Role of FDI in Insurance Sector

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Comments by the Faculty

Foreign direct investment is one important aspect that any nation considers in order to bring in the investments into the economy. Even the organizations look at the percentage of the FDI provisions in each sector so that they can invest and enter into the economy of other nations to play their role. Nations that are developing look for those institutions that can invest to boost up their economy. It depends on the sectors the organizations consider to invest. Nations open up the provisions in few sectors that do not make the domestic play loose due to foreign entry into the local markets.

It is very important to protect the domestic players before nations invite the foreign players in sectors like retail, power, agriculture etc. At the same time it is very important to encourage the domestic players to partner with foreign players in order to gain the knowledge in using latest technology to improve the quality standards. Also, one has to look at the percentage of allocation to FDI in each budget session so that strategically nations can invite the FDI into the sectors. Another aspect is to avoid inviting FDI into critical sectors like defence etc. as they form internal strength of a nation. But, now-a-days it can be seen that most of the nations are inviting FDI even into defence to improve their strength with latest weapons and technology that other nations possess.

Insurance is one such sector that nations look at FDI so that new strategies creep in promoting the products in a proper way. It is very important to take the products to the customers by giving the details of the products in a more convincing way so that customers prefer their products. Unlike other products, insurance products in detail marketing so that the benefits of each product is conveyed to the customers properly and clearly.

Mr.Adnan has considered this project to bring out the advantages of FDI in insurance sector. He has tried to achieve this through a secondary research as well as a primary research. It is a good contribution to the existing literature.

Srilakshminarayana.G

Role of FDI in Insurance Sector

Company Profile

IDBI Federal Life Insurance Co Ltd(formerly known as IDBI Fortis Life Insurance) a joint-venture of IDBI Bank, India's premier Development and commercial bank, Federal Bank, one of India's leading private sector banks And Ageas, a multinational insurance giant based out of Europe.

- In this venture, IDBI Bank owns 48% equity while Federal Bank and Ageas own 26% equity each.
- The company offers its services through a vast nationwide network of 2067 partner bank branches of IDBI Bank and Federal Bank in addition to a sizeable network of advisors and partners.

IDBI Federal endeavour to deliver products that provide value and convenience to the customer. Through a continuous process of innovation in product and service delivery the company intend to deliver world-class wealth management, protection and retirement solutions to Indian customers. Having started in March 2008, in just five months of inception the company became one of the fastest growing new insurance companies to garner Rs100 Cr in premiums. The company offers its services through a vast nationwide network across the branches of IDBI Bank and Federal Bank in addition to a sizeable network of advisors and partners. In only its first year of operations, as on March 31st 2009, the company collected more than 328 Cr in premiums – highest first year collection in the history of Indian life insurance industry, through over 87000 policies and over Rs2825 Cr in Sum assured. As on 28th February 2013, the company has issued over 8.65 lakh policies with a sum assured of over Rs26,591Cr. IDBI Federal today is recognized as a customer-centric brand, with an array of awards to their credit. They have been awarded the PMAA Awards (2009) for best Dealer/Sales force Activity, EFFIE Award (2011) for effective advertising, and conferred with the status of 'Master Brand 2012-13' by the CMO Council USA and CMO Asia.

Introduction to the Problem

India's insurance market lags behind other economies in the baseline measure of insurance density. Insurance density, which is measured as ratio of premium in US Dollar to total population is abysmally low in India as compared to other countries. Insurance density in India is less than \$70 whereas countries like US, UK, France or Switzerland have insurance density of at least \$4,000. Even low insurance density countries like Thailand and Malaysia have density greater than \$100. Relatedly, insurance penetration, which broadly measures the contribution of the insurance industry in relation to a nation's GDP, is quite minimal. At only 5.1 percent, India is well behind the 12.5 percent for the UK, 10.5 percent for Japan, 10.3 percent for Korea and 9.2 percent for the US.

As per the current FDI norms, foreign participation in an Indian insurance company is restricted to 26.0% of its equity / ordinary share capital. The Insurance Regulator has stipulated that foreign investment in Indian Insurance companies be limited to 26% of total equity issued (FDI limit) with the balance being funded by Indian promoter entities. The limit to foreign investment includes both direct and indirect investment and has been a cause of significant lobbying by foreign insurance companies for a change in regulations to increase the FDI limit to 49% of equity issued. For political parties such as Trinamool Congress who think that insurance is evil and equate it to all the ills that abounds the health-care of the west, it helps to remember that insurance in India has a deep-rooted history. Insurance in various forms has been mentioned in the writings of *Manu (Manusmrithi), Yagnavalkya (Dharmashastra)* and *Kautilya (Arthashastra)*. The essential context of the historical reference to insurance in these ancient Indian texts is the same i.e. pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine.

FDI in insurance sector currently stands at around Rs2500 crore and we can expect it to approximately double now that the FDI cap is slated to rise by another 23 percent to 49 percent. Larger FDI would bring in better insurance education, superior product innovation and greater awareness efforts by insurance companies. For a country like India, an oligopolistic insurance sector with a large participation by domestic companies isn't necessarily a good idea. There is phenomenal potential in the insurance sector and unfortunately because of the nature of the business, large capital investments are required and will be needed in future too to build scale in a large country like ours. The insurance sector for long has suffered from muted growth and needs a major breather in the form of higher FDI. The hike in FDI cap would spell good news for the common man as this would eventually lead to a decrease in insurance premium because of enhanced efficiency and innovation in the sector.

Need for the Study

Rural and social sectors offer huge potential for improving insurance penetration for the uninsured sections of our population and this calls for innovations on product design and distribution, better risk management, introducing superior technology and greater investments. This evidently justifies greater engagement of global partners in bringing in innovation in production & distribution, specialized skills, technology and hence there is a strong case to raise the FDI cap.

Currently, domestic insurance companies cover only two million people out of the total population of 1.25 billion, whereas in developed nations like the US, three-fourths of the total population are covered by one company or the other. Larger FDI would mean that the rural and social sector obligations can be better met by insurance companies. Not only rural penetration of insurance will increase but with greater investments and enhanced efficiency, insurance will also become cheaper, which would be in the larger interest of the *aam-aadmi*.

Insurance industry is witnessing the transformation of insurance agents from mere intermediaries to advisors. Greater FDI would help in training and skills up-gradation of the agents. Well trained agents would be better equipped to educate the customers about the benefits of insurance besides contributing to simplifying the procedure.

Moreover, there is a shortage of expertise and skills in the Indian insurance industry in terms of underwriting, actuarial, claims management and data standardization. Raising the FDI cap will enable expertise and know-how transfer that are not available currently. Moreover, the untapped potential of this sector calls for greater investment to facilitate movement towards an era of electronic policy issuance and dematerialization. This will reduce the cost of operations and would address logistical difficulties through use of electronic distribution channels via mobile phone and internet technologies.

Objectives and Importance of the Study

Primary Objective

To study the benefit of FDI in life insurance sector

Secondary Objective

- To find out the role that FDI played in improving the Insurance industry which is dominated by public enterprises.
- To know the product features which is prioritize by customer in making the decision to purchase insurance product which could be improved by FDI in insurance.
- To know the fact whether the recent discussion of hiking the FDI in insurance is in the favour of common man or not and why many political parties are against it.

Methodology

The type of research is exploratory and descriptive in nature. The target population for the study is those individuals who have awareness about the insurance companies and their products. The population is also aware of the benefits of FDI in insurance sector.

The sample size considered for the study is 75. The sampling unit for the study is mainly white collar people. The research is mainly carried out in Jammu and Kashmir. Apart from J&K, the sample also consists the respondents from various north region such as Delhi, Gurgaon, Chandigarh, and Haridwar.

The technique used for sampling is Cluster samling(i.e units in the population can often be found in certain geographic groups or cluster), a part of random sampling.

The customers are from different type of businesses like government officials, manufacturing companies, banks, SMEs, and corporates etc. The data collection was done by means of questionnaire that was administered by means of face-to-face interview, online questionnaire, and telephonic interview.

- The survey was carried out for 75 people.
- 20 face to face interviews were conducted.
- 15 telephonic interviews were conducted.
- Online questionnaire were sent to 50 people only 40 of them replied back.

The approach to the problem had been divided into three parts which are as follows:

Part One

Collection of secondary data for the benefit of FDI in insurance, for studying the factor influencing customer to buy insurance product and the problem faced by government in hiking of FDI insurance from newspaper, internet, , magazines, articles, company websites etc.

Part Two

On field study by taking face to face interview, telephonic interview, online questionnaire etc.

Part Three

Compilation and analysis of the findings in the research by applying appropriate statistical techniques and offer suggestion to the IDBI FEDERAL LIFE INSURANCE CO. LTD.

Analysis and Interpretation of Data

1. To find out the benefits of FDI and its impact on insurance sector. We had created a single itemized scale of 5 from strongly agree to strongly disagree on various factors that benefits the company in various ways receiving the FDI. The various factors are as:

    a. FDI is helpful in receiving the best mangement expertise practised by their lender.

    b. Foreign expertise management helps in retaining the customer.

    c. FDI create employment and can lead to technological development.

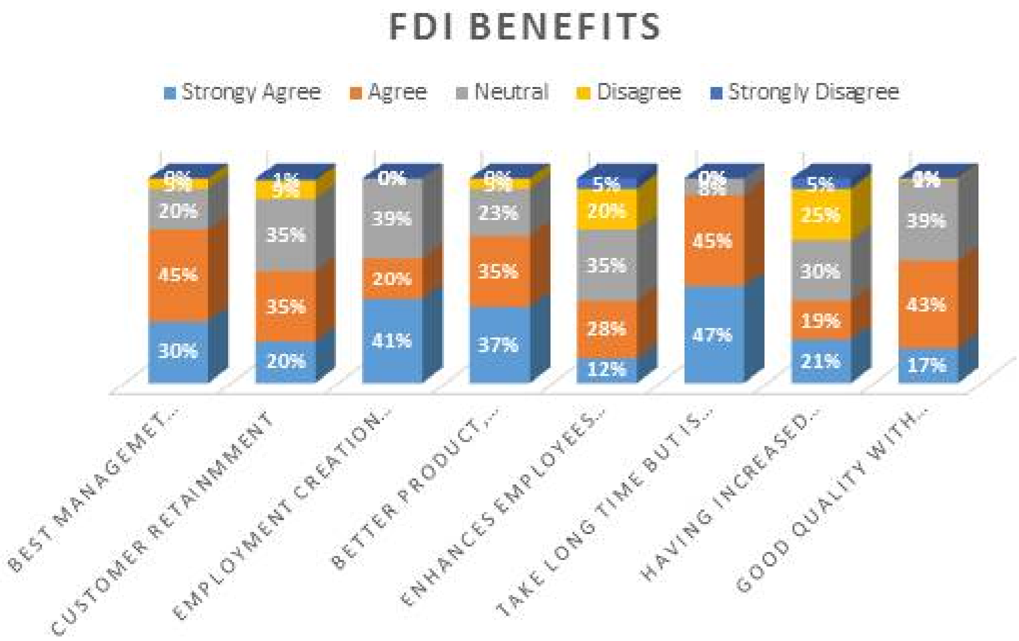
    d. Hiking of FDI would be good for customers in terms of better product, good infrastructure and best service levels

    e. FDI is helpful in enhancing employees' lifestyle and standard of living

    f. FDI takes longer to set up and has a permanent footprint in the country

    g. FDI increases return for lender from ownership advantages and hence not profitable for common man.

    h. FDI improves the quality of the product and reduces the input cost.



Understanding from the Figure

- Almost 75% of our respondent believes that FDI brings in best management expertise.
- Half of our respondent believes that the foreign expertise management helps in retaining the customer.
- More than 60% of my respondent believes FDI creates employment while 40% denies it.
- FDI provides better product with least cost as it is justified by more than 70% of our respondent population.
- It is not very clear whether FDI improves standard of living of recipient country with increased taxes by our study as only 40% of respondent agreed it while majority is neutral and minority respondent disagreed.
- The only factor in our study that is largely agreed (more than 90%) by our respondent is that FDI takes long time but is permanent.

2. Having found out the various benefit and impact of FDI in insurance sector, our intention is to know the whether the brings in benefit by FDI is favourable to the customer or not while purchasing a life insurance policy. The various factor which we thought based on secondary data that is mostly preferable by the customer while purchasing insurance product are as:

a. Price of insurance policy

b. Options available for premium payment whether annually, biannually, quarterly, and monthly.

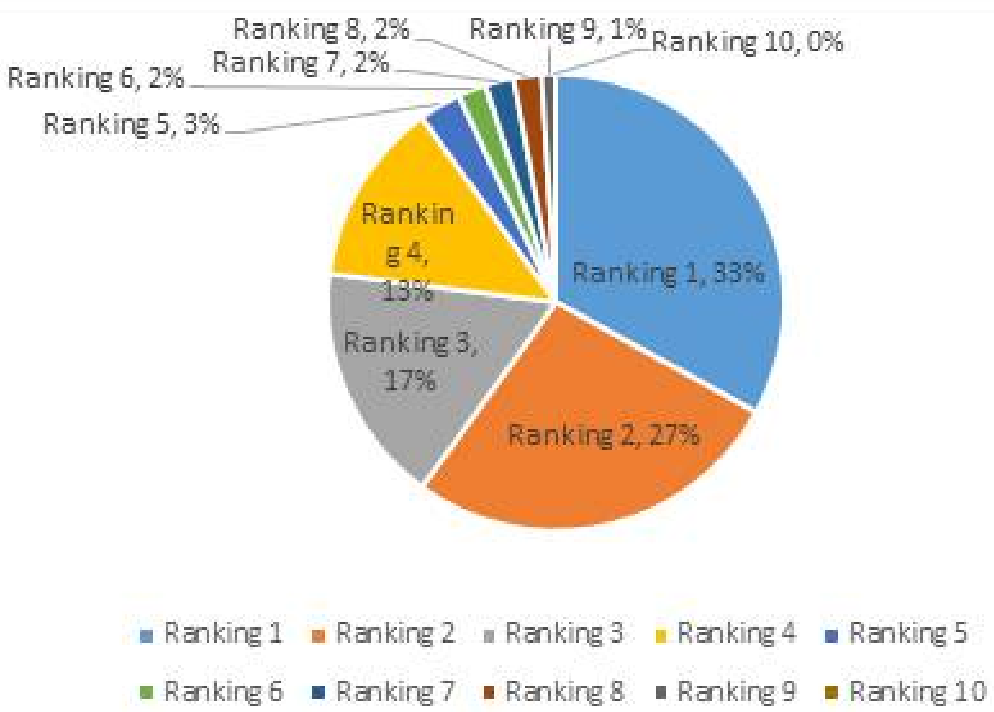
c. Brand name of the insurance provider.

d. Product visibility in the market.

e. Rate of return and estate creation.

The following figure are the ranking of parameter based on the scale of 10 as ranking1, 2, 3……10.

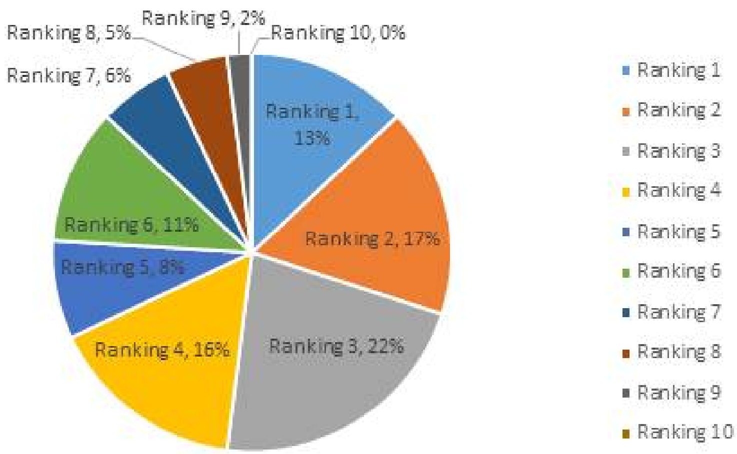
Price



Understanding from the figures:

- The price is the most important factor in deciding the insurance product to be purchased by the company as we can see from the above figure more thn 70% of my sample popupalation marked it as the important one feature. Hence, by bringing in FDI gives the company good quality product at least price as the foreign company have better experience in the respected field.

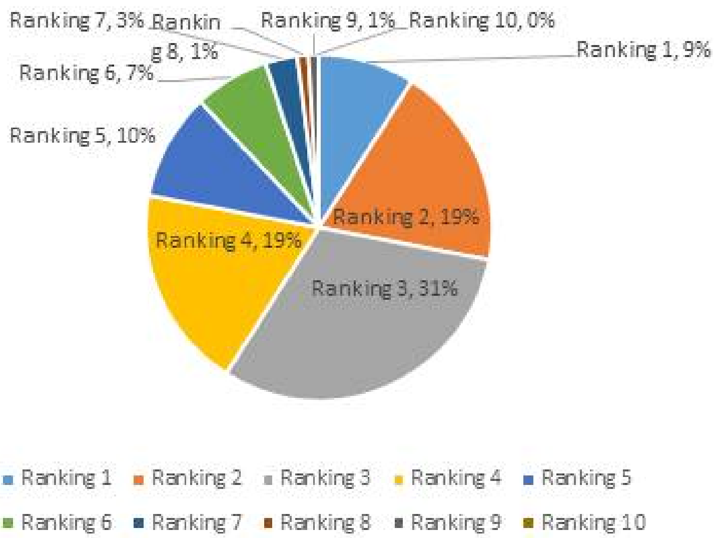
Preferences of Customer Based on Premium Payments



Understanding from the figure:

- More than 50% of our respondent rank the parameter on the top 3 criteria, so that we can conclude that it plays an average role on purchasing the insurance products.

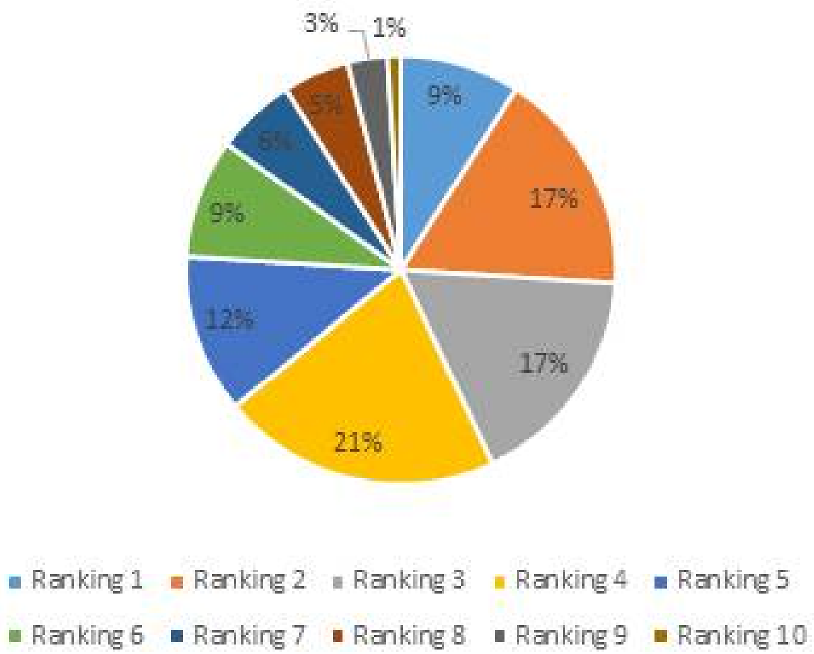
Preferences Based on Brand Name



Understanding from the figure:

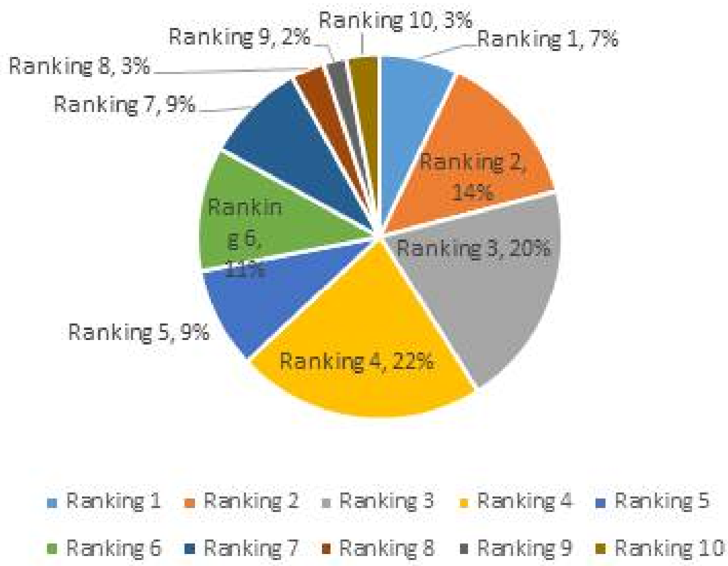
- The majority gives the average ranking as more than half of respondents mark it as rank 3 to rank 5. So, therefore, we conclude brand name does play an average role in purchasing insurance products

Preferences Based on Product Visibility



Preferences Based on the Rate of Return

Preferences Based on Estate Creation.



Understanding from the figure:

- Based on the responses of our respondent, the insurance product should be easily available in the market
- More than 60% our taken sample agree that it provides good quality product with least cost, helps in retaining the customer, improves technological advancement and the standard of living ot company emloyees. And hence giving the incresed rate of return.
- Most of the respondent agrees with the fact of estate creation bygiving the high ranking to prefernces based estate creation.

Conclusion

At the last, we study the corelation of FDI and economic benefit as FDI allows free flows of money and the standard of living of recipient country improves by higher taxes imposed on the company receiving the benefit. And the government of india hike the FDI to 49% in the union budget 2014 and whether it would be helpful for common man or not.

The value of Karl Pearson co relation(r) is found to be +.87. It means that there is high degree positive correlation between the FDI (Life insurance) and Economic Development as, FDI has an important impact on country's trade balance, increasing labour standards and skills, transfer of technology and innovative ideas, skills and the general business climate. FDI also provides opportunity for technological transfer and up gradation, access to global managerial skills and practices, optimal utilization of human capabilities and natural resources, making industry internationally competitiveness, opening up export markets, access to international quality goods and services and augmenting employment opportunities. The reliance on FDI is rising heavily due to its al round contributions to the growth of the economy. FDI to developing countries since 1990's is the leading source of external financing.

The rise in FDI volume is accompanied by marked change in its composition. The hike in FDI cap in insurance is expected to help patients as well as the pharma industry, say experts. According to the experts, the benefits of all kinds of FDI investments are likely to be seen only in the future. FDI and its results is a long term process and it will reap the benefits after a few years of initiating it. As we know, the government has approved as much as 49% of foreign direct investments in the Indian insurance sector from 26%. This is an extremely positive sign! Now more and more key players on global insurance market will make their debut in the very active Indian insurance market. Present foreign companies will increase their shareholding, benefiting the investors all the more.

The hike will not provide any benefit to the common man unless it is accompanied by stringent regulation and should be in the control of government of India.

Annexure:

Questionnaire

1-most important ……………….10- least important

Q1: Please rate the following attributes while purchasing an insurance policy?

Sl.No.	Parameter	Ranking
1	Price of the Product	
2	Premium Payment (Annual,Half Yearly,Monthly,Daily)	
3	Brand Name	
4	Product Visibility in the Market	
5	Ease of Availability of the Product	
6	Rate of Return	
7	Estate Creation	

Q2: Please follow the instruction below:-

The section deals with your opinion regding the benefits of FDI in insurance sector. Please, show to what extent you think the following features is appropraite to the respected reason of FDI in insurance sector.

Sl. No.	Particulars	Strongly	agree	neutral	Disagree	Strongly disagree
1	FDI is helpful in receiving the best mangement expertise practised by their lender.					
2	Foreign expertise management helps in retaining the customer.					
3	FDI create employment and can lead to technological development.					
4	Hiking of FDI would be good for customer in terms of better product, good infrastructure and best service levels.					
5	FDI is helpful in enhancing employees lifestyle and standard of living.					
6	FDI takes longer to set up and has a permanent footprint in the country.					
7	FDI increases return for lender from ownership advantages and hence not profitable for common man.					
8	FDI improves the quality of the product and reduces the input cost.					

Q3: Is FDI allows free flow of money that results in competitive advantage for the rescipient company?

- YES
- NO

Q4: Does the standard of living of recipient country improves by higher taxes imposed on the the company receiving the benefit?

- YES
- NO

Q5: Insurance products are looked as a means of tax evasion and saving only and the main benefit of insurance are often ignored?

- YES
- NO

Q6: In developing country like india, is it necessary for the govt. to take control over the domestic saving instead of allowing foreign investor to take control over the indian saving?

- YES
- NO

Q7: What is your thinking from the following option about why many opposition parties are against the hiking of FDI from 26% to 49% in India?

- It is beneficial to the speculative market and not good for the country.
- It is long term investment
- There are some deffered risk in this sector
- Not beneficial for the common man as it can increase the price of the current product.

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