

FDI INVESTMENT IN PRIVATE AND PUBLIC COMPANIES OF INSURANCE SECTOR

Rohit Tank*

ABSTRACT

There have been various changes in regulations regarding foreign investment in the Insurance sector of India. Over the period rules and regulations regarding investment in the equity share of insurance companies in India have been relaxed. All the business organizations operating in India were opened to foreign investors during 1991 after the LPG policy introduced by Dr. Manmohan Singh.

KEYWORDS: *Foreign Investment, Insurance Sector, Equity Share, Foreign Investors.*

Introduction

Over the period, this investment was allowed to be restricted to 26% of the total equity capital. After that, this limit was increased to 49% and currently, it is proposed that it might increase to 74% in the future. The main focus in the given scenario will be to analyse the equity investment made by foreign investors in the Insurance sector companies operating in India. This report will be using secondary data of information to conduct the research. Annual reports are issued by the Insurance Regulatory and Development Authority (IRDA) in India. The primary source of information in the given scenario will be the report issued by IRDA. Comparison in the given scenario will need to be between FDI investment in the public sector and private sector business organizations operating in the industry.

Research Question and Objective

The research objective in the given scenario is to analyse the equity share capital of the public sector and private sector business organizations operating in the Insurance sector of India. It will help in understanding the basic perspective of different types of business organizations operating in India concerning foreign investment. The perception of government regarding foreign investment in government-owned business organizations will also be determined with the help of this surgery. Research question associated with the project will be-

What is the percentage of foreign direct investment in public and private sector organizations operating in the Insurance sector?

Literature Review

Based on the article issued by Dave, Shukla & Sinha, it can be said that serious fluctuations have been made by the government concerning the foreign direct investment in the Insurance sector of India. Over the period allowed limit for foreign investment in the sector has been fluctuating significantly to introduce more foreign direct investment. During the initial years, this limit was restricted to 26% and it has been increased to 49% in the year 2015. In the budget introduced in February 2019, it was proposed to increase this limit from 49 % to 74%. These policy changes are made by the government to increase insurance penetration in India (Dave, Shukla & Sinha, 2019). Currently, insurance penetration in India is very low which means that a very limited number of people have insurance policies with their life as well as health.

* Research Scholar, Department of ABST, University of Rajasthan, Jaipur, Rajasthan, India.

According to the report issued by IRDA in the year, 2018 market penetration and density have been compared with each other. This comparison can be evaluated with the help of the following table:

Insurance Penetration and Density in India				
Year	Life		Non- Life	
	Density	Penetration	Density	Penetration
	Y	N	Y	N
	USD	%	USD	%
2001	9.1	2.15	2.4	0.56
2002	11.7	2.59	3	0.67
2003	12.9	2.26	3.5	0.62
2004	15.7	2.53	4	0.64
2005	18.3	2.53	4.4	0.61
2006	33.2	4.1	5.2	0.6
2007	40.4	4	6.2	0.6
2008	41.2	4	6.2	0.6
2009	47.7	4.6	6.7	0.6
2010	55.7	4.4	8.7	0.71
2011	49	3.4	10	0.7
2012	42.7	3.17	10.5	0.78
2013	41	3.1	11	0.8
2014	44	2.6	11	0.7
2015	43.2	2.72	11.5	0.72
2016	46.5	2.72	13.2	0.77
2017	55	2.76	18	0.93

This indicates that a very limited amount of people in India have their life insurance down in case of general insurance. According to the above data, only 2.76 % of the population in India have life insurance and only 0.93 % of people in India have their general insurance (Grazy, Ganesan, Meena & Meena, 2019). This is one of the primary reasons that the government is increasing the limit for foreign direct investment in India. The government believes that the improvement in the capital structure of private sector insurance companies will result in increased insurance penetration.

Because of the progression of the entrance of the significant insurance agencies in the area, India gets one of the significant locales in creating markets. The preeminent change proposition by the administration of India drove by the rising the FDI edge in the Indian protection market from 26% to 49% would be an acknowledged exertion for various organizations longing for to join the part or build up the ownership of their current cycle FDI in the Insurance market, as proposed in the Insurance Act 1938, is acknowledged in the intuitive course (Grazy & Parimalarani, 2020). This may be responsible for the request that organizations getting an FDI plan to procure basic approval from the IRDA for initiating protection exercises and consequently protection assets are well suitable for advancing public structure.

FDI has a basic job in the budgetary development of the nation. After the advancement of FDI control in the Retail division, Power Trading, Communications, and Aviation area the Indian Cabinet Committee on Economic Affairs (CCEA) is seriously anticipated to expand the FDI top in the Insurance part of India. A solid proposal for lifting FDI breaking point to 49% in the Insurance field from the current limit of 26% has been offered to the panel for right underwriting in the briefest period. This raise in as far as possible in the protection field will be abundantly esteemed by both public and universal firms, for the explanation of expanding their insurance agencies under different protection gatherings.

The primary goal of this paper is to inspect the monetary impacts pronounced by the protection delegates due to the development of FDI in the protection field. The exploration features the significance of FDI in the protection area as declared by the example of the examination with four different degrees incorporate money related impacts, administration effect, benefits, and general effect on the protection part.

Research Methodology

Research methodology can be categorized into two major categories i.e. quantitative research and qualitative research (Glesne, 2016). In this research, a limited amount of data is required regarding the equity investment by foreign investors. This is the reason that this report will be using qualitative

research methodology for making conclusions. In addition to that source of information that will be used in the given scenario will secondarily sources. A specific secondary resource that will be used in the given scenario will be an annual report issued by IRDA regarding all the business organizations operating in the Insurance sector. For a much more detailed analysis of all the business organizations operating in the sector has been divided into two major categories i.e. insurance companies and General, Health, and reinsurance companies. analysis in the given scenario will be undertaken for the year ending 2015, 2016, 2017, and 2018.

Research Hypothesis

H₁: There is no significant difference in the FDI investment made in public and private sector organizations.

H₂: There is a significant difference in the FDI investment made in public and private sector organizations.

Data Interpretation and Analysis

As it is already discussed in the methodology section that this research paper will be using the secondary source of information i.e. reports issued by IRDA. IRDA stands for insurance regulatory and Development Authority. this organization is responsible for the regulation of all the Insurance sector organizations operating in India and it issues statistical reports for the insurance sector on an annual basis.

According to the current regulations in India it is allowed for Insurance sector organizations to have 49% of the total capital finance to buy foreign investors. This is an upper limit which means that more than 49 % of the total capital cannot be held by foreign investors. data in the given scenario will be categorized based on categories of insurance i.e. life insurance and other insurance. Data presented in the given scenario has already been categorized into government and private sector organizations.

The Equity Share Capital of Life Insurance

EQUITY SHARE CAPITAL OF LIFE INSURERS

(₹ crore)

Insurer	As on 31 st March, 2018	Infusion During the year	As on 31 st March, 2019	Indian Promoter*	Foreign Investor	Foreign Investment %
AEGON Life	1442.62	20.49	1463.11	746.19	716.92	49.00%
AVIVA LIFE	2004.90	0.00	2004.90	1022.50	982.40	49.00%
BAJAJ ALLIANZ LIFE	150.71	0.00	150.71	111.53	39.18	26.00%
BHARTI AXA	2406.20	120.00	2526.20	1288.36	1237.84	49.00%
ADITYA BIRLA SUNLIFE	1901.21	0.00	1901.21	969.62	931.59	49.00%
CANARA HSBC	950.00	0.00	950.00	703.00	247.00	26.00%
DHFL PRAMERICA	374.06	0.00	374.06	190.77	183.29	49.00%
EDELWEISS TOKIO	312.62	0.00	312.62	159.44	153.18	49.00%
EXIDE LIFE	1750.00	100.00	1850.00	1850.00	0.00	0.00%
FUTURE GENERALI	1737.82	105.00	1842.82	1372.88	469.94	25.50%
HDFC	2011.74	5.64	2017.38	1303.02	714.36	35.41%
ICICI PRUDENTIAL	1435.35	0.43	1435.78	943.26	492.52	34.30%
IDBI FEDERAL	800.00	0.00	800.00	592.00	208.00	26.00%
INDIAFIRST	625.00	0.00	625.00	462.50	162.50	26.00%

KOTAK MAHINDRA	510.29	0.00	510.29	510.29	0.00	0.00%
MAX LIFE	1918.81	0.00	1918.81	1429.15	489.66	25.52%
PNB METLIFE	2012.88	0.00	2012.88	1367.70	645.18	32.05%
RELIANCE NIPPON	1196.32	0.00	1196.32	610.13	586.20	49.00%
SAHARA	232.00	0.00	232.00	232.00	0.00	0.00%
SBI LIFE	1000.00	0.00	1000.00	647.77	352.23	35.22%
SHRIRAM LIFE	179.38	0.00	179.38	103.35	76.03	42.39%
STAR UNION DAI-ICHI	258.96	0.00	258.96	140.00	118.96	45.94%
TATA AIA	1953.50	0.00	1953.50	996.29	957.22	49.00%
Total (Private Sector)	27164.38	351.56	27515.94	17751.75	9764.20	35.49%
LIC	100.00	0.00	100.00	100.00	0.00	0.00%
Total	27264.38	351.56	27615.94	17851.75	9764.20	35.36%

Note: * Includes Indian investors holding

In the above section of the report, it can be analysed that majority of the business organizations that are operating in the Insurance sector of India are private sector organizations. The total equity capital of these organizations has increased from 27164 crores to 27515 crores. total investment in the year 2018 made by foreign and domestic investors is around 351 crores in the Insurance sector. Based on this report, it can be analysed that majority of the business organizations that are operating in the private sector have invested more than 40% of their investment through foreign investors. It means that these organizations are taking full advantage of the policy of foreign investment liberalization provided by the government. Business organizations like Aviva Life, AGON life, Aditya Birla Sun Life, Bharti Axa, DHFL, and various other companies have 49% of their equity capital finance through foreign investors (IRDA 2018). In addition to that, all the other organizations are also heavily invested by foreign investors. all the business organizations operating in the Insurance sector of India during the year ended 2019 have at least 26% of their equity capital finance through foreign investors.

Public sector organization operating in this industry is Life Insurance Corporation. The total market capitalization of LIC in the year 2019 has been 100 crores only. No investment has been made by private domestic investors in this company during the financial year 2019. In addition to that, there is a 0% equity shareholding of foreign investors in this public sector organization.

Equity Capital of General, Health and Reinsurance Companies

EQUITY SHARE CAPITAL OF GENERAL, HEALTH AND RE-INSURERS

Insurers	As on 31 st March 2018	Infusion During the Year	As on 31 st March 2019	Indian Promoter**	Foreign Investor	Foreign Investment %
PRIVATE SECTOR INSURERS						
Acko General Insurance Ltd.	136.00	100.00	236.00	236.00	--	--
Bajaj Allianz General Insurance Co. Ltd.	110.23	--	110.23	81.57	28.66	26.00%
Bharti AXA General Insurance Co. Ltd.	1621.45	--	1621.45	826.94	794.51	49.00%
Cholamandalam MS General Insurance Co. Ltd.	298.81	--	298.81	179.28	119.52	40.00%
DHFL General Insurance Limited	190.05	--	190.05	190.05	--	--
Edelweiss General Insurance Company Limited	170.00	38.00	208.00	208.00	--	--
Future Generali India Insurance Co. Ltd.	809.80	--	809.80	603.25	206.55	25.51%
HDFC ERGO General Insurance Co. Ltd.	605.07	0.35	605.42	305.69	292.20	48.26%
Go Digit General Insurance Ltd.	350.00	324.57	674.57	674.57	--	--
ICICI Lombard General Insurance Co. Ltd.	453.95	0.36	454.31	253.84	--	--
IFFCO Tokio General Insurance Co. Ltd.	269.32	4.90	274.22	139.85	134.37	49.00%
Kotak Mahindra General Insurance Co. Ltd.	175.00	45.00	220.00	220.00	--	--
Liberty General Insurance Co. Ltd.*	1084.60	0.63	1085.23	556.90	528.33	48.68%
Magma HDI General Insurance Co. Ltd.	112.50	12.50	125.00	92.11	32.00	25.60%
Raheja QBE General Insurance Co. Ltd.	207.00	--	207.00	105.57	101.43	49.00%
Reliance General Insurance Co. Ltd.	251.55	--	251.55	251.55	--	--
Royal Sundaram General Insurance Co. Ltd.	449.00	--	449.00	269.40	179.60	40.00%
SBI General Insurance Co. Ltd.	215.50	--	215.50	150.85	56.03	26.00%
Shriram General Insurance Co. Ltd.	258.74	0.34	259.08	198.60	59.40	22.93%
Tata AIG General Insurance Co. Ltd.	732.50	175.00	907.50	671.55	235.95	26.00%
Universal Sompo General Insurance Co. Ltd.	368.18	--	368.18	240.74	127.44	34.61%
PRIVATE SECTOR TOTAL (A)	8869.24	701.64	9570.88	6456.32	2895.99	29.79%

PUBLIC SECTOR INSURERS						
National Insurance Co. Ltd.	100.00	--	100.00	100.00	--	--
The New India Assurance Co. Ltd.	412.00	412.00	824.00	704.00	--	--
The Oriental Insurance Co. Ltd.	200.00	--	200.00	200.00	--	--
United India Insurance Co. Ltd.	150.00	--	150.00	150.00	--	--
PUBLIC SECTOR TOTAL (B)	862.00	412.00	1274.00	1154.00	--	--
TOTAL (PRIVATE + PUBLIC) (A+B)	9731.24	1113.64	10844.88	7610.32	2895.99	27.15%
SPECIALISED INSURERS TOTAL (C)						
STANDALONE HEALTH INSURERS						
Aditya Birla Health insurance Co. Ltd.	132.88	79.15	212.03	108.13	103.89	49.00%
Apollo Munich Health Insurance Co. Ltd.	357.89	0.52	358.41	182.42	173.95	48.54%
Cigna TTK Health Insurance Co. Ltd.	364.73	226.14	590.86	301.34	289.52	49.00%
Max Bupa Health Insurance Co. Ltd.	926.00	55.00	981.00	500.31	480.69	49.00%
Reliance Health Insurance Ltd.	--	186.55	186.55	186.55	--	--
Religare Health Insurance Co. Ltd.	594.83	93.72	688.55	668.77	--	--
Star Health and Allied Insurance Co. Ltd.	455.58	--	455.58	158.65	101.58	22.30%
STANDALONE HEALTH INSURERS TOTAL (D)	2831.90	641.07	3472.97	2106.18	1149.64	31.77%
REINSURERS						
Public Sector Reinsurer - GIC	438.60	438.60	877.20	752.50	--	--
Private Sector Reinsurer- ITI	268.94	--	268.94	268.94	--	--
REINSURERS TOTAL (E)	707.54	438.60	1146.14	1021.44	--	--
GRAND TOTAL (F) = (A+B+C+D+E)	14970.69	2693.31	17664.00	12937.94	4045.63	23.66%

In the case of General, Health, and reinsurance companies, all the business organizations can be categorized into four major categories i.e. private-sector insurers, public sector insurers, standalone insurers, and specialized insurers. Among all of these organizations, it can be said that only public sector organizations have not taken any equity investment from foreign investors. Four organizations are operating in the public sector of this industry as opposed to only LIC operating in the life insurance segment. All of these four organizations have 0% equity investment from foreign investors.

All of the Other organizations have taken a significant amount of foreign investment. The aggregate total of foreign investment in the Insurance sector of India has been around 23 % of the total equity capital. Total foreign investment in private sector organizations has been around 30% of organizations like Bharti AXA, Liberty general insurance, IFFCO Tokio, etc. have taken 49% of their investment from foreign investors (IRDA, 2019).

After a detailed analysis of the collected data, it can be said that the capital structure of private and public sector organizations operating in this industry has been different from each other. Private sector organizations are a preference to take investment from foreign investors as opposed to the case of public sector organizations. The majority of the private sector organizations are taking 49% of their investment from foreign investors. On the other hand, public sector organizations are not taking any investment from foreign investors so which is the reason that a hundred percent of their equity capital is financed from domestic sources. The majority of the financing done in public sector is indeed from the government. This type of capital structure might be maintained by public sector organizations to maintain transparency of operations with the investors. On the other hand, private sector organizations are taking heavy investment from foreign investors as domestic investors are not willing to invest in this sector. This is because domestic investors in India are not high-risk takers and the risk factor involved in the sector is very high.

Based on data interpretation and analysis it can be said that HI is correct i.e. there is a significant difference between the capital structure of private and public sector organizations operating in the Indian insurance sector.

Conclusion

On an overall analysis of the data as well as literature review, it can be said that there is a requirement of more FDI investment in India to increase market penetration. insurance penetration in India is not appropriate under the density of population and it will be increased with the help of foreign direct investment in the future. Data interpretation and analysis section has identified that there is a significant difference between the type of capital structure in private and public sector organizations. It can be said that the majority of private sector organizations have foreign direct investment up to the limit allowed by the government. On the other hand, public sector organizations are not taking investment from foreign investors.

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