

FOREIGN DIRECT INVESTMENT (FDI): AN ACCELERATOR FOR INDIAN INSURANCE INDUSTRIES

Dr. Jyoti Mishra*

ABSTRACT

FDI is an important multinational tool which is providing a great support in influencing business activities in entire world. This paper is discussing about the every aspect of FDI in India. How India is strengthening its economy by getting FDI. Increased inflow of FDI enhances both sectors industry sector and service sectors. This is also covering each and every sector of economy like humane resource development, finance and technology, increasing exports and facing of competitive market. Paper is highlighting 20 years of FDI inflow in India and also showing state wise and sector wise inflow. Paper is merely focusing on FDI performance in insurance sector.

Keywords: *FDI, Inflow, Privatization, Globalization, Insurance Industry.*

Introduction

India is a developing country and focusing day to day on each and every corner of development and growth. Since independence to till date, many initiatives have been taken to develop and accelerate economy. Among all the steps taken by government five-year plans played a dynamic role. By implementing five-year plans government gave a structured and well directed rout of development. In five year plans many industrial policies were launched. In those industrial policies, new industrial policy 1991 was much more important because it gave economy a new direction and new dimension. In these new dimensions LPG formula was launched by finance minister Manmohan Singh. This was a roadmap of development of India with connection to entire world. India connected with overseas countries and expanded its business to different international countries. LPG means Liberalization, Privatization, and Globalization. Liberalization means the removal of controls or liberal the rules and law by the government to encourage economic development .it is a process by which the economy is opened and regulatory measures are relaxed. Privatization is the transfer of ownership of property or business from government to a privately owned entity. Globalization is the process in which a country expands its business throughout the world .The IMF defines globalization as," The growing economic inter – dependence of countries worldwide through increasing volume and variety of cross border transaction in goods and services and of international capital cash flows and through the more rapid and widespread diffusion of technology .when globalization introduced India become connected with globe and foreign aid were flowing towards India from different countries. IN this aid technology, managerial skills, human resource is included but most important all of them was foreign Direct Investment (FDI). FDI becomes important because other modes of international trade have many complexities like high cost of transportation, tariffs, trade barriers, limitation of licensing etc.

Meaning of FDI

Foreign direct investment is the investment made by a firm or individual in one country into business situated in another country. generally, FDI is done to control operations of business which is situated in another company. In FDI investor acquires or holds ownership 10% or more than 10% in business asset. Forms of FDI include:

* Assistant Professor Commerce, Ramadhin Singh Girls Degree College, Lucknow, U.P., India.

- Purchasing of existing assets in foreign country
- Initial investment in property plant and equipment
- Participation in Joint venture with local partner of a country
- Transfer of many assets like technological know-how, Humane resource system and other assets which are useful for international trade.
- For equity purpose exports of goods
- Purchase of equity shares of foreign companies.

Above different forms are given through which there will be inflow and outflow of FDI is possible. When a country makes FDI there are many factors which are responsible which affects FDI. These factors are as under:

- **Production Cost:** Production cost much influences the FDI because many countries are attracted by factor cost. Lower factor cost provides the benefit of lower production cost.
- **Transportation Cost:** If transportation cost is high in-home country and low in foreign country then many countries will do FDI to take advantage of transportation cost.
- **Natural Resources:** Most of the companies like to establish their units where availability of natural Resources is in plenty.
- **Availability of Trained Personnel:** This is the most influencing factor which affects FDI.
- **Access to technology:** Now days this is the most important factor affecting FDI
- **Marketing Access:** Easy availability of marketing provides a better platform for selling of products. So most of the companies like to make investment in those countries which have marketing accessibility.
- **Access of Customers:** Customer availability is found frequently in retail industry so mostly companies invest in retail industries in India 100 percent FDI is allowed. customer mobility, less trade barriers and economic incentives are also important. Besides all of these FDI have some pros and cons also Foreign Direct Investment flow in India

Foreign direct investment in India is increasing continuously since 1991 industrial policy. It is making its presence at very fast rate. in absolute terms FDI increased from \$97 million from 1990-91 to \$81722 million (as per RBI data upto July 2021) India has attracted total FDI inflow \$76.30 Billion during march to April 2021. Total FDI inflows in the country in last 21 years (from April 2000- march 2021) was \$ 763 .5 billion. While total FDI was upto \$ 319 in recent 5 years which was near about 50% of total FDI inflow of last 20 years.

Total FDI inflow was \$ 58.37 bn during financial year 2020-2021. we can take an overview of all FDI circulation in India it can be shown by following chart and table in which FDI inflow is covered up to the month of September 2020

Significance of the Study

The study of FDI inflow in India gives a clear view about its importance in India' s industry and service sector. how FDI is helpful in strengthening in Indian Economy. The paper is basically showing the importance of FDI contribution in insurance sector.

Objective of the Study

- To get insight into the concept of FDI.
- To know which sector is getting highest FDI contribution in India.
- To examine the impact of FDI on insurance industry in India
- Suggest some untouched areas from FDI

Research Methodology

The study is based on Secondary sources of data collected form some authenticated websites, several books, journal are consulted and personal observation are also part of this study.

20 years FDI inflow in India : The following table shows total FDI inflow via different routes--

Table

SN.	Financial year	FIPB ROUTE/R FIPB/RBIs Automatic Route /Acquisition Route	Equity capital of unincorporated bodies	Reinvestment earnings	Other Capital	Total FDI flows	% growth over previous year in US\$(terms)	Investment Oral investor Investment by Flls/Foreign institutional investor fund (net)
1	2000-01	2339	61	1350	279	4029	-	1847
2	2001-02	3904	191	1645	390	6130	(+)52%	1505
3	2002-03	2574	190	1833	438	5035	(-)18%	377
4	2003-04	2197	32	1460	633	4322	(-)14%	10918
5	2004-05	3250	528	1904	369	6051	(+)40%	8686
6	2005-06	5540	435	2760	226	8961	(+) 48%	9926
7	2006-07	15585	896	5828	517	22826	(+)155%	3225
8	2007-08	24573	2291	7679	300	34843	(+)53%	20328
9	2008-09	32364	702	9030	777	41873	(+)20%	(-)15017
10	2009-10	25606	1540	8668	1931	37745	(-)10%	29048
11	2010-11	21376	874	11939	658	34847	(-) 08%	29422
12	2011-12	34833	1022	8206	2495	46556	(+)34%	16812
13	2012- 13	21825	1059	9880	1534	34298	(-)26%	27582
14	2013-14	24299	975	8978	1794	36046	(+) 5%	5009
15	2014-15	30933	978	9988	3249	45148	(+)25%	40923
16	2015-16	40001	1111	10413	4034	55559	(+)23%	(-)4016
17	2016-17	43478	1223	12343	3176	60220	(+)08%	7735
18	2017-18	44857	664	12542	2911	60974	(+)01%	22165
19	2018-19(p)	44366	689	13672	3274	62001	(+)02%	(-)2225
20	2019-20(p)	49977	1757	14175	8482	74390	(+)20%	552
21	2020-21 Up to September 2020	50004	778	7420	1727	39929	-	8122

Source: department of industry policy and promotion

The above table shows FDI inflows from 2000-01 to 2020-21. Table is showing 21 years flow of FDI. Increasing trend has been seen in the table.

FDI received by India, comes by different routes these are as under:

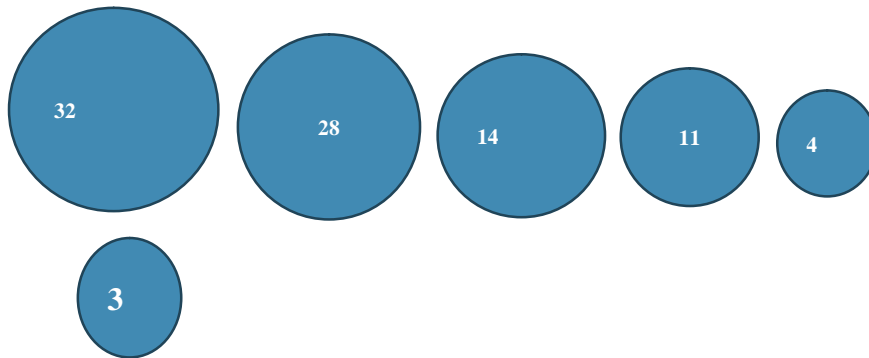
- **Automatic Route:** Under the Automatic route, the foreign investor or Indian company does not require any approval for the investment from RBI or Government of India. At present 74% FDI is allowed through automatic route.
- **Government Route:** while investing by this route. Government approval is required. Beyond 74% FDI government approval is compulsory.

The measures have been taken by government on the fronts of FDI policy reforms. Investment facilitation and ease of doing business have resulted in increased FDI inflows into the country. Clear state wise and industry wise distribution of FDI is given below

State wise FDI inflow in India 2020-21 (April-December) RS crore

State wise FDI

- Gujrat 32% (1,77,053)
- Maharashtra 28% (1,53,351)
- Karnataka 14% (78,160)
- Delhi 11% (59,830)
- Tamil N du 4 %(19,734)
- Jharkhand 3%(19,200)
- Haryana2%(13,661)
- Telangana 2 %(11,332)
- WestBengal1% (4309)
- Uttar Pradesh 1%(4103)



While analyzing above data here we see the FDI inflow in 10 states. Gujrat receives highest FDI and in second place is Maharashtra, Karnataka is on third and Delhi is at fourth position in receiving FDI. Jharkhand is receiving 19200 crore and in sixth position Haryana is on seventh position Telangana is on eighth and west Bengal on ninth and UP is on tenth position which is getting FDI of Rs 4103 crore. Its mean that UP have to concern on getting FDI from different route .

Source: Department for promotion of industry and internal trade

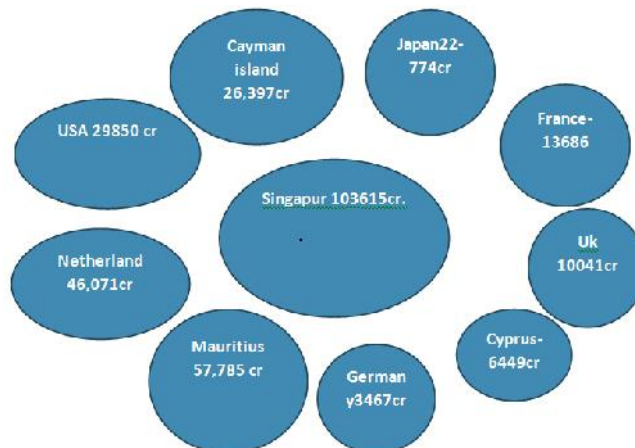
Sector wise FDI Inflow in India

The following data shows sector wise FDI inflow in financial year 2020 in the following sectors

- Services (financial, banking, insurance, non-financial, business outsourcing, research and development courier technology testing and analysis)(55429crore)
- Computer software and hardware(54250crore)
- Trading (32406 crore)
- Telecom (30940 crore)
- Hotels & tourism (21060 crore)
- Auto (19753crore)
- Infrastructure activities (roads & highways, etc) (14510crore)
- Chemicals(7492crore)
- Construction development (housing, township, built -up infra etc.) (4350crore)
- Pharma (3650 crore)

The above data shows sector wise distribution of FDI which reveals that service sector is getting highest FDI in comparison of other 9 sectors. After services computer software and hardware is on 2nd rank. The Industry, which is getting only 3650 crore which is only 1% in comparison of all the sectors.

Present flow of FDI in India getting from different countries: here is the list of top countries from where India gets its highest FDI inflow in FY 2020. These countries are: There was total FDI inflow was rs 353,558 crores



The above chart shows Singapore is the highest contributing country. Mauritius is following. After Mauritius Netherland and USA is contributing 46,071 crore and 29850 crore Rs FDI in India. The least contributing country is Germany with 3467 crore.

FDI and Insurance Industry

The insurance act 1938 was amended and limit of FDI in insurance was increased from 49 percent to 74 percent .FDI limit in insurance sector was increased in the year 2015. After 2015 this was increased in 2021.many professional and businessmen commented on this FDI hike of 74% in insurance sector. The ministry of finance has notified "Indian insurance companies (foreign investment) amendment rules 2021. This new amendment will help in the growth acceleration of 23 private life insurance 21 private non-life insurance and 7 specialized private health insurance companies.

According to Russell Gaitonde partner of Daloitte India said "this hike decision will help in attracting greater foreign investment and will provide strength to this sector".

According to Aatur Thakkar (co- founder and director of alliance insurance) said that infusion of capital will enable growth and help insurance reach at grass root level . This one move, will help in creating more jobs for youths which is the need of the hour.

According to Shailzalal, partner Shardul Amarchand Mangaldas & company said that a more liberal FDI policy will certainly attract higher amounts of foreign capital which will help in increasing insurance penetration in India .

As of 31st march2021 there were only 24 life and 34 non life direct insurers in India which are approved and recognized by IRDA. After hike in FDI this no will be surely increase and customer services and satisfaction will be also satisfactory.

Following points are expressly showing the importance of FDI increase in insurance sector:

- FDI increase can expand globally insurance business of India and it will help in cutting down the cost of insurance products in India and the rest of the world.
- Most of the FDI is through FIIs so it will be beneficial for Indian insurance industry promoters because they will have good control over their company and this non debt finance (FDI) will help them a lot in flourishing their business.
- This hike will be beneficial for small insurance entrepreneurs to establish their business and this will be also beneficial for those who are not able to manage a huge amount of finance.
- This increase will be certainly very helpful in achieving local startups of insurance industry.
- FDI increase will be a important factor in achieving targeted growth rate decided by government or insurance regulatory authorities.

After over viewing the above trend it can be concluded that FDI inflow in India is increasing at satisfactory rate .Its inflow can be seen in every sector wherever it is infrastructure or in industries and services. it is seen in greenfield and brown field and via direct route and via institutional route. Liberalization policy of 1991 gave a way for its promotion **but here are some sectors in which FDI is not permitted:**

- Lottery business including government private lottery etc.
- Gambling and betting including casinos etc.
- Chit fund
- Nidhi company (borrowing from members and lending to members only)
- Trading in transferable developments rights.

Above all those sectors can be sensitized by allowing FDI with taking some precautions. By doing so sufficient contribution in GDP can be made and per capita income can be increased. Overall it can be said that

After having restrictions in these sectors flow of FDI is showing consistent increase.

References

1. RBI Bulletins and DIPP (Department of industrial policy and promotion)
2. Economic survey 2021
3. unacted .org

4. economic times
5. <https://wap.business-standard.com>
6. [www. Business standard .com](http://www.business-standard.com)
7. <http://www.financialexpress.com>
8. [www. Oecd .org.](http://www.Oecd.org)
9. Pathak Bharti, Indian Financial System (pearson)
10. David K .Eiteman, Arthur I. Stonehill, Michael H. Moffett. Multinational Business finance (Pearson)
11. P. Subba Rao, International Business (Himalaya Publishing House)
12. IRDA annual report.

