ROLE OF INSURANCE SECTOR IN INDIAN ECONOMY: A STUDY

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Abstract: The economic development of India was dominated by socialist –influenced policies, state-owner sector, and red tape and extensive regulations, collectively known as 'License Raj'. Life insurance makes a substantial contribution to growth and transformation of Indian Economy. The Indian economic development got a boost through its Economic reforms in1991 and again through its renewal in the 2000. The economy of India is the eleventh largest in the world by nominal GDP and the fourth largest by Purchasing Power Parity (PPP). In the present paper an effort is made to study the factors which affect the relationship between economic growth and insurance sector in the Indian economy. Insurance contribution materially to economic growth by improving the investment climate and promoting a more efficient mix of activities then would be undertaken, in the absence of risk management instrument. Insurance sector in India is one of the most booming sectors of the economy and is growing at the rate of 15-20 percent per annum. In India, insurance is a flourishing industry, with several national and international players competing with each other's and growing at rapid rates.

Key words:Economic growth, Insurance Industry, density.

I. INTRODUCTION

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmrithi), Yagnavalkya (Dharmasastra*)* and Kautilya (Arthasastra*)*. Financial development promotes economic growth through channels of marginal productivity of capital, efficiency of channeling savings to investment, saving rate and technological innovation. Affecting economic growth through these channels is realized by functions of financial intermediaries. Among financial intermediaries, the insurance companies play important role, as main risk management tool for companies and individuals by collecting funds and transferring them to deficit economic units for financing real investment. The importance of insurance is growing due to the increasing share of the insurance sector in the aggregate financial sector in almost every developing country. Insurance companies serve the needs of business units and private households in intermediation. The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks. Insurance is a capital intensive industry and it generates long-term capital which is required to build infrastructure projects that have a long gestation period.

For economic development investments are necessary. Investments are made out of savings. Life Insurance Company is a major instrument for the mobilization of savings of people, particularly from the middle and lower group. All good life insurance companies have huge funds accumulated through the payments of small amounts of premium of individuals. These funds are invested in ways that contribute substantially for the economic development of the countries in which they do business The system of insurance provides numerous direct and indirect benefits to the individuals and his family as well as to industry and commerce and to the community and the nation as a whole. Present day organization of industry, commerce and trade depend entirely on insurance for their operation, banks, and financial institutions lend money to industrial and commercial undertakings only on the basis of the collateral security of insurance.

Insurance plays an important role in an economy and a strong pillar of ¸financial market. A well-developed insurance sector promotes economic growth by encouraging more industrial activities through risk-taking. For economic development investments are necessary. Investments are made out of savings. Life Insurance Company is a major instrument for the mobilization of savings of people, particularly from the middle and lower group. All good life insurance companies have huge funds accumulated through the payments of small amounts of premium of individuals. These funds are invested in ways that contribute substantially for the economic development of the countries in which they do business The system of insurance provides numerous direct and indirect benefits to the individuals and his family as well as to industry and commerce and to the community and the nation as a whole. Present day organization of industry, commerce and trade depend entirely on insurance for their operation, banks, and financial institutions lend money to industrial and commercial undertakings only on the basis of the collateral security of insurance.

II. REVIEW OF LITERATURE:

Adams et.al. (2006) which examines the dynamic historical relation between banking insurance and economic growth in Sweden in the period from 1830 to 1998.They use time series data and econometric tests for co integration and granger causality. The result shows that the development of banking but not insurance preceded economic growth during the 19th century while it was reversed in the twentieth century. Insurance development appears to be driven more by the pace of growth in the economy rather than leading economic development over the entire period of analysis.

Chang, et al. (2013) investigated the causal relationship between the insurance activities and GDP, using a data set of 10 OECD countries. It was found that there was a significant and positive relationship between the overall insurance growth and economic growth for 5 countries out of 10 OECD countries.

Seharish J Ansari, Amir Rehmani (2016)the insurance industry in India has passed through a period of structural changes under the combined impact of financial sector reforms in general and insurance sector in particular. With the liberalization of insurance sector, the paradigm for Indian insurance industry has witnessed a sea change during the last decade. In this paper an attempt has been made to analyze the overall performance of the insurance industry in India. The results show that there has been a tremendous improvement in the overall performance of the insurance sector in India, particularly in terms of insurance density and penetration.

III. OBJECTIVES AND METHODOLOGY

1. These examine the role of insurance sector in India.
2. The study was examining the performance of Insurance industry in India in terms of insurance penetration and density.
3. The study was growth of Indian insurance sector on Indian economy.

IV. METHODOLOGY OF THE STUDY

The study is analytical and descriptive in nature. The whole content is divided into two parts with respect to insurance density and insurance penetration, particularly after India's new economic policy of 1991. The period of the study pertains from 2010-2016. The study is based on secondary data, which have been collected from IRDA annual report.The data is related to insurance density and insurance penetration in India. The data has been presented in tablesand charts. With the help of excel tools and graphicalanalysis, the researchers have tried to show the trend andprogress of the insurance industry, particularly in terms ofinsurance density and penetration.

V. THE ROLEOF INSURANCE SECTOR IN INDIA:

At the crossroads of development the industry is on its way to development and a number of factors govern that growth. Some of them are:

Significantly untapped latent potential: India's insurance industry has witnessed rapid growth during the last decade. Consequently, many foreign companies have expressed their interest in investing in domestic insurance companies, despite the Government of India's regulation, which mandates that the foreign shareholding limit is fixed at 26% for the life as well as nonlife insurance sectors.

Recent regulatory developments that govern the current market state: The development of the insurance industry in India is likely to be critically dependent on the nature and quality of regulation. Overall, the regulatory environment is favorable and takes care that players maintain prudent underwriting standards, and reserve valuation and investment practices. There are certain factors that need to be considered by the Indian insurance industry to ensure a seamless growth in business. Our report analyzes these factors in detail. Some of these include:

Distribution channels: The effectiveness and cost of diverse distribution strategies of different players is crucial in ensuring the success of players in the insurance business, particularly in the retail lines of business.

Focus on financial inclusion: The approach to insurance must be in sync with the evolving times. The mission of the insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities.

Consumer needs and preferences: The growth in insurance industry has been spurred by product innovation, vibrant distribution channels, coupled with targeted publicity and promotional campaigns by the insurers. Innovation has come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups. All these efforts have brought insurance closer to the customer as well as made it more relevant.

Role of Insurance

Provide safety and security: Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. Insurance provides the investment opportunities also. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

Generates financial resources: These funds are gainfully employed in industrial development of a country for generating more funds and utilized for the economic development of the country. Insurance helps in providing Employment opportunities leading to capital formation. Insurance generates funds by collecting premium. These funds are invested in government securities and stock.

Employment generation: Insurance industry provides employment opportunities. The number of individual agents has increased. As on 31st March, 2015, there were 503 Corporate Agents working for Life insurance industrynew business premium at`1.38 lakh crore in FY16, as against `1.13 lakh crore in the previous financial year. Private insurers saw new business premium at `40,983 crore in the last fiscal, as against `34,840 crore in the previous financial year.The Union Budget 2016-17 has proposed several reforms for the insurance and pensions sector including a proposal to allow foreign investment in insurance sector through automatic route up to 49%.The number of new individual policies issued in 2014-15 stood at 2.59 Crore. Brokers, corporate agents, training establishments provide extra employment opportunities.

Promotes economic growth: Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance sector provides 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.

Spread of financial services in rural an socially less privileged: IRDA Regulations provide certain minimum business to be done in rural areas, in the socially weaker sections. Life Insurance offices are spread over nearly 1400 centers. Presence of representative in every tensile deeper penetration in rural areas.

Spreading of risk: Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

Source of collecting funds: Large funds are collected by the way of premium. These funds are utilized in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

VI. ECONOMIC GROWTH IN INDIA:

India's GDP (Gross Domestic Product) for the second quarter of FY17 grew at 7.3% versus 7.1% quarter-on-quarter and 7.6% year-on-year. While financial, insurance and real estate sector grew at 10.3 per cent, same as projected earlier. The Economic Survey had projected a wide band of 7-7.75 per cent growth in 2016-17, boosted by normal monsoon projection. It had, however, cautioned that with the global slowdown likely to persist, chances of India's growth rate in 2016-17 increasing significantly beyond 2015-16 levels were not very high.As of 2016, life insurance sector has 29 private players in comparison to only four in FY02 with 70.4 per cent share market share in FY16; LIC continues to be the market leader, far surpassing the average growth rate for the world's insurance markets during the same time period. In addition, India's gross domestic product (GDP) grew 7.6 per cent in 2015-16, powered by a rebound in farm output, and an improvement in electricity generation and mining production in the fourth quarter of the fiscal. Economic growth was estimated at 7.2 per cent in 2014-15.The life insurance industry has the potential to grow 2-2.5 times by 2020 in spite of multiple challenges supported by long-term trends and fundamentals underlying household savings.

The growth numbers for the last fiscal, which reinforces India's position as the world's fastest-growing large economy, came on the back of a strong 7.9 per cent growth in the last quarter of the fiscal average during this period. These results imply that India's insurance sector liberalization and related technical assistance helped to increase household long-term savings in financial assets, which were then used to support investment, a key factor in economic development.

VII. RELATIONSHIP BETWEEN INSURANCE SECTOR AND ECONOMIC GROWTH IN INDIAN ECONOMY:

Mobilization of Resources: The premium collected is pooled and invested in projects which reduces the transaction cost of financing and eases the pressure on the financial intermediaries. Countries with strong insurance industries have a robust infrastructure and strong capital formation. Insurance generates long-term capital, which is required to build infrastructure projects that have a long gestation period. Concurrently, insurance protects individuals and businesses from sudden unfavorable events. A well developed and evolved insurance sector is needed for economic development as it provides long-term funds for infrastructure development and simultaneously strengthens the risk taking ability. The bulk funds invested in large and infrastructure projects promote economies of scale, promoter economic development and growth and other technological innovation.

Growth in GDP and Household Financial Savings: The Life insurance is causally linked to growth only in higher income economies; nonlife insurance makes a positive contribution in both developing and higher income economies. High GDS have been strongly supported by savings in the household sector. Overall growth in GDP and household savings has significantly influenced the growth of Indian life insurance business. Reforms and liberalization are expected to exert a significant impact on income, savings and insurance purchase; financial reforms are expected to improve allocation of savings. India is one of the few countries in the world which has maintained higher growth rate in domestic savings in spite of economic deregulation and increased consumerism due to higher prosperity to save by the household sector. Expansion of the insurance market in India, expansion of service sector and increase in GDS all contributed significantly to the steady growth in economy.

Inflation and Interest Rate: An inflation and business recession directly reduces the real purchasing power and network of the people respectively. Insurance canprovide cover to these, yet the negative side is the adverse impact on the financial performance of companies. Higher interest rates inother alternative savings and instruments may discourage purchasing life insurance and lower interest rates in other alternative savingsmay encourage purchasing life insurance.

Employment: Insurance helps create both direct and indirect employment in the economy. Alongside regular jobs in insurance, there is alwaysdemand for a range of associated professionals such as brokers, insurance advisors, agents, underwriters, claims managers andactuaries. The increasing insurance business has increased the demand for highly skilled professionals as well as semiskilled andunskilled people. To ensure continued growth, the need of the hour is trained manpower with specialized knowledge about insurance.Insurance companies need to invest in the professional training of their employees, especially for subjects such as underwriting, claimsand risk management.From the analysis above, it is clear that the insurance subsector within the decade has shown tremendous positive impact on variousMacro-economic variables identified with the industry.

VIII. INSURANCE PENETRATION AND DENSITY IN INDIA:

The measure of insurance penetration anddensity reflects the level of development of insurancesector in a country. While insurance penetration ismeasured as the percentage of insurance premiumto GDP, insurance density is calculated as the ratioof premium to population (per capita premium).During the first decade of insurance sectorliberalization, the sector has reported consistentincrease in insurance penetration from 4.1 per centin 2011 to 5.1 per cent in 2010. Since then, thelevel of penetration was declining. However, therewas slight increase in 2015 reaching 3.44 percentcompared to 3.3 percent in 2014. A similar trend in the level of insurance density which reached the maximum of USD 54.7 in the year 2015 from the level of USD 64.4 in 2010. The insurance density of life insurance business had gone up from USD 55.7 in 2010 to the peak at USD 43.2 in 2015. Similarly, the life insurance penetration surged from 4.4 per cent in 2010 to 2.72 percent in 2015. Since then, it has exhibited a declining trend. However, there was a slight increase 2015 reaching 2.72 percent in 2015 when compared to 2.6% in 2014.Over the last 5 years, the penetration of nonlife insurance sector in the country remained steady in the range of 0.5-0.8 per cent. However, its density has gone up from USD 8.7 in 2010 to USD 11.5 in2015. During the year 2016, the level of life insurance density was USD 46.5 (USD 44 in 2014 and USD 43.2 in 2015). There was a slight increase in 2015 reaching 2.72 percent and remained unchanged in 2016. The penetration of nonlife insurance sector in the country remained steady in the range of 0.5-0.8 percent. However, its density has gone up from USD 8.7 in 2010 to USD 13.2 in 2016. During the year 2016, the level of industry density was USD 59.70 increased 4% USD 54.7 to USD 59.70 in 2016 and penetration was 3.49 this increased 0.5 percent in 2016.

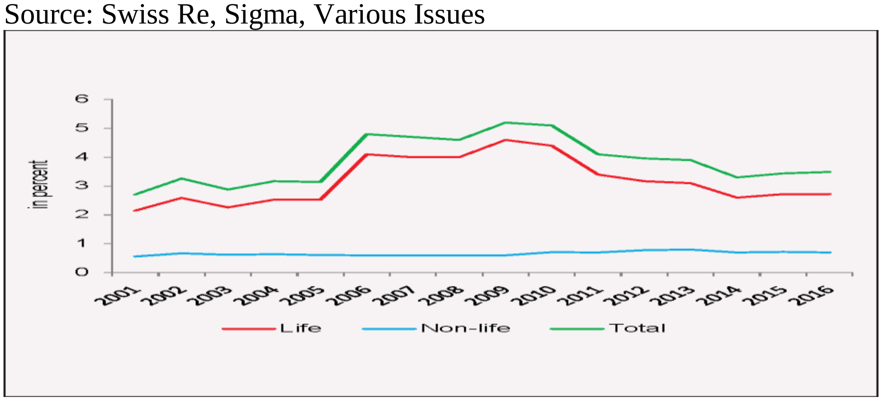
Results of Descriptive Statics of Study

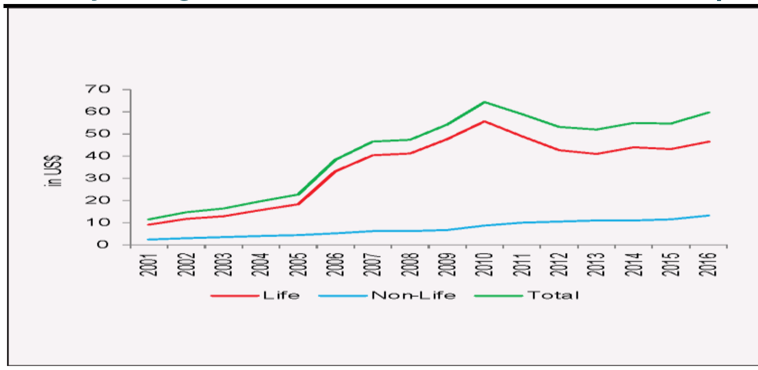
Year	Life		Non-Life		Industry	
	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)	Density (USD)	Penetration (percentage)
2010	55.7	4.4	8.7	0.71	64.4	5.1
2011	49	304	10	0.7	59	4.1
2012	42.7	3.17	10.5	0.78	53.2	3.96
2013	41	3.1	11	0.8	52	3.9
2014	44	2.6	11	0.7	52	3.3
2015	43.2	2.72	11.5	0.72	54.7	3.44
2016	46.5	2.72	13.2	0.8	59.70	3.49

Note: 1.Insurance density is measured as ratio of premium (in USD) to total population.

2. Insurance penetration is measured as ratio of premium (in USD) to GDP (in USD).

Source: Swiss Re, Sigma, Various Issues





New Policies:

Life insurance industry recorded a premium income of `418476.62 crore during 2016-17 as against `366943.23 crore in the previous financial year, registering a growth of 14.04 percent (11.84 percent growth in previous year). While private sector insurers posted 17.40 percent growth (13.64 percent growth in previous year) in their premium income, LIC recorded 12.78 percent growth (11.17 percent growth in previous year. During 2015-16, life insurers issued 267.38 lakh new policies, out of which LIC issued 205.47 lakh policies (76.84 per cent of total new policies issued) and the private life insurers issued 61.92 lakh policies (23.16 per cent of total new policies issued). While the private sector registered a growth of 7.92 per cent with a good improvement (against a decline of 9.79 per cent in 2014-15) in the number of new policies issued against the previous year, LIC registered a slight growth of 1.86 per cent with a significant improvement (against a decline of 41.55 per cent in 2014-15) in the number of new policies issued. Overall, the industry witnessed a 3.20 per cent growth (against the decline of 36.61 per cent decline in 2014-15) in the number of new policies issued.

IX. CONCLUSION

Insurance Sector has not only played an unparalleled role by spreading the message of life insurance throughout the country, but also a significant role in the economic development of the nation. Insurance helps the society by creating both direct and indirect employment opportunities for the economic development of the nation. But a country like India with its vast resources is still lacking in the development of both general insurance and life Insurance development. The Government of India has launched two insurance schemes as announced in Union Budget 2015-16. The per capita insurance premium is microscopically small.Insurance reduces the capital firms need to operate. It fosters investment and innovation by creating an environmentof greater certainty. Insurers are solid partners for the development of a workable supplementary system of socialprotection, in particular in the field of retirement and health provision. Insurance promotes sensible risk-managementmeasures through the price mechanism and other methods and contributes to responsible and sustainable economicdevelopment.

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