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INSURANCE SECTOR, POST THE FDI HIKE

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ABSTRACT After a great deal of deliberations, foreign direct investment (FDI) in the country's insurance space has been raised to 49 percent from 26 percent. The move has been welcomed by all the major stakeholders associated with the insurance industry. Small and mid-size life insurance players who do not have adequate capital to underwrite new policies are particularly elated. This is understandable given the low level of insurance penetration in the country. The implication is that the industry can absorb a huge amount of capital from the investors. Then there are players who are capital-adequate at least in the medium term and have been clocking profits for the past few years. They may be interested in offloading a part of their stake to foreign investors provided the premium is attractive. Alternatively, they can go public to raise additional capital for their long term needs. The hike in FDI cap could lead to a shakeout in the insurance space considering that several life insurance players have too small a presence in the market to be viable. Either they have to sell themselves out or merge with a larger player. In the circumstances, the researcher believes that the regulator (IRDA) as well as the government should immediately ensure that the ecosystem is conducive to such a shakeout by updating the guidelines that deal with the developments triggered by such shakeouts.The shakeout will occur sooner rather than later since having made the investment decision, the prospective investor would not like to wait. After all, capital carries a cost and time overrun leads to cost overrun and cost overrun affects the bottom line of the investor. Hence the tax aspects, ownership aspects, etc, that the shakeout could give rise to, should be carefully considered by the regulator and the government to avoid unpleasant consequences as was witnessed on the subject of MAT applicability to FIIs. The country has already earned some notoriety for policy instability and policy inconsistency. Hence the researcher concludes that any delay in devising remedies to these possible issues will affect the country's investment climate and the business environment. It is something the country can least afford now!

KEYWORDS : Breakeven, FIIs, foreign direct investment (FDI); IRDA, MAT, underwrite

1.1 Theoretical background of the topic

The country opened up its insurance sector to foreign investors 15 years ago. A slew of insurers, life as well as non-life entered the country, although their investment was capped at 26 percent at the time. The partial liberalisation (of 26 percent) did not deter them since they believed that it was only a matter of time before the sector was opened up further to foreign investors. However, they did not expect that they would have to wait for 15 long years for the next phase of liberalisation to happen in the insurance space. Even that is set to arrive in dribs and drabs considering that the cap has been raised to 49 percent from 26 percent. Warts and all, even the partial rise in the FDI limit seems to have warmed the cockles of the foreign investors' heart. Europe's second biggest insurer AXA received the Indian government's approval to raise its stake in two local insurance joint ventures with Bharti Enterprises to 49 percent. AXA currently owns 26 percent each in Bharti AXA Life Insurance Co. Ltd and Bharti AXA General Insurance Co. Ltd, with Bharti Enterprises owning the remainder (PTI, 2015). The increase in AXA's stake in the life insurance venture will lead to a foreign direct investment of 8.59 billion rupees (USD 135 million), and 4.31 billion rupees in the general insurance venture, according to government (Tripathy, 2015). Prima facie this is a positive sum game, to say the least. AXA is the first foreign partner to raise its stake in a domestic insurance company after the government raised the FDI cap to 49 per cent in the insurance sector.

During April 2015 to March 2016, the life insurance industry clocked a new premium income of INR 1.38 trillion (USD 20.54 billion), registering a growth rate of 22.5 per cent (India Brand Equity Foundation, 2016). The insurance industry of India embraces 53 insurance companies of which 24 are in life insurance and 29 are in non-life insurance.

Out of the 29 non-life insurance companies, five private sector insurers underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd.There are two more specialised insurers in the public sector, namely, Export Credit Guarantee Corporation of India for credit insurance and Agriculture Insurance Company Ltd, for crop insurance.

India's life insurance sector is the biggest in the world with 360 million policies. The number is expected to grow at a CAGR of 12-15 per cent over the next five years. The insurance industry hopes to achieve a penetration level of five per cent by 2020.The country's insurance market is expected to quadruple in size over the next 10 years from its current size of USD 60 billion. During this period, the life insurance market is slated to cross USD 160 billion.The general insurance business in India is currently an INR 78,000 crore (USD 11.44 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.

India's insurable population is all set to touch the 750 million mark in 2020, with life expectancy rising to 74 years. Additionally, life insurance is projected to account for 35 per cent of total savings by the end of this decade, as against 26 per cent in 2009-10.

1.2 Statement of the problem

An objective analysis alone can reveal if the impact of raising FDI to 49 percent from the existing 26 percent will be positive or otherwise for the insurance sector. Possibly, the issue has polarized the stakeholders. To a certain extent, a more effective analysis can be made by considering the impact the previous cap of 26 percent FDI had on the industry. Depending upon the industry's answer to this question, one should ascertain the next course of action that the Indian insurance players should take. Hence this study has been undertaken.

1.3 Review of literature

1.Over the past 14 years, since the business was opened to private sector and foreign investment, the industry has attracted over INR 33,749 crore of capital and the lifting of the foreign investment cap from the existing 26 per cent to 49 per cent is expected to result in inflows of around INR 40,000 crore in the next 5-10 years . According to estimates, assuming that the Indian promoter reduces its stake from 74 per cent to 51 per cent, the top five private players (ICICI Prudential Life, HDFC Life, SBI Life, Max Life and Bajaj Life) could recognise capital gains of INR 20,000 crore.

2.HimaniChandnaGurtoo believes that with the Parliament ratifying the new 49 percent cap for foreign direct investment (FDI) in insurance from 26 percent the placement market has been galvanised, with the industry set to add as many as 1,18,000 new jobs in 2015 . Recruiters are still working out the overall impact on the job market, but they agree that the move would bring back the sheen to the jaded insurance sector as a career option. The Indian arm of Dutch staffing firm Randstad expects a 10-15 percent growth in job creation in the insurance sector, while job portal Shine.com is more optimistic and sees hiring activity going up by at least 12-18 percent.

3.The Financial Express says that raising the foreign investment limit is expected to generate inflows of USD 6-8 billion in the insurance sector that is looking for growth capital . The capital requirement of the Indian insurance industry is estimated at USD 12 billion by 2020. Foreign insurance companies having operations in India through joint ventures with domestic firms include Netherlands-based Aegon, Canada's Sun Life Financial, Italy's Generali, Prudential of the UK and Nippon Life Insurance. All are believed to have expansion plans in the country and others are planning to set up shop.

1.4 Research gap

The literature reviewed has come out with interesting facts. But not all insurance players operating in the country will be benefited to the same extent with the recent hike in FDI limit in the insurance sector to 49 percent from 26 percent. Nor has the reviewed literature thrown light on how the industry was impacted by the FDI limit of 26 percent that obtained before it was eventually hiked to 49 percent. It has not attempted to study what awaits the country's insurance industry in the post 49 percent scenario too. The present study proposes to bridge this gap.

1.5 Scope of the present study

The study confines itself to insurance consultants, officers of private sector life insurance companies and insurance buyersfrom Bangalore urban and Bangalore rural districts.

1.6 Objectives of the study

The objectives of the study are to:

- Ascertain the likely impact of the recent FDI hike on the life insurance sector
- Ascertain the impact of FDI on the insurance sector until the cap was raised to 49 percent recently
- Identify the possible developments in the industry, post the latest hike

1.7 Hypothesis proposed to be tested

The study proposes to test the following hypotheses:
"The hiked limit will trigger more capital inflow into the sector"

1.8 Research design

1.8.1 Research methodology

The study is descriptive in nature and has used the 'fact-finding' survey method

1.8.2 Sources of data

Primary data has been collected from the respondents, viz., insurance consultants, life insurance officers from the private sector and insurance buyers.

Secondary data has been collected from the financial press, house journals of life insurance companies and the trade body, namely, the Life Insurance Council.

1.8.3 Sampling plan

Insurance consultants: Given the rather limited number of insurance consultants operating in the area, purposive or judgement sampling under the non-probability method has been deployed. Applying their experience as consultants as the criterion, the Researcher selected 30 such consultants who have been into the activity for at least five years. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

Insurance officers: Given the rather limited number of insurance officers with the private sector insurers, purposive or judgement sampling under the non-probability method has been deployed. Applying their exposure at senior level as the criterion, the Researcher selected 30 such insurance officers (15 from the life segment and 15 from the non-life segment) that have an exposure of at least five years to life segment / non-life segment respectively. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.Insurance officers from the private sector alone have been considered for the study since the lone public sector behemoth, namely the Life Insurance Corporation of India is fully owned by the government of India and hence not impacted in any way by the hike in FDI cap. In the circumstances, the researcher felt that the primary data collected from the officers of the state insurer may not be as effective as that collected from their private sector counterparts in terms of the fulfilment of the objectives of the study.

Insurance buyers: Given the rather limited number of well-informed and enlightened insurance buyers of insurance products marketed by private playersin the area under study, purposive or judgement sampling under the non-probability method has been deployed. The Researcher selected 50insurance buyers (25 buyers of life products and 25 buyers of non-life products), marketed by private sector players. This criterion, according to the Researcher, is the most appropriate one for the present study. What is important is the typicality and the relevance of the sampling units to the study and not the overall representativeness to the population. Thus it guarantees inclusion of the relevant elements in the sample. Probability sampling plans cannot give such a guarantee.

1.8.4 Data collection instruments

Interview schedules were administered to the respondents for collection of primary data.

1.8.5 Data processing and analysis plan

Non-parametric statistical units were used to test the association between some qualitative characters and conclusions were drawn on the basis of formation of Ho and H^1.

1.8.6 Limitations of the study

Primary data has sometimes been deduced through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity has influenced their views.

1.9 Insuranceconsultants

In the following paragraphs, the primary data collected frominsurance consultants is analysed.

1.9.1 Likely impact of the hiked FDI limiton the insurance sector

With the government of India raising the FDI cap to 49 percent from 26 percent in the insurance sector recently, the reactions of the stakeholders have been varied. Hence the Researcher requested the respondents to forecastthelikely impact of the hiked FDI limit on the insurance sector. Their replies to the query appear in the following Table.

Table-I Likely impact of the hiked FDI limit on the insurance sector

Likely impact	Number of respondents
Will help insurance companies whose Indian promoters are reluctant to invest more capital	27
Will help the small and midsize players who have been booking losses	25
More capital will flow into the sector	24
The top seven profitable and capital-adequate life players may list and make a handsome premium	21
The top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium	21

27 respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital. 25 respondents maintain that the hiked limit will help small and midsize players who have been booking losses. 24 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 21 respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium.

1.9.2 Impact of FDI on the sector until the cap was raised recently

Until the FDI cap was recently raised in the insurance sector to 49 percent, only 26 percent was allowed in the sector by way of FDI. This leads to the question whether the earlier cap of 26 percent impacted the industry and if so, how. This would help in anticipating the impact the raised cap may have on the sector. Hence the researcher requested the respondents to disclose the impact the FDI had on the sector until the cap was raised recently. Their replies to the query appear in the following Table.

Table-II Impact of FDI on the sector until the cap was raised recently

Impact	Number of respondents
Foreign partners imparted actuarial skills to the local players	28
Foreign partners innovated new products and services	24
Foreign partners imparted product design skills to the local players	21

According to 28 respondents, foreign partners imparted actuarial skills to the local players. According to 24 respondents, foreign partners innovated new products and services. According to 21 respondents, foreign partners imparted product design skills to the local players.

1.9.3 Possible developments in the industry, post hike

Now that the cap has been raised to 49 percent from 26 percent, the Researcher sought to know from the respondents the possible developments the industry will witness post the hike. Their replies to the query appear in the following Table.

Table-III Possible developments in the industry, post hike

Possible developments	Number of respondents
Boosted by government's focus on financial inclusion, insurers will improve insurance penetration	26
Insurers will lower distribution costs	25
Insurers will price the product cheaper	23
Insurers will shift the focus to product distribution from product design	22

Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 26 respondents. Insurers will lower distribution costs, according to 25 respondents. Insurers will price the product cheaper, according to 23 respondents. Insurers will shift the focus to product distribution from product design, according to 22 respondents.

1.10 Insurance officers

In the following paragraphs, the primary data collected from the insurance officers is analysed.

1.10.1 Likely impact of the hiked FDI limit on the insurance sector

With the government of India raising the FDI cap to 49 percent from 26 percent in the insurance sector recently, the reactions of the stakeholders have been varied. Hence the Researcher requested the respondents to forecast the likely impact of the hiked FDI limit on the insurance sector. Their replies to the query appear in the following Table.

Table-IV Likely impact of the hiked FDI limit on the insurance sector

Likely impact	Number of respondents
The top seven profitable and capital-adequate life players may list and make a handsome premium	28
The top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium	28
Will help the small and midsize players who have been booking losses	27
More capital will flow into the sector	25
Will help insurance companies whose Indian promoters are reluctant to invest more capital	22

28 respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium. 27 respondents maintain that the hiked limit will help small and midsize players who have been booking losses. 25 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 22 respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital.

1.10.2 Impact of FDI on the sector until the cap was raised recently

Until the FDI cap was recently raised in the insurance sector to 49 percent, only 26 percent was allowed in the sector by way of FDI. This leads to the question whether the earlier cap of 26 percent impacted the industry and if so, how. This would help in anticipating the impact the raised cap may have on the sector. Hence the researcher requested the respondents to disclose the impact the FDI had on the sector until the cap was raised recently. Their replies to the query appear in the following Table.

Table-V Impact of FDI on the sector until the cap was raised recently

Impact	Number of respondents
Foreign partners innovated new products and services	25
Foreign partners imparted actuarial skills to the local players	24
Foreign partners imparted product design skills to the local players	24

According to 25 respondents, foreign partners innovated new products and services. According to 24 respondents, foreign partners imparted actuarial skills to the local players. According to 24 respondents, foreign partners imparted product design skills to the local players.

1.10.3 Possible developments in the industry, post hike

Now that the cap has been raised to 49 percent from 26 percent, the Researcher sought to know from the respondents the possible developments the industry will witness post the hike. Their replies to the query appear in the following Table.

Table-VI Possible developments in the industry, post hike

Possible developments	Number of respondents
Insurers will lower distribution costs	27
Insurers will shift the focus to product distribution from product design	27
Insurers will price the product cheaper	24
Boosted by government's focus on financial inclusion, insurers will improve insurance penetration	23

Insurers will lower distribution costs, according to 27 respondents. Insurers will shift the focus to product distribution from product design, according to 27 respondents. Insurers will price the product cheaper, according to 24 respondents. Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 23 respondents.

1.11 Insurancebuyers

In the following paragraphs, the primary data collected from the insurance buyers is analysed.

1.11.1 Likely impact of the hiked FDI limit on the insurance sector

With the government of India raising the FDI cap to 49 percent from 26 percent in the insurance sector recently, the reactions of the stakeholders have been varied. Hence the Researcher requested the respondents to forecast the likely impact of the hiked FDI limit on the insurance sector. Their replies to the query appear in the following Table.

Table-VII Likely impact of the hiked FDI limit on the insurance sector

Likely impact	Number of respondents
Will help insurance companies whose Indian promoters are reluctant to invest more capital	44
More capital will flow into the sector	41
The top seven profitable and capital-adequate life players may list and make a handsome premium	38
The top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium	38
Will help the small and midsize players who have been booking losses	34

44 respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital. 41 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 38 respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium. 34 respondents maintain that the hiked limit will help small and midsize players who have been booking losses.

1.11.2 Impact of FDI on the sector until the cap was raised recently

Until the FDI cap was recently raised in the insurance sector to 49 percent, only 26 percent was allowed in the sector by way of FDI. This leads to the question whether the earlier cap of 26 percent impacted the industry and if so, how. This would help in anticipating the impact the raised cap may have on the sector. Hence the researcher requested the respondents to disclose the impact the FDI had on the sector until the cap was raised recently. Their replies to the query appear in the following Table.

Table-VIII Impact of FDI on the sector until the cap was raised recently

Impact	Number of respondents
Foreign partners innovated new products and services	45
Foreign partners imparted product design skills to the local players	41
Foreign partners imparted actuarial skills to the local players	37

According to 45 respondents, foreign partners innovated new products and services. According to 41 respondents, foreign partners imparted product design skills to the local players. According to 37 respondents, foreign partners imparted actuarial skills to the local players.

1.11.3 Possible developments in the industry, post hike

Now that the cap has been raised to 49 percent from 26 percent, the Researcher sought to know from the respondents the possible developments the industry will witness post the hike. Their replies to the query appear in the following Table.

Table-IX Possible developments in the industry, post hike

Possible developments	Number of respondents
Insurers will lower distribution costs	42
Insurers will shift the focus to product distribution from product design	42
Boosted by government's focus on financial inclusion, insurers will improve insurance penetration	41
Insurers will price the product cheaper	37

Insurers will lower distribution costs, according to 42 respondents. Insurers will shift the focus to product distribution from product design, according to 42 respondents. Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 41 respondents. Insurers will price the product cheaper, according to 37 respondents.

1.12 Summary of findings

In the following paragraphs, a summarised version of the findings arrived at, by analysing the primary data furnished by respondents, is furnished:

1.12.1 Insurance consultants

1.27respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital. 25 respondents maintain that the hiked limit will help small and midsize players who have been booking losses. 24 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 21 respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium.

2.According to 28 respondents, foreign partners imparted actuarial skills to the local players. According to 24 respondents, foreign partners innovated new products and services. According to 21 respondents, foreign partners imparted product design skills to the local players.

3.Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 26 respondents. Insurers will lower distribution costs, according to 25 respondents. Insurers will price the product cheaper, according to 23 respondents. Insurers will shift the focus to product distribution from product design, according to 22 respondents.

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1.12.2 Insurance officers

4. 28respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium. 27 respondents maintain that the hiked limit will help small and midsize players who have been booking losses. 25 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 22 respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital.

5.According to 25 respondents, foreign partners innovated new products and services. According to 24 respondents, foreign partners imparted actuarial skills to the local players. According to 24 respondents, foreign partners imparted product design skills to the local players.

6.Insurers will lower distribution costs, according to 27 respondents. Insurers will shift the focus to product distribution from product design, according to 27 respondents. Insurers will price the product cheaper, according to 24 respondents. Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 23 respondents.

1.12.3 Insurance buyers

7.44 respondents maintain that the hiked limit will help insurance companies whose Indian promoters are reluctant to invest more capital. 41 respondents maintain that the hiked limit will trigger more capital inflow into the sector. 38 respondents maintain that the top seven profitable and capital-adequate life players may list and make a handsome premium; the top seven profitable and capital-adequate life players may sell a part of their stake to foreign partners at a hefty premium. 34 respondents maintain that the hiked limit will help small and midsize players who have been booking losses.

8.According to 45 respondents, foreign partners innovated new products and services. According to 41 respondents, foreign partners imparted product design skills to the local players. According to 37 respondents, foreign partners imparted actuarial skills to the local players.

9.Insurers will lower distribution costs, according to 42 respondents. Insurers will shift the focus to product distribution from product design, according to 42 respondents. Boosted by government's focus on financial inclusion, insurers will improve insurance penetration, according to 41 respondents. Insurers will price the product cheaper, according to 37 respondents.

1.13 Conclusions

Conclusions are inferences / generalisations drawn from the findings and relate to hypotheses. They are answers to the research questions or the statements of acceptance or rejection of hypotheses.

As explained already, this study proposes to test the following hypothesis:

Hypothesis

The hypothesis states as follows:

"The hiked limit will trigger more capital inflow into the sector"

Hence H0 and H1 are as follows:

H0: The hiked limit will not trigger more capital inflow into the sector.

H1: The hiked limit will trigger more capital inflow into the sector.

On the basis of the primary data collected from the respondents, vide Tables: I, IV and VII, a chi-square test was applied to ascertain the association, if any, between the two variables. The following Table reveals the computation made using MS-Excel.

	Observed Values		
Category	*Yes*	*No*	*Total*
Insurance consultants	24	6	30
Insurance officers	25	5	30
Insurance buyers	41	9	50
Total	90	20	110
Expected Values			
Category	*Yes*	*No*	*Total*
Insurance consultants	24.54545455	5.454545455	30
Insurance officers	24.54545455	5.454545455	30
Insurance buyers	40.90909091	9.090909091	50
Total	*90*	*20*	*110*
	Yes	No	
o-e	-0.5455	0.5455	
	0.4545	-0.4545	
	0.0909	-0.0909	
(o-e)^2	1.0000	1.0000	
	1.0000	1.0000	
	1.0000	1.0000	
((o-e)^2)/e	0.0407	0.1833	
	0.0407	0.1833	
	0.0244	0.1100	
CV	*0.1059*	*0.4767*	*0.5826*
TV			*5.991464547*
p			*1.00*

The calculated value of χ^2 is 0.5826, lower than the table value of 5.991464547 for an alpha of 0.05 at two degrees of freedom. Hence the null hypothesis is accepted.

Hence, the hiked limit will not trigger more capital inflow into the sector.

1.14 Recommendations

The following are the researcher's recommendations:

1.The hike in FDI limit to 49 percent from 26 percent will no doubt trigger more capital flows into the insurance industry. Even sovereign wealth funds from cash-rich countries like Bahrain and Qatar could be interested in investing in the country's insurance industry. Foreign private equity players may also be interested. The reasons are obvious: the Indian insurance market is under-penetrated with the result that opportunities are aplenty for investors in the insurance space. The hike could lead to a shakeout in the insurance space considering that several life insurance players have too small a presence in the market to be viable. Either they have to sell themselves out or merge with a larger player. In the circumstances, the regulator (IRDA) as well as the government should immediately ensure that the ecosystem is conducive to such a shakeout by updating the guidelines that deal with the situations triggered by such shakeouts.

2.The shakeout will occur sooner rather than later since having made the investment decision, the prospective investor would not like to wait. After all, capital carries a cost and time overrun leads to cost overrun and cost overrun affects the bottom line of the investor. Hence the tax aspects, ownership aspects, etc, that the shakeout could give rise to, should be carefully considered by the regulator and the government to avoid unpleasant consequences as was witnessed on the subject of MAT applicability to FIIs. The country has already earned some notoriety for policy instability and policy inconsistency. This will affect the investment climate and the business environment.

3.India needs to achieve financial inclusion swiftly and cost-effectively. This requires a lot of resources and the government as usual does not have the requisite resources to fulfil its goal of cent per cent financial inclusion. The least it can do is to encourage sectors like insurance to take up what it cannot take up, for want of resources. Every individual needs insurance and hence, every individual in the country represents a business opportunity to the insurance companies. In a huge geography like India, arranging such insurance for individuals is a costly exercise in the absence of state-of-the-art information technology solutions. This is where a higher FDI limit can come in handy. Foreign investors can bring in, apart from capital, state-of-the-art technology that our players lack, for the purpose.

4.Additionally, the government would be well-advised to ensure that the disparity that obtains between the insurance industry and the banking industry in the country's financial sector is done away with.

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