INSURANCE SECTOR CONTRIBUTION TO ECONOMIC DEVELOPMENT OF INDIA

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Abstract

Insurance has had a very positive impact on India‘s economic development. The sector is gradually increasing its contribution to the country‘s GDP. In addition, insurance is driving the infrastructure sector by increasing investments each year. Further, insurance has boosted the employment scenario in India by providing direct as well as indirect employment opportunities. Due to the healthy performance of the Indian economy, the share of life insurance premiums in the gross domestic savings (GDS) of the households sector has increased. The increased contribution of the insurance industry from the household GDS has been ploughed back into the economy, generating higher growth.

Keywords: Insurance, GDP, Life Insurance, General Insurance

INTRODUCTION

The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry was opened up for private players in 2000, and has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world‘s most dynamic insurance markets with significant untapped potential. The insurance sector plays a critical role in a country‘s economic development. It acts as mobilize of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals; the non-life insurance industry provides a risk cover for assets. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life, and India, as the second-most populous nation in the world, offers significant potential for that type of cover. Furthermore, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems complement social security systems and add value by matching risk with price.

EVOLUTION OF THE INDUSTRY

The growing demand for insurance around the world continues to have a positive effect on the insurance industry across all economies. India, being one of the fastest-growing economies (even in the current global economic slowdown), has exhibited a significant increase in its GDP, and an even larger increase in its GDP per capita and disposable income. Increasing disposable income, coupled with the high potential demand for insurance offerings, has opened many doors for both domestic and foreign insurers.

In India, the Ministry of Finance is responsible for enacting and implementing legislations for the insurance sector with the Insurance Regulatory and Development Authority (IRDA) entitled with the regulatory and developmental role. The government also owns the majority share in some major companies in both life and non-life insurance segments. Both the life and non-life insurance sectors in India, which were nationalized in the 1950s and 1960s, respectively, were liberalized in the 1990s. Since the formation of IRDA and the opening up of the insurance sector to private players in 2000, the Indian insurance sector has witnessed rapid growth.

STRUCTURE OF INDIAN INSURANCE INDUSTRY

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. 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. 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. 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 analyze 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 well 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 well functioning payment systems and robust investment opportunities.

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1. Contribution of insurance to infrastructure

Generally, 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 unfavourable 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.

2. Contribution of insurance to FDI

The importance of FDI in the development of a capital deficient country such as India cannot be undermined. This is where the high-growth sectors of an economy play an important role by attracting substantial foreign investments. Government of India increases the FDI limit from 49% to 100% by 2019. Insurance industry in India is expected to reach US dollar 280 billion by 2020, driven by increasing awareness, innovative products and more distribution channels. The insurance sector, by virtue of attracting long-term funds, is best placed to channelize long term funds toward the productive sectors of the economy. Therefore, the growth in their premium collections is expected to translate into higher investments in other key sectors of the economy. Therefore, the liberalization of FDI norms for insurance would not only benefit the sector, but several other critical sectors of the economy.

3. Contribution of insurance to 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.

4. 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.

5. Strong Complementarities 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.

CONCLUSION

The growth of the Indian economy has been diminishing due to various reasons, but the Indian growth story is still alive as Indians has a habit of moving slowly but steadily and in the end we win the race. Currently the situations are not in our favour but as soon the above problems settles down, we may back on track. At the same time many sectors are supporting to the growth of the Indian economy, among that insurance sector's contribution is very high. The growth performance of the insurance industry has increased tremendously since the establishment of IRDA in India, which supervise and controlled the entire insurance industry. The increase in number of insurer both in life and non-life, growth in insurance penetration and density, increase in number of policies issued and increase in the speed of claims settlement and the in many more aspects the IRDA is playing a prominent role in the Indian insurance sector.

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