

Impact Of FDI on Financial Performance of Insurance Companies

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Introduction

Risk is an inherent part of life and the Insurance sector is considered as a backbone for this management processes undertaken by the country. This is one of the primary reasons that specific rules and regulations are developed by the government to support the insurance sector and its growth. One of the reasons that foreign direct investment was introduced in the Insurance sector was to increase the risk coverage capabilities of these organizations towards the Indian population. The population of India is a very high and a significant number of people are living below the poverty line. Due to the lack of insurance companies in India overall premium of insurance is also very high which results in less insurance penetration. This is because the demand for insurance policies is significantly higher as compared to the supply that results in higher prices of insurance premiums. This is one of the primary reasons that FDI was introduced to increase the market capitalization of insurance companies. The main focus of this report will be to identify a relationship between profitability and FDI investment in the insurance sector. This analysis will be undertaken separately for public sector organizations and private sector organizations operating in this industry.

Research question and objective

There are variously internal and external factors that can affect the profitability of an organization and one of the factors is its capital structure. The primary research objective in the given scenario will be to identify whether FDI in the equity capital of a company is affecting its profitability or not. In addition to that in what manner the FDI investment is affecting the profitability will also be analysed with the help of this report (Myers, 2019). The profitability of the private sector and public sector organizations will be compared with the increase and decrease in FDI investment over four years. The research question in the given scenario will be-

Is there is a direct relationship between profitability and FDI investment in Insurance sector companies?

Literature review

Protection contains a profound established history in India. India has shown up a protracted route since the changes in the economy in 1991, moving from 5 % of development rates into the 7 to 9 % circle development rates. This development is controlled by the changes in the economy, linkages, and private enterprise to the blast of the worldwide economy. In India, the LIC (Life Insurance Corporation) is one of the speediest creating areas, as the legislature allowed FDI and private players up to 26 %, since 2000. Life coverage was nationalized by incorporating the LIC in India, 1956. The market of extra security will see a solid rivalry with the start of creating markets to the opposition, there was more noteworthy energy to the development of interest and volumes may start directing the financial valuing and sizes.

In India, the protection area is immature still when contrasted with the created countries, and regardless of private players, at present, allowed the passage to this division and there is just a limited quantity of suppliers. The FDI may raise the insurance agency's check and can likewise fabricate attainable best plans at lower costs. However, the cautious thought is expected to ensure that venture stays for the long haul and doesn't get pulled back, organizations withdrawing and their local purchasers in the hopeless state, and not all advantages are moved outside the country but rather some spent or reinvested in the country (Dave & Mishra, 2020). The guidelines are required to be continued to ensure that the insurance agencies are the topic of related and exacting administration.

There are moves towards upgrading the ongoing area and encouraging FDI's inflows with no impact on the other financial parts. The upsides of raised FDI may be seen more in the long haul when contrasted with the present moment. The most acclaimed protection firms contain the nearness in India and ready to build their shareholdings. There is a danger for protection business advertisers in India as they expected to confront the opposition from the unfamiliar firms. Broadly, this may prone to produce sound rivalry. The ongoing arrangement is endeavouring to propel the joint endeavours in the protection firm to improve the household development of guarantors in the locale. There is likewise some hazard in some unfamiliar guarantors won't keen on sparing except if they contain 100% of proprietorship and the current strategy will spare them from choosing India as the objective of protection.

The entrance of protection, upkeep of adversary's levels dependent on the budgetary development and dispensable accessibility salary when all is said in done hands of man more eagerly than restriction quantum among the open and private area. The Indian money related framework created from 5.5 percent in the year 2000 to 10.1 percent in the year 2010, by how this segment was begun; hence, the infiltration of protection part rate remained on the climbing side. The rivals contain that just FDI isn't the assessing variable to pass judgment on the segment's exhibition. There might be an interminable overcome on the advantages and downsides of FDI in any of the financial parts. The FDI is considered as the worldwide certainty that needs to come to remain. To solidify the accomplishments, which raised FDI is the fit for getting the country, the resulting steps required to be considered as the country requires giving the more prominent consideration to the structure of the framework, at first. At that point, India needs to disregard ridiculous restrictions of exchange since an excessive number of

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constraints are postpone financial specialists who contain better other options (Chawda, 2020). The third step is needed to improve the provincial organization with more two-sided settlements moderately remaining in the separation. After that, there must be a noticeable improvement in the administration workmanship and it mustn't remain limited to the administration space alone.

FDI benefits and different FDI impacts identified with protection segments, the primary point is to perceive whether the FDI advantage is great for the client or not while buying the arrangement of life coverage. The diverse factor that is generally best by the client during buying the results of protection area as follows: protection strategies value; decisions accessible for the top-notch instalment whether twice per year, every year, month to month and quarterly, the permeability of the item in the market; protection suppliers' image and home age and pace of return (Nithya, Gomathinayagam & Arulmozhi, 2019). The FDI contains the hugest effect on the country's exchange balance, move of imaginative and innovation abilities, thoughts, and basic business atmosphere and rising work aptitudes and principles.

Research methodology

The qualitative research methodology will be used in the given scenario for the collection of data and its interpretation. This research methodology is primarily focused on two major factors i.e. profitability of insurance companies and change in FDI investment. This cannot be done for every business organization operating in this industry separately as it will be too complicated (Easterby-Smith, Thorpe, Jackson & Jaspersen, 2018). This is the reason that a report issued by the Insurance Regulatory and Development Authority has been used in the given scenario. This report has provided a detailed description of the changes in FDI investment over four years along with the change in profitability. It can be said that this report will be using sources of information for collecting the data. it will help in maintaining the quality and accuracy of data.

Research Hypothesis

H1: There is a direct relationship between profitability and FDI investment in insurance companies.

H2: There is no visible relationship between profitability and FDI investment in insurance companies.

Data interpretation and analysis

FDI investment

In Life Insurance companies

2017-2018

EQUITY SHARE CAPITAL OF LIFE INSURERS

(₹ crore)

Insurer	As on 31 st March, 2018	Infusion During the year	As on 31 st March, 2019	Indian Promoter*	Foreign Investor	Foreign Investment %
AEGON Life	1442.62	20.49	1463.11	746.19	716.92	49.00%
AVIVA LIFE	2004.90	0.00	2004.90	1022.50	982.40	49.00%
BAJAJ ALLIANZ LIFE	150.71	0.00	150.71	111.53	39.18	26.00%
BHARTI AXA	2406.20	120.00	2526.20	1288.36	1237.84	49.00%
ADITYA BIRLA SUNLIFE	1901.21	0.00	1901.21	969.62	931.59	49.00%
CANARA HSBC	950.00	0.00	950.00	703.00	247.00	26.00%
DHFL PRAMERICA	374.06	0.00	374.06	190.77	183.29	49.00%
EDELWEISS TOKIO	312.62	0.00	312.62	159.44	153.18	49.00%
EXIDE LIFE	1750.00	100.00	1850.00	1850.00	0.00	0.00%
FUTURE GENERALI	1737.82	105.00	1842.82	1372.88	469.94	25.50%
HDFC	2011.74	5.64	2017.38	1303.02	714.36	35.41%
ICICI PRUDENTIAL	1435.35	0.43	1435.78	943.26	492.52	34.30%
IDBI FEDERAL	800.00	0.00	800.00	592.00	208.00	26.00%
INDIAFIRST	625.00	0.00	625.00	462.50	162.50	26.00%
KOTAK MAHINDRA	510.29	0.00	510.29	510.29	0.00	0.00%
MAX LIFE	1918.81	0.00	1918.81	1429.15	489.66	25.52%
PNB METLIFE	2012.88	0.00	2012.88	1367.70	645.18	32.05%
RELIANCE NIPPON	1196.32	0.00	1196.32	610.13	586.20	49.00%
SAHARA	232.00	0.00	232.00	232.00	0.00	0.00%
SBI LIFE	1000.00	0.00	1000.00	647.77	352.23	35.22%
SHRIRAM LIFE	179.38	0.00	179.38	103.35	76.03	42.39%
STAR UNION DAI-ICHI	258.96	0.00	258.96	140.00	118.96	45.94%
TATA AIA	1953.50	0.00	1953.50	996.29	957.22	49.00%
Total (Private Sector)	27164.38	351.56	27515.94	17751.75	9764.20	35.49%
LIC	100.00	0.00	100.00	100.00	0.00	0.00%
Total	27264.38	351.56	27615.94	17851.75	9764.20	35.36%

Note: * Includes Indian investors holding

EQUITY SHARE CAPITAL OF LIFE INSURERS

STATEMENT 9

(₹ crore)

Insurer	As on 31st March, 2016	Infusion During the year	As on 31st March, 2017	Foreign Promoter	Indian Promoter	FDI
AEGON LIFE	1359.44	70.41	1429.85	700.63	729.22	49.00%
AVIVA LIFE	2004.90	0.00	2004.90	982.40	1022.50	49.00%
BAJAJ ALLIANZ	150.70	0.00	150.70	39.18	111.52	26.00%
BHARTI AXA	2286.20	120.00	2406.20	1179.04	1227.16	49.00%
BIRLA SUNLIFE	1901.21	0.00	1901.21	931.59	969.62	49.00%
CANARA HSBC	950.00	0.00	950.00	247.00	703.00	26.00%
DHFL PRAMERICA	374.06	0.00	374.06	183.29	190.77	49.00%
EDELWEISS TOKIO	261.59	0.00	261.59	128.18	133.41	49.00%
EXIDE LIFE	1750.00	0.00	1750.00	0.00	1750.00	0.00%
FUTURE GENERALI	1452.00	55.45	1507.45	384.42	1123.03	25.50%
HDFC STANDARD	1995.29	3.19	1998.48	698.21	1300.27	34.94%
ICICI PRUDENTIAL	1432.32	3.03	1435.35	370.78	1064.57	25.83%
IDBI FEDERAL	799.89	0.11	800.00	208.00	592.00	26.00%
INDIAFIRST	625.00	0.00	625.00	162.50	462.50	26.00%
KOTAK MAHINDRA	510.29	0.00	510.29	132.68	377.61	26.00%
MAX LIFE	1918.81	0.00	1918.81	479.70	1439.11	25.00%
PNB METLIFE	2012.88	0.00	2012.88	523.35	1489.53	26.00%
RELIANCE NIPPON	1196.32	0.00	1196.32	586.20	610.13	49.00%
SAHARA	232.00	0.00	232.00	0.00	232.00	0.00%
SBI LIFE	1000.00	0.00	1000.00	299.00	701.00	29.90%
SHRIRAM LIFE	175.05	4.33	179.38	41.00	138.38	22.86%
STAR UNION DAI-ICHI	250.00	8.96	258.96	118.96	140.00	45.94%
TATA AIA	1953.50	0.00	1953.50	957.22	996.29	49.00%
Total (Private Sector)	26591.46	265.48	26856.94	9353.32	17503.62	34.83%
LIC	100.00	0.00	100.00	0.00	100.00	0.00%
Total (Life)	26691.46	265.48	26956.94	9353.32	17603.62	34.70%

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Based on the data collected regarding life insurance companies it can be said that the majority of the FDI investment is identified in the case of private sector organizations. Over four years under consideration, there is 0% FDI in Life Insurance Corporation. Life Insurance Corporation is the only business organization from the public sector that is operating in this industry. On the other hand, there has been no significant change in the FDI investment made in private sector organizations. Total FDI investment in the year ending March 2017 among all the business organizations operating in the private sector was around 34.83%. This FDI investment has increased marginally to 35.49% in the year ending March 2019 (IRDA, 2019). It can be said that this increase in FDI investment is not very significant. The primary reason behind this primary reason that there has been no significant change in FDI investment is that rules and regulations regarding FDI investment have not changed in these four years. In all four financial years, business organizations were allowed 49% of foreign direct investment, and the majority of the organizations have already achieved this limit.

In General, Health and reinsurance companies

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EQUITY SHARE CAPITAL OF GENERAL, HEALTH AND RE-INSURERS

(₹ crore)

Insurers	As on 31st March, 2017	Infusion During the Year	As on 31st March 2018	Indian Promoter*	Foreign Investor	Foreign Investment %
PRIVATE SECTOR INSURERS						
Acko General Insurance Ltd.	-	136.00	136.00	136.00	-	0.00
Bajaj Allianz General Insurance Co. Ltd.	110.23	(0.00)	110.23	81.57	28.66	26.00
Bharti AXA General Insurance Co. Ltd.	1,621.45	(0.00)	1,621.45	826.94	794.51	49.00
Cholamandalam MS General Insurance Co. Ltd.	298.81	(0.00)	298.81	179.28	119.52	40.00
DHFL General Insurance Limited	-	190.05	190.05	190.05	-	0.00
Edelweiss General Insurance Company Limited	-	170.00	170.00	170.00	-	0.00
Future Generali India Insurance Co. Ltd.	809.80	0.00	809.80	603.25	206.55	25.51
HDFC ERGO General Insurance Co. Ltd. (Earlier known as L&T General Ins. Co. Ltd.)**	600.47	4.60	605.07	312.87	292.20	48.29
Go Digit General Insurance Ltd.	-	350.00	350.00	350.00	-	0.00
ICICI Lombard General Insurance Co. Ltd.	451.15	2.80	453.95	330.56	123.38	27.18
IFFCO Tokio General Insurance Co. Ltd.	269.32	0.00	269.32	137.35	131.97	49.00
Kotak Mahindra General Insurance Co. Ltd.	135.00	40.00	175.00	175.00	-	0.00
Liberty General Insurance Co. Ltd.***	984.35	100.25	1,084.60	556.58	528.02	48.68
Magma HDI General Insurance Co. Ltd.	112.50	-	112.50	83.75	28.75	25.56
Raheja QBE General Insurance Co. Ltd.	207.00	-	207.00	105.57	101.43	49.00
Reliance General Insurance Co. Ltd.	125.77	125.78	251.55	251.55	-	0.00
Royal Sundaram General Insurance Co. Ltd.	331.00	118.00	449.00	449.00	-	0.00
SBI General Insurance Co. Ltd.	215.50	-	215.50	159.47	56.03	26.00
Shriram General Insurance Co. Ltd.	258.63	0.11	258.74	199.33	59.40	22.96
Tata AIG General Insurance Co. Ltd.	632.50	100.00	732.50	542.05	190.45	26.00
Universal Sompo General Insurance Co. Ltd.	350.00	18.18	368.18	263.55	104.64	28.42
PRIVATE SECTOR TOTAL (A)	7,513.48	1,355.76	8,869.24	6,103.73	2,765.51	31.18

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PUBLIC SECTOR INSURERS						
National Insurance Co. Ltd.	100.00	-	100.00	100.00	-	0.00
The New India Assurance Co. Ltd.	200.00	212.00	412.00	411.30	0.70	0.17
The Oriental Insurance Co. Ltd.	200.00	-	200.00	200.00	-	0.00
United India Insurance Co. Ltd.	150.00	-	150.00	150.00	-	0.00
PUBLIC SECTOR TOTAL (B)	650.00	212.00	862.00	861.30	0.70	0.08
TOTAL (PRIVATE + PUBLIC) (A+B)	8,163.48	1,567.76	9,731.24	6,965.03	2,766.21	28.43
SPECIALISED INSURERS						
Agriculture Insurance Co of India Ltd	200.00	-	200.00	200.00	-	0.00
Export Credit Guarantee Corporation of India Ltd.	1,450.00	50.00	1,500.00	1,500.00	-	0.00
SPECIALISED INSURERS TOTAL (C)	1,650.00	50.00	1,700.00	1,700.00	-	0.00
STANDALONE HEALTH INSURERS						
Aditya Birla Health insurance Co. Limited	100.44	32.44	132.88	67.77	65.11	49.00
Apollo Munich Health Insurance Co. Ltd.	357.27	0.62	357.89	183.94	173.95	48.61
CignaTTK Health Insurance Co. Ltd.	251.37	113.36	364.73	186.01	178.72	49.00
Max Bupa Health Insurance Co. Ltd.	926.00	-	926.00	472.26	453.74	49.00
Religare Health Insurance Co. Ltd.	524.75	70.08	594.83	594.83	-	0.00
Star Health and Allied Insurance Co. Ltd.	455.58	0.00	455.58	289.50	166.07	36.45
STANDALONE HEALTH INSURERS TOTAL (D)	2,615.41	216.50	2,831.90	1,794.31	1,037.60	36.64
REINSURERS						
Public Sector Reinsurer - GIC	430.00	8.60	438.60	437.11	1.49	0.34
Private Sector Reinsurer- ITI	268.94	-	268.94	268.94	-	0.00
REINSURERS TOTAL (E)	698.94	8.60	707.54	706.05	1.49	0.21
GRAND TOTAL (F) = (A+B+C+D+E)	13,127.83	1,842.86	14,970.69	11,165.38	3,805.30	25.42

EQUITY SHARE CAPITAL OF GENERAL, HEALTH AND RE-INSURERS

Insurers	As on 31 st March 2018	Infusion During the Year	As on 31 st March 2019	Indian Promoter**	Foreign Investor	Foreign Investment %
PRIVATE SECTOR INSURERS						
Acko General Insurance Ltd.	136.00	100.00	236.00	236.00	--	--
Bajaj Allianz General Insurance Co. Ltd.	110.23	--	110.23	81.57	28.66	26.00%
Bharti AXA General Insurance Co. Ltd.	1621.45	--	1621.45	826.94	794.51	49.00%
Cholamandalam MS General Insurance Co. Ltd.	298.81	--	298.81	179.28	119.52	40.00%
DHFL General Insurance Limited	190.05	--	190.05	190.05	--	--
Edelweiss General Insurance Company Limited	170.00	38.00	208.00	208.00	--	--
Future Generali India Insurance Co. Ltd.	809.80	--	809.80	603.25	206.55	25.51%
HDFC ERGO General Insurance Co. Ltd.	605.07	0.35	605.42	305.69	292.20	48.26%
Go Digit General Insurance Ltd.	350.00	324.57	674.57	674.57	--	--
ICICI Lombard General Insurance Co. Ltd.	453.95	0.36	454.31	253.84	--	--
IFFCO Tokio General Insurance Co. Ltd.	269.32	4.90	274.22	139.85	134.37	49.00%
Kotak Mahindra General Insurance Co. Ltd.	175.00	45.00	220.00	220.00	--	--
Liberty General Insurance Co. Ltd.*	1084.60	0.63	1085.23	556.90	528.33	48.68%
Magma HDI General Insurance Co. Ltd.	112.50	12.50	125.00	92.11	32.00	25.60%
Raheja QBE General Insurance Co. Ltd.	207.00	--	207.00	105.57	101.43	49.00%
Reliance General Insurance Co. Ltd.	251.55	--	251.55	251.55	--	--
Royal Sundaram General Insurance Co. Ltd.	449.00	--	449.00	269.40	179.60	40.00%
SBI General Insurance Co. Ltd.	215.50	--	215.50	150.85	56.03	26.00%
Shriram General Insurance Co. Ltd.	258.74	0.34	259.08	198.60	59.40	22.93%
Tata AIG General Insurance Co. Ltd.	732.50	175.00	907.50	671.55	235.95	26.00%
Universal Sompo General Insurance Co. Ltd.	368.18	--	368.18	240.74	127.44	34.61%
PRIVATE SECTOR TOTAL (A)	8869.24	701.64	9570.88	6456.32	2895.99	29.79%

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PUBLIC SECTOR INSURERS						
National Insurance Co. Ltd.	100.00	--	100.00	100.00	--	--
The New India Assurance Co. Ltd.	412.00	412.00	824.00	704.00	--	--
The Oriental Insurance Co. Ltd.	200.00	--	200.00	200.00	--	--
United India Insurance Co. Ltd.	150.00	--	150.00	150.00	--	--
PUBLIC SECTOR TOTAL (B)	862.00	412.00	1274.00	1154.00	--	--
TOTAL (PRIVATE + PUBLIC) (A+B)	9731.24	1113.64	10844.88	7610.32	2895.99	27.15%
SPECIALISED INSURERS TOTAL (C)						
STANDALONE HEALTH INSURERS	1700.00	500.00	2200.00	2200.00	--	--
Aditya Birla Health Insurance Co. Ltd.	132.88	79.15	212.03	108.13	103.89	49.00%
Apollo Munich Health Insurance Co. Ltd.	357.89	0.52	358.41	182.42	173.95	48.54%
Cigna TTK Health Insurance Co. Ltd.	364.73	226.14	590.86	301.34	289.52	49.00%
Max Bupa Health Insurance Co. Ltd.	926.00	55.00	981.00	500.31	480.69	49.00%
Reliance Health Insurance Ltd.	--	186.55	186.55	186.55	--	--
Religare Health Insurance Co. Ltd.	594.83	93.72	688.55	668.77	--	--
Star Health and Allied Insurance Co. Ltd.	455.58	--	455.58	158.65	101.58	22.30%
STANDALONE HEALTH INSURERS TOTAL (D)	2831.90	641.07	3472.97	2106.18	1149.64	31.77%
REINSURERS						
Public Sector Reinsurer - GIC	438.60	438.60	877.20	752.50	--	--
Private Sector Reinsurer- ITI	268.94	--	268.94	268.94	--	--
REINSURERS TOTAL (E)	707.54	438.60	1146.14	1021.44	--	--
GRAND TOTAL (F) = (A+B+C+D+E)	14970.69	2693.31	17664.00	12937.94	4045.63	23.66%

A similar trend can be identified in the case of General, Health, and reinsurance companies. The majority of the foreign direct investment in these companies is also identified in the case of private sector organizations and standalone organizations. All the other categories of general insurance companies i.e. public sector companies, specialized insurers, and insurance does not have any kind of foreign direct investment in all the financial years and the consideration. In addition to that, there is no significant change in the total percentage of FDI over four years under consideration. The total percentage of foreign investment has decreased from 31.18% to 29.79% over four years (IRDA, 2019). This is also because the change in government regulation regarding FDI investment was not made in these four years.

Profitability

Life insurance companies

Insurer	2017-18	2018-19
LIC	2446.41	2688.50
Private Sector	6064.32	5747.31
Total	8511.91	8435.81

Profitability for organizations under consideration can be identified based on profit after tax generated

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by these organizations over 2 years. The overall profitability of insurance sector companies has decreased from 8511.91 crores in 2017-18 to 8435.81 crores in 2018-2019. On the other hand, it can be said that private sector organizations are the primary reason that profitability of this sector decrease. Overall profitability of Life Insurance Corporation i.e. public sector organization has improved by 242 crores where is the profitability of private sector organizations has decreased by 317 crores (IRDA, 2018). One of the primary reasons behind this downfall in the profitability of private sector organizations might be the number of organizations operating in the private sector. The profitability of weaker companies will also affect the industry average.

General and Health insurance companies

Insurer	2018-19	2017-18
Public Sector Insurers	(3287.90)	2542.70
Private Sector Insurers	3584.40	3798.33
Standalone Health Insurers	(298.00)	(102.19)
Specialised Insurers	684.71	669.95
Grand Total	683.21	6908.80

Note: Reclassification/Regrouping in the previous year's figures, if any, by the insurer has not been considered.

	2015-16	2016-17
Public Sector Insurers	1499	-2551
Private Sector Insurers	1333	2763
Standalone Health Insurers	-177	27
Specialised Insurers	583	606
Grand Total	3238	845

Health and general insurance company's public sector companies have incurred a huge loss in the financial year 2017 and 2019. Currently, public sector organizations are operating at a loss of 3287 crores. on the other hand, the profitability of private sector insurance in this segment has improved over the first three years under from 1333 crores in 2016 to 3798.33 crores in 2018 (IRDA, 2016). There is a downfall of profitability in the year 2019 as profit after tax has decreased to 3584 crores. Still, private sector organizations have been able to maintain significant profitability as compared to public sector organizations. Based on this analysis can be said that there is no identifiable relationship between the profit generation capabilities of insurance companies and their FDI investment. This might be because there have been no significant changes in FDI investment in the past 4 years due to

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constant rules and regulations. Other factors are affecting the profitability of the company that is beyond the control of investors. Researchers might be identifiable if the amount allowed to be invested by foreign investors is increased from 49 % to 74% in upcoming financial years (IRDA, 2017).

Conclusion

On an overall analysis of this report, it can be said that profitability is playing a very minor role in the Insurance sector. There is a very limited number of business organizations controlled by the government operating in this industry whereas the number of private sector organizations is very high. After comparing the profitability of business organizations operating in the insurance sector with FDI investment it is concluded that there is no identifiable relationship between these two factors. Life Insurance Company (LIC) has improved its profitability irrespective of the foreign direct investment as compared to life insurers operating in the private sector. On the other hand, in the case of health and general insurance, the private sector is operating with higher profitability. This contrary analysis in both the segments is the reason that no conclusive evidence can be identified.

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