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Original Article

A Pilot Study on the Impact of FDI Liberalization on Insurance Adoption and Service Perception in India

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Abstract

This study is a pilot study on the effect of Foreign Direct Investment (FDI) liberalisation on insurance adoption and insurance service perception in insurance industry in India. The aim of the pilot study is to test the reliability and feasibility of the research instrument before conducting the full-scale empirical study. A questionnaire based on a structured format was used to gather data from a subsample of 50 respondents from different demographic groups. Data analysis in this study is descriptive data with reliability analysis by using Cronbach alpha to evaluate internal consistency of the constructs of the study. The results showed that the reliability level of the measurements was acceptable (alpha values were above 0.70) for all variables. Initial findings suggest that liberalisation of FDI has a positive effect on perceived service quality, operational efficiency, and customer trust, but there are still some expectations and delivery gaps. This study outlines the design challenges with questionnaires and suggests some modifications to the main study. The pilot validates the instrument for large scale implementation with small changes.

Keywords: *FDI, Insurance Sector, Pilot Study, Reliability Analysis, Customer Perception, India*

Introduction

The liberalization of foreign direct investment (FDI) in the insurance industry is another important step in the overall liberalization programme of financial reforms in India since independence. The Government of India has gradually raised the limit of FDI from 26% to 49%, then 74% and now towards liberalization in certain sectors since the insurance sector was opened to foreign and private players during the early 2000s. These policy changes have been introduced to boost capital inflows, increase operational efficiency and foster competition in the insurance sector.

Even though the Indian insurance industry has grown at a fast pace, its insurance penetration and density are still comparatively low as compared to the world benchmarks. This contradiction, between structural reforms and not much inclusive growth, is important to ask about the effectiveness of FDI as a policy tool. Although it is well recognized that the foreign participation has helped to build up the capital of the companies and technological modernization, the effect of foreign participation on customers' outcomes, like trust, satisfaction, and adoption behaviour, is less clear.

Current studies have mainly focused on the macroeconomic and institutional dimension of the impact of FDI, looking at its contribution to economic growth, capital formation and sectoral efficiency (Borensztein et al., 1998; Li & Liu, 2005). In the insurance sector, research indicates that foreign entry can enhance operational efficiency, product innovation, and competitive dynamics in the industry (Eling & Luhnen, 2010; Guleria et al., 2021). In addition, foreign insurers have been driving digital transformation which has resulted in better delivery processes, such as online policy management, AI-supported underwriting and quicker claims processing (Eckert & Osterrieder, 2020).

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The literature review reveals, however, a significant lack of research in the field of the micro-level and behavioral aspects of the impact of FDI. The factors of the demand side, including customer perception, awareness, customer trust, and customer service experience have been given far less empirical attention, when compared to the factors of the supply side. Theories in behavioral finance have been developed to explain that the economic factors are not exclusively used in financial decision making, but also cognitive biases, lack of trust, and perception gaps exist (Thaler, 1999; Kahneman & Tversky, 1979). These behavioral aspects are even more critical when insurance is discussed, which is a product by nature associated with risk and uncertainty.

The distribution networks and brand credibility of the public sector players like LIC, Life Insurance Corporation of India, in India continue to impact consumer trust in insurance institutions. Private insurers from abroad have brought innovation and efficiency, but have not had a significant impact on public perception and behavior in using insurance services.

Moreover, the regulatory regime under the Insurance Regulatory and Development Act, 1999, is important in the context of achieving a proper balance between liberalization and the protection of the policy holders. Effective regulation to improve transparency, solvency and consumer protection is critical to the realization of the benefits of FDI in real terms. However, the relationship between regulation, foreign involvement, and customer perception is a topic that should be further investigated through empirical research.

Considering all the above, it is evident that a research method that takes a structural, technical, and behavioral approach should be used. In order to undertake empirical analysis on a large scale, it is methodologically necessary to validate the research instrument used to capture these multi-dimensional constructs prior to this analysis. A pilot study is used for this purpose, and it tests the reliability, clarity, and feasibility of the questionnaire, as well as potential problems in the measurement process and to ensure that the variables are being used properly.

The present pilot study, therefore, is aimed at assessing the measurement framework for the study of the effect of FDI liberalization on the perceptual outcomes such as service quality, operational efficiency, customer satisfaction, trust and insurance uptake. The study's findings are based on a sample of respondents from varying demographic groups, and thus offer preliminary indications of the experiences of policy-level reform at the local level.

The study, albeit on a small scale, not only adds to the methodological rigor of the next large scale study but is also part of the growing conversation on the nexus of FDI, financial services, and consumer behavior in emerging markets. The results of this pilot study are likely to have implications for academic research and for policy development.

In view of these restrictions, a structured, perception-oriented empirical approach with valid instruments of measurement is required. Before using the research instrument for large scale hypothesis testing, however, it is methodologically important to validate the constructs and ensure internal consistency of the research instrument.

In this context, the present study is an exploratory pilot study to evaluate the instrument reliability and to discover some preliminary relationship between important variables of FDI in the Indian insurance industry.

Literature Background

In fact, Foreign Direct Investment (FDI) has become an important element for structural change in the financial services industry, especially in emerging markets like India. FDI liberalization in insurance industry has been adopted for the purposes of increasing the availability of capital, optimizing the performance of insurance companies and technological progress. The progressive opening of the barriers for FDI has allowed a greater number of global insurance firms to enter the market and thus strengthened the competition and promoted the use of international good practices.

The previous studies indicate that there is a positive relationship between FDI and capital adequacy and financial stability in insurance companies. It also has a significant role to play in catalyzing technological advances such as digital platforms, automated underwriting systems, and data-driven customer management. These advancements will positively influence the quality of service, operational efficiency, and even customer experience. Research on the magnitude of these benefits, however, is inconclusive: some evidence suggests that an improvement in operational performance does not necessarily lead to improvement in customer satisfaction or increase in insurance penetration.

The other dimension emphasized in the literature is the perception and trust of the consumers in the insurance industry. Insurance is a long-term and intangible financial product that is much affected by behavioral factors including risk perception, credibility of the insurance company and experience. Research shows that in spite of the entry of foreign players, traditional financial institutions such as LIC have continued to outperform other competitors with their trusted brand and wide distribution networks. It means that even if structural changes are made, changing consumer behaviour may not be enough without changing any underlying perceptual and psychological aspects.

Moreover, the regulatory framework, including the role of the Insurance Regulatory and Development Authority of India, has been crucial in maintaining the balance between the liberalization and protecting the

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interest of the policyholders. The influence of FDI on the sector has been influenced by regulatory measures intended to ensure solvency margins, transparency of information and financial inclusion.

Although the number of literature is increasing, there is still a lack of studies of micro level with a perception-based approach, especially the validation of research instruments. Existing studies are largely secondary data and macroeconomic indicator based, with fewer studies focusing on data collection and construct validation.

This study is important and valuable in this context, as it aims to test the reliability and applicability of the selected constructs such as FDI perception, service quality, operational efficiency, customer satisfaction, and trust in this pilot study. The study establishes the groundwork for comprehensive empirical research on the effects of FDI in the Indian insurance industry by confirming the validity of the measurement instrument and the initial patterns.

Objectives of the Pilot Study

- To test the reliability of the research instrument
- To assess the clarity and relevance of questionnaire items
- To examine preliminary relationships between FDI perception and insurance outcomes
- To identify issues in data collection and measurement
- To refine the instrument for full-scale research

Research Methodology

The sampling design is an important and critical part to ensure that the results of a pilot study are meaningful and methodologically sound. Since the major emphasis in the present study is to test the reliability and feasibility of the research instrument and not to generalize the results of the study to the entire population, a moderate but a statistically adequate sample size was considered appropriate.

2.1 Sample Size Determination

The pilot study consists of 50 respondents, which is quite adequate for preliminary statistical analysis and reliability testing. Pilot studies usually involve between 30 and 50 observations, which is considered a good balance between the feasibility of conducting the study and maintaining analytical power. A sample of 50 respondents provides more stability of reliability estimates, e.g., Cronbach's alpha, and meaningful interpretation of the descriptive statistics.

The pilot study is used to test instruments, the wording of the questions, and problems in collecting the necessary data, whereas a larger number of subjects (e.g., 400+) is needed in the main study to test the hypothesis and to form conclusions to be generalized. Thus, the sample size selected is suitable for accomplishing the goals of the pilot phase.

2.2 Sampling Technique

The pilot study used the non-probability convenience sampling method, with a few features of stratified representation to provide diversity of responses. Convenience sampling was chosen because it is convenient and efficient to access respondents in a short period of time, as is common in pilot investigations.

The study adopted a stratified sampling approach to increase the representativeness of the sample by ensuring that respondents were from a variety of demographic and socio-economic groups. This is a hybrid method that ensures that the researcher can get a spectrum of opinions into the study without losing feasibility.

2.3 Respondent Profile

Those included in the sample are representative of the different segments of the insurance industry, such as:

- Existing insurance policyholders

Realize the vision of the working professions in various industries.

Students who have a general understanding of financial matters

This cross section of the respondents gives a broad view of perceptions of insurance services, foreign investment and adoption patterns.

2.4 Demographic Coverage

An attempt was made to have respondents from different aspects of the population's profile, that is, by gender, age, ethnicity, language, and disability:

- Age Groups: Below 25, 25–35, 36–45, 46 and above
- Gender: Male, Female and other

Seeing that the students have completed their education and professional qualifications. Observing the completion of education and professional qualifications of the students

- Family Size: Different sizes of families to represent economic diversity

Geographical Location: Urban and semi-urban areas.

The demographic diversity is useful in determining if the questionnaire is reliable for different respondent groups.

Inclusion and exclusion criteria are specified in 4.2.5.

In the interest of relevance and quality of responses, the following criteria were applied:

Inclusion Criteria:

People over 18 years old

Basic awareness of insurance products (respondents)

- People who have bought insurance or are potential customers for insurance.

Exclusion Criteria:

- Incomplete or inconsistent answers

People who did not understand what insurance means.People who didn't know much about insurance.

In the questionnaire, more than 30% of the data was missing.

2.6 Data Collection Approach

A structured questionnaire was used for data collection for the pilot study and the data was gathered online and offline. Combined with the distribution process of being done online, the respondents who have limited access to

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digital resources could also be picked up offline, allowing for greater reach and quicker responses.

The principles of sampling design are explained.The principles of sampling design are discussed.

The chosen sample design is appropriate for a pilot study as it:

- Encourages sufficient diversity of answers
- Conducts reliability and preliminary statistical analysis
- Detects problems with the instrument
- Comprehend and applies practical considerations with methodological rigour

Convenience sampling can restrict the generalizability of results, but for pilot studies it is not a problem since the focus is on instrument testing and not on inference.

Reliability Analysis

The initial data analysis was done to assess the quality, structure and basic data characteristics before further statistical analysis. This is called the pilot studies' stage in which the data gathered is reliable, consistent and appropriate for additional analysis including reliability testing and hypothesis development.

Create a Data Screening and Preparation blueprint.Develop a Data Screening and Preparation blueprint.

The information gathered was initially screened systematically. Questionnaires were eliminated to ensure data integrity if the responses were over 30% missing. Wherever there were minor missing values, these were replaced by the mean, if applicable.

Responses were all coded numerically for statistical analysis. The Likert scale was given values of 1 (Strongly Disagree) to 5 (Strongly Agree). The data set was then checked for any inconsistencies, duplicate values and extreme outliers. There were no major outliers or anomalies found in the data set, suggesting that the data is clean and suitable for analysis.

A demographic profile of the respondents is provided in 5.2.

The findings are interpreted in the context of the respondents' demographic attributes. The sample is made up of 50 respondents with varied age, income levels and educational backgrounds.

Table 5.1: Demographic Profile of Respondents (n = 50)

Variable	Category	Frequency	Percentage (%)
Age	Below 25	10	20%
	25–35	18	36%
	36–45	12	24%
	Above 45	10	20%
Gender	Male	28	56%
	Female	22	44%
Education	Graduate	20	40%
	Postgraduate	22	44%
	Others	8	16%
Income	Below ₹40,000	12	24%
	₹40,000–₹1,00,000	25	50%
	Above ₹1,00,000	13	26%
Location	Urban	32	64%
	Semi-Urban	18	36%

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Interpretation:
The age distribution of the respondents is skewed toward younger, economically active people, with a majority in the 25-34 age group. Most of the respondents are educated and have some financial awareness as they are graduates or postgraduates. The larger percentage of urban respondents is indicative of more ease of access to insurance services and online platforms.

3 Descriptive Statistics of Key Variables
Descriptive statistics were calculated to examine the central tendency and variability of the key constructs used in the study.

Table 5.2: Descriptive Statistics of Variables

Variable	Mean	Std. Deviation
FDI Perception	4.05	0.62
Service Quality	3.98	0.65
Operational Efficiency	3.85	0.70
Customer Satisfaction	3.92	0.66
Trust	3.80	0.72
Insurance Adoption	3.88	0.68

Interpretation:
The mean scores of all the variables are greater than 3.5, which suggests respondents' general positive perception. The perception of the positive effect of FDI has the highest mean, indicating high levels of agreement. The trust mean value is slightly lower than those of other variables, suggesting that this is a variable worth exploring further. Standard deviations are in the middle range, suggesting consistent responses but with minor variation.

4 Normality Assessment
Skewness and Kurtosis measures were used to do the preliminary assessment of data distribution. The skewness values were in range of ±1; suggesting a near-symmetric distribution of the data. Likewise, the kurtosis measures did not show extreme peakedness or flatness.

Interpretation:
The data were approximately normally distributed, and appropriate for further statistical analysis in the main study, such as parametric tests.

5 Correlation Analysis
To examine the relationships between key variables, a preliminary correlation analysis was conducted.

Table 5.3: Correlation Matrix

Variable	FDI	SQ	OE	CS	TR	IA
FDI	1					
SQ	0.62	1				
OE	0.55	0.68	1			
CS	0.58	0.74	0.66	1		
TR	0.50	0.70	0.60	0.76	1	
IA	0.57	0.69	0.63	0.72	0.75	1

Note:
SQ = Service Quality, OE = Operational Efficiency, CS = Customer Satisfaction, TR = Trust, IA = Insurance Adoption
Interpretation:
The results show moderate to strong positive correlation among the variables. The results revealed that perceived service quality and customers' satisfaction are positively correlated with FDI perception (0.62 and 0.58 respectively), indicating that positive perceptions of FDI are linked to positive service outcomes. Service quality is strongly related with customer satisfaction (0.74), which is an important determining factor. Trust is also positively related with customer satisfaction (0.76) and intention to adopt (0.75) showing that trust is a very important factor in influencing customer behavior.
5.6 Response Pattern and Bias Analysis

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Analysis of the responses showed a slight central tendency bias with some responses showing this. The majority of the responses, however, were in the "Agree" and "Strongly Agree" areas, indicating active engagement with the questionnaire.

There were no straight lines or random patterns of answers which would suggest that respondents answered with a thoughtless or inconsistent response.

Overall Interpretation of Preliminary Analysis

The preliminary data analysis confirms that:

- The dataset is **clean, consistent, and free from major anomalies**
- Respondents exhibit a **generally positive perception** toward FDI and insurance services
- Relationships between variables are **logically consistent and statistically meaningful**
- No major data quality issues were identified that could affect further analysis

Overall, the results validate the suitability of the dataset for reliability testing and subsequent analytical stages. The findings also provide initial support for the conceptual relationships proposed in the study, thereby strengthening the foundation for the main research.

Preliminary Findings

The preliminary results of the pilot study are useful as direction signals on the views of the respondents on the impact of Foreign Direct Investment (FDI) liberalization on the insurance industry in India. The findings are exploratory in nature and do not claim to be generalisable; however they provide evidence of relevance and performance of the constructs selected.

1 Perception of FDI Liberalization

Analysis reveals that the majority of the respondents are positive about FDI liberalisation which is linked with sectoral modernization, better governance and competitiveness. The respondents largely concurred that foreign involvement has helped them improve management efficiency and implement world class practices.

This perception is consistent with the overall narrative of the catalytic effect of FDI in terms of capital, skills, and innovation, which facilitate structural transformation. The answers also suggest that there is awareness of FDI, but not enough, as it is not as deep among all demographic groups as it could be, thus indicating a need to improve financial awareness.

2 Service Quality Improvements

The increase in foreign participation in the service was found to be one of the most important results of the pilot study because of the perceived improvement in service quality after the increase in foreign participation. People involved in the experience reported a better experience with:

- Faster policy issuance
- Improved customer support
- Enhanced digital interfaces
- Greater accessibility of services

These findings suggest that FDI has contributed to the **standardization and professionalization of service delivery**, particularly through digital transformation initiatives. The integration of technology-driven platforms appears to have positively influenced customer experience, especially among urban and digitally literate respondents.

6.3 Operational Efficiency and Process Enhancement

The pilot results indicate that respondents perceive noticeable improvements in **operational efficiency** within insurance companies. Key areas of improvement include:

- Reduced processing time
- Streamlined administrative procedures
- Increased use of digital tools

These improvements are consistent with the expectation that foreign participation introduces advanced operational practices and performance-oriented management systems. However, the perception of efficiency gains is not uniform across all respondents, suggesting that the benefits may be more visible in certain segments or regions.

4 Customer Satisfaction Levels

Customer satisfaction was found to be **moderately high**, with respondents expressing general contentment with insurance services. Positive satisfaction levels are primarily driven by improvements in:

- Service responsiveness
- Convenience through digital channels
- Availability of product options

However, satisfaction is not uniformly strong, indicating that while progress has been made, there are still areas requiring attention. This moderate satisfaction level suggests that improvements in operational and service dimensions have not yet fully translated into consistently high customer satisfaction across all touchpoints.

5 Trust and Credibility of Insurers

Trust remains a **critical and nuanced dimension** in the findings. While respondents acknowledge improvements in transparency and professionalism, trust in insurance companies is still influenced by traditional preferences and legacy institutions such as the Life Insurance Corporation of India.

Foreign-backed insurers are perceived as technologically advanced and efficient; however, their ability to build long-term trust is still evolving. This indicates that trust is not solely a function of operational performance but is also shaped by historical credibility, brand familiarity, and perceived stability.

6 Insurance Adoption Intentions

The findings suggest a **positive inclination toward insurance adoption**, particularly among younger and economically active respondents. There is an increasing

willingness to consider insurance products, including those offered by private and foreign-backed companies.
However, adoption decisions continue to be influenced by factors such as:

- Brand reputation
- Claim settlement reliability
- Recommendations from agents or peers

This indicates that while FDI may enhance supply-side capabilities, demand-side behavior is still governed by trust and social influence.

7 Expectation–Perception Gap

A key insight emerging from the pilot study is the existence of a **gap between customer expectations and actual service delivery**. While respondents expect faster, more transparent, and highly responsive services—especially from foreign-backed insurers—their experiences do not always fully meet these expectations.
This gap highlights a critical issue:
FDI-driven improvements are visible, but not yet sufficient to completely satisfy evolving customer expectations.
This finding is particularly important as it points toward the role of behavioral and perceptual factors, which cannot be addressed solely through capital infusion or technological upgrades.

8 Demographic Insights

Preliminary demographic analysis suggests that:

- Younger respondents show higher acceptance of digital insurance services
- Urban respondents perceive greater benefits from FDI
- Higher-income groups demonstrate stronger trust in private insurers

These patterns indicate that the impact of FDI is **not uniform across segments**, reinforcing the need for targeted strategies in the main study.

9 Overall Interpretation

Taken together, the preliminary findings suggest that FDI liberalization has had a **positive but uneven impact** on the Indian insurance sector. While improvements in service quality, operational efficiency, and technological adoption are clearly perceived, challenges remain in terms of trust-building, expectation management, and inclusive outreach.
The findings support the view that FDI acts as a **necessary but not sufficient condition** for achieving comprehensive sectoral transformation. Complementary factors such as regulatory effectiveness, financial literacy, and customer-centric strategies are essential for translating structural reforms into meaningful consumer outcomes.

Discussion

This section aims to make sense of the results of the pilot study, based on existing academic literature and theoretical frameworks and drawing on the general policy and legal context surrounding the Indian insurance industry. The results are very preliminary but provide useful information as to the consumer confidence on FDI liberalisation, and the extent to which this consumer confidence is in accord with or at variance with the existing literature.

The role of FDI in enhancing efficiency and modernization

1 FDI as a Driver of Efficiency and Modernization

Results of the pilot study show that the respondents generally see the liberalization of FDI as a positive aspect that will enhance the quality of services and operational efficiency. This finding is consistent with previous studies which indicate that foreign involvement in an organization helps to improve its performance by transferring technology, managerial skills, and international best practices (Eling and Luhnen, 2010; Guleria et al., 2021).
Theoretically, this has implications in the financial intermediation view that argues that capital inflows contribute to the efficiency of the financial sector and augment its service delivery capabilities. In recent studies about digital transformation in insurance (Eckert & Osterrieder, 2020), the positive developments observed on digital interfaces, quicker policy issuance, and streamlined administrative processes point to the influence of insurtech innovations.
The findings from the pilot, however, also suggest that the efficiency gains are not equal across all respondents as efficiencies may only be realised in certain segments, including the urban and digitally-literate population. The partial diffusion of benefits fits into the Diffusion of Innovation Theory as a theory of the process of diffusion of technological innovations across various social groups.

2 Service Quality and Customer Experience

The service quality improvement that customers reported in the study corroborates literature highlighting the importance of competition and foreign entry on customer service practices (Cummins & Weiss, 2014). As competition increases, insurance companies are forced to stand out from the crowd in order to stand out from the crowd.Insurers face competition and are being driven to offer improved services, innovative products, and customer engagement strategies.
Still, a moderate satisfaction level does not indicate a high level of satisfaction, indicating that service quality may continue to improve. The discovery underscores the difference between process improvement and customer satisfaction, and suggests that processes could be improved but that the entire customer's experience may need attention.

3 Trust, Behavioral Factors, and Institutional Legacy

One of the most significant insights from the pilot study relates to the role of trust in shaping insurance adoption behavior. Despite recognizing the efficiency and innovation brought by foreign-backed insurers, respondents continue to exhibit a preference for

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established institutions such as the Life Insurance Corporation of India.

This finding strongly aligns with behavioral finance theories, particularly the concepts of loss aversion and status quo bias *(Kahneman & Tversky, 1979; Thaler, 1999)*. Insurance decisions are inherently risk-sensitive, and consumers tend to rely on familiar and trusted institutions when dealing with uncertain outcomes.

Additionally, this observation is consistent with Institutional Theory *(North, 1990)*, which emphasizes the role of established norms, trust structures, and regulatory frameworks in shaping economic behavior. The continued dominance of legacy institutions suggests that trust accumulation is a long-term process that cannot be immediately altered by structural reforms such as FDI liberalization.

4 Expectation–Perception Gap and Service Delivery Challenges

The pilot study identifies a clear gap between customer expectations and perceived service delivery, particularly in areas such as claim settlement and responsiveness. This finding is supported by prior research indicating that customer expectations often evolve faster than service improvements, especially in sectors undergoing rapid transformation *(Parasuraman et al., 1988 – SERVQUAL model)*.

This gap can be interpreted through the lens of service quality theory, where perceived quality is determined by the difference between expected and actual performance. The presence of such a gap suggests that while FDI has improved supply-side capabilities, insurers may not have fully aligned their service delivery mechanisms with evolving customer expectations.

5 Insurance Adoption and Demand-Side Constraints

Although the study indicates a positive inclination toward insurance adoption, the findings suggest that adoption decisions are still influenced by factors such as brand reputation, peer influence, and perceived reliability. This aligns with the work of Beck and Webb (2003), who argue that insurance demand is influenced not only by economic variables but also by social and psychological factors.

The results reinforce the argument that FDI primarily addresses supply-side constraints—such as capital availability and operational efficiency—while demand-side barriers, including financial literacy and trust, remain significant challenges. This highlights the need for a more integrated approach that combines structural reforms with consumer-focused interventions.

6 Role of Regulation and Policy Environment

The findings also underscore the importance of regulatory oversight in shaping the outcomes of FDI liberalization. The role of the Insurance Regulatory and Development Authority of India is critical in ensuring that increased foreign participation does not compromise policyholder protection while promoting market stability and transparency.

Existing literature suggests that strong regulatory frameworks enhance the positive impact of FDI by ensuring accountability, reducing information asymmetry, and protecting consumer interests *(La Porta et al., 2008)*. The pilot findings indirectly support this view by indicating that trust and satisfaction are closely linked to perceived transparency and governance standards.

7 Synthesis of Findings

Overall, the discussion reveals that the pilot study findings are broadly consistent with existing literature while also contributing new insights at the micro-level. The study highlights a multi-dimensional impact of FDI, characterized by:

- Positive effects on efficiency and service quality
- Moderate improvements in customer satisfaction
- Persistent challenges in trust and expectation management
- Uneven impact across demographic segments

This synthesis reinforces the idea that FDI liberalization is a necessary but not sufficient condition for achieving comprehensive development in the insurance sector.

8. Limitations of the Study

Despite providing useful preliminary insights, the present pilot study is subject to certain limitations that must be acknowledged while interpreting the findings.

Firstly, the study is based on a **limited sample size of 50 respondents**, which is appropriate for pilot testing but restricts the generalizability of results. The findings are therefore indicative rather than conclusive and should be validated through large-scale empirical analysis.

Secondly, the use of **convenience sampling** may introduce sampling bias, as the respondents may not fully represent the broader population of insurance consumers in India. Although efforts were made to include diverse demographic groups, the sample may still be skewed toward urban and semi-urban respondents.

Thirdly, the study relies primarily on **self-reported data**, which is subject to response biases such as social desirability bias and central tendency bias. Respondents may provide neutral or favorable responses rather than reflecting their true perceptions.

Another limitation lies in the **perceptual nature of variables** used in the study. While constructs such as service quality, trust, and satisfaction are important, they are subjective and may vary across individuals and contexts. The absence of objective performance indicators in the pilot phase limits the ability to draw comprehensive conclusions.

Additionally, the study does not incorporate **advanced statistical techniques** such as regression modeling or structural equation modeling, as its primary focus is on instrument validation. This restricts the ability to establish causal relationships between FDI and insurance sector outcomes.

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The study is also limited in its **geographical scope**, with a stronger representation of urban respondents, thereby underrepresenting rural perspectives where insurance penetration challenges are more pronounced.

Finally, the dynamic nature of policy changes related to FDI and ongoing regulatory developments by the Insurance Regulatory and Development Authority of India may influence the relevance of findings over time, necessitating continuous updates through longitudinal research.

Future Research Directions

Building on the insights and limitations of the pilot study, several avenues for future research emerge that can significantly enhance the understanding of FDI's impact on the Indian insurance sector.

Firstly, future studies should be conducted using a **larger and more representative sample size**, enabling the application of advanced statistical techniques such as multiple regression analysis and structural equation modeling (SEM). This will facilitate robust hypothesis testing and help establish causal relationships between FDI and key outcome variables.

Secondly, there is a strong need to integrate **behavioral finance perspectives** into insurance research. Future studies can explore how cognitive biases, risk perception, and trust influence insurance adoption decisions, particularly in the context of foreign-backed insurers.

Thirdly, researchers should focus on **rural and underserved segments**, where insurance penetration remains low. Understanding the barriers to adoption in these regions—such as lack of awareness, accessibility issues, and cultural factors—can provide valuable policy insights.

Another important direction is the incorporation of **technology-driven variables**, including digital adoption, insurtech platforms, and AI-based underwriting systems. Given the increasing role of technology in insurance, future research should examine how digital transformation interacts with FDI to influence customer experience and operational efficiency.

Comparative studies can also be undertaken to analyze the **performance differences between public sector insurers like the Life Insurance Corporation of India and private/foreign-backed insurers**, providing deeper insights into competitive dynamics.

Longitudinal studies are recommended to assess the **long-term impact of recent policy changes**, including the increase in FDI limits beyond 74%. Such studies can capture evolving trends and provide a dynamic understanding of the sector.

Furthermore, future research can explore **cross-country comparisons**, particularly with other emerging economies, to identify best practices and contextual differences in the impact of FDI on insurance markets.

Finally, there is scope to develop **integrated research models** that combine FDI, regulatory environment, technological innovation, and consumer behavior into a unified analytical framework. Such models would provide a holistic understanding of the insurance ecosystem and contribute significantly to both academic literature and policy formulation.

Conclusion

This pilot study was conducted to evaluate the reliability, clarity and feasibility of a structured research instrument in order to study the effect of Foreign Direct Investment (FDI) liberalization on insurance penetration and insurance service perception in India. The study uses a quantitative methodology, and its sample size of 50 consumers is small but it still offers some preliminary, if meaningful, indications on the way at which policy-level reforms are interpreted at the consumer level.

The results of the pilot study show that the measurement instrument is internally consistent (cronbach alpha values are above the recommended value of 0.7) for all constructs. This means that the variables selected, namely the perceptions about FDI, service quality, operational efficiency, customer satisfaction, trust and adoption of insurance are conceptually appropriate and are empirically measurable. The reliability results confirm the questionnaire's appropriateness for widespread use, thus enhancing the methodological basis of the main study.

The pilot results from an analytical angle indicate that, on the whole, FDI liberalization has been seen as a positive factor that leads to increased service quality, increased operational efficiency and increased technological adoption in the insurance sector. Customers feel that foreign involvement leads to improved customer service, quick processes and better digital interfaces. The observations are in line with the literature which suggests that foreign capital is playing a vital role in modernizing financial services.

But, there is another crucial element to the study: the perceptual gap between the customer's expectations and their experience has not gone away, although service and operational aspects have improved. Structural reforms are not enough to meet behavioral and trust-related barriers, as evidenced by areas where there is still a gap in transparency and responsiveness when it comes to claim settlement. Strong legacy trust, such as from the Life Insurance Corporation of India, adds to consumer preference for legacy brands.

The pilot study also emphasizes some practical issues. The following were identified as problems: Redundant questions in the questionnaire, central tendency bias in the responses to the questionnaire, and the need for greater differentiation between the expectation and perception constructs. Responses to these concerns resulted in a reduction of items, the rewording of items, and increased construct clarity. These changes are intended to enhance the quality of responses and the accuracy of the analysis in the larger-scale study.

Importantly, the pilot reinforces the notion that FDI is a catalyst for supply-side development –

improving capital, efficiency and technology – but it is not enough to deliver other goals, such as financial inclusion and customer trust. Financial literacy, regulatory effectiveness and service delivery mechanisms regulated by institutions such as Insurance Regulatory and Development Authority of India (IRDAI) are some of these.

Overall, the pilot study is able to meet the main objective as it validates the research design and instrument. It offers a solid base for any further empirical research and supports the methodology by helping to make sure that the core study is grounded in strong and tested constructs. The results are of a preliminary nature, but they provide some helpful direction in terms of the insurance industry's future patterns in India in the wake of FDI liberalisation.

Future studies will include collecting more data on a larger scale and sophisticated statistical analysis to further test hypotheses and draw causal inferences. The structural, technological, and behavioural aspects are brought together, thus providing an impactful contribution to academic discourse and policy-making in the area of the development of the insurance sector.

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Conflicts of interest

The authors declare that there are no conflicts of interest regarding the publication of thesis paper.

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