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Future Perspective of FDI in Insurance Sector in India

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Abstract: India's insurance market has undergone numerous changes and is one of the fastest-growing markets today. The pandemic has sped up the industry's rapid digitalization, reflected a rise in its demand, necessitated the development of new products, and more. Furthermore, the prospects show there have been disruptions owing to the extraneous factors that have led to the evolution of the industry itself. According to IRDAI, the sector has witnessed growth between 12 and 15 percent over a five- to six-year horizon.

India is a growing economy and attractive country to invest in different sectors, especially in its fast growing and developing insurance market. Indian insurance industry has a great growth potential. Foreign Direct Investment (FDI) plays an important role in the economic development of any country. However, Foreign Direct Investment (FDI) is released in the insurance industry, and after a long debate finally the limit of FDI has been increased up to 49% in insurance sector. Due to economic liberalization started in 1990's FDI in India continuously increasing and most of the global firms shown keen interest in investing in India. This paper's objectives are to investigate the Indian insurance industry and review current policy and regulations with a viewpoint of foreign investors so as to gain an understanding of the current position on FDI and to know the future prospective of the same in India.

Key words: Foreign, Investment, Policy, Regulations, Insurance.

INTRODUCTION

India is one of the fastest-growing economies in the world and is home to a large population of over 1.3 billion people. The country's insurance industry is rapidly growing, with an expected market size of $280 billion by 2025, a compound annual growth rate (CAGR) of 12%-15%, primarily attributable to rising awareness about the importance of insurance and increasing disposable incomes. The Indian government has implemented various policies to promote growth and innovation in the insurance sector. This report will explore the opportunities for U.S. businesses in India's insurance sector. The Indian insurance sector has historically witnessed growth between 12 and 15 per cent over a five-to-six-year time horizon. This growth has primarily been driven by the inherent under-penetration of the sector (3.76 per cent in India against 9 per cent and above in developed countries like Japan, the U.K. and the U.S.) as well as concerted efforts by the industry and the Insurance Regulatory and Development Authority of India (IRDAI) to increase awareness and adoption.

In equal measures, the insurance sector has witnessed disruption in recent times due to extraneous factors as well as evolution of the industry itself. Extraneous factors include the recent pandemic as well as advancements in the larger financial services space, including increased focus on digitalization, better formalization of the economy, disruption in payments, etc. The industry has also evolved, driven by the advent of insure-techs, sandbox framework by the regulator, rise of ecosystems, embedded products, greater focus on digital transformation and big data.

Going forward, a similar set of themes would continue to propel growth. From a structural perspective, an enabling environment created by an increase in the foreign direct investment (FDI) cap, valuations being commanded by insurance companies, capital markets activities and rising awareness, especially about health and life insurance, would drive growth. From an operational perspective, increasing affinity of consumers to interact digitally, remote underwriting, contactless processing, video on-boarding and other similar themes will propel the insurance industry forward.

The history of insurance in India is deeply rooted, and the journey extends over 200 years. Business-wise, life insurance was introduced in 1818 when the Oriental Life Insurance Company launched in Calcutta. However, during this era, the market was dominated by foreign insurance offices. Then, in 1912, the Indian Life Assurance Companies Act emerged as the first statutory body to regulate life insurance in India. The nationalization of the insurance sector happened in January 1956 with the emergence of LIC (Life Insurance Corporation), which subsequently absorbed a total of 245 Indian and foreign insurers. Until the 1990s, the LIC had a monopoly in the market until the insurance sector reopened for the private sector and the changes started to show up.

With the recommendations of the Malhotra Committee, IRDA (the Insurance Regulatory and Development Authority) was incorporated in early 2000 as a statutory body to regulate the insurance industry, and it changed the landscape of the industry irrevocably. Over the past two decades, the insurance market in India has experienced impressive growth, thanks to increased private sector involvement, better distribution capabilities, and significant increases in operational efficiency. The insurance sector has never looked back since the sector underwent liberalization, and it is now one of India’s most competitive and developing industries. Today, there are 34 general insurance companies and 24 life insurance companies, according to IRDAI. Furthermore, the total addressable market (TAM) in FY 22 was $66.5 billion, according to Redseer Consulting, and it is anticipated to reach $222 billion by FY 26. Despite the stunning numbers, India is underinsured as a country.

Three separate milestone events:

- Nationalization of General Insurance Companies during 1972, where in 107 insurers were grouped and amalgamated into four Companies – National Insurance Co. Ltd., The New India Assurance Co. Ltd., The Oriental Insurance Co. Ltd. and United India Insurance Co. Ltd.
- IRDAI opened the market for private insurance companies in the year 2000, which helped boost insurance penetration in the country.
- Introduction & licensing of standalone health insurance companies by IRDA in the year 2006.

GROWTH AND MARKET SIZE

The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. Out of 28 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance.

India's life insurance sector is the biggest in the world with about 36 crore policies which are expected to increase at a compound annual growth rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020, and could top the US$ 1 trillion mark in the next seven years. The total market size of India's insurance sector is projected to touch US$ 350-400 billion by 2020 from US$ 66.4 billion in FY13. The general insurance business in India is currently at Rs 77,000 crore (US$ 12.41 billion) premium per annum industry and is growing at a healthy rate of 17 per cent. The Rs 12,606 crore (US$ 2.03 billion) domestic health insurance business account for about a quarter of the total non-life insurance business in the country. Investment corpus in India's pension sector is anticipated to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, according to a joint report by CII-EY on Pensions Business in India. Indian insurance companies are expected to spend Rs 117 billion (US$ 1.88 billion) on IT products and services in 2014, an increase of five per cent from 2013, as per Gartner Inc. Also, insurance companies in the country could spend Rs 4.1 billion (US$ 66.11 million) on mobile devices in 2014, a rise of 35 per cent from 2013.

FDI IN INSURANCE SECTOR

FDI in insurance sector inculcates the savings habit, which in turn generates long-term investible funds for infrastructure building. In India, insurance sector is one of the most vial sectors as it ensures constant inflow of funds – the payout is staggered and contingency related – thereby making it readily available for investment on infrastructure building. Insurance Sector contribute to GDP, is quite insignificant. Insurance Sector, in India had opened up the insurance sector for private participation in 1999, also allowing the private companies to have foreign equity up to 26 per cent. When it was done, many private companies are now into the insurance business. But now the new government in 2014, through The Insurance Laws (Amendment) Bill aims to raise the ceiling on foreign direct investment (FDI) in insurance to 49 per cent from the current 26 per cent limit. Recently the Cabinet Committee on Economic Affairs headed by Prime Minister Narendra_Modi has approved the limit of Foreign Direct Investment (FDI) in Insurance sector to 49 percent from the existing 26 percent. The cabinet has cleared the FDI limit in insurance companies through FIPB route which necessitates the management control with the Indian promoters. This was a long due reform which the Modi government has undertaken and is surely bond to benefit the insurance sector. The stock market has reacted positively to the news and the shares of Reliance Capital and Max India gained more than 4.5% in intra-day trade today. The higher FDI cap will immensely help the insurance sector which is extremely short on investments. This will mark the new beginning in the insurance sector and will bring a lot of capital.

CHALLENGES AND OPPORTUNITIES

The insurance industry in India faces challenges that need to be addressed in order to ensure elevated growth. There is significantly more population living in rural areas than in urban areas. According to the estimates of the World Bank, roughly 65% of the population lives in these areas. The issues arise because there are relatively few buyers as well as sellers of insurance in rural areas. Some of the main reasons for its low penetration in India include inadequate insurance awareness, gaps in product understanding, and the value of the return on investment of the insurance purchased. Another significant challenge is getting insurance distribution to every area within the last mile. However, not everything is doom and gloom.

The Covid dramatically increased public awareness of health insurance, resulting in a surge in policy purchases. The other insurance products, however, still experience slow growth. Insurance penetration in India during 2021–22 was 4.2 percent, which remained the same as in 2020–21, according to the Annual Report of IRDAI. However, in India, a number of regulatory changes are being implemented to boost the penetration of insurance, boost capital inflow, boost valuation, and ease the entry of small, specialised, and niche players. The increase of the FDI, the General Insurance Business Amendment Bill (August 2021), the introduction of the National Health Stack, and disbursing huge amounts of capital for the development of the industry are some of the key examples. As a result, today, with the entry of private players who are targeting the underinsured market and the rising use of the new distribution, the long-term expansion of the industry has been facilitated by the use of new distribution methods and technological advancements.

THE INSURTECH OPPORTUNITY

India is currently one of the fastest-growing markets for insurance technology, or insurtech, and presents many opportunities for U.S. businesses looking to expand into this sector. Insurtech powers the creation, distribution, and administration of the insurance business. The country's large population, increasing internet and smartphone usage, and growing middle class make it an attractive market for insurtech companies looking to provide innovative insurance solutions. Estimates value India's insurtech market opportunity as high as $339 billion. Some key trends and developments in the insurtech sector in India include:

- Digital distribution channels
- Data analytics and AI
- Internet of Things (IoT) and telematics
- Healthtech and wellness programs
- Peer-to-peer (P2P) insurance
- Regulatory sandboxes

The insurtech sector in India is witnessing significant growth and innovation, disrupting traditional insurance models and offering new solutions to meet the evolving needs of consumers. One of the main areas of opportunity for U.S. insurtech companies in India is the provision of digital insurance solutions. With a large portion of the Indian population still lacking access to traditional insurance products, there is a significant potential for insurtech firms to offer low-cost, easy-to-use digital insurance products. Another area of opportunity is in the development of innovative products tailored to the Indian market. For example, there is a growing demand for microinsurance, which provides coverage for low-income individuals and families. U.S. insurtech companies that can provide affordable, accessible microinsurance products could tap into this market and potentially make a significant impact on the lives of millions of people. Challenges remain, however, including regulatory compliance, data privacy issues, and consumer trust.

GOVERNMENT INITIATIVES AND THEIR IMPACT

The Government of India has taken a number of initiatives to boost the insurance industry.

Pradhan Mantri Fasal Bima Yojana (PMFBY) is a crop insurance scheme launched by the Indian government in 2016, aimed at providing financial support to farmers in the event of crop damage due to natural calamities, pests and diseases. Under this scheme, farmers pay a nominal premium, and the government provides the remaining premium amount. The coverage is available for all crops and compensation is based on the extent of crop loss. The scheme is implemented by the Ministry of Agriculture and Farmers' Welfare and is administered by the Agriculture Insurance Company of India (AIC). The primary objective of PMFBY is to provide affordable crop insurance to farmers and protect them from the risks associated with crop failure. PMFBY now covers over 55 million farmer loan applications per year.

Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) is an entitlement-based healthcare scheme launched in 2018 and fully funded by the Government of India. AB-PMJAY aims to provide financial protection to over 107million families (approximately 500million individual beneficiaries). AB-PMJAY is the world's largest health insurance scheme and aims to make healthcare accessible and affordable for the poor and vulnerable sections of society. The scheme also focuses on the development of a robust healthcare infrastructure in the country, which can cater to the needs of the people.

Some of them are as follows:

- The Reserve Bank of India (RBI) has allowed banks to become insurance brokers, permitting them to sell policies of different insurance firms subject to certain conditions.

- The select committee of the Rajya Sabha gave its approval, permitting 49 per cent composite foreign equity investment in insurance companies. A broad agreement has also been achieved with the states on most of the issues concerning the implementation of the single goods and services tax (GST), which is scheduled to be rolled out from April 1, 2016.
- The Government of India plans to implement a Rs 1,900 crore (US$ 306.41 million) e-governance project called 'Panch Deep' to automate transactions of the Employees State Insurance Corporation (ESIC), said Mr Bandaru Dattatreya, Union Minister for Labour and Employment with Independent Charge, Government of India. Under the project, enterprise resource planning (ERP) solution would be installed across the country which will give a unique card to the employees and facilitate clearance of third party bills.
- The Government of India plans to launch a new insurance scheme to protect farmers and their incomes against production and price risks.
- Under the Pradhan Mantri Jan Dhan Yojana, it has been decided that even those accounts which had been opened prior to August 28, 2014 and have zero balance will get Rs 100,000 (US$ 1,612.55) insurance cover.

Following will be the effect of the increase in the threshold in the Indian economy:

- Firstly, through this Insurance Laws (Amendment) Bill, a rise to 49% will be a composite cap – which means that foreign capital can flow in either as direct investment or via the portfolio route, or as a combination of both. So foreign investors can either directly buy equity from the company or can buy shares on the stock market.
- Secondly, it will lead to hike foreign holding in insurance joint ventures to 49 per cent which means that there will lot of foreign player coming to Indian market for direct investment.
- Thirdly, the laws will also provide for insurance companies to list on stock exchanges, which in turn will lead to barring public sector insurance companies, all other insurance companies will potentially benefit from a higher FDI cap. So there might be a possibility that public sector undertakings will face huge competition from the private sector undertakings.
- Fourthly, there was huge cry in the Indian market that through this increase there will be a situation where in the Indian entities might lose control but the bill provides that management must remain with India companies and the companies will have to go for approval of the Foreign Investment Promotion Board (FIPB) will be needed on any investment over 26 per cent.
- Fifthly there will be a huge inflow of money once the bill will be cleared in the parliament, which will in turn, infuse a higher foreign direct investment limit in insurance which could result in inflows of Rs. 40,000 crore to Rs. 60,000 crore over time, and immediate inflows of around Rs. 20,000 crore.
- Sixthly the increase in the Cap will help to increase Infra Investment with the help of private players or the foreign entities, in the Indian Market.
- Seventhly, with the increase in the cap, there will be enough chances to bring in new technologies and products in the insurance market, which was not available during the cap of 26%. Public Sector Undertakings were unable to provide enough chances to its customers to invest in their various policies. But now due to increase in the cap, the private entities will definitely provide new policies which will in turn bring lead to opening up the Insurance sector.
- India's insurable population is anticipated to touch 75 crore in 2020, with life expectancy reaching 74 years. Furthermore, life insurance is projected to comprise 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.
- The future looks interesting for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Demographic factors such as growing middle class, young insurable

population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

- India's insurable population is expected to grow at a high speed; as a result, the importance of life insurance in financial planning is only set to increase. With the new government's stress on reforms, steps taken by IRDA to make insurance more consumer-friendly and India's favourable demographics, the future of India's insurance industry looks good. However, it remains to be seen how this sector impacts the unbanked sections of India, in the years to come for further growth and development.

RISE OF TECH-BASED INSURANCE

India's insurance industry has embraced technology's advancement. Today, it uses Block chain, machine learning (ML) to automate claim management, the Internet of Things (IoT) to personalize insurance pricing, and telemetric for auto insurance. According to the India Fintech Report 2022, a number of insurance businesses have emerged that have enhanced their core offerings by implementing various technologies like AI, IoT, ML, and various other software. Additionally, in the years following COVID, the sector has become more digital. Insurance companies have also improved their digital platforms by replacing outdated systems and adding virtual assistants. The customers are also using more portals and apps, per the National Investment Promotion & Facilitation Agency's data. They are preferring digital insurance options; for GI (General Insurance) and HI (Health Insurance) products, 73% and 62% of customers, respectively, preferred the online mode. As technology becomes more prevalent in the industry, more people will have access to insurance and will connect with the insurance industry. The data clearly points towards a trend that though the consumers are using the online tools to compare and research the various insurance products, they however, prefer offline support to understand the intricacies and ultimately making the final purchase.

Despite the technological advancements, there is still a requirement for the human touch in the insurance industry. As the products are complex, the customers may not understand the technicalities or the jargon of the industry. Rural residents tend to be less tech-savvy, so there is a clear need for knowledgeable agents who can guide clients through the complexities of their policies and make sure they are adequately covered. Additionally, they can offer advice on the different kinds of policies that are available and assist clients in selecting the one that is most appropriate for their requirements. Therefore, the growth of the industry will be assured with the amalgamation of technology with the human touch.

FUTURE PROSPECTS

While FY21 and part of FY22 was majorly focussed on the pandemic, the Indian insurance industry is expected to focus more on the growth story going forward. Increased awareness levels, enabling digitalised payments infrastructure, advent of ecosystems, big data, journey simplification and overall digital enablement will be some broad items which will drive the growth story. The broader themes will be around consolidation, possible increased foreign capital, capital market activity, ecosystems, technology and big data as well as solvency and reporting. The insurance industry is expected to grow at approximately 15 per cent in a three-to-five-year horizon while rapidly adopting digital and big data.

With the population of more than 100 crores, India requires insurance more than any other nation. However, the insurance penetration in the country is only around 3 percent of our gross domestic product with respect to over-all premiums underwritten annually. This is far less as compared to Japan which has an insurance penetration of more than 10 percent. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.

1. Level Playing Field – With the increase in foreign direct investment to 49 percent, the insurance companies will get the level playing field. So far the state owned Life Corporation of India controls around 70 percent of the life insurance market.

2. Increased Capital Inflow – Most of the private sector insurance companies have been making considerable losses. The increased FDI limit has brought some much needed relief to these firms as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.

3. Job Creation –With more money coming in, the insurance companies will be able to create more jobs to meet their targets of venturing into under insured markets through improved infrastructure, better operations and more manpower.

4. Favourable to the Pension Sector –If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.

5. Consumer Friendly – The end beneficiary of this amendment will be common men. With more players in this sector, there is bound to be stringent competition leading to competitive quotes, improved services and better claim settlement ratio.

CONCLUSION

In coming time Indian insurance industry will grow at a fast speed as it is a very large capital intensive industry. Most of the foreign companies also attract to this sector due to increased role of foreign capital in insurance sector which may lead to the possibility of exposing the Indian economy in coming time. Still eighty percent of total population of India is without life and health insurance. This sector can provide a huge investment for infrastructure and other basic sectors. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.

The future of the insurance industry in India looks promising owing to several changes in the regulatory framework, technological advancements, government support, and increasing awareness. The insurance industry in India is likely to introduce new trends like product innovation, multi-distribution, better claims management, and regulatory trends in the Indian market as incomes rise and purchasing power and household savings grow exponentially. According to a recent research report by Swiss Re, the Indian insurance industry is poised to become the sixth largest market by 2032.

The insurance industry plays a vital role in the financial sector. The insurance companies, with their accumulated funds from premiums, invest in ways that contribute to the growth of the economy. The organized insurance system offers numerous direct and indirect advantages to the individual, his family, business, community, and country as a whole, as well as to industry and commerce. As a result, the expansion of the insurance sector in India will contribute significantly to GDP growth. For this to happen, there is a pressing need to penetrate the underinsured markets.

However, it is very evident that Phygital is the way forward as, in spite of technological advancements, the human interface will continue to play a big role in the penetration of insurance in the country. Also, it is poised to be one of the largest employment generators for the educated youth in the country, a sector that brings out the entrepreneurial side of the youth and thereby offering excellent growth opportunities while contributing to the growth of the nation.

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