The Role of Insurance Development in Financial and Economic Growth in Iran

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ABSTRACT

The insurance sector in Iran is one of the most booming sectors of the economy and is growing at the rate of 10-20 percent per annum. In Iran, insurance is a flourishing industry, with several national and international players competing with each other. Iranian insurance companies offer a comprehensive range of insurance plans. In this investigation, we examine the impact of insurance in the process of financial development and economic growth. According to the obtained results, there is a unidirectional causality relation from insurance development to financial growth. Therefore, we conclude that insurance development is an important prerequisite for stimulating financial growth in Iran.

Keywords: Insurance, Insurance premium, Financial development, Economic growth.

INTRODUCTION:

Insurance provides financial support and reduces uncertainties in business and human life. It provides safety and security against the particular event. There is always a fear of sudden loss. Insurance provides a cover against any sudden loss. Insurance provides the investment opportunities also. In case of other insurance, security is provided against the loss due to fire, marine, accidents etc.

Insurance generates funds by collecting premium. These funds are invested in government securities and stock. These funds are gainfully employed in the industrial development of a country for generating more funds and utilized for the economic development of the country. Insurance helps in providing Employment opportunities leading to capital formation.

Insurance sector provides capital into productive investments. Insurance enables to mitigate loss, financial stability and promotes trade and commerce activities those results in economic growth and development. Thus, insurance plays a crucial role in the sustainable growth of an economy.

According to the finance-growth nexus theory financial development promotes economic growth through channels of marginal productivity of capital, an efficiency of channelling savings to investment, saving rate and technological innovation (Levine, 1997). Affecting economic growth through the channels is realized by functions of financial intermediaries. The functions include the provision of means for clearing and settling payments to facilitate the exchange of goods, services and assets, the provision of a mechanism for pooling resources and the subdivision of shares in various enterprises, resource allocation, risk management, price information to help coordinate decentralized decision making in various sectors of the economy, and the means to deal with the incentive problems created when one part of a financial transaction has the information that the other party does not, or when one party acts as an agent of the other (Merton, & Bodie, 1995).

Numerous empirical studies confirm financially intermediation plays a growth-supporting role. Among financial intermediaries, in performing functions of financial system insurance companies play an important role. They are main risk management tool for companies and individuals. Through issuing insurance policies they collect funds and transfer them to deficit economic units for financing real investment.
LITERATURE REVIEW:

The relationship between economic growth and financial growth was investigated by several studies in the literature (Arestis and Demetriades, 1997; Levine and Zervos, 1998; Ward and Zurbruegg, 2002; Rousseau and Wachtel, 1998; Ying-jun and Ye-ting, 2012; De Fiore and Uhlig, 2011; Outreville, 2013). According to the idea expressed for the first time in United Nations Trade and Development Conference in 1964, national insurance and reinsurance market is a characteristic feature of economic growth (Kugler and Ofoghi, 2005). The insurance sector is not an economic unit that only offers insurance against the risk of people and organizations to face and it also helps to macroeconomic data to bring employment and foreign exchange (Outreville, 1996).

More recently an alternative theory occurred; a development and growth in a sector may affect other sectors in the economy. That’s why, so many governments invest in bank and insurance sector and prefer the way to affect other sectors in the economy in a positive way (Hussel and Zurbuegg, 2005).

INSURANCE PREMIUM AND ECONOMIC GROWTH IN THE WORLD:

With the rapidly globalizing world, changing the lives of the individuals in the last century and increasing earnings in parallel to this, it has led to an increase in the motives of the individuals and their property protection. This situation has increased the share of insurance in the financial sector (Outreville, 1990; Akinlo, 2013). Such that, it increased 7.5 times in life insurance premium production in the world and 3.9 times in non-life insurance during 1985-2007 periods. According to Arena (2008), the premium production between 1997 and 2004 has increased up to 82%. The insurance sector in developing countries has grown more rapidly when compared to developed countries. Figure 1 shows global real direct premium growth between 1980 to 2015 in the world.

Figure 1: Global Real Direct Premium Growth, 1980-2015

Source: Swiss Re Economic Research & Consulting.

INSURANCE DEVELOPMENT AND ECONOMIC GROWTH IN IRAN:

In analogy to other financial sectors, the link between them insurance and the real sector can be classified in terms of causality with respect to five possible hypotheses1: (1) no causal relation; (2) economic growth leads to a rise in demand for insurance (The demand-following theory); (3) growth in insurance smoothest short-term economic volatility and thus induces economic growth in the long run, plus growth in investment by insurance companies induces economic growth (The supply-leading theory); (4) negative causal link from insurance to growth (e.g. growing insurance causes more reckless behaviour “moral hazard”), resulting in a less efficient and more volatile economy; (5) interdependence.

Iran’s insurance statistics show that real insurance density has been increased from 48 rials in 1960 to 970 rials in 2010 which indicates a 1921 percent growth. Another development index is insurance penetration (total insurance premiums in the percentage of gross domestic product). This index has been increased from 0.22% in 1960 to 1.39% in 2010 (source: Iran’s insurance market statistics in different years). According to the following diagrams, there is a positive correlation between economic growth and the growth
of the total premium, which indicates that with the increase in production in Iran, the amount of the premium will also increase. This is related to economic growth (gross domestic product per capita GDP growth) and non-life insurance premiums as well as life, and there is a positive correlation between them, which shows that with increasing production in the country Non-life premium as well as life insurance premiums.

Figure 2: Relationship between Economic Growth and Total Premium Growth (1972-2015).

Figure 3. The relationship between economic growth and the growth of life insurance premiums (1972-2015)

Figure 4: The relationship between economic growth and growth in non-life insurance premiums (1972-2015)
The share in global market:

Table 1: Iran’s share in Global Market

<table>
<thead>
<tr>
<th>Year</th>
<th>Direct Premiums*</th>
<th>Rank</th>
<th>Insurance Density**</th>
<th>Rank</th>
<th>Insurance Penetration (%)***</th>
<th>Rank</th>
<th>(GDP)</th>
<th>Rank</th>
<th>Exchange Rate (RIs to Us$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>46,438</td>
<td>46</td>
<td>0.6</td>
<td>73</td>
<td>1.30</td>
<td>74</td>
<td>3,562,289</td>
<td>27</td>
<td>9,834</td>
</tr>
<tr>
<td>2014</td>
<td>59,161</td>
<td>46</td>
<td>0.8</td>
<td>73</td>
<td>1.37</td>
<td>73</td>
<td>4,304,264</td>
<td>26</td>
<td>10,364</td>
</tr>
<tr>
<td>2015</td>
<td>86,092</td>
<td>44</td>
<td>1.1</td>
<td>69</td>
<td>1.41</td>
<td>72</td>
<td>6,104,868</td>
<td>21</td>
<td>12,260</td>
</tr>
<tr>
<td>2016</td>
<td>131,537</td>
<td>42</td>
<td>1.7</td>
<td>64</td>
<td>1.86</td>
<td>66</td>
<td>7,091,389</td>
<td>27</td>
<td>12,260</td>
</tr>
<tr>
<td>2017</td>
<td>162,078</td>
<td>42</td>
<td>2.1</td>
<td>64</td>
<td>1.73</td>
<td>53</td>
<td>9,343,070</td>
<td>32</td>
<td>25,102</td>
</tr>
</tbody>
</table>

*In Billions of RIs **Premiums per Capita (in Millions of RIs) ***Direct Premiums divided of GDP

CONCLUSION:

Insurance as a speculator establishment which obliges to remunerate misfortunes can impacts affect macroeconomic exercises and financial development. The National riches ensure is one of these effects. The two people and organizations can ensure their property and establishments through the instalment of a consistent Insurance premium are exchanged to insurance companies. Another financial effect of insurance is venturing to ensure. As to actuality that making new speculation openings prompts the economic growth and improvement of each nation, the security of these capitals assumes a critical part in proceeding with this development as speculators will act to new ventures just on the off chance that they ensure that no risk dangers their capital. In this condition, the insurance market can influence the risk administration. Another monetary effect of insurance is the venture development and improvement. By and large, all insurance agencies get their insurance premium heretofore; these premiums make an enormous estimation of capitals which could be put resources into different monetary areas and can expand the venture level inside the nation.

REFERENCES:


