# Indian Insurance Sector: A Research on the Feasible Alternatives for Raising Capital

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***Abstract—*** *The Indian Insurance Sector to continue its tremendous growth needs capital financing to the extent of Rs. 61,000 crores in the next five years. This financing can be made possible by firstly raising the FDI cap from the existing 26% to 49% or secondly by issuing either equity shares or bonds (debt) from the domestic market or thirdly by Financial reinsurance. To start with this paper explained the concept behind these alternatives. To analysis these alternatives qualitative as well as quantitative methods were being used. The analysis of the alternative of raising of the FDI cap has been done on the basis of comments from industry experts and news articles. Quantitative methods like Regression has been used to predict the growth in the insurance sector life insurance premium and the income statements of all the insurance companies have been studied to calculate the cost of equity and debt. Financial Reinsurance analysis has been done based on the various research papers and industry experts' comments. After analysing all the alternatives it has been concluded that the best alternative for the Indian Insurance Sector in financing its future Capital requirements by Financial Reinsurance.*

***Keywords— FDI; Financial Reinsurance Analysis;Insurance Premium; Life Insurance Market***

## 1 Introduction

According to the Webster Dictionary, Insurance is defined as the business of insuring persons or property; coverage by contract by which one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril.

Insurance works on the simple concept that the risks are spread for a few individuals amongst many people. It's done for the reason that just in case if something happens to any one of them then the risks can be shared. Individuals and businesses offer a premium to the insurance companies so that they get insured against the risks which might occur during the course of time.

India had a large population and hence a large untapped market area of its population. Nearly 80% of Indian population was uninsured for both Life and Health insurance cover, hence hinting at a large opportunity for the growth of the insurance sector in India. In the year 1912, a new beginning was seen in the Indian insurance sector with the passing of Life Insurance Act of 1912 and the Provident Fund Act - to regulate the insurance business. The Life Insurance Companies Act, 1912 made it necessary that the premium-rate tables and periodical valuations of companies should be certified by an actuary.The business subsequently gathered pace and started to grow at 15-20% annually. Along with banking it constituted nearly 7% of GDP. Due to immense growth in this sector, regulations were introduced in the insurance sector. With the formation of the "Malhotra Committee" in 1993 by the Government of India for the examining various aspects of insurance Industry, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. Its goals were to safeguard the interests of insurance policyholders and to initiate different policy measures to help sustain growth in the Indian insurance sector.

Currently Indian Government allows 26% participation of overseas insurance companies by capital to enter into India subject to obtaining licence from Insurance Regulatory and Development Authority (IRDA). A parliamentary panel has rejected the proposal to raise foreign direct investment (FDI) in insurance to 49% from 26%. In life insurance business, India ranked 9th among the 156 countries. Insurance in India is growing at a tremendous rate, the competition being witnessed by the companies is high, and talks are going round projecting 2010-2015 as the 'Golden Age' for insurance industry in India. Insurance in India is a dynamically growing market and is set to touch USD 400bn by the year 2020.

*1.1.Major Players in the Life Insurance Market*

The major players in the Life Insurance Market in India are discussed as follows by means of table 1.1 which discusses the major equity share capital of life insurers.

| Name of the insurer | As on 31 March 20 | Infusion During the year | As on 31 March 2011 | Foreign Promoter | Inidan Promoter | FDI (%) |
|---|---|---|---|---|---|---|
| HDFC Standard | 1968 | 26.88 | 1994.88 | 518.67 | 1467.21 | 26 |
| ICICI Prudential | 1428.14 | 0.32 | 1428.46 | 370.78 | 1057.68 | 25.96 |
| Max New York | 1838.82 | 2.18 | 1841 | 478.63 | 1362.37 | 26 |
| Kotak Mahindra | 510.29 | 0 | 510.29 | 132.68 | 377.61 | 26 |
| Birla Sun Life | 1969.5 | 0 | 1969.5 | 512.07 | 1457.43 | 26 |
| TATA-AIG Life | 1920.5 | 33 | 1953.5 | 507.91 | 1445.59 | 26 |
| SBI Life | 1000 | 0 | 1000 | 260 | 740 | 26 |
| ING Vysya | 1019.15 | 445.73 | 1464.88 | 380.8726 | 1084.01 | 26 |
| Metlife | 1774.79 | 194.79 | 1969.57 | 512.09 | 1457.48 | 26 |
| Bajaj Allianz | 150.71 | 0 | 150.71 | 39.18 | 111.52 | 26 |
| Aegon Religare | 570 | 380 | 950 | 247 | 703 | 26 |
| LIC | 5 | 0 | 5 | 0 | 5 | |

**Table 1.1: Equity Share Capital of Life Insurers**

1) **LIC-** LIC was founded in 1956. It is the largest life insurance company in India and is owned solely by the Government of India. LIC has enjoyed a period of monopoly for almost 50 years but with formation of IRDA and subsequent issuing of licences to private insurers the monopolistic attitude has changed. It is the only insurance company belonging to the public sector and now it has to compete with several other corporate entities of its kind both domestic and multinational brands.
2) **HDFC Standard**HDFC Standard Life Insurance Company Limited.is a joint venture of Housing Development Finance Corporation Limited (HDFC Limited), and a Group Company of the Standard Life Plc, UK. HDFC Ltd. holds 72.43% and Standard Life (Mauritius Holding) 2006, Ltd. held 26.00% of equity in the JV. The remaining stake is held by others.
3) **ICICI Prudential Life Insurance Company-** It is a joint venture between ICICI Prudential holding 74 % and Prudential plc holding 26% equity.
4) **Max New York**- Max India partnered with New York Life International LLC, to set up a 74:26 Joint Venture.
5) **Kotak Mahindra**- It is a 74:26 joint venture between Kotak Mahindra Bank Ltd., its affiliates and Old Mutual publically listed company.
6) **Birla Sun Life**- It is also known as BSLI. It is a joint venture between Aditya Birla Group and Sun Life Financial Inc.
7) **TATA-AIG Life-** The Tata Group holds 74 per cent stake in the insurance venture with AIG holding the balance 26 per cent equity.
8) **SBI Life**- SBI Life Insurance is a joint venture between State Bank of India and BNP Paribas. SBI owns 74 per cent of the total capital and the remaining 26 per cent is with BNP Paribas.

9) **ING Vysya-** ING Vysya Life Insurance Company is a joint venture between ING Insurance International B.V. (26%), Exide Industries (50%) and other shareholders like Ambuja Cements Limited and Enam Group, together holding a total of 24%.
10) **Metlife_-** MetLife India Insurance Company Limited India known as Metlife Insurance is an associate of MetLife, Inc. and was established as a joint venture between MetLife International Holdings, Inc., the Jammu and Kashmir Bank, M. Pallonji and Co. Private Limited and other private investors.
11) **Bajaj Allianz** - Bajaj Finserv Limited holds 74% equity and the remaining 26% is held by Allianz, SE.
12) **AegonReligare Life Insurance (ARLI)** -_AEGON holds 26% equity, REL holds 44 % and Bennett, Coleman & Company Limited BCCL Group holds 30% equity in ARLI.

### *1.2 Raising the capital: The Issue*

India is one of the most under-insured countries and it needs a way to generate funds in order to sustain and increase the sector's growth. The share of life insurance funds in the total financial saving of the household continued to surge in 2010-11. Its share increased to 24.2 per cent, up from 22.6 per cent in 2009-10 and 21.0 per cent in 2008-09.India is ranked 9th among the 156 countries in life insurance business. Growth in 2010-11 for estimated life insurance premium in India grew by 4.2 per cent (inflation adjusted) whereas the global life insurance premium expanded by 3.2 per cent for the same period. The share of Indian life insurance sector in global market was 2.69 per cent during 2010, as against 2.45 per cent in 2009.
Level of development of insurance sector in a country is measured by insurance penetration and density. Insurance penetration is measured as the percentage of insurance premium to GDP and ratio of premium to population (per capita premium) is used to calculate insurance density. Private participation has caused increase in insurance density. It has been consistently high till 2009 but it fell in 2010 as compared to growth on Indian economy.
The insurance companies need more capital to grow and meet their solvency needs. This will help them consolidate their accounts and make it attractive for their boards to sanction further investments in India. Better technology and managerial skills will make their operations more efficient. A vibrant insurance market can also mobilise long-term resources for investment in infrastructure. The insurance regulator has estimated capital requirement at around Rs 61,200 crore over the next five years, which is not a small change. Indian promoters have invested around Rs 21,000 crore over the last decade. Raising another Rs 61,200 crore from the domestic market is a tall order and the issue that needs to be sorted in order for the insurance sector to actually achieve the golden era between 2010 and 2015. There is a need to explore the available options and come to a viable solution for the insurance sector to sustain and increase its current growth.

#### *1.3 Introduction to 'the Alternatives for raising capital'*

The capital requirement for the Insurance Sector can be financed by three alternatives: raising the FDI cap to 49% from the existing 26%, through equity or debt from the Domestic market or by financial reinsurance. The general concept behind these alternatives is discussed below.

#### *1.3.1 Foreign Direct Investment*

India to increase its economic growth in the post 1991 reforms opened many sectors to Foreign Direct Investment. This reform was made under the liberalisation and globalisation policy of the government.
Foreign Direct Investment is an investment of foreign funds in a company of a different origin. It provides an organisation with newer markets, cheap production facility, new technology, products and skills. It includes the acquisition of physical and intangible assets and management interest in a

company other than the investing firm's home country. FDI has played a major role in the globalisation of business.
FDI has enabled India to achieve financial stability, development and growth. The money from FDI has allowed India to focus on areas that needed a boost. India has always sought to attract FDI from world's major investors. The government has many reforms designed to encourage favourable business environment for investors. The government has granted permission for FDIs to provide up to 100% of the financing required for many industries.The insurance sector four years ago was opened for private participation. Most of the private insurance companies have formed joint venture with foreign players from across the globe.

*1.3.2Raising equity or debt from the Domestic Market*

Domestic Market can also provide the insurance sector with the required capital. A company can either raise capital by equity or by debt. Raising equity means issuing shares in the securities market by the company with the approval of SEBI. Offering new shares will lead to a decrease in the return to the existing equity shareholders which will in turn reduce the prices of the shares in the stock market. Raising debt can be done by taking loan from financial institutions or by issuing bonds and bills to individuals and/or institutions.

*1.3.3Financial Reinsurance*

Financial Reinsurance is insurance of the insurance company. It is done by an insurance company to protect itself from risks and to raise capital. The reinsurer will provide capital in return the insurer will pay it back over time. The repayments come out of the surplus of the reinsured part of the business. The impact is an increase in the assets but no increase in the liabilities. Reinsurance not only diversifies the risk of the company but also provides technical and rating assistance to the insurers. The liability of the reinsurer arises only when the insurance company in not able to meet all its claims.

## 2. CONCEPTUALFRAMEWORK

The Insurance Sector in India has gone through various stages. The journey of the Insurance sector is of significance from the opening up of the sector. It helped the sector to grow. In 1998, the Union Cabinet of India decided to allow 40% foreign equity in private insurance (26% to foreign companies and 14% to NRI's, OCB's and FII's). But in 1999, the Standing Committee headed by MuraliDeora decided that foreign equity in private insurance should be limited to 26%. The IRA bill was then renamed to Insurance Regulatory and Development Authority (IRDA) Bill. And finally in 1999 Cabinet cleared the IRDA Bill. *(TapenSinha, 2000)*.

It was also mentioned in the bill that the Indian promoter, who could initially hold 74 per cent of the stake, must compulsorily dilute his stake to 26 per cent in 10 years. Since Indian players had to dilute their stake to 26 per cent over a phased period, giving an additional 14 per cent to NRIs and FIIs could have ended giving in the commands to the foreign players which the government never wanted to do. The committee thus felt that the Indian promoters would be at a disadvantage to their foreign counterpart.A thing to note over here is that after the Malhotra Committee report, there was another committee named Mukherjee's which was set up to make concrete plans. This committee recommended including certain ratios in Insurance Companies balance sheets so as to ensure that transparency is maintained in accounting. But then it was objected by the finance minister on ground that it would affect the growth prospects of a developing Insurance Company *(TapenSinha, 2000)*.Hence it can be seen that the Government didn't take any decision in haste. They wanted the sector to grow but were rational enough to see the loopholes which can arise and affect adversely the country later on.The IRDA had set up strict guidelines on the asset and liability management of insurance companies with solvency requirements. The initial margins were set high as compared to the developed countries.

The report also was strict enough to say that all companies have to provide some coverage to the rural sector. For a Life Insurer the figures are below:

- 1st year: 5%
- 2nd year: 7%
- 3rd year: 10%
- 4th year: 12%
- 5th year: 15 %( of total policies written directed in that year) *(TapenSinha, 2000).*

Tremendous business growth was enjoyed by the firms from the year 1999 to the year 2008. The global economic downturn started declining the growth within the capital markets, compelling the insurance firms to think twice about their business strategy. At one side, whatever growth they had, 80 percent of it was through unit linked insurance plans depending on the capital market. Whereas at the other side, the untapped market potential in a country like India was among the rural millions, necessitating a completely new business model to be developed as the need of the hour in order to reach that strata people. The need is to take into account the intrinsic nature of life insurance and the basic living styles and mentality of the rural folk. *(KrishnaveniMuthiah)*

Herein it can be seen that the Government of India wanted the rural sector to get insured which is the main reason why it at the beginning mandated the percentage of the total business which should come from the rural people. Since the scope of profits was less over there as uncapping these markets require more of infrastructural and operations cost because these places lack the technology etc, firms would be a bit sceptical to go in there. But then now as the research has come rural sector is one of the most important sectors wherein there is tremendous potential of growth.

In the year 2003, a routine model of economic growth was used by the economists at Goldman and Sachs in order to project the total GDP for a few countries till the year 2050. The following table shows the projections till 2020. From there it can be inferred that the total real GDP in India and that of France and the UK will be on par by 2020 and would be somewhat smaller compared to Germany. The basis of the same is not made on optimistic assumptions. If the same model is applied to Japan/Korea in 1960, they would underestimate the current actual GDP of Japan/Korea. *(TapenSinha, 2004).*

| Year | India | France | Germany | UK |
|---|---|---|---|---|
| **2000** | 469 | 1311 | 1875 | 1437 |
| **2005** | 604 | 1489 | 2011 | 1688 |
| **2015** | 1411 | 1767 | 2386 | 2089 |
| **2020** | 2104 | 1930 | 2524 | 2285 |

**Table 2: Projected GDP in 2020, US dollars**
***Source: Goldman Sachs, 2003***

The more GDP will rise, there will be more growth and hence the disposable income will increase which in turn will lead to an increase in the savings and since savings and investment are directly related i.e., the more one saves the more he invests. Hence there will be more scope for the insurance sector to grow.

The K.P. Narsimham committee was set up by the government to look into the matters so that they can come up with a feasible solution as to what should be the level to which FDI cap should be there in the Insurance Sector. In their report they came out with a clear cut rise in the FDI cap from 26% to 49%. This was a very positive move because if it is implemented then in that case in would have brought significant growth in the sector. The IRDA too was on the same page as that of the committee. But that proposal to raise foreign direct investment (FDI) in insurance to 49% from 26% was rejected by the parliamentary panel.

When one looks at how opening up of the insurance sector to foreign investments has aggravated the growth of China, it is seen that foreigners have been motivated to enter China's insurance industry by their desire to participate in the largest potential insurance market in the world. In 1980, post the 1979 financial reforms, total insurance premiums were only RMB 640 million (US$ 77.4 million). Since 1980, average rate of growth of China's insurance market was 26%, reaching RMB159 billion (US$19.2 billion) which is a 249 fold increase, by the year 2000. Insurance premiums growth rate is projected to slow to about 12% per year for the next 5 years, reaching RMB 280 billion (US$33.7 billion) by the end of year 2005.China's insurance industry has made rapid advances over the last 20 years and particularly since the 1992 opening of the market to FDI. China has developed a good start from almost no insurance services. It has been aided by FDI, both in terms of industry expertise and modestly in terms of foreign capital. WTO Negotiation round has now finally compelled China to agree to open more completely, mainly its financial services market and including insurance.*(Chen Jin and Steve Thomas, 2001).*

However there is another side of the coin and that is the economy will become more vulnerable to foreign conditions and hence the alternative could be to take money from the domestic market i.e., either through debt or equity.The K.P.Narsimham committee made some amendments in the Insurance Bill so that there is a clear cut demarcation between the shareholder's fund and the policyholder's fund. The concept of "Controlled Fund" was dispensed with a new concept of "Controlled Investible Fund".Controlled fund for a life insurance companies includes traditional and unit linked life assurance funds (group, individual), annuity funds and shareholders fund.Controlled investible funds' means all the funds belonging to the policyholders in the case of an insurer carrying on life insurance business, or attributable to the policies in the case of an insurer carrying on general insurance business (including health and agriculture insurances), as the case may be, and such part of the funds of shareholders as may be required to support the control level solvency as may be determined by the Authority by way of regulations. The main reason why this is done because there are two kinds of funds which any insurer has to keep: Policyholder's fund and Shareholder's fund.The shareholders capital is not supposed to subsidize customers' returns or reduce his cost. The capital is for taking the risks and being made available to support policyholders if there is a bad year. Thus the capital cushions the volatility of the claims etc. For example if there are 2 claims expected for every 1000 lives and one has collected enough premium to meet on an average 2 claims and then make some profit as well but say if the company ends up with 3 claims in bad year then it will require capital to finance those extra pay-outs. Next year say the claim drops from 2 (as expected) to 1. Then the company will make higher profits on the capital invested.

In life office operations, when a policy is sold, a negative cash-flow generally arises and an immediate deficiency is created, which may continue as a shortfall in the accumulated policy fund in relation to the policy reserves required to be held. In the case of an established life insurer, this deficiency is met by the retained profits and the surplus emerging on the existing block of business. However, in the case of a new life insurer this deficiency, which is higher on account of expense overrun till the breakeven is achieved, continues until surpluses emerging on the business written in the past have wiped out the accumulated deficits and the then current year's surplus is sufficiently large to cover the deficiency in respect of the year's new business.

But then if the policyholder's fund is allowed to remain in deficit then that would hamper the asset liability management. So what is done is that in case the policy holder's fund is in negative then that much amount is transferred from the shareholder's fund. However if the pricing is done correctly in that case this is short run in nature. Different countries have different way of treating this like in Malaysia when this happens, it's considered as a loss in shareholder's fund.

When both these factors viz. raising FDI Cap and rising funds via domestic market don't seem feasible, one can look at another aspect i.e. financial reinsurance. A financial reinsurance (Fin Re) contract has two motivations, financial goals and risk transfer goals. Fin Re aims to address some of the financial objectives of a direct writer. The objectives can be generation of capital for writing new business, via re-engineering future profits contained in a block of new or in-force business or via a cash injection from the reinsurer.

A "cashless financing with virtual capital" arrangement is a form of Fin Re arrangement which does not involve cash transfers from the reinsurer and provides additional capital to the direct writer. The basic structure of these contracts, in essence, is whole-account stop-loss reinsurance.

Typically the last X number of claims which is expected to be payable in say, 30 or more years from now is reinsured. This reinsurance arrangement provides capital in the following ways:

- For X of claims being reinsured, the direct writer has a reduced reserving requirement on this security of business releasing the capital that would have been tied up as technical reserves and solvency margin.
- The direct writer speculatively books a claim for X with the reinsurer. Not paying the claim immediately, but holding it as a "reinsurance receivable" by the direct writer, to be paid while settling of the primary liability by direct writer. Thus the direct writer can reduce its liabilities by taking immediate credit for this reinsurance receivable as an asset in its regulatory statement.

In reinsurance, the initial reinsurance cover is run-off over a pre-determined period, as the aim is not large scale transfer of risk but generating capital. It also helps in improving the internal rate of return achieved on the capital employed.



By releasing assets which could be tied up as technical reserves, Fin Re improves investment freedom. This in turn could lead to higher returns. ). The internal rate of return after reinsurance is higher and the cost of Fin Re is less than the rate of return achievable on the product (else it would be an unattractive source of capital).

## *2.1 Problem Definition*

India is most certainly one of the biggest under insured countries and still has to find its ways to generate capital in order to achieve solvency needs. Insurance sector is grossly underutilized and the problem persists to find the various alternatives to achieve the exponential growth it enjoys in various other countries. So the inevitable question that arises is where would the capital required for sustaining growth in the Insurance sector be achieved from? There are various alternatives to the same, they are discussed as follows:

- Raising FDI cap raise to 49%.
- Raising money from domestic market.
- Financial reinsurance.

## *2.2 Objective of the Study*

The recommendations of the Narsimham and Malhotra committees share valid reasons for increasing the foreign stake in the sector. However, the ongoing debate still continues to analyze the pros and cons of the options available and the quest to find the most sought-after alternative.The basic objective of this study is based on the need of the Indian Insurance sector for raising funds, finding the best recourse possible and efficiently advancing such that the entire Indian economy as a whole benefits from it.

## *2.3 Significance/Justification*

The Indian insurance sector is currently in a dire need for capital to fund its growth and for further geographical penetration in the vastly untapped rural markets. As the rural markets of India still lack the basic amenities and support structure, setting up in those markets is invariably costlier and a much higher resource consuming effort. Hence it is aimed at evaluating the various possible means of raising such capital to support insurance sector in its growth and in turn the progressive growth of the Indian economy.

## 3 SCOPE OF THE STUDY

The focus of this paper is on Life Insurance as it is the largest of all the insurances in India. Life insurance premiums account to 2.5% whereas General Insurance premiums account to 0.65% of India's GDP. Taking a look at the life insurance, funds in the total financial saving of the household continued to surge in 2010-11, its share increased to 24.2 per cent, up from 22.6 per cent in 2009-10 and 21.0 per cent in 2008-09.

The share of life insurance business was 58 per cent in total premium collection. While life insurance business collected USD 2520 billion as premium, the same for non-life business was USD 1818 billion. During 2009, the premium in world life insurance business rose by 3.2 per cent on account of double digit growth in the life insurance premium collection in the emerging markets. Hence the focus was aimed at Life Insurance as the major contributor and consequently being the major influencing factor regarding the raising of required funds for the insurance sector. The impact on Life Insurance can then be taken as a sample for the complete possible insurance options.

## 3. RESEARCH METHODOLOGY

The research methodology adopted for the purpose of this research is a pragmatic approach, which is essentially a combination of quantitative and qualitative methods. As discussed earlier, there are three alternatives that are being considered for raising capital in the Indian insurance sector viz. a viz. raising money from domestic market, increasing the FDI cap on insurance sector in India and financial re-insurance.

The first alternative of raising money from the domestic market has been quantitatively analysed. The regression analysis has been calculated for the total annual life insurance premium from 2001-2010. Analysis has been done on the growth of the industry as a whole and also on the private players of the industry. With the help of the figures forecasted by using regression analysis for the years 2010-2020. Percentage growth for each year in the total life insurance premium with respect to the previous year have been calculated. This analysis is based on the statistical data provided by IRDA.

The second alternative of increasing the FDI cap has been analysed qualitatively, whose basic foundation comes from various secondary sources like research articles in Journal, published and unpublished scholarly papers, and books, various international and local journals, speeches, newspapers and websites. The views of various experts from the industry has also been taken in to account for the research. The third and the final alternative have also been analysed using a qualitative approach similar to the methodology adopted for the second alternative.

## 4. FACTS AND FINDINGS

*4.1 Quantitative Analysis of the Indian Domestic Insurance Market*

A quantitative analysis with the data of the Insurance sector of the Indian Domestic market has been conducted.

*4.2 Total Life Insurance Premium in the Indian Domestic Market*

The life insurance premium of all the insurance sector companies in India has been tabulated in Table 1.3. This table contains the premium from 2000-01 to 2009-10 and the absolute and relative growth in the industry as a whole as well as the private players in the industry.

TOTAL LIFE INSURANCE PREMIUM

(` Crore)

| Insurer | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 |
|---|---|---|---|---|---|---|---|---|---|---|
| **LIC** | **186077.31** | **157288.04** | **149789.99** | **127822.84** | **90792.22** | **75127.29** | **63533.43** | **54628.49** | **49821.91** | **34892.02** |
| | **(18.30)** | **(5.01)** | **(17.19)** | **(40.79)** | **(20.85)** | **(18.25)** | **(16.30)** | **(9.65)** | **(42.79)** | |
| Aegon Religare | 165.65 | 31.21 | - | - | - | - | - | - | - | - |
| Aviva | 2378.01 | 1992.87 | 1891.88 | 1147.23 | 600.27 | 253.42 | 81.50 | 13.47 | - | - |
| Bajaj Allianz | 11419.71 | 10624.52 | 9725.31 | 5345.24 | 3133.58 | 1001.68 | 220.80 | 69.17 | 7.14 | - |
| Bharti AXA | 669.73 | 360.41 | 118.41 | 7.78 | - | - | - | - | - | - |
| Birla Sun Life | 5505.66 | 4571.80 | 3272.19 | 1766.17 | 1259.68 | 915.47 | 537.54 | 143.92 | 28.26 | 0.32 |
| Canara HSBC | 842.45 | 296.41 | - | - | - | - | - | - | - | - |
| DLF Pramerica | 38.44 | 3.37 | - | - | - | - | - | - | - | - |
| Future Generali | 541.51 | 152.60 | 2.49 | - | - | - | - | - | - | - |
| HDFC Standard | 7005.10 | 5564.69 | 4858.56 | 2855.87 | 1569.91 | 686.63 | 297.76 | 148.83 | 33.46 | 0.002 |
| ICICI Prudential | 16531.88 | 15356.22 | 13561.06 | 7912.99 | 4261.05 | 2363.82 | 989.28 | 417.62 | 116.38 | 5.97 |
| IDBI Federal | 571.12 | 318.97 | 11.90 | - | - | - | - | - | - | - |
| IndiaFirst | 201.60 | - | - | - | - | - | - | - | - | - |
| ING Vysya | 1642.65 | 1442.28 | 1158.87 | 707.20 | 425.38 | 338.86 | 88.51 | 21.16 | 4.19 | - |
| Kotak Mahindra | 2868.05 | 2343.19 | 1691.14 | 971.51 | 621.85 | 466.16 | 150.72 | 40.32 | 7.58 | - |
| Max New York | 4860.54 | 3857.26 | 2714.60 | 1500.28 | 788.13 | 413.43 | 215.25 | 96.59 | 38.95 | 0.16 |
| MetLife | 2536.01 | 1996.64 | 1159.54 | 492.71 | 205.99 | 81.53 | 28.73 | 7.91 | 0.48 | - |
| Reliance | 6604.90 | 4932.54 | 3225.44 | 1004.66 | 224.21 | 106.55 | 31.06 | 6.47 | 0.28 | - |
| Sahara | 250.59 | 206.47 | 143.49 | 51.00 | 27.66 | 1.74 | - | - | - | - |
| SBI Life | 10104.03 | 7212.10 | 5622.14 | 2928.49 | 1075.32 | 601.18 | 225.67 | 72.39 | 14.69 | - |
| Shriram | 611.27 | 436.17 | 358.05 | 184.17 | 10.33 | - | - | - | - | - |
| Star Union Dai-ichi | 530.37 | 50.19 | - | - | - | - | - | - | - | - |
| TATA AIG | 3493.78 | 2747.50 | 2046.35 | 1367.18 | 880.19 | 497.04 | 253.53 | 81.21 | 21.14 | - |
| **Private Total** | **79373.06** | **64497.43** | **51561.42** | **28242.48** | **15083.54** | **7727.51** | **3120.33** | **1119.06** | **272.55** | **6.45** |
| **Private Growth** | 23.06% | 25.09% | 82.57% | 87.24% | 95.19% | 147.65% | 178.83% | 310.59% | 4125.55% | |
| **Industry Total** | **265450.37** | **221785.47** | **201351.41** | **156065.32** | **105875.76** | **82854.80** | **66653.75** | **55747.55** | **50094.46** | **34898.47** |
| **Industry Growth** | 19.69% | 10.15% | 29.02% | 47.40% | 27.78% | 24.31% | 19.56% | 11.28% | 43.54% | |



**Table 3: Total Life Insurance Premium in the Indian Domestic Market**

*Source: Capital Line*

*4.3 Growth Prediction of the Premium in the Indian Domestic Market*

Table 1.4 gives the forecast of the growth in the premium of the industry as a whole and the premium of the private companies. Statistical method of regression has been used to predict the premium growth for the next ten years. The absolute premium growth has been predictedand the relative yearly growth has been calculated based on the premium in the previous year.

| | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| **Year** | | **Private Total** | **Private Growth** | **Industry Total** | **Industry Growth** |
| 2001-02 | 1 | 272.5481 | 4125.55% | 50094.4575 | 43.54% |
| 2002-03 | 2 | 1119.0615 | 310.59% | 55747.5509 | 11.28% |
| 2003-04 | 3 | 3120.3263 | 178.83% | 66653.7533 | 19.56% |
| 2004-05 | 4 | 7727.5082 | 147.65% | 82854.798 | 24.31% |
| 2005-06 | 5 | 15083.5379 | 95.19% | 105875.7615 | 27.78% |
| 2006-07 | 6 | 28242.48 | 87.24% | 156065.32 | 47.40% |
| 2007-08 | 7 | 51561.4159 | 82.57% | 201351.41 | 29.02% |
| 2008-09 | 8 | 64497.43 | 25.09% | 221785.47 | 10.15% |
| 2009-10 | 9 | 79373.06 | 23.06% | 265450.37 | 19.69% |
| | | | | | |
| | | | | | |
| **Slope** | | | 10398.90507 | | 28369.05405 |
| **Intercept** | | | -24105.92891 | | -7858.726758 |
| | | | | | |
| 2010-11 | 10 | 79883.122 | 0.64% | 275831.814 | 3.91% |
| 2011-12 | 11 | 90282.027 | 13.02% | 304200.868 | 10.28% |
| 2012-13 | 12 | 100680.932 | 11.52% | 332569.922 | 9.33% |
| 2013-14 | 13 | 111079.837 | 10.33% | 360938.976 | 8.53% |
| 2014-15 | 14 | 121478.742 | 9.36% | 389308.030 | 7.86% |
| 2015-16 | 15 | 131877.647 | 8.56% | 417677.084 | 7.29% |
| 2016-17 | 16 | 142276.552 | 7.89% | 446046.138 | 6.79% |
| 2017-18 | 17 | 152675.457 | 7.31% | 474415.192 | 6.36% |
| 2018-19 | 18 | 163074.362 | 6.81% | 502784.246 | 5.98% |
| 2019-20 | 19 | 173473.267 | 6.38% | 531153.300 | 5.64% |
| | | | | | |
| | | | | | |

**Table 4: Growth Prediction of the Premium in the Indian Domestic Market**

*4.4 Income Statement of all Insurance companies in the Indian Domestic Market*

Table 4 is the compiled income statement of all the insurance companies for the period 2000 to 2009. It can be seen in the income statement that the losses incurred by the companies over the last ten years has increased many folds. This is mainly due to the private companies in the sector which are relatively new in the market.

| LIFE INSURERS: SHAREHOLDERS ACCOUNT (` Lakh) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Particulars | ALL COMPANIES | | | | | | | | | |
| | 2009-10 | 2008-09 | 2007-08 | 2006-07 | 2005-06 | 2004-05 | 2003-04 | 2002-03 | 2001-02 | 2000-01 |
| Amounts transferred from the Policyholders Acc | 175204 | 81539 | 102464 | 81245 | 63319 | 70060 | 54813 | 48810 | 47962 | 28679 |
| **Income From Investments:** | | | | | | | | | | |
| (a) Interest, Dividends & Rent – Gross | 50490 | 51052 | 35336 | 24184 | 15207 | 10467 | 9981 | 11179 | 10742 | 1309 |
| (b) Profit on sale/redemption of investments | 12275 | 8169 | 14726 | | 4605 | 1134 | 4000 | 2833 | 3020 | 71 |
| (c) (Loss on sale/ redemption of investments) | (4634) | (6297) | (2438) | (1462) | (522) | (555) | (118) | (5) | (17) | (1) |
| (d) Transfer/gain on revaluation/Change in Fair v | 1379 | 519 | (214) | (239) | (66) | - | - | - | - | - |
| (e) Amortization of Premium/Discount on Investi | (5) | 1683 | 480 | 19 | (326) | - | - | - | - | - |
| Other Income | 177 | 128 | 58 | 428 | 67 | (461) | (118) | (235) | 279 | 61 |
| **TOTAL (A)** | **234886** | **136878** | **150412** | **104174** | **82284** | **80644** | **68558** | **62582** | **61986** | **30119** |
| Expenses other than those directly related to th | 16677 | 12192 | 4811 | 2260 | 2575 | 1466 | 2537 | 1929 | 2145 | 1000 |
| Bad debts written off | - | - | - | - | - | - | - | - | - | - |
| Provisions (Other than taxation) | - | - | - | - | - | - | - | - | 253 | - |
| (a) For diminution in the value of investments (N | (5273) | 5345 | 2198 | - | - | - | - | - | - | - |
| (b) Provision for doubtful debts | 242.00 | - | - | - | - | - | - | - | - | - |
| (c) Others | 1 | 1 | 9 | - | - | - | - | 964 | 2 | |
| Contribution to Policyholders Account | 317806 | 617443 | 499606 | 228030 | 126385 | 96738 | 107817 | - | - | 4 |
| **TOTAL (B)** | **329453** | **634981** | **506624** | **230290** | **128960** | **98204** | **110354** | **51518** | **2400** | **1004** |
| Profit/ (Loss) before tax | (94566) | (498188) | (356211) | (126115) | (46676) | (17560) | (41797) | 11064 | 59586 | 29115 |
| Provision for Taxation | 4096 | 10380 | 14931 | 4502 | 1670 | (1077) | (233) | - | (188) | - |
| Profit / (Loss) after tax | (98882) | (488301) | (341281) | (115960) | (45242) | (16483) | (41456) | 11064 | 59398 | 29115 |
| Prior Period Items | 220 | - | - | - | (1834) | - | (108) | - | - | - |
| **APPROPRIATIONS** | | | | | | | | | | |
| (a) Balance at the beginning of the year | (1576796) | (992036) | (560236) | (366557) | (247547) | (160974) | (64337) | (25703) | 26022 | 31665 |
| (b) Interim dividends paid during the year | - | - | - | - | - | - | - | - | 43325 | - |
| (c) Proposed final dividend | 103092 | 92912 | 82959 | 75781 | 62177 | 69660 | 54813 | 48810 | - | - |
| (d) Dividend distribution tax | - | - | - | - | - | - | - | - | - | - |
| (e) Transfer to reserves/ other accounts | 2979 | 2823 | 1270 | 1581 | (6941) | 1176 | 368 | 887 | 9911 | - |
| **Profit carried to the Balance Sheet** | **(1781750)** | **(1576071)** | **(985951)** | **(559879)** | **(349860)** | **(248293)** | **(160974)** | **(64336)** | **56476** | **(2550)** |

**Table 5: Income Statement of all Insurance companies in the Indian Domestic Market**

*Source: Capital Line*

*4.5 Qualitative Analysis for raising the FDI cap in the Insurance Sector*

We have conducted a qualitative analysis for the alternative of raising the FDI cap in the Indian Insurance Sector. We basically conducted telephonic interviews with a few experts from the Insurance sector and also recorded the comments from a few politicians of India. Our findings are recorded below:

i. In February 2012, PrakashJavaddekar, BJP spokesperson & Member of the Public Accounts Committee came out with a question asking," *If we allow Foreign Direct Investment in the insurance sector, will it guarantee that foreign companies will go to rural areas or in smaller cities?*"

ii. Amitabh Chaudhry, MD & CEO, HDFC Life says, *'Foreign capital would come with deeper expertise in products, better underwriting skills and superior technology transfer to India'*
Furthermore he adds that 'Any discussion on increasing Foreign Direct Investment (FDI) in India is contentious and prone to rhetoric. More so in a sector like insurance, which is the only industry that provides solutions for long-term savings in India, is also expected to provide stability to the financial markets and to provide a buffer against external shocks.'

iii. As stated by Mr.AbhayTewari, Appointed Actuary, Edelweiss Tokio Life, “However I am not sure whether 26% to 49% will make the sector boom or not since it is more to do with managing expenses well, create low cost successful companies offering good quality products rather than put more capital upfront. Expansion and reach does not look like a problem. The capital requirement should not emanate because people are not managing their costs well/efficiently.”
Furthermore he adds, ‘Capital is generally used to finance the upfront fixed cost of infrastructure like branches etc, initial salaries etc but after some point of time the organisations should write enough business to support itself. People are not able to crack the code of reaching out to customers at low cost.’

iv. Mr.PradipBhowmick from S.B.I Life says that,” It’s high time that the government takes a stance on increasing the FDI cap. The cap needs to be raised however there should be more specific rules so that frauds can be eliminated from the action.”

*4.6 Qualitative Analysis for raising funds by means of financial reinsurance*

Mr.PradipBhowmick from SBI Life says that the regulator might consider allowing original terms reinsurance. This would improve the prospects of Fin Re contracts and also encourage some bold product designs in areas where the insurer would prefer sharing pricing risk with the reinsurer. To discourage insurers from ceding a large proportion of their business, the regulator may impose a cap on proportion of business that can be ceded, which might depend on the nature of product, the purpose of reinsurance etc., and on reserving credit allowance on reinsured contracts.
Mr.AbhayTewari, Appointed Actuary, Edelweiss Tokio says that,” Allowing Financial Reinsurance may help since that will make capital become available from reinsurers to insurers.” He adds that most of the insurers are new to the insurance market and hold immature blocks of business that have not yet started producing stable streams of surpluses.



## 5. SIGNIFICANCE OF THE STUDY

The Insurance Industry has seen a consistent growth in the past decade, but the growth has been going to lot of fluctuations but it declined from 43.54% in 2001-02 to 19% in 2009-10. This impressive growth has been due to the liberalisation of the industry that enabled the entry of new players with growth aspirations and capital commitments. The new players contributed by enhancing product awareness, promoting consumer education and creating organised distribution channels. The growth in the private insurance companies has been tremendous which went up to 4125% in 2001-02. The private growth has steadily decreased to 23% in 2009-10.

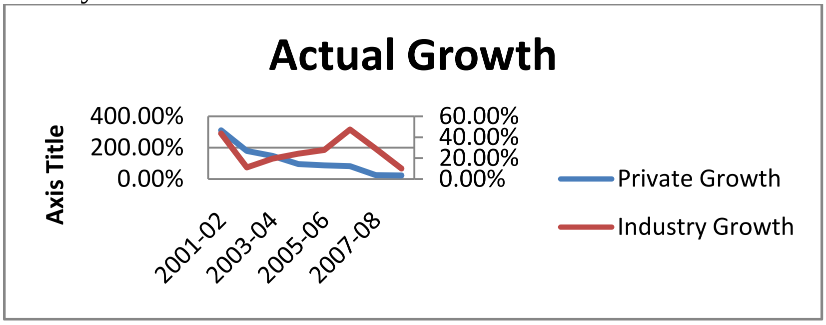


***Figure 1: Actual Growth in the past decade in Life Insurance Sector***

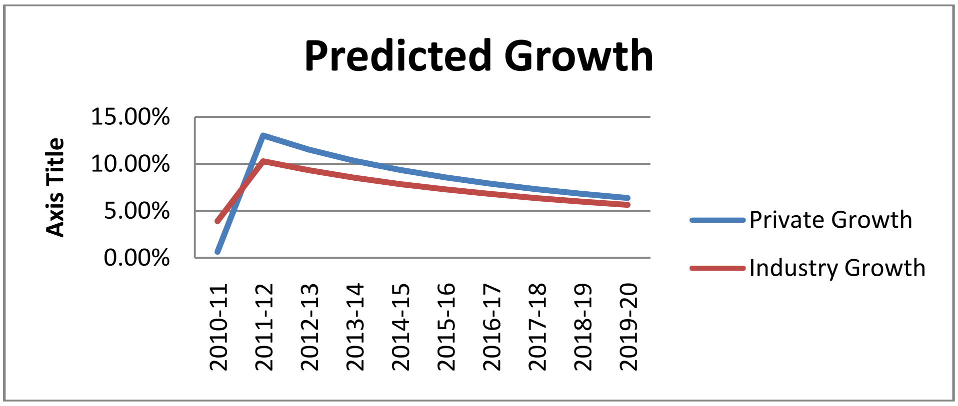


*Figure 2: Predicted Growth in Life Insurance Sector for the next decade*

The private sector accounts for nearly 13% of the first year premium market. There is also evidence to show that the rate of growth of public sector undertakings had not shown any decline after the entry of the private sector companies in 1999-2000. The credit for progress in the market should however go to the private sector as they came up with aggressive marketing strategies to establish their presence.

Using regression the prediction the growth in the entire industry as well as the private companies. According to the formulas the growth in the industry will continue but the rate of increase will fall to 5.64% by 2019-20 whereas the growth in the private companies will still be 6.38% in 2019-20.

The annual insurance premium is forecasted to be at Rs. 531153 crore by 2019-20 for the entire insurance sector whereas in this the private companies will account for Rs. 173473 crore of annual premiums.

According to the Narsimham committee report the sector should be opened to 49% from the current 26% for Foreign Direct Investments (FDI). The Insurance Regulatory Development Authority (IRDA) too is of the same opinion. The IRDA in the recent past has given enormous hassles to the companies regarding various policies. But then it has always tried to come out with policies which are in favour of the policyholders. Insurance is a sector which will see a growth as with more GDP increasing, there will be more savings which will ultimately lead to more investment. Insurance is tool for investment; hence the future for the industry looks very bright as with more savings people will be investing more. However to sustain this growth a capital of around Rs.30000-40000 crores will be required in the recent years. So the basic problem that we have is that how to fund this growth. A huge amount of capital is required for funding this growth.

The IRDA along with the government wanted to raise the FDI cap so that this capital can be made available. But then its hope came to a standstill when the panel headed by YashwantSinha, former finance minister rejected the proposal on grounds that the economy will become more open to foreign economic disasters. He in his statement stated that this capital should be raised from the domestic market.

Each year domestic capital markets contribute about 15000-20000 crores in terms of new capital. Only insurance may require rising twice of that so there is a scarcity and allowing FDI may be helpful from the lack of capital point of view. A problem that might occur because of opening up is that one could be more exposed to the unwarranted risks by increasing foreign participation in the insurance sector. This fact is worth to ponder upon because it is the basic problem of opening up economy. But then the advantages are far more than the disadvantages. Obviously there are risks associated to it which can be minimized by weighing the outcomes decisively. As everyone knows that risk is opportunity but then the underlying thought is that should an economy be put to any kind of risks.

However people in the industry are not too sure about whether 26% to 49% will make the sector boom or not since it is more to do with managing expenses well, create low cost successful companies offering good quality products rather than put more capital upfront. Expansion and reach does not look like a problem. The capital requirement should not emanate because people are not managing their costs well/efficiently.

Capital is generally used to finance the upfront fixed cost of infrastructure like branches etc, initial salaries etc but after some point of time the organisations should write enough business to support itself. People are not able to crack the code of reaching out to customers at low cost.

Let’s first appreciate what the opening up of the insurance sector since 2000 has done for the economy.

- An increase can be seen in the life insurance industry in the last decade since the opening up of the economy. There has been a tenfold increase in the number of lives insured, a six-time increase in the number of branches and over ten million lives insured in the rural sector.
- There has been domestic liberalisation because with foreign competition, LIC took the competition with competitive products and improved customer service. It helped to increase market penetration, promote competition, and deliver better service which ultimately helps the industry and its consumers. The IRDA have insured through proper rules and guidelines that the system is not exposed to systematic risks.
- The main problem still is that most of the private players are suffering losses. This is not on account of only inefficiencies in the sector. Insurance is a long-term business and the break-even takes a decade.We should not be saying that the private promoters (Indian and foreign) are plundering the country’s wealth. It should be noted that they already have made a huge capital investment of around Rs.30000 crore.

Even though such a huge investment has been done India is a country which is highly under insured. People are not being able to reach, educate. Capital isn’t easy to be obtained from domestic sources. Hence foreign capital is required and we need long-term capital to unleash a second wave of insurance distribution to the social sectors that really need them.

Also, from a short-term perspective, at a time when there is a net outflow of capital, a move like this will help reverse the flow and improve sentiments. We should balance these benefits with the potential risks to which we might be subjecting ourselves on account of increase in FDI cap. The IRDA has been working hard to ensure the interest of the policyholders and the systemic risk in the insurance sector is managed well.

Now these all were the pros of raising the cap. Now, let us critically look at the cons and whether the picture is as rosy as it is portrayed.

- No new technology or product is brought into the country:

Foreign equity comes with new technology and products. In this respect, the private insurance companies have nothing to offer. In the insurance sector, there is no technology needed to be brought in from other countries. The mortality rates and other principles of insurance are solely based on the conditions prevailing in the country, because the policyholders are from this country. Hence, foreign expertise is also not involved in this sector.

Competition increases the playing area which brings in better products but that is what has not happened. The size of the market has remained by and large the same (only a slight increase) and from this market the private companies are picking up the creamy sections in the metros seriously eroding the ability of public sector to cross subsidizes its products in the rural areas.

- Flow of funds for infrastructure a myth:

Life insurance is all about mobilising the savings for long term investment in social and infrastructure sectors. It is also argued that opening up of Insurance market would enable huge flow of funds into infrastructure. The record of private companies on this is dismal. More than fifty percent of the policies they sell are unit-linked insurance where the decision on investment of savings element in insurance is taken by the policyholders. In fact as per a press report, ninety five percent of policies sold by Birla Sun Life and over 80 percent of policies sold by ICICI Prudential were unit-linked policies during 2003-04. Under these schemes, nearly 50 percent of the funds are invested in equities thus

limiting the fund availability for infrastructural investments. As against this, the LIC has invested Rs.40, 000 crores as at 31.3.2003 in power generation, road transport, water supply, housing and other social sector activities.
Furthermore allowing more FDI in the insurance sector will not suffice the needs and in no way will answer the questions which will be raised like in case of an economic slowdown just like the 2008 wouldn't the foreign companies we are talking about start reducing their investment. There are several areas where 100 per cent FDI is allowed but then capital investment is not coming. The percentage of FDI that is already coming in is declining steadily. A lot of riders should be put before allowing 49 per cent FDI in insurance sector because investors might lose their money.
The shareholders capital is not supposed to subsidize customers' returns or reduce his cost. The capital is for taking the risks and being made available to support policyholders if there is a bad year. Thus the capital cushions the volatility of the claims etc. For example if there are 2 claims expected for every 1000 lives and you have collected enough premium to meet on an average 2 claims and then make some profit as well but say if the company ends up with 3 claims in bad year then it will require capital to finance those extra pay-outs. Next year say the claim drops from 2 (as expected) to 1. Then the company will make higher profits on the capital invested.

Thus the role of capital is to finance the infrastructure and expansion requirements and also to cushion against volatility.
However there is another possibility of seeking capital from Financial Reinsurance as it makes capital available from reinsurers to insurers.
Financial Reinsurance is a topic which is globally debated and hence India can never be an exception. Some of the main reasons why an insurance company needs financial reinsurance are that insurance companies need capital to grow which in the long run becomes more scarce and expensive and hence the owners look into other viable sources of capital funding.
With the help of Financial Reinsurance, the investment constraint on the whole fund is released, which enables an increase in the investment in equities that is greater than the additional free assets provided by the reinsurance arrangement itself. Financial Reinsurance helps in:

- Increasing the statutory free capital
- Increases the capital efficiency
- Monetise non cash assets and also generates liquid capital resources.
- Helps in improving the Internal Rate of Return of the business.
- Improves tax efficiency
- Finally it reduces insurance risks and risk based capital requirements.

Foreign insurance companies like Swiss Re, General Cologne Re, Munich Re, Reinsurance Group of America are the major players in the Indian market. These companies have their liaison offices in India but the problem is that they cannot directly transact reinsurance business out here. All of its actuarial work and underwriting needs to be sent back to the parent company where it is done. GIC Re is the sole reinsurance company of the country with over three decades of experience. The IRDA regulations have mandated a capital of Rs.200 crore to set up a local reinsurance company, with a Maximum FDI of 26%.Furthermore, every, insurer shall retain the maximum premium earned in India commensurate with his financial strength and volume of business. As well as, the reinsurer should have a credit rating of minimum BBB of S&P rating agency.
The reinsurers cover major risk of the ceding company hence giving the leverage with the funds. Indian insurers even though they aren't governed by sanction regulations still the balance sheet of these firms are too small to absorb such kind of risks. Even though a cover would be available, remitting the money to a client against a claim will be difficult enough to manage and liquidate. The good thing about Financial Reinsurance is it costs like debt unlike Risk Reinsurance which is higher in

economic cost (i.e. it costs like equity). Furthermore there is lower economic risk when we deal with Financial Reinsurance as compared to Risk Reinsurance.

Furthermore one more very important factor for which we should go for Financial Reinsurance is that it helps to price the products competitively. It helps to reduce the transaction cost which is one of the main problems of the Insurance firms. It also helps to get access to the reinsurer's expertise which helps the business to grow. The cash that is advanced by the reinsurer that helps to increase the assets. But one thing can be seen that there have been several high profile cases in the last 10 years wherein the reinsurance became bad. On analysing them we can see that they were bad contracts wherein the basic elements were not looked into properly and that carved the way for it to go into a dismal. If we notice then we can see that these had some similar characteristics such as:

- Lack of Disclosure to auditors and the regulators.
- They were non-life reinsurance.
- Incorrect Accounting was also done.

So if India has to move forward then it has to learn from these lessons. However we should remember that capital via reinsurance does have a cost but it might cost less than equity and hence it helps both the Indian shareholders as well as the policyholders. The implementation has challenges but then it's worth taking the risk. The IRDA also is in favour of it.

## 6. Managerial Implication

The insights that have received from the experts in the Insurance industry hint that raising the FDI cap is not the most feasible option for raising money in the insurance sector. It has been tried to analyse whether this money could be raised from the domestic market through equity or debt, but this research is unable to calculate the return on equity and debt for private players due to the huge losses that left a deep impact on the Insurance sector in the last one decade as according to global standards life insurance companies take about 7-10 years to achieve breakeven their profits and the insurance industry was opened to private players recently in 2001 and is yet to achieve this breakeven mark . It has also been analysed the possibility of how capital can be raised in the Insurance sector via Financial Reinsurance. For this this research has gone through various research works and industry insights which all lead us to conclude that looking at the scarcity of capital which can hinder the growth in future, companies need to be prepared for a situation where they can raise capital via Fin Re contracts. But the regulatory body needs to act prudently and to provide a proper legal set up for Fin Re that can ensure that:

- Insurers have proper access to anther efficient source of capital.
- Effectively supervision of insurers to run businesses on sound financial lines having due regard to policy holders and their expectations.
- Protection of policyholder's right to accurate information on the financial status of insurers.

## 7. Limitations of the Study

The few limitations of the study are:

- In the insurance sector, private insurance companies generally take about 7-10 years to break even on their capital investment. Since the Indian insurance sector was opened to private players in 2001, majority of the private companies are still running huge losses because of which their return on equity, cost of equity and cost of debt could not be calculated. The effect of this limitation of the study is that the analysis for the alternative of raising money through the domestic market is not rigorously and extensively tested and hence not completely justified.

- For the second alternative of raising capital through increasing the FDI cap it has been relied essentially on news articles and expert comments ( recorded from various industry experts ) for the analysis, which show us both the sides of the coin i.e. increasing the FDI cap and sticking to the existing FDI cap on the Indian insurance sector. The conclusions drawn from these sources do not pin point in a single direction and hence there persists ambiguity on taking a stance for this alternative of increasing the FDI cap.

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