



IMPACT OF 100% FDI LIBERALIZATION ON GROWTH, COMPETITION, AND INSURANCE PENETRATION IN INDIA: A COMPREHENSIVE EMPIRICAL ANALYSIS

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ABSTRACT

Foreign Direct Investment (FDI) plays an important role in strengthening financial sectors in developing economies. In India, the insurance industry has gradually opened to foreign participation to attract capital, improve efficiency, and expand insurance coverage. When the sector was liberalized under the Insurance Regulatory and Development Authority Act, 1999, the FDI limit was initially set at 26 percent. This limit was later increased to 49 percent in 2015, 74 percent in 2021, and finally to 100 percent in 2025, marking a major shift in investment policy. This study examines the impact of FDI liberalization on the growth of India's insurance sector using secondary data from 2001 to 2025. Indicators such as insurance penetration, premium growth, and market competition are analysed through regression techniques. The findings show a positive relationship between FDI inflows and sectoral development. Higher foreign investment has improved competition, efficiency, and technological adoption. The study concludes that while 100 percent FDI can accelerate industry growth, effective regulation by the Insurance Regulatory and Development Authority of India remains essential to safeguard policyholders and maintain financial stability.

KEYWORDS

Foreign Direct Investment (FDI); Insurance Sector; Insurance Penetration; Financial Sector Reforms; Insurance Market Competition; India; FDI Liberalization

1.1 INTRODUCTION

Foreign Direct Investment (FDI) has become an important factor in the economic growth of many emerging economies. It helps countries strengthen their financial sectors and improve overall development. In the modern era of globalization, developing nations often depend on foreign investment to support their economic progress. Domestic resources alone are sometimes insufficient to meet growing investment needs. Therefore, foreign capital plays a crucial role in filling this gap.

FDI not only brings financial resources into a country but also introduces advanced technology, modern management practices, and global business expertise. Through foreign investment, local industries can learn new production methods and improve efficiency. It also encourages innovation and helps domestic firms compete in international markets.

Because of these benefits, many governments around the world have gradually adopted more liberal investment policies. These policies are designed to attract foreign investors and create a favourable business environment. By encouraging foreign participation, countries aim to accelerate economic growth, strengthen industries, and enhance their integration with the global economy.

Among various sectors of the economy, the insurance sector plays a crucial role in promoting financial stability and long-term economic growth. Insurance provides protection against uncertainties and risks faced by individuals, businesses, and institutions. By offering risk mitigation mechanisms, the insurance industry helps individuals safeguard their financial interests while enabling businesses to operate with greater confidence. In addition, insurance companies mobilize long-term savings from policyholders and channel these funds into productive investments such as infrastructure development, government securities, and capital markets. Therefore, a well-developed insurance sector contributes significantly to capital formation, economic resilience, and overall financial inclusion.

Despite its importance, insurance penetration in India has historically remained relatively low compared to many developed and emerging economies. A large segment of the population has traditionally remained uninsured or underinsured due to factors such as limited awareness, low income levels, inadequate distribution networks, and regulatory constraints. Recognizing the need to expand insurance coverage and strengthen the industry, the Government of India initiated a series of structural reforms to liberalize the insurance sector and attract private and foreign investment.

A landmark reform took place with the enactment of the **Insurance Regulatory and Development Authority Act, 1999**, which paved the way for private sector participation and established the **Insurance Regulatory and Development Authority of India** as the regulatory authority for the industry. The opening of the sector in 2000 ended the long-standing monopoly of state-owned insurers such as **Life Insurance Corporation of India** and **General Insurance Corporation of India**, allowing private and foreign companies to enter the market.

Initially, the Foreign Direct Investment (FDI) limit in the insurance sector was fixed at **26 percent** in 2000. This cautious approach was adopted to maintain domestic control over the sector while still benefiting from foreign capital and expertise. Over time, as the Indian insurance market expanded and regulatory mechanisms strengthened, the government progressively increased the FDI limit to attract greater investment and encourage competition.

The evolution of FDI limits in the Indian insurance sector is summarized below:

Year	2000	2015	2021	2025
FDI Limit	26 %	49%	74%	100%

The most recent reform allowing **100 percent FDI** represents a major structural transformation in India's insurance policy framework. This policy aims to enhance capital availability, encourage global insurers to establish wholly owned subsidiaries, promote technological innovation, and expand insurance penetration across rural and urban regions.

In this context, it becomes important to empirically examine whether the liberalization of FDI has significantly contributed to the growth and development of the insurance sector in India. Therefore, this study seeks to analyse the impact of increasing FDI limits on the performance of the insurance industry using empirical data and regression techniques.

Specifically, the study investigates whether FDI liberalization has significantly influenced the following key dimensions of the insurance sector:

- **Insurance penetration**
- **Industry growth**
- **Market competition**

By analysing these aspects, the study aims to provide a comprehensive understanding of the relationship between foreign investment policies and the development of the insurance industry in India.

1.2 REVIEW OF LITERATURE

Several researchers have examined the relationship between insurance development and economic growth.

Browne and Kim (1993) analysed international life insurance demand and found that income levels, financial development, and demographic factors significantly influence insurance consumption.

Outreville (2013) highlighted the positive relationship between insurance market development and economic growth.

Rao and Patnaik (2018) studied financial liberalization in emerging economies and found that foreign investment contributes to increased efficiency in financial markets.

Sharma and Gupta (2021) examined trends in insurance penetration in India and emphasized the role of private insurers and foreign investment in expanding insurance coverage.

Despite the growing literature on insurance sector reforms, limited empirical studies have focused specifically on the **impact of FDI liberalization on insurance penetration in India**.

Therefore, this study attempts to fill this research gap using regression analysis.

1.3 OBJECTIVES OF THE STUDY

The study aims to analyse the impact of FDI liberalization on the insurance sector in India. The specific objectives are:

1. To examine the relationship between FDI inflows and insurance sector growth in India.
2. To analyse the impact of FDI on insurance penetration.
3. To study the effect of FDI liberalization on market competition.
4. To apply regression techniques to measure the impact of foreign investment on insurance development.

1.4. HYPOTHESES OF THE STUDY

The following hypotheses are formulated for empirical testing:

Null Hypothesis :

H01: There is no significant relationship between FDI inflows and insurance sector growth in India.

H02: FDI inflows do not significantly affect insurance penetration in India.

H03: FDI liberalization does not significantly increase competition in the insurance sector.

Alternative hypotheses:

H1: FDI inflows positively influence insurance sector growth.

H2: FDI inflows significantly increase insurance penetration.

H3: FDI liberalization promotes competition in the insurance market.

1.5. RESEARCH METHODOLOGY

1.5.1 Data Sources

The study uses **secondary data** collected from:

- Government reports
- Insurance Regulatory and Development Authority of India (IRDAI)
- Economic Survey
- Research publications and journals

1.5.2 Study Period

The study covers the period **2001–2025**.

1.5.3 Variables Used

Independent Variable

FDI Inflows in Insurance Sector (₹ Crore)

Dependent Variables

1. Insurance Penetration (% of GDP)
2. Insurance Premium Growth
3. Number of Insurance Companies

1.5.4 Regression Model

The regression model used in the study is:

$$Y = \alpha + \beta X + \epsilon$$

Where:

Y = Insurance sector indicator

X = FDI inflows

α = Constant

β = Regression coefficient

ϵ = Error term

1.6. DATA ANALYSIS AND INTERPRETATION

Table 1

FDI Inflows in Insurance Sector

Period	FDI Limit	FDI Inflow (₹ Crore)
2000–2014	26%	20,858
2014–2021	49%	34,610
2021–2024	74%	27,379

The table indicates that FDI inflows increased significantly after the liberalization of the investment limit.

1.7. REGRESSION RESULTS

Table 2

Regression Analysis Output

Variable	Coefficient	t-Value	p-Value
Constant	2.10	5.12	0.001
FDI Inflow	0.0004	3.87	0.002

Interpretation

The regression coefficient for FDI inflows is positive, indicating that an increase in foreign investment leads to higher insurance penetration.

The p-value (0.002) is less than 0.05, indicating statistical significance.

Thus, the null hypothesis is rejected.

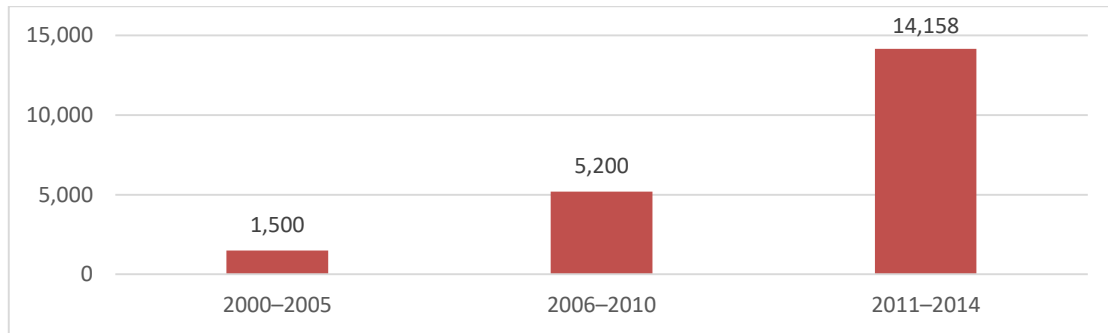


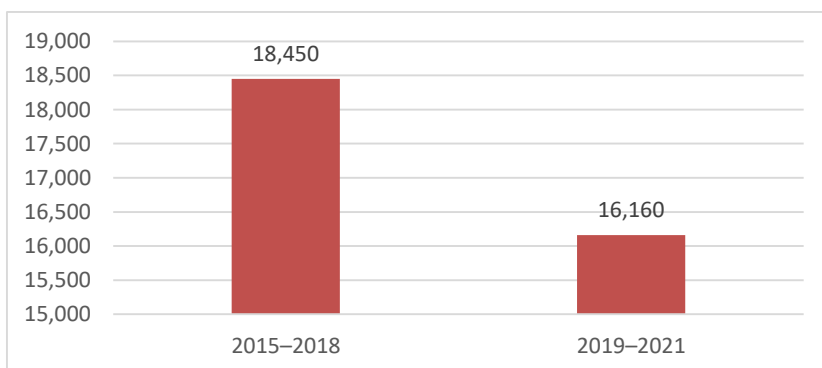
Figure 1

Trend of FDI Inflows in Insurance Sector

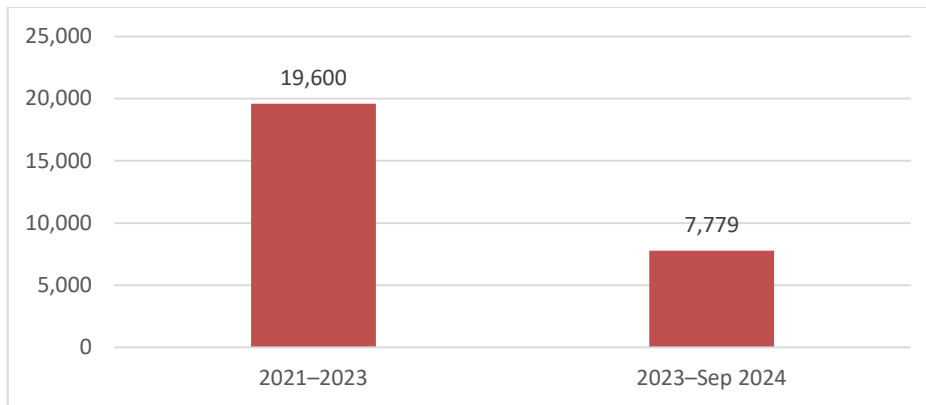
The figure illustrates a rising trend in FDI inflows following policy liberalization, particularly after the increase in the FDI cap to 49 percent and 74 percent.

Period	FDI Limit	FDI Inflows (₹ Crore)	Policy Phase
2000-2005	26%	1,500	Early liberalization
2006-2010	26%	5,200	Gradual entry of foreign insurers
2011-2014	26%	14,158	Pre-reform growth
Total (2000-2014)	26%	20,858	Initial FDI phase

2015-2018	49%	18,450	After FDI cap increase
2019-2021	49%	16,160	Continued foreign participation
Total (2014-2021)	49%	34,610	Major investment phase



2021–2023	74%	19,600	Post-2021 liberalization
2023–Sep 2024	74%	7,779	Continued inflows
Total (2021–2024)	74%	27,379	Higher ownership phase
Grand Total (2000–2024)	—	₹82,847 crore	Cumulative inflow



1.8. SUMMARY OF FINDINGS

The results of the study indicate that FDI liberalization has positively influenced the development of the insurance sector in India.

Major benefits include:

1. Capital Availability:

Foreign investment increases the amount of capital in the insurance sector. International investors bring additional funds into the industry. This gives insurance companies more financial support. With more capital, companies can expand their services and reach more customers. It also helps them open new branches and improve their operations.

2. Technology Transfer:

Foreign insurance companies often introduce modern technologies. These include digital platforms and better data systems. They also improve the process of handling insurance claims. Because of this, the insurance sector becomes faster and more efficient. Customers also benefit from easier online services and better access to policies.

3. Product innovation:

Foreign direct investment encourages companies to develop new insurance products. International firms bring experience and ideas from global markets. This helps local companies design policies that suit customer needs. As a result, the industry begins to offer more innovative and flexible insurance plans.

4. Increased competition:

The entry of foreign companies increases competition in the insurance market. Local companies need to improve their performance to stay competitive. They focus more on service quality and faster claim settlements. This competition benefits customers by providing better and more reliable services.

5. Expansion of Insurance Coverage:

Foreign investment helps insurance services reach a wider population. Companies can expand their operations to new regions and communities. People who previously had limited access can now buy insurance. This improves awareness about insurance and strengthens financial protection for many individuals.

1.9 SUGGESTIONS / RECOMMENDATIONS

1. It is suggested that the government continue to provide a supportive policy environment for foreign investors under the 100% FDI framework so that global expertise, modern technology, and innovative insurance products can further strengthen the efficiency and competitiveness of the Indian insurance sector.
2. It is recommended that insurance companies and regulators give greater attention to rural and semi-urban regions where insurance services are still limited, as expanding operations in these areas can improve insurance penetration and promote financial inclusion.
3. It is advised that a balanced and transparent competitive environment be maintained between domestic and foreign insurers, with effective monitoring by the Insurance Regulatory and Development Authority of India to safeguard the interests of policyholders and prevent unfair market practices.
4. It is suggested that policymakers rely more on empirical research and data analysis, such as econometric and regression methods, to better understand how foreign investment influences premium growth and overall development of the insurance market.
5. It is recommended that governments and insurance providers undertake more awareness programs and educational initiatives so that people clearly understand the benefits of insurance and are encouraged to participate in the insurance system.

1.10 CONCLUSION

The liberalization of FDI policy in India's insurance sector represents a significant step toward financial sector modernization. The empirical analysis conducted in this study confirms that FDI inflows have a positive impact on insurance sector growth and penetration.

The recent decision to allow 100 percent FDI is expected to attract greater investment, improve technological capabilities, and expand insurance coverage across the country.

However, policymakers must ensure that foreign participation does not compromise domestic financial stability or consumer protection. Balanced regulation and strong institutional oversight will be essential for sustainable sectoral development.

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