

The role of insurance in development of economy in India

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Abstract: In this paper, we introduce the type of insurance is making development of economy in India, despite the all of the types of risks the importance of insurance. If there had not been insurance at the back of all innovators the world would have never progressed. India's rapid rate of economic growth over the past decade has been one of the more significant developments in the global economy. This growth has its roots in the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living.

After confute this in safety invoice the investment start looking for new and more high-tech machinery, robots, atomic technology, space traveling, computers, deep sea detection, development of assent and medical technology, all these developments could be possibility with the support of insurance.

The used of a methodology with Measured of Insurance contribution materially to economic growth and by improving the investment climate and promoting a more efficient mix of activities then would be undertaken, in the absence of risk management instrument. The result of this study will be showing that importance of Insurance in economy development.

Key words: Insurance, Economy, Development of Economy, RiskManagement.

Introduction:

Insurance is a risk transfer mechanism whereby the individual or the business enterprise can shift some of the uncertainties of life on the shoulder of the other; all of the people will desire to live a cleaner, healthier, comfortable and easy life. To meet this requirement different enterprises produce and provide goods

and services. They make innovation and inventions, which take great risk. Large responsibility falls on the shoulder of innovators and inventors. A small error or lapse may cause numerous side effects and cause death or disability.

Insurance serves a number of valuable economic functions that are largely distinct from other types of financial

intermediaries. In order to highlight specifically the unique attributes of insurance, it is worth focusing on those services that are not provided by other financial services providers, excluding for instance the contractual savings features of whole or universal life products. The indemnification and risk pooling properties of insurance facilitate commercial transactions and the provision of credit by mitigating losses as well as the measurement and management of non-diversifiable risk more generally.

Typically insurance contracts involve small periodic payments in return for protection against uncertain, but potentially severe losses. Among other things, this income smoothing effect helps to avoid excessive and costly bankruptcies and facilitates lending to businesses. Most fundamentally, the availability of insurance enables risk adverse individuals and entrepreneurs to undertake higher risk, higher return activities than they would do in the

absence of insurance, promoting higher productivity and growth.

The management of risk is a fundamental aspect of entrepreneurial activity. Entrepreneurs manage the risk of accidental loss by weighing the costs and benefits of each alternative. In a structured risk management process, this involves:

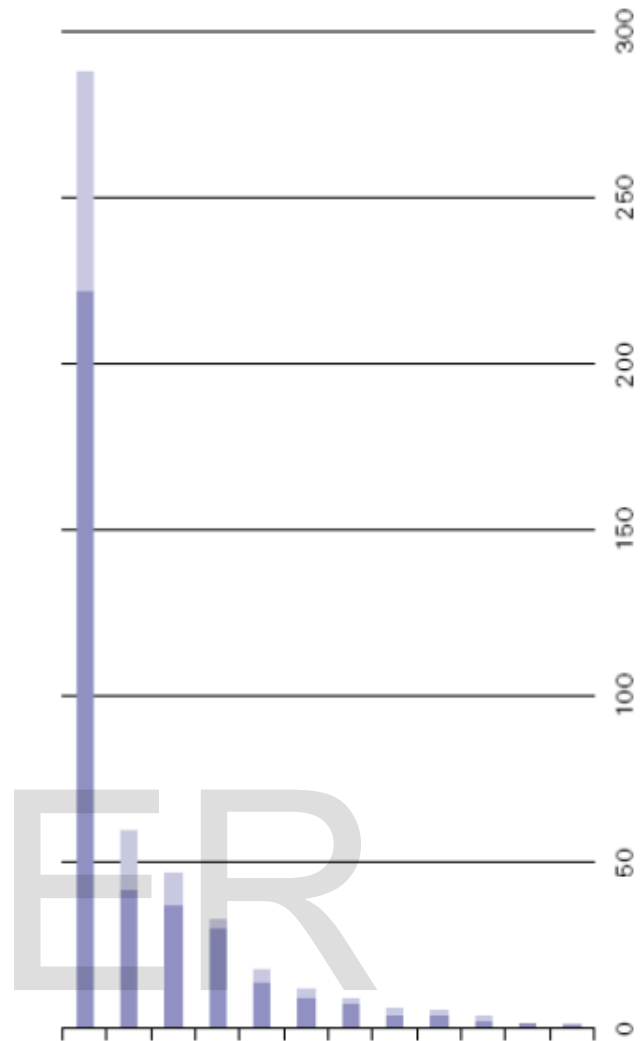
(1) Identifying the exposures to accidental loss; (2) evaluating alternative techniques for treating each loss exposure; (3) choosing the best alternative; and (4) monitoring the results to refine the choices. Those who do not apply a structured process still make decisions about risk, although sometimes by default rather than design. The scope of an economy's insurance market affects both the range of available alternatives and the quality of information to support decisions.

For example, a manufacturer might produce only for the local market, forgoing more lucrative opportunities in distant markets in

order to avoid the risk of losing goods in shipment. Transport insurance can mitigate this loss exposure and enable the manufacturer to expand. Similarly, to avoid the risk of total loss from drought, a commercial farmer may keep half of his seed in reserve. Crop insurance can protect against drought and permit all of the seed to be planted for a smaller premium than the cost of holding half in reserve. Thus public policies that encourage insurance operations improve the economy's productivity by broadening the range of investments. Insurers also contribute specialized expertise in the identification and measurement of risk. This expertise enables them to accept carefully specified risks at lower prices than non-specialists. They also have an incentive to collect and analysis information about loss exposures, since the more precisely they measure the cost of risk, the more they can expand. As a result, the insurance market generates price signals to the entire economy, helping to allocate resources to more productive uses. Insurers also have an incentive to control losses, which is a significant social benefit. By offering discounts for seat belts, smoke detectors, or

other measures that reduce the frequency or severity of losses, they lower their eventual claims costs, in the process saving lives and reducing injuries. On the investment side, due to the long term nature of their liabilities, sizeable reserves, and predictable premiums, life insurance providers can serve an important function as institutional investors providing capital to infrastructure and other long term investments as well as professional oversight to these investments. Of course, these benefits are fully realized only in markets where insurance providers invest a substantial portion of their portfolios domestically. The net result of good functioning insurance markets should be better pricing of risk, greater efficiency in the overall allocation of capital and mix of economic activities, and higher productivity. Importantly, these unique functions of insurance should be complementary to banking and financial sector deepening more broadly. For instance, insurance facilitates credit transactions such as the purchase of homes and cars and business operations, while depending in turn on good functioning payment systems and robust investment opportunities.

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 is a risk transfer mechanism whereby the individuals or the business enterprise can shift some of the uncertainties of life on the shoulder of other. In peace the insurance providers of trade industry which ultimately contribution towards human progress. Thus, insurance is the most lending force

contribution towards economic, social and technological progress of man.

For Example:

The Indian insurance market is the 19th largest globally and ranks 5th in Asia, after Japan, South Korea, China and Taiwan. In 2003, total gross premiums collected amount to USD 17.3billion representing just under 0.6% of world premiums. Similar to the pattern observed in other regional market and reflecting the country's high savings rate, life insurance business accounted for 78.5% of total gross premiums collected in the year, against 21.5 for non-life insurance business.

Figure 1: The Indian Insurance Industry

Another measure of insurance development is per capita spending on insurance, i.e insurance averaged 1.7% over the past ten years.

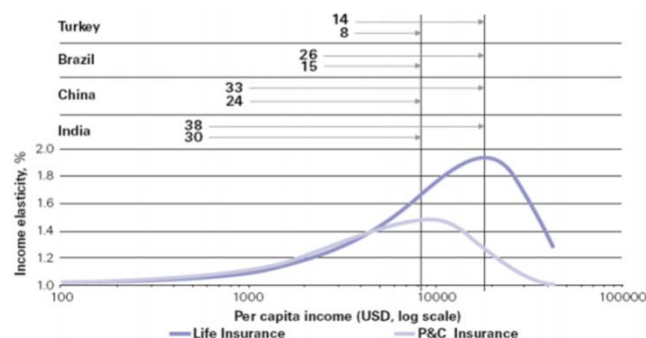


Figure.2.The Indian Insurance Industry

Methodology:

Measured contributed of Insurance to growth

1. Insurance Contributes Positively to Economic Growth:

The deepening of insurance markets makes a positive contribution to economic growth. While 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. Some research suggests that the positive contribution of life insurance

to growth is primarily through the channel of financial intermediation and long term investments. However, it is important to note that these studies do not address the important contributions to individual and social welfare from risk management.

2. Strong Complementarity between

Insurance and Banking:

Insurance and banking system deepening appear to play complementary roles in the growth process. Although insurance and banking separately each make positive contributions to growth, their individual contributions are greater when both are present. There is also some evidence that the development of insurance markets contributes to the health of securities markets. As suggested above, there are many reasons why this complementary relationship might hold, including the likelihood that the presence of property casualty insurance avoids inefficiently high levels of bankruptcy and helps to

facilitate credit transactions for houses, consumer durables, and small- and medium-sized businesses that banks typically finance. Separate evidence that a growing presence of life insurance providers and pension funds is associated with more efficient banks suggests that they promote some capital market discipline on the investment side that is also complementary.

Drivers of Insurance Coverage

1. Rising Incomes, Moderate Inflation, and Financial Deepening are Key Drivers:

Growth in insurance coverage is strongly associated with rising incomes, the development of an increasingly sophisticated banking sector, and low or moderate levels of inflation.⁶ The strong contribution of rising incomes to greater insurance coverage might be attributable

to demand factors (rising demand for coverage as individuals become wealthier), supply factors (it becomes more cost-effective to provide insurance as the economy expands, providing both a stronger institutional environment and greater returns relative to transactions cost), or a combination.

2. Variation in Insurance Coverage:

Although the key drivers noted above are relatively robust in explaining insurance market coverage, nonetheless there is substantial variation in insurance coverage among economies that cannot be fully explained by these factors. This suggests some idiosyncratic factors may be at work.

Micro-Insurance:

The contribution of insurance to an economy's growth and efficiency is not the only entry point into its role in development. The contribution of insurance to poverty alleviation and the

welfare of the poor is also potentially of considerable importance, although the quantitative evidence on this point is not on very firm grounding. Nonetheless, case studies and other qualitative evidence make a persuasive case that the potential social value of so-called micro-insurance provision to poor households and small-scale entrepreneurs warrants a great deal more experimentation with business models and products to develop scalable approaches that combine commercial and philanthropic elements.

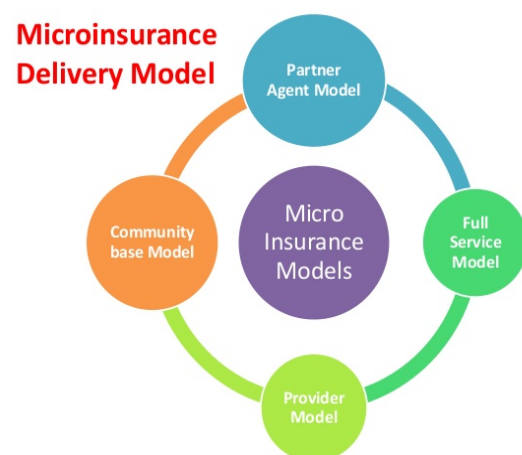


Figure 3: Micro Insurance Delivery Model

Moreover, insurance market development faces many special informational challenges that have been extensively documented in economic research even in wealthier countries. Put simply, insurance is likely to be relatively more expensive – even prohibitively so – for low income households and small-scale entrepreneurs because of the high informational problems and transactions costs relative to the size of the risk to be insured. As a result, most types of insurance are simply not available to the vast majority of the world's poorer citizens.

For micro entrepreneurs and farmers, the net result can be a significant drag on overall economic performance as they choose to invest in activities that might offer the best risk-return profile from an individual point of view but are suboptimal from an economy-wide point of view where a higher returning but riskier set of investments might lead to better aggregate outcomes.

Micro Group Life Insurance: Number of New Policies

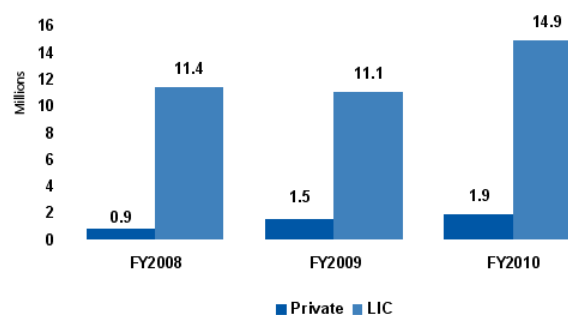


Figure 4: Micro Group Life Insurance

In parallel, in some countries the public sector is taking a greater interest in the provision of social insurance to poorer populations – through subsidized public insurance schemes for health, natural disasters, or weather-related crop insurance. Government mandates for compulsory insurance also expand the covered population although the difficulty of achieving risk-based pricing can lead to market distortions.

Household Insurance:

Micro-finance providers and other community-based financial intermediaries have begun to diversify into insurance products. In Uganda, 2 million people

have purchased life insurance bundled with savings and micro-credit. Burial insurance is growing rapidly in other areas, and there are some experiments with property insurance such as for livestock and dwellings.

Natural Disasters, Weather, and Crop Insurance:

There should be enormous potential for natural disaster and weather insurance to improve the performance of lower income economies, which tend to be more vulnerable to high volatility in incomes due to commodity price fluctuations and natural disasters due to poor building codes and infrastructure. Current investments in new products and innovations in weather and natural disaster insurance should be followed closely, as it is anticipated that climate change will exacerbate the incidence of weather patterns and natural disasters in many poor areas.

In recent years, the World Bank and other donors have been involved in experiments in countries such as Turkey and Mexico that provide earthquake risk insurance financed through a combination of reinsurance and the capital markets. In areas of Asia and Africa, there is growing interest in weather derivatives to insure against weather-associated agricultural losses.

These are designed to sidestep the traditional incentive (moral hazard) problems associated with crop insurance by using independent measurements of weather outcomes such as rainfall rather than crop yields.

Health Insurance:

As with the wealthier economies, the development of health insurance markets in developing economies depends on the composition of health delivery providers – whether private or public – and the government's involvement in health insurance provision. However, there is a

strong tendency in poorer economies for households to bear responsibility for paying a much higher proportion of overall health costs out of pocket than in richer economies, which leads to underinvestment in health services (particularly on the preventive side) and vulnerability to health related consumption shocks. Thus, a strong case can be made for improving health outcomes in poor countries through a varied combination of public and private insurance provision depending on the institutional setting. Indeed, countries such as Mexico and Colombia have undertaken interesting reforms in this area in recent years, and this is likely to be an area of strong growth.

Life Insurance:

For economic development, investment 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 income groups. These savings are channelled into investment for economic growth .The insurance act has strict provisions to ensure that insurance funds are invested in safe avenues, like government bonds, companies with record of profit and so on.

Globalization of Insurance markets:

Although the evidence suggests that insurance market deepening should be a priority in the financial sector strategies of developing countries, awareness of the role of insurance lags behind that of banking and capital markets. For these reasons, it is important to raise the visibility of this sector and to clarify what unique regulatory provisions might be needed to enable insurance market development alongside other facets of financial deepening. For many countries,

a good starting point would be to include analysis and recommendations specifically for insurance in financial sector assessments.

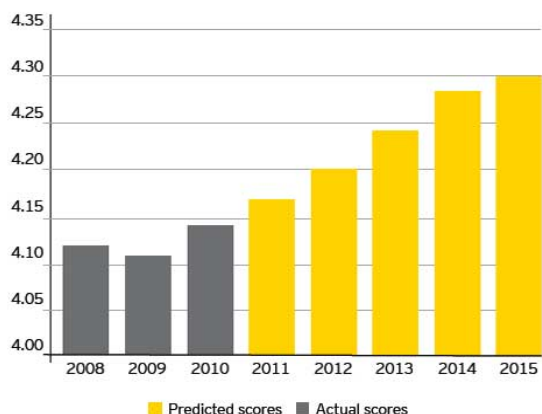


Figure 5: Globalization Insurance Growth

Conclusion:

The importance of insurance for the insured one is in preventing him/her from various risks. Huge capital is formed by insurance and it represents a part of national savings for unpredictable cases and the importance of insurance for every country's economy is enormous. Assets of insurance organizations constitute the right of ownership on immovable and movable assets, cash, securities and other property rights.

It is very clear that the insurance sector is poised for huge growth by way of number of policy holders, policy premium, new product, and increased technology focus.

To achieve economic growth of various factors we got insurance and have a view that many factors affect the insurance of economic growth and indicates which types of insurance each have a great share in the economic growth. According to the needs of societies and the world being the insurance industry and the need for modern human societies create new insurance is necessary.

In India makes with the development of the insurance industry and its variants with cheap prices and easy access to be less risk to economic activity and economic growth.

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