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LIFE INSURANCE SECTOR IN INDIA ………. LINKS WITH ECONOMIC GROWTH

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ABSTRACT

The Indian economy is, today, one of the fastest growing economy of the world. High growth rate is witnessed by rapid increase in gross domestic savings and rising share of household sector savings in it. It has significantly affected the growth of life insurance sector in India. Economic growth and demand for life insurance are closely interlinked. Life insurance could be considered as a factor fostering economic growth specially during corona pandemic and economic growth would also create demand for life insurance. Life Insurance is one of the means to save and invest. A strong life insurance industry promotes a developed contractual savings sector, which contributes to a more resilient economy. Life insurance is one of the best tax saving options today. This industry provides a large number of employment opportunities. It has a positive impact on the economy in terms of income generation. Life insurance business is also influenced by the rate of growth of gross domestic product, the rate of growth of population, per capita income, demographic pattern, inflation level the levels of domestic savings, etc.

Keywords: *Indian Economy, Economic Growth, Life Insurance, Inflation, Domestic Savings.*

Introduction

Life insurance is a thoughtful business concept designed to protect the economic value of a human life for the benefit of those financially dependent on him. India has an enormous youthful middle-class that can afford to buy life, health and pension plan products. The strong growth observed is in line with the overall trend of increasing importance of life insurance in India. There is higher demand for old age provisions because of increasing number of retirees in the total population. With a large population and untapped market, insurance happens to be a big opportunity in India.

The matter of insurance sector reform is a developing concept in India. Life insurance business was nationalized in 1956 and the Life Insurance Corporation of India (LIC), was set up on a monopoly basis.

Insurance sector has been opened up for private players with the enactment of Insurance Regulatory and Development Authority Act, 1999. As per the provision of this act, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holders of insurance policy and to regulate, promote and ensure orderly growth of the insurance industry. A large number of public and private players are competing today in life insurance sector.

Given the rapidly changing economic headway in all sectors of the economy, resulting in increase in gross income of large household sector, it is emerging as major investment option. As such life insurance has brought about multifold benefits such as, life cover, infrastructure financing, capital formation and many untapped possibilities in large rural and semi-rural population, who are still far off from this benevolent sector. Further, by establishment of IRDA government has put a strong check in this sector where earned money is invested on mandatory basis in various government securities.

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Life insurance is demanded as an "Essential commodity" in India. the financial impact of the pandemic has led to people valuing the protection and fallback offered by life insurance products in tough times. The second half of the 2020-21 financial year saw a 16% YoY business premium growth, with more people preferring to buy single premium policies (as a projection against future loss of incomes). After the pandemic, consumers are looking for better life insurance products, along with personalized options.

The Objectives

The main objectives of the study are as follows:

- To analyze the structure, and growth of life insurance sector in India.
- To examine the relationship between the economic growth and demand for life insurance in India in terms of various macroeconomic variables.
- To analyze interstate variation and rural-urban gap in the coverage of life insurance in India.
- To analyze the possibilities of future progress and prospects of life insurance in India.

Hypothesis

Hypothesis to be tested are as follows:

- Economic growth has favorable impact on demand for life insurance.
- There exists interstate disparity in the growth of life insurance in India.
- Life insurance has achieved a higher growth rate after the liberalization and privatization of this sector.

Review of Literature

Babbel, D. F. in his article "The Price Elasticity of Demand and for Whole Life Insurance", published in Journal of Finance in 1985 studied the impact of income levels and life insurance by using disposable personal income, income percent and found that there exists a positive relationship between income level and insurance demand.

Calalan Mario, Gregoria Impavido and R. Alberto Musalem in their combined study "Contractual Savings or Stock Market Development: Which Leads?", published in Journal of Financial Sector Development (Journal of World Bank) in 2000 show that a strong life insurance industry promotes a developed contractual savings sector which contributes to a more resilient economy. Life insurance as a financial intermediary contributes significantly to promoting the capital market.

Cargill, T.F. and T.E. Troxel in their study "Modelling Life Insurance Savings: Some Methodological Issues", published in Journal of Risk and Insurance in 1979 studied the relationship between price of life insurance and demand for life insurance. They observed that the price of life insurance is significantly and inversely related to the demand for life insurance.

Dolar, Veronika and Cesaire, Meh in their combined article "Financial Structure and Economic Growth? A Non-Technical Survey", published in Working Paper 2002-24, Bank of Canada in 2002 provides useful information about finance and growth. Financial development and economic growth has been a crucial subject of public policy for long and financial development could be considered as a by-product of economic development.

Hajra, Sujan in his article "Deposit Insurance for Cooperative Banks- Is There a Road Ahead", published in Economic and Political Weekly in 2002 examine that the deposit insurance and credit guarantee corporation is making huge payments on account of failure of cooperative banks and this is threatening the viability of the deposit insurance system and thereby financial stability of the country.

Ranade, Ajit and Ahuja, Rajeev in their combined article "Life Insurance in India: Emerging Issues", published in Economic and Political Weekly in 1999 presented a comprehensive survey of life insurance in India. They studied the emerging strategic issues in light of liberalization and the impending private sector entry into insurance. The need for private sector entry has been justified on the basis of enhancing the efficiency of operations.

Rao, D. Tripati in his article "Operational Efficiency of Life Insurance Corporation of India", published in Journal of Indian School of Political Economy in 1998 points out the operational efficiency of LIC in terms of physical and financial performance. With the growth in business it is found that there is a significant improvement in the physical performance of the LIC. The financial performance in term of stability ratio and turnover ratio shows improvement. Both the indicators reflect the safety and ability of the LIC as a financial institution.

Ward, Damian and Ralf, Zurbruegg in their combined study " Does Insurance Promote Economic Growth? Evidence from OECD countries", published in the Journal of Risk and Insurance in 2000 studied the relationship between development of the insurance sector and the growth of the economy. They observed that growth in the insurance sector can potentially have an effect on economic growth via the short run dynamic of the lagged premium terms in the restricted variance, through the long- run equilibrium relationship between the markets, or both. They found this relationship in many countries.

The Methodology

Every research requires a well thought out and clearly laid down methodology. The study would be based on secondary data obtained from the reports of IRDA (Insurance Regulatory and Development Authority), Annual reports of LIC (Life Insurance Corporation of India), RBI (Reserve Bank of India) reports and other relevant Reports.

In the present study an attempt will be made to examine the relationship between macroeconomic variables including GDP, PCI, GDS, share of insurance in financial assets, rate of inflation, population, etc and demand for life insurance for the Indian economy.

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