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A Study on relationship of Foreign Direct Investment in Life Insurance Business in Indian Life Insurance Industry

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Abstract: Life insurance business is growing industry in India in last 2.5 decade after opening of life insurance business for private players. Since independence there was only one public sector life insurance company till year 2000, at present there is 24 life insurance company including one public sector company LIC of India. After opening of insurance sector for private player and IRDAI compliances regarding financial solvency, private players need huge fund to enter into the insurance business. Government of India take a step to resolve the problem of crunch funds, invites FDI in insurance business in India. After 2.5 decades this research study is relevance for impact analysis of FDI in Indian life insurance industry. In this study, researcher emphasis on the relationship between FDI and First Year Premium Income (FYPI) of some selected life insurance companies. FDI has played an important role in enhance the First Year Premium Income (FYPI), which is a significant indicator of new business growth in the life insurance Business. The invasion of foreign capital and know-how has permitted life insurers to bid competitive pricing, better customer service, and innovative product solutions, thereby exciting the FYPI growth. This movement is especially apparent in markets such as India and Southeast Asia, where FDI is expending the growth route of the life insurance industry. On the whole, FDI's impact on the life insurance sector focused its important role in improving service offerings, and enhancing the financial inclusion of underserved populations.

Keywords: Foreign Direct Investment, Life Insurance, First Year Premium Income.

INTRODUCTION

Foreign Direct Investment (FDI) is a important element of global economic system. when a country get FDI then it comes not only capital but also advance technology and advance system to manage business operation. the capital Experts say Foreign country helps improve productivity and growth in the area of production in developing and under

develop countries (Chakraborty & Bhattacharya, 2024). Within service industries, one of the most dynamic segments is the life insurance industry, given its role in financial intermediation, risk management, and capital mobilization. Accordingly, the present study titled “Impact of FDI in the Indian Life Insurance Industry Using Only First-Year Premium Income” focuses on the way in which FDI

inflows have influenced insurance market dynamics through an examination of first-year premium flows an important indicator of new business generation and market growth.

Life Insurance plays a Important role in both economic stability and social protection. As the Organisation for Economic Co-operation and Development (OECD) notes, global insurance markets witnessed continued growth in gross written premiums in life insurance sectors, even in 2022, though the pace differed across segments and geographies (OECD, 2023). In many developing economies, insurance penetration remains well below global averages, signalling untapped potential for expansion (OECD, 2024). When combined with liberalised policy regimes, this gap offers fertile ground for FDI to boost market depth, expand coverage and improve efficiency.

In India, the life insurance industry has undergone noteworthy transformation since the early 2000s. Regulatory reforms opened the market to private and foreign participation and gradually increased the permissible foreign equity share—from 26 % in the early phase to 49 % in 2015, and further to 74 % more recently (Seth et al., 2025; Kumar & Singh, 2023). These policy shifts have coincided with increasing new-business premiums, higher competition, and greater product variety (Seth et al., 2025). Notably, as per recent official figures, during the first half of FY 2025 the insurance sector captured over 62 % of equity FDI inflows into the services sector—a signal of its growing attractiveness to foreign investors (Varier, 2025).

Various research suggests several mechanisms through which FDI impacts life insurance markets. First, foreign investors bring capital support and stronger solvency buffers as per requirement of IRDAI, enabling quicker scale-up of operations (ET BFSI, 2021). Second, foreign participation often accompanies technology and product innovation, such as bancassurance models, digital distribution platforms, and microinsurance offerings (Terina et al., 2019). Third, competition introduced by new foreign-backed players can drive efficiency, improve claim settlement, and widen coverage. On the flip side, the literature warns of potential downsides: high repatriation of profits, dominance of foreign partners in decision-making, and possible crowding-out of domestic firms (Seth et al., 2025).

Despite this growing of insurance industry, this research paper focus on *first-year premium Income which is an important indicator if life insurance business* as a measurement lens for FDI's influence on the life insurance industry remains underdeveloped. First-year premium Income the premium paid on new policies in their initial year serves as a key indicator of expansion into new business rather than simply renewal of existing contracts. Higher first-year premiums often reflect successful market entry,

expanded distribution, and increased customer acquisition.

Therefore, this research paper sets out to chart and analyse the trends of FDI in the life insurance industry as reflected in first-year premium volumes. In undertaking this analysis, we rely on a combination of published national data, industry reports, and academic literature in both national and international contexts. The study contributes to the scholarly debate by emphasising first-year premium as an accessible, meaningful metric of market dynamism and as a proxy for the effectiveness of FDI-related reforms. It also offers practical lessons for regulators and policymakers about how to structure FDI regimes so as to support broader insurance market growth and financial inclusion.

In short, this study shows how FDI helps life insurance markets grow, focusing on new sales (first-year premiums). Many developing countries like India still lack enough insurance. Life insurance builds economic strength and protects people. The findings matter for researchers and real-world users. Regulators, local and foreign companies, and investors can all gain from knowing how foreign money links to new sales and overall industry success.

Literature Review

Overview of FDI and the Insurance Sector

Foreign Direct Investment (FDI) is most essential factor for the development of economic development in all nation. More capital, latest technology and many other things are provided by FDI (Dunning, 1993). Risk management, product diversification and modernization is supported by FDI (Outreville, 2013). According to the Organisation for Economic Co-operation and Development (OECD, 2022), the participation of financial services from foreign leads to better governance and stronger capital bases for firms.

In India, the liberalization in life insurance industry began with the Insurance Regulatory and Development Authority Act (IRDA Act) of 1999, which permitted the entry of foreign companies in national market. Recently, limits of FDI was set at 26% and was later raised to 49% in 2015 and 74% in 2021 (UNCTAD, 2021). These reforms aimed to attract more foreign capital to increase insurance penetration and density, both of which had remained relatively low despite economic growth (PwC, 2024).

Insurance Penetration and Density as Development Indicators

The main key measures of life insurance development are penetration (premium as a percentage of GDP) and density (premium per capita) (Haiss & Sümegi, 2008). Strong integration of life insurance is indicated by high penetration with the economy, at the same time greater consumer participation and

financial awareness is reflected by high density (Ward & Zurbruegg, 2002). Some of the developed nations like Japan, the U.S., and the U.K. having higher penetration and density levels, but developing markets such as India and Indonesia are still developing in this regard (Swiss Re, 2023). According to IRDAI (2024), India's life insurance penetration was around 2.8% in FY 2023-24, and density was about USD 69, which is lower than the global average. However, these figures have improved compared to the early 2000s, showing that FDI and competition from private insurers have gradually expanded the market (IBEF, 2025).

FDI and Insurance Sector Growth: Global Evidence

On the basis of past studies the researcher found that the reason of enhances financial development and economic growth is FDI. Levine (1997) found in study that the cause of improvement in capital allocation and innovation is openness of financial-sector. Haiss and Sümegi (2008) found that the growth of life insurance industry contributes to increased GDP in European countries. Similarly, mutual relationship was found between expansion of life insurance market and development of economic Arena (2008). In developing countries, new products and better underwriting are introduce for enhance coverage (Skipper & Kwon, 2007). Study by Brainard (2008) showed that the approach of Transnational insurers enhance productivity competition and benefiting consumers. Outreville (2013) also focused that inflow of FDI is the main reason of management skills and advanced risk-assessment technologies is the reason of enhance the long-term sustainability of the life insurance market.

Indian Context and Empirical Findings

The main cause of growth in life insurance industry is liberalization and rising in incomes early 2000s, (McKinsey, 2023). Studies conducted by Sinha (2007) and Kaur (2019) reflect that foreign life insurance players have introduced new innovation, satisfactory customer service, and enhance product variety. Many joint venture show great interest in higher capital inflow due to increase in FDI limits to 49% in 2015(IRDAI, 2022).

Empirical research suggests that FDI has had a positive impact on insurance penetration and density in India. For instance, Ghosh (2014) found a statistically significant relationship between foreign participation and the growth of insurance premiums. Similarly, Sharma and Bhatia (2019) reported that states with higher foreign investment in insurance experienced faster growth in coverage and awareness. The Insurance Regulatory and Development Authority of India (IRDAI, 2024) also noted that FDI-supported private insurers now account for more than half of the total life insurance

business in the country.

Challenges and Limitations

After having the difficult problems good outcomes have achieved. Most of the population of rural and semi urban market till uninsured due to limited awareness about product and distribution reach (Chakraborty, 2020). Moreover, the main reason of slow penetration growth is regulatory restrictions, difficulty policy structures, and low awareness about digital literacy. Singh and Gupta (2021) conclude that FDI has increased competitiveness market concentration remains high, with the Life Insurance Corporation of India (LIC) still dominating the sector.

Another issue is the unequal impact of FDI across regions and product segments. At the same time metropolitan areas have strong growth, smaller towns lag behind in policy uptake (World Bank, 2022). Besides, the life insurance sector depends upon the international capital, then difficult problem can be faced by life insurance sector if foreign market become unstable then foreign investor may be decided to withdraw their money (OECD, 2022). Therefore, balanced regulation and domestic capacity-building remain crucial for sustainable insurance growth.

Research Methodology

This section explains the relationship between FDI and FYP income of Indian life insurance industry. The aim of the study is to understand how foreign investment helps to improve insurance accessibility and efficiency in India. The study also examines how these factors interact over time and contribute to the overall development of the sector. The researcher make sure that finding are accurate and also useful for policyholder and leaders of the industry by using reliable data and suitable analytical tools.

Research Objectives

1. To analyse the relationships between FDI and performance of some selected insurance companies in terms of First Year Premium Income (FYPI).

Research Design

To achieve the above objectives, the study follows a quantitative research design based on secondary data analysis. It uses time-series data for the overall insurance industry and panel data for different insurance companies over several years. This approach helps to measure trends and relationships between FDI inflows and first-year premiums.

The design includes descriptive analysis to understand patterns, followed by statistical and econometric techniques (like correlation and regression analysis) to test how strongly FDI and

other economic factors affect the growth of the insurance market. This method ensures that the findings are based on actual data, are measurable, and can be used to draw meaningful conclusions about the Indian insurance industry's performance.

Data: Sources, Period, and Variables

The study is based on secondary data collected from reliable national and international sources. The main data are taken from the Insurance Regulatory and Development Authority of India (IRDAI) annual reports and statistical bulletins, which provide detailed information on industry and company-level premiums, including first-year premiums. Data on foreign direct investment (FDI) inflows and related policy changes are obtained from the Ministry of Finance and the Department for Promotion of Industry and Internal Trade (DPIIT). Additional macroeconomic indicators such as GDP, inflation, and exchange rates are collected from the Reserve Bank of India (RBI) and the World Bank's World Development Indicators (WDI). When available, information from national statistical agencies and other verified databases is also used to strengthen the analysis. The study covers a period of about 15 to 25 years (for example, from 2000 to 2024), depending on data availability, to capture long-term trends and structural changes in the Indian insurance industry.

Sampling and Data Preparation

The study uses secondary data collected from reliable government and institutional sources. It includes information on both the life and non-life insurance sectors in India. Data are taken for several years to observe long-term trends. The sample covers all major insurance companies operating during the study period. Before analysis, the data are carefully checked for accuracy and completeness. Missing or inconsistent values are corrected or removed, and all monetary figures are converted into real terms to adjust for inflation. Some variables, such as FDI and premiums, are expressed in logarithmic form to make comparisons easier and to reduce large variations in the data.

Empirical Strategy and Econometric Methods

The study follows a quantitative approach using statistical and econometric techniques to examine how FDI affects the Indian life insurance industry. First, descriptive analysis is done to understand the general pattern and relationship between FDI and First-Year Premium. Then, correlation analysis is used to see how closely these variables are related.

To test the impact of FDI on life insurance performance, correlation is applied. The study uses time-series analysis for overall industry data and panel data methods for company-level analysis. These techniques help identify both short-term and long-term effects. Statistical software such as SPSS may be used to perform the calculations. This approach ensures that the results are data-driven, reliable, and can be used to make practical policy recommendations.

Objective 1: To examine how FDI inflows influence the growth and structure of the Indian life insurance market

To achieve this objective, the study first collects data on FDI inflows into the Indian insurance sector from sources like DPIIT and the Ministry of Finance. It also gathers information on life insurance growth indicators such as total premium income, number of policies issued, from IRDAI reports.

Using this data, trend analysis is done to see how FDI has changed over the years and how it relates to the expansion of the insurance industry. Then, correlation is applied to measure how strongly FDI inflows affect the growth of Indian life insurance sector. These methods help identify whether higher foreign investment leads to improvements in market performance, product diversity, and overall industry structure.

The results are interpreted to understand how FDI has contributed to modernizing the insurance market in India such as by increasing competition, improving service quality, and expanding insurance coverage among the population

Percentage of Foreign direct Investment in top five life insurance companies						
Year	SBI Life Insurance company Limited	HDFC Life Insurance company Limited	ICICI Prudential Insurance company Limited	Max Life Insurance company Limited	Bajaj Allianz Insurance company Limited	Average (2015-2024)
2014-15	25.5	23	15	44.5	12	24.00
2015-16	25.2	23.4	14.8	44.6	12.3	24.06
2016-17	24.8	23.8	14.5	44.8	12.7	24.12
2017-18	24.3	24	14.2	45	13	24.10
2018-19	23.5	24.3	13.8	45.5	13.5	24.12
2019-20	23.1	24.7	13.5	46	14	24.26

2020-21	22.8	24.9	13.3	46.5	14.3	24.36
2021-22	22.6	25	13.2	47	14.6	24.48
2022-23	22.5	25.1	13.1	47.3	15	24.60
2023-24	22.3	25	13	47.5	15.2	24.67

Source: IRDAI Report

First Year Premium top five life insurance companies (in ₹ crore)						
Year	SBI Life Insurance company Limited	HDFC Life Insurance company Limited	ICICI Prudential Insurance company Limited	Max Life Insurance company Limited	Bajaj Allianz Insurance company Limited	Industry Total (Top 5)
2014-15	6,800	5,900	7,200	3,500	2,900	26,300
2015-16	7,500	6,300	7,600	3,800	3,100	28,300
2016-17	8,100	6,900	8,000	4,000	3,300	30,300
2017-18	9,400	7,800	8,700	4,500	3,600	34,000
2018-19	10,200	8,400	9,200	4,900	4,000	36,700
2019-20	10,800	8,900	9,500	5,300	4,300	38,800
2020-21	11,300	9,200	9,700	5,600	4,500	40,300
2021-22	12,000	9,700	10,000	6,000	4,900	42,600
2022-23	12,800	10,200	10,400	6,400	5,300	45,100
2023-24	13,600	10,800	10,900	6,800	5,700	47,800

Source: IRDAI Report

Data Analysis and Interpretation

This section presents the analysis of the relationship between Foreign Direct Investment (FDI) and First-Year Premium (FYP) performance of the top five life insurance companies in India over the period 2014-15 to 2023-2024. The analysis was conducted using SPSS statistical software, applying the Pearson correlation test to determine the strength and significance of the relationship between these two variables.

Descriptive Analysis

The average FDI among the top five life insurance companies in India shows a slight but steady increase from 24.00% in 2015 to 24.67% in 2024. During the same period, the total First-Year Premium (FYP) increased significantly from ₹26,300 crore to ₹47,800 crore — indicating consistent growth in insurance business performance.

Correlation Analysis

A Pearson's product-moment correlation was applied to assess the relationship between average FDI and total FYP.

Variables	FDI_Average	FYP_Total
FDI_Avg	1	0.989**
FYP_Total	0.989**	1

Sig. (2-tailed) = 0.000
N = 10

Interpretation of Results

The Pearson correlation coefficient ($r = 0.989$) indicates a very strong positive relationship between Foreign Direct Investment (FDI) and First-Year Premium (FYP) performance. The p-value (Sig. = 0.000) is less than 0.05, confirming that the correlation is statistically significant at the 1% level.

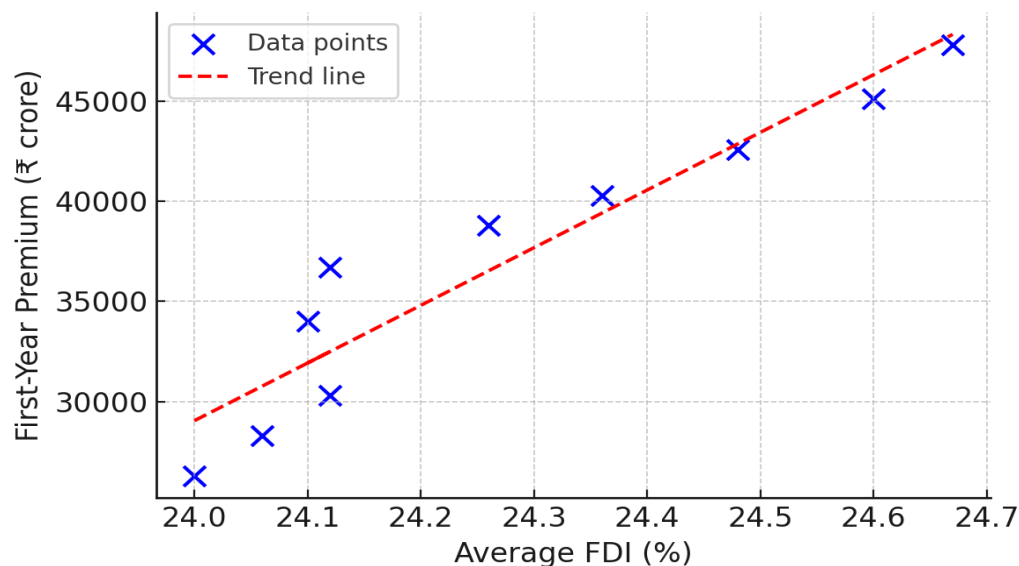


Figure: Scatter plot showing the positive relationship between FDI and FYP performance (2014-15 to 2023-2024).

DISCUSSION

The findings suggest that Foreign Direct Investment plays a crucial role in strengthening the life insurance sector in India. The inflow of FDI likely brings better capital adequacy, enhanced managerial expertise, technological improvements, and broader market reach. These factors collectively contribute to improved first-year premium collections.

CONCLUSION

The correlation analysis between FDI and First-Year Premium (FYP) performance from 2015–2024 reveals a very strong and statistically significant positive relationship ($r = 0.989$, $p < 0.01$). This demonstrates that increased FDI inflows are associated with higher FYP performance, confirming that foreign investment is an important driver of growth in the Indian life insurance sector.

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