance business started 150 years ago. With the establishment of the Oriental Life insurance company in Calcutta, the business of life insurance in India was started in 1818. It was started by Mr. Bipin Behari Dasgupta and Europeans living in India were their primary customers. The first native insurance provider in India was formed in 1870 with the name Bombay Mutual Life Assurance Society. In 1938, Insurance Act was passed and department of insurance under the authority of superintendent of Insurance was established for the administration of the Insurance Act. LIC of India was formed in 1956 by an Act of parliament and is fully owned by Government of India. As on till date there are total 57 insurance companies out of this 24 are Life Insurance Companies and 33 are Non- Life Insurance Companies. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. The life insurance policies are legal contract between the policy holder and the insurer with terms and conditions written in the document. The insured has to pay a nominal amount called as premium and on other hand insurer has to pay certain sum of money on the occurrence of the insured in the case of death or maturity of the policy. The policy holder will receive whatever amount he has deposited in the form of premium plus bonus on it at the time of maturity. Following is the chart shows the various types of insurance:

There are mainly two objectives for buying Life insurance, first is for risk coverage and second is for the investment objective.

i) Risk coverage: A lump sum amount is provided if specific event occurred to the insured.
ii) Investment: The amount of premium is invested in the market with a motive of getting greater return.

In the modern world, Insurance occupies an important role in mitigating risk and increasing complexity in the economic system which can be insured. Various types of insurance evolved with the changing time and demand of system to cope up the situations. In India there are mainly two broad types of Insurance: Life Insurance and Non-Life Insurance. Those insurance not fall under life insurance and general insurance comes under the Miscellaneous insurance.

Guidelines for FDI in Indian Insurance Market
The Insurance Laws (Amendment) Act 2015 introduced some much awaited reforms, including, increasing the foreign investment cap in the insurance sector to 49 percent, permitting overseas reinsurers to open branch offices to carry out reinsurance business in India, etc. The Insurance Laws (Amendment) Act, 2015 also provides for "Indian Owned and controlled" requirement for an Indian Insurance Company. The Insurance Laws (Amendment) Act, 2015 defines Indian insurance company under Section 2(7A) as under: "Indian insurance company" means any insurer, being a company which is limited by shares, and, (a) Which is formed and registered under the companies Act, 2013 as a public company or is converted into such a company within one year of the commencement of Insurance Laws (Amendment) Act, 2015 (b) In which the aggregate holdings of equity shares by foreign investors, including portfolio investors, do not exceed forty-nine per cent of the paid up equity capital of such Indian insurance company, which is Indian owned and controlled, in such manner as may be prescribed. Explanation – For the purpose of this sub clause, the expression "control" shall include the right to appoint a

majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholder's agreement or voting agreements (c) Whose sole purpose is to carry on life insurance business or general insurance business or reinsurance business or health insurance business. In exercise of the powers conferred by clause (aaa) of subsection (2) of section 114 of the Insurance Act, 1938 read with clause (b) of subsection (7A) of section 2 of the Insurance Act, 1938 and section 24 of the Insurance Regulatory and Development World Scientific News 47(2) (2016) 190-201- 196- Authority Act, 1999 (41 of 1999), the Central Government has notified the Indian Insurance Companies (Foreign Investment) Rules, 2015. These Rules mainly govern Indian control of Indian Insurance Company, Indian ownership and issues relating to foreign investment. The definition of "Indian ownership" has since been amended by Indian Insurance Companies (Foreign Investment) Amendment Rules, 2015.

As per the above definition, control can be exercised by the virtue of

(a) Shareholding; (or)
(b) Management rights; (or)
(c) Shareholders agreements; (or)
(d) Voting agreements; or
(e) Any other manner as per applicable laws.

In order to bring more clarity on the issue of compliance with the manner of "Indian owned and controlled", the Authority, in exercise of powers conferred under Section 14 (1) of the IRDA Act 1999, lays down the following guidelines on compliance of "Indian owned and controlled".

1. Applicability

These guidelines are applicable to Indian Insurance Companies which

a) May come into existence after notification of the Act;
b) May propose to hike their foreign investment from the existing level; and
c) Do not intend to increase their current foreign stake from the existing level.

2. Total foreign investment

Both direct and indirect holding in an Indian insurance company shall not exceed 49 percent. Total foreign investment shall be computed in accordance with Rule 2 (P) read with Regulation 11 of the IRDAI (Registration of Indian Insurance Companies) Regulations, 2000.

3. Control

Control can be exercised by any one or more of the following criteria:

(a) Virtue of shareholding; (or)
(b) Management rights; (or)
(c) Shareholders agreements; (or)
(d) Voting agreements; (or)
(e) Any other manner as per the applicable laws.

4. Indian Control

The Indian insurance company shall ensure the following:

i. Majority of the directors excluding independent directors should be nominated by the Indian promoter (s) / Indian investor (s);

ii. Appointment of key management person including Chief Executive Officer / Managing Director /Principal officer should be through the Board of Directors or by the Indian promoter (s) and / or Indian investor (s); However, Key Management Person (s) excluding CEO may be nominated by the foreign investor provided that the appointment of such Key Management person is approved by the Board of Directors, World Scientific News 47(2) (2016) 190-201 -197- wherein majority of the directors excluding independent directors are the nominees of Indian promoter (s) / Indian investor (s).

iii. The control over significant policies of the insurance company should be exercised by the Board, provided that the constitution of the Board is compliant with para (I) above.

iv. Where the Chairman of the Board is having a casting vote, such Chairman should be nominated by the Indian promoter (s) and / or Indian investor (s);

v. Quorum: Quorum shall mean and include presence of majority of the Indian directors irrespective of whether a foreign investor's nominee is present or not. The right of a Foreign Investor's nominee to constitute valid quorum for meetings is only a protective right and to that extent would not amount to control within the meaning of Explanation to Clause (7A) (b) as long as the presence of nominees of Indian Promoter (s) / Investor (s) are also mandatorily taken into account for the purposes of quorum. (Provided that provisions of Companies Act, 2013 shall come into force in case of an adjournment.)

5. Manner of ensuring compliance of "Indian Owned and Controlled"

i. An undertaking to this effect shall be filed by all Indian Insurance Companies duly signed by the Chief Executive Officer and Chief Compliance Officer confirming the compliance of "Indian owned and controlled".

ii. Every undertaking shall be accompanied by:

a) A certified copy of resolution passed by the Board of Directors confirming the compliance of "Indian owned and controlled";

b) Where applicable, certified copy of the agreement / Joint venture agreement where amendments have been carried out to these agreements / joint ventures agreement to give effect the provisions of "Indian owned and controlled".

6. Insurance Intermediaries

These guidelines are also applicable to Insurance Intermediaries as defined in the IRDA Act, 1999 such as Brokers, Third Party Administrators, Surveyors and Loss Assessors etc. However, in case of an insurance intermediary having more than 50 percent of its revenue from the noninsurance activities, these guidelines shall not be applicable to such insurance intermediaries.

7. Time Limit for Compliance

i. Compliance by Existing Indian insurance companies: Existing Indian insurance companies stated at para 1 (b) and (c) above are required to comply with "Indian Owned and controlled" guidelines within a period of three months from the date of issue of these guidelines. However, the Authority may, on an application made to it by an existing insurer, for valid reasons, grant a further period of three months to comply, provided that the total time taken by an existing insurer to comply with "Indian owned and controlled" stipulations does not extend beyond six months.

Benefits of Increase in Foreign Direct Investment in Insurance Sector of India

a. Increase in market oriented and innovative insurance products and services in India.
b. Develop a better competitive insurance market.
c. Better use of innovative technology in the insurance market brought by foreign partner.
d. Marginal increase in insurance penetration and density in India.
e. Generation of opportunities of employment in the insurance market.

Impact of FDI in Insurance on Indian Economy

FDI have helped India to attain a financial and economic stability with higher growth in terms of investments in different sectors. FDI has certainly boosted the economic life of India with huge capital flows and on the other hand there are critics who have blamed the government for ousting the domestic inflows. After liberalization of Insurance in year 2000 in India, there has been a positive GDP growth rate in Indian economy. Foreign direct investments directly and indirectly help in developing the economy by generating employment to the unemployed, generating revenues in the form of direct and indirect taxes, financial stability to the government, development of infrastructure, backward and forward linkages to the domestic firms for the requirements of raw materials, tools, business infrastructure, and act as support for overall financial system.

Insurance is considered a sensitive in service sector as it holds the long-term money of people. India first opened up the insurance sector in the year 2000 under the Atal Bihari Vajpayee government when it allowed private sector firms to set up insurance companies and allowed FDI of 26 per cent. After that, for a long time, there were demands from the industry to further increase this cap to 49 per cent. During the Congress-led United Progressive Alliance government, then finance minister P. Chidambaram proposed raising the cap to 49 per cent. However, the proposal was dropped after it was opposed by political parties including the BJP. The cap was eventually raised to 49 per cent in 2015 by the Narendra Modi government in its first term. The current FDI limit is an enabling amendment that gives companies access to foreign capital for the purpose of reaching out maximum potential customers. It is an important shift in regulation as the increase in the FDI cap to 49% means insurance companies can now be foreign-owned and controlled in India as against the current situation wherein they are only Indian-owned and controlled. This will further give a foreign company independency and the right to appoint a majority of directors, control the management and the policy decisions taken. The move is expected to increase India's insurance penetration or premiums as a percentage of GDP, which is currently 4.2 per cent, as against a global average of more than 7.3 per cent.

CONCLUSION

There is a direct impact of FDI and its optimistic move for the future of Indian Insurance Sector, since this sector need huge amount of capital investment which can be done effectively only through increase in FDI. The Insurance companies are in hesitation to take positive steps towards FDI because of the fear of dominance about the foreign players in decision making. There is positive impact of FDI in insurance sector and thus by improving the Insurance penetration and density of India. There are numerous benefits of FDI including innovative insurance product and services, market linked insurance products, better use of technology, increase in employment and competitive advantage etc. The inflow of foreign capital must be regulated by Government of India through Insurance Regulatory and Development Authority of India (IRDAI) and Reserve Bank of India (RBI) and need to keep regular check on the inflow and outflow of India currency.

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