CHAPTER-5
SUMMARY, CONCLUSIONS AND SUGGESTIONS

This chapter of the research study is contains the findings and conclusions derived on the basis of the entire research work carried out on the growth pattern of flow of FDI in India since liberalisation. Insurance sector is taken as the field of study. It generally pacts with the consequences, eventualities and conclusions drawn from the different chapters of research and on the basis of these inferences and recommendations, it provides a number of different dimensions to boost the inflow of FDI in the insurance sector in India and it also offers different proposals to rejuvenate and revamp the Indian Insurance Sector. Therefore, the most significant objective of the present chapter is to provide FDI policy connotations on the basis of the study conducted and to suggest references to make India appealing, proactive and an attractive terminus.

Summary

Presently, the topic of FDI in India is a burning topic to be discussed upon, for it is very much responsible for the growth, development and advancement of the Indian economy. When this area was taken as the field for research, we came to know that after Independence and before liberalization i.e. prior to the introduction of economic reforms in India, certain severe restrictions were placed before the foreign investors who were planning to come and invest. And these restrictions were put just due to the fear of the Indian Government that the resources may be drained away by the capitalists and it would lead to the exploitation of our resources-physical, financial and human. Even in spite of that suspicion, Indian government showed courage and assured the general masses at large that FDI in one way or other would be assisting the economy in its growth. But the foreign stakeholders did not show much interest due to the presence of deterrents in the Indian economy such as attitude of public towards foreign contributions, high rates of corporate taxes, inappropriate policy framework, limitations on their further expansions, legal and bureaucratic controls, etc. When even after the government’s approbation, the foreign capitalists did not turn up, then it became an area to be studied analytically and it was decided that the reasons leading to scarcity of foreign capital in India should be revealed and...
suggestive measures should be recommended so that our country may be viewed by the foreigners as their favourable location to invest.

FDI in India is a very vast topic to be studied as it has impact on a number of sectors like telecommunication, pharmacy, retailing, banking, insurance etc. At the same time, it also affects a number of variables like employment, imports, exports, price level, production, etc. FDI in Indian Insurance sector is taken as an area to be studied as Insurance sector plays a pivotal role in the progress of the country. A lot of literature is studied in context of FDI-FDI in Life Insurance sector and FDI in Non-Life Insurance sector. A lot of newspapers, magazines, articles, research papers, dissertations and websites are gone through to gather knowledge regarding this field. FDI Policy framework was also reviewed for this purpose. Not only this, the annual reports of IRDA (Insurance Regulatory and Development Authority) were also deeply studied in order to identify the trends and patterns of FDI in Insurance. The annual reports of RBI are analysed to acknowledge ourselves about the different cumulative figures. The opinions, views and ideas of experts are also gathered to enhance the significance of the research study. But still, there is a dearth of study material to actually know the plight of FDI in Insurance sector. Thus, the need of the hour is to conduct a lot more researches yet.

The first and foremost objective of conducting the research was to analyse the performance of FDI sector-wise, country-wise and year-wise. The other objective can be stated as examining the pattern and plight of FDI in Insurance sector of India. Attempts are also made to know the future prospects of FDI and the implications of FDI in the Sectors of Indian economy. Our study has examined the pattern of foreign investments i.e. FDI, before liberalization and after liberalization. The fluctuations in the amount of capital contributed is analysed with regard to different sectors, different years and that too is done year-wise. What is the situation of foreign capital in the developed economies and what is the situation in the developing economies is differentiated before 1991 and after 1991. Which countries of Asia are contributing more in the Indian economy and which are the least preferred are also made known here. Which countries are promising and which are potential investors so that they can be looked upon by India in future. The condition of FDI in Indian life Insurance and general insurance (Public sector and Private sector) is examined analytically on the basis of its impact on their profits, investments, claims paid ratio, number of offices, number of registered insurers, number of agents-individuals and corporate, equity
share capital etc. Finally, on the basis of data of inflow of FDI in different years in the life and general insurance sector, a trend is established to know the significance of foreign capital.

At last, most importantly, on the basis of the entire research study, efforts are made to suggest the reasons that are restricting the flow of FDI in India so that these causes can be overcome to improve the plight of the Indian economy. Moreover, certain measures are also recommended in the light of the problems prevailing here. These suggestive measures should be reviewed over and over again as per the requirements of the dynamic International markets.

The main objective of the present study was to find out the measures to translate the developing Indian Economy into a developed one with the assistance of different developed nations. Another motive of the research is to make India a favourable and attractive destination for the foreign stakeholders which would ultimately help India to grow as an advanced nation.

Thus, we can report the findings, conclusions and suggestions with regard to FDI in Indian Insurance sector in the following ways:

Findings of the Study

1. During the pre-liberalization period, aggregate flow of FDI which stood at Rs.28.8 million in mid-1948 increased to Rs.122.7 million in the year 1990. It means a net increase of 426 per cent in March 1990 over the base year mid-1948.

2. India attracted total FDI of Rs.28.8 million in 1948 just one year after India got freedom. In the end of 1961, per cent share in Direct Foreign Investment was 92.46 which was highest upto March 1990 and also with highest growth rate of 98.

3. During the post-liberalization period, the total FDI of US$ 97 million in 1990-91 increased to US$ 26953 million in 2013-14 with increase of approximately 278 times.

4. Maximum amount of FDI during the total journey of 23 years is US$ 46553 in 2011-12 which is 15.74 per cent in total FDI. It is also found that upto 2012-13, total foreign investment inflow was made at US$ 295748 million (61.39 per cent) as FDI and US$ 186009 million (38.61 per cent) as portfolio investment.
5. During the pre-liberalization period, developed economies have 40.09 per cent inflow as compared to the minimum share of 0.19 per cent inflow towards least developed economies.

6. In the post-liberalization period, amount of FDI inflows to developed economies have increased from US$ 144.3 billion to 560.72 during the period under reference, whereas per cent share of FDI inflow was decreased from 32.26 to 20.68. FDI inflows to developing economies have also increased from US$ 70.23 billion to US$ 702.83 billion and per cent share was also increased from 15.69 to 25.91 during the same period.

7. During the pre-liberalization period, maximum share of FDI outflow is 155.58 US$ billion from world economies which is near to developing economies i.e. 155.54 as compared to FDI outflow from developed, other developed and least developed economies.

8. It is also found that total amount of FDI outflow from all economies have been geometrically increased from 1991-95 to 2012 whereas percentage share of FDI outflow for developed, and other developed economies have been increased during this period.

9. The trend of total FDI outflow from world and developed economies is increasing from 1991-95 to 2011 with minor decrease in 200-05. Whereas FDI outflow trend of developed economies shows fluctuating trend from 1991-95 to 2001-05 but showing a decreasing trend from 2006-10 to 2012.

10. During pre-liberalization period, USA has topped as the main sources of FDI inflow in India every year from 1985 to 1990, although per cent share has decreased from 53.87per cent to 26.94 per cent whereas Singapore has the lowest rank with an increased amount of FDI inflow by US$ 17213 million and per cent share has also increased from 3.82 to 3.84.

11. During the post-liberalization period, Mauritius has topped as the main source of FDI inflow in India with a major cumulative per cent share of 38 per cent but percentage share is decreased from 41.08 (2008-09) to 28.31(2011) whereas UAE has the lowest rank having 1per cent share in cumulative total FDI inflow in the same period.

12. FDI inflow from all the countries in 2012-13 has decreased as compare to FDI inflow of 2011-12 but trend of FDI inflow from Netherlands is increasing.
Total amount of FDI inflow of US$ 35,121 million with 18.48 per cent share in cumulative FDI inflow upto January 2013 is the highest as compare to other periods.

13. In the year 1995, 2010, 2011 and 2012 maximum FDI outflow was made by USA whereas maximum amount of FDI outflow was contributed by UK in 2005. Mauritius has the lowest rank in terms of FDI outflow in the year 1995, 2000, 2005 and 2011. UK, Canada and Sweden have an increasing trend of FDI outflow during the year 2010, 2011 and 2012 whereas trend of FDI outflow made by Germany is decreasing during the same period. USA has topped the position of total outflow with 40.40 per cent share in the total amount, 2nd and 3rd rank was achieved by UK and Germany respectively.

14. During pre-liberalization, among the Asian countries Singapore has the maximum share of 28.83 per cent followed by China with 23.39 per cent share in the total FDI inflow. These both Asian countries got the same rank in the year 1988, 1989 and 1990 in terms of total amount of FDI inflows. India could contribute only US$ 864 million with 1.34 per cent share which is more than only one Asian country i.e. Sri Lanka. Hence, position of India in this regard is not satisfactory during this period under reference as far as year wise analysis is concerned total FDI inflow of US$ 16012 million with 24.89 per cent share was made in the year 1990 whereas minimum FDI inflow of US$ 4224 million with 6.57 per cent share was marked during 1982-85.

15. During the post-liberalization period, in the total amount, maximum FDI has been shared by China i.e. 42.47 per cent during the period of 22 years and Hong Kong got 2nd rank in this regard. As far as our country India is concerned, a total amount US$ 247.334 million FDI was made which is 7.9 per cent in total FDI inflows. India got 4th rank among ten Asian countries. India has 59.77 per cent of share in total FDI inflows of South Korea, Malaysia, Philippines, Thailand, Sri Lanka and Pakistan but 10 per cent share in total FDI of Hong Kong, China and Singapore.

16. During the pre-liberalization period, maximum FDI outflow was made by Hong Kong amounted to US$ 1.833 million out of total FDI outflow with 58.54 per cent share which is followed by China with 18.56 per cent share whereas minimum FDI outflow was made by Sri Lanka.
17. It has also been found that Hong Kong, Singapore and China have 1st, 2nd and 3rd rank respectively out of the Asian countries but Philippines and Sri Lanka have lowest position in total of FDI outflows. During this period, rank of India in total FDI outflows was not satisfactory.

18. During the post-liberalization period, among the Asian countries maximum amount of FDI outflow was made by Hong Kong amounted to US$ 826.95 million with 41.69 per cent share in the total amount, whereas China and Singapore got 2nd and 3rd rank respectively in this regard. India has 5th rank with 5.82 per cent share in total FDI outflow during the period of study reference.

19. To say about sector-wise distribution of FDI, Manufacturing sector has the highest share of 40.5 per cent followed by petroleum sector with 25.3 per cent whereas mining sector has minimum share of 0.9 per cent.

20. It is also found that the trend of service sector regarding FDI inflow is decreasing upto 1980 with minor increment in 1990. Maximum FDI inflow was made in chemical and allied products and minimum FDI in textile products by the manufacturing Industry during this period under reference.

21. During the post-liberalization period, Service Sector (financial and non-financial) has highest figure of FDI inflow amounting Rs.1,85,570 crores followed by Construction Sector upto 31.03.2014 whereas minimum by Hotel & Tourism Sector amounting Rs. Rs.36209 crores out of these top ten sectors during this period under reference.

22. Another finding of the research is that upto 2009 foreign investors have shown their maximum interest in Mumbai region by investing US$ 62,144 million for investment with 33 per cent of total FDI equity inflows. After that, their second and third choice for investment was New Delhi and Bangalore region respectively but Patna could invite least amount of FDI inflows in this period.

23. The total paid-up capital of Life Insurance sector was initially Rs.1669 crores in the year 2001-02 which over a period of time, has shown an increasing trend and is computed as Rs.25938.51 crores. In comparison to it, the equity share capital of Non-Life Insurers is increased to 10140.21 crores as compared to 1782 crores in 2001-02.

24. The cumulative net profits of LIC and private life insurers were Rs.291.15 crores in the year 2000-01 but starting from the year 2003-04 this sector was
constantly incurring losses which were maximum to the extent of Rs.4981.88 crores in 2008-09. Then, ultimately again it succeeded in maintaining its position and earned Rs.7588 crores in 2013-14. Thus, we can say that the increasing amount of FDI did not have a direct bearing on the profits of the Insurance Industry.

25. The total amount Gross Direct Premium of Life Insurers was Rs.34, 898.47 crores in 2000-01 which increased to the limits of Rs.314283.20 crores in the year 2013-14 whereas the Non-Life Insurers witnessed an increase of absolute amount of Rs.59661 crores in these 14 years. So, we can conclude that the gross premium earned by the Indian Insurance Industry is positively correlated with the amount of FDI inflow in India.

26. The total investments of the Life Insurers rose around 134 times from 2001 to 2104 whereas Non-Life Insurers’ investments increased just by 9 times during this period.

27. It is also found that in 2002, in the life Insurance sector, the total inflow of FDI was Rs.420.2 crore which increased to Rs.6324.20 crore in 2012 but it declined to Rs.6045.9 crore in 2013 and again rose to Rs.6113.3 crore. Thus, an overall per cent change in the volume of FDI is observed as 1354% in these 12 years.

28. It is also examined that the total flow of FDI in Non-Life Insurance sector, was Rs.149.50 crore which increased to Rs.1678.8 crore in 2014 i.e. it increased by 1022%.

29. It has been observed that in the Life Insurance sector, UK remained at the top of the list from 2002 to 2014. It contributed Rs.80.65 crore in 2002 in the inflow of FDI in the life insurance sector and had 20% share which increased to 25% in 2014 with Rs.1534.2 crore.

30. A few of the countries that contributed least amount of capital in the Life Insurance sector in India are Netherlands, Hong Kong, Belgium, South Africa and Germany.

31. In the Non-Life insurance sector, USA remained on the first position from 2002 to 2014. As in 2002, its contribution was 21.7% i.e. Rs.32.50 crore of the total FDI. As in 2014, its share increased to Rs.347.93 crore i.e. 20.7% of the total FDI of Rs.1678.8 crore.
Initially, in the early years, in the Non-Life Insurance sector, countries like Paris, Italy, UAE, and South Africa did not contribute anything and their contribution was nil. But in 2014, Paris was on the third rank in the flow of FDI in India with a share of 12.93% where the share of South Africa is still zero in the year 2013 and 2014.

**Conclusion**

From the study carried out, it can be inferred that Indian government was suffering from cold sweat in tempting the foreign venture capitalists to invest in the domestic territory before and at the time of Independence because there was a fear that the resources may be drained away by them to their developed economies. But anyhow, the Indian government attempted hard to reassure and comfort the general masses at large that on the one hand, the convergence of funds from the foreign stockholders would help in reforming the health of the Indian insurance sector and on the other hand, it would help in its advancement as a developed nation.

FDI may be stated as the process whereby residents of home country gain proprietary rights of assets for the purpose of monitoring the production, distribution and other similar activities of an undertaking in some other foreign country. FDI may be categorized into two forms/components i.e. ‘equity’ and ‘non-equity’ form of investments. The equity capital form of FDI involves purchasing of shares of an undertaking, FDI shares in reinvested earnings and short or long-term duration intra-company borrowings or debt transactions between FDI and the affiliates. The non-equity form of FDI investments is known through such activities like sub-contracting, management contracts, turnkey projects, franchising, licensing and production sharing contracts.

It is also concluded from the research that FDI is taken as an apparatus to complement the earnings of the domestic country, for attaining the higher degree of growth and advancement. FDI assists the home country not only by providing employment opportunities to the people but also by providing certain other benefits such as by enhancing the proportion of the level of Insurance penetration, by upgradation of the technological skills, by providing easy accessibility to global managerial skills, by ensuring efficient and optimum utilization of human, physical natural resources, by the commencement of such markets which promote exports, by enabling Indian Industry to become more efficient and internationally competitive.
providing backward and forward linkages, by providing accessibility to superior and international quality of goods and services etc. FDI, if compared with other forms of foreign investments like FPIs, FIIs, commercial loans, foreign aid etc., is considered more superior. It not only compliments the domestic country’s purchasing power, but also helps in eliminating inflationary pressures, and at the same time also tries to resist the problems of ever increasing interest rates and high cost of debt servicing. It also enhances the competitiveness of the enterprises and they produce better quality goods and services at comparatively low cost and thus, helps in expanding the industrial base in the domestic economy.

To add, we can also infer that FDI, no doubt, provides a lot many advantages for the home country yet its efficacy and potency calculate upon its purposeful use, and this contribution is meaningful only when it is being done in those areas/sectors where scarcity of capital of local undertakings is felt. Other deterrents to the inflow of FDI in India can be the size of the home market, discouragement from the home country, attitude of the public towards foreign investment restrictions on further diversification and expansion, high cost of debt servicing, high cost of research and development in the domestic territory, enhanced corporate tax rate, social and economic infrastructure bottlenecks, increased political risk, comparatively higher rate of interest, regional conflicts and tensions etc. More precisely, from the viewpoint of advancement, the process of FDI is concerned with the areas that are export-oriented, for short-term and long—term investment proposals. Not only the financial resources are provided through the process of FDI but in addition to that, it also provides high managerial skills, latest technological knowledge and the modern entrepreneurial skills through the medium of MNCs and TNCs. Constant monitoring and revision of the FDI policy needs to be done time and again so that the complications can be known well on time and then, necessary measures should be followed to make India a most favourite and alluring destination for FDI. The main objective of FDI policy should be to amplify its contribution to India’s progress, felicity and welfare rather than just escalating the quantum and magnitude of inflow.

It can also be concluded from the previous chapters of study, that although since economic reforms policy of 1991, the FDI limits have been raised but still the magnitude and volume of actuals inflows of FDI have been comparatively reduced. The answer to this problem can be stated as that due to the hopes and objectives of the foreign capitalists did not match with their pursuance. And this difficulty may be
contributed to such reasons as political instability, bureaucratic hassles, power shortage, deficiencies in the social and economic infrastructure, lack of unanimity between the state and the centre governments, etc. Generally, in India, it has been observed that whenever the proposal of the foreign investor is approved through FIPB route or RBI route in the reign of one presidency, it is generally been abandoned on the arrival of the new regency in power, on the lines that it does not satisfy the new criteria framed under the altogether new policies formulated by the new superintendents.

In addition, whenever the state-wise, sector wise, year-wise and country-wise comparisons are made and FDI policy is studied analytically, it may also be inferred that no doubt, there has been an impressive and immense growth in the magnitude and volume of FDI inflows but yet when it is related to the imaginable capabilities of Indian Economy, it is still viewed as a very small proportion in line of its investments opportunities and requirements. Present era is an era of globalization, a borderless world where physical boundaries matter a little. The need of the hour is not to step back for reversing the globalisation process and the policy of FDI but rather to take initiatives and assuming enterprising steps to solve the difficulties that are posed by the process of globalisation. And for this, there is only one way out i.e. enhanced assimilations, more interactions, high degree of co-ordination and co-operation between local and foreign capitalists. Thus, a well-planned strategy and a calculating approach should be adopted, so that the Indian insurance sector can be flourished to the fullest by the contributions of local and foreign investments simultaneously.

After the in-depth analysis of trends of Foreign Direct Investment in Indian Insurance Sector, it can be recommended that during the period under reference, economic reforms, particularly liberalization and globalization, make greatest contribution in attracting FDI. So, it supports the international capitalists to step into Indian markets and to encash upon a large number of opportunities available in India. Moreover, the collective influence of economic reforms and growth is found to have a significant and noticeable impression in alluring the foreign capital into the home country. Although, no significant correlation is observed between the economic growth and inflow of FDI, but still it is very amusing to mark that the empirical results so calculated have proved that since liberalization, GDP growth rate and the inflow of capital is constantly increased into the domestic economy.
Last but not the least, it may also be stated that there is a room for greater inflow of FDI in the Indian insurance sector, but only if the limit/cap of 26 per cent foreign equity is increased. The experience of the Indian government of unlocking of this insurance sector to foreigners to make investments has set at rest all the suspicions and haunch that were communicated earlier. The public insurance sector which was enjoying monopoly has reciprocated to the private entries by trying to increase their proficiency and competency. As per our opinion, the foreign equity cap of 26 per cent should be raised immediately to 49 per cent and to 100 per cent. Therefore, India can attract more volume of foreign capital in the insurance sector by formulation of new policies and by allowing further reforms in this sector. And this may be done only by altering the already prevailing laws and policies in response to the growing needs of the market and keeping in view the different dimensions of the dynamic environment of the country.

**Recommendations andSuggestions**

As studied and observed, the magnitude and volume of FDI that flows in India in absolute figures emerges as quite interesting and powerful but when it is compared to global flows, it is regarded as dissatisfactory. This estate is due to the barricades and deterrents that India is facing at the moment. In light of the present study following suggestions have been made:

- If Indian government wants to upgrade its insurance sector then it must understand the importance of FDI in country and should also raise the equity cap so that the role played by FDI can be enhanced in the insurance sector in the country.
- In India, the current FDI assistance network is quite composite. The Indian Investment Centre (IIC) which was originally authorized to chase these objectives is almost lifeless now. Till 1991, the Department of Economic Affairs was considered as the head department that used to deal with the policies of foreign investment and also controlled the flow of foreign capital. But the Secretariat of Industrial Approvals (SIA) which confirmed and credited the applications of foreign investment, served in the Ministry of Industries. Post liberalization, the entire matter of foreign investment policy has been with the DIPP but SIA, as it is now known, is no more the secretariat
for FIPB. Then, Finance Ministry has been given the charge to deal with the Finance Secretary Chairs, the FIPB and all the foreign investment cases.

- This entire process has been furthermore made knotty by the set-up of FIIA in 1999, which assured the earliest possible translations of the proposals of FDI that are approved into their practical shape, and also confirmed to provide an active and one-stop aftercare service to foreign stockholders. Fast Track committees (FTCs) were established by the FIIAs in 30 ministries/departments in the central government. The Constitution of FIIA and FIPB is almost the similar. But on the one hand, the secretariat for FIPB is in the Finance Ministry, and on the other hand, that of the FIIA is in DIIP. It is evident that by the creation of these two distinct bodies, FIPB and FIIA, the system has now become more complicated and complex. Therefore, it is recommended that there should be the establishment of only one stop department which should look after the whole process of policies and procedure of FDI in India. Thus, one more suggestion in this regard can be that there should be a Single Window Clearance of FDI proposals which is based on the Malaysian Industrial Development Authority (MIDA) Model for resisting the problems of post approval procedural delays.

- A number of laws have been framed and enacted by the Government of India for monitoring the flow of FDI from time to time keeping in view the needs and dynamics of both national and international business environment. Before the introduction of the economic reforms in the Indian economy i.e. before 1991, FERA (foreign Exchange regulation Act) was constituted in 1973 for the regulation of the foreign investment. But, then FERA was related by FEMA (Foreign Exchange Management Act). At present, this newly formulated FEMA is looking after the regulations related to foreign investment. But still, the actual problem is that only regulatory role is performed by all these acts and different constituted bodies. So, what the real need of the hour is that Indian government should constitute such bodies which play a promotional role in addition to the role of regulation. Now, National Investment of FDI should be stressed upon by the government and should also look after of the most sensitive issues like double taxation, Single window clearance for
venture capitalists by avoiding separate clearance at central level as well as state level.

- For the last many decades, the development of social and economic infrastructure is given priority as it is considered as a crucial factor in the process of attracting FDI. Keeping in view this statement, various regions should take into account the formulation of special laws and government should focus on captivating the foreign investors to invest in infrastructure first of all and then to the other sectors of the economy. A few of the states have already been leaders in this course of execution of laws and policies for the development of infrastructure. Two states i.e. Andhra Pradesh and Karnataka are the initiators in this process, whereas others like, Tamil Nadu, Maharashtra and Gujarat are following them.

- When compared to other developing countries of the world, the management of FDI in India is still not very flexible. Still, a very long journey is required to complete in order to raise the foreign equity cap so that it can range between 51 to 100 per cent. This rule of FDI limit upto 49% can be dispensed with in favour of automatic approval for 100per cent foreign equity ownership except for some strategic sectors that may carry on to need the prior approval of the government. Things apart, Indian government is also needed to narrow down the demarcations on the outflow of FDI by non-financial Indian enterprises so that these undertakings may also enter into joint ventures, collaborations and FDI arrangements in other foreign countries. Moreover, vivification of the procedure of FDI in the infrastructure sector is the need of the hour.

- The research study clearly points out that the determinants of FDI inflows in India vary sector-wise and country-wise. Thus, different sectors have different policies relating to FDI. FDI policy should be flexible in nature so that it may be adjusted immediately and automatically according to the ever changing economic scenario. More flexible and transparent policies are required in different sectors so that approved proposals can be translated briskly into actual investments. The problems of bureaucracy and red-tapism should be reduced desperately. Because of the discrepancies present in sector-wise policies, there is still a little requirement to formulate sector-specific, definite, well-defined and clear cut policies so that the development of the economy
may get balanced. At last, it is also recommended that incongruences and disparities should not be present as this can disturb the economy in the long run.

- The North-East region of India has got its particular identity and a definite entity because of its peculiar physical, economic, social and cultural characteristics. This region is the poorest and the remotest part of the country which has still is not enjoyed benefits of the economic reforms due to one factor or the other. India, no doubt, has been considered as a favourable location in Asia (after China) by the foreign investors in context of FDI, the inflow of FDI in the North-East India is quite meager. This region of our country enjoys a unique competitive advantage of its strategic location. Around 98% of its physical borders form India’s international boundaries- a veritable gateway to the South-East and the world, China to the North, Bangladesh in the South-West, Myanmar in the East and Bhutan in the North-West share borders with the NER. It is also evident in the research carried out that a few developed states like Delhi, Gujarat, Karnataka, Maharashtra, Tamil Nadu are getting 50% of FDI inflows due to their comparatively better economic infrastructure and a more advanced and developed industrial sector. Thus, we can conclude that a large proportion of FDI has been centralized in comparatively developed regions and states where large volume of public funds have been invested and where there are facilities of developed transportation and communication. In the light of the strategic significance of the North-East region of India, it is recommended that the economic development of these extremely backward states should not be avoided. To add, if the lack of public investment is there, situation would only become worse with the mere opening of these regions to the foreign stockholders. Thus, Indian government must confirm adequate economic infrastructure and should also check regional disparities so that the private investors may invest in future.

- Tariff rates are still higher in India as compared to other countries, which continue to put barricades in front of India from becoming a favourable and attractive terminus for FDI, especially for labour-intensive manufacturing production. Tariff rates should further be lowered down for much greater
openness. And most significantly, tariff rates on the capital goods that are imported for the manufacturing of exports and on the inputs that would be consumed in the process of production of exports should be free.

- All the reform processes so far have mainly condensed at the central level. Indian state governments should be set free to a great extent so that they can also contribute much needed flexibility to the reforms. A great degree of freedom to the states would aid to accelerate and foster greater competition among themselves. In India, state governments should be looked upon as potential agents of quick, rapid and noticeable change. State and regional governments are taking initiatives in introducing and implementing reforms in various countries like Brazil, China and Russia.

- As it is revealed during the course of study, that presently total inflow of FDI has not yet matched its expected standards, so there should be development of SEZs which would prove as the most competitive destination for FDI related to exports in the world and government should target FDI, particularly in those areas where India is enjoying core and competitive advantage. Policies should be reviewed from time to time in the context of EPZs as their contribution in attracting FDI is very modest. EPZs in India do not possess the required degree of flexibility due to a number of reasons such as their relatively limited scale; the Indian government’s general ambivalence about attracting FDI; ill-defined and unattractive incentive packages attached to the zones; and the power concentrated in the hands of the central government for the purpose of regulation of the zones.

- The need of the hour is to develop and advance these SEZ zones because their effective contribution in the development of the country can also be known from the success story of China. Even the Steering Committee has also recommended that these SEZs and EPZs should be established in all states. The attempts in this direction would not only help to improve the condition of infrastructure facilities in the economy but would also result in investor friendly legal and bureaucratic checks and regulations in these above said zones.

- In order to enable the firms to enter and exit freely from the market, an exit policy needs to be formulated. No doubt, the economic reforms which are
practically implemented till now have helped a lot in the removal of the entry barriers, but the liberalisation of exit barriers is yet to be done. These restrictions on exit barriers come up as a significant deterrent to a large volume of FDI inflows in India. On the one hand, it would not be correct to ignore the requirements and potential merits of several safeguards, but on the other hand, it must also be recognized that the safeguards and policies if wrongly designed and/or poorly enforced would prove detrimental to the health of the undertakings.

- In India, restrictions are being put on large firms and thus, they are not permitted to retrench or layoff any workers, or shut down the production unit without the prior approval of the state governments. Though this law was framed keeping in mind the necessity to check and control the unfair retrenchment and layoff, but as a result, it has turned out to be provision for job security. This provision is now serving the employees in privately owned large firms on the similar lines as the employees of the public sector with regard to job security. Enterprises that employ labour-intensive techniques require dynamic and flexible provisions so that can change their employment needs according to the changes in the environment and market demand and technological changes. Thus, presently India is in the need of more flexible labour laws otherwise it would remain an unattractive base for such types of production enterprises.

- Financial sector reforms in India are most crucial and significant determinant for large volume of FDI inflows. However, some partial steps have already been taken in this regard but these efforts are unable to make any significant change in the existing system. Moreover, these steps have not made any meaningful and noticeable change in the magnitude of FDI inflows and the development of infrastructure and still only meagre presence of foreign insurance insurers can be felt in the country. Financial sector reforms, if enforced properly, would result in changing the scenario of the Insurance sector of the country.

- As cut-throat competition is being observed all around the world in relation to FDI, attempts are being made constantly that India must be looked upon as a favourable location by the foreign capitalists. The Investment Promotion
Agency (IPA) has been established in this regard which is basically concerned with marketing and thus, it must undertake image-building activities such as the publicity, the use of public media, public relations etc. Through these activities, effective participation can be done in international promotion events and organizing events. For example, International Investment and Trade Fair is organized every year in September in Xiamen, China and it contributes desperately to the investment sector of that country.

- At present, in Eastern Asia, corporate tax rates are generally low as compared to India. In India tax rates for foreign companies are generally around 35% whereas rates lie between 10 to 15 per cent only in East Asia. These high rates of corporate taxes are acting as a major deterrent and obstacle to foreign capital in India.

- Foreign capitalists often complain that Indian corporate tax rates are comparatively very higher in comparison to other countries like Malaysia, Korea, Singapore, Taiwan etc. Due to this high taxation policy, India remains an unattractive destination for the foreign investors. And therefore, it is recommended that the Indian tax policy should be reviewed and corporate tax rates should be rationalized in such a way that they lie in the range which gives international stockholders a profitable opportunity to invest.

- Only the liberalisation of FDI policy is not necessary for the expansion of FDI inflows. The significant and major impact on the volume and magnitude of the flow of FDI is also exercised by the overall economic performance by substituting in a role as an outstanding device for capitalists about the growth proposal. Thus, due attention is needed to be paid to macro-economic performance barometers like Industrial growth rate through public investment in infrastructure and other complementary arrangements. Researches have revealed that these tactics not only facilitate the local investments but also drag FDI inflows.

In addition to the above strategies and arrangements, the approach of the foreign investors is also needed to be directed and modified in the context of FDI. The accomplishments of MNCs and TNCs that are operating in India must be reported to the promising investors. The political uncertainty in the country, high corporate tax rates, attitude of the domestic investors, and legal delays in the implementation of the
proposed projects have been viewed as major obstacles by the potential foreign contributors. Indian Government should rejuvenate its entire broadcasting campaign and should also trace to maintain transparency about policy governance and procedure restraining the various sectors. Once and for all, the research study wrap up the observations that one of the distinguished sector of the Indian economy is the Insurance sector which contribute incomparably to the GDP of the country and also provide employment opportunities to the masses at large. It aggrandizes the country to bear contingencies and thus, assist the economy in the process of magnification by allowing the inlet of private insurers in the market. As discussed previously, FDI has provided a lot many advantages to the insurers in the Insurance sector. Thus, in the process of development and advancement, Insurance sector plays a pivotal role and therefore, it needs to be intensified and further more changes need to be introduced reforms in order to tap the unrealized potential to the brim-full extent. If above suggested admeasurements are popularized, then there is every chance and possibility that the Indian Insurance Sector will experience astounding amendments and betterments. The Insurance sector would then become competent enough to contest for the present interrogations of low Insurance density and low Insurance penetration which would ultimately contribute towards the progress of the country.

**Future of FDI in India**

The future of the Indian Insurance Industry looks promising if several alterations would be done in the regulatory framework of Insurance sector and those changes should be implemented in such a way that it modifies the entire course in which the Industry carry on its business and involve its customers. Over a period of time, it has been viewed that in certain situations like when the growth in the economy slows down, when the domestic currency depreciates, when the rate of interest is high, the rate of savings increase which chases the increased demand for life insurance.

In addition to banking, the Insurance Industry plays a vital role in mobilizing the savings of the economy to the productive channels and therefore, we expect this sector to flourish well. Different demographic variables like growing middle class, increase in the population of young insurers and consistently increasing awareness among the public for the need of protection will also foster the growth of Indian insurance industry.
It is also expected that at a CAGR (Compounded Annual growth Rate) of approx.12 to 15%, the Indian Life Insurance Industry will record its further growth which is at present insuring around 36 crore lives. The penetration levels of the industry are also expected to rise to 5 per cent by 2020, and then within the next 7 years, it would supersede the US$ 1 trillion mark.

The size of the Indian insurance sector is expected to touch US$ 350-400 billion by 2020.

Even the non-life insurance sector in India expanding and advancing at a rate of 17 per cent.

**Government Initiatives**

A number of initiatives have been taken by the government of India in order to foster the growth of the insurance industry. Some of them are as follows:

- The Central Bank of India i.e. Reserve Bank of India (RBI) has permitted commercial banks that they may become insurance brokers, and has also approved them to go for the sale of policies of different insurance firms subjected to terms and conditions.
- With the approval of the special committee of the Rajyasabha, the Government of India has also increased the foreign equity cap to 49% from 26%.
- The Indian government is also planning to implement a e-governance project named as ‘Panch Deep’ with an investment worth Rs.1,900 crore. This proposal is basically taken up to automate the transactions of the Employees State Insurance Corporation (ESIC).
- The Indian government is expected to come up with a new insurance scheme so that the farmers could be given protection against production and their incomes be protected against risks.
- Under the scheme of Pradhan Mantri Jan DhanYojana, it has been decided that even those accounts which had been opened prior to August 28, 2014 and have zero balance will get insurance cover worth Rs.100000.

**Insurance Bill (Amended)**

The Insurance bill, which is regarded as one of the vital instrument in the reformation of legislations, has been pending since 2008. This long-pending Insurance Bill, is been passed in the Lok Sabha on 4th March,2015 in which the Indian
Government raised the foreign equity cap to 49% from 26% and assured the masses that this step is of particular significance for increasing the level of penetration of insurance in the country. It has been defined that foreign investment up to 26% is permitted through automatic approval whereas foreign equity cap over and above 26% would require the prior approval of FIPB (Foreign Investment Promotion Board). The limit of FDI in the Insurance sector is increased to 49 per cent and this involves foreign investment in the forms of FPI, FII, QFI, FVCI, NRI and DR. An ordinance has been replaced by the Insurance Bill (amendment), and this bill states that anybody who would sell the policies without being registered with IRDA would be imprisoned for ten years. This sector thus, eagerly looks forward to potential FDI inflows in 2015.

The significant attributes of the amendments to the FDI Policy are as follows:

- The total paid-up equity capital of the foreign stockholders upto the extent of 26% does not require any prior approval in case of FDI, it is approved through the automatic route.
- Foreign capital invested in terms of FDI over and above 26% requires the approval of FIPB (Foreign Investment Promotion Board).

Review of FDI Policy on Insurance Sector

**Present Position**

<table>
<thead>
<tr>
<th>Sector/Activity</th>
<th>FDI Cap/Equity</th>
<th>Entry route</th>
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<tbody>
<tr>
<td>Insurance</td>
<td></td>
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<tr>
<td>(i) Insurance Company</td>
<td>26% (FDI+FII/FPI+NRI)</td>
<td>Automatic</td>
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<tr>
<td>(ii) Insurance Brokers</td>
<td></td>
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<tr>
<td>(iii) Third party Administrators</td>
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<tr>
<td>(iv) Surveyors and Loss Assessors</td>
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**Revised Position**

The Government of India has reviewed the foreign investment policy on the insurance sector

<table>
<thead>
<tr>
<th>Insurance</th>
<th>FDI Cap/Equity</th>
<th>Entry route</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Insurance Company</td>
<td>49% (FDI+FPI(FII, QFI)+NRI+FVCI+DR)</td>
<td>Automatic up to 26% Government route beyond 26% and up to 49%</td>
</tr>
<tr>
<td>(ii) Insurance Brokers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(iii) Third Party Administrators</td>
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<td></td>
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<tr>
<td>(iv) Surveyors and Loss Assessors</td>
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<tr>
<td>(v) Other Insurance Intermediaries appointed under the provisions of Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)</td>
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</table>
Opportunities in the year 2015

It is expected that a number of structural changes would be noticed in the year 2015, some of which are as follows:

- MD & CEO of Bajaj Allianz General Insurance Company Limited, Mr. Tappan Singhel, expressed that if the measures like digitalization, make in India, financial inclusion etc. would be taken by the central government or by IRDA in context of pricing, then they would be witnessing resurgence in their industry.

- MD and CEO of TATA AIG General Insurance Company Limited, Mr.K.K.Mishra stated that if economic and industrial growth would take place in India then they would also grow and develop at a higher pace of around 15 per cent.

- MD and CEO of Edelweiss Tokio Insurance Company Limited, Deepak Mittal, expressed that the passing of the Insurance Bill would not only help in bringing the long-term foreign capital into the domestic economy but would also help by inviting new players into the market.

- ED & CFO of HDFC Life Insurance Company Limited, Ms. Vibha Padalkar, stated the amended bill would bring more clarity, transparency and discipline in the Insurance sector of India as it is enhancing the powers of the Regulatory authorities.

Finally, we may say that the future projections of increased foreign equity cap upto 49% would have three alternatives;

1. If the existing policies and procedures would continue in the insurance sector as it is, the same trend would be observed in the next coming years i.e. status Quo would be maintained.

   - Modest growth CAGR of ~13% resulting in GWP of ~` 3,00,000 crore by 2025.
   - Combined ratio remains very high at 108–110%; very few players operate below 100%.
   - Incremental value creation will be negative to the tune of ` 55–60,000 crore while delivering average RoE of 6–8%.
• As a result of underperformance, the industry as a whole will require fresh capital to the tune of `40–45,000 crore, with a bulk of this required to recapitalise a few weak players.

2. If a little improvement is done in the already existing Indian insurance policies and a moderate rate of growth prevails, then the following expectations can be forecasted:
   • Growth CAGR of ~14–15% resulting in GWP of ~`3,50,000 crore by 2025.
   • ——With no improvement in combined ratio, the industry would continue to have a negative value creation of ~`20–25,000 crore while delivering average RoE of 10–12%.
   • —— Capital requirements remain relatively high — `20–25,000 crore of fresh infusion.

3. If breakthrough achievements are being attained and very high growth rate is being observed in the Indian insurance sector then the following forecasting can be made:
   • CAGR of 15–16% resulting in GWP of ~`3,90,000 crore by 2025.
   • Improvement in CoR to 102–104%; many players starting to operate below 100%.
   • Average RoE of 13–15%; however, the industry as a whole will continue to operate at or around the cost of capital and not create any incremental value.
   • Capital commitment will be more limited — `20–25,000 crore.

**Direction for Further Research**

Further researches may be conducted in the following areas:

What are those local domestic allurements to inflow of FDI that often lead to market deformities and put negative impact on the profits and market share of insurance companies of the public sector?

Apart from above suggestions, a comprehensive study of the association and impact of FDI in Insurance sector on the potency, productivity, profitability and efficacy of all public insurers can be conducted by considering an overall view in the country.