100% FDI IN INSURANCE - ECONOMY

NEWS: *Finance Minister **Nirmala Sitharaman** announced a policy change allowing **100% Foreign Direct Investment (FDI)** in India's **insurance sector**, increasing the limit from the previous 74%.*

WHAT'S IN THE NEWS?

- The objective of this policy change is to **attract more foreign investment** into the insurance industry and drive growth in the sector.

Global Comparison

- Many countries, including **Canada, Brazil, Australia, and China**, already allow **100% foreign ownership** in insurance companies.
- By **aligning India's FDI rules with international standards**, the government aims to make the Indian insurance sector **more attractive to global investors**.
- This move is expected to **increase competition, improve service quality, and introduce global best practices** into the Indian market.

Evolution of the Indian Insurance Sector

- The Indian insurance industry has transformed significantly over time.
- Previously, the market was dominated by **Life Insurance Corporation of India (LIC)**, a state-owned company.
- Over the years, **private insurers** have entered the market, offering **diverse insurance products** in life, health, and general insurance.

Factors Driving Transformation

- **Economic Growth**: As India's economy expands, more people have disposable income to invest in insurance.
- **Technological Advancements**: The rise of **digital platforms and insurtech solutions** has made insurance more accessible.
- **Demographic Changes**: A **younger population with higher financial literacy** is more inclined to buy insurance.
- **Increased Awareness Post-COVID-19**: The pandemic highlighted the **importance of financial security**, leading to greater demand for **health and life insurance**.
- The insurance sector has contributed significantly to **India's economic stability and risk management**.

Historical Background of Insurance in India

- The concept of **insurance in India has ancient roots**, dating back thousands of years.
- References to **insurance-like mechanisms** can be found in ancient **Indian scriptures**, such as:
  - **Manusmriti**
  - **Yagnavalkya's Dharmashastra**
  - **Kautilya's Arthashastra**
- These texts discuss the idea of **resource pooling**, where people contribute to a common fund to support individuals affected by **natural disasters, fires, floods, epidemics, and famines**.

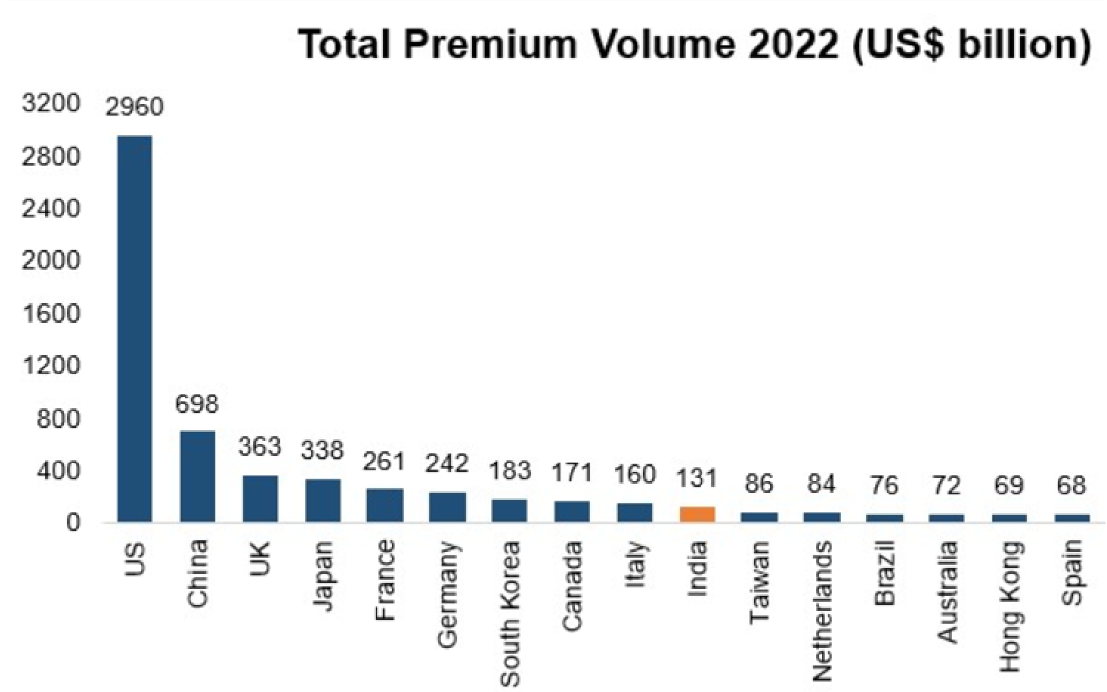
- In ancient India, **marine trade loans and carriers' contracts** were early forms of insurance, helping traders **mitigate risks** associated with long-distance commerce and transportation.

Insurance Penetration in India

- **Insurance penetration** refers to the ratio of **total insurance premiums** to **Gross Domestic Product (GDP)**.
- In **FY23**, India's **insurance penetration** was **4%**, but it declined to **3.7% in FY24**, despite an overall **7.7% growth** in insurance premiums, which reached **₹11.2 lakh crore**.
- **Life Insurance Penetration**: Decreased from **3% in FY23 to 2.8% in FY24**.
- **Non-Life Insurance Penetration**: Remained constant at **1%**.
- **Global Comparison**: The **global average insurance penetration is 7%**, indicating that India **lags behind** significantly.
- **Challenges for Low Insurance Penetration**:
    - **Limited Awareness**: Many people, especially in rural areas, are unaware of insurance benefits.
    - **Economic Constraints**: Low-income households may find insurance unaffordable.
    - **Cultural Preferences**: Many Indians prefer **traditional savings instruments** like gold, real estate, and fixed deposits over insurance.

What is the Current State of Insurance Sector in India?

- **Global Market Position**: India ranks as the **10th largest insurance market** worldwide and holds the **2nd largest position** among emerging markets, with an estimated **market share of 1.9%**.



- **Potential:** As per the **Insurance Regulatory and Development Authority of India (IRDAI),** India will be the **6th largest** insurance market within a decade, leapfrogging **Germany, Canada, Italy and South Korea.**
    - The insurance market in India is expected to reach **USD 222 billion by 2026.**

- **Insurance density**: It has increased from **USD 11.1 in 2001** to **USD 92 in 2022**.
    - The breakdown includes a life insurance density of **USD 70 and a** non-life insurance density of **USD 22.**
        - Insurance density measures the **average insurance premium per person.**
- **Insurance penetration**: It has steadily risen from **2.7% in 2000** to **4% in 2022**.
    - Insurance penetration is defined as **premiums as a percentage of GDP.**
- **Foreign Direct Investment (FDI):** Between 2014-23, the insurance sector has received nearly **Rs. 54,000 crore (USD 6.5 billion)** in **FDI**.
    - Currently, **74% FDI** is allowed in the insurance sector.
- **Market Composition: Life Insurance Corporation of India (LIC)** remains the sole **public sector life insurer**, holding **62.58% market share** in new business premiums for FY23.
    - The **private sector's market share** in general and health insurance rose from **48.03%** in FY20 to **62.5%** in FY23.

What are the Challenges in India's Insurance Sector?

- **Low Insurance Penetration**: Insurance penetration in India **remains low** compared to global standards.
    - India's insurance penetration was **4% in 2022** compared to **6.5% globally**.
- **Affordability Concerns**: The perception of **high costs,** especially with **GST rates** at **18%,** continues to **deter potential buyers.**
- **Distribution Inefficiencies**: Reaching **underserved regions and demographics,** particularly rural and semi-urban areas, remains challenging.
    - Rural areas are home to **65% of India's population, over 90 crore people**, yet **only 8%-10%** have life insurance coverage.
- **Lack of Customisation:** The **lack of customisation** options that align with their specific requirements makes health insurance **less attractive to potential policyholders.**
- **Fraud and Risk Evaluation Challenges: Fraudulent claims and inefficient risk evaluation** increase costs, causing leakages that diminish overall savings in the insurance ecosystem.
- **Digital Transformation Hurdles:** Digitizing insurance processes increases **cybersecurity risks**, making the sector a **target for malicious actors** seeking sensitive customer data.
- **Limited Financial Literacy**: The general public's **low financial literacy** hampers the ability to make informed decisions regarding insurance products.
    - In India, **1 in 5 health insurance** policy owners are **unaware of basic policy terms** despite purchasing the policy on their own.

Conditions for 100% FDI in India

- **The new 100% FDI limit applies only if foreign investors ensure that the entire insurance premium is invested within India.**
- The government aims to **simplify regulations** related to foreign investment in the insurance sector to **make India more attractive for global insurers**.
- **IRDAI (Insurance Regulatory and Development Authority of India)** will continue to **regulate and oversee** the insurance sector to:
    - Protect **policyholders' interests**.
    - Ensure **compliance with Indian laws**.

- Prevent excessive **foreign dominance** over the Indian insurance industry.

What is IRDAI?

- IRDAI, founded in **1999,** is a **regulatory body** created with the aim of protecting the interests of insurance customers.
    - It is a **statutory body** under the **IRDAI Act, 1999** and is under the jurisdiction of the **Ministry of Finance.**
- It regulates and sees to the development of the insurance industry while **monitoring insurance-related activities.**
- The powers and functions of the Authority are laid down in th**e IRDAI Act, 1999 and Insurance Act, 1938.**

Insurance for All by 2047

- **About: IRDAI** aims to achieve **'Insurance for All' by 2047**, ensuring that every citizen has comprehensive **life, health, and property insurance coverage,** and enterprises are supported with appropriate insurance solutions.
- **3 Pillars:** Insurance **customers (Policyholders)**, Insurance **providers (insurers)** and Insurance **distributors (intermediaries)**
- **Focus Areas:**
    - Making available **right products** to right customers
    - Creating robust **grievance redressal** mechanism
    - Facilitating **ease of doing business** in the insurance sector
    - Ensuring the **regulatory architecture** is aligned with the **market dynamics**
    - Boosting **innovation**
    - **Competition and distribution efficiencies** while mainstreaming technology and moving towards principle based regulatory regime.

What are Government Initiatives to Increase Insurance Coverage?

- **Pradhan Mantri Jeevan Jyoti Yojana (PMJJBY)**
- **Pradhan Mantri Suraksha Bima Yojana (PMSBY)**
- **Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (AB-PMJAY)**
- **Pradhan Mantri Fasal Bima Yojana (PMFBY)**

Expected Impact of 100% FDI on the Insurance Sector

- Since **2000**, the insurance sector in India has attracted **₹82,847 crore** in **foreign direct investment (FDI)**.
- The government expects the **sector to grow at 7.1% annually** over the next five years due to:
    - **Foreign investments**.
    - **Policy reforms**.
    - **Expansion of digital and rural insurance markets**.
- Increased FDI can **help address India's insurance under-penetration problem** by:
    - Encouraging the **adoption of global best practices**.
    - Introducing **new and innovative insurance products**.
    - Providing **long-term capital support** for Indian insurers.
    - Strengthening **distribution networks** and increasing **competition**.

Benefits for Customers

- More **foreign insurers entering the market** will increase competition.

- **More competition → Better products, improved services, and competitive pricing**.
- Higher insurance penetration will help **reduce the "protection gap"**, ensuring more people have **financial security**.
- Greater foreign participation will:
    - **Improve customer service standards**.
    - **Boost economic growth** by **investing premium collections within India**.

Challenges for Foreign Insurers in India

- **Complex Distribution Landscape**:
    - Life insurance in India is dominated by **bank-led (bancassurance) distribution models**.
    - Non-life insurance (health, motor, etc.) depends largely on **agents and brokers**.
- **Adapting to India-Specific Business Models**:
    - Foreign insurers may struggle to **adjust their business strategies** to India's **unique market dynamics**.
    - They need to tailor products and services to fit the **bancassurance-heavy life insurance sector** and **agent-led general insurance** models.
- **Joint Venture (JV) Restructuring Challenges**:
    - Many foreign insurers already operate in **partnerships with Indian firms**.
    - Transitioning to **100% ownership** may require significant **restructuring**, which could take time.

Conclusion and Way Forward

- The insurance sector has been **instrumental in India's economic stability and growth**.
- **Insurance is a capital-intensive industry**, and allowing **100% FDI** will provide **greater capital access**, helping insurers **expand operations**.
- **Foreign insurers will gain more control** over their Indian operations, making India a more **attractive investment destination**.
- The policy aligns with the government's **"Insurance for All by 2047"** vision, requiring **huge capital inflows**.
- The government is also considering **regulatory changes** related to:
    - **Board composition**.
    - **Key management personnel**.
    - **Other compliance requirements** to make foreign investment **easier**.

Recommendations for Future Growth

- **Targeting Tier 2 & 3 Cities and Rural Areas**:
    - Many people in smaller cities and villages **lack insurance awareness and accessibility**.
    - Insurers should **expand their reach** in these areas.
- **Innovative Distribution Models**:
    - The use of **digital platforms, mobile apps, and partnerships** can help **reach underserved populations**.
- **Government Schemes as Entry Points**:

    - Many low-income individuals are already covered by schemes like:
        - **Pradhan Mantri Jeevan Jyoti Bima Yojana** (Life Insurance).
        - **Pradhan Mantri Fasal Bima Yojana** (Crop Insurance).
        - **Pradhan Mantri Jan Arogya Yojana** (Health Insurance).
    - Private insurers can **build upon these schemes** to increase insurance penetration.
- The move to **100% FDI** in insurance will **accelerate sectoral growth, attract global players, and improve insurance penetration**.
- Challenges remain, but **regulatory reforms, innovation, and rural expansion** can help **bridge the protection gap** and **strengthen India's financial security framework**.

Source: https://indianexpress.com/article/business/budget/fdi-insurance-entry-foreign-giants-inflows-9811462/