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INSURANCE SECTOR ADVANCEMENT AND ECONOMIC GROWTH

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ABSTRACT:
Indian life insurance market has undergone tremendous structural changes since 1818, when the first life insurance company was established in Calcutta. Life insurance industry in India progressed from a loosely regulated market controlled by two groups of private life insurance companies in early phase to a non competitive monopoly phase where the industry was represented by a single entity, that is, LIC of India in a planned economic environment. The main focus of this article is on the insurance sector and economic development of countries in transition; while some of them have already become members of the European Union, others are still in the access to the EU procedure. From the data collected by using an empirical method, it can be observed that the development of the insurance market has had a positive influence on economic growth. The importance of the insurance sector can be observed in the results of the displayed types of insurance in the period from 2010 to 2017. The confirmation of market development is also located in the laid and paid claims, which provide policyholders with security and confidence in insurance companies.
Key words: LIC of India, market

INTRODUCTION:

Economic development can not be viewed outside the context of the entire social development because the economy is one of the major subsystems of the social system, therefore the economic development is inseparable from the overall social development. Social, political, historical, geographical, cultural and other non-economic domains significantly affect the economic dimensions of the economic development. The economic development is a complex social process by which each country seeks to transit from a lower to a higher stage of economic development, while economic growth is defined as the increase in national production during a period of time greater than population growth. From the provided definition, we see that the economic development is broader and more complex process of economic growth.1 there are ways to achieve economic growth along with increased use of inputs in order to increase the output and the optimum use of production capacity. At the same time, the growth of output achieves the same amount of input provided to increase the efficiency of their use. One of the main components of economic development is to modify the social structure and economy, and changes are most pronounced in the manufacturing part, with the participation of the agricultural sector and industry in overall production growth, in order to achieve higher social and national income.

INTERDEPENDENCE OF LIC AND GIC:

A number of factors that might be assumed to be strong drivers of insurance market growth appear much less significant in practice, including demographic factors, such as the share of the population that is approaching or at retirement relative to the share that is young, and the educational level of the population. Notably, social provision of insurance, such as social security and government health insurance, appears to grow in tandem with the provision of private insurance perhaps because both are associated with increasing incomes – rather than acting as substitutes as some have conjectured. In addition, even though urbanization might be expected to lead to growth in insurance coverage due to the associated separation from traditional informal insurance practices prevalent in rural settings, urbanization does not appear to be a significant driver.

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. Observers have noted an S-curve relationship between per capita income and insurance penetration: insurance penetration is moderately positively correlated with per capita income within the group of low income countries and the same is true for the highest income countries. However, within the group of middle income countries, insurance penetration is strongly positively correlated with per capita income. This S-curve is somewhat misleading however, since it compares countries at different levels of per capita income, but does not predict how insurance penetration will rise as an individual country becomes wealthier over time. Indeed, even after controlling for income, there is substantial heterogeneity in insurance coverage between regions (with Latin America and the Middle East lagging behind) and even among different countries within regions (a handful of countries in Latin America have much deeper insurance markets than the remainder). Analysis of the heterogeneity even within the group of relatively wealthy OECD member countries leads some analysts to conclude that a full understanding of the relationship between insurance and growth requires some analysis of cultural and institutional characteristics within individual countries.

At minimum, the high degree of heterogeneity might suggest that attitudes towards insurance and risk must be taken into account in the development of country and regional insurance markets. Related, it suggests an important role for industry wide initiatives on consumer education and self-regulation in addition to the development of trustworthy regulatory and supervisory frameworks as the globalization of insurance markets proceeds.

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 scaleable approaches that combine commercial and philanthropic elements.

LIC—ITS TRACK RECORD:

LIC, set out with clear objectives, grew steadily and spread the message of insurance to the farthest corners of the nation. From a new business of Rs. 329 crore sum assured under 9.5 lakhs policies procured during the period of 16 months from 1.9.56 to 31.12.57, LIC progressed to the new business of Rs. 91,213 crore under 170 lakhs policies in the year ending on 31st March, 2000. The first premium received reached Rs. 4,959 crore compared to Rs. 13 crore in 1957. Its rural business was significant, representing 16.7% of the total number of policies. The bonus rates were n the rising curve. As a learning organization, it took periodical steps to reorganize its functions and, by empowering the staff, could take the range of services nearest to the policy holders.

It was able to break new grounds in extending group and social security schemes to the weaker sections. It has a vast network of 2048 branches, 100 divisions and seven zonal offices spread over the country. Its marketing force consisted of over 19,000 development officers and 8 lakh full-time and part-time agents.

GIC—THE FOUR SUBSIDIARIES:

The general insurance business was only Rs. 24 crore by way of premium in 1951. It rose to Rs. 130 crore at the time of nationalization in 1971 when 108 private general insurance companies were amalgamated into four public sector general insurance companies with General Insurance Corporation of India as the holding company. The four subsidiaries were, National Insurance Co. Ltd., New India Assurance Co. Ltd., Oriental Insurance Co. Ltd., and United India Insurance Co. Ltd. They operate through 2699 branches, 1360 divisional offices and 92 regional offices. The Indian general insurance market today is of about Rs. 20,000 crore as gross annual premium out of which 73% is earned by public sector companies. A peep into the share of different branches of business as at the end of March 2006 indicates that contribution from motor insurance was 43% followed by fire at 18%, marine at 6% engineering at 4% and the rest, 18%.

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 under investment 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.

SMALL-SCALE ENTREPRENEURS:

The economic contribution of small enterprises to middle- and high-income economies is well-known. However, in many poor economies, start-ups and small-scale enterprise fall short of their potential due to a variety of barriers, including access to capital. As attention to these barriers grows, it is critical to put insurance high on the list. While the risk appetite of large corporations can be debated, small scale entrepreneurs whose household wealth is tied up in their business enterprises are undoubtedly preoccupied with managing risk. In the absence of risk management tools provided by formal insurance, there will be a tendency to under invest in higher risk, higher return activities, thus diminishing the potential contribution of the critical small and medium sized enterprise sector to employment, investment, and growth overall. In sum, extending accessible insurance products to poor households and small scale entrepreneurs should be a core part of the agenda of democratizing access to financial assets. When successful programs are taken to scale, it will not only add measurably to social welfare but also hold the promise of generating a more productive and higher growth mix of activities and investments – with a payoff perhaps greater than micro-credit.

INTERNATIONAL ASSOCIATION OF INSURANCE:

Supervisors have articulated the Core Principles of Insurance Supervision, but the implementation of those Core Principles has barely begun. Given the evidence connecting insurance market takeoff to achievement of middle income status, a case can be made that low income economies below this threshold should concentrate limited resources on either specific insurance segments (such as natural disaster risk mitigation) or other sectors. In countries with limited capacity, it makes sense to undertake institutional development sequentially – for instance focusing initially on laws and regulations that are foundational for overall financial sector expansion rather than specific to insurance. In parallel, the growing field of micro-insurance is likely to yield products and business models that contribute to social welfare and small enterprises in low income economies, while establishing broad familiarity with formal insurance and setting the stage for future growth as income rises.

IMPORTANT ASPECTS OF INSURANCE BUSINESS:

Actuary: An ACTUARY is a person who has passed specialized examinations conducted by the Actuarial Society of India or the Institute of Actuaries, London. Actuaries are technical experts who have received specialist training in the mathematics of insurance. Their job is to ensure that the insurance products provided by the company are mathematically sound. They undertake various activities lie calculation of mortality rates, estimating expenses to be incurred by the insurance company in administrating various policies, and determining the rate of return that will be earned by the company on its investments. Based on the above, they decide on the premiums to be charged on various policies. As is obvious from the above, a good actuary has to be a good economist, a good statistician as well as a good security analyst. Every insurance company requires good actuaries to continuously study its operations and advise the management on the appropriateness of their policies.

Underwriting:

UNDERWRITER scrutinizes, analyzes and takes the decisions on the proposals received for insurance. While analyzing the risks arising from the insurance applications, the underwriters ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. Any applications tat pose reasonable risks are accepted and those posing lower or higher than average risks are accepted at lower or higher rates of premium than normal. Any applications posing unreasonable risks are declined. The job of accepting or declining the proposals of insurance received by a company and deciding on the premium at which to accept the proposals is done by the underwriting department.

Policy Owner Services:

The employees in this area are the ones who issue the actual policy documents. They also ensure customer satisfaction by attending to various requirements arising during the duration of a contract lie nominations, assignments, alterations, etc. These employees are basically responsible for maintenance of policy records, processing customer requests and informing policy-owners about any material changes that affect their policies.

Claim Administration:

The employees in this area are responsible for the actual settlement of claims. They analyze the claims received against various policies. After thoroughly studying the claims, they decide whether the claim is valid. They calculate the benefit amounts for settlement of all valid claims. Any claims that are found invalid are rejected.

Marketing:
The marketing department studies consumer behaviour needs and wants. On the basis of these studies, they give suggestions for new products which can satisfy those needs. The marketing executives also develop marketing plans, design promotional material for the different products, market the products to the customers and provide them services. The marketing department's role starts even before the inception of a product and carries on well after the product has been sold to the customer.

Investment:
The employees in this area manage the company's assets and investments. They study the financial markets in order to give recommendations on the best avenues of investments so that the company can maximize its returns.

Accounting:
As in any other organization, the accountants in an insurance company keep records of the income and expenses. They keep track of the income from premiums and investments as also the expenses for running the office, agents' commission, claim payments, etc. They prepare the reports and statements which show the financial position of the company. The policy holders, shareholders, and insurance regulators can get to know the financial status of the insurance company from these reports.

Information Systems:
The employees looking after this area provide their services to all the departments of an insurance company. They design and maintain computer systems so that any required information can be easily retrieved at any time. They also develop and test new systems and procedures for the company, install them and ensure that they operate efficiently and effectively.

Legal & Compliance:
The employees in this department play an important role in ensuring that the company is complying with all the regulations and laws in the country. They develop the policy forms, contracts for agents, etc., in line with the existing rules and regulations and also advise the staff and management on any legal issues. In case there is any dispute arising out of a claim, the attorneys from the legal department defend the company's position.
These, then are the different activities carried out by the various departments in an insurance company. An equally important activity which has not been covered above is the distribution of the different products of the insurance companies. This distribution is carried out by various components of the distribution channel.

Distribution Channels:
These are routes by which the product prepared by the producer reaches the ultimate consumer. Thus, the distance between the producer and the consumer is bridged by the distribution channel.
In the case of insurance companies, the distribution system is a network of individuals and organizations that are involved in making the insurance products available to the customers. They form a link between the insurance company and the buyers of insurance products.

Agents:
An insurance agent is an agent licensed under section 42 of the Insurance Act, 1938. He/she receives payment by way of commission for procuring insurance business. He/she is also responsible for business relating to the continuance, renewal or revival of policies of insurance. An agent could also be a corporate agent i.e. a company or firm could also be a corporate agent i.e. a company or firm could also be an agent.

The primary function of an agent is t procure business for the insurance company. However, the agent can only procure business for the particular insurance company which he/she represents, and for no other company. Once the insurance contract has been put into force, the agent has to ensure continuance of the policy through regular payment of renewal premiums. In case of a claim, the agent should help the insured in proper settlement of claims.

Insurance Brokers:
An individual or firm, whose full-time occupation is the placement of insurance business with insurance companies, is known as an insurance broker. The broker receives brokerage as a percentage of the premium from the insurer.
The main difference between an agent and a broker is that there are no restrictions on the procurement of business by a broker for various different insurance companies, while the agent can only procure business for that particular company which he represents.
Insurance brokers give advice to the insured without charging them.

Insurance Consultants:
Insurance consultants are usually specialists who give advice to consumers who wish to buy insurance products. However, unlike the brokers, they get paid by the insured for this advice.

Banking Outlets:
These days, there has been a trend of using outlets of banks for distribution of insurance products. The logic behind this is that, as both banks and insurance companies target the same segments of population, using the bank outlets for distribution of insurance products, it can help in saving overheads as well as infrastructure costs. The concept of bancassurance has gained importance in the banking sector which is good for the insurance sector.

CONCLUSIONS

With largest number of life insurance policies in force in the world, Insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP. Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This itself is an indicator that growth potential for the insurance sector is immense.

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