

The role of insurance companies in Indian Economic Development

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ABSTRACT

Insurance is a contract, represented by a policy, in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company to make payments more affordable for the insured. Insurance policies are used to hedge against the risk of financial losses, both big and small, that may result from damage to the insured or her property, or from liability for damage or injury caused to a third party. There is a multitude of different types of insurance policies available, and virtually any individual or business can find an insurance company willing to insure them—for a price. The most common types of personal insurance policies are auto, health, homeowners, and life. Most individuals in the United States have at least one of these types of insurance, and car insurance is required by law.

INTRODUCTION

Insurance is a legal contract between two parties- the insurance company (insurer) and the individual (insured), wherein the insurance company promises to compensate for financial losses due to insured contingencies in return for the premiums paid by the insured individual. In simple words, insurance is a risk transfer mechanism, where you transfer your risk to the insurance company and get the cover for financial loss that you may face due to unforeseen events. And the amount that you pay for this arrangement is called premium. There is insurance available for various risks, starting from your life to mobile phones that you use. In the end, it's essential to protect what is 'important' to you.

The insurance sector has been growing steadily. In 1980, the total premiums accounted for 0.8% for emerging markets while 5.2% for advanced markets. In 2015, both percentage rose to 2.9% and 8.1% for emerging markets and advanced markets respectively (Swiss Re, 2017). Insurer compensates insured whenever the insured is harmed or experienced losses while the insured paying the insurance premiums. The insurers, in turn, accumulate new capital (insurance premiums) and invest for the purpose of eventual repayment of claims (Concha, 2014). Insurance sector identifies and measures risks levels, discerns the costs of riskier activities and the efficiency of resources allocation to enhance productivity and risk-coverage (Skipper, 1997). By acting as a provider of risk transfer and institutional investor, insurance activities promote financial stability, mitigate financial losses and transfer domestic savings into

investment efficiently The insurance sector with the introduction of InsurTech. InsurTech provides new insurance models to meet changing customer needs. It provides insurance service through usage-based model and pay as you go pricing model or personalized insurance solution to the e-commerce business and SMEs. So that they can afford the insurance to cover their losses and export in a lower cost. The SMEs is the backbone for economic growth especially in developing countries. advanced markets. In 2015, both percentage rose to 2.9% and 8.1% for emerging markets and advanced markets respectively (Swiss Re, 2017). Businesses require special types of insurance policies that insure against specific types of risks faced by a particular business. For example, a fast-food restaurant needs a policy that covers damage or injury that occurs as a result of cooking with a deep fryer. An auto dealer is not subject to this type of risk but does require coverage for damage or injury that could occur during test drives. In order to select the best policy for you or your family, it is important to pay attention to the three critical components of most insurance policies—the deductible, premium, and policy limit

TYPES OF INSURANCE AVAILABLE

There are various types of insurance products available in India. Mainly, insurance products are classified as:

- Life insurance products
- General insurance products

Life insurance covers you against the risk of death. Life insurance policies come in many variants such as

term plans, endowment plans, whole life insurance plans, money back plans and unit-linked investment plans etc. Many life insurance products can be a great tool for long-term savings also as it comes as a combination of protection and savings. General insurance products cover financial losses caused by various risks other than death. General insurance products come in various types covering a wide range of risks such as health insurance, motor insurance, marine insurance, liability insurance, travel insurance and commercial insurance etc.

Insurance is an effective risk management tool that protects what is precious for us –life, health, home and businesses etc. The requirement of insurance may vary from one individual to another, but there are certain types of insurance products that are must-have for every individual for ensuring a secure future.

MUST-HAVE INSURANCE PRODUCTS

Knowing the importance of insurance is the need of the hour. Following insurance products are the must-have for any individual today.

- i. **Life insurance:**
- ii. **Health insurance:**
- iii. **Motor insurance:**
- iv. **Accident and disability insurance:**
- v. **Home insurance:**
- vi. **Standalone critical illness insurance:**
- vii. **Travel insurance:**

Capital Formation and Insurance

Capital formation maybe defined as **increase in capital stock** of the country consisting of plant, equipment, machinery, tools, building, means of transport, communication, etc. The process of capital formation envisages three essential steps. These are:

a. **Real saving:** Mobilization of saving through financial and non-financial intermediaries to be placed at the disposal of investor.

b. **The act of investment:** The contribution of insurance companies in the process of capital formation appears at all these stages. Insurance services act as a tool to mobilize saving, function as financial intermediary and at times also indulge in direct investment. Also govt. has made regulations under which every insurer carrying on business of life insurance shall invest 25% of funds in Govt. securities and not less than 15% in infrastructure and social sector. The importance of Indian insurance industry is gauged by the fact that annual amount of investible funds of LIC and GIC and its subsidiaries amounted to over Rs. 20,000 crore and

Rs. 10,000 crore are invested in nation building activities, housing and other infrastructural areas.

Increased Employment: Prior to the liberalization of insurance sector in India, the opportunities for employment were limited with the LIC of India as sole employer. While some of the professionals left the country looking for opportunities elsewhere, those who remained worked within the confines and constraints of public sector monopoly. This has further constrained the opportunities for exposure to the development in rest of the world. Liberalization and the opening up of sector to private players has now created a vast opportunity for employment.

Obligation to Rural and Social Sector

In India, the insurance companies are required to fulfill their obligation towards rural and social sector. For this, Life insurers are required to have 5%, 7%, 10%, 12%, 15% of total policies in first five years respectively in rural sector. Like wise General Insurers are required to have 2% 3% and 5% thereafter of total gross premium income written in first five financial years respectively in rural sector.

Insurance as financial intermediary

Financial intermediaries perform the function of channelizing saving into domestic investment. They facilitate efficient allocation of capital resources, which in turn improve productivity and economic efficiency which result in reduced capital output ratio. The insurance companies perform extremely useful function in economy as financial intermediaries. These are as follows:

a. **Reduction in transaction cost:** Insurers help in reducing transaction cost in economy by collecting funds from policyholders and investing the same in different projects scattered over different regions. It is a specialized and time consuming job.

b. **Creating liability:** The policyholders, in case of loss, are not required to wait for a long period for the amount of claim. It improves their liquidity.

c. **Facilitates Economies of scale in Investment:** Insurers are in the position of financing large projects, railways power projects, etc. These large projects create economies of scale, facilitate technological innovation and specialization and thus promote economic efficiency and productivity.

Promotes Trade and Commerce

The increase in GDP is positively correlated to growth of trade and commerce in economy. Whether it is production of goods and services, domestic or international trade or venture capital projects, insurance dominates everywhere. Even banks demand insurance cover of assets while granting loans for purchase of assets. Thus insurance covers, promotes specialization and flexibility in the economic system that play contributory role in healthy and smooth growth of trade and commerce.

Facilitates efficient capital allocation

Insurance provides cover to large number of firms, enterprises and businesses and also deploy their funds in number of investment projects. The vast pool of knowledge and expertise so gained enable them to distinguish between productive and high return projects. Therefore, they promote efficient and productive allocation of capital resources, which in turn lead to increased productivity and efficiency in the system.

Encouraging Financial Stability and Reducing Anxiety

Insurer promotes financial stability in economy by insuring the risks and losses of individuals, firm and organizations. Because of uninsured large losses, firm may not be able to compensate for it leading to its insolvency which may cause loss of employment, revenue to supplier & Govt., loss of products to customer, etc. Moreover, it relieves the tensions and anxiety of individuals by securing the loss of their lives and assets.

Reducing Burden on Govt. Exchequer

Insurance companies, particularly life insurers provide a variety of insurance products covering needs of children, women and aged etc under social security network and thereby reduce the burden on Govt. exchequer in providing these services. This Govt., saves expenditure on these items and amount can be utilized for more productive projects. To conclude, we can say that insurance companies play an important role in economic development of country.

LITERATURE REVIEW

Arena (2008) finds that the insurance activity across 55 countries has positive impacts on economic growth, both in terms of jointly or individually (life or non-life insurance).

Concha and Taborda (2014) discover that all measures of insurance density, total insurance, life insurance and non-life insurance are positive and highly significant in 11 Latin

Abdul and Nicholas (2016) learn that the positive effect of non-life insurance activity is more prominent in the positive effect of life insurance is more prominent in country.

Liyan Han et al. (2010) also find that insurance density, life insurance density and non-life insurance density impacts economic growth positively.

Kok, Mori and Fumitakas (2010) show that the economic growth and life insurance activity are co integrating and the long-run relationship between the and economic growth although the relationship is weaker.

METHODOLOGY

This study is a quantitative research that uses econometrics analytic techniques to study the relationship of insurances sector's activity towards a country. The data used is a panel data dated from 1967 to 2014 across 123 countries. There are 4 approaches taken by this study:

Non-dynamic Panel Models or Static Model:

CONCLUSION

This study finds significant causal relationship between insurance development and economic growth of a country. However, the strength and the nature (positive or negative) of the causality are varied in different situations such as initial income level of a country and its location. Some of the important results are the insurance development promotes economic growth of the countries the huge untapped opportunities in Indian economic prospects Conversely, insurance development generally hinders economic growth in countries. High-income countries as a countries mitigate the positive effects of insurance development on their countries' economic growth because of their currency union while their non-member counterparts are able to reap the benefit of insurance development. Another major finding from the analysis is the effect of insurance development on economic growth of a country is indirect. The outcomes are dependent on the investment performance of insurers (especially life insurers). The investment performance in return depends on the economic prospects and economic policies of the country.

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