

A study on the attitude of Consumers and Insurance Agents towards the proposed increase in Foreign Direct Investment (FDI) in Insurance sector in India

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Abstract: This paper describes a study on the attitude of consumers and insurance agents towards the proposed increase in Foreign Direct Investment (FDI) in Insurance sector in India. The study focus on the impact of FDI in insurance as perceived by the sample of the study based on four dimensions namely economical impact, impact on service, benefits and overall impact on market. A quantitative survey was conducted using a measurement tool developed for the study. The sample of the study consisted of consumers and insurance agents from selected insurance companies in Chennai. The results of the study indicates that the customers welcome the government decision to increase the FDI cap in insurance. The participants of the study perceived that the better service and more options in the product portfolios are the general expectations from the insurers.

Index Terms: Insurance, FDI, Perception

I. INTRODUCTION - HISTORY OF INDIAN INSURANCE SECTOR

Indian insurance sector has a long standing tradition which dated back to 1818 when Oriental Life Insurance Company was established in Calcutta. Subsequently British Insurance Act was enacted in 1870 which paved way for the foreign insurance companies to set their foothold in India. The Indian Life Assurance Companies Act, 1912 was considered as the first statutory measure to regulate life insurance business in India. The Indian Insurance Companies Act was enacted in 1928 and statistical information about transactions in both life and non-life business in India by Indian and foreign insurers including provident insurance societies was collected by the then Government. Insurance Act, 1938 was passed to protect the interest of the Insurance public which also included comprehensive provisions for effective control over the activities of insurers.

In 1956, an Ordinance was passed to nationalize the Life Insurance sector in India. Life Insurance Corporation of India (LIC) was created established in the same year. The LIC acquired 154 Indian, 16 foreign insurance companies operating in India along with 75 provident societies. LIC enjoyed the monopoly in insurance sector till late 1990s. The report of Malhotra Committee, 1993

provided startling revelations about the insurance sector in India. The report argued that only 22% of Indian public are insured and also strongly recommend that the insurance should be opened to the private players to improve the market penetration of insurance products. The Insurance Regulatory and Development Authority (IRDA) was constituted in 1999 as an autonomous body to regulate and develop the insurance industry.

The government of India made a landmark decision to open up the Insurance sector to the private sector in 2000. The government also allowed foreign equity stake in domestic private insurance companies to maximum of 26% of the total paid-up capital. Today at least 45 private insurance companies are operating in India and 8 public sector companies are in the insurance business in India. Almost all of these private insurers operate as joint ventures between the Indian promoters who hold up to 76% and foreign insurance companies who hold up to 26% as mandated by the law.

II. STATEMENT OF THE PROBLEM

The Insurance Amendment Bill was tabled in the Rajya Sabha in 2008 to raise FDI cap in the insurance industry from 26 per cent to 49 per cent. However the bill has been pending since 2008 and the new government which assumed office in 2014 has renewed the interest in passing the bill. The study was an attempt to gauge the attitude of public and the insurance agents who are doing the business on behalf of the insurance companies toward the decision of government of India to rise the cap in FDI in insurance sector from 26% to 49%.

III. OBJECTIVES OF THE STUDY

The major objectives of the study are listed below

- To measure the economical impact perceived by the public and insurance agents due to rise in FDI in insurance sector.
- To analyze the impact on services perceived by the public and insurance agents due to rise in FDI in insurance sector.
- To study the extent of general benefits as perceived by the public and insurance agents due to rise in FDI in insurance sector.
- To understand the impact on economy due to rise in FDI in insurance sector as perceived by the public and insurance agents.
- To study the overall difference in the attitude in the rating between insurance agents and public toward the government decision to increase the FDI in insurance.

IV. REVIEW OF LITERATURE

This section highlights the recent published articles on the FDI in insurance in India. Vijaya Kumar (2004) viewed that the opening up of the insurance sector has fostered competition, innovation and productive variations. He also advocated that issues in insurance products should be considered which included demand for pension plan, separateness of banking from insurance sector, role of information technology, possible use of postal network for selling insurance products and above all the role of the regulator. Murthy (2004) stated that the proposed increase in the FDI Cap from 26 to 49 per cent has got a very good potential to have a competitive edge over other organizations and there is an urgent need to infuse huge amount of capital into insurance by the foreign insurance collaborators.

Krishna Kumar and Kannan (2005) analyzed the impact of entry of private players on the position of LIC in the Indian insurance sector. The study also highlighted the likely threats and suitable remedial steps to the public sector giant and recommended suitable analytical apprehensions. Sayulu and Sardar (2005) suggested that customer value and satisfaction are the important

ingredients in the marketers for success. The insurance companies today must develop stronger bonds and loyalty with their ultimate customers and pay close attention to their customer defection rate and undertake steps to reduce it.

Sam Ghosh (2005) acknowledged the major change in the Insurance landscape in India and believed that the tough competition has actually changed the rules of the insurance game as the market is flooded with an array of products. He argued that the differentiators among different insurance players are the product, pricing and service. Nirjhar Majumdir (2005) praised that the private Insurance companies has done a good job in the market by grabbing around one fourth of the market share from the public sector giant LIC.

Bansal (2005) concluded that privatization of insurance sector over a period of time has been proved to have positively impacted the customers. He also viewed that the privatization as the beginning of new era with many heights to achieve. Pooja Bhalla and Gagandeep Kaur (2007) stated that the opening up of the insurance sector to private players has posed a challenge to the public sector giant i.e. LIC of India. They also viewed that though LIC still enjoys the dominant position but the proportionate share is decreasing year after year. They recognized that the private players with their innovative products, smart marketing, wider distribution networks and better customer service have been successful in attracting a large number of customers. Gupta et al. (2007) described the reasons for the opening up of the insurance sector to private players. They also believed that the opening up of insurance sector can be justified as the size of the large potential market is adequate enough for all companies. Similarly Faiz Abdullah (2008) stated that liberalization of insurance sector resulted in the emergence of a large number of private and foreign players, wider choice in terms of product innovation, tremendous surge in the flow of technology and the expanded market. But, there are many challenges faced by the insurers to bring into practice the global standards in the country. These challenges are capital adequacy, solvency margin, cap on foreign direct investment, financial efficiency, infrastructure development, integration and externalities.

Rao and Madhavi (2007) observed that the insurance industry is facing a healthy competition which really benefits the customers. They also opined that the public sector insurance operators should further improve its product varieties and schemes to compete with the private sector and also change its attitude further towards service to survive in the market. Ayem Perumal (2010) noted that the business environment for the insurance sector has been fast changing, bringing new opportunities and posing new challenges. He further asserts that the major challenges are market volatility, ever-changing customer needs and structural limitations.

Shende and Neelkant Rao (2010) attributed the spread of life insurance to the entry of new players in the insurance business. The monopoly of LIC of India has come to end in insurance sector. Total life insurance premium of Indian Insurance Industry has increased four folds since liberalization of insurance industry. Mohmed Amin Mir (2010) analyzed the pros and cons of the proposed rise of the cap on FDI in the insurance sector from 26 to 49 percent. The study identified that many private insurers welcomed the move as it raises their capital base. This helps maintain adequate solvency margin and bears the escalated initial operation costs low.

V. CONCEPTUAL FRAMEWORK

A conceptual framework was developed for measuring the attitude towards proposed increase in cap in FDI in insurance sector. Based on the review of literature and expert opinion on the issues four factors were emerged which are directly impacting the FDI rise in insurance. The four major factors are *impact on economy, impact on service to customers, general benefits, impact on insurance business/market*.

A. Impact on Economy:

This variable measures the extent to which the increase in FDI impacts the economy of the country.

B. Impact On Service To Customers:

This variable measures the impact of increase in FDI on the service to the customers of insurance companies.

C. General Benefits

This variable measures the level of perceived benefit of FDI in insurance

D. Impact on Insurance Business/Market

This variable aims to measure the likely impact of rise in FDI cap in insurance on the insurance business in India.

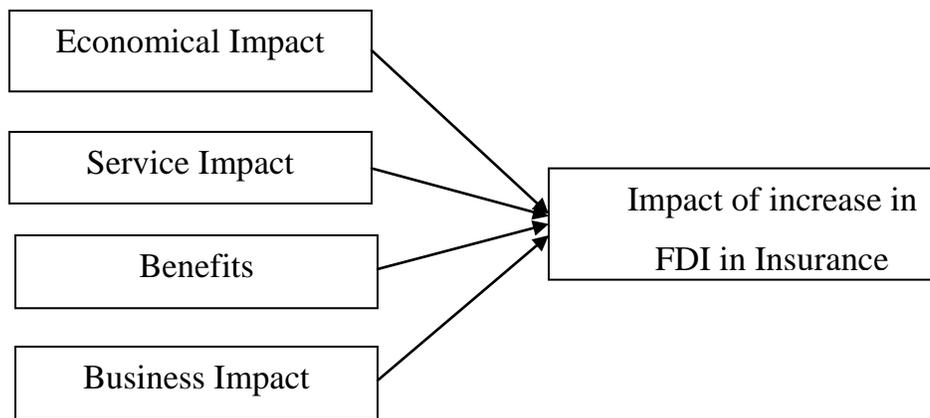


Figure 1: Conceptual Framework of the Study

VI. RESEARCH METHODOLOGY

6.1 Sample and Research Setting

The study was conducted with the customers and agents of insurance companies located in Chennai TamilNadu, India. A sample of 200 customers and insurance agents were approached personally at their work places and residence to participate in the study. Out of the total, 157 correctly completed the questionnaires in all respects, yielding a response rate of about 78 percent. The study employed non-probabilistic convenience sampling technique for choosing the sample.

6.2 Research Instrument

A 17 item instrument developed for the purpose of the current study. The questionnaire was validated by a team of experts consisting of 2 professors, 2 senior managers of insurance company. The scale was developed based on a five-point Likert scale ranging from “strongly disagree” (1) to “strongly agree” (5). The participants of the study were asked to indicate their degree of agreement with each item.

6.3 Statistical Tools

The data collected were subjected analyzed using the software package SPSS 21.0. The statistical analyses included Descriptive Statistics, Reliability Analysis, Exploratory Factor Analysis using Principal Component method with Varimax rotation, and Correlation Analysis.

6.5 Demographic details of the study

The demographic details of the study is presented in the Table 1. It can be observed from the table that majority of the respondents were Customers (68%). While agents constituted a smaller portion of the sample (32%). Majority of the respondents were Male (83%), while female constituted only 17%. Similarly majority of the respondents about 80% were Married. The distribution of the age group of the is also presented in the Table 1. The majority of the sample of the study (90%) hold at least graduate degree. The sample of the study were mostly employed in private organizations and sizeable sample of respondents were self employed.

Table 1: Demographic Characteristics of Sampled Customers (n=157)

Demographics		Number / Percentage
Status	Customer	107 (68 %)
	Agent	50 (32 %)
Gender	Male	131(83 %)
	Female	26(17 %)
Marital Status	Married	126(80 %)
	Unmarried	31(20 %)
Age	Below 30	31(20 %)
	31 – 40	61(39 %)
	Above 40	65(41 %)
Qualification	Undergraduate	15(10 %)
	Graduate	90(57 %)
	Postgraduate	52(33 %)
Employment	Private Sector	91(58 %)
	Public Sector	28(18 %)
	Self-employed	38(24 %)

6.6 Reliability Analysis

The scale developed for the study was subjected to reliability analysis and the Cronbach’s alpha statistics was employed to measure reliability. Cronbach alpha value for the scale was estimated at 0.856 which is well above the cut-off value of 0.70, hence, deemed acceptable (Hair et al. 2010).

6.7 Descriptive Statistics

The descriptive statistics for the scale was obtained which indicates the average values of the factors of the scale. The descriptive statistics is presented in Table 2. An analysis of the results shows that respondents of the study perceived that proposed rise in the FDI cap in the insurance sector will have much higher impact on the service level of the insurance companies than on the other factors such as impact on economy, overall benefits to the customers, impact on insurance business.

Table 2 Descriptive Statistics

Factors	Mean	SD
Impact on Economy	3.3	0.73
Impact On Service	3.7	0.46
Overall Benefits	3.2	0.94
Impact on Insurance Business	3.3	0.65

6.8 t-test results

Independent sample t-test was conducted to test measure the significance of difference in the mean rating between customers and agents in their perception towards the proposed increase in FDI in insurance. The results of the t-test as shown in Table 2 indicates that there is significant difference in the mean rating between customers and agents for all the factors. The level of significance was 0.001 level for all the cases. Customers of the study viewed that the rise in FDI cap will positively impact the services and more product options will be available to the customers.

Table 3: t-test to test the level of significant differences in the mean rating between customers and agents

Factor	Status	N	Mean	SD	t-value	p-value
Economical Impact	Customer	107	3.5252	0.38	6.5**	0.000
	Agent	50	2.7680	0.77		
Service Impact	Customer	107	3.9972	0.44	4.7**	0.000
	Agent	50	3.3100	0.98		
Benefits	Customer	107	3.3047	0.44	2.9**	0.004
	Agent	50	3.0380	0.55		
Market Impact	Customer	107	3.1467	0.76	4.1**	0.000
	Agent	50	3.6540	0.59		

** - Significant at 1% level

VII. DISCUSSION

The analysis of the data indicates that in general respondents of the study welcome the move by the government to increase the FDI cap in insurance. In particularly common people are satisfied with the service of the private insurance companies and expected that the service will be still better if the competition in the industry increases further.

VIII. CONCLUSIONS

This paper attempts to gauge the mood of the general public about the proposed increase in FDI in insurance sector. However care should be taken in generalizing the findings of the study considering the small size of the sample of the study. This paper is a part of a larger study which aimed at developing a standardized measure to study the perceived influence in the proposed increase in the FDI in insurance sector in India.

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