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"ROLE OF INSURANCE INDUSTRY TO THE SUSTAINABLE ECONOMIC GROWTH IN INDIA"

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ABSTRACT:

The insurance industry is critical for any country's economic development. A well-developed insurance sector boosts risk-taking in the economy, as it provides some security in the event of an unforeseen, loss-causing incident. It also provides much-needed support to family members in the case of loss of life or health. Insurance usually mobilize the investment in various productive activities which leads to industrialization and economic growth. It is an important industry and by acting a buffer between risks and economic activities. The regular inspection of machines and premises by insurers and provision of medical services tend to conserve property and life, besides reducing risk and increasing their credit worthiness. Since the assets under management of insurance companies represent long-term capital, they also act as a pool in which to invest in long-term projects such as infrastructure development. The insurance industry in India has also grown along with the country's economy. Several insurance companies in the country are expanding their operations, across both the public and private sector. This paper analyze the role of the Indian insurance industry to the sustainable economic growth and also studies the Concept of insurance, historical background of the insurance market in India and present scenario of the market in India. This paper is based on the secondary source of data.

KEY WORDS: *Sustainable Economic Growth, Life insurance, General insurance, Risk, Protection and GDP.*

INTRODUCTION:

Insurance industry in developing countries like India playing a vital role to achieve sustainable economic development. Insurance is a tool to mitigating risk, it is a contract of transferring risk from one person to another with a consideration called premium. The concept of insurance works with the principle of "Losses of few shared by many". Insurers help to stabilize the economy, especially during times of a financial crisis. They are fundamentally different from investment banks and commercial banks. Insurance has been known to exist in some form or other since 3000 BC. Various civilizations, over the years, have practiced the concept of pooling and sharing among themselves, all the losses suffered by some members of the community. For the sustainable economic development of the country, insurance provides strong hand mind, protection against loss of property and adequate capital to produce more wealth. The agriculture will experience production against losses of cattle, machines, tools and crop. This sort of protection stimulates more production in agriculture, in industry, the factory premises, and machines. Adequate capital from insurers accelerates the production cycle. Thus, the insurance meets all the requirements of the economic growth of a country.

LITERATURE REVIEW:

- **Prof. Jagdeep Kumari (2016)** in his paper "**Role of Insurance in Economic Development of India"** Concluded that, 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 others. Indian insurance companies offer a comprehensive range of insurance plans.
- **Sajid Mohy Ul Din, Arpah Abu-Bakar and Angappan Regupathi (2017)** in their paper "**Does insurance promote economic growth: A comparative study of developed and emerging/developing economies"** examines the relationship between insurance and economic growth in 20 countries for the period 2006–2015. The results also reveal that non-life insurance has statistically significant, for all three proxies, relationship with economic growth for developing countries whereas, in case of developed countries, the results are only significant when insurance density is used as a proxy for insurance.

Moreover, the role of non-life insurance is more significant for developing countries as compared to developed countries.

- **Dr. M.Subba Rao, R. Srinivasulu (2013)** in their article **"Contribution of Insurance Sector to Growth and Development of the Indian Economy"** concluded that, 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.

OBJECTIVES:

- To define the role and contribution of insurance towards sustainable economic development.
- To know the concept of insurance.
- To study the current scenario of insurance industry in India.

RESEARCH DESIGN:

This paper is based on secondary data and data were collected from publications, books, articles in news papers, journals and research papers, and website.

SUSTAINABLE ECONOMIC GROWTH AND INSURANCE:

Sustainable economic growth means a rate of growth which can be maintained without creating other significant economic problems, especially for future generations. There is clearly a trade-off between rapid economic growth today, and growth in the future. Rapid growth today may exhaust resources and create environmental problems for future generations, including the depletion of oil and fish stocks, and global warming. Insurance plays a very important role in developing a sustainable business organization through its products and services. By insuring the society, business organizations etc against the uncertainties of risks, it improves the standard of living of the society and builds confidence to take challenges and catch the opportunities available in the business society.

HISTORY OF INSURANCE IN INDIA:

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). The writings talk 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 pre-cursor 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 time heavily drawing from other countries, England in particular.

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. In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies 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 enable 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 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.

An Ordinance was issued on 19th January, 1956 nationalising the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The 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.

The history of general insurance dates back to the Industrial Revolution in the west and the consequent growth of sea-faring trade and commerce in the 17th century. It came to India as a legacy of British occupation. General Insurance in India has its roots in the establishment of Triton Insurance Company Ltd., in the year 1850 in Calcutta by the British. In 1907, the Indian Mercantile Insurance Ltd, was set up. This was the first company to transact all classes of general insurance business.

1957 saw the formation of the General Insurance Council, a wing of the Insurance Associaton of India. The General Insurance Council framed a code of conduct for ensuring fair conduct and sound business practices.

In 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up then.

In 1972 with the passing of the General Insurance Business (Nationalisation) Act, general insurance business was nationalized with effect from 1st January, 1973. 107 insurers were amalgamated and grouped into four companies, namely National Insurance Company Ltd., the

New India Assurance Company Ltd., the Oriental Insurance Company Ltd and the United India Insurance Company Ltd. The General Insurance Corporation of India was incorporated as a company in 1971 and it commence business on January 1sst 1973.

This millennium has seen insurance come a full circle in a journey extending to nearly 200 years. The process of re-opening of the sector had begun in the early 1990s and the last decade and more has seen it been opened up substantially. In 1993, the Government set up a committee under the chairmanship of RN Malhotra, former Governor of RBI, to propose recommendations for reforms in the insurance sector. The objective was to complement the reforms initiated in the financial sector. The committee submitted its report in 1994 where in , among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners.

Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

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 re-insurer. Parliament passed a bill de-linking the four subsidiaries from GIC in July, 2002.

Today there are 31 general insurance companies including the ECGC and Agriculture Insurance Corporation of India and 24 life insurance companies operating in the country.

The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long- term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

CONTRIBUTION OF INSURANCE INDUSTRY TO INDIAN ECONOMY:

Insurance companies receive, without much default, a steady cash stream of premium or contributions to pension plans. Various actuary studies and models enable them to predict, relatively accurately, their expected cash outflows. Liabilities of insurance companies being long-term or contingent in nature, liquidity is excellent and their investments are also long-term in nature. As a combined result of all this, investments of insurance companies have been largely in bonds floated by GOI, PSUS, state governments, local bodies, corporate bodies and mortgages of long-term nature. The insurance industry also provides crucial financial intermediary services, transferring funds from the insured to capital investment, critical for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. In fact, infrastructure investments are ideal for asset-liability matching for life insurance companies given their long-term liability profile. According to preliminary estimates published by the Reserve Bank of India, contribution of insurance funds to financial savings was 14.2 per cent in 2005-06, viz., 2.4 per cent of the GDP at current market prices. Development of the insurance Sector is thus necessary to support continued economic transformation. Social security and pension reforms too benefit from a mature insurance industry.

ROLE OF INSURANCE:

Provide security and safety: The insurance provide safety and security against the loss on a particular event. In case of life insurance payment is made when death occurs or the term of insurance is expired. The loss to the family at a premature death and payment in old age are adequately provided by insurance. Similarly, the property of insured is secured against loss on a fire in fire insurance. The insurance provides safety and security against the loss of earnings at death or olden age, against the loss at fire, against the loss at damage, destruction or disappearance of property, goods, furniture and machines, etc.

Employment Generation: Life insurance provides increased employment opportunities. Employees in insurance sector as on 31st march, 2015 is around 20 lakhs. Many agents depend on insurance for their livelihood. Number of agents on 31st march 2004 15.59 lakhs. Brokers, Corporate agents, training establishments provide extra employment opportunities. Many of these openings are in rural sectors.

Insurance affords peace of Mind: The security wish is the prime motivating factor. This is the wish which tends to stimulate to more work, if this wish is unsatisfied, it will create a tension which manifests itself to the individual in the form of an unpleasant reaction causing reduction in work, The security banishes fear and uncertainty, fire, windstorm, auto-mobile accident, damage and death are almost beyond the control human agency and in occurrence of any of these events may frustrate or weaken the human mind. By means of insurance, however, much of the uncertainty that centers about the wish for security and its attainment may be eliminated.

Generates financial resources: Insurance generate funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in industrial development of a country for generating more funds and utilised for the economic development of the country. Employment opportunities are increased by big investments leading to capital formation.

Life insurance encourages savings: Insurance does not only protect against risks and uncertainties, but also provides an investment channel too. Life insurance enables systematic savings due to payment of regular premium. Life insurance provides a mode of investment. It develops a habit of saving money by paying premium. The insured get the lump sum amount at the maturity of the contract. Thus life insurance encourages savings.

Promotes economic growth**:** Insurance generates significant impact on the economy by mobilizing domestic savings. Insurance turn accumulated capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results into economic growth and development. Thus, insurance plays a crucial role in sustainable growth of an economy.

Medical support: A medical insurance considered essential in managing risk in health. Anyone can be a victim of critical illness unexpectedly. And rising medical expense is of great concern. Medical Insurance is one of the insurance policies that cater for different type of health risks. The insured gets a medical support in case of medical insurance policy.

Spreading of risk: Insurance facilitates spreading of risk from the insured to the insurer. The basic principle of insurance is to spread risk among a large number of people. A large number of persons get insurance policies and pay premium to the insurer. Whenever a loss occurs, it is compensated out of funds of the insurer.

Source of collecting funds: Large funds are collected by the way of premium. These funds are utilised in the industrial development of a country, which accelerates the economic growth. Employment opportunities are increased by such big investments. Thus, insurance has become an important source of capital formation.

CONCLUSION:

The risk transfer facility provided by insurance companies can be viewed in terms of the efficient use of capital. Industrial, commercial and trading enterprises would have to hold more precautionary capital to run their enterprises if there were no insurance markets. In effect, insurance companies supply contingent equity capital to industrial and commercial enterprises. Insurance promotes foreign trade and plays an important role in expanding and encouraging the international trade. When the goods are shipped outside a country, the consignment is subject to various risks such as sinking of the ship, collision of the ship, robbery, etc.

Now in Indian insurance market, the market share of private sector players has increased over the years. In the non-life insurance sector, private companies had a market share of 54.68 % in FY 19 (as of Jan '19). In the life insurance sector, private companies had a market share of 33.74 % in FY 19 (as of Jan '19). The overall market for insurance is expected to be $ 280 bn by 2020. Gross premiums in India reached $ 94.48 bn (Life insurance: $ 71.1 bn and Non-life insurance: $ 23.38 bn) in FY 18.

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