

FOREIGN DIRECT INVESTMENT: A STUDY ON INDIAN PRIVATE LIFE INSURANCE COMPANIES

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ABSTRACT

Reforms in Insurance sector in India have certainly opened doors for private players. Economic liberalization has encouraged significant foreign investments with an inflow of financial capital, technology and intellectual. India recently amended an insurance law to elevate the cap on Foreign Investment into Insurance companies to 49% from the 26% after discussions that went on for nearly a decade. In this study, a limit of 26% foreign equity in private life insurance companies has been considered, since the new amendment is yet to be implemented. In order to study the impact of Foreign Direct Investment (FDI) on the performance of private life insurance companies, significant variables such as annual premium income, profit & loss, operating expenses and business expansion have been used. A sample of ten private life insurance companies was analyzed for a period of year 2008-14 using multiple regression analysis technique. The study has made use of secondary data from sources like IRDA published data, websites of insurance companies and research journals.

KEYWORDS

Foreign Direct Investment, Insurance, Multiple Regression, Private Life Insurance Companies and Total Premium

INTRODUCTION

The history of life insurance industry dates back to year 1818 when the Oriental Life Insurance Company was established in Calcutta. But since then it had been dominated by foreign companies until an issuance of an ordinance on 19th January, 1956 for nationalizing the Life Insurance sector. Life Insurance Corporation (LIC) came into existence in the same year.

Prior to liberalization in 1999, LIC of India was the only company enjoying the monopoly status in Indian Insurance sector. The Indian Insurance industry was re-opened for private insurers in 1999, with the enforcement and establishment of Insurance Regulatory and Development Authority act (IRDA Act, 1999) which has restructured the economy. The IRDA was

incorporated as a statutory body in April, 2000. Foreign companies were allowed ownership of up to 26%. Since inception, IRDA has framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests. A remarkable growth has been observed in the industry in the post-liberalization period due to healthy competition among many domestic and international private insurance players in the market.

The **Indian Insurance sector has been growing at** a swift pace of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. As of today, 23 private life insurers are competing in the Indian market and most of the private insurance companies are joint ventures with recognized foreign players across the globe, LIC of India being the sole public sector company.

LITERATURE REVIEW

In the book, "Privatization in India" (2001), G. Ganesh studied the insurance sector in India. He mentioned that privatization plays a vital role in insurance sector providing a competitive edge to the sector. In the book, "Foreign Direct Investment in India" (2006), K. Gabbar discussed about the nature and scope of Foreign Direct Investment in India in various industries through collaboration, merger, acquisition and joint venture of equity. H. Sadhak (2009) in his book, "Life Insurance in India, opportunities, challenges and strategic perspective" discussed that there has been significant impact on life insurance due to deregulation and liberalization of Indian economy. He stressed on the importance of competitive market environment in promotion of healthy competition and consumer protection.

Singh & Singh (2011) studied that Foreign Direct Investment is a tool for economic growth by its power of local capital, productivity and employment generation. FDI plays a crucial role in upgrading skills, technology and capabilities of management in various sectors of the economy. They also studied the relation between growth of FDI in service sector and employment generation

Singh J. (2010) in his study, "Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns", found that there is a rising trend of FDI inflows into India due to various policy measures announced by the Indian government since mid-1980 and after. This study also indicated that India witnessed considerable increase in FDI inflow in comparison to other developing nations.

Babar & Khandare (2012) in their paper, "Structure of FDI in India during globalisation period" focused on changing structure, trends and direction of FDI during globalisation period in India as well as analysed the advantages of FDI for economic growth and development for top sectors.

Singh & Gautam (2014) investigated about the Indian insurance industry and reviewed the current policy and regulations with a viewpoint of foreign investors as well as presented an overview of the Indian Policy and Regulatory Environment in their study "Foreign Direct Investment and Indian Insurance Industry".

The existing literature does not clearly identify the impact of FDI on the private life insurance business in India. Therefore in this study, an attempt has been made to examine the impact of foreign equity on the selected private insurers' growth and development.

RESEARCH METHODOLOGY

RESEARCH OBJECTIVE

The paper attempts to analyze the impact of FDI on Indian Life Insurance business in private sector by studying the variables such as total premium, profit & loss, business expansion and operating expenses. The paper also provide suggestions to improve the performance of life insurance business in India.

DATA, SAMPLE & VARIABLES

Relevant data was gathered from the selected private life insurance companies and IRDA website. Four key dependent variables were selected (Total Premium, Profit & Loss, Business Expansion and Operating Expenses) to study the impact of independent variable (FDI) on them. Following is the list of selected private life insurance companies:

| S. No. | Private Life Insurer | Year of establishment | Nature of company |
|--------|---|-----------------------|--|
| 1 | Industrial Credit and Investment Corporation of India (ICICI) Prudential Life Company Private Limited | 2000 | Joint venture |
| 2 | Housing Development Finance Corporation (HDFC) Standard Life Insurance Company Private Limited | 2000 | Joint venture |
| 3 | State Bank of India (SBI) Life Insurance Company Private Limited | 2001 | Joint venture |
| 4 | Kotak Mahindra Life Insurance Company Private Limited | 2001 | Joint venture |
| 5 | Bajaj Allianz Life Insurance Company Private Limited | 2001 | Joint venture |
| 6 | ING Vysays Life Insurance Company Private Limited (now EXIDE Life Insurance) | 2001 | Incorporated as joint venture, but now completely owned by Exide Industries Ltd. |
| 7 | Punjab National Bank MetLife India Insurance Company Limited | 2001 | Joint venture |
| 8 | Tata AIG Life Insurance Company Private Limited (now Tata AIA) | 2001 | Joint venture |
| 9 | Birla Sun Life Insurance Company Private Limited | 2000 | Joint venture |
| 10 | AVIVA Life Insurance Company India Private Limited | 2002 | Joint venture |

RESEARCH HYPOTHESIS

$H_{\alpha 1}$: There is no significant difference between FDI and Total Premium of the life insurance companies.

$H_{\beta 1}$: There is a significant difference between FDI and Total Premium of the life insurance companies.

$H_{\alpha 2}$: There is no significant difference between FDI and Profit & Loss of the life insurance companies.

$H_{\beta 2}$: There is a significant difference between FDI and Profit & Loss of the life insurance companies.

$H_{\alpha 3}$: There is no significant difference between FDI and Business Expansion of the life insurance companies.

$H_{\beta 3}$: There is a significant difference between FDI and Business Expansion of the life insurance companies.

$H_{\alpha 4}$: There is no significant difference between FDI and Operating Expenses of the life insurance companies.

$H_{\beta 4}$: There is a significant difference between FDI and Operating Expenses of the life insurance companies.

For testing the hypothesis, multiple regression analysis was used.

RESULTS

Impact of FDI on Total Premium

Descriptive Statistics

| | Mean | Std. Deviation |
|---------------|-----------|----------------|
| Total Premium | 4779.5291 | 2092.31470 |
| FDI | 281.5483 | 106.01718 |

Correlation

| | | Total Premium | FDI |
|---------------------|---------------|---------------|-------|
| Pearson Correlation | Total Premium | 1.000 | .995 |
| | FDI | .995 | 1.000 |

Model Summary

| Model | R | R Square | Adjusted R square | Std. error of estimate | Change Statistics | | | | | Durbin - Watson |
|-------|-------------------|----------|-------------------|------------------------|-------------------|----------|------|------|---------------|-----------------|
| | | | | | R square change | F Change | DF 1 | DF 2 | Sig. f change | |
| 1 | .995 ^a | .990 | .989 | 223.676 | .990 | 520.005 | 1 | 5 | .000 | 2.415 |

Predictors: (Constant) FDI, Dependent Variable: Total Premium

ANOVA

The data was analyzed for a period of 2008-2014 to test hypothesis $H_{\alpha 1}$ & $H_{\beta 1}$ and was found

| Model | | Sum of Squares | DF | Mean Square | F | Sig. |
|-------|------------|----------------|----|--------------|---------|-------------------|
| 1 | Regression | 26016528.304 | 1 | 26016528.304 | 520.005 | .000 ^b |
| | Residual | 250156.465 | 5 | 50031.293 | | |
| | Total | 26266684.770 | 6 | | | |

Dependent Variable: Total Premium, Predictors: (Constant) FDI

that there is a significant difference between FDI and Total Premium. This indicates that foreign investment is advantageous for life insurance companies increasing the collection of premium every financial year and proliferating the financial performance of the business.

Impact of FDI on Profit & Loss**Descriptive Statistics**

| | Mean | Std. Deviation |
|---------------|------------|----------------|
| Profit & Loss | 80461.4571 | 32150.53086 |
| FDI | 281.5483 | 106.01718 |

Correlation

| | | Profit & Loss | FDI |
|---------------------|---------------|---------------|-------|
| Pearson Correlation | Profit & Loss | 1.000 | .922 |
| | FDI | .922 | 1.000 |

Model Summary

| Model | R | R Square | Adjusted R square | Std. error of Estimate | Change Statistics | | | | | Durbin - Watson |
|-------|-------------------|----------|-------------------|------------------------|-------------------|----------|------|------|---------------|-----------------|
| | | | | | R square change | F Change | DF 1 | DF 2 | Sig. f change | |
| 1 | .922 ^a | .849 | .819 | 13668.74 | .849 | 28.195 | 1 | 5 | .003 | 1.012 |

Predictors: (Constant) FDI, Dependent Variable: Profit & Loss

ANOVA

| Model | | Sum of Squares | DF | Mean Square | F | Sig. |
|-------|------------|----------------|----|----------------|--------|-------------------|
| 1 | Regression | 5267766873.040 | 1 | 5267766873.040 | 28.195 | .003 ^b |
| | Residual | 934172934.577 | 5 | 186834586.915 | | |
| | Total | 6201939807.617 | 6 | | | |

Dependent Variable: Profit & Loss, Predictors: (Constant) FDI

The data was analyzed for a period of 2008-2014 to test hypothesis $H_{\alpha 2}$ & $H_{\beta 2}$ and was found that there is a significant difference between FDI and Profit & Loss, indicating an increase in profit & loss account of the private life insurance companies due to foreign equity.

Impact of FDI on Business Expansion**Descriptive Statistics**

| | Mean | Std. Deviation |
|--------------------|----------|----------------|
| Business Expansion | 475.5143 | 160.32795 |
| FDI | 281.5483 | 106.01718 |

Correlation

| | | Business Expansion | FDI |
|---------------------|--------------------|--------------------|-------|
| Pearson Correlation | Business Expansion | 1.000 | .890 |
| | FDI | .890 | 1.000 |

Model Summary

| Model | R | R Square | Adjusted R Square | Std. error of estimate | Change Statistics | | | | | Durbin - Watson |
|-------|-------------------|----------|-------------------|------------------------|-------------------|----------|------|------|---------------|-----------------|
| | | | | | R square change | F Change | DF 1 | DF 2 | Sig. f change | |
| 1 | .890 ^a | .792 | .750 | 80.16628 | .792 | 18.999 | 1 | 5 | .007 | .833 |

Predictors: (Constant) FDI, Dependent Variable: Business Expansion

ANOVA

| Model | | Sum of Squares | DF | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 122097.148 | 1 | 122097.148 | 18.999 | .007 ^b |
| | Residual | 32133.160 | 5 | 6426.632 | | |
| | Total | 154230.309 | 6 | | | |

Dependent Variable: Business Expansion, Predictors: (Constant) FDI

The data was analyzed for a period of 2008-2014 to test hypothesis $H_{\alpha 3}$ & $H_{\beta 3}$ and was found that there is a significant difference between FDI and Business Expansion. Since there is a significant population in the country which has still not covered by life insurance companies, it provides tremendous opportunity to the companies to expand their businesses. The increasing per capita income of citizens is also pointing towards this direction.

Impact of FDI on Operating Expenses**Descriptive Statistics**

| | Mean | Std. Deviation |
|--------------------|------------|----------------|
| Operating Expenses | 87397.9143 | 32215.79819 |
| FDI | 281.5483 | 106.01718 |

Correlation

| | | Operating Expenses | FDI |
|---------------------|--------------------|--------------------|-------|
| Pearson Correlation | Operating Expenses | 1.000 | .906 |
| | FDI | .906 | 1.000 |

Model Summary

| Model | R | R Square | Adjusted R square | Std. error of estimate | Change Statistics | | | | | Durbin - Watson |
|-------|-------------------|----------|-------------------|------------------------|-------------------|----------|------|------|---------------|-----------------|
| | | | | | R square change | F Change | DF 1 | DF 2 | Sig. f change | |
| 1 | .906 ^a | .821 | .785 | 14944.72 | .821 | 22.881 | 1 | 5 | .005 | .885 |

Predictors: (Constant) FDI, Dependent Variable: Operating Expenses

ANOVA

| Model | | Sum of Squares | DF | Mean Square | F | Sig. |
|-------|------------|----------------|----|----------------|--------|-------------------|
| 1 | Regression | 5110422397.322 | 1 | 5110422397.322 | 22.881 | .005 ^b |
| | Residual | 1116723520.347 | 5 | 223344704.069 | | |
| | Total | 6227145917.669 | 6 | | | |

Dependent Variable: Operating Expenses, Predictors: (Constant) FDI

The data was analyzed for a period of 2008-2014 to test hypothesis $H_{\alpha 4}$ & $H_{\beta 4}$ and was found that there is a significant difference between FDI and Operating Expenses. Private Life Insurance companies have high operating expenses. The private life insurance industry in India is not very old and many companies are yet to break even. With sufficient experience the expenses may reduce over the period of time.

DISCUSSION

The analysis of relevant data from selected private life insurance companies indicates that there is a decent utilization of foreign investment in life insurance sector which is well reflected by the fruitful growth and market penetration of the private players in urban, semi urban and rural areas. Deregulation in India has resulted in increasing FDI trends ever since the reform in FDI regime provided simplified procedures and policies, with foreign investors facing less restrictions. The market share of private insurers has increased noticeably since year 2000. The present study shows that liberalization has a significant impact on the growth of Indian life insurance business.

CONCLUSION

Having analyzed the performance of the private insurance companies and the history of insurance sector in brief, it becomes evident that a rise in FDI cap was a much needed step. Global corporates are attracted towards Indian life insurance market due to untapped business opportunities prevailing in the Indian market since only a small percentage of India's population has life insurance cover. Also the developed markets have saturated thereby pushing the big companies to explore developing nations like India. With an increased limit of foreign equity to 49%, global investors are sure to bring in the much required foreign capital to meet the industry needs and we can expect new insurance IPOs in the coming year and big global corporates setting up their branches in India. This could further cut down the market share of LIC of India and would mean strong entry of private players in semi-urban and rural areas.

RECOMMENDATIONS

In order to achieve greater market penetration, a healthier competition needs to be intensified in the industry. Factors like increasing middle class, young population and rising awareness of the need for protection and retirement planning are all in favour of the growth of Indian life insurance sector.

It is important to create trust and confidence among policy holders through ethical sales force, innovative products and complete information transmission. Better insurance schemes providing effective risk coverage, and not just tax saving, can encourage the customers to invest in insurance. Life insurance companies mobilize the national savings for the development of the economy, highlighting this cause would further increase trust of customers as well as of government.

Life insurance sector is expected to have a bright future with introduction of favourable reforms and higher customer engagement.

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