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Role on Insurance Sector in Indian Economy

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Abstract

Insurance market contributes to the economic growth as a financial intermediary and also helps in managing risk more effectively. This piece of research work made an attempt to examine the relationship between insurance and economic growth in India considering the state level data and contributing to the existing literature. 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 an financial intermediary and also helps in managing risk more effectively. The economy of India is the eleventh largest in the world by nominal GDP and the fourth largest by Purchasing Power Parity (PPP). 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.

Keywords: Economic growth, Insurance Industry, density.

Introduction

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

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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.

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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.

The insurance industry in India is witnessing a growth rate of 12-13% in the financial year 2015. Due to the changing life style, work culture and high income structure, change in consumption types and rate lots of change is currently happening in the insurance sector. (Daily News &Analysis) reports reveal that some of the key drivers of for the growth in insurance market are 'make In India ' initiatives, investment in infrastructure, smart cities initiative and increased consumption. The implementation of seventh pay commission, which will increase the pay-scale and it ultimately leads to more investments which will contribute to economic growth. Insurance being a capital intensive business an increase in FDI lead to more investment to grow the business. Insurance company in India helps in mobilization of savings. Insurance companies accumulate huge funds which is generated from the premiums they collect from the policies offered to the customers. These funds are invested in different ways and that substantially contribute to the economic growth.

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Methodology of the Study

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 tables and charts. With the help of excel tools and graphical analysis, the researchers have tried to show the trend and progress of the insurance industry, particularly in terms of insurance density and penetration.

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.

Role of Insurance Sector in India

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:

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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.

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 industry new 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.

Insurance Penetration and Density in India

The measure of insurance penetration and density reflects the level of development of insurance sector in a country. While insurance penetration is measured as the percentage of insurance premium to GDP, insurance density is calculated as the ratio of premium to population (per capita premium). During the first decade of insurance sector liberalization, the sector has reported consistent increase in insurance penetration from 4.1 per cent in 2011 to 5.1 per cent in 2010. Since then, the level of penetration was declining. However, there was slight increase in 2015 reaching 3.44 percent compared 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

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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.

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 environment of greater certainty. Insurers are solid partners for the development of a workable supplementary system of social protection, in particular in the field of retirement and health provision. Insurance promotes sensible risk-management measures through the price mechanism and other methods and contributes to responsible and sustainable economic development.

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