FOREIGN DIRECT INVESTMENT WITH REFERENCE TO INSURANCE SECTOR

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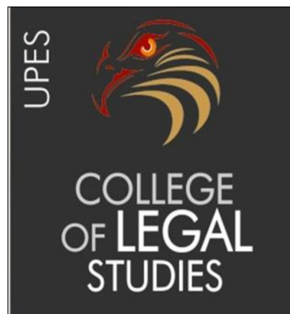
This dissertation is submitted in partial fulfillment of the degree of B.A., LL.B. (Hons.)/B.B.A., LL.B. (Hons)



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CERTIFICATE

This is to certify that the research work entitled **"Foreign Direct Investment with reference to Insurance Sector"** is thework done by Sahajpreet Arora under my guidance and supervision for the partial fulfillment of the requirement B.B.A., LL.B. (Hons)degreeatCollege of Legal Studies, University of Petroleum and Energy Studies, Dehradun.

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DECLARATION

I declare that the dissertation entitled **"Foreign Direct Investment with reference to Insurance Sector"** is the outcome of myown work conducted under the supervision of Dr.Sujata Bali, at College of Legal Studies, University of Petroleum and Energy Studies, Dehradun.

I declare that the dissertation comprises only of my original work and due acknowledgement has been made in the text to all other material used.

Signature & Name of Student

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Abbreviations

ADR's……………………………….. American Depository Receipts

DTH ………………………………...Direct to Home

FDI …………………………………Foreign Direct Investment

FFCB …………………………………Foreign Currency Convertible Board

FIPB ………………………………... Foreign Investment Promotion Board

GDR's……………………………….. Global Depository Receipts

GDP …………………………………Gross Domestic Product

HDFC…………………………………Housing Development Finance Corporation

ICICI…………………………………. Industrial Credit and Investment Corporation of India

IMF ………………………………….International Monetary Fund

IRDA………………………………….Insurance Regulatory and Development Authority

LIC …………………………………. Life Insurance Corporation

MNE…………………………………...Multinational Enterprise

MOU…………………………………..Memorandum of Understanding

MSO's………………………………… Multi System Operators

PPP ………………………………….Purchasing Power Parity

RBI …………………………………. Reserve Bank of India

ULIPS …………………………………Unit –Linked Insurance plan

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Introduction

Life is said to be full of risk, cannot be restored or compensated. For instance in an accident one may lose his life, the loss due to losing of life may be compensated which may save the dependents from monetary hazards.[1]Similarly if a fire destroys a factory or dwelling house or anything, the fire may not be predicted or avoided, but through insurance the sufferer or victim may be compensated. From the above paragraph it is very clear that risk is unavoidable or uncertain, to avoid such situation once always get insurance done to avoid mishaps.

Insurance is nothing but defined as a device which is considered to be two- way, because of some risk the loss occurred. So now, to spread that failure, insurance is done for that particular risk. Risk is uncertainty of a financial loss. It is a medium or intermediate through which mishaps cannot be ruled out but can be compensated to some extent. Insurance is said to be the fair transfer of a particular risk of a many losses, from one entity or enterprise or company to another entity or enterprise or company in return for huge payment of premium either on monthly or yearly basis. It is that form of hazard management which is mainly used for evadingnext to the risk of a reliant which can be uncertain loss.

An insurer, or insurance carrier, is a corporation or business for selling the insurance. Once the insurance is done the person getting the insurance done is called the insured or policyholder. From the policyholder the amount to be charged for a premium is only certain amount. Any people or organization can buy any insurance policy and then that people or organization will called as policyholder.The rate of premium depends upon the nature of risk. When a risk is very uncertain then the premium charged will be high.

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[1]M.N.Mishra, Dr.S.B.Mishra, Insurance Principles and Practice, S.Chand&Publication House Ltd,19th Revised Edition 2012

Every sector is considered to be efficient enough for raising long term capital. Similarly, even insurance sector has the ability of raising long-standing capital from the masses, as it is the only technique where people are ready to put in money not only for a specific time period but as long as 20 years or even more.And the people have surety that their amount is in safe hands. Foreign direct investment is not indirect investment into creation or business in a country by an individual identity or association company of domestic country. But FDI is investment done either by buying a company in country which is targeted for long or by increasing operations of an existing business through expansion in that particular country.FDI can be done through merger or amalgamation.

FDI as defined in a very famous "Dictionary of Economics" ("Graham Bannock et.al") is kind of investment in a worldwide country either through the acquirement of a domestic or national company or through establishment of an operation on a new (Greenfield) site by expanding it.[2]To define FDI simply, it can be referred to capital inflows from foreign investors that are invested orboost the manufacture growth of the economy.

One of the major advantages of rising FDI hike will be to develop the trade and commerce by escalating consumer penetration with a variety of range of products that are mainly focused on today's uninsured population.

FDI in insurance is expected to hike the penetration of insurance in India and in many other countries. FDI can surely meet India's long term capital requirements to finance the building of infrastructures and many other developments .The public sector have continued to rule insurance sector even after the liberalization of insurance sector. The public sectorshave enjoyed more than 90% of the market share and will continue to do that.

FDI is the method in which residents of one country attain ownership of assets for the purpose of controlling the manufacturing, distribution, transportation of new technologies and other activities of a firm in another country.

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[2] G. Suresh Babu, M Raja Sekhar, Impact of FDI in Indian Food Processing Sector, IOSR Journal of Business and Management, Vol.17 Issue1

Need of FDI in Indian Insurance Sector

Foreign direct investment (FDI) is a not indirect investment into where production is required for business in a country by an individual or company of another country, either by buying a company in the target country or by expanding operations of an existing business in that country FDI helps in generating number of benefits in different ways. FDI in insurance would increase the penetration of insurance in India. When the amount of inflow is excessive it will definitely hike the penetration of insurance in domestic country. FDI can surely meet not only India's long sharing capital requirements but for any other country's long term capital to finance the building of infrastructures and many other developments .After the liberalization of the insurance sector, the public sector insurance organizations have stillsustained to rule the insurance market over private market , enjoying more than 70 % of the market share, which is positive signal .In order to attain whole ownership of assets of resident of a domestic country through FDI , huge amount of investment has to be done and after doing that the control over whole management of company will be give, along with activities like production, distribution, etc.

There is lot of need for FDI in both present and future world. The role of FDI is not only important is today's generation but it will help or will benefit to future generation too.FDI is lifeblood for not only insurance sector but for many other sector to help in developing that particular sector. Due to liberalization there is amazing opening for both national and global market the public sector Insurance companies have continued to dominate the insurance market. India is among the most promising emerging insurance markets in the world.

There are so many methods through which foreign direct investment can be done, one of the method is done through vertical or platform FDI .The foreign direct investor can or cannot acquire voting power of any enterprise in an economy through where the investment has been made, by adopting any of the following methods:

- either by incorporating a wholly owned subsidiary or
- company or by acquiring shares in an connected enterprise or
- Through M&A of adissimilar enterprise or participating in a joint venture with another foreign investor or enterprise.

Right now there is immediate need for larger FDI exists because India is at a very difficult or crucial stage where it needs not only just investments, but also new technologies, various important developments and management and economic policies to encourage and enhance its economic growth. The latest decision to increase the FDI cap to 49 percent in insurance sector received mixed reactions from different sectors, for obvious reasons, was opposed by the employees of public sector insurance companies. According to IRDA, "insurance sector requires big amount investments for growth & development and may attract Rs 10,000 Crores that the industry requires over the next ten years. Until and unless FDI cap has been raised from 26 percent to 49 percent, the industry will not be able to collect the required capital to emphasize the growth of the insurance industry."[3]

There is an urgent need for new policies and reforms which are considered to be weak sectors of India. They are considered as crucial sector before it becomes terminally sick. There are four sectors which are weak and require an urgent and bold policy. These sectors are: textile, retail, aviation and telecom. [4]The most important advantage of FDI is there is shift the risk in terms of investment. Here shift the risk of investment means that the risk will shift from domestic investors to foreign investors.[5]

Another Sector which needs FDI desperately is defence sector. To strengthen India's weak military, the defence can expand the manufacturing industrial base by inviting private sector participation. The Indian Defence sector has failed to attract FDI in this sector, approx. 4.94 million coming to India in 2001, which is the lowest in any sector.[6] This can only be achieved if there is hike in FDI cap in this particular sector and by encouraging partnerships or through joint ventures between Indian and

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[3]http://www.mbarendezvous.com/FDI-in-Insurance-sector--A-welcome-step-568.php, last accessed on 31st March,2015

[4] Arvind Singhal, Textile, Avaition , Retail and Telecom Sectors Needs Urgent and Bold Policy, The Economic Times available at http://articles.economictimes.indiatimes.com/2011-10-14/news/30279119_1_textile-sector-indian-textile-industry-aviation-sector, last seen at 22nd March 2015

[5]V.KrishnaChaitanya, FDI in India, SCMS Journal of Indian Management

[6] Indian Defence Policy at Turning Point, available at http://www.defencenews.in/defence-news-internal.aspx?id=OYDz5erYBTI%3D, last seen at 18th March 2015

Foreign defence firms.A foreign investment is inclusive of both portfolio investments and foreign direct investments.[7]

Generally the other forms of finance are not preferred over FDI inflows. Also, FDI is mostly preferred over peripheral finance. There are many reasons due to which FDI is preferred, they are non-debt, and non-volatile and their rate of returns totally depend upon the performance of the projects which are financed by the foreign investors. Whenever foreigninvestors make a decision for new investment in any country, it undergoes through various stages in the decision making process and action cycle. There are four main stages, namely,[8]

- Screening
- Planning
- Implementing
- Operating and Expanding

One of the biggest hurdles for India is at the foremost stage, which is screening stage itself. And India does not even clear the screening stage. This is mainly because India lacks in taking decision, where the decision has to be finalized by the levels of corporate.

This Insurance Laws (Amendment) Bill, a hike to 49% in FDI cap which states that inflow of foreign capital can be done either as direct investment or as portfolio route. There was cry in Indian marketplace that increase in FDI cap will make Indian entities lose control but then it is clearly mentioned that management and control must be in thehand of Indian companies .And approval from FIPB will be required when the investment is beyond 26% or more .[9]

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[7] M ShahulHameedu, FDI , The Indian Scenario, International Journal of Scientific and Research Publications, Vol.4 Issue2

[8] Report of the Steering Group on FDI , Planning Commission Government of India (2002)

[9]Increase of F.D.I. Cap in Insurance & Defence Sector: Impact on Indian Economy

Historical background of Insurance in India

Insurance in India is considered to be as old as human society and the insurance business is not new in India. It is said that it existed even in ancient India i.e. insurance has a deep-rooted history.[10]

In support of it, mentioned in the writings of Manu ("Manusmrithi"), "Yagnavalkya" ("Dharmasastra") and "Kautilya" ("Arthasastra") and others are quoted. For example "yogaksdhama" is found in "Rigveda" suggesting that some type of insurance community was prevailing at that time and to provide prosperity by giving security to the people's also, the writings clearly speak in terms of pooling of all the natural and unnatural funds that could be distributed again and again in times of calamities for example fire, floods, and starvation.In short to collect the available resources and then to use them at the time of calamities. This was probably a precursor to contemporary day insurance.

In Ancient Indian history, the most initial and small traces of insurance was preserved in the form of maritime trade loans and through carriers contracts.[11] "The Codes of Manu refer to one another practice, i.e. if the cargo (good, commodities, stock, or merchandise or products dispatched in the ship) was lost due to the any negligence of the member or members of the crew, the expense of that cargo was to be equally shared by all its members but when the loss or expense was caused by an "act of god" or "natural event", the members of the crew were not held responsible".

During the "Moghul Days"the practice of insurance took so many firm roots, there is even lot of references to insurance the "risk of wars". Insurance in India has been derived over time heavily portrayal from other countries. In England where the insurance business has history of more than 500 years. In short India has borrowed the experience from other countries the aim of all insurance companies or organizations is to make requirements against all the dangers or risks which beleaguered human life and their dealings.

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[10]Yogita Sharma, Analysis of FDI in Insurance Sector In India, International Journal of Research in Economics & Social Sciences 65Volume 3, Issue 3 (April 2013)

[11] Supra 10

Pre nationalized period:

Insurance in its existing form has its history dating back until 1818, when "*Oriental Life Insurance Company"* [3] was initiated by Anita Bhavsar in Kolkata to furnish the needs of European society. It was done in order to protect English widows[12].1818 saw the initiation of life insurance industry in India with the foundation of the Oriental Life Insurance Company in Calcutta, however failed in 1834.[13] It failed due to non-realization of the goals and desired objectives of the company.

The pre-independence era in India saw favoritism between the lives of outsider i.e. foreigner (English) and Indians with superior premiums being charged for the latter. It was considered that lives of Indians as high risk lives, so far, insurance coverage was concerned. In the year 1823 the "Bombay Life Assurance Company" came into being. And then in 1870, "*Bombay Mutual Life Assurance Society"* became the foremost Indian insurer. 1870 saw the enactment of the British Insurance Act. The major feature of this company was that for the first time the premium rates for lives of Indians and non-Indians were same. The insurance was done at very reasonable and normal rates.[14] Moreover, in the last four decades of the nineteenth century, the "Bombay Mutual" (1871), "Oriental" (1874) and "Empire of India" (1897) commenced their operation in the Bombay presidency.This era, however, was conquered by overseas insurance companies or organization which did good business in India such as "Albert Life Assurance", "Liverpool", "London Globe Insurance" and "Royal Insurance". Bharat Insurance Company established in 1896, was also giving insurance at a reasonable rates like "Bombay Life Mutual Assurance Society", it was inspired by nationalism the very famous "Swadeshi" moment during 1905-1907, it gave rise to more and more development of insurance companies the "United India in Madras", "National Insurance in Calcutta and the Cooperative Assurance at

[12]Yogita Sharma, Analysis on FDI In Insurance Sector In India, IJRESS, Vol.3,Issue 3
[13] Ruby Singh, Dr. Amit Gautam, FDI and Insurance Indian Industry, International Journal of Advance Research In Computer Science and Management Science, Vol.2, Issue 6
[14] Comprehensive History of Insurance in India, available at http://www.affairscloud.com/comprehensive-history-of-insurance-in-india/, last seen at 16th March, 2015

Lahore are the examples of such insurance companies".[15]Till the end of nineteenth century, the insurance business was almost in the hands of lot foreign companies.

The first or foremost comprehensive legislation or constitutional measure that control life business was the Indian Life Assurance Companies Act,1912 the Act which was allowed to facilitate the public bodies to gather arithmetical data about both life business and non- life business was the Indian Insurance Companies Act, 1928.this act also transacted in India and also overseas insurers including provident insurance societies.

In 1938, inorder to protect the public interest of the Insurance, the previous legislation was amended by the Insurance Act, 1938. This was done for the broader and this was also done for complete provisions for effective manage over the activities of insurers. By end of 1938, there were 176 insurance companies in India. But a number of frauds during 1920s and 1930s tainted the image of insurance industry in India.[16]

[15] Ibid 15
[16] Ibid 15

THE NATIONALIZED ERA

The Insurance Amendment Act of 1950 abolished Principal Agencies although there were great number of insurance companies and the amount of competition was strong enough and tough there were also allegations of irrational and unfairmalpractices. The Government of India took the decision to make public insurance business means to nationalize it an Ordinance was issued on 19th January, 1956 in order to nationalize the Life Insurance sector and Life Insurance Corporation came into survival in the same year the LIC engaged “154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all”. The domination done by LIC during the beginning of 20s and ending of 90’s when the Insurance sector was again opened to the private sector.[17] The whole course of again opening of the sector had begun during early 1980s.

In 1993, the initial step towards the reforms for insurance sector was started with the creation of “Malhotra Committee”, headed by “ex- Finance Secretary and RBI Governor R.N.Malhotra” the members of committee was created to assess the insurance trade of Indian society and certain recommendations regarding future direction with themain objective to initiate the reforms in the financial sector and then to complement those reforms. In 1993, the Government organized a committee under the chairmanship of RN Malhotra, ex- Governor of RBI, to suggest certain guidelines for reforms in the insurance sector and after that recommendation for the same. The report was submitted by the committeein 1994 wherein, it suggestions were made that that the private sector be given permission to enter the industry dealing in insurance. In report it was stated that foreign or abroad or overseas companies are allowed to go through by floating Indian companies, preferably a joint venture with Indian partners.

The aforesaid committee submitted its report in 1994 wherein it was suggested that the private sector to enter the Indian insurance sector. Actually after the submission of the committee’s report the permission for private sector to enter into insurance marketit also recommended the participation of foreign companies by permitting them

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[17]Ibid 2

to enter into an MOU by balanced Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the "Malhotra Committee" report, the "Insurance Regulatory and Development Authority (IRDA) Act, in 1999 was passed by the Indian Parliament with its headquarter at Hyderabad the recommendations of the Malhotra Committee report, in 1999", the Insurance Regulatory and Development Authority was constituted as an organization which is not dependent to control and widen the insurance industry and also to propose recommendations for initiation and implementation of reforms in the Indian insurance sector. The objective of setting up this committee was to complement the pace of reforms initiated in the financial sector.

The key objectives of the IRDA include encouragement of strong competition amongst the insurance sector companies so as to increase at constant rate and to surpass satisfaction of the consumer through incredible different varieties of goods and services in the field of insurance. Through this development in consumer choice and low rate premiums, depending upon the level of risk. Also to ensure the fiscal stability and security of the insurance market in India.

In 1994,the main criteria was to influence competition and this can only be done through inviting private participation and this will lead to competition among the all the kinds of insurers and also for the consumers to decide and choice.

In 1997, insurance regulator IRDA was organized as the need was felt:

- To build a sovereign dictatorial body that gives greater self-government to insurance companies in order to develop their performance.
- To facilitate them to act as autonomous companies with financial and economic modes.
- To safeguard the importance of policyholders of insurance policies.
- To modify the insurance act, 1938, "the Life Insurance Corporation of India" and "General Insurance Corporation Business (Nationalization) Act, 1972".

- To stop the cartel of the "Life Insurance Corporation of India and General Insurance Corporation" and its subsidiaries.

The IRDA was opened up the Indian insurance market in August 2000 by appealing application for registration proposals foreign companies were permitted entry into Indian insurance sector with an upper ceiling on ownership of up to 26% participation[18]. The IRDA has been granted the major powers. The power is to frame regulations for private entities entering into the market under Section 114A of the Insurance Act, 1938. And during 2000, the IRDA got powers to frame so many regulations for carrying on business only related to insurance sector because the regulations were for the "protection of Indian policy holder's interest". Another power which was given was for the registration of "Life & Non-Life (General) Insurance companies".

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed possession of up to 26%. In December, 2000, the small subsidiaries of the "General Insurance Corporation of India" were independent companies, which were recognized by law.GIC was also converted into "national reinsure" "Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002". According to statistics, at present, there are a number of "private sector insurance companies".

1. FDI and other Investment Related Issue in India

a) FDI in Different Sector

FDI plays a key role in the betterment of various sectors including service sector.FDI plays a vital role in betterment and development of an economy. FDI has both advantages and disadvantages.According to the definition of International Monetary Fund (IMF), **"**FDI includes equity capital, inter- company debt transactions, reinvested earnings of foreign companies, financial leasing, trade credits, grants, venture capital by foreign investors, investments through GDRs and ADRs, Foreign

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[18] http://www.medindia.net/patients/insurance/insurance-concepts-and-irda-history.htm, last accessed on 29thMarch 2015

Currency Convertible Bonds (FCCB) are also treated as FDI"[19].the government of India has made a innovate policy called LPG i.e. "Liberalization, Privatization and Globalization". [20]The role of this new reform was to make Indian economy grow at faster rate and to compete internationally.

FDI can act as catalytic agent for the growth of an economy like India. FDI involves the investment of funds into a domestic country's company .this is basically exchange of funds or investment from one country to another country. According to the RBI, the FDI doesn't involve any form of ADR's or GDR's or FCCB.The role of FDI is becoming increasingly essential in the Indian economy. With the increasein the demand of a product there is increase in the demand for hike in FDI. These days insurance is now treated as a normal product.The service sector in India has tremendous growth potential and as a result it attracts huge FDI.Slowly and gradually the positive effect of FDI will be seen in every sector and mainly in the insurance sector.

The critical situation which Indian economy is facing, the government of India has come up with two policies. "The macro-economic stabilization and structural adjustment program" are the two policies which were started with the assistance of "World Bank and IMF".[21]. The sole reason to do this was to encourage and promote FDI was other foreign countries.As a result of the reforms i.e. macro-economic and structural adjustment, India opens its access to overseas inflows and regulated an additional lenient foreign policy because they wanted to restore the confidence of overseas investors. To gain the confidence which is very essential, liberal foreign policy was initiated.

According to the new FDI policy, the famous FIPB board was made for the purpose to make sure that foreign investment is done .Basically it was done to invite foreign investors. The Government of India through its liberal policy tried to make board

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[19]Pankaj Chaudhary, ROLE OF FOREIGN DIRECT INVESTMENT IN SERVICE SECTOR IN INDIA, International Journal of Research in Economics & Social Sciences 38,Volume 3, Issue 3 (April 2013)

[20]SrinuMadem, Sandeep Gudla, K Bhaskar Rao, FDI Trends in Last Decade and its Effect on Various Sectors in India, IJSRP, Vol.2 Issue12

[21] Sharma R &Khuran ,Nikita, Role of Foreign Direct Investment ,International Journal of Advances in Management and Economics, Vol.2, Issue1,Jan.-Feb. 2013

called FIPB and to aim at maximizing foreign investment. The main objective of FIPB is to encourage the FDI and take up all the activities which help in promoting investment through FDI. Foreign direct investment has now become such an integral part of every nation's growth and betterment strategies at national and international level.

Certain Expectations from FDI

2. Improvisation in output, technology and skilled levels[22]: Foreign corporations bringing new technical knowhow and managerial skills into target country. The new technology will definitely help in improving the output and also to lower down the cost of production. A foreign corporation brings new cleantechnologies that help to improve the working and environment conditions.Inorder to use these new technologies highly skilled manpower or professional employees are required.
3. Hike in employment: The investment from foreign investor will definitely increase employment in any domestic county .Need for employers will lead to increase in employment too.This increase in level of wages will attract the manpower or employees, further creating employment opportunities.
4. Connections with other sectors of the economy[23] : Foreign corporations usually have good effects on the balance of payment. It will help in maintaining the balance of payment i.e. to balance the trade deficit and trade surplus.
5. Facilitator International Trade: Foreign corporations improve the business conditions of the companies and overall environment of the target country. It will facilitate and harmonize the international relations among the countries.
6. Transfer of Knowledge etc.: Foreign Capital makes sure that with other different scarce useful factors like technical skills, production expertise and knowledge. Through FDI lot of knowledge will be shared through new technologies.

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[22] Wang, J.Y., M. Blomstrom. (1992), "Foreign Investment and Technology Transfer: A Simple Model", European Economic Review, Vol. (36), pp.137-155.
[23]Hausmann, R., E. Fernandez Arias. (2000), "Foreign Direct Investment: Good Cholesterol?", available at www.researchgate.net/ ForeignDirectInvestmenGoodCholeste, last accessed on 14th march , 2015

Earlier Government of India did not accept the foreign investment and it was totally dependent upon the domestic investment. Now government accepts how important foreign investment is for the development and growth of an economy.

It is an important source for new and efficient technologies.FDI is considered to be worldwide best practice for collecting capital inflow for the growth of the domestic country.

Its global attractiveness and positive output in augmenting of domestic resources, yield and employment; now it has made an obligatory tool for initiating economic growth for countries.It has been figured that the FDI policy of Indian government is very liberal and it is the most generous in emerging economies.

India is surfacing as one of the "most superior destination" for FDI in Asia and the Pacific. As India is considered to be developing country and due to lack of infrastructure and other problems. It has replaced US as the second-most favored destination for FDI globally after China according to an AT Kearney's FDI Confidence Index.[24]The Government of India has put in place a liberal and Transparent FDI policy in order to encourage and promote more and more FDI for the country.The government making FDI policy is different for different sectors, those sectors which require approval, have different policy. Similarly the sectors which do not require approval have different policy.

"India is now the third most favorite destination for Foreign Direct Investment (FDI), behind China and the USA, according to an AT Kearney survey that tracked investor confidence among global executives to decide their order of preferences."[25]

B)Limitations for FDI in Different Sector

- **Defence**

India requires investment in sectors where it takes a long time to make a profit. Insurance is one such sector in which investment take lot of time to make gains or

[24]VemuriLaksmhi Narayan, India's Economic Growth and Role of FDI
[25] Ibid 24

profit .Increase in FDI is initiated only when there is an urgent need and when the funds of domestic capital is insufficient . Domestic capital is not sufficient for the purpose of growing an economy. Foreign capital is essentially required, at least as not a permanent measure, during the most crucial period when the capital market is in the process of developmentof all the weak sectors of domestic country. FDI is considered to be temp measure because inflow of cash from foreign investors is temporary and it is for short duration.The west has the money and the tolerance to wait long for economic returns and hence FDI in this sector is very welcome. Increased FDI in defence means not only additional equity funds coming into India, but more importantly the technology modify that will accompany such investment.Inrespect to FDI in defense the major benefit is in regard to disclosure of latest technology.

The Union Cabinet on its one of meeting has cleared the scheme to locate the amalgamated cap for overseas investment in the defencesector at 49 per cent, compared with the current 26 per cent foreign direct investment (FDI) maximum. But the management control of companies receiving these investments must remain in the hands of Indians. So that complete control of the business is not given to foreign investors. Also, some railway operations and projects were allowed to receive up to 100 per cent FDI

As far as defence is concerned the country needs the technology for many defence products and the rest will give the technology only if they own a part of the company to which they give the technology. Hence there is need for FDI. Technology here means the latest arms and ammunition l. The disadvantage is that the profits do not stay in India but is repatriated outside the country. The full form of FDI Foreign Direct Investment, it basically allows for worldwide firms to devote in certain segments of the market as permissible and synchronized by the government. It means that a foreign entity (a foreign company, e.g. XYZ) can form a company where it has a 49% equity stake or have a 49% risk in an existing business which deals with delivery and manufacturing of defenceequipment and services in that particular country.

49% FDI in this scenario means a lawful business dealing in arms and ammunition can now finance assessment in specific targeted segments in our defence projects thereby injecting investment and effective acquaintance to help move the upwards, as

the allowed percentage is 49%, the government still maintains the decision making required to take the industry/segment into the preferred direction with inputs being provided by the private investors.

All proposals for FDI in the defence sector, even those" for less than 26 per cent, will require approval or confirmation from the Foreign Investment Promotion Board"; these clearances will be given on a case-to-case basis. The approval from FIPB is very necessary to carry on FDI.This is believed to have been done keeping in mind "national security concerns, as defence is a highly sensitive sector".

The comparison in relation to earlier position of defence and new position. The earlier position "was Up to 26% FDI allowed through the Foreign Investment Promotion Board route" and also the most important the "Clearance from the Cabinet Committee on Security was required for FDI beyond 26%"; approval on a case-to-case basis. And now according to the new position it is Up to 49% FDI allowed after FIPB approval and now the Control has to be with Indian companies.The move is expected to give a big push to sectors such as defence that require large investments, in line with the 'Make in India' campaign launched by Prime Minister NarendraModi.[26]

Banking

There has been so much development in banking sector from last few years, so many technology innovations have been there, for example: ATM, Internet Banking, Mobile Banking etc. Indian Banking system is considered to be so different and unique from many other Asian countries due to distinctive feature. The population of Indian country is in billions and seeing the land availability, different cultures and so much variation in the income of the people. The multinational banks have been major reason for so much development in the banking sector. "Between about 30 and 35

[26]Dilasha Seth, Report on Government may ease FDI norms for NRIs to boost capital inflow in Defence, Railways.

percent of the population resides in metro and urban cities and the rest is spread in several semi-urban and rural centers."[27]

These are major Guidelines for investment in banking sector

- The restrictions of FDI in the banking sector has been improved up to "74% of the paid up capital of bank", which will beneficial to the banking sector
- Earlier banking sector was not allowed under automatic route, but now it has been permitted which means the foreign investment will be entertained under this route now onwards.
- "FDI and portfolio outlay in the public or nationalized banks in India are only subject to limit of 20% in totality".
- FDI confines in banking sector of India were increased with the intend to bring in more FDI inflows in the country along with the integration of advanced technology and management practices.
- The purpose was to make the Indian banking sector additional competitive through injecting more and more FDI.
- The RBI of India governs the lay outs the whole matters in the banking sector.

Telecommunications

In this sector Vodafone entered the market when FDI cap was 74% and now it is 100%.In India it can be seen that Vodafone plays huge and major role in telecommunication sector. The services like 2G, 3G and also 4G is there due to modernization of services. This is done to sustain in the market and to compete among tough competitors. The competition increases between the player escorts benefits allotted to customer. There are many disadvantages to this, one of them is Foreign company may play with the Indian Security norms and also the high competition between players, the small players may not survive in the market at their cost of service. There can be risk for small traders or retailers

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[27] Dr. N.K Sathya Pal Sharma ,Role of FDI in Banking in generating wealth to Indian Economy, International Journal of Advancements in Research & Technology, Volume 2, Issue 5, M ay-2013 276

Attracting foreign direct investment (FDI) has become a major part of nationwide developmental strategies for many countries. They see such funds as bolstering domestic capital, productivity, and employment, all of which are essential to jump-start the financial growth[28]. The effect of FDI can sometimes barely be alleged, while at other times these can be absolutely transformative. While the blow depends on many conditions, well-developed and implemented policies can facilitate to maximize its gains.

The following are the most important impact of FDI in the host countries:

- Quicker economic growth: FDI is responsible for faster and quicker economic growth of the country. It also helps in developing the country through infrastructure development and etc.
- Enlarge in trade: FDI is one of the method through which trade occurs internationally. When there is hike in FDI limit, it obvious international trade will occur at large scale, which is good for the economy.
- Employment and skills levels: It has been discussed various times that FDI will generate lot of job facilities for skilled and trained managers.
- Technology transmission and knowledge transfer; and linkages and overflow to domestic firms: FDI does not involve only cash inflow but also involve transfer of technology and modernization of services.

- **Infrastructure Investment**

The main motive for increasing FDI cap in infrastructure sector was to bring more expansion in private capital flows for this sector. This will help to incline towards privatization of infrastructure for many developing countries. The government of India is now welcoming FDI inflow for this sector. During 1990's there was huge downfall in infrastructure industries, "Willoughby, 2002".[29]

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[28] Dr. Sandeep Basal, FDI's In India – A Study of Telecommunication Industry, International, Journal of Advanced Research in Management and Social Sciences,Vol. 2 | No. 3 | March 2013

[29] Colin Kirkpatrik, David Parker and Yin- Fang Zhang,Foreign direct investment in infrastructure in developing countries: does regulation make a difference?

There was proposal to make changes in FDI policy for construction development sector, which has been approved by the Union Cabinet[30] . The policy changed has positively affected two major sectors retailing and educational sectors. Because of which many foreign investor are interested in India. The government has focused increase in FDI majorly on economic service sector due to which other sectors like infrastructure was not paid attention till now. India is more viewed as a fiscal market.

The changing reforms will not solely help to grab investment from foreign countries. India lacks in infrastructure which might affect the growth of an economy, due which there can be decline in GDP. Lack of infrastructure and decline in GDP is making our country dependent on more and more imports. There are so many guidelines which are issued by the government which should be followed.

Railways

A lot of change is there in the Railway sector. Earlier there was no FDI in this sector. Now the government is being liberal enough for non- residents Indians. They are introducing and putting efforts for new policies to boost capital flows in his sector. Now up to 100% FDI is permitted in majors areas mentioned below.

Certain major areas under Indian Railways where FDI will be approved:

- Construction and maintenance of toilets in all the coaches be it sleeper class or general or third ac.
- Facility of Mechanized Laundry.
- Immediate solutions for safety of passenger and to reduce number of accidents.
- The FDI for new train projects i.e. high speed train project. In this project where the train having speed of more than 250km/hr speed will not have any link with any existing railway line or route.
- Development of new facilities for Better and advanced signaling system.

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[30] Government relaxes FDI norms for Construction, Real Estate Sector, available at http://indianexpress.com/article/business/economy/government-relaxes-fdi-norms-for-construction-real-estate-sector/

- Freight corridors.

There are certain guidelines which are issued for foreign and domestic investors by the Ministry of Railways, few of them are[31] :

- There can be no unfair or practices or competition can be undertaken by both foreign and domestic investors.
- During the execution of the railway projects, there should be huge amount of safety and security.
- The guidelines issued by the ministry for FDI in railway sector cannot supersede any existing laws or rules, until and unless expressly mentioned in it.
- Inorder to complete the rail system, all the components related to railway like rail or rolling stock should be there. This complete rail system can be achieved by the following the Holistic Approach.

Others Sectors

Below is the given list of FDI in all Sectors[32]

- FDI in Petroleum Refining and Natural

Permitted FDI capital inflow in" Petroleum Refining and Natural Gas by PSU" is 49%.

- FDI in Teleports

Permitted FDI capital inflow in Teleports which includes everything like which is related to teleports like setting up of "Headend –in-the Sky Broadcasting Service", "Direct to Home", "Multi system operators" which can be operated at state or district or national level is 74%.

- FDI in Cable Networks

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[31] Report on guidelines for domestic and foreign investors, the Ministry of Railways.
[32]http://www.makeinindia.com/policy/foreign-direct-investment/,last accessed on 3rd April 2015

Permitted FDI capital inflow in “cable networks” is 49%.

- FDI in Broadcasting content services

  Permitted FDI capital inflow in “Broadcasting Content Services” for any Radio system is 26% and for TV channels which includes news, current affairs, sports, etc.is 26%.

- FDI in Print Media

  Permitted FDI capital inflow in “Print Media” dealing with any news, sports information and current affairs is 49%.

- FDI in Air transport services

  Permitted FDI capital inflow in“AIR transport services”. There can planned and unplanned air transports. The FDI capital inflow for planned or scheduled is 49% and for unplanned or non- scheduled is 74%.

- FDI in Ground handling services

  Permitted FDI capital inflow in “Ground handling services”. Here Ground Handling services for Civil Aviation and the capital inflow is 74%.

- FDI in Satellites

  Permitted FDIcapital inflowin“Satellites”. The capital inflow permitted for establishment and operation of Satellites is 74%.

- FDI in Private security agencies

  Permitted FDI capital inflow in “Private Security Agencies” is 49%.

- FDI in Private Sector Banking

  Permitted FDI capital inflow in “Private Sector Banking” is 100%.the FDI is only allowed for private sector banking and neither for branches nor wholly owned subsidiaries.

- FDI in Public Sector Banking

  Permitted FDI capital inflow in "Public Sector Banking" is only 20%.

- FDI in Commodity exchanges

  Permitted FDI capital inflow in "Commodity Exchange" is only 49%. The commodity exchange is a recognized association. The Central government grants recognition to these recognized association for a particular time period[33].they are recognized for the purpose of selling the goods or commodity in the market.

- FDI in Credit information companies

  Permitted FDI capital inflow in "Credit Information Companies" is only 49%. The credit information companies in order to get foreign investment, they have to refer to all the compliances mentioned in Credit Information Companies(Regulation)Act, 2005. The Companies need approval from the government for FDI.

- FDI in Infrastructure companies

  Permitted FDI capital inflow in "Infrastructure Companies" is 49%. The infrastructure companies have to comply with all the compliances, rules and regulations mentioned under SEBI. The infrastructure companies have to take approval from government for FDI.

- FDI in Power exchanges

  Permitted FDI capital inflow in "Power Exchanges" is 49%.

- FDI in Defence

  Permitted FDI capital inflow in "Defence" is 49% above 49% to CCS.

- FDI in Multi Brand Retail

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[33] Section6 of ForwarcContract(Regulation)Act, 1952.

Permitted FDI capital inflow in “Multi Brand Retail” is 51% only. The world multi brand retail has not been defined by government. The word multi brand means when the company offers many products or brings innovation under one brand.

- FDI in Single Brand Retail

Permitted FDI capital inflow in “Single Brand Retail” is 100% .The word Single brand retail has not been defined in any official website neither it has been notified in any government website. But generally the Single Brand retail means selling of goods under one brand name

- FDI in Courier Services

Permitted FDI capital inflow in “Courier Services” is 100% through government or automatic route, where there is no need of any permission from government of RBI. The courier services includes many services like transportation of packages, letters and etc.

- FDI in Asset Reconstruction Sector

Permitted FDI in Asset Reconstruction Sector is 100%. The Asset Reconstruction Company has to be registered under the terms and condition of RBI in Section 3 of the SARFAESI Act, 2002.

- FDI in Power Exchange

Permitted FDI in Power Exchange is 49%

- FDI in Civil Aviation Sector

Permitted FDI in Civil Aviation is 100%.

Civil aviation sector mainly includes

1. “Airports”,
2. “Planned and Non- Planned domestic passenger airlines”,
3. “Helicopter services”

4. “Maintenance and renovating Organizations”
5. “Technical Instruction Institutions”

- FDI in Agricultural Sector

FDI up to 100% is permitted, under the automatic route, in which there is no need of approval from the government and RBI. Under Consolidated FDI policy, there certain conditions which need to be followed under following agricultural activities:

1. Floriculture,
2. Horticulture,
3. agriculture and cultivation of “vegetables &Mushrooms”under controlled conditions;
4. Development and production of Seeds and planting material; Animal Husbandry (including breeding of dogs),
5. Pisciculture,
6. Aquaculture, under controlled conditions ;
7. Services related to agro and allied sectors. 100% FDI is also permitted in tea sector

Besides the above, FDI is not allowed in any other agricultural sector or activity.

- FDI in Stock Exchanges, Depositors

Permitted FDI in Stock Exchanges or Clearing Corporations or Depositors is 49%. For this also there is need of approval from the government.

SECTORS WHERE FOREIGN DIRECT INVESTMENT IS PROHIBITED:

FDI is prohibited under Government as well as Automatic Route for the following sectors. These sectors strictly considered to be illegal so no FDI for these sectors. They are banned by the central government from FDI.

i) Atomic Energy

ii) Retail Trading

iii) Lottery Business including Government /private lottery, online lotteries, etc.

iv)Gambling and betting including casinos and etc.

v) Business of Chit Fund

vi) Nidhi Company-(borrowing from members and lending to members only).

vii) Agricultural (excluding Floriculture, Horticulture, Development of seeds, Animal Husbandry, Pisciculture and cultivation of vegetables, mushrooms, etc. under controlled conditions and services related to agro and allied sectors) and Plantations activities (other than Tea Plantations) [34](c.f. Notification No. FEMA 94/2003-RB dated June 18, 2003).

vii) Housing and Real Estate business (except development of townships, construction of residential/commercial premises, roads or bridges to the extent specified in Notification No. FEMA 136/2005-RB dated July 19, 2005).[35]

viii) Trading in Transferable Development Rights (TDRs).

ix) Manufacture of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes

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[34]http://rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=2450
[35]http://rbi.org.in/Scripts/BS_FemaNotifications.aspx?Id=2450

- x) Real Estate Business (other than construction development) or Construction of Farm Houses
- Activities / sectors not open to private sector investment for e.g. Atomic Energy and Railway Transport (other than construction, operation and maintenance of

  (i) Suburban corridor projects through PPP
  (ii) High speed train projects,
  (iii) Dedicated freight lines,
  (iv) Rolling stock including train sets, and locomotives/coaches manufacturing and maintenance facilities
  (v) Railway Electrification,
  (vi) Signaling systems,
  (vii) Freight terminals,
  (viii) Passenger terminals,
  (ix) Infrastructure in industrial park pertaining to railway line/sidings including electrified railway lines and connectivities to main railway line and
  (x) Mass Rapid Transport Systems.)
- Services like legal, book keeping, accounting & auditing.

FDI in Indian Insurance Sector

Role of FDI in life Insurance Sector

By 2015, it is estimated that India's insurable population is to reach above 50Crores.And to meet up such huge population, there will be demand of endurance policies in coming years.This will further result into the significance of life insurance in financial planning.The new government's stress is basically on reforms, steps which are taken by IRDA to make insurance more consumer-affordable i.e. consumer friendly and India's favorable demographics, and it is expected that the future of India's insurance industry should look good and better. On the other hand, it still remains to be seen that how and when the insurance sector impacts the unbanked sections of India, in the years to come.

Life insurance is a long-term, huge and capital intensive business with a lengthy break-even period, about a decade or so. Mostly, private players have incurred losses, not due to negligence and lack of efficiency but due to this nature of business. The life insurance business involves lot of capital and inorder to recover that investment, it requires lot of time. Over the past few years the Indian life insurance industry has undergone de-growth and market consolidation despite being one of the top 10 insurance markets in the world[36]. If this opportunity to inculcate capital is missed, there is possibility of international investors rethinking their options. The earlierconception of allowing foreign institutional investors (FIIs) to put in 23 per cent would not only have compromised the benefit of foreign investors but it wouldalso have been unfavorable to India's own insurance needs.

India for its demography, has always been an eye- catching and attractive market for worldwide insurers who have always beenvery interested to enlarge their business in the country. The FDI limit for insurance in India is considered to be among the lowest internationally. "China, Indonesia and Malaysia have an FDI limit of 50, 80 and 51 per cent respectively. Japan, South Korea, Vietnam, Hong Kong and Taiwan allow 100 per cent FDI".[37]

An increase in FDI limit can help toencourage pension penetration. It will also incentivize insurance mediators such as brokers or agents and web aggregators through superior commissions. The increase in limit of FDI will promote private investors to invest in domestic country. If the FDI limit is hiked, it is assumed that Indian promoters of life insurance companies will benefit the most. Also,it has been assumed that many of the younger companies have not raised fresh capital in the last three years. Basically, this will further lead to a chance to those younger companies who have not been able to raise capital this indicates that a change in stake is required and it will be through sale of shares through promoters rather than issuing new shares in the market Additionally, insurance is considered to be a very tightly synchronized

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[36]Government of India (2013): 'Union Budget Documents;2014-15', Finance Ministry, Government ofIndia, New Delhi

[37] IRDA (2013): "Handbook of Insurance Statisticsand Annual Reports: Various Issues", IRDA

business, it will in no way be exposed to any systemic risks or unsystemic risks According to the “ 12th Plan, India needs not only to spend about $1.2 trillion on developing build-up and expansion, and there’s almost a $300 billion gap in funding. Increasing the limit of FDI in insurance sector is one way of meeting this requirement”.[38]

Life insurance is a capital intensive business, i.e. Insurers in order to maintain healthy base requires huge amount of capital. That is why it is said that Insurance is a capital intensive business.Insurance offer a huge bouquet of products, and protection of consumer interests against insolvency.

Increased capital inflow through increase in hike of FDI limit will make sure that insurers will offer products that are capital-guzzling but it will work in the customer’s interest without taking a toll on their underneath outline. It will also help the domestic players to access to state of the art technology to improve their distribution systems and generate funds that are long term and critical for development in respect to infrastructure of the country. Further leading to facilitate the Government’s agenda on financial inclusion.

The insurance sector in India not only provides stability to the financial market, due to size, but it also provides solutions for long term- savings and it also acts as a cushion against peripheralshocks. The private life insurance industry in India has been decreasing since 2010 due to legislation changes related to Unit Linked Insurance Plan (ULIP) products and one of the reasons is economic slowdown. To make up for all the loss of small business, private sector players have already focused on rising their group business premium which has seen a tremendous growth of 15 percent from the last three years.

In the life insurance area, out of 24 companies 17companies havereported profit in the year 2012-13. Many private players in the life insurance sector have incurred losses

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[38] Ramachandran T R (2014): ‘FDI can keep the insurancesector afloat’, The Business Line

and one of the major reason is due to a lack of balance and secondly the long term and thirdly capital intensive character of business. It is assumed that life insurers will benefit the most from the hike in the FDI limit because many of the new life insurance companies have not even issued fresh capital in the last many years.

There are certain opportunities for foreign investors in respect to life insurance

- Scheme to increase FDI to 49 percent from 26 percent limit. This proposal have been accepted in the 2015 budget and there is hike in FDI limit from 26% to 49%, which will benefit to the economy of our country. This will help in many employment opportunities in our country along with many other benefits

- Market is still conquered by one Public Sector player. But now when there is hike in FDI limit, there is scope that many private investors will invest in our country further providing opportunities for private sector players to target specific growth opportunities.

- As distribution moves towards open architecture, licensed distributors of insurance services could provide a one stop solution for all financial services needs of the consumer.

- From the past record, the sector which has suffered the most is the pension segment, it has a very low contribution towards the overall life insurance sales as of now and now due to hike in FDI limit it is expected to increase substantially with growth along with ageing of the private sector work force.

Opportunities for foreign investors in general insurance

- Scheme to increase FDI to 49 percent from 26 percent limit. This proposal was also there for general insurance too, thereby the hike in FDI limit is there leading to benefit this section of insurance.

- Little penetration, especially in health insurance provides significant room for growth. Now when it has been seen that a very low penetration was there especially in health insurance, increase in FDI limit will help to achieve high penetration

- Opportunity to forge partnerships with healthcare providers to provide a seamless value chain. This 49% of FDI limit will allow many foreign or overseas

investors to enter into partnership with many domestic companies to achieve the desired goals.

- State governments are forcefully promoting commonhealth insurance and are aiming to provide minimum levels of health. Basically when there is increase in FDI limit, there will be many range of products due to increase in investment. So accordingly a customer can choose hi/her health insurance.

- Insurance cover to all citizens leading to speedy growth opportunities, improving performance of motor insurance.

- Conformity in product structures provides opportunities for differentiation in a fast growing, but crowded market.

<u>Strength and Weakness of FDI in Insurance Sector</u>

Strengths of FDI Policy in India

1) Fastest growing economy.FDI helps the economy to grow fast.FDI is nothing but foreign investors invest the capital in domestic companies, which will give rise to huge amount of inflow in domestic country, therefore leading to growth in an economy.

2) Young and activemanpower. When foreign investors are investing so much amount of investment they tend to expect skilled and experienced manpower, who are ready to work in any given condition. They should be flexible and dynamic. Efficient enough to achieve the desired goals.

3) Highest shop mass in the world.FDI involves the investment of foreign funds into companies whose management functions are held in another country. FDI is considered to be shop mass in the world because of this feature.

4) Huge growth rate both in retail & wholesale business: Obviously when ample amount of investment is funded by the foreign investors, the inflow of such huge amount of investment will lead to growth in both wholesale and retail trade.

5) Presence of big industry houses which can absorbloses. The major role of FDI is to collect huge amount of investment, when the companies who are suffering from huge

loses can easily absorb it. By getting fresh capital internationally, the companies will recover from all the debts and loses. It will be a huge help to them.

A large young working population with median age of 24 years, nuclear families in urban areas, along with increasing working women population and emerging opportunities in the service sector are going to be the key growth drivers of the organized retail sector in India.

6) Availability of Branded Goods: Customers will have access to greater variety of both nationally and international quality branded goods. There will be tremendous demand for domestic Industrial goods and services.

7) **Employment opportunities**: The scope of employment opportunities, both direct and indirect will be increased. Also, there is a scope that Farmers get better prices for their products though growth of value added food chain.

8)Increase in disposable incomeand customer aspirations are important factors.

9)Increase in expenditure for luxury items is also vital: when the inflow, the capacity of people to do expenditure will also increase. The standard of living will also be increased.

10) Increasing investment in real assets: When there is hike in FDI limit there will be hike in investment of real assets too. The capacity to expand the investment in real assets will benefit the economy. This is solely possible because of inflow of FDI in industrial sector.

11) Positive government continued push on reforms- The government has recently increased the percentage of FDI in respect to insurance sector and along with various other sectors. The hike in FDI in insurance sector from 26% to 49%, which is considered to a positive reform.

12) Increase in Purchasing Power: The FDI will help the customers to increase their purchasing power by bringing in lot of new products in the market. There will be large area of domestic market, also it will lead to an increase in purchasing power of the potential customers.

13) Availing of Low-cost and Skilled Human Resources: the foreign investors can also avail the low cost along with the skilled human resources. It is said that the skilled and trained manpower in India is available at a very low cost.[39]

Weaknesses of FDI Policy in India

1) Low capital investment in retail sector: Retail chains across the India are yet too settled down with proper and systematic merchandise mix for theshopping mall outlets. Retailing today is not about selling at the shop, but also about researching and surveying the market, offering choice, competitive prices and retailing consumers as well. A small size outlet is considered to be one of the weaknesses in the Indian retailing sector. 96% of the outlets are lesser than 500 sq.ft

The retail chains are also so smaller than those in the developed countries that it cannot be even compared.The superstore food chain, food world is having only 52 outlets where as Carrefour promotes has 8800 stores in 26 countries.[40]

2) Lack of trained & educated force:The literacy rate in India is low incomparison to other countries. Due to lack trained, skilled and professional employees, this can discourage foreign investors to invest huge amount of capital inflow.

3) Lack of completion: The volume of sales in Indian retailing is also very low. India has largest population in the world and a fast growing economy.

4) More prices as compared to specialized shops: Basically the FDI will mainly caters to high-end consumers placed in metros and will not deliver mass consumption goods for customers in villages and small towns. The main focus will be on consumers who placed in metros and only they will benefit from it.

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[39]Basu P , Nayak N.C, Archana, (2007): “Foreign Direct Investment in India

[40]VaniArchana, P Basu, N C Nayak, Foreign Direct Investment In India: Emerging Horizon”, Indian Economic Review, Vol. XXXXII. No.2.

5) Outdated labor laws, and presence of too many political labor and trade union: When a country is having outdated labor laws and presence of too many political labor and trade union, it will be very difficult for the foreign investors to put in huge amount of cash inflows. When a foreign investor is putting lot of investment, it tend to expect skilled and trained employees.Also they expect liberal labor laws and when there is trade union they fail cooperate with working environment.

6) Nascent Regulatory systems to check misuse of market power by firms: There strict and stringent regulations inorder to check misuse of market power by firms.If there is misuse of market power definitely there will be no healthy competition in market. It can also lead to a situation where monopoly in the hands of few retailers.

7) Inadequate and poor quality infrastructure cost and time delays: to attract FDI, the domestic country should have adequate and better infrastructure quality. Unfortunately India lacks in these conditions, and it is very famous for poor infrastructure especially problem in the supply of electricity. The rapid development of retail sector is the sharp improvement in the availability of retail space.

Issues in Insurance sector in India

1) **Efficiency of the various companies with FDI:** The private participation was allowed in 1999, where private companies can have foreign equity up to 26% only. From the previous records only 12 private companies existedwhich have entered the life insurance companies. Only HDFC had a foreign equity of 18.6%, and all private companies have equity of 26%.In general insurance only 8 private companies have entered, 6 of which have foreign equity of only 26 per cent. Reliance and Cholamandalam, the private players in general insurance, who does not have any foreign equity.[41] The totalamount of loss of the private life insurers amounted to Rs. 38633 lakhs in contrast to the Rs. 9620 crores. There were many insurance companies who suffered huge losses .In general insurance, 4 out of the 8 private insures suffered losses during the year 2002-03, with the Reliance, a company with no foreign equity and emerging as one of the most profitable player. Whereas, the public sector insurers in general insurance made aggregate after tax profits of Rs. 62570 lakhs.[42]

2) Blind trust and faith on foreign companies

The argument that foreign companies are expected to bring in more skill and professionalism into the existing system in domestic country,it is debatable after the recent incidents or examples of the global financial crisis where very famous and renounced firms like AIG, Lehman Brothers and Goldman sachs collapsed. Earlier too, the Prudential Financial Services (ICICI's partner in India) faced lot of problem. They had to undergo lot of enquiry by the securities and insurance. What happened was, the regulators in the U.S based upon allegations of having fallacious documents and forged signatures and also asking their clients to sign blank forms.

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[41]Balasubramanyam V.N, Sapsford David (2007): "Does India need a lot moreFDI", Economic and Political Weekly

[42] Bhandari, L.S Gokara, A. Tandon (2002), Trend and Role of FDI in India : Empirical Investigation, Abhinav National Monthly Referred Journal of Research in Commerce and Management,Vol.3 No.2

This was after it made a payment of $2.6 billion to settle a class-actionlawsuit attacking wrong insurance sales practices in 1997 and a $ 65 million dollar fine from state insurance regulators in 1996[43]. A recent report by Mercer Oliver Wyman, a consultancy, found that European life insurance companies are short of capital by a whopping 60 billion Euros.

According to the Mercer Oliver Wyman Report the German, Swiss, French and British insurers suffer from sever capital inadequacy, which is a result of undertaking risky investment in equity and debt instruments in the past.

Hence FDI in insurance in India, it is interpreted that our financial markets to be uncertain and rough activities of the foreign insurance companies at a time when the virtues of regulating such actions are being discussed in the advanced countries.

3) Larger channelization of saving to insurance

One of the most important duties played by the insurance sector is to organize national saving and distribute them into investments in various different sectors of the economy. So that each gets equal proportion of investment and to get equal amount of chance to develop. However, no significant change seems to have occurred as far as mobilizing savings by the insurance sector is concerned. If the infrastructure of a country is very poor, it will affect the productivity of economy further affecting whole GDP.

Therefore it can be said that the private or foreign participation has not been able to achieve the goal. Even after the liberalization of the insurance sector during. 1999.

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[43]BhavyaMalhotra,Foreign Direct Investment: Impact on Indian Economy,Global Journal of Business Management and Information Technology, Volume 4

4) Capital Flow of funds to infrastructure development

The major aim of life insurance is not only about the mobilizing the savings for the development of the economybut also developing the economy in terms of long term investment in social and infrastructure sectors.

The same idea was argued for the opening up of insurance market and it would enable huge flow of funds into infrastructure and other undeveloped sectors. But more than fifty percent of the policies they sell are ULIPS where the investments go into the equity markets. There are certain schemes in which nearly 50 percent of the funds are invested in equities which further leads to limiting thefund availability for infrastructural and other developmental investments. The LIC has invested huge amount of crores during 2013 in various fieldslike power generation, road transport, water supply, housing and other social sector activities and etc.IRDA figures further means that the share of the public sector for both life and non-life insurance companies in investment in infrastructure is greater than their market share.

India is definitely a lucrative place for FDI, but there are certainly some challenges and areas for improvement still present. Until, these areas are honed to perfection, India will not become the number one place for FDI. India is focusing on maximizing political and social stability along with a regulatory environment. In spite of the obvious advantages of FDIs, there are quite a few challenges facing larger FDIs in India, such as:

5) Challenges due to availability of resources:

India is always known to have huge amounts of natural and unnatural resources which are either exploited or unexploited. There is balance between manpower and significant availability of fixed and working capital. At the same time, there are some underexploited or unexploited, natural or unnatural resources. The resources are said to be well available in the both rural and urban areas. The focus or the goal is to increase infrastructure 10 years down the line, for which the amount of requirement is about US$ 150 billion. This is the first and major step which will not only overcome challenges faced in FDI but will also help in growing the economy.

6) Equity challenge:

Comparing the past record, India is definitely developing in a much faster speedand also it has been identified that development is taking place but unevenly. This means that while the more urban areas have been tapped, the poorer sections are inadequately exploited. To get the clear and complete picture of growth, it is very necessary and essential to make sure that both the rural section has more or less the same amount of development as the urbanized one. In order to promote a balanced economic growth and fostering social equality and at the same time.

7) Challenges faced due to political structure:

There has to be strong support for political structure.The support of the political structure has to be there towards the investing countries worldwide. This can be worked out when foreign investors put forward their point of view for increasing FDI capital in various sectors like banking, and insurance and many other weaker sections of the developing country. So, there has to be a common ground between the Parliament and the foreign countries investing in India. This would increase the reforms in the FDI area of the country.

8) Challenges faced due to Federalism:

Very important among the major challenges facing larger FDI, is the need to speed up the implementation of policies, rules, and regulations. The vital part is to keep the implementation of policies in all the states of India at par. Thus, asking for equal speed in policy implementation among the states in India is important. India must also focus on areas of poverty reduction, unemployment, trade liberalization, and banking and insurance liberalization. If India will not focus on these areas mentioned above, the country will have to face the consequences Challenges facing larger FDI are not just restricted to the ones mentioned above, because trade relations with foreign investors will always bring in new challenges in investments.

Insurance is considered to be push rather than pull product because it will help the country in pushing the growth of the economy. It is a big challenge for companies as they have to make sure that their products are meaningful to prospective customers. The first step can be the company can simplify and de- jargonize products. And then design the benefit which will suit the specific needs of policyholders. When there will

be transparency in regard to policy terms, it will ensure that customer is interested in their product and understands about the product and along with its benefits. Customer feels confident when there is higher degree of transparency and also that they will not be cheated.It is therefore very important for the industry not to only invest not just in expansion and distribution but also in client servicing and processing, the panel pointed out.

Customers are discouraged from buying insurance especially general insurance as it involves lot of anticipated complexity during the settlement of claims. Insurance companies do assert that the competition in the industry is forcing them to speed up their claim processes.Still the fact remains same that a lot more needs to be done tomake general insurance a hassle-free experience for the customers.

8) Corruption:

Corruption is basically found in every country. But India is famous forpolitical Corruption .political corruption is the misuse of powers by government officials for attaining illegitimate profits and gains. Obviously the growth of India is affected due to excessive amount of corruption. Corruption is defined as abuse of power or position.If the corruption level in India is reduced then the GDP of India will increase by 1.5% and further amounting to increase in FDI by 12%.[44]

9) Lack of Decision Making Power

with the State Government:In order to make changes in reforms and policy of liberalization, it can be only done by the Central government[45]. The State government has no decision make authority in respect to changes in any policy or reforms. Mostly in Infrastructure areas, the Centre remains in control.

[44] R Anitha, Foreign Direct Investment and Economic Growth in India, International Journal of Marketing, Financial Services & Management Research, Vol.1 Issue8

[45] Ibid 22

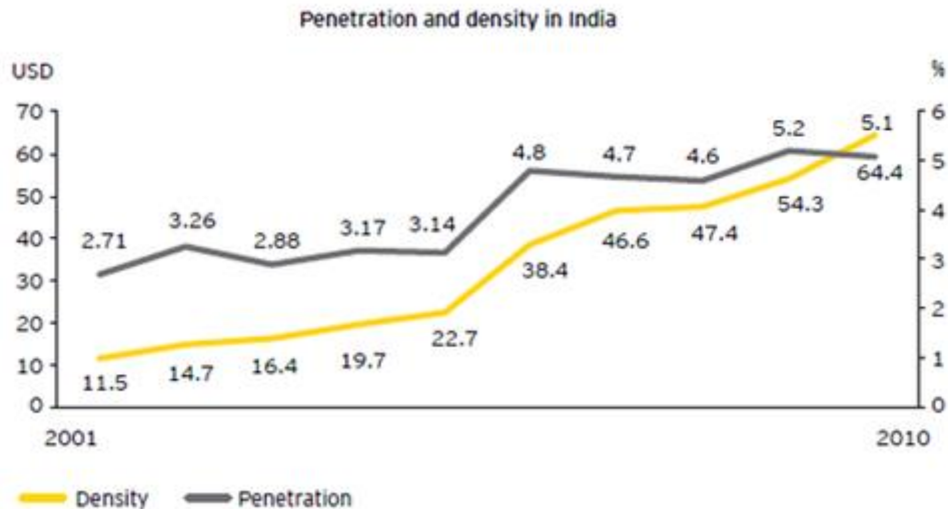
10) High Corporate Rate Tax:

In comparison to other countries, India has got a higher corporate tax rates. Approximately 48% is the corporate tax rates for foreign investors in India whereas in East Asia, the corporate tax rates is between the range of 15% -30%.[46]

[46] Ibid 22

Advantages of FDI in Insurance Sector

The IRDA Report shows the insurance industry status of 10 years i.e. from 2000-2010.

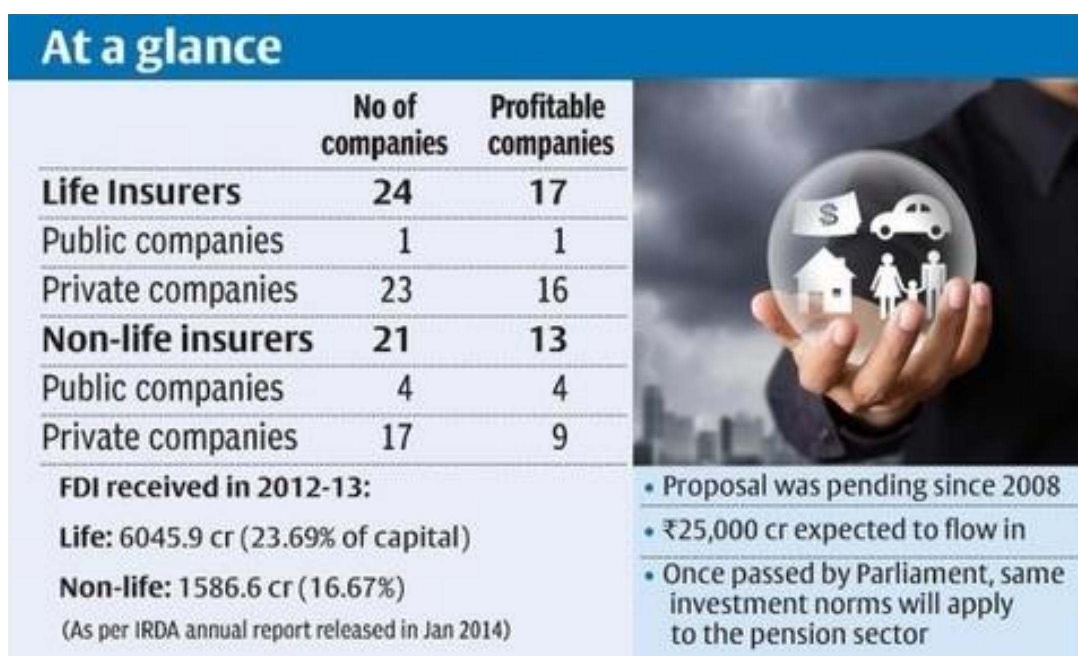


India largely sustains as an under-penetrated market with regard to the insurance sector, despite the significant improvement in penetration and density in the past 10 years as shown above. The market currently is primarily dependent on drivers of tax benefits/incentives as well as mandatory buying for the purpose of sales.

As per the press release, a conditional change has been made in the initial 26% cap. It says that a foreign investor only 'after taking due permissions from Insurance Regulatory and Development Authority of India' to invest upto 49% can facilitate their respective investments in the territory.

The initial proposals to raise the FDI limit were kept pending since 2008, when the then sitting Government (UPA) had put forth the Insurance Laws (Amendment) Bill to raise the foreign stake in the joint ventires of insurance companies to 49 per cent from the existing 26 percent.

IRDA's annual report 2014



At a glance

	No of companies	Profitable companies
Life Insurers	**24**	**17**
Public companies	1	1
Private companies	23	16
Non-life insurers	**21**	**13**
Public companies	4	4
Private companies	17	9

FDI received in 2012-13:

Life: 6045.9 cr (23.69% of capital)

Non-life: 1586.6 cr (16.67%)

(As per IRDA annual report released in Jan 2014)

- Proposal was pending since 2008
- ₹25,000 cr expected to flow in
- Once passed by Parliament, same investment norms will apply to the pension sector

Advantages of enhancement in the FDI limit in the insurance sector:

1. **Win-win situation**:

   Government insurers as well as private insurers may benefit from the new raise of the FDI limit in the insurance sector. These insurance companies shall now be economically obligated to offer effective, competent and a diverse range of insurance products/schemes to the customers at enormously competitive and fairly reasonable prices.

2. **Small Insurance Companies:**

   FDI in insurance sector will be of great help and support for the smaller insurance companies in order to break-even at a faster pace as before and help then in the monetization (convert into currency) of the promoters holdings of the older life insurance companies. FDI will definitely help smaller insurance companies to break-even faster and it will also help to get capital from the foreign investors and also to monetize i.e. convert into currency, the holdings of the promoters of the older life insurance companies.

3. **Huge amount of Capital inflow:**

The IRDA report suggests that with the new hike in the FDI in insurance sector will be immediate inflows (short term) of capital of $2 billion approximately and will also result in the long term inflows of about $10 billion approximately.. In the coming years, the inflow will huge in comparison to last few years. Most of the private sector insurance companies have been making considerable losses and are insolvent due to huge amount of bad debts. So, the increased FDI limit has brought some much needed relief to these firms as the inflow of more than 10,000 crore is expected in the near term.

4. **Aggressive Industry:**

The industry has till now been cautious and largely reluctant in the selling of products which are more of capital intensive. With this change in the limit it will be encouraged to become more aggressive and active even with regard to capital intensive products. The industry has been cautious and careful in selling products which are capital intensive, it will be able to become more aggressive. The companies have to make sure that customers should buy their product only.

5. **Expertise:**

The Insurers will not only get the desired capital but shall also be benefitted by the advanced technology and better expertise in the product of the new foreign investors who will be domain experts in this area.

6. **New Players in the market:**

An expectation of about 100 companies both life as well as non-life insurance has been set to operate in and serve the market as huge of our size. Now when there is increase in the amount of investment , there will new players in the market. There will be more healthy competition in the market It can expected that about 100 life and non-life insurance companies to serve a market of our size. It can be predicted that increasing FDI could see 25-30 new insurers entering the market.

7. **Employment:**

With more money coming in, the insurance companies will be able to create more jobs to meet their targets of venturing into under insured markets through

improved infrastructure, better operations and more manpower. With more inflow coming in, the insurance companies will be able to create more jobs opportunities or employment opportunities to meet their desired targets or goals of venturing into under insured markets through improved infrastructure, better operations and more manpower.It helps in creating opportunities both direct and indirect employment in the developing economy. With the rising capital there is always demand for skilled and associated professionals like brokers or agents or advisors or managers or actuaries or claim managers. The increase of FDI in insurance sector has basically increase the demand of skilled professional as well as semi skilled**.** In the act, IRDA has made compulsion on the appointment of actuaries in allinsurance companies, ensuring the certification of allproducts before launch. The insurance regulator has alsomade it mandatory for appointed actuaries to attend allboard meetings to help the insurer ensure solvency at allpoints in time

8. Insurance products:

Private as well as the public insurers will benefit from the proposed hike of FDI. With the increase in limit of FDI, there is increase in the expectations,these companies will offer better, wide and variety of insurance products to customers at large competitive prices. So customers can choose wisely from variety of products.

9. Technology:

Insurers will not just get capital inflow but also the latest technology and product expertise of the foreignpartner who is the domain expert it will be very helpful for the developing countries to get latest technology along with the capital inflow from the foreign investors

10. State-Run Companies:

The middle class people who does not have high salary will be more dependent on public insurance companies People in the country like India , have more faith on government insurance companies and less on private ones. And the demand for public insurance company will be more than private insurance company. So, this hike will benefit the state-run companies more than the private ones.

11. Increased Insurance Penetration:

From the statistics, India has got population of more than 100 crores which is huge and seeing the statistics also India requires Insurance more than any other country. It is seen that the insurance penetration in the country like India is only around 3 percent of our gross domestic product with respect to over-all premiums underwritten annually if it is compared, then it is far less than to Japan which has an insurance penetration of more than 10 percent. Increased FDI limit will strengthen the existing companies and will also allow the new players to come in and have healthy competition,thereby enabling more people to buy life cover.

12. .Act as Level Playing Field :

With the increase in foreign direct investment to 49 percent, the insurance companies will get the level playing field. So far the state owned Life Corporation of India controls around 70 percent of the life insurance market to make sure that there is stable growth, the training of employees is required. There is need of training along with the specialized knowledge.Insurances companies need to spend in the professionaltraining of their employees, especially for subjects which require efficiency such asunderwriting, claims and risk management.

13. Favorable to the Pension Sector :

If the pension bill is passed in the parliament then the foreign direct investment in the pension funds will also be raised to 49 percent. This is because the Pension Fund Regulatory Development Bill links the FDI limit in the pension sector to the insurance sector.

14. .Consumer Friendly –

The end beneficiary of this modification will be common man i.e. customers. With more players in this sector due to massive amount of investment, there is bound to be severe competition leading to competitive quotes, improved services and better claim settlement ratio.Due to huge population and needs of the customer , the insurance industry has given so many product innovations .to make those product innovations famous, the insurance companies have undergone various promotional campaigns. Innovations are basically done to promote and attract the customers. The efforts done for hike in FDI cap in insurance sector,brought this sector closer to the customer. There is one difficulty when it

comes to implementation of modern technologies. To handle modern technologies not only skilled labor is required but also trained manpower is needed. The benefit of this technology is, it saves lot of time and cost, and overall cost of production becomes very less. Incoming years the demand of insurance product will be more and it will be sold through E-Commerce.These days there are number of insurance plans for children. One of the best things about this plan is it helps children and gives them financial security if their parent dies.Most of the insurance company is focusing on the plans for children's insurance and to bring more innovation so that it attracts their parent. Emerging lifestyle is also one of the reason due which there is demand for new insurance policies. Demand of so many life insurance policies by so many women who are working, shows an indication that society is changing.Now every Insurance company is having policies which are related to both women and children. Another region which is in very much demand and gaining attraction is project insurance. Project insurance in which insurance is done for the project which involves lot of risk and investment. This kind of insurance can be undertaken by government or private sector The main idea is to protect the project which involves risk and uncertainty. The examples of project which can be insured are: construction of roads, flyovers and bridges. It is not necessary that project has to be large scale, even medium size project can be insured. Therefore there is huge scope for this particular class of insurance. One of the most successful and famous innovation products in India is ULIP.It gained popularity at the end of 2011.The next area which insurance companies are coming up is pay as you drive in which insurance is totally dependent on the time, distance and place. This is thing is also known as automobile insurance this is very much different from traditional insurance. The automatable insurance basically focuses on safe drives and rewards them and also they have very low premiums and no claim bonus.Seeing the new innovations by the insurance companies, it had tried to cover so many areas. They have come up with the children insurance, project insurance and lastly automobile insurance. The insurances companies bringing so many innovations is helping the economy to grow.

Advantages for MNE's

- **Access to markets:**

FDI can be an effectual way for anyone to enter into a foreign market. It is also one of the ways to acquire important natural resources, such as precious metals and fossil fuels. Some countries may extremely limit foreign company access to their domestic markets. Earlier India was one of the examples, but it has increased its FDI limit.FDI is also an effectual Oil companies, for example, often make tremendous FDIs to develop oil fields. It will facilitate resource transfer, and other exchanges of knowledge whereby many other countries are given access to new skills and technologies.

- **Reduces cost of production:**

FDI is a kind of an investment in a business by an investor from another country for which the foreign investor has control and management over the company purchased. FDI is nothing but it is a means for investor to reduce the cost of production through new technology or through the cheaper labor market is and the regulations incomparison to other countries are less restrictive in the target foreign market. For example, it's a well-known fact which everyone knows that the shoe and clothing industries have been able to drastically reduce their costs of production by moving operations to developing countries.

Advantages to Foreign Countries

- **Source of external capital and increased revenue**:

FDI can be a tremendous source of external capital especially for a developing country, which can lead to economic development.For example, if a big factory is constructed in a developing country, the country will have to utilize at least few local labor, equipment and materials to construct it. This will result in creation of new jobs and foreign money being injected into the economy. Obviously once the factory is constructed, the entrepreneur will have to hire local employees and will probably utilize a least some local materials and services. This will also create further jobs opportunities and maybe even some new businesses. These new jobs mean that locals have more money to spend, thereby creating even more jobs, this

will lead to inflation in the country. The tax revenue is generated from the all products and activities which are generated in the factory, taxes are imposed on factory employee income and purchases, and taxes on the income of the employees. Developing governments can use this capital inflow and revenue generated from taxes, to create and improve its physical and economic infrastructure and development such as building roads, communication systems, educational institutions and subsidizing the creation of new domestic industries. This will further lead to economic growth in the country.

- **Development of new industries in the market**:

For MNE it is not necessary to own all of the foreign entity. At times a local firm can develop a strategic alliance with a foreign investor to help develop a new industry in the developing country. The developing country gets to establish a new industry and market, and then the MNE gets easy access to a new market through its partnership or through joint venture with the local firm.

- **Learning:**

This is considered to be more of indirect advantage. Through FDI there is a hue scope of national and local governments, local businesses and citizens to new business practices, management techniques, socio economic concepts, and technology that will help them in developing of local businesses and industries.It can motivate the economic development of the country in which the investment is made, creating both benefits for local industry and a more conducive environment for the investor.It will only benefit by creating jobs and increasing employment in the target country.It will make sure transfer of knowledge whereby different countries are given access to new skills and technologies.The equipment and facilities provided by the investor can increase the productivity of the workforce in the target country.

Disadvantages of FDI in Insurance Sector

1. **Unbalanced economic conditions.**

Much of FDI takes place in the developing country which is just developing its economic and financial systems. The market conditions of the developing country are quite unstable and unpredictable. And to make the conditions stable and balance, more and more FDI is required in the market.

2. **Unstable political and legal system:**

A bigger problem is when there is instability or underdeveloped political and legal systems.It can be happened in both developed and developing countries. Generally it happens in developing country A company may have to deal with a corrupt legal system or unstable political system. Additionally, the legal system may or may not be underdeveloped. Contracts and property rights may not be easily enforced..

Disadvantages to the Foreign Countries

- **Race to the bottom:**

Some have argued that developing nations are forced into a race to the bottom regarding labor and regulations in order to attract foreign investors who seek cheap labor and non-existent or lackadaisical regulation to maximize its profit potential. Such a race could result in severe environmental damage to the foreign country, the stripping of natural resources and abusive labor practices that are not acceptable in the developed world. Sometimes the Foreign direct investment can cause lot of problem within domestic investment, as it focuses resources elsewhere.

- **Crowd out local development :**

Foreign investment will attract lot of multinational companies and there is also a possibility that it may also crush the local competition, which would result in many issues or problems in long-term economic development.

- **Undue political influence:**

  MNEs can hypotheticallyput forth a huge amount of influence in a developing country because of the capital it brings into the country. This influence may be compounded if a corrupt government is in place willing to acquiesce to deals that may not be in the best interests of its citizens

Disadvantages of foreign direct investment.

1. **Loss within Domestic Investment**:

Occasionally as a result of foreign direct investment exchange rates will be affected, to the advantage of foreign country and the detriment of the domestic country. Investment in certain areas is banned in foreign markets, meaning that an inviting opportunity may be impossible to pursue.It is correctly said excessive of everything is bad. Similarly when there will be excessive FDI in domestic country, it will generate lot of problems within domestic investment. Foreign direct investment is a capital-intensive from the investor's point of view, and therefore sometimes high-risk or economically non-viable as it involves investment of huge amountAt times, the rules and the regulations governing foreign direct investment and exchange rates may have a negative effect in the investing country.

2. **Damage of small entrepreneurs**:

The biggest fear from FDI which the domestic country feels is that it is likely to destroy the small entrepreneurs or small retail shops as they will not be able to withstand the tough competition of big entrepreneurs. When huge amount of inflow will be there, definitely the competition will be very tough and small retailers will find it difficult to sustain in the market.Also these entrepreneurs are going to provide all the goods to the consumers at much lessercosts.

3. **Shrinking of jobs:**

Practically it has been assumed that there will be no job opportunities.Many critics of FDI are of the outlook that entry of big foreign chains like Wal-Mart, Carrefour etc. are not going to generate any jobs in reality in India. Either the jobs will move from unorganized sector to organized sector while their quantity will remain the same or lesser but not more.

4. No real benefit to farmers:

Critics of FDI are also of the view that it is a myth that the farmers are going to benefit the most in any way because of the entry of foreign chains in India, which absolutely wrong . But it will make the Indian farmers a slave of these big chains & the farmers will entirely be on their mercy. Thus, FDI is only going to worsen the already depressedor miserable conditions of Indian farmers.

CONCLUSION

It can be concluded that FDI gives lot chance to Indian industry to grow, to gain access to managerial skills, access to technological upgradation, transfer of knowledge.FDI also allows optimum utilization of natural and unnatural resources and also allows competing internationally with high efficiency..FDI plays an important role in economic growth of any economy of a country. But for India who is still a developing country, FDI plays a major role in economic growth. The factors which are to be considered for determining the scope of FDI inflows into Indian economy are

- Market size
- Inflation
- Trade openness
- Interest rate
- Wage rate
- Working environment

The present study examined and showed that from last few years the economic growth of India has been increased, the sole credit goes to FDI.Earlier India used to have a poor labor cost and many restrictions were there for FDI regime, high imports were there. Other reasons like poor infrastructure, exit barriers, high taxes, unattracted investment location etc. Now the results are different and now it can be shown from our study that FDI is related positively with real GDP and prior period FDI inflow. Many international countries are suffering from economic hurdles and financial crisis, still India has a worldwide investment decision.In order to attract foreign investment, India is coming up time various new policies from time to time.

From the various studies it has been concluded that FDI is very significant factor for influencing the downfall or rise in economic growth of any country.Also,the macroeconomic stability and instability also plays great influence in the FDI.It provides a sound base for economic growth and development by enhancing the financial situation of the country. It also contributes to the GDP and worldwide exchange reserves of the country .For every perspective, there have different views in this context.

The new economic liberalization policy of India in 1991 had helped India both in quantitative and qualitative .Although India took fourteen years to show this kind of progress. According to reports, 2005, United Nations Conference on Trade and Development report on foreign investment prospects India has been ranked at the third place in global foreign direct investments in 2009 and will prolong to remain among the top five attractive destinations for international investors 2010-117[47].

It can be concluded that government should take necessary measures or rather should make laws which are simple for investors. Laws should be friendly and relaxation on entry barriers for business activities, and lastly the tax system should be such that it should encourage the foreign investors. Somewhere, a constraint related to the track record of Sub financial records is also to be made on the investors who take out money out of the Indian stock market. Basically laws should be such that protect interest of both foreign investors and domestic investor and also it should promote trade in country through FDI.

As it has been said many times that FDI in India has a significant role in the economic growth and development of India. Through FDI in India, it has able to sustain economic growth in various sectors and it will continue to do that, if laws are friendly for foreign investors. Similarly it will also create huge numbers of job opportunities in existing industries.

The inflow of FDI in service sectors and construction and development sector was huge from April, 2000 to March, 2013 and because of that it had attained substantial economic growth and development through creation of jobs in India. The below given are the sectors which have attained economic growth during 2010-2013:

- Computer, Software & Hardware an
- Drugs & Pharmaceuticals
- Service sector.

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[47]**Reetu Sharma, Nikita Khurana, Role of FDI in Different Sectors, IJAME**

The government has failed to create friendly laws because of which few sectors are being neglected. The other sectors in Indian economy the Foreign Direct Investors interest was, in fact has been quite poor. The government should work on those sectors to achieve economic growth and stability.

In India various changes were introduced in its regulatory economic policies during the liberalization era of the FDI policy and due to this a structural break trough was there in the volume of FDI inflows and for that particular period the economy was quite fluctuating and un-steady. More than 50% of the total FDI inflows received by India came from Mauritius, Singapore and the USA. The reason for such huge amount of FDI inflows from Mauritius was that the fact that India entered into a double taxation avoidance agreement (DTAA) with Mauritius were protected from taxation in India.

Among the various sectors, the few important sectors only received huge amount to FDI inflows and they are the service sector had received the larger proportion followed by computer software and hardware sector and telecommunication sector.

However, a lot hard work is to be done if we want to appear as one of the major export leaning manufacturing hub. Investors are showing lot of growing confidence in the Indian economy, which is a positive sign. Although FDI is considered to be one of the strongest source of capital inflow for economic development. But one should not forget that FDI alone cannot resolve the problems like poverty eradication, unemployment and other economic and financial issues. India has huge poverty so to remove that it needs a massive investment toachieve the goals of vision 20-20. Policy makers also need to ensure transparency and consistency in policy making along with comprehensive long term development

Foreign direct investment plays an important role in the economic development of almost every country. It helps in transforming of financial resources, technology and original and enhanced management techniques along with raising productivity. For FDI in India showed a has always showed a positive picture for few selective sectors. Foreign investors are enjoying the benefits of liberalized FDI regimes by investing into shares of Indian corporate on automatic route in which they need no permission from RBI and government. There are few factors which restraining the flow of FDI in India but Indian economy is rising day by day. It is very much expected that in the

coming years FDI will grow more than the last years. India is showing tremendous growth due to more and more FDI inflows.

Suggestions

Many foreign investors have already been entered into our India through various modes of FDI like Franchising, etc.So, inorder to strengthen FDI in India, the policy or modes of FDI should be changed.

- At the initial stages the FDI should be more focused on weak sectors so that domestic companies are established strongly , through various modes of foreign investment
- The rules and regulations for FDI in India should be more liberal, so that it can attract foreign investors to invest in our domestic country.
- It is very important for developing countries to take measures to maximize their overall growth through more and more FDI.
- In comparison to other countries, India requires an urgent need to improve their regulatory framework in order to make sure that more and more FDI occurs. It also need to look on fiscal reforms and also to strengthen infrastructure and other international trade relations
- India should give special attention towards positive GDP, balance of payment, exports etc.India should have favorable environment conditions to attract FDI as highest possible extent.
- The balance between the imports and exports also affects FDI. There should be bi – causual relationship between them and India should make sure that technology import so that industrial upgradation can be done through new technologies and machines
- There are two most important factors which are responsible for influencing FDI in domestic country are the exchange rate and price stability. These two should be the foremost priority of any domestic country for influencing FDI

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