International Journal of Advanced Research in Engineering Technology & Science ISSN: 2349-2819
Email: editor@ijarets.org Volume-3, Issue-12 December- 2016 www.ijarets.org

IMPACT OF FOREIGN DIRECT INVESTMENT IN INDIAN ECONOMY WITH SPECIAL REFERENCE TO INSURANCE SECTOR IN INDIA

Dr. Navin Ahlawat
SRM University
NCR Campus
Ghaziabad

Dr. Kapil Kumar Bansal
SRM University
NCR Campus
Ghaziabad

ABSTRACT: As a matter of fact, foreign capital is one of the important means for the economic development of a country. It is a big source of capital formation, transfer of advanced technologies, managerial skills, human capital enhancement etc. Foreign direct investment (FDI) in India has played an important role in the development of the Indian economy. It has in lot of ways facilitated India to achieve a certain degree of financial stability, growth and development. This money has endorsed India to focus on the areas that needed a boost and economic attention, and address the various problems that continue to challenge the country. Foreign direct investment is considered to be one of the important measures of increasing economic globalization. Many policy makers and academicians contend that foreign direct investment (FDI) can have important positive effects on a host country's development effort. FDIs are permitted through financial collaborations, through private equity or preferential allotments, by way of capital markets through euro issues, and in joint ventures. FDI is not permitted in the arms, nuclear, railway, coal or mining industries.

KEYWORDS: Economic development, Foreign Direct Investment

INTRODUCTION

This paper defines foreign direct investment (FDI) as international capital flows in which a firm in one country creates or expands a subsidiary in another. It involves not only a transfer of resource but also the acquisition of control. Since the 1990s, FDI has been a source of economic growth for India, believing that besides needed capital, FDI brings in several benefits. The most important benefit for a developing country like India is that FDI could create more employment. In addition, technology transfer is another benefit for the host countries. When the foreign factories are set up in their countries, they will expose to higher technology production and efficiency in management. So in future, these companies become able to produce goods and services as competitive as foreigners do. Nevertheless, insufficient funds for investment are the main reason to seek FDI. Usually many less-developed countries lack funds for investment, so FDI proves to be an important source of funds for them. Foreign direct Investment is one of the most prominent and striking feature of today's globalised world. In the current globalised world there is exponential growth of FDI in both developed and developing countries. In the last two decades the pace of FDI flows are rising faster than almost all other indicators of economic activity worldwide. Developing countries, in particular, considered FDI as the safest type of external finance as it not only supplement domestic savings, foreign reserves but promotes growth even more through spill over of technology, skills, increased innovative capacity, and domestic competition. Nowadays, FDI has become an instrument of international economic integration.

Located in South Asia, India is the 7th largest, and the 2nd most populated country in the world. India has long been known for the diversity of its culture, for the inclusiveness of its people and for the convergence of geography. Today, the world's largest democracy has come to the forefront as a global resource for industry in manufacturing and services. Its pool of technical skills, its base of English – speaking populace with an increasing disposable income and its burgeoning market has all amalgamated to enable India to emerge as a viable partner to global industry. Recently, investment opportunities in India are

at its peak. India's next step for accelerating the Indian Growth is only to make the foreign direct Investment a top priority. As India offers only a hesitant welcome to FDI. It seeks investment in several industries, including manufacturing, construction, and financial services, but was hesitant to allow FDI in multi-brand retail. Fortunately India approved FDI in multi brand retail on 7th of December, 2012. The regulatory bodies allow only a minority investment through FDI due to the fear of losing domestic control over management of these projects For example; FDI in insurance companies is permitted up to 49% with restrictions on voting rights to ensure that management control of an insurance firm doesn't shift to a foreign entity. But if we critically analyse the situation then we can say that concern of loss of management control is of much less importance compared to sacrifice of economic growth. Considering the potential of FDI to spur growth, India's ambivalence toward FDI is completely misplaced. If India wants to accelerate growth, it is imperative that the country attracts FDI in large, really large amounts. Growth results from domestic investment from savings, from productivity improvements and from foreign investments. Countries like China that have grown rapidly in recent decades have taken advantage of all three sources of economic growth. India, on the other hand, has tried to achieve growth without much FDI. However, India's approach to growth is like bringing a knife to a gunfight: it's destined to fail relative to other countries' growth strategies, which take advantage of FDI. To transcend from 5-7% growth to 10-12% growth, FDI is essential.

REVIEW OF LITERATURE

A number of studies have been examined to study the significance of the FDI on growth of the economy. Alfaro Laura (2003) using cross country data for the period 1991-1999 suggested that total FDI exerts an ambiguous effect on growth. FDI in primary sector have a negative effect on growth whereas investment in manufacturing has a positive effect on growth. The effect of Service sector FDI is ambiguous. Williams (2009) suggested that for the improvement in the standard of living of the people, the promotion of FDI could be very useful and with the increase FDI inflows in the country, the per capita income of the household also increases. Duan (2010) compared the overall trends and industrial patterns of inward FDI in the BRICS and explained their determinants. In Brazil, Russia and India, the tertiary sector received the most inward FDI and primary sector received the least FDI. Manufacturing sector was in the middle in terms of inward FDI. Khazri, Djelassi (2011) analysed empirically the relation between FDI and economic growth in MENA (Middle East and North Africa) countries. He found that there was negative relation between FDI and economic growth and a positive relation between FDI and GDP. Babar and Khandare (2012) focused on changing structure, trends and direction of India's FDI during globalisation period. The study was done through sectoral analysis of top sectors FDI participation in the economy, as well as through study of country wise flow of foreign inflow in India till 2010. Singh et al. (2012) suggested that many countries provide various incentives for attracting the foreign direct investment. The need of FDI depends on saving and investment rate in any country and we should provide the better environment for attracting the foreign investment through direct as well as indirect methods. Renuka et al. (2013) suggested that India had to open up the retail trade sector to foreign investors. India is allowing only those foreign retail who first invest in back end supply chain. Kumari (2013) with the help of correlation found that the flow of equity in any previous year will determine the flow in the next year and the FDI inflow is divided into three major parts as per international standards of WTO: equity, reinvestment earnings and other capital. Singh, J. (2010) analyzed the emerging trends and patterns of FDI inflows into India in response to various policy measures announced by the Government of India since 1990. The empirical analysis suggested that the FDI inflows have shown an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicated that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years. Thus, the study indicated that the FDI inflows into India

responded positively to the liberalization measures introduced in the early 1990s. Singh, Shikha (2009), studied various factors which played a significant role in attracting FDI into a particular state and found that

foreign direct investment (FDI) policies played a major role in the economic growth of developing countries around the world and the FDI in India, after the economic reforms, have affected the growth of Indian states.

RESULT & DISUCSSION

FDI IN EQUITY SHARE CAPITAL IN INDIAN INSURANCE SECTOR

India is one of the most attractive destinations for FDI in the world. Due to a variety of reasons the insurance sector is now attracting various foreign investors to invest in India. These investments come in a variety of ways including equity participation. In table no. 1 data pertaining to investment in equity shares of Indian life Insurance Companies is given.

Table 1
FDI in Equity Share Capital in Indian Life Insurance Sector (Rs. Crore)

Year	Equity share capital	Share of foreign promoter	FDI (%)
2000-01	758	184.65	24.36
2001-02	911	235.55	25.86
2002-03	2,234.13	563.44	25.22
2003-04	3,243.71	782.34	24.12
2004-05	4,352.81	1053.94	24.21
2005-06	5,890.81	1355.34	23.01
2006-07	8,124.41	1809.74	22.28
2007-08	12,296.42	2821.63	22.95
2008-09	18,253.04	4354.51	23.86
2009-10	21,019.99	5053.58	24.04
2010-11	23,661.85	5723.81	24.19
2011-12	24931.92	6324.26	25.37
2012-13	25518.72	6045.9	23.69
2013-14	25938.51	6113.36	23.57
2014-15	26010.23	6187.24	23.98

Table 1 describes the pattern of Equity Share capital from the year 2000-2001 to 2014-2015 in the Indian Life Insurance Sector and it also reveals the Share of foreign promoters i.e. % FDI in that equity share capital. It says that the paid-up capital of the Indian Life Insurers was initially Rs.758 crore in the year 2000-2001 which, over a period of time has shown an increasing trend and is computed as Rs.25,938.51 crores. Simultaneously, foreign promoters have also revealed an increasing pattern in their share in the equity capital of Life Insurers. In the year 2000-01, the % of FDI was seen as 24.36% i.e. Rs.184.65 crores as a part of total Rs.758 crore. With the passage of time, no doubt, % of FDI has shown fluctuations as it was reduced to 24.12% in 2003-04 and 23.01% in 2005-06 and 22.28% in 2006-07 but again it rose to 25.37% in 2011-12

i.e. share of foreign promoters was Rs.6,324.26 in total paid-up capital of Rs.24,931.92 crore. But again in the year 2014-15, it fell down to 23.98% which states the contribution of foreign partners was just of Rs.6,187.24 crores in the entire equity capital of Rs.26,010.23 crores in the Indian Life Insurance sector.

FDI IN EQUITY SHARE CAPITAL IN INDIAN NON-LIFE INSURANCE SECTOR

Table 2 highlights the trend of equity share capital in the Indian Non-Life Insurance Sector along with the share of foreign promoters in it i.e. the share of Foreign Direct Investment.

Table 2
FDI in equity share capital in Indian Non-life Insurance sector

Year	Equity share capital	Share of foreign promoter	FDI (%)
2000-01	1511.5	92.3	6.12
2001-02	1,731	149.5	8.64
2002-03	1,938.00	175.76	9.07
2003-04	2,363.96	246.21	10.42
2004-05	2,513.96	246.21	9.79
2005-06	3,214.01	333.52	10.38
2006-07	3,485.87	364.53	10.46
2007-08	4,090.85	493.26	12.06
2008-09	4,829.91	676.62	14.01
2009-10	5,684.67	896.32	15.77
2010-11	6,705.89	1,090.08	16.26
2011-12	7,826.10	1,324.45	16.92
2012-13	9,519.65	1,586.63	16.67
2013-14	10,140.21	1,678.86	16.56
2014-15	10,323.62	1,987.21	16.89

It seems from the Table 2 that 2001, the equity share capital of the Non-Life Insurers was Rs.1,511.5 crore where the contribution of foreign promoters was Rs. 92.30 crore i.e. % of FDI was just 6.12. With the lapse of time, the cumulative figures showed an increasing trend. With the passing of each financial year, it was increased consistently. In 2014-15, the Non-Life Insurance Sector was having paid-up capital worth Rs.10,323.62 crores with Rs.1987.21 crore as a share of foreign promoter. So, % of FDI was raised to the extent of 16.89 %. There was an approximately 7.1% increment in FDI.

PROFITABILITY IN INSURANCE SECTOR

Profitability is an important aspect of insurance business. This study examines the impact of foreign direct investment (FDI) on profitability in Indian Insurance Sector. Table 3 pertains to Year-wise Profit of

Indian life Insurance Companies.

Table 3
Profit of Life Insurance Sector (Rs. Crore)

Year	Net Profit Before Tax	Provision of Tax	Profits after Tax
2000-01	291.15	0	291.15
2001-02	595.87	(1.88)	593.99
2002-03	110.64	0	110.64
2003-04	(417.97)	2.33	(414.56)
2004-05	(175.60)	10.77	(164.83)
2005-06	(466.76)	16.70	(452.42)
2006-07	(1261.15)	45.02	(1159.60)
2007-08	(3562.11)	149.31	(3412.81)
2008-09	(4981.88)	103.80	(4883.01)
2009-10	(945.62)	40.96	(988.82)
2010-11	2712.91	55.52	2657.04
2011-12	5974	0	5974
2012-13	6948	0	6948
2013-14	7588	0	7588
2014-15	7798	0	7798

Table 3 of the study states the position of net profits of the Indian Life Insurers from the year 2000-01 to year 2014-15. If we look at these tables, we may conclude that a lot many ups and downs have been witnessed in the journey of earning profits by public & private sectors of Life Insurance Sector. The cumulative net profits of LIC and private life Insurers were Rs.291.15 crores in the year 2000-01 which rose to Rs.595.87 crores in the next year. But, starting from year 2003-04, this sector was constantly incurring losses and these losses were maximum to the extent of Rs.4,981.88 crores in 2008-09. Again in the year 2010-11, Life Insurers put a lot more efforts in order to survive smoothly and ultimately pushed up their profits to Rs.5,974 crores which were further enhanced to the limit of Rs.7798 crores in 2014-15.

BENEFITS OF INCREASED FDI IN INSURANCE SECTOR.

- ***Insurance products:*** Private as well as government insurers will benefit from the proposed hike of FDI; these companies will offer better and wide range of insurance products to customers at larger competitive prices.
- ***Smaller Companies:*** FDI will help smaller insurance companies to break-even faster and help monetize (convert into currency) the holdings of the promoters of the older life insurance companies.

- ***Penetration:*** With the population of more than 100 crores, India requires Insurance more than any other nation. However, the insurance penetration in the country is only around 3 percent of our gross domestic product. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in, thereby enabling more people to buy life cover.
- ***Increased Capital Inflow:*** Most of the private sector insurance companies have been making considerable losses. The increased FDI limit has brought some much needed relief to these firms as the inflow of more than 10,000 crore is expected in the near term. This could go up to 40,000 crore in the medium to long term, depending on how things pan out.
- ***Favorable to the Pension Sector:*** If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.

CONCLUSIONS

By 2020, India's insurable population is expected to touch 75 crore. As a result, the importance of life insurance in financial planning is only set to increase. With the new government's stress on reforms, steps taken by IRDA to make insurance more consumer-friendly and India's favorable demographics, the future of India's insurance industry looks good. However, it remains to be seen how this sector impacts the unbanked sections of India, in the years to come. The insurance sector in India is still under developed as compared to developed countries, and despite private players now allowed to enter this sector, we only have a small number of providers. FDI would increase the number of insurance companies and may also make possible better plans at lower prices. But careful consideration is required to ensure that the investment stays for long term and does not get withdrawn, leaving the companies and their domestic customers in a miserable position, and not all profits are moved outside the country but some reinvested or spent in our country.

REFERENCES

1. Alfaro Laura (2003). Foreign Direct Investment and Growth: Does the Sector Matter?, Retrieved from www.people.hbs.edu/lalfaro/fdisectorial, 1-31.
2. Babar, S.N. and Khandare, B.V. (2012). Structure of FDI in India during globalization period, Indian Streams Research Journal, 2(2), ISSN 2230-7850, 1-9.
3. Chaturvedi, I. (2011). Role of FDI in Economic Development of India: Sectoral Analysis International Conference on Technology and Business Management, March 28-30, 2011002E
4. Duan, Y. (2010). FDI in BRICS: A Sector Level Analysis, International Journal of Business Management, 5(1), ISSN (online) 1833-8119, 46-52.
5. Government of India (2013): ‘Union Budget Documents; 2014-15’, Finance Ministry, Government of India, New Delhi
6. Kaushik K.R., Bansal K.K (2012) : Foreign Direct Investment in Indian Retail Sector Pros and Cons, International Journal of Emerging Research in Management &Technology ISS 2278-9359
7. Khazri Bilel and Djelassi Mauldi (2011). The Relationship Between Financial Liberalization, FDI and Economic Growth: An Empirical Test for MENA Countries, Economic and Financial Review,1(10), ISSN (online) 2047-0401, 20-26.
8. Kumari, Nilanjana (2013). A Study of FDI in India, Journal of Economics and Sustainable Development, 4(3), ISSN (online) 2222-2855, 25-40.
9. Parida T. K. (2014): ‘Banking with Insurance in India: Agency or Broker’, The Journal of Insurance Regulatory and development Authority (IRDA)
10. Renuka, R., Ganeshan, M. and Durgamani, M.K. (2013). Impact of FDI in Indian Economy with Special Reference to Retail Sector in India, Global Journal for Research Analysis, 2(1), ISSN (online) 2277-8160, 22-24.
11. Singh, J. (2010). Economic Reforms and Foreign Direct Investment: Policy, Trends and Pattern, The IUP Journal of Financial Economics, 8(4), 59-69.
12. Singh, Jasbir, Chadha, S. and Sharma, A. (2012). Role of Foreign Direct Investment in India: An Analytical Study. Research Inventy: International Journal of Engineering and Science, 1(5), 34-42.
13. Singh, Shikha (2009). Foreign Direct Investment (FDI) and Growth of States of India, ICFAI 4th International Conference (IBSICON’09), New Delhi.