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Impact of Insurance Sector on Indian Economy

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Abstract:
The waves of globalization have influenced the insurance sector worldwide. Life insurance makes a substantial contribution to growth and transformation of Indian Economy. The Indian economic development got a boost through its Economic reforms in 1991 and again through its renewal in the 2000. 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.

Key words: *Life Insurance, economic growth, Globalization*

1. Introduction

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.

2. Insurance Strengthening and Economic Growth in India

India experienced a liberalization of its insurance market in 2000, and received substantial technical assistance from USAID and other agencies in the following years. From 2000 to 2004, the Indian insurance industry grew at a rate of 15% per year, far surpassing the average growth rate for the world's insurance markets during the same time period. In addition, India's Gross Domestic Product grew 6.7% on 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.

The economic environment in 2007 across the globe was characterized by marginally slower economic growth and rising inflation driven by a steep increase in food and energy prices. Key interest rates diverged, but where generally low. Though strong at the end of 2007, stock markets fell in early 2008. In this backdrop worldwide insurance premium amounted to US Dollar 4061 billion in 2007 as against US Dollar 3723 billion in 2006. The continued expansion of life insurance business in industrialized countries was through pension and annuities products driven by an aging population and reductions in state social security benefits. In the case of emerging economies, strong economy growth, relatively young population and an expanding middle class contributed to higher insurance sales. The profitability of life business continued to improve in many countries as costs were cut, guaranteed interest rates were reduced and profit participations was adjusted to reflect the low interest rate environment.

Country	Premiums, US $million	Penetration, % of GDP	Density US $ per capita
India	46,206	6.6	48.1
Malaysia	5,682	2.9	206.9
Thailand	6,212	2.4	91.7
China	1,09,175	2.3	81.1
Sri Lanka	238	0.6	11.8
Philippines	1,563	1	17
Indonesia	5,066	0.9	22
Pakistan	543	0.3	3

Table 1: Global Comparison of Insurance Premiums, Penetration and Density for Life Segment

From the above table, it is evident that among the key Asian markets, India is likely to have the fastest growing life insurance market, with life premium poised to grow at a CAGR of 15% for the next decade, slightly faster than the 14% expected for China. The growing consumer class, rising insurance awareness and greater infrastructure spending have made India and China the two most promising markets in Asia. Europe and the America represent relatively nature insurance markets. Though India's penetration appears higher, it is not excessive given the high level of investments in insurance policies underwritten. Taiwan has the highest insurance penetration in Asia, largely driven by the immense popularity of ULIPs.

3. Factors Which Affects the Relationship between Insurance Sector and Economic Growth in Indian Economy

3.1. 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

3.2. 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. GDS in India steadily increased from 306588 crores of rupees in 2001-02 to 1283456 crores of rupees in 2009-10. Expansion of the insurance market in India, expansion of service sector and increase in GDS all contributed significantly to the steady growth in economy.

3.3. Inflation and Interest Rate

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

3.4. Employment

Insurance helps create both direct and indirect employment in the economy. Alongside regular jobs in insurance, there is always demand for a range of associated professionals such as brokers, insurance advisors, agents, underwriters, claims managers and actuaries. The increasing insurance business has increased the demand for highly skilled professionals as well as semiskilled and unskilled 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, claims and risk management.

From the analysis above, it is clear that the insurance subsector within the decade has shown tremendous positive impact on various Macro-economic variables identified with the industry.

4. 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 per capita insurance premium is microscopically small.

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