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Impact of Foreign Direct Investment in Indian Insurance Sector: An Overview

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Abstract:

Insurance industry not only plays a crucial role within financial system in a country but also has an important socio-economic role. Recently Government of India is allowing Foreign Direct Investment limit from 74% to 100% in insurance sector aims to attract more capital in the insurance sector. The study found that there were so many districts in north eastern states where there were no life insurance offices. The study revealed that insurance density is nearly ninety times more in USA and fifty times more in United Kingdom than that of India. It was also found that out of total FDI flows to India from different countries in different sectors a little amount of FDI flows into insurance sector. This paper has attempted to highlight that despite some demerits; the foreign direct investment may be an alternative source of financing for the development of insurance sector in India to reach the destination "Insurance for All by 2047" announced by IRDA.

Key words: *Insurance penetration, Insurance density, GDP, bancassurance.*

1. Introduction:

Insurance industry not only plays a crucial role within financial system in a country but also has an important socio-economic role. Insurance facilitates economic development. The insurance sector in India has a possibility to develop other sectors of the economy. Recently Government of India is proposing to allow Foreign Direct Investment limit from 74% to 100% in insurance sector[1] aims to attract more capital in the insurance sector into the long run and to enhance insurance penetration and insurance density in India. The Government of India is trying to establish an efficient, effective and a stable insurance industry in our country that will support both the needs of the real economy and the socio objectives of country. This paper has attempted to highlight that despite some demerits; the foreign direct investment may be an alternative source of financing for the development of insurance sector in India to reach the destination "Insurance for All by 2047" announced by Insurance Regulatory and Development Authority (IRDA).

[1] Decision taken in the Central Cabinet meeting held on December 12, 2025

2. Literature review and research gap:

FDI means an investment where a firm or company or individual from one country makes an investment in a business or establishes a dominating interest in a business in other countries. It brings not only capital but also brings expertise, technology and skills which can contribute to the economic development of the host country. The Foreign Direct Investment climate must be made most favorable by ensuring political stability and freedom from external aggression, security of life and property prompt payment for fair compensation and its remittance to the country of origin in the event of compulsory acquisition of a foreign enterprise, facilities for the remittance of profits, facilities for the immigration and employment of foreign technical and administrative personnel. Dimpfi & Jank (2016)[2] have analyzed the dynamics of stock market volatility and retail investors' attention to the stock market. Dutta & Das (2024)[3] have shown in their article that the focus of IRDA towards increasing insurance penetration has yielded positive results in Chhattisgarh State pertaining to the PMSBY scheme. Sinha and Gupta (2016) have shown a positive effect on the profitability in the Indian Financial Services, but the liquidity position has declined in this sector. Several companies have not been able to manage their capital structure to recover their liquidity. Shukla & Taneja (2024)[4] have given an idea that banks can access enormous untapped markets for insurance products through bancassurance agreements. They have highlighted that bancassurance in India faces several challenges that warrant attention from stakeholders. The challenges include complexity of regulation, risk management, technology adoption and market volatility.

From the above discussion it is clear that no specific work has been done to enhance insurance penetration and insurance density in India. It has not been stated any roadmap towards the plan "Insurance for All by 2047"[5]. This research gap has motivated us to study in this area.

3. Objectives of the study:

The objectives of the study are to have an idea about-

(i) What are the problems of insurance sector?
(ii) How can the people of the country be motivated to engage more in the insurance sector?
(iii) Is foreign direct investment needed in developing insurance sector?

[2] Dimpfi, T., & Jank, S. (2016). Can Internet Search Queries Help to Predict Stock Market Volatility? European Financial Management, 22(2). http://doi.org/10.1111/eufm.12058

[3] Dutta Kajol & Das Anirban (2024). Insurance for All by 2047 A Study of PMSBY: Insurance Penetration of the Population of Chhattisgarh State, The Management Accountant Journal, June, pp 54-55.

[4] Shukla Pooja & Taneja Bhavna (2024). Bancassurance in India: Opportunities, Challenges, and Future Prospects, The Management Accountant Journal, June, pp 72-75.

[5] IRDAI's Mission hosted by Insurance Councils on 23rd August and 24th August 2024.

(iv) To show a comparison between India and other countries regarding insurance density.
(v) To find out the main reasons for low insurance penetration and low insurance density.
(vi) To give suggestions for socio-economic development by developing insurance sector.

4. Rationale of the Study:

Insurance penetration in India has declined from 4.2% in financial year 2022-23 to 3.7% in the financial year 2023-24. Insurance density is very much low as compared to globe. More insurance offices and large number of agents are required for enhancement of insurance penetration and insurance density. But the fact that the number of districts without a life insurance office stood at 80 in the country, out of which 73 districts belong to north eastern states. Foreign direct investment can be an alternative source of financing for the establishment of insurance offices and engagement of insurance agents in the insurance sector.

5. Methodology:

There are different sectors in our economy but for our study insurance sector has been selected. We have also identified the countries where from FDI flows to India. As insurance penetration and insurance density are vital to measure how developed a country is so we collect these from different sources. The study is based on the secondary sources and literature review related to insurance affairs published in different books and journals.

6. Data Collection:

For the study data have been collected form secondary sources. The annual reports of Insurance Regulatory Development Authority (IRDA), the annual reports of Reserve Bank of India have been used for the study. Besides these, annual reports of different insurance companies have been incorporated in our study.

7. Analysis of Collected Data/ Collected Information:

After collecting data from various sources these data have been tabulated to show a clear picture about where our insurance industry actually stands. The collected information from various sources like budget speech of Finance Minister, Government of India, the speech of Chairman, RBI, the speech of Chairman, IRDA have been gathered in our study.

8. Findings of the study:

8.1 Goal of achieving "Insurance for All" by 2047:

Insurance penetration in India has declined from 4.2% in financial year 2022-23 to 3.7% in the financial year 2023-24. Insurance penetration is calculated as percentage of insurance premium to GDP. Insurance density is a metric that measures the per capita premium collected by both public and private insurance companies in a country. Insurance density is calculated as the ratio of insurance premium to population. A higher insurance density indicates a more developed insurance market and significant levels of financial awareness. The terms insurance density and insurance penetration are used to assess the stage of development of insurance sector in the country.

Table: 1. Insurance Density in India as on 31.03.2023

Country	Insurance Density		
	Life Insurance (USD)	Non-Life Insurance (USD)	Total (USD)
USA	2,017	6,868	8,885
UK	3,669	1,111	4,781
Switzerland	2,730	3,634	6,364
France	2,239	1.339	3,578
Germany	1,182	1,699	2,881
South Korea	1,705	1,836	3,541
Japan	1,942	748	2,690
India	70	22	92
World	354	499	853

Source: Swiss Re, Sigma Reports on World Insurance4/2022 and 3/2023[6]

As per Swiss Re Sigma World Insurance Report, globally insurance density was 354 for the life insurance sector and 499 for the non-life insurance sector. Overall, insurance density was 853 in 2023. It is seen from the above table that insurance density is nearly ninety times more in USA and fifty times more in United Kingdom than that of India.

8.2 Country-wise FDI flows to India:

FDI flows to India from different countries in different sectors. We now present below two tables to show country-wise FDI flows to India and sector-wise FDI flows to India.

Table: 2 Country-wise Foreign Direct Investment Flows to India (US$ billion)

Country	2019-20	2020-21	2021-22	2022-23	2023-24
Singapore	14.7	17.4	15.9	17.2	11.8
Mauritius	8.2	5.6	9.4	6.1	8.0
US	4.1	13.8	10.5	6.0	5.0
Netherlands	6.5	2.8	4.6	2.5	4.9
Japan	3.2	1.9	1.5	1.8	3.2
UAE	0.3	4.2	1.0	3.4	2.9

[6] https://www.swissre.com/institute/conferences/world-insurance-sigma.html

U.K.	1.3	2.0	1.6	1.7	1.2
Qatar	0.1	0.2	0.2	0.0	1.0
Cyprus	0.9	0.4	0.2	1.3	0.8
Canada	0.2	0.0	0.5	0.8	0.6
Germany	0.5	0.7	0.7	0.5	0.5
Luxembourg	0.3	0.3	0.5	0.5	0.4
France	1.9	1.3	0.3	0.4	0.4
South Korea	0.8	0.4	0.3	0.3	0.4
Australia	0.0	0.0	0.0	0.1	0.3
Others	7.0	8.5	11.2	3.5	3.0
Total	**50.0**	**59.6**	**58.8**	**46.0**	**44.4**

Note: P= Provisional

Includes FDI through approval, automatic and acquisition of existing shares routes.

Source: Annual Report 2023-24, Reserve Bank of India[7]

From the above table it is seen that total FDI flows to India from different countries decreased to 44.4 US$ billion in 2023-24 from 50.0 US$ billion in 2019-20. The highest amount of FDI comes to India from Singapore and the amount was 14.7 US$ billion in 2019-20 and 11.8 US$ billion in 2023-24. Mauritius, US and Netherlands also played a significant role regarding FDI flows to India. We now present a table below to show the sector-wise FDI flows to India.

8.3 Sector-wise FDI flows to India:

The Foreign Direct Investment inflow into a country depends on a host of factors such as availability of natural resources, macro-economic stability, investment decision of foreign investors, global investment climate and central bank interest rates. To attract more FDI, Government of India has put in place an investor friendly FDI policy, wherein most sectors are open for 100% FDI under the automatic route. The policy on FDI is reviewed on an ongoing basis, to ensure that India remains an attractive and investor friendly destination.

Table: 3 Sector-wise Foreign Direct Investment Flows to India (US$ Billion)

Sector	2019-20	2020-21	2021-22	2022-23	2023-24
Manufacturing	9.6	9.3	16.3	11.3	9.3
Electricity and Other Energy Generation, Distribution &Transmission	2.8	1.3	2.2	3.3	5.5
Computer Services	5.1	23.8	9.0	5.6	4.9
Financial Services	5.7	3.5	4.7	6.8	4.4
Retail & Wholesale Trade	5.1	3.9	5.1	5.3	4.1
Transport	2.4	7.9	3.3	1.7	3.8
Communication Services	7.8	2.9	6.4	4.5	3.7
Business Services	3.8	1.8	2.5	2.0	2.6
Construction	2.0	1.8	3.2	1.4	2.2

[7] https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202324

Sector	2019-20	2020-21	2021-22	2022-23	2023-24
Miscellaneous Services	1.1	0.9	1.0	1.2	1.9
Education, Research & Development	0.8	1.3	3.6	1.9	0.6
Restaurants and Hotels	2.7	0.3	0.7	0.2	0.4
Real Estate Activities	0.6	0.4	0.1	0.1	0.3
Mining	0.3	0.2	0.4	0.2	0.1
Trading	0.0	0.0	0.0	0.0	0.0
Others	0.2	0.2	0.4	0.5	0.7

Note: P= Provisional; Includes FDI through approval, automatic and acquisition of existing shares routes.

Source: Annual Report 2023-24, Reserve Bank of India[8]

From the above table it is seen that, out of total FDI flows to India from different countries in different sectors a little amount of FDI flows into insurance sector. Insurance sector is included under Financial Services. The amount of FDI flows to the sector of financial services was only 4.4 US$ Billion in 2023-24 but it was 6.8 US$ Billion in 2022-23. Allowing Foreign Direct Investment limit from 74% to 100% in insurance sector must increase capital inflow in the insurance sector.

8.4 Lesser number of life insurance offices:

The total number of life insurance offices were 11,517 as on 31st March,2024[9]. Around 60% of life insurance offices are located in Tier I centers where the population is one lakh and above. About 0.77 % of life insurance offices are located in Tier VI centers where the population is less than 5,000. As on 31st March 2024, the public sector life insurer had offices in 696 districts in the country, covering 89% of districts in the country. Whereas as on 31st March 2024, the private sector life insurer had offices in 621 districts in the country, covering 79% of districts in the country. But the fact that the number of districts without a life insurance office stood at 80 in the country, out of which 73 districts belong to north eastern states. FDI in insurance will meet the requirement regarding establishment of insurance offices.

8.5 Regional economic progress:

The improvement of insurance sector is not at the same at different parts of our country. FDI helps transforming underdeveloped areas into developed areas driving regional and local economic progress. Regional and local economic progress assures high insurance penetration and insurance density. FDI accelerates more foreign capital for growth and expansion of the insurance sector. It assures creation of new insurance office, engagement of more insurance agents, reduction of unemployment and enhancement of income level resulting to overall economic development.

[8] https://rbidocs.rbi.org.in/rdocs/AnnualReport/PDFs/0ANNUALREPORT202324

[9] IRDAI Annual Report 2023-24, Page 23; https://irdai.gov.in/document-detail?documentId=6436847

8.6 Competitive advantage:

FDI fosters competition, creates innovation, and offers consumers a wide range of products and services at competitive prices. It is expected that consumers will get better products, improved services at reasonable prices. Because of availability of better products and improved services consumers will get motivated to engage more in insurance sector. As a result, insurance penetration and insurance density will be high.

9. Suggestions and conclusion:

While FDI in the insurance sector can bring several benefits, but there are some demerits also. Allowing 100% FDI in insurance sector, foreign companies may capture lions shares in many domestic insurance companies. Foreign companies are coming to earn profit. For earning such they may exploit local labour by paying lower wages. There is a chance to violate labour laws. This can lead to poor working environment and social unrest. Some foreign companies may prioritize to earn maximum profits over the welfare of insurance policy holders. The IRDA should always give proper attention for the benefit of domestic stake holders in the insurance sector. Foreign direct investment can be an alternative source of financing for the establishment of insurance offices in the districts where there is no insurance offices and engagement of more insurance agents. Strong regulations and safeguard measures are to be implemented for the benefit of the insurance policy holders.

10. Limitation of the Study:

This article has been prepared on the basis of secondary data only. Primary data has not been incorporated in this article. The last Census of India conducted in 2011. Due to unavailability of latest census data regarding population, sex, age etc. it could not be possible to draw actual conclusion. Another limitation is many private insurance companies did not disclose and uploaded all policies and outcomes of their business.

11. Conclusion:

For bringing more people under insurance coverage, to enhance the insurance penetration and insurance density 100% FDI is permitted in the insurance sector. The FDI limit has been increased with an objective to encourage investments in the insurance sector in India from more countries and for the sector of financial services including insurance sector. Implementation of suitable policies and regulations, enhancement of insurance penetration and insurance density in insurance sector will fulfill the goal of achieving “Insurance for All” by 2047.

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