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Fdi On The Insurance Sector And Its Contribution To India's Goal Of 5 Trillion Economy

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A robust and advanced insurance industry is essential to economic growth since it not only boosts the nation's capacity to take on risks but also offers long-term funding for infrastructure development. The general insurance sector is changing quickly to satisfy all of its clients' needs and overcome any obstacles that may arise in the future, opening the door for expansion and GDP contribution India's Economy plays a significant part in the nation's development by implementing the new economic policy. Since 1990, the Indian economy has expanded in several areas, with the insurance industry seeing particularly notable growth. Since independence, the sole sector operating in the nation's insurance market is LIC. Under the "Atal Bihari Vajpayee" Government, the insurance industry was opened in 2000 to private sector corporations, allowing up to 26 percent foreign direct investment. Following that, the capital increased significantly to 49 percent. If we examine the information contained here, the government and the then finance minister "Mr. P. Chidambaram" subsequently increased capital to 49 percent in 2015. The FDI investment made by the Indian insurance companies had increased from 49 percent to 74 percent. The actual Indian insurance GDP growth in the year 2021-2022 was 4.3 and in 2022-2023 it has been raised to 4.1 percent. The above even though it is capsule information, provides a clear picture of the contribution of the Indian Insurance sector to GDP. Here the study seeks to analyse the role of foreign direct investment in the insurance sector and how the insurance sector counter contributes to the goal of 5 trillion economic growth.

Keywords: FDI, Insurance, Indian Economy, GDP contribution, Economic Growth.

INTRODUCTION

The history of insurance has reached a turning point this millennium, spanning over two centuries. The early 1990s saw the start of the drive to reopen the industry, and the last ten years have witnessed significant openings. A committee headed by former RBI Governor RN

Malhotra was established by the government in 1993 with the goal of making recommendations for changes to the insurance industry. Complementing the banking sector's initial reforms was the aim. The committee proposed that the private sector be allowed to enter the insurance business in its 1994 report, among other things. They declared that foreign corporations could only join through Indian companies that are floating, ideally as a joint venture with Indian partners.

In 1999, the Insurance Regulatory and Development Authority (IRDA) was established as an independent entity with the mandate of overseeing and advancing the insurance sector, in accordance with the recommendations presented in the Malhotra Committee report. In April 2000, the IRDA was established as a legislative entity. One of the main goals of the IRDA is to guarantee the stability of the insurance market's finances while fostering competition to improve customer satisfaction through more options and cheaper prices. August 2000 saw the market open as a result of the IRDA's call for registration applications. Foreign corporations were permitted to hold up to 26 percent of the stock.

The Authority has developed several laws since 2000 that address everything from the registration of companies involved in the insurance business to the safeguarding of policyholders' interests. The General Insurance Corporation of India's subsidiaries underwent an autonomous corporate restructuring in December 2000, and concurrently, GIC turned into a nationwide re-insurer. Parliament passed a bill in July 2002 that de-linked the four subsidiaries from GIC. As of right now, the country is home to 34 general insurance companies and 24 life insurance companies, including the ECGC and Agriculture Insurance Corporation of India.

The insurance industry is enormous and expanding at a rapid rate of 15-20 percent every year. Insurance and banking services together provide roughly 7 percent of the nation's GDP. An advanced and well-developed insurance industry benefits economic growth by strengthening the nation's capacity to take on risk while supplying long-term capital for infrastructure development. With the establishment of the insurance industry in 1938, India gained independence, lowering liability and bolstering security across the board. However, the Indian economy saw significant changes in 1991 with the introduction of new economic policies. Nearly every industry has seen significant change as a result of the New Economy Policy's deregulation, but the insurance industry has seen particularly significant changes. Following the policy's implementation in 2000, exports and imports increased significantly, foreign direct investment (FDI) arrived in India, and when FDI was combined with insurance, the Indian economy saw a tremendous boom.

REVIEW OF LITERATURE

The article "Foreign Direct Investment and Indian Insurance Industry," authored by Dr. Amit Gawtam and Rubbysingh, emphasized raising the Foreign Direct Investment (FDI) ceiling in the insurance industry to promote global trends and economic progress. The strategic decision to liberalize the insurance market in India in 2000 was made with the intention of promoting competition, raising standards, increasing coverage and employment possibilities, and strengthening the financial sector. The expansion of the Indian economy on a worldwide scale draws investment. Between 26 and 49 percent of the growth in the Indian insurance industry is attributed to foreign direct investment (FDI).

The "Analysis of FDI in Insurance Sector in India" fascinated Yogita Sharma. He went on to discuss the importance of FDI in the insurance industry to the Indian economy. India's insurance market is predicted to grow in the future and has a lot of potential to draw foreign direct investment. The current state of the world economy. He clarified that the Indian economy welcomes foreign direct investment (FDI), which in turn encourages increased investment in infrastructure, insurance accessibility for the underprivileged, and the creation of goods that are suitable for providing social security to the majority of Indians.

OBJECTIVE

- To study the Role of the FDI on the Insurance Sector in Indian Economy

METHODOLOGY OF STUDY

The current study solely relies on secondary data that was obtained from books, articles, journals, and websites.

FDI ON THE INDIAN INSURANCE SECTOR

Here are some details provided by the PHD Chamber of Commerce and Industry (PHDCCI). According to Union Finance Minister Nirmala Sitharaman, India would reach its GDP target of $5 trillion in 2027–2028 and rank third in the world. It's a big change from Prime Minister Narendra Modi's earlier target of $5 trillion by 2024–2025. The newly mentioned target by Finance Minister Sitharaman appears to have gained official recognition, with even members of the Economic Advisory Council to the PM acknowledging it in a single sentence. India's GDP is projected to exceed $4 trillion by 2024-25 and is anticipated to reach $5 trillion by 2027-28, positioning it as the world's third-largest economy. Deputy Secretary General at PHDCCI SP Sharma emphasized the importance of accelerating economic growth by focusing on the informal sector. He highlighted that reforms often fail to reach the grassroots level, hindering their effectiveness. Sharma suggested that the government should prioritize policies that directly benefit informal businesses and workers to ensure inclusive growth. By addressing the challenges faced by the informal sector, such as access to credit and infrastructure, the economy can achieve more robust and sustainable growth. The association for the industry has also recognized growth-oriented industries, such as food processing and agriculture, infrastructure, apparel and textiles, pharmaceuticals, electronics, fintech, and defense manufacturing. This study examines how foreign direct investment (FDI) affects the insurance industry and how it helps India achieve its goal of a $5 trillion economy.

An important turning point in India's economic history was the liberalization of the economy in 1991, which ushered in a period of expansion and progress. India saw a large increase in foreign direct investment (FDI) after lowering trade barriers and opening its economy to outside capital. Over time, the nation has increased the flow of money into different industries by progressively adopting a systematic and methodical approach to draw in international investors. With large sums received in consecutive periods, including US$ 19.52 billion (1999–2004), US$ 114.55 billion (2004–09), and US$ 172.82 billion (2009–13), this approach led to a significant increase in FDI inflows, which helped India's economy transform and grow. Over the period of April 2000 to September 2020, India experienced a notable inflow of $729.8 billion in Foreign Direct Investment (FDI), which has been essential in propelling the country's economic expansion and advancement. Through recent policy reforms, most notably the easing of FDI norms in industries like banking and insurance, the government has shown its commitment to attracting more investment and fostering an atmosphere that is beneficial for economic advancement and modernization.

The insurance market in India saw a significant shift in 2015 when foreign direct investment (FDI) increased to 49 percent from 26 percent. This development created opportunities for international reinsurance businesses and promoted partnerships between domestic and foreign companies. By breaking up LIC's long-standing monopoly in the life insurance business, this move increased competition and encouraged innovation in the industry. This makes it possible for well-known businesses like Reliance, Birla, ICICI, Tata, HDFC, and Aviva to collaborate with overseas insurance partners, supporting the expansion and diversification of the sector. The decision to liberalize the economy in 1991 changed the course of the Indian economy's growth. It turned out to be a significant economic turning point that permanently changed the face of India. This momentous choice was akin to invigorating the Indian economy, where a fresh blueprint for the country's progress has been penned. In addition to stimulating the expansion of the Indian economy, this economic reform encourages foreign direct investment (FDI). India used a methodical, methodical, and steady approach to foreign direct investment. Gradually, the government let foreign investment into the economy. India first received US$ 19.52 billion in international investment between 1999 and 2004.

FDI contributes significantly to the nation's GDP growth and makes an unparalleled contribution to the creation of new job opportunities, technological advancements, new sources of capital, and skill development. India's insurance industry, which accounts for 3.71% of GDP, is booming, with both domestic and foreign businesses competing and expanding quickly.

Table 1: The inflow of FDI 2015-2023

Year	FDI Inflow (Billion USD)
2015	45.2
2016	55.6
2017	60.2
2018	61.0
2019	62.0
2020	74.4
2021	82.0
2022	84.8
2023	70.9

Source: Reserve Bank of India, CNBC (May 2023)

According to figures from the Reserve Bank of India, India's FDI inflows have shown a notable rising trend since 2015–2023, hitting new heights by the financial year 2022–2023. This consistent expansion is a result of growing investor trust and potential in India's economy throughout time.

IMPACT OF FOREIGN DIRECT INVESTMENT ON INSURANCE SECTORS OF INDIA

The main effects of foreign direct investment on India's insurance industry are explained by the following aspects.

Increase Insurance Penetration: India, a country with a population of over a billion people, has a relatively low insurance penetration rate of roughly 3.7 percent as of the fiscal year 2018, as compared to Japan, which has a higher rate of more than 10 percent. The approval of raising the foreign direct investment (FDI) cap in the insurance sector from 26 percent to 49 percent will fortify the foundational insurance infrastructure of the nation. This will make it possible for new businesses to join the market and for more people to get life insurance.

Strengthen the private sector companies: Increasing foreign direct investment will help the private sector businesses compete on an equal footing with the state-owned Life Insurance Corporation of India, which as of the 2020 fiscal year holds around 71.49 percent of the life insurance industry.

Enhanced Capital Flow: The private insurance industry, which has been suffering significant losses, will be revitalized by this increased FDI. Shortly, an infusion of additional capital estimated at 20,000–25,000 crore is anticipated as a result of the raised FDI ceiling. This may reach a maximum of 40,000–60,000 crore. Such a large investment has the potential to revitalize the nation's insurance industry.

Job Creation: With increased capital flowing into the insurance industry, insurance companies will be able to hire more people and expand their operations and infrastructure.

Increased exposure to other services and technology: Foreign companies' substantial investments in the insurance industry will also make it possible for the industry to use cutting-edge technology to deliver top-notch services. Customers can thus claim their insurance in a matter of minutes, ensuring both client happiness and the legitimacy of insurance firms.

GROWTH OF INSURANCE SECTOR

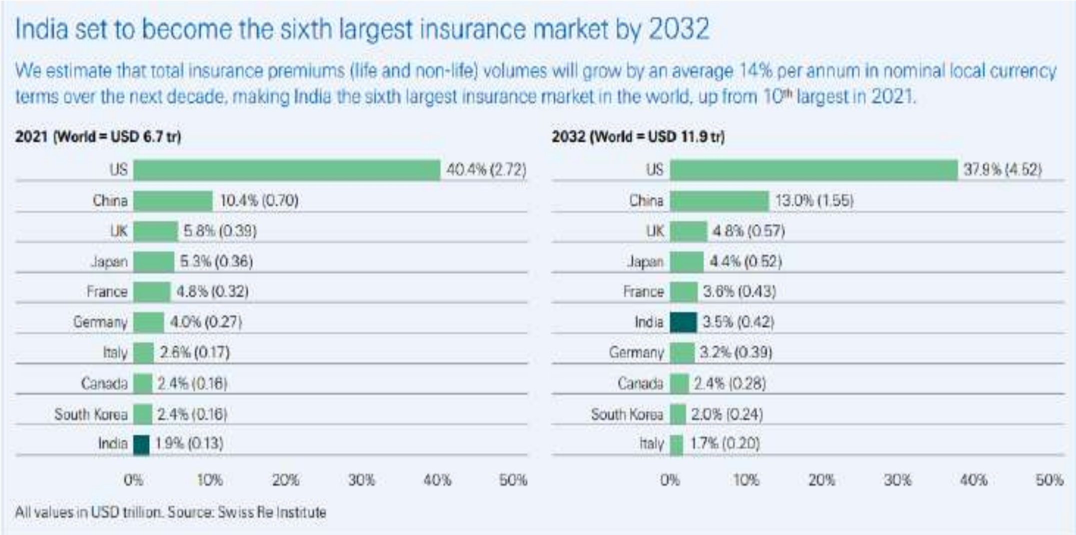
India's insurance industry is one of the fastest-growing in the world, and by 2032, projections place it as the sixth largest. It is projected that the average annual growth in total insurance premiums will be 14 percent in nominal local currency terms and 9 percent in real terms. By 2032, life insurance premiums are expected to increase by 9 percent annually (in real terms), positioning India as the world's fifth-largest life market. The market for life insurance has increased as a result of COVID-19 and raised risk awareness. Digitalization and regulatory changes should also promote the expansion of the industry.

Due to the Russia-Ukraine war and strong inflation, we predict that non-life insurance premiums will continue to rise in 2022 and 2023, although more slowly. The non-life sector's main business segment is health, which is followed by automotive and agricultural well-being. Due mostly to a surge in demand brought on by the epidemic, premiums increased by 22.5 percent in 2021. In real terms, we predict that car insurance rates will increase by 2.9 percent in 2022, mostly as a result of increased post-pandemic mobility and a recovery in economic activity.

With the pandemic-induced greater risk awareness, health premiums in India surged by 22.5 percent in real terms in 2021, making the segment the largest non-life line of business. A large portion of out-of-pocket health spending and growing healthcare costs have also contributed to the recent dramatic shifts in the health segment. According to our estimates, the increase of health premiums would drop slightly to 7.6 percent in real terms in 2022, mostly as a result of high inflation and a larger base impact following 2021's robust double-digit growth. The latter could cause lapse rates to increase. As long as the same reasons that have contributed to the previous ten years of high growth persist, health insurance growth is expected to be solid. Additionally, the increased knowledge of risk following COVID-19 will also assist expansion over a medium period. We think insurers have a chance to provide cutting-edge products that will help them satisfy the changing needs of their clients.

In India, motor insurance is the second-biggest category of non-life insurance. forecasts for 2022 indicate that auto insurance premiums will increase by 2.9 percent in real terms, primarily due to increased economic activity and increased mobility following the epidemic. The market for passenger vehicles this year and next may be constrained by pricing and rising borrowing rates. Nonetheless, we predict that premiums will rise in tandem with our prediction of 7 percent average annual GDP growth over the ensuing ten years, helped along by a growing middle class and rising taxi service usage. Additionally, cooperation between automakers and financial service organizations, insurtech, and digitization should broaden the reach of insurance.

Premiums for agricultural insurance increased dramatically following the launch of the Pradhan Mantri Fasal Bima Yojana (PMFBY) scheme in 2016, which was funded by the government. In that year, premiums increased by 245 percent, and they continued to rise until 2019. Because of the nature and purpose of the agriculture industry, most insurers continue to undervalue and lose money on it. From 2017 to 2021, the loss ratio varied between 93 percent and 120 percent, with an average yearly variation of 106 percent.



Based on the figure, India's contribution to the global insurance market was 1.9 percent, placing it in 10th place. India is predicted to hold the sixth spot, representing 3.6% of the global market.

The government increased the foreign direct investment (FDI) restriction in the insurance business (including life and non-life sectors) to 74 percent in 2021 from 49 percent, and it is anticipated that this ceiling will eventually be raised to a full 100 percent. This ought to accelerate the growth of the sector. Reducing the paid-up capital requirements for new entrants is currently being reviewed by the insurance regulator, which may help spur expansion. Insurtech investments have grown significantly in the last few years, and a variety of services are now available on several digital platforms. The emergence of insurtech will make insurance more accessible and affordable, which can considerably increase demand.

CONCLUSION

Foreign Direct Investment (FDI) is the greatest strategy to ensure the stability and overall superior performance of the Indian insurance sector. In addition to helping insurance businesses create new insurance products and services, foreign direct investment (FDI) provides a substantial amount of capital that helps them improve their fundamental insurance infrastructure, which includes hiring staff and managing operations. As a result, it won't be overstated to say that FDI represents a huge benefit to the Indian insurance industry. Many International Studies have estimated that foreign Direct Investment (FDI) in the Indian Insurance Sector in Indian can have faster growth in the coming years. So surely Foreign Direct Investment (FDI) in the Insurance Sector will play a big role in India's 5 Trillion Economy Growth. Similarly, Insurance is cooperating in every sector, therefore, In the government budget, 49 percent to 74 percent of the government budget is supported, and that too is FDI in the insurance sector. Foreign Direct Investment (FDI) big part of Indian

Economic Growth. Then it will play a big role in achieving 5 trillion economic growth through the industrial sector.

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