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Role of Insurance Sector in Nation Building: An Analysis

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Abstract

The "License Raj," also known as socialist-influenced policies, the state-owned sector, bureaucracy, and onerous rules, controlled India's economic growth. The Indian economy has undergone significant development and change as a result of life insurance. Via its economic reforms in 1991 and again through its renewal in 2000, India's economy saw growth. India's economy ranks fourth in the world in terms of purchasing power parity and nominal GDP, respectively (PPP). A nation's economy greatly benefits from the financial sector, which includes the insurance industry. As a financial middleman that promotes economic progress, the insurance market also aids in better risk management. Insurance stimulates domestic savings, which has a big influence on the economy. Insurance creates profitable investments out of accumulated wealth. Insurance offers loss mitigation, financial stability, and trade and commerce activity promotion, all of which contribute to economic development. The Objectives of this present paper is to analyse the role and importance of Insurance sector in Nation building. Mostly secondary sources are being used in this paper.

Keywords: Insurance, Market, Economy, Finance. Growth, Companies.

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Introduction:

A nation's financial sector is seen as a crucial component of its economic growth. An efficient and well-established financial system aids in raising productivity, which in turn spurs economic growth. A nation's economy greatly benefits from the financial sector, which includes the insurance industry. The insurance industry acts as a financial middleman and promotes economic growth while also assisting in better risk management. Moreover, In addition to acting as a supplement to governmental security initiatives, insurance helps to promote financial stability, facilitate trade and commerce, manage risk effectively, mobilise savings, and allocate capital efficiently. Life insurance, non-life insurance, and reinsurance are the three main types of insurance. In contrast to non-life insurance, which represents short-term money, life insurance represents long-term funds. Reinsurance is the protection against loss provided by another insurance firm. However, research currently available demonstrates that the increase of insurance has a substantial impact on the economy. Numerous studies have drawn attention to a contentious connection between financial development and economic growth. While some research indicated the opposite, others noted that financial development and economic growth are correlated. The relevance of insurance is growing in practically every developed and emerging nation as the industry's proportion of the broader financial sector rises. One of the largest institutional investors in the stock, bond, and real estate markets is the insurance industry, along with mutual and pension funds. Due to ageing societies, increased socioeconomic disparities, and globalization, their effect on economic development has been increasing. The expanding ties between the insurance and other financial sectors highlight the potential contribution of insurance firms to economic development.[1]

Old methods and tactics have been replaced by newly created ones as a result of change. We would anticipate that our Indian society will require socio-economic strength in this time of flux. Life Insurance Companies continue to bear the brunt of socioeconomic crises despite the principles of privatisation of Life Insurance Companies being enshrined in the Insurance Sector and despite the fact that many private Life Insurance Companies are empowered to adopt measures of positive changes in this favour. The business is not profitable because companies have focused their efforts on building their customer bases in a market that is developing quickly rather than on margins, which has resulted in a collective loss by insurers of almost $3.5 billion as a result of poor strategic positioning. However, the enormous scale of the insurance industry, with premiums expected to reach an amazing $350 billion by 2020, is drawing businesses in droves. Through joint ventures, almost all of the largest insurance firms in the world have operations in India (as government regulations only allow 26 percent holding).[2]

Role and Importance of Insurance

Insuring people's interests against loss and uncertainty has developed as a process. It might be referred to as a social tool that lowers or eliminates the possibility of loss of life and property. By ensuring process stability, insurance makes a significant contribution to the society's overall economic growth. By enhancing financial resources, the insurance industry create financial institutions and lessen uncertainty.

The following point shows the importance of insurance:

1. **Provide safety and security:**

Insurance provide financial support and reduce uncertainties in business and human life. It provides safety and security against particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. For example, in case of life insurance financial assistance is provided to the family of the insured on his death. In case of other insurance security is provided against the loss due to fire, marine, accidents etc.

2. Generates financial resources:

By receiving premiums, insurance companies make money. These funds are used to buy stocks and government securities. These money are profitably invested in a nation's industrial growth in order to raise further cash and use them for the nation's economic development. Large investments that create new capital improve employment prospects.

3. Life insurance encourages savings:

Insurance offers a way to invest in addition to protecting against risks and unforeseen events. Having life insurance allows for systematic savings since regular premium payments are made. A means of investing is offered by life insurance. It forms the habit of paying the premium in order to save money. At the time of the contract's maturity, the insured receives the lump sum payout. As a result, life insurance promotes saving.[3]

4. Promotes economic growth:

Insurance stimulates domestic savings, which has a big influence on the economy. Insurance creates profitable investments out of accumulated wealth. Insurance offers loss mitigation, financial stability, and trade and commerce activity promotion, all of which contribute to economic development. As a result, insurance is essential to an economy's ability to develop sustainably.

5. Medical support:

Medical insurance is seen to be crucial for controlling health risk. Anyone can suddenly get unwell with a catastrophic illness. Additionally, growing medical costs are a major worry. One of the insurance plans that covers various health risks is medical insurance. In the event of a medical insurance coverage, the insured receives medical assistance.

6. Spreading of risk:

Risk transfer from the insured to the insurer is made easier by insurance. Spreading risk across a lot of individuals is the fundamental tenet of insurance. Many people get insurance plans and pay the insurer premiums. Anytime a loss happens, it is covered by the insurer's money.

7. Source of collecting funds:

Premiums are a major source of revenue. These money are used to advance a nation's industrialization, which quickens economic expansion. Such significant expenditures improve employment prospects. As a result, insurance has emerged as a key driver of capital formation.[4]

Role of Insurance in the life of an individual:

Asset Accumulation

During our productive earning years, the ability to generate an income is typically our greatest asset. When income is saved and invested rather than consumed, the potential result is asset accumulation, which takes a lead role in helping to assure that current and future economic needs will be met. It's also a time when premature death may not only undo asset accumulation but also create a critical need for funds, now and in the future. Let's look at the needs created when an income earner dies.

Final expenses

All people require quick cash after they pass away. The cost of a final sickness, which might last days, weeks, or longer, as well as funeral and burial costs, are often included in final expenses. Death may also result in a tax burden that needs to be paid right away.

Outstanding debt

Debt comprises outstanding amounts on credit cards, auto and student loans, home equity loans, and other instalment accounts that were previously paid on a regular basis.[5]

Role of Insurance in the family and business

Housing expenses

Survivors require money to pay their rent or mortgage. Ideally, money should be set aside to pay off a mortgage or cover a couple of years' worth of rent.

Family income

The biggest and most significant factor is typically the necessity to acquire replacement income. Even when there are several breadwinners, losing only one source of income can be disastrous.

Education fund

A young family's most pressing need is money to support a dependent child's education, which was likely expected to be covered by the parent's ongoing salary.

Social Security "blackout" period

Social Security payments are typically paid to a surviving spouse with small children up until the youngest kid turns 16. After then, the spouse's payment ends until age 60, at which point widower's or widow benefits start to be paid. For a surviving spouse, money could be required to make up for this loss of income.

Special needs

Taking care of kids with special needs comes with its own set of difficulties. Even while life insurance could be a practical solution to assist pay for supplemental requirements, careful preparation is necessary. The best way to ensure that good intentions do not result in unforeseen consequences is to work closely with an experienced attorney.

Estate Planning

There is still a need to assist in safeguarding the assets we have accumulated over the years and preventing unnecessary estate shrinkage after we have reached the end of our working years and are in or near retirement.

A need for cash

There may still be a need for money after an estate has grown to a reasonable size as a result of rising income, saving, profitable investment, and other wealth-building activities. This is particularly true if the property lacks any easily convertible liquid assets, such real estate, a company, or other types of property. Estate taxes must not be disregarded. Federal estate and income taxes, state taxes, and other levies may significantly reduce assets, particularly money in a qualified retirement plan, depending on the size of the estate. Additionally, they are often paid out in cash at the moment of death or immediately following.

A need for income

A surviving spouse can require more income if, for example, Social Security or pension payments are lost or decreased as a result of a spouse's passing, putting aside immediate monetary demands. In addition, whether or not the estate owner passes away, it may be necessary to supplement retirement income based on the quality of retirement planning that was done.

Estate Distribution

Estate assets have a new purpose if they are no longer required to support the persons who amassed them. At this stage, choices must be taken on the fair distribution of the assets to the individuals and organisations who will benefit.

Family members

How to treat family members fairly and equally when distributing estate assets is a crucial factor. Planning beforehand can help prevent disagreements and ensure family unity. A son or daughter could be next in line to take over ownership and operation of a family business, for instance. Unless there are alternative assets available to facilitate equitable estate distribution, other family members may be underserved if the company assets are transferred to that person.[6]

Life insurance as a ‘Device of Risk Coverage

Insurance is mostly about risk coverage and protection, namely financial protection to help withstand life's unforeseen losses. Insurance offers you a certain sense of security that no other type of investment can, since it is designed to protect against losses incurred due to any unforeseen incident. By purchasing life insurance, you may rest easy knowing that your family will be able to meet any financial obligations that arise in the event of an early death. Many others who face the same danger contribute to insurance companies in order to give this protection. The insurance firms, who serve as the trustees for the funds, pay out a loss claim using the whole premium sum that was received. Insurance also offers protection in the event of mishaps or a reduction in income after retirement. An insurance policy can provide the family with timely help for a terrible accident or disability. In the event that no unfortunate tragedy occurs during the policy's term, it also proves to be a huge assistance when you retire. You now have access to a wide selection of goods and services thanks to the arrival of private sector participants in the insurance market. Many of these may also be further modified to meet the unique needs of an individual or group. Given what you have to spend right now, it's worthwhile to purchase additional sleep.

Life insurance as "Tax planning"

Additionally, insurance is a great way to reduce your tax liability. To encourage the flow of money into useful assets, the Indian government has provided tax breaks for life insurance products. An individual is entitled to a 20 percent reimbursement on the yearly premium paid for their own life as well as the lives of their children or adult children under Section 88 of the Income Tax Act of 1961. The refund is deductable from the individual's or a Hindu Undivided Family's taxable income.[7]

Relationship between insurance sector and economic growth in Indian economy:

Mobilization of Resources:

In order to lower the cost of financing transactions and relieve strain on financial intermediaries, the premium collected is pooled and invested in initiatives. Infrastructure and capital formation are strong in nations with large insurance sectors. Long-term capital, which is needed to fund infrastructure projects with a long gestation time, is generated through insurance. In addition, insurance shields both people and companies against unforeseen negative situations. Economic growth requires a mature and well-developed insurance industry because it increases risk taking capacity while providing long-term funding for infrastructure development. The majority of the money invested in big infrastructure projects encourages economies of scale, economic growth, and other types of technical innovation.

Growth in GDP and Household Financial Savings:

Only in higher income nations is life insurance causally connected to growth; emerging and higher income economies both benefit from nonlife insurance. Savings in the household sector have been an important factor in the high GDS. The expansion of the Indian life insurance industry has been strongly impacted by both family savings and GDP growth overall. Financial changes are anticipated to enhance the distribution of savings, and reforms and liberalisation are anticipated to have a substantial influence on income, savings, and insurance purchasing. Due to greater household income, India is one of the few nations in the world that has maintained higher growth rates in domestic savings despite economic liberalisation and rising consumption. The continuous rise of the economy was greatly aided by the expansion of the insurance industry in India, the service sector, and GDS.

Inflation and Interest Rate:

Real buying power and social network of the population are directly impacted by inflation and company recessions, respectively. These can be covered by insurance, but there is a drawback in that it has a detrimental effect on businesses' financial success. The purchase of life insurance may be discouraged by higher interest rates on other alternative saves and instruments, while it may be encouraged by lower interest rates on other alternative savings.

Employment:

Both direct and indirect employment is aided by insurance in the economy. A variety of related professions, including brokers, insurance consultants, agents, underwriters, claims managers, and actuaries, are continually in demand in addition to traditional insurance positions. The need for highly qualified experts as well as semiskilled and unskilled workers has grown as the insurance industry grows. The current demand is for skilled personnel with specific insurance expertise to support continuous growth. Insurance businesses must make an investment in the professional development of their staff, particularly in areas like underwriting, claims, and risk management. According to the data above, the insurance business has had a significant beneficial influence on a number of macroeconomic factors related to the sector during the past ten years.[8]

Conclusion

The economy depends heavily on insurance, especially reinsurance, which serves a number of crucial purposes. In addition to giving people and companies financial protection and peace of mind, insurers are a crucial source of long-term capital, ensuring stability for the financial markets and the economy as a whole. For many economic activities that would not—or could not—occur without insurance, it is a crucial prerequisite. The majority of enterprises and building projects could not function as they do now without the assurance provided by insurance (and reinsurance). The majority of customers would not be regarded as low-risk borrowers by financial institutions. The ability of insurers to reallocate economic risks and their frequent long-term investment horizons allow them to contribute to financial stability, but they also carry the danger of causing financial instability. In instance, a crisis an insurer has might have an impact on not just the people and businesses that have purchased insurance, but also the financial markets through the insurers' investment operations and banks and other financial institutions through both direct and indirect linkages. All of this justifies central banks, international organizations, and other agencies that cover nations or areas where the insurance industry plays a key role in routinely analyzing, monitoring, and assessing insurers' financial performance and risk. Additionally, financial stability evaluations should avoid taking a too sector-focused stance and should include the connections between the banking and insurance sectors given how intertwined these two industries have grown.

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