International Journal of Education and Science Research Review
P-ISSN 2349-1817, E- ISSN 2348-6457
www.ijesrr.org December- 2017, Volume-4, Issue-6 Email- editor@ijesrr.org

GENERAL IDEA AND IMPACT OF INSURANCE ZONE ON INDIAN ECONOMY

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ABSTRACT

India has emerged as the fastest growing major economy in the world as per the Central Statistics Organization (CSO) and International Monetary Fund (IMF) and it is expected to be one of the top three economic powers of the world over the next 10-15 years, backed by its strong democracy and partnerships.. Indian economy is expected to grow at a rate of 6.7 per cent in the year 2017-18 and in the next financial year 2018-19 the economy is expected to grow at a rate of 7.2 per cent. The improvement in India's economic fundamentals has accelerated in the year 2015 with the combined impact of strong government reforms, Reserve Bank of India's (RBI) inflation focus supported by benign global commodity prices. India's consumer confidence index stood at 128 in the second quarter of 2017, topping the global list of countries on the same parameter, as a result of strong consumer sentiment. Moody's has affirmed the Government of India's Baa rating with a positive outlook stating that the reforms by the government will enable the country perform better compared to its peers over the medium term.

KEY WORDS: economy, global commodity prices

HISTORY OF INSURANCE

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. Empirical studies suggest that nonlife insurance contributes to growth in countries at many different levels of development. Life insurance makes a substantial contribution to growth mostly in wealthier countries, since life insurance is typically a smaller part of the total insurance market in low income countries. Of course, even if the data did not support a strong causal role for insurance as an engine of overall aggregate growth of the Indian economy.

A contract of insurance may be defined as a contract whereby, one person, called the 'insurer', undertakes, in return for the agreed consideration, called the 'premium' to pay to another person, called 'assured', a sum of money or its equivalent on the happening of a specified event. The aim of all insurance is to make provisions against dangers which beset human life and dealings. Those who seek it endeavor to avert disasters from themselves by shifting possible losses on the shoulders of others who are willing for pecuniary consideration, to take risk thereof, and in the case of life assurance, they endeavor to assure to those dependent on them a certain provision in case of their death, or to provide a fund out of which their creditors can be satisfied.

In India, insurance has a deep-rooted history. It funds mention in the writings of Manu, Yagnavalkya and Kautilya. The writing talks in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. This was probably a precursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over tome heavily drawing from other countries, England in particular.

THE BRITISH PERIOD

1818 saw the advent of life insurance business in India with the establishment of the oriental life insurance company in Calcutta. This company however failed in 1834. 1870 saw the enactment of the British insurance Act. This era, however, was dominated by foreign insurance offices which did good business in India. The Indian life assurance companies act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian insurance companies act was enacted to enabled the government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the insurance public, the earlier legislation was consolidated and amended by the insurance act, 1938 with comprehensive provisions for effective control over the activities of insurers.

THE NATIONALIZED PERIOD

The insurance amendment act of 1950 abolished principal agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The government of India, therefore, decided to nationalize insurance business. In nationalized era an ordinance passed on 19th January, 1956 nationalizing the life insurance sector and Life Insurance Corporation came into existence in the same year. LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies-245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the insurance sector was reopened to the private sector. Due to new liberalization, privatization and globalization, the insurance sector was reopened to the private sector.

THE LIBERALIZED PERIOD

The insurance regulatory and Development Authority was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA opened up the market in august 2000 with the invitation for application for registrations. The bill allows foreign equity stake in domestic private insurance companies to maximum of 26% of the total paid-up capital and seeks to provide statutory status to the insurance regulator. Foreign companies were allowed ownership of up to 26%. In December, 2000, the subsidiaries of the general insurance corporation of India were restructured as independent companies and at the same time GIC was converted into a national reinsurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002. Today there are a number of private sector insurance companies. The table below shows the breakup of insurance companies:-

TABLE – 1
NUMBER OF INSURANCE COMPANIES IN INDIA

Type of Business	No. of Public sector companies	No. of Private sector companies	Total companies
Life Insurance	1	23	24
General Insurance	6	22	28
Re Insurance	1	0	1
Total	8	45	53

Source: Insurance Regulatory & Development Authority Official Website Www.Irda.Org

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.

TABLE-2
DETAIL WISE COUNTRIES IN INSURANCE PERCENTAGE

Country	Premiums, US $million	Penetration, % of GDP	Density US $ per capita
India	46206	6.6	48.1
Malayasia	5682	2.9	206.9
Thiland	6212	2.4	91.7
China	109175	2.3	81.1
Srilanka	238	0.6	11.8
Phillipines	1563	1.0	17.0
Indonesia	5066	0.9	22.0
Pakisatan	543	0.3	3.00

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.

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.

INDIAN INSURANCE IN THE GLOBAL SCENARIO

In life insurance business, India ranked 9th among the 156 countries for which data are published by Swiss Re. During 2014, the life insurance premium in India grew by 12.1 per cent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2.2 per cent. The share of Indian life insurance sector in global market was 2.95 per cent during 2014, as against 1.98 per cent in 2013.

The non-life insurance sector witnessed a marginal growth of 1.91 per cent during 2013. However, its performance was better when compared to global non-life premium, which contracted by 0.1 per cent during the same period. The share of Indian non-life insurance premium in global non-life insurance premium remained very low at 0.46 per cent and India ranked 26th in global non-life insurance premium.

The insurance density of life insurance sector had gone up from USD 9.1 in 2005 to USD 47.8 in 2016. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2005 to 4.51 per cent in 2016.

TABLE 3
INSURANCE PENETRATION AND DENSITY IN INDIA

Year	Life		Non-Life		Industry	
	Density (USD)	Density (USD)	Density (USD)	Penetration (%age)	Penetration (%age)	Penetration (%age)
2005	9.1	2.15	2.4	0.56	11.5	2.71
2006	11.7	2.59	3.0	0.67	14.7	3.26
2007	12.9	2.26	3.5	0.62	16.4	2.88
2008	15.7	2.53	4.0	0.64	19.7	3.17
2009	18.3	2.53	4.4	0.61	22.7	3.14
2010	33.2	4.10	5.2	0.60	38.4	4.80
2011	40.4	4.00	6.2	0.60	46.6	4.70
2012	41.2	4.00	6.2	0.60	47.4	4.60
2013	47.7	4.60	6.7	0.60	54.3	5.20
2014	47.4	4.54	6.5	0.54	54.1	5.14
2015	47.3	4.45	6.2	0.51	53.3	5.01
2016	47.8	4.51	6.3	0.58	54.3	5.08

SOURCE: SWISS RE, VARIOUS ISSUES.

FACTORS WHICH AFFECTS THE RELATIONSHIP BETWEEN INSURANCE SECTOR & 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. 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.

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.

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.

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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