The Impact of FDI (foreign Direct Investment) In The Growth of Life Insurance Sector In India

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Life Insurance plays a vital role in the growth of Indian economy and being an integral part of the financial sector. Life insurance protecting against mortality, casualty risks and providing a safety to individual and their families, life insurance encourages habit of saving and provides long-term funds for infrastructure development and other long gestation projects of the Nation. The development of the life insurance sector in India is necessary to support its continued economic transformation.

The Insurance Sector was opened up for private participation with the enactment of the Insurance Regulatory and Development Authority Act, 1999. Since its opening up in 2000 the number of participants in the Insurance industry has going up from seven insurers including Life Insurance Corporation of India (LIC) and Indian Life insurance Companies can issue equity shares fully, compulsorily and mandatorily convertible preference shares subject to pricing guidelines/ valuation norms prescribed under Foreign Exchange Management Authority.

The Insurance Regulatory and Development Authority was constituted as an autonomous body to regulate and develop the life insurance industry. The IRDA opened up the market in august 2000 with invitation for applications for registrations. The bill allows foreign equity stake in domestic private insurance companies to maximum of 26 percent of the total paid-up capital and seeks to provide statutory status to the insurance regulatory.

Now present days there are 01 public sector company and 23 private companies dealing in life insurance.


The Life Insurance Sector was opened up for private sector in 2000 after the enactment of the Insurance Regulatory and Development Authority Act, 1999 (IRDA Act 1999).

This act permitted foreign shareholding in life insurance companies to the extent of 26 percent with an aim to provide better insurance coverage and to augment the flow of long term resources for financing infrastructure. FDI in the insurance sector as prescribed in the Insurance Act, 1938 is allowed under the automatic route.

The liberalization in Insurance Sector which raises foreign investment from 26 percent to 49 percent in life insurance sector.

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The Government has promulgated an ordinance namely - The Insurance Laws (Amendment) ordinance, 2014 on 26th December 2014 to make amendments to the Insurance Act, and the Insurance Regulatory and Development Authority Act, 1999 in accordance with the Insurance laws (Amendment) Bill 2008 as reported by the select committee of the Rajya Sabha with the promulgation of Insurance Laws (Amendment) Ordinance, 2014 the foreign equity investment cap in an Indian Life insurance companies has gone up from 26 percent to 49 percent with the safeguard of Indian ownership and control. Recent Initiatives taken by IRDA

Recent initiatives taken by the Authority in life insurance sector include

- As per IRDA (places of Business) Regulations 2013, insurance companies have been empowered to open branches in Tier II cities and below without prior approval of IRDA, subject to compliance on solvency and expenses, which would expand the reach of insurance.

- In order to utilize the vast network of bank branches to increase insurance penetration, banks have been permitted by IRDA to act as an insurance brokers subject to approval from RBI, under the IRDA (Licensing of Banks as Insurance Brokers) Regulations 2013.

- In order to increase the reach of insurance products to rural areas in a big way, banking correspondents have been allowed to sell micro-insurance products.

- The guidelines on web aggregators which were issued in the year 2011 have been replaced by regulations providing for a neutral web based platform which compares policies of various insurance companies and offer a basket of options to an intended customer for an informed choice.

New regulations for linked and non-linked products in life insurance were brought out to improve policy benefits offered on death, surrender and maturity. Through these regulations IRDA has tried to ensure that insurance products are simple in design and policy holders get value for their money as well as have sufficient risk coverage during the currency of the policies. The regulations will also enable the policy holder to take an informed decision in purchasing an insurance product.

**FDI in Life insurance Sector**

The total investment accumulated by insurance sector was Rs 20,97,275 crore as on March 2014. During 2013-14 Assets under Management had grown by 12.28 percent. Life insurers continue to contribute a major share with around 93.33 percent of the total investment help by insurance industry. Similarly, public sector insurers continue to contribute a major share of 79.53 percent in
total investment; the investment by private sector insurers have also been growing fast in recent years.

After liberalization in life insurance sector from 26 percent to 49 percent investment of foreign insurers the economic growth in life segment of insurance sector is tremendous which helps in the development of infrastructure of the nation.

The first year premium is a measure of new business secured/underwritten by the life insurers. In 2013-14 Rs 120319.66 crore and in 2012-13 Rs 1,07,361 which raised the growth of 12.07 percent against a decline of 5.78 in 2012-13.

In the term of linked business and non-linked business during the year 2013-14, 31.20 percent of the the first year premium was underwritten in the linked segment while 68.80 percent of the business was in non-linked segment as against 45.43 percent and 54.57 percent in the previous year. The total premium which includes first year premium and renewal premium during 2012-13 was Rs 31,4283.20 crore as compared to Rs 287202.49 crore in 2012-13 registering a growth of 9.48 percent against a growth of 0.05 percent in the previous year. In terms of linked and non-linked business during the year 2013-14, 11.95 percent of the total premium was procured in the linked segment which 88.05 percent of the business was in non-linked segment as against 16.98 percent and 83.02 in the previous year.

The life insurers had underwritten new business of Rs 120319.66 crore during the year 2013-14 as against Rs 1,07,361 crore in 2012-13, recording a growth of 12.07 percent. Of the new business premium underwritten, LIC accounted for Rs 90,808.79 crore (75.47 percent market share) and the private insurers accounted for Rs 29,510.87 crore (24.53 percent market share). The market share of these insurers was 71.36 percent and 28.64 percent respectively during the year 2012-13.

Discussion

With the implementation of Insurance Regulatory and Development Authority Act 1999 the entry of of private entities into insurance market and create health competition between the new private players and existing public players including limited participation of foreign equity, banking and cooperative sector so that withdrawal of government capital in the existing public sector entities of life insurance. Since liberalization of financial sector give the new trend of foreign direct investment in Indian life insurance sector from that many foreign insurers are interesting to invest in Indian life insurance market as India is developing nation so that foreign direct investment helps in the economic growth of the nation which build strong infrastructure of the nation. Foreign direct investment in the insurance sector as prescribed in the Insurance
Act, 1938 is allowed to invest 26 percent but now it raise to 49 percent under the automatic route and with the condition that companies of foreign insurer to take the license and permission of IRDA for involvement of financial activities in insurance sector in India. Many foreign insurers are now taking interest to insurance sector in India specially in life segment because of easy norms through automatic route and less restriction imposed by government in foreign direct investors. Present situation is that the insurance penetration was 2.32 (in life 1.77) in the year 2000 when the insurance sector was opened up for private sector and has increased to 3.9 in 2013 ( Life 3.1). The life insurers underwrote 103.98 lakh policies in the rural sector, viz., 25.5 percent of the new individual policies underwritten (408.348 lakh policies) by them in 2013-14. LIC underwrote 25.4 percent of the new individual policies and private insurers underwrote 25.6 percent of the new individual policies in the rural sector. LIC covered 118.87 lakh lives and private insurers covered 109.074 lakh lives in the social sector. The government has not allowed FDI in Life Insurance Corporation in India still 100 percent investment made by the Government of India Rs 6324.27 of equity capital is invested by the foreign investors in 22 life insurance companies in India out of 23 private insurance companies (except Sahara Insurance) and Rs 18507.65 invested by Indian promoters.

Conclusions

The data received from many sources shows that foreign direct investment plays a significant role in the growth of life insurance field as the market of life insurance is wide and foreign investor/insurer are taking interest to invest in Indian companies and desire to work with Indian companies as subordinate. The role of IRDA which not only restrict the foreign investors to do anything wrong against the Indian life insurance consumer as well as to enjoy the investment in India from 26 percent to 49 percent. Liberalisation in life insurance sector in India gives the consumer choices and end the monopoly of public life insurance sector and creating the healthy competition among the insurance private players and public players. The merits of foreign direct Investment are mainly for the socio-economic development of nation and also employment generated which build our nation infrastructure strong.

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The impact of Pradhan Mantri Bima Yojana over the Indian societies Social securities

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Abstract

The Prime minister of India Shri Narendra Modi Launched two schemes on May 9 2015 to enhance the welfare of citizens specially for workers worked in unorganized sector. The schemes are pradhan Mantri Suraksha Bima Yojana (PMSBY) an ultra low cost accident insurance scheme and Pradhan Mantri Jeevan Jyoti bima Yojana (PMJJBY) a life insurance. The paper attempts to evaluate the nature whether these schemes provide social security to the Indian society in the field of life/ accident insurance. Primarily it argues that an introduction of contribution component covers the social security limit. It suggests that the schemes are properly crafted to achieve wider social security coverage. Flat benefit scheme financed through taxation in the field of accident insurance/ life insurance gives a better option and give guarantee of wider social security coverage. These schemes are significant for a developing country like India and considered to be welfare oriented for the Indian society because not only attaining high GDP is sufficient for development of the nation but also improvement in the quality of life of citizens. Pradhan Mantri Suraksha Bima yojana and Pradhan Mantri Jeevan Jyoti Yojana ensures the improvement in the quality of life, ensuring social security to citizen becomes important.

The provision of social security to protect individuals and households to ensure their health and income, especially in old age, unemployment, sickness work injury, maternity or loss of a sole earning member. Social security helps to reduce poverty and inequality and increase the growth through capital of human and their productivity. Indirectly it influences on domestic demand and facilitates growth of an economy. The ninety percent of workers in India earn their livelihood through unorganized sector therefore such subsidized programs arises in India.

There are two types of social security schemes in which first is funded and second is unfunded. Funded scheme depends on the contribution of payments and the collected amount invest in markets and contributors are used to pay returns in the fund on his exit from the scheme. The exit from the scheme are decided at the time of joining the scheme. The social security benefits get through the contributors of the scheme exclusively. An unfunded scheme there is no collection of fund specified for the purpose of social security. The benefits are received through the taxes and financed from government budgets. The nature of social security schemes in the field of life/accident with special reference to the newly announced schemes by the Central Government in India are critically analyzed from this paper. In this arena it is very much important the universal
scheme crafted properly so that covers the better feature in numbers as there trade off in quality, depending on the fiscal cost to the exchequer. Primarily, new schemes are limited in coverage because contribution element limits the coverage of citizens taxation (benefits without direct individual contribution) remains a best option to provide social security in the areas of life/accident insurance as it assures society protection and coverage in India where poverty is main problem and per capita income levels are low thus, at the present development stage of India economy unfunded scheme are more appropriate.

The remainder of the paper consist in to four sections. In section 2 the importance of social security and the different social security schemes that were available in India for the unorganized sector prior to announcement of new schemes are discussed. In section 3 discusses salient features. In section 4 recently launched new schemes. In section 5 the arguments for universalisation of schemes with some estimations and projections are presented. In section 6 finally conclusions and suggestions recommendations.

Social Security —— A Review

At the time of independence and after independence policies in India largely covered only worker of organized sectors and provides social protection to the workers of organized sector. The unorganized sector workers remained outside the social security protection net and they depend on their families for an informal arrangement of social security. But with decreasing of joint families workers of unorganized sector need social security in India.


Another interesting study found that an increase in life expectancy by a year contributes to four percent increase in output (Bloom, Canning and Sevilla, 2004). It can therefore be argued that social expenditure on merit goods like health not only enhance welfare but also increase labor productivity and contribute to economic growth.

The lack of preparation for retirement in terms of social security contribution is not unique to developing countries but has also been observed in advance economies as retirement process takes place over the course of a working life and there could be competing objectives for prioritization of income ( Schieber and Rappaport, 1993) in general, the population is not prepared for old age and retirement period even in advanced countries. This is for various reasons like rising needs of income and shrinking retirement income (Munnell, Hou and Webb, 2015).

Absence of social security arrangement is not merely a problem for individual
workers and their families but has wider implications for the economy and society. A low earning power coupled with health and economic vulnerabilities lead to poverty that reduce aggregate demand in the economy. The indirect cost of absence of social security might well be increasing social costs resulting from monitoring and managing of ill health accompanied by various related social and labour problems, including absenteeism. On the contrary, a work force with higher capability and social security could contribute to higher growth, which in turn would enhance aggregate demand in economy through higher purchasing power of the vast mass of the work force in unorganized sector (NCEUS, 2006).

It is estimated that in 2004-05, the total labour force in informal sector was 92 percent and contribution of the sector to gross value added was 50 percent (NCEUS, 2008). This implies that unorganized sector contributes significantly to the Indian economy. However workers engaged in unorganized sector are generally considered the poorest in India and most exposed to shocks and stresses which threaten their livelihood (Bhraman, 1996). This is because the average productivity (and hence average income and savings) of worker employed in unorganized sector is much lower in comparison to their counterparts employed in the formal sector. This can be attributed, partly, to lack of appropriate labour and social security laws, which also hinder growth of the sector (Storm and Naastepad, 2007).

The social security problems of workers in the unorganized sector may be divided into December 1, 2015/1/2015 two categories. The first being deficiency or lack of capability to save because of inadequate employment, low earnings, low health and educational status, amongst other factors as these workers belong to poor sections of society. The second arises out of adversity in the sense of an absence of adequate safety net to meet emergencies such as ill-health, accident, death.

A number of initiatives have been taken by the Central Government to extend social security to worker. However, such social security entitlements, initially have remained mainly for workers in organized sector, and, in some cases, if available for the unorganized sector have been discretionary based on occupation. To directly address issues related to workers in unorganized sector, certain social security initiatives were introduced in 1995 under the National Social Assistance Programme (NSAP). It mainly involved transfer of cash from the government to the individual and was launched with the objective of providing some financial security to poor and destitute persons in event of old age, death of breadwinner, and maternity. The scheme is 100 percent funded by the central government to ensure that a minimum level of social protection is available for poor and old persons, throughout the country. This protective social security programme is provided to very poor citizens without any reference to their status as workers. Apart from this, there are also other initiatives (from both
central and state governments) that are targeted for poorer sections of society and select occupational groups, but are mostly contributory in nature. The major objectives of these measures were to reduce poverty and economic inequality, to improve quality of life. These schemes are National Family Benefit Scheme, Janashree Bima Yojana, Universal Health Insurance Scheme, Rastriya Swasthya Bima Yojana, Indira Gandhi National Old Age Pension Scheme, Annapurna Scheme.

In India, targeted social measures, though lacking coverage, yield substantial results for beneficiaries. In Karnataka, ninety percent of surveyed workers for a study observed that benefits of schemes toward old age, unemployment, death, sickness and employment injury were relevant for them. Similarly, women in the reproductive age groups also felt that maternity benefits were important.

II for elderly who have worked in the non-government sector accounted for 0.1 percent of GDP and 0.5 percent of revenue receipts. On the contrary, civil service pension expenditure for retired government employees was as high as 3.1 percent of GDP and 15.3 percent of the revenue receipts of India (Singh, Bharati and Sanyal, 2015).

Section III Performance of existing life/accidents insurance scheme

There are also numerous issues with existing schemes of life insurance in India. The total direct expenditure on life insurance schemes by Government of India in 2008-09 was about Rs. 55 crore that is 0.001 percent of GDP. However, the indirect support to life insurance schemes through contribution from social security fund was only about Rs. 267 crore in 2008-09 which was approximately about 0.005 percent of GDP (Choudhury and Srinivasan, 2011). Further, according to NCAER, a total of 18.5 percent of the ‘uninsured household’ (those who do not have life insurance) have a perception that insurance is irrelevant because households either prefer present to future, and or have distrust on the companies, and/or feel no need of insurance (NCAER, 2011). Thus, existing myopia of these households about future will clearly be an impediment to coverage of newly announced schemes.

Section IV: New Schemes: A Critical Appraisal

This section deals with newly launched schemes in sectors of Insurance (life and accident) that provides social security to its subscribers. An attempt is made to critically analyse these schemes and finally proposing some recommendations.

IV.i: Pradhan Mantri Suraksha Bima Yojana (PMSBY)

This contributory scheme of PMSBY is an annual accident insurance scheme offering a cover for death and disability because of an accident, at a nominal subscription of Rs. 12 per annum per member. It intends to cover all willing to join savings bank account holder in age group of 18 to 70 years in participating banks. Under the PMSBY, benefit to victims (death by accident) family is Rs. 2 lakh, while in case of disability it is Rs 1 lakh.
According to National Crime Records Bureau (2013), 0.3 million people in the age group of 18-60 years died because of accidents in 2013. Of these, seventy-five person were male. One can assume that many of these victims (given age group) were earning members who travelled outside and therefore were more likely to meet with accidents. Thus, in case of a death by accident, it is family or household members of the victim who are likely to be most affected due to sudden economic shocks. It is also necessary to extend coverage of this scheme to all elderly and not restrict to some elderly below 70 years.

IV.2: Pradhan Mantri Jeevan Jyoti Bhima Yojana (PMJJBY)

PMJJBY is a life insurance scheme and all savings bank account holders in the age of 18 to 50 years in participating banks will be entitled to join. In case of multiple saving banks accounts held by an individual in one or different banks, the person would be eligible to join the scheme through one savings bank account only. The annual contribution is Rs 330/- per member which translates to less than Rs. 1 per day. The benefits are Rs. 2 Lakh in case of death.

In PMJJBY, the most important gap is the same amount of premium irrespective of the age of person who joins the scheme. This part of the scheme remains confusing as the person who joins at a young age and renew regularly ends up contributing more than a person who joins late, and in spite of this they get the same amount in case of death. Also the scheme is restricted to individuals with age below 50 years and excludes all elderly.

V: Universalisation: A New policy option

Exclusive nature of recently introduced schemes (because they are targeted and are contributory) brings to the forefront need and importance of universalisation of these schemes. Although certain existing schemes have ensured economic security to certain masses but there are significant shortcomings in terms of coverage. Such a dichotomous situation where a smaller population is receiving substantial benefits, and a larger population is not receiving any social security requires some reconsideration in country which prides in nurturing and nourishing a welfare state. The need to extend these schemes to later segment thus becomes essential. Hence, universalisation of certain schemes is conceded to be a better alternative because it would ensure security for all the workers and citizens. Including elderly in the country. Moreover, compared to existing contributory schemes would be more inclusive and would cover wider population though at some cost, not exorbitant to the exchequer.

It is believed that as a country develops there will be formalization of the economy and thus contributory schemes will succeed. In developing countries though development continued, size of economy increasingly became informal instead of being otherwise. Targeted schemes may burden the fiscal to a lesser extent but they have high maintenance costs and lack in terms of coverage. Initiatives awareness among the people is very much important. Proper attention is not paid to disseminate information, financial literacy and communication of schemes in
India that's why person living in rural areas not get the benefit of the social schemes.

In contrast, universalisation has its advantage as it is easy to monitor, and has very low administrative costs in comparison to other schemes. This scheme can be implemented by government under direct benefit transfer scheme which is expected to be efficiently operational with subsidies and be extended on mission mode. However given the nature, the amount provided by the government, understandably would be limited because of need to contain fiscal deficit.

VI: Conclusions

In recent times social security definition has been narrowed down to imply post retirement income, unemployment benefits, medical benefits and monetary benefits in the event of accidental death and permanent disability. However only 27 percent of the global population enjoys social security in any form where as 73 percent does not receive any social security at all (ILO 2014). Thus launched schemes by government are in right direction as they aim to provide social security along with accident insurance. However due to their targeted nature mainly contributory these schemes would suffer from lack of coverage like earlier schemes of the government.

A well-defined social security programme needs to be welfare oriented are inclusive wider based and better implemented. Making schemes targeted and contributory could negatively affect these features considering that government is already spending nearly three percent placing and significantly. Social Security’s schemes are possible within a limited expenditure without placing any significantly large additional stress on the fiscal. Post offices and banks all over the India helping to implement proposed universal schemes collaborative exercise. Thus people having saving account in post offices also enjoy the benefit of universal schemes. Further, even if the people have bank accounts in co-operative banks can also be offered the schemes to ensure wider coverage.

The newly launched universal schemes or social security schemes enhances economic growth and reduces the burden of tax-financed schemes through generation of additional revenue. Present set of social security schemes a non-contributory universal scheme is probably the need of the country that has ignored till date. It would be advantageous to have universal schemes at least for the next few decades until India achieves a better per capita income and has achieved total eradication of poverty.

References: