



## Foreign Investment in Life Insurance Companies

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### Abstract

The Insurance sector reforms have open in the door for private players, private insurance companies in the beginning of life insurance business with public sector company (LIC). Foreign Direct Investment (FDI) has allowed in private life insurance companies in India, under an act of IRDA with a limit of foreign equity of 26%. The life insurance sector is playing a pivotal role in both Indian and Global markets. Those factor we have taken for the analysis of private life insurance companies performance are premium growth, market share of the companies, portfolio Investment, equity share capital etc. It is use for a measure of positive or negative impact of FDI investment in Indian private life insurance companies. It has investigated for a sample of five selected private life insurance companies and one public company for the purpose to comparison with selected companies it is using a panel data for analysis in between the period of 2002-10. Different key variable is use to analysis yearly premium income, infrastructure development, employee facilities, business expansion etc. it was examined to identify cause for any significant impact on the life insurance sector. The study has made use of secondary data from different authenticated source to draw a meaningful conclusion.

### Introduction

With the deregulation of insurance industry in India since 1999, private players have got an opportunity to enter in an insurance markets. Prior to its deregulation, the life insurance business was dominated by the public sector company is life insurance Corporation of India.

While liberalization of insurance sector, as many as twelve new private life insurance companies were entered with the help of foreign equity up to 26 per cent in the life insurance business apart from the HDFC standard life, which has stand foreign equity only 18.6% in the beginning of insurance business, in the present time there are entire 22 private life insurance companies operating business in India, there in we have selected five private life insurance companies, as like ICICI prudential life insurance (2000), HDFC standard life (2000), Aviva life (2002), SBI life insurance (2001), TATA life insurance (2001). They are entire companies is playing a vital role in life insurance business with motive for exist and prospective customers to provide better facilities in lives saving scheme, future security, investment plan, funds investment etc.

Consequently, the public-sector company has been face towards countering the challenges posed by the entered new players in the same business. The private players have been striving to build confidence in customers and get a foothold in the markets. In competitive markets, life insurance companies come out with innovative and attractive life insurance products, and they are trying to reach customers through various techniques.

## **Objective of the Study**

1. To make a study on the nature of foreign institutional investment in Private Life Insurance companies in India.
2. To make a study of FDI its impact on Premium collection of Private Life Insurance Companies.

## **Review of Literature**

The opening of Life insurance companies also witnessed major changes in the insurance products being offered by life insurance companies and insurance covers opted for the customers. For example, we see a greater shift from traditional life insurance product (tax saving schemes) to unit linked insurance policies which further justify the changing mind set to the potential customer, in wake of operation of these joint venture foreign companies with Indian Insurance companies and Banks. H. Sadhak (2009) in his book, “Life Insurance in India, opportunities, challenges and strategic perspective” reported that Deregulation and Liberalization of national economy had significant impact on institutional investor such as life insurance, pension fund and investment institution, it has given the Globalization and Emerging trends in life insurance sector. Indian life insurance changing market structure market regulation is integral part of market structure, since regulation in a competitive market environment attempts to promote a healthy competition and protect the consumers.” G. Ganesh (2001) in his book, “Privatization in India” reviewed that insurance sector in India. Insurance

companies have been playing a vital role to protect or reduced risk in the Human life. Open up the insurance sector and allowing foreign equity has aroused widespread interest and a number of domestic and foreign player, privatization is playing a vital role in insurance sector reform have been created a competitive edge in an insurance sector, in which they have also focus on pre liberalization and post liberalization of insurance sector.” P.K. Biswasray and Bh. Venkateswara Rao (2008) in his book, “Marketing of Life Insurance Business” revealed that about the insurers companies his service towards their customers. Insurers companies are using latest IT technology for better facilitate to their customers, in which they have emphasis on the public company’s (LIC), their Diversified activities in various state in India and Global level. It has also revealed fund performance of LIC in various sector, impact of reform in insurance sector on LIC, by private player participation, they are discus on product innovation and distribution channel and his operational performance of LIC.” L.M Bhole (2004) in his book, “Financial Institution and Markets” admitted that, the general nature of insurance companies both economic and social purpose and relevance. They have concerned to insurance sector reform which by Malhotra committee recommendation in Indian insurance sector. In which discus the investment pattern and policy, investment funds, portfolio restriction and sector wise investment of LIC.” Kamlesh

Gabhar (2006) in his book, “Foreign Direct Investment in India” reported that Foreign Direct Investment in India and its nature and scope of investment in Indian companies and various sector through collaboration, merger, acquisition and joint venture of equity. Since independence till 1990, the performance of Indian economy has been dominated by a regime of multiple control, they are also pointed on Determinants and Deterrents of FDI inflow in India, macro economy determinants of FDI in India.” Usha Bhat (2003) in his book, “FDI Contemporary Issue” revealed that capital is stated as the engine of economic growth. This statement has gained more importance in the recent time, in which discuss on conceptual framework of FDI, foreign capital played an important role in the early stage of industrializations of most of the advanced countries and they are revealed the impact of FDI in the review of past studies.” R.K. Uppal (2008) in his book, “Financial Sector in India, Emerging Challenges” reviewed that with the initiation of the deregulation insurance sector, the insurance sector plays a vital role in the process of the economic development of any economy. It has a positive correlation with economic development. The paradigm shifts that taking place in marketing of the insurance products and the strategies adopted by the players in the market in the post liberalization era. Private Players have entered the market and with innovative approaches, better use of distribution channels and technology are eating into the share of public sector Company in India.” Rakesh Shahani (2008) in his book, “Financial Markets in India” indicated about the public sector company LIC in his life insurance business was commenced and his investment pattern of funds in different sector, Government securities etc. LIC has been facing the challenge from private players since 2000; the entry of private players has transferred the entire market, from a seller’s market to a buyer’s market.”

## Research Gap

Thus, the existing literature neither identifies the impact of foreign direct investment (FDI) on the working private life insurance companies in India. Life Insurance is the fastest growing sector in India, since 2000 as Government have been allowed Private players with the limit of FDI up to 26% in insurance sector. Life Insurance in India was nationalized by incorporating life insurance corporation in 1956. All private life insurance companies at that time were taken over by LIC, but we are discussed only private life insurance companies. The present study examines positive impact of FDI, how foreign equity have been helping to Indian private life insurance companies since 2000 to onward, which raise life insurance business to the companies from metropolitan area till to rural area, but in this help not enough for all the private life insurance companies, because they are lacking behind from financial power. Which can stand their life insurance business to a healthy position, an infrastructure development, they can also help in an employment opportunity and acquired good market share on nation level etc. entire private life insurance companies are demanding to increase current FDI from 26% to 49% might be, they would be greater aid for the life insurance business. Such IRDA stand a security for foreign investor, they have been investing freely in Indian life insurance sector, and because entire life insurance companies registered under IRDA it has reduced fraud case. India is developing country emerging with uncovered massive population such as attracting foreign investor to investment in Indian markets.

## **Methodology**

The scope of the study is based on the FDI and its impact on the selected working private life insurance companies in India. We have discussed on as like premium growth, business growth, infrastructure development, business expansion, better Facilities etc. Further, the study makes use of the secondary data for evaluating the impact of foreign direct investment (FDI). The relevant statistics are gathered from the selected life insurance companies, other secondary source of IRDA, Previous books, from their websites etc. exception of two companies' rest of entire private life insurance companies using foreign investment for the purpose of business expansion and penetration. A total twenty-three life insurance companies, twenty-two from private sector and one public company life insurance corporation of India, but we have selected five private sector companies. The statistics have collected and utilized for the analysis and evaluate the impact of foreign direct investment on the private sector companies.

## **Analysis Nature of Investment Foreign Investor**

India has revealed Fifth largest economy across the Global level, also have taken rank 3rd in Gross Domestic Product (GDP) in the entire Asian countries. The rank has taken by India, the most significant factor responsible for FDI inflow in Indian markets, which boosts country economy on international markets level. India has been developing country in the world from two decades. Indian market is growing fast, which attracts more FDI inflow in a country it might be a reason to flourish country's economy. India Possesses maximum amount of Foreign Direct Investment (FDI). India is potentially active in term of foreign investment to provide lucrative opportunities to the foreign players can business into the Indian markets. In Indian potential companies provides offer on Global level for the foreign companies can business in self branch as well as JV with other companies, investment in existing business, The foreign companies have enjoyed the liberalization of investment and business with Indian Players, Foreign player are well known that the Indian economy on growing level, one more reason uncovered massive population of the country and per capita income of individual is well. Foreign companies have enjoyed to setup own branch office, representative office in India. Therefore, while open the door for foreign investor there were few companies operating business in India, they are unable to covered massive population due to dearth of financial power and innovative techniques, lacking of financial power reduced infrastructure development, facing problem to open new branch office in rural, urban and semi-urban area, hiring new employee etc. such condition is tend to attract foreign players investment in an Indian private life insurance companies. Table; 1 presented the public company and private life insurance companies distributional office in all rural to metropolitan area, this data is revealing private companies on a fast pace in comparison with public company life insurance corporation, in every field to open new distribution channel. It might be foreign investor helping private players to expand their own life insurance business in every state and village areas with lucrative offer.

**Table 1: Distribution Offices of All Life Insurers Companies as on March31, 2008**

<b>Insurer</b>	<b>Metro</b>	<b>Urban</b>	<b>Semi</b>	<b>Other</b>	<b>Total</b>
<b>Public</b>	311	468	848	895	522
<b>Private</b>	628	1169	2692	1902	6391
<b>Industry</b>	939	1637	3540	2797	8913

Source: From IRDA Journals

Since end of 2000, While Life insurance has been privatized. Indian Government have opened the entry door for foreign player s and private companies in Life insurance sector. In the present scenario has revealed 22 Private Life Insurance Companies working in Indian markets, Private life insurance companies have been keeping behind Indian largest public company’s (LIC) in an innovative product, smart marketing, and aggressive distribution attracts customer toward the private life insurance companies, sign up Indian customers faster than anyone expected. Indian, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products offer to customers and investment plans. The Life Insurance companies in India have grew by an impressive 36% with premium income in the year 2003-2004 Rs 24.29 billion from new business Rs253.43 billion during the fiscal year 2004-2005 in this duration have been braving stiff completion from Private Life Insurance Companies. In which LIC has clocked 21.87% growth in business at Rs 197.86 billion by selling 2.4 billion in new polices in the year 2004- 2005, but this was still enough the fall. Its market share as Private Player grew 129% Rs 55.57 billion in the year 2004-2005 with annual growth rate 15-20 %, the largest number of Life Insurance Polices in force, the potential of the Indian Insurance industry is huge. The total value of insurance market estimated Rs 450 bill ion in 2004-2005. The insurance business grow in India 17% in Fiscal year 2008-2009 \$ 30 billion. The country economy clocks GDP 7.6%. In Fiscal year 2007-2008 Life Insurance has been grown up their business 23.3% Rs 930 billion, The Private Life Insurance Companies have made a record first quarter year in 2009, has recorded 13.22% growth in first year premium and 20.36% number of polices increase after the considering to extend the limit of FDI in insurance industry.

### **Analysis Impact of FDI**

The above table 2 gives the numerical data of the selected life insurance companies’ premium Growth year wise, yearly premium invested by customers in life insurance companies. In the year 2002-03 public company’s (LIC) was collected 546228.49 cr. in the comparison with five selected private sector companies there were total collection 733.52 cr. we can discus in the year 2004-05 while total significant collection of public company was 75127.29 and in a comparative with selected private companies there were total collection of premium around 4402.29 cr. In the year 2007-08 while total collection of public companies was 149789.99 cr. and selected private companies there were total collection of premium 27979.99 cr. In during the last session 2009-10 public company has been collected total premium around 1, 85,985, its comparison of selected private companies, there were total collection of premium 16,495.86 cr. The huge premium collection has increased every financial year that was gearing insurance business in India on fast pace.



**Table 2: Selected life insurance companies collected premium growth year wise (Rs. in Cr.)**

Name of the life insur. co.	2002-03	2004-05	2007-08	2009-10
LIC	546228.49	7512728.29	149789.99	1,85,985
ICICI Pru	417.62	2363.82	13561.06	6334.31
HDFC Std	148.83	686.83	4858.56	1000.5
SBI	72.39	601.18	5622.14	7040.66
TATAAIG	81.21	497.04	2046.35	1321.53
AVIVA	13.47	253.42	1891.88	798.86

Source: From IRDA Journals

In the comparison of public company's (LIC) and selected private life insurance companies the given data revealing the impact of foreign direct investment in private sector companies not a bane, its boon for life insurance companies. In premium growth has shown their performance of business proliferation of selected private life insurance companies, they have been increasing their collection of premium investment every financial year.

**Table 3: Market share of selected companies in (%)**

Name of Player	Market Sh. FY 2004-05	Market Sh. FY 2004-05	Market Sh. FY 2004-05
LIC	78.78	74.39	64
ICICI Pru.	5.6	8.93	11.8
SBI Life	1.80	6.12	6.2
HDFC Std.	1.36	2.88	7.4
TATA AIG	1.29	2.53	3.3
Aviva	0.79	1.25	2.5
Other	10.35	3.89	3.9
Total	100	100	100

Sources: From IRDA Journals

The above table 3, presents the resultant figure of the insurance companies and its market share that indicate the penetration of life insurance companies in Indian markets, such penetration indicates the fruitful growth and its positive result of utilization foreign investment in life insurance sector. The new players have improved the service quality of the life insurance. As a result, have seen LIC continuing declining in its career from the year 2000 onward, market share has been distributing among the private players. In the financial year 2009-10, LIC still hold 65% market share among doing business of life insurance companies in India, for upcoming nature of these private players are gaining strength to give more competition to LIC in earlier future. Market share of LIC has decreased from 95 % (2002-03) to 81% (2004-05), in the financial year 2007-08 still hold 74.39% and following private players hold the rest of the market share.

## Conclusion

Evaluation to the relevant data number of selected working private life insurance companies in India, lacking behind from financial strength its needs more FDI for business expansion. But we have found all the selected private life insurance companies growing his business growth and its

life insurance business expanding urban, semi urban and rural areas. The foreign direct investment (FDI) is not a reverse impact on the working private life insurance company's business in India, but it assists for infrastructure development, assist in better facilities and techniques for sales person, broker etc. The private sector companies have been breaking market share of public company since 2000 to onward, the penetration strength of private life insurance companies greater than the public company's (LIC) such as development of infrastructure, they have been opening more new branch office in rural areas, tapping niche markets for business growth these are ultimately a profit solution.

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