Role of Insurance Sector in Economic Development of India

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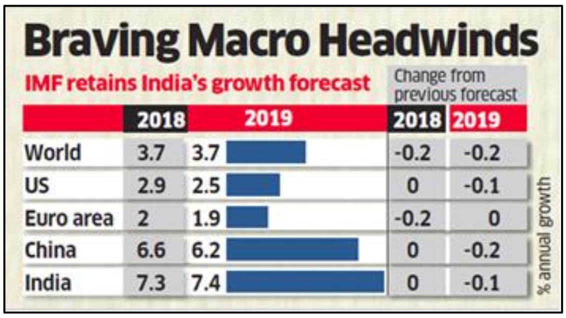
Abstract— Insurance is an important part in the financial sector that contributes significantly to the economy of a country. Insurance serves a number of valuable economic functions that are largely distinct from other types of financial intermediaries. In India, insurance is a flourishing Industry, with several national and international players competing each other's and growing at rapid rates. The insurance industry of India consists of 53 insurance companies of which 24 are in life insurance business and 29 are non-life insurers. Among the life insurers, Life Insurance Corporation is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. India is the fastest growing trillion-dollar economy in the world and the sixth largest with a nominal GDP of $ 2.61 trillion. India is poised to become the fifth largest economy overtaking the United Kingdom by 2019 as per the IMF projection.

Key words: Economic Growth, Insurance Regulatory and Development Authority (IRDA), Gross Domestic Product (GDP)

I. Introduction

Financial sectors of a country are considered as a vital part of its economic growth. An effective and well developed financial system helps to increase productivity and subsequently the economic growth. Insurance is an important part in the financial sector that contributes significantly to the economy of a country. Insurance market contributes to the economic growth as a financial intermediary and also helps in managing risk more effectively (Wardand Zurbruegg, 2000). In almost every developing and developed country the importance of the insurance is rising due to the increasing share of the insurance sector in the entire financial sector. The growing links between the insurance and other financial sectors also emphasize the possible role of insurance companies in economic growth.

Insurance is one of the demanding financial products in India. The insurance industry in India is at the crossroads of development. For any country and its economic development, having a well-developed insurance sector that is evolving is definitely a boon. In India, the rapid rate at which economic growth has occurred in the past decade is a very significant development. The insurance industry, in India is as longstanding as the banking industry. But over the past fifteen years, there has been a sea change in the business expansion of the insurance sector. The IRDAI (Insurance Regulatory and Development Authority of India) was established in the year 2000, which opened this sector to private enterprises and allowing Indian companies to partner with foreign establishments. The IRDAI is also planning to issue out IPO guidelines for insurance companies that would want to divest through IPOs. The road ahead is certainly quite promising. This act has redefined the insurance sector in India making insurance available at reasonable costs.



Braving Macro Headwinds

IMF retains India's growth forecast

	2018	2019	Change from previous forecast 2018	Change from previous forecast 2019
World	3.7	3.7	-0.2	-0.2
US	2.9	2.5	0	-0.1
Euro area	2	1.9	-0.2	0
China	6.6	6.2	0	-0.2
India	7.3	7.4	0	-0.1

% annual growth

Fig. 1:

II. Role of insurance

A. Saving & Insurance

Saving involves refraining from present consumption. The investment can take place only when there are savings. The relationship between. saving, investment and growth of GDP can be explained as:

G = S / K. Where G – Rate of GDP growth, S – Saving Ratio and K – Capital output ratio.

Insurance companies lead to economic development by mobilizing savings and investing them into productive activities. Indian insurance companies are able to mobilize long-term savings to support economic growth and also facilitate economic development by providing insurance cover to a large segment of our people as well as to business enterprise throughout India.

B. Capital Formation & 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:

1) *Real Saving*

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

2) *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.

C. 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.

1) Obligation to Rural & 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. Likewise 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.

2) 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.

3) 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.

4) 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.

5) 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

6) 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.

7) Medical Support

A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

8) Promotes Economic Growth

Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

III. CONCLUSION

Insurance sector in India has become one of the most favoured investment destinations. India is the fifth largest insurance market among the globally emerging insurance economies. Growing interest towards insurance among people, innovative products and distribution channels are sustaining the growth of the insurance sector. Insurance has today become a mainstay of many market economies since it offers plenty of scope for garnering large sums of money for long periods of time. The Government of India has launched two insurance schemes as announced in Union Budget 2015-16. The first is Pradhan Mantri Suraksha Bima Yojana (PMSBY), which is a Personal Accident Insurance Scheme. The second is Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), which is the government's Life Insurance Scheme. Both the schemes offer basic insurance at minimal rates and can be easily availed of through various government agencies and private sector outlets. The Insurance Regulatory and Development Authority of India (IRDAI) has given initial approval to open branches in India to Switzerland-based Swiss Re, French-based Scor SE, and two Germany-based reinsurers namely, Hannover Re and Munich Re. The future of India's insurance industry looks promising owing to the changes in regulatory framework. As per the report by the India Brand Equity Foundation the Indian insurance sector is expected to grow at a rapid pace to reach around US$ 400 billion in premium income by 2020 and with the investment in the pension sector of the country crossing US$ 1 trillion in the coming decade. From all of this it is concluded that insurance sector is booming day by day.

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