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Insurance and Economic Development

Kulwant Kaur
Assistant Professor in Commerce,Govind National College, Narangwal,Ludhiana,Punjab
(Email id –dimple.kulwant@gmail.com)

ABSTRACT

The insurance industry of India consists of 53 insurance companies and 24 are in life insurance business and 29 are non-life insurers. Life Insurance Corporation (LIC) is the sole public sector company. Among the non-life insurers there are six public sector insurers. In addition to macroeconomic, social, and regulatory changes likely to impact the industry, insurers are coping with longer-term, game-changing trends including the increased connectivity among household and workplace devices, the development of autonomous vehicles, and the rising threat of cyber attacks. The paper examines saving projections in insurance sector, role of insurance in infrastructure and compare compare share of various insurance companies in market.

KEYWORDS- insurance sector, infrastructure, savings, companies

INTRODUCTION

Insurance has evolved as a process of safeguarding the interest of people from loss and uncertainty. It may be described as a social device to reduce or eliminate risk of loss to life and property. Insurance contributes a lot to the general economic growth of the society by provides stability to the functioning of process. The insurance industries develop financial institutions and reduce uncertainties by improving financial resources. India has a fairly high savings rate of 31.6 percent of GDP of which almost 60 percent is household savings. Of these savings, 40 percent are in financial assets. Financial savings comprise of currency, deposits, shares and debentures, insurance funds, pension and provident funds and claims on government. Of the financial savings, 57 percent are in cash and deposits, leaving only a small portion of savings in contractual/long term savings.

OBJECTIVE OF STUDY

The present study seeks to achieve following objectives :

- To study saving projections in insurance sector
- To evaluate total household savings using gross assets and net financial savings
- To compare share of various insurance companies in market
- to study role of insurance in infrastructure

RESEARCH METHODOLOGY

In order to achieve the stipulated objectives of present research, the secondary data has been used from various government publications such as Economic Survey (various issues) and Statistical Abstracts of India. Various statistical tools have been applied on the data such as percentages and averages to achieve objectives. To have more accuracy and rigorous analysis of research study, the tabular and functional analytical dots were used.

RESULTS AND DISCUSSION

[A] SAVING PROJECTIONS

There are two types- internal and external sources of generation of savings. The internal savings are the result of voluntarily cut in consumption and forced cut in consumption in form of tax, forced lending to government inflation and so on.The following are the three main sectors from where internal savings flow:

- Household sector
- Private corporate sector
- Public sector

The main proportion of total savings in the economy is constituted by the savings of household sector. The household savings include two types of assets

- Physical assets
- Financial assets

Physical assets can be bought through savings such as land, building, gold,other domestic products. On the other hand the savings may be used to purchase financial assets like bank deposits, shares, debentures, mutual funds, bonds, provident and pension funds, life insurance policies. The larger part of savings is used by financial assets as the economy grows and attain maturity.

Table 1.Savings projections during 12th plan (%age of GDP)

Years	2009-2010	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017
Sectors								
Household savings	25.4	22.8	23.2	23.6	24.0	24.4	24.8	25.2
Private corporate sector	8.2	7.9	8.3	8.4	8.5	8.6	8.6	8.7
Public sector	0.2	1.7	1.8	2.0	2.8	3.5	4.2	5.0
gross domestic saving rate	33.8	32.3	33.3	34	35.3	36.5	37.6	38.9

Table 1 depicts the saving projection related to insurance sector during five year plan. The percentage share in GDP for household savings rate increases from 22.8% in 2010-2011 to 25.2% in 2016-2017, private corporate sector rate increases from 7.9% in 2010-2011 to 8.7% in 2016-2017, public sector savings rate increases from 1.7% in 2010-2011 to 5.0% in 2016-2017 and the gross domestic savings rate increases from 32.3% in 2010-2011 to 38.9% in 2016-2017.

[B] BASELINE PROJECTION OF COMPONENTS OF HOUSEHOLD SAVINGS OVER 12TH PLAN

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Table 2. gross financial assets (as % age of GDP)

		2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average 12th plan
1	Currency	1.6	1.6	1.6	1.7	1.7	1.7	1.7
2	Bank deposites	8.6	8.8	8.9	9.1	9.2	9.4	9.1
3	Non Banking deposites	0.1	0.1	0.1	0.1	0.1	0.1	0.1
4	Life insurance fund	2.9	2.9	3.0	3.0	3.1	3.1	3.0
5	Provident and pension fund	1.7	1.7	1.7	1.8	1.8	1.8	1.8
6	Claims of government	0.8	0.8	0.8	0.9	0.9	0.9	0.9
7	Shares and debentures	1.2	1.3	1.3	1.3	1.3	1.3	1.3
	Gross financial assets	16.8	17.1	17.4	17.6	17.9	18.2	17.6

Table 3. Net financial savings

(as % age of GDP)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average 12th plan
Gross financial assets	16.8	17.1	17.4	17.6	17.9	18.2	17.6
Gross financial liabilities	5.1	5.2	5.3	5.4	5.5	5.5	5.4
Net financial savings	11.7	11.9	12.1	12.3	12.5	12.7	12.3

Table 4. Household total savings

(as % age of GDP)

	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016	2016-2017	Average 12th plan
Net financial savings	11.7	11.9	12.1	12.3	12.5	12.7	12.3
Physical savings	11.5	11.7	11.9	12.1	12.3	12.5	12.1
Household total savings	23.2	23.6	24	24.4	24.8	25.2	24.4

Table 2 shows gross financial assets which includes 7 major items like cuurency, bank deposits, non banking deposits, life insurance fund, provident fund, claims of government, shares and debentures. the percentage share of life insurance fund is highest in GDP and gross

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financial assets is gradually rising since last six years. Table 3 shows details of net financial savings and Table 4 tells about total hosehold savings in insurance companies which is rising since last few years at average of 24.4 percentage of GDP.

[C] INSURANCE FINANCING INFRASTRUCTURE

India needs large investments in infrastructure for accelerating inclusive growth aimed at poverty alleviation and improvement in quality of life. Given the fiscal constraints that leave little room for expanding public investment at the scale required, Public-Private Partnership (PPP) has emerged as the principal vehicle for attracting private investment in infrastructure.Expansion and growth of infrastructure sector is vital for the overall growth of Indian economy, and it requires huge capital for developmental activities. Flourishing insurance sector is a reliable source of channelizing funds into housing and infrastructure. IRDA's decision to amend norms pertaining to housing and infrastructure investment is to try and bridge the gap for funding required in this sector that is facing a huge crunch. Table 5 shows yearly how insurance sector is financing infrastructure.

Table 5 Insurance sector – projections for infrastructure financing

	2011-2012	2012-2013	2013 -2014	2014-2015	2015-2016	2016-2017
GDP at current market price	89,12,179	1,01,99,989	1,16,73,887	13,36,0764	15,29,1394	17,51,001
Premium as percentage of GDP	4.40%	4.70%	5.10%	5.5%	5.90%	6.40%
Total premiums	3,92,136	4,79,399	5,95,368	7,34,842	9,02,192	11,20,064
Total investment (63.3% of premium)	2,38,222	3,03,460	3,76,868	4,65,155	5,71,088	7,09,001
Infrastucture investment 61% of investment	15,142	18,511	22,989	28,374	34,836	43,249

[D]LEADING INSURANCE COMPANIES

Table 6. Indian insurance industry – market share of leading companies

Company	Approximate market share (2011)	Approximate market share (2016)

LIC	50	70.4
SBI	05	5.1
ICICI	10	4.88
HDFC	06	4.08
Bajaj Alianz	04	2.08
Max Life	03	2.08
Birla Sun Life	04	1.60
Relience Life	05	1.12
Others	13	8.06

Source : TechSci research, LIC- Life Insurance corporation of india

Table 6 compares the market share of various companies in 2011 and 2016. The data depicts thatLIC continues to dominate life insurance sector. As per 2016, life insurance sector has 29 private players in comparison to only four in 2002. With 70.4 per cent share market share in FY16, LIC continues to be the market leader, followed by SBI (5.1 per cent), ICICI (4.9 per cent) and HDFC (4.1 per cent)

The following are some of the major investments and developments in the Indian insurance sector.

- New York Life Insurance Company, the largest life insurance company in the US, has invested INR 121 crore (US$ 18.15 million) in Max Ventures and Industries Ltd for a 22.52 per cent stake, which will be used by Max for investing in new focus areas of education and real estate.
- Max Life Insurance Co Ltd and HDFC Life Insurance Co Ltd have signed a merger agreement, which is expected to create India's largest private sector life insurance company once the transaction is completed.
- Aviva Plc, the UK-based Insurance company, has acquired an additional 23 per cent stake in Aviva Life Insurance Company India from the joint venture (JV) partner Dabur Invest Corporation for Rs 940 crore (US$ 141.3 million), thereby increasing their stake to 49 per cent in the company.
- Insurance firm AIA Group Ltd has decided to increase its stake in Tata AIA Life Insurance Co Ltd, a joint venture owned by Tata Sons Ltd and AIA Group from 26 per cent to 49 per cent.
- Nippon Life Insurance, Japan’s second largest life insurance company, has signed definitive agreements to invest Rs 2,265 crore (US$ 332.32 million) in order to increase its stake in Reliance Life Insurance from 26 per cent to 49 per cent.
- Bennett Coleman and Co. Ltd (BCCL), the media conglomerate with multiple publications in several languages across India, is set to buy Religare Enterprises Ltd’s entire 44 per cent stake in life insurance joint venture Aegon Religare Life Insurance Co. Ltd. The foreign partner Aegon is set to increase its stake in the joint venture from 26 per cent to 49 per cent, following government’s reform measure

allowing the increase in stake holding by foreign companies in the insurance sector.

- State Bank of India has announced that BNP Paribas Cardiff is keen to increase its stake in SBI Life Insurance from 26 per cent to 36 per cent. Once the foreign joint venture partner increases its stake to 36 per cent, SBI's stake in SBI Life will get diluted to 64 per cent.

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