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The Role of FDI in Insurance Sector with reference to India and China

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Abstract: The changing insurance industry dynamics present many prospects for insurers. But capturing these chances requires a well-defined and practical business response. The addition of privatization leads to the competition, capability and service quality, product innovation, distribution channels, marketing of products, etc. The investment has come as result of liberalization of foreign investment ceiling from 26 percent to 49 percent through the passage of Insurance Laws (Amendment) Bill 2015 March for clearing desk for foreign entities to insurance their state in private sector insurance company. This study examines the impact of FDI on insurance sectors with reference to India and China, where both these economies are globally emerging markets are showing the impressive growth prospects and are frontier for insurance sectors.

Keywords – FDI, Insurance, Investment, Emerging Markets, Growth, Frontier.

Abstract:
The changing insurance industry dynamics present many prospects for insurers. But capturing these chances requires a well-defined and practical business response. The addition of privatization leads to the competition, capability and service quality, product innovation, distribution channels, marketing of products, etc. The investment has come as result of liberalization of foreign investment ceiling from 26 percent to 49 percent through the passage of Insurance Laws (Amendment) Bill 2015 March for clearing desk for foreign entities to insurance their state in private sector insurance company.
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Introduction:

The Indian insurance market is a huge business opportunity waiting to be connected. India is currently accounts for less than 1.5 percent of the world's total premium the country is the fifteenth largest insurance market in the world in terms of premium volume and potential to grow exponentially in the coming years. At present, it is estimated that the insurance industry in India will require more than 8 billion dollars in capital to increase penetration levels and also improve solvency standards. Huge untapped population delivered boundless opportunity of services Private sector plays a very crucial role in the development of the country. About 60% of GNP (Gross National Product) in India comes from private sector. It generally works under the supervision of the government. In India, the private sector is very vast.

China's insurance business in mature markets is relatively safe and well understood; it offers little or no growth prospect, especially when the economic activity slacks. Insurance players, like those of many other industries, are keenly looking for opportunities offered by the globalization.
China's insurance industry is highly concentrated in the top three largest players in both life and non-life sectors (the top three largest players accounted to 54% market share in life and 65% for non-life). Foreign insurers have negligible market shares, which are increasing, but very slowly.
China's non-life insurance market is highly imbalanced and concentrated in the motor insurance, which accounts for more than 70% of the total non-life premiums.

FDI in insurance under automatic route

Seeking to attract more foreign investment, the government has relaxed FDI norms for the insurance sector by permitting overseas companies to buy 49 per cent stake in domestic insurers without prior approval. Currently, up to 26 per cent FDI is permitted through the automatic approval route. For FDI up to 49 per cent, the approval of the Foreign Investment Promotion Board is required. "The foreign investment proposals up to 49 per cent of the total paid up equity of the Indian insurance company shall be allowed on the automatic route subject to verification by the "Insurance Regulatory and Development Authority of India," said a Government notification. There are 52 insurance companies operating in India, of which 24 are in the life insurance business and 28 in general insurance. During April-December 2015, FDI into the country grew by 40 per cent to $ 29.44 billion.

Role of FDI in Insurance Sector

Even after the liberalization of the insurance sector, the public sector insurance companies have continued to dominate the insurance market, enjoying over 90 per cent of the market share. FDI is the process whereby residents of one country acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country.
Insurance sector has the capability of raising long-term capital from the masses, as it is the only avenue where people put in money for as long as 30 years even more. An increase in FDI in insurance would indirectly be a boon for the Indian economy.

The insurance sector has also been fast developing with substantial revenue growth in the non-life insurance market. Over the years, FDI inflow in the country is increasing. However, India has tremendous potential for absorbing greater flow of FDI in the coming years.

The role of Foreign Direct Investment in the present world is noteworthy. It acts as the lifeblood in the growth of the developing nations. The wave of liberalisation and globalization sweeping across the world has opened many national markets for international business. Insurance Regulatory & Development Authority (IRDA) is in favour of an increase in foreign equity capital in the insurance joint ventures. The public sector Insurance companies have continued to dominate the insurance market. India is among the most promising emerging insurance markets in the world.

Statement of the Problem:

The insurance sector is plays an important for the contribution to the GDP. The structure of insurance sector differs from country to country based on their own requirements. India is full of potential but hit by regulatory hurdles, uncertain market condition and Indian promoters to exit the insurance business if they feel it is not a part of their core growth strategy. Hence this study examines the impact of FDI on insurance sectors with reference to India and China, where both these economies are globally emerging markets are showing the impressive growth prospects and are frontier for insurance sectors.

Objectives of the Study:

- To examine the structure of insurance sector in India and China.
- To study the performance of the insurance sector in India and China.
- To study the inflow and outflow of insurance industry

Scope of the Study:

Research has been conducted in order to critically evaluate and examine the Insurance sector in India and China. The purpose of the study is to identify the structure and provides appropriate suggestions for the contribution to the GDP.

Research Methodology:

Research methodology adopted for this study is based on the secondary data, which is mainly on the basis of the objectives of the study.

Data collection:

The main source of data collected through secondary data.
Secondary data has collected through the journals, internet, newspapers, magazine etc.

Limitations:

- The time duration was very less hence it is difficult to make a detail analysis.
- Availability of improper secondary data.

Objective Analysis of the Research:

1. **To examine the structure of insurance sector in India and China:**

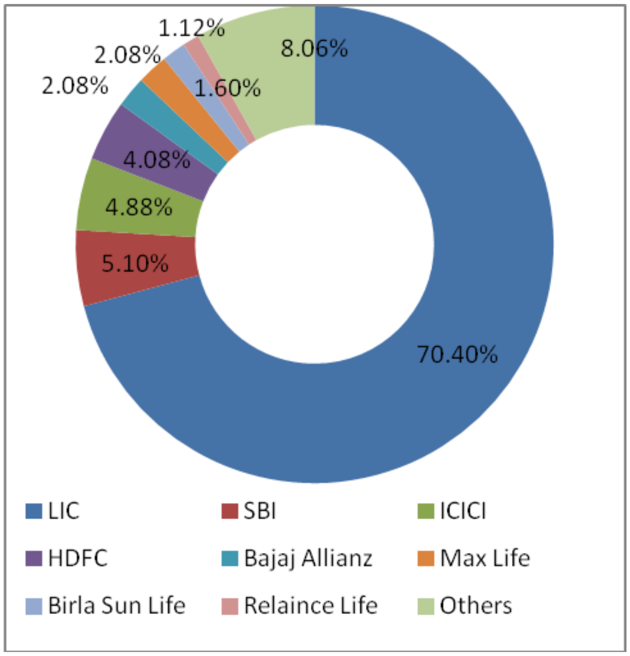
The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is 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. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

China has 100 insurance companies, 59 of which are domestic-funded and the rest 41 are foreign-funded. And five Chinese insurance companies including the People's Insurance Company of China, China Life Insurance, Ping An Insurance Company of China, China Insurance International Holdings Co., Ltd. (CIIH) and China Pacific Insurance have listed at home and abroad.

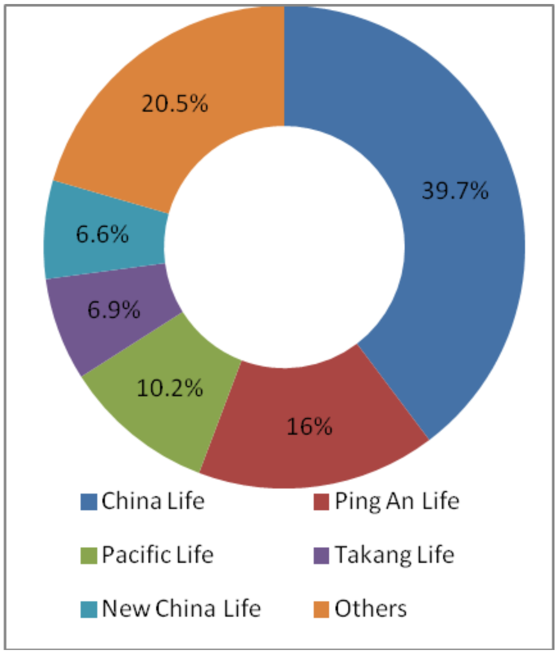
China Life Insurance had about a 50% share of the life insurance market; Ping An Life Insurance and Ping An Property Insurance share 16% and 12% of corresponding insurance markets, respectively ranking 2nd and 3rd.

Chinese insurers namely China Life Insurance, Ping An Insurance, People's Insurance Company of China and China Pacific Insurance were the first wave of insurers to go public.

2. To study the performance of the insurance sector in India and China:



Indian Insurance Sector
Source: TechSci Research



Chinese Insurance Sector
Source: China Insurance Regulatory Commission

3. To study the inflow and outflow of insurance industry:

To pursue a growth of around 7 percent in the Gross Domestic Product of India, the net capital flows should increase by at least 28 to 30 percent on the whole.

The savings of the country stood at 24 percent. The gap formed between intended investment and the actual savings of the country was lifted up by portfolio investments by Foreign Institutional Investors, loans by foreign banks and other places, and foreign direct investments. Among these three forms of financial assistance, India prefers as well as possess the maximum amount of Foreign Direct Investments.

India and China are potentially active in terms of investments and provides a galore of opportunities to the foreign players into the market. Foreign companies who aspire to become a global player would grab the opportunities, India and China provide in terms of investments now through the insurance sector. The foreign companies enjoy the rights to set up branch offices, representative offices, and also carry out outsourcing activities in terms of software developmental programmers in India. All these have opened up innumerable options for the foreign investors to expand their businesses at a global level. These are some of the factors which led to FDI Inflows in India.

SHARE OF TOP INVESTING COUNTRIES FDI EQUITY INFLOWS (Financial years):

Amount Rupees in crores (US$ in million)

Ranks	Country	2015-16 (April '16 - Nov '16)
1	MAURITIUS	51,530
2	SINGAPORE	39,393
3	U.K.	7,463
4	JAPAN	10,507
5	NETHERLANDS	20,076
6	U.S.A.	10,360
7	CYPRUS	3,596
8	GERMANY	6,485
9	FRANCE	3,626
10	SWITZERLAND	2,040

Findings of the Study:

- At present foreign investment in private insurance companies is restricted to 26% of their capital, which is now proposed to be increased to 49% by passing an amendment to the Insurance Act. The reform if it gets passed in Parliament will be big boost the industry.
- According to industry observers, a lot of international companies have been waiting to enter India and a further opening up of the sector will give them an entry point.
- Application needs to be approved by two levels at Automatic Approval - by the country's Central Bank, the Reserve Bank of India (RBI), Mumbai and subject to obtaining license from IRDA.

Conclusion:

The fundamental regulatory changes in the insurance sector would be significant for the future growth and would have huge impact on various sectors of economy. Active foreign participation is crucial for the sector as it would bring the best know how and implementing the best practices. India is one of the fastest growing insurance markets and it is expected that Indian insurance industry can grow up to 125% in the next decade. However there is also a risk that unless given the management control the foreign insurers would be reluctant to invest in India.

Suggestions of the Study:

- If Indian government wants to upgrade its insurance sector then it must understand the importance of FDI in country and should also raise the equity cap so that the role played by FDI can be enhanced in the insurance sector in the country.
- Tariff rates are still higher in India as compared to other countries, which continue to put barricades in front of India from becoming a favorable and attractive terminus for FDI.
- Financial sector reforms in India are most crucial and significant determinant for large volume of FDI inflows.
- Only the liberalization of FDI policy is not necessary for the expansion of FDI inflows. The significant and major impact on the volume and magnitude of the flow of FDI is also exercised by the overall economic performance by substituting in a role as an outstanding device for capitalists about the growth proposal.

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