

The Foreign Direct Investment and Insurance in India

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Introduction:

The confederation of Indian industry states that the insurance sector of the country has been witnessing a consistent growth rate of late and its present worth is 41 billion US dollars. The industry has of late achieved a yearly growth rate within 32 and 34% and this makes it the 5th best among emerging economies around the world. The various entities of the industry are also bringing out newer products on a regular basis to attract their customers. As per rules, the upper limit of FDI permitted in this sector is 26%. However, this has to be done through the automatic route and the investor needs a license from insurance Regulatory and Development Authority [IRDA].

At present there are 22 life insurance in India. The IRDA has recently taken away the tariffs of the interest rates and this has provided insurers greater independence when it comes to deciding the price of their insurance policies. The insurance industry has also become more competitive as a result. Yet another important factor affecting this sector has been the recent financial meltdown.

Growth in Last Few Years:

The life insurance companies have performed the best when it comes to growth with an increase of almost 70% in new premium that has been collected in the initial 5 months of 2012. As per IRDA data, in April - August 2010 the insurance companies earned 11.73 billion dollars in new premium in the corresponding period in the previous year the amount stood at 6.9 billion dollars.

LIC, a state held insurer, has been the biggest profit maker at that time with an addition of 88% to their existing business. The privately owned insurers together had seen a leap of 34% to their policy sales. ICICI prudential earned 576.60 million dollars at that time. During April-August 2009 SBI life insurance had earned 379.20 million dollars in sales of new policies and that figure went up to 531.87 million dollar in 2010 making it an increase of 40% HDFC Standard Life also experienced a good growth of 54% in new sales.

IRDA data shows that between April and October 2010 the general insurance industry experienced a year-on-year growth of 22.76 % with regards to underwritten gross premium. The total value of that premium was 5-29billion dollars while the same figure stood at 4.31 billion dollar in April-October 2009. For the public sector companies the growth rate was 21.09% between April-October 2010 and April-October 2009.

The health insurance sector according to the RNCO's research report named "Booming Health Insurance in India" posted unprecedented growth rates in 2008-2009 and 2009-2010. Upto 2013-2014 the sector would see a compound annual growth rate of atleast 25%.

Market Share of Leading Companies:

The following table shows the market share of top insurers in India for the period till April 2011.

Company	Approximate Market Share
LIC	50%
ICICI	10%
SBI	05%
Bajaj	04%

Reliance	05%
HDFC	06%
Birla	04%
Max New York	03%
Tata	02%
Met Life	01%
Kotak	02%
Others	08%

Some Key Findings: Following are some important findings from World Bank regarding the condition of insurance industry in India:

- 1) Between 2005 and 2010 the yearly GDP growth was approximately 8.56%.
- 2) The ratio of gross savings to GDP was 33%.
- 3) Middle class saw the quickest growth.
- 4) In 2010-2011 the Life Insurance Industry grew by 4.20% while the General Insurance Industry increased by 8.10%.
- 5) The paid-up capital [private total] was INR 236.63 billion.
- 6) In 2010-2011 the paid-up capital [private total] for the general insurance sector was INR 39.56 billion while the paid-up capital (industry total) was INR 67.06 billion.
- 7) In 2010-2011 the privately held life insurers paid benefits and claims worth INR 312.51 billion while the industry aggregate was INR 1452.24 billion.
- 8) The private general insurers paid benefits and claims worth INR 99.37 billion while the industry total was INR 295.36 billion.

Indian Insurance industry Composition:

As per IRDA, the composition of the Indian insurance industry by March 2011 could be mentioned as such:

Category	Number of organizations	
	General Insurance	Life Insurance
1. Publicly owned insurers	04	01
2. Private insurers completely owned by Indian business organizations.	01	02
3. Private insurers JV with international insurers	14	21
4. Specialized Insurers	02	--
5. Specialized health insurers	03	--

Indian Insurance Industry Major Problems:

- 1) Focus on actuarial pricing.
- 2) Regulatory misunderstanding.
- 3) Investment regulations.
- 4) Solvency regulation.
- 5) Claims settlement procedures.
- 6) Data clarify.
- 7) Distribution channel issues.

RBI said the demand for raising the present FDI limits of 26% in the insurance sector may be reviewed taking into account the changing demographic patterns as well as the role of insurance companies in supplying the required long-term finance in the economy.

Commenting on the need for a higher FDI limit in the insurance sector, Monish Shah, Senior Director of consultancy against Doolittle in India, told PTI that insurance is a high gestation, capital intensive business and the sector needs fresh capital to fund its existing business and expansion. Increase in FDI in insurance from a strategic minority to a dominant minority is one of the reforms which are being eagerly awaited by several industry players, as despite the slowdown, India insurance sector remains attractive in the long term.

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