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Insurance with Economic Development

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Abstract
The role of insurance in economic development has long been confirmed by many researchers. The developed insurance industry contributes to many aspects of economic development: minimizing risks, ensuring financial stability for businesses, households, individuals helping to reduce shocks to the economy; is a financial intermediary that impacts investment savings and resource allocation to promote financial market development. In Vietnam, although still quite young compared to world, insurance has increasingly shown a clear role in contributing to the country's socio – economic development. The insurance market not only effectively invest back into the economy, but is also a reliable "midwife" for businesses when facing risks, as well as supporting people to reduce difficulties in the face of uncertainties unpredictable in life. The author's article aims to summarize the role of insurance in economic development in previous studies and evaluate the contributions of insurance to promoting economic growth, socio-economic stability and improve the quality of life in Vietnam.

Keywords: Insurance, Economic Development, Insurance Penetration, Vietnam

1. Introduction

In recent years, the world has witnessed strong growth in the insurance industry. Insurance has become an important economic sector in the economies of countries with the roles it plays. The role of insurance has long been recognized, at the first session of the United Nations Conference on Trade and Development (UNCTAD) in 1964: "A healthy national insurance and reinsurance market is a essential characteristics of economic growth". In the current economic and social trends, insurance is gradually becoming an important and essential type of service. Insurance companies take on risk in exchange for a fee, called a premium, with a promise to provide protection against unexpected and unwanted events by providing compensation, pay insurance. That helps promptly overcome consequences, restore original assets to continue stabilizing production, contributing to stabilizing the economy in general. Ward and Zurbruegg (2000) [18] have the opinion that insurance not only facilitates economic transactions through risk transfer and compensation but also promotes financial intermediation. This means that insurance is not only limited to providing protection to customers but also acts as a financial intermediary in mobilizing medium and long-term savings through insurance contracts. Like other financial institutions such as banks, securities. insurance is increasingly increasing its importance in the development of the financial market. According to Johnson (2008) [3], a thriving insurance industry is not only a result of an effient financial services industry but is also an important aspect of a healthy modern economy.

2. Overview

Insurance

Insurance is an abstract and complex term. In textbooks and various literature on insurance such as Moller (1962); Farny (1965); Pfeffer and Klock (1974) [14]. Attempted to develop complex and comprehensive definitions of insurance. For example, Pfeffer and Klock (1974) [14] provide the following definition: "Insurance is a device for the reduction of uncertainty of one party, called the insured, through the transfer of particular risks to another party, called the insurer, who offers a restoration, at least in part, of economic losses suffered by the insured". Insurance is a unique product in that the ultimate cost is often unknown until long after the coverage period, while the revenue-premium payments by policyholders-are received before or during the coverage period (Nissim, D, 2010) [10].

Economic Development

Economic development is a concept without a single definition. Economic development is the process in which an economy grows or changes and becomes more advanced, especially when both economic and social conditions are improved (Cambridge Dictionary). In other words, economic development refers to "sustainable improvements in the material well-being of a society, as measured for instance by GDP per capita, GDP growth, productivity and employment" (Naudé, 2011) [8]. In summary, the term "Economic Development" can be understood to include the following contents: it's the growth of the economy which includes GDP growth, at the same time, all aspects of society are improved, quality of life is increased.

Insurance with Economic Development

Insurance is an economic industry insurance business activities create industry values. At the macroeconomic level, the insurance industry contributes to the formation of national income by creating added value (Outreville, J.F, 2011) [12]. In addition, insurance has a specific business activity of aggregating risks and transferring risks, turning individual, difficult to control random risks into compensation claims for fixed risks, tightly managed and predictable. Nguyen.Y. *et al* (2010) [9] argue that this specialization allows for effective management of a country's total risk. That contributes to minimizing shocks to the economy, ensuring financial stability for business, households and individuals, helping them feel secure in productive labor, which in the long term has a positive impact on growth, economic development. Expanding the role of insurance to support other industries, Soo (1996) [17] said: With trade, risk reduction (especially through cargo insurance) allows access to new markets that would otherwise be too risky. Access to foreign markets will open up great opportunities for economic development with accountants and banks. Zou & Adams (2006) [20] argue that the role of property insurance and fire insurance in protecting collateral for loans is very important in promoting bank lending activities. With life insurance, Skipper (1997) [15] commented: Life insurance helps improve the quality of life of individuals humanity and social stability, thus reduce government budget constraints.

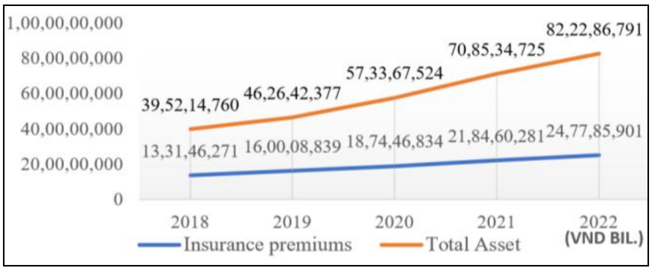
The role of insurance is not only concerned with risk transfer and loss reduction services. Insurance today, as an important financial intermediary, makes a major contribution to the financial market and economic development. Financial development affects savings and investment decisions and thus economic growth, through six functions (Levine, 2005) [6]: (i) Reducing the cost of potential investment research; (ii) implement corporate governance; (iii) trading, diversification and risk management; (iv) mobilization and aggrezation of savings; (v) exchange goods and services; (vi) minimize the negative consequences of random shocks to capital investment. These functions help offset potential market imperfections and frictions, thus reduce transaction costs on meeting liquidity and risk preferences, thereby promote economic growth with more efficient resource allocation (Khan & Senhadji, 2000) [4]. Insurance helps mobilize domestic saving. Besides paying compensation, it also helps allocate capital effectively through investment channels, increasing tools in the financial market, helping to promote market stability finance. Well-developed financial markets enhanced by the activities of insurance companies tend to have a significant positive impact on total factor productivity, leading to higher long-term growth (Oke, 2012) [11].

3. Research Methods

In this article, the author uses secondary data collected from: i) Vietnam insurance market statistical yearbook 2018-2022 of the Vietnam insurance supervision and administration department; ii) OECD insurance statistics 2022; iii) previous studies related to the role of insurance in economic development. At the same time, the author used the following data analysis methods: i) Statistical method of secondary information collected from Vietnam insurance market statistical yearbook from 2018 to 2022, statistics OECD 2022 coverage to conduct analysis; ii) Methods of synthesizing, analyzing and comparing previous related research work; analyze and discuss the role of insurance in economic development in Vietnam today. From there, some suggestions are given to enhance the role of insurance in economic stability and development.

4. Overview of Vietnam's Insurance Market from Contributions to Economic Development

After 30 years of formation and development, the Vietnamese insurance market has shown growth in both scale, number of businesses and financial capacity. By the end of 2022, the Vietnamese insurance market has 82 insurance enterprises. Including 32 non-life insurance enterprises, 19 life insurance enterprises, 2 reinsurance enterprises and 29 insurance brokerage enterprises. In addition, the presence of 15 representative offices of foreign insurance organizations in Vietnam also contributes to improving the investment environment and increasing the confidence of foreign investors when investing in Vietnam. With over 2,800 insurance products serving the increasingly diverse needs of insurance participants and gradually asserting its position in the economy.



Source: Results of data processing in the insurance statistical yearbook by the author

Chart 1: Total assets and insurance premium revenue

The financial capacity and operational efficiency of insurance businesses have both improved through strong growth figures. Total assets of the insurance market have increased by 106.06% from 395,214 trillion VND in 2018 to 822,286 trillion VND in 2022 (of which total assets of life insurance enterprises are 704,314 billion VND, total assets of of non-life insurance enterprises is 117,972 trillion VND), the average growth rate in the period 2018-2022 reaches 20.16%/year. Also during this period, total insurance premium revenue increased by 86.1% from 133,146 trillion VND in 2018 to 247,785 trillion VND in 2022 with an average annual growth rate of 16.8%.

As an industry in the overall economy, insurance growth contributes to the growth of the economy, forming national income through its activities. First, in traditional insurance business, insurance companies sell promises and accept risks to earn premiums. Every year, insurance premium revenue growth contributes a portion of gross domestic product (GDP). The average insurance penetration rate in Vietnam is approximately 3% per year, especially in 2021 the penetration rate will reach the highest level of 3.38%.

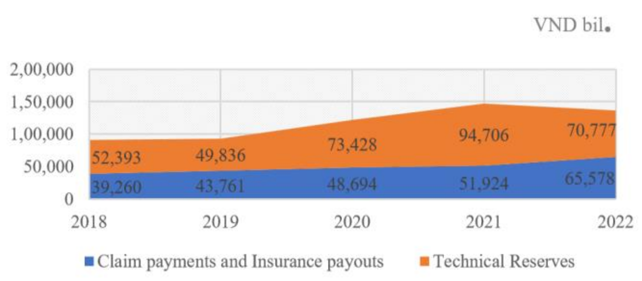
Table 1: Insurance penetration

Insurance Premiums	Life	Non-life	Total	
	(VND bil.)	(VND bil.)	(VND bil.)	% GDP
2018	86,176	46,970	133,146	2.36 %
2019	106,640	53,369	160,009	2.65%
2020	129,291	56,669	185,960	2.99%
2021	159,326	59,135	218,461	3.38%
2022	178,327	69,459	247,786	2.60%

Source: Vietnam Insurance Market Statistical Yearbook

Second, besides traditional insurance business activities, each insurance company is a real investor in the financial market. Insurance helps mobilize resources in society and distribute them through investment activities. Therefore, investment activities also give insurance companies another source of revenue. This source of revenue accounts for an average of 0.5% of GDP each year.

Insurance contributes to ensuring socio-economic stability. Risks that have occurred and risks that are predicted are compensated for through compensation, payment or through professional reserves. This provides certainty for the business operations of the economy in general. Every year, the insurance industry pays tens of trillions of dong in compensation and insurance benefits to individuals and businesses at risk. From there, individual businesses overcome risks, minimize costs, contribute to increasing profits, and at the same time help stabilize the state budget. Payment of insurance benefits by the end of 2022 reached VND 65,578 billion (up 26.3% over the same period in 2021), of which non-life insurance enterprises reached VND 23,018 billion, life insurance enterprises reached VND 42,560 billion.



Source: Results of data processing in the insurance statistical yearbook by the author

Chart 2: Contribution to socio-economic stabilization

At the same time, operational reserves during the year are always consolidated to ensure compensation for risks that may arise in the future. In recent years, the highest additional reserve source reached VND 94,706 billion to ensure payment readiness and financial stability of businesses, households, and individuals in the economy.

Furthermore, as an organizational investor, the insurance industry attracts savings and provides a big source of capital to stimulate economic growth each year. The level of investment injected into the economy has increased by 109.86% from 324,262 billion VND in 2018 to 680,591 billion VND in 2022. The majority of this capital is allocated to the economy through channels such as credit institutions, government bonds, local authorities, stocks, and corporate bonds... Approximately 45% of this capital is provided through credit institutions each year. Businesses and individuals can easily access this capital to engage in production and business activities. Insurance also enriches financial markets with government bonds and local government bonds accounting for about 36%-37% of the capital; Other instruments such as corporate bonds are guaranteed about 5% of the value, unsecured about 10% of the value.

In addition, every year the insurance industry provides millions of jobs for workers, individual agents and individuals belonging to agency organizations nationwide. In 2022, this number will be 1,096,404 jobs.

5. Discuss and Suggest Solutions

Insurance penetration is the ratio of direct insurance premiums written to gross domestic product (GDP). It shows the relative importance of the insurance industry in the national economy and is not affected by currency fluctuations (Outreville, J. F, 2011) [12]. Vietnam is a developing country, the insurance market is still young, so the insurance penetration rate is still low. As table 1 shows, this rate in Vietnam is usually below 3% (except for 2021). While according to OECD insurance statistics 2022, countries in the region such as Malaysia 5% (2020), 4.8% (2021); Singapore 10.8% (2020), 11.4% in 2021. Looking at countries with a more developed insurance industry such as Korea, this rate is respectively 11.5%, 11%, America 12, 5%, 12.4%. Obviously at the macroeconomic level, the insurance industry in any country contributes to GDP. Although developing quite strongly, currently, the scale of Vietnam's insurance market is still modest compared to many countries in the world, with the ratio of insurance premium revenue/GDP still low, and the added value contribution of insurance. Vietnam's risks for economic growth and development are not yet strong.

There are three basic characteristics of the financial system that impact economic development that many studies mention: the level of financial intermediation; efficiency of financial intermediation; and products of financial intermediaries. Insurance companies have contributed significantly to the early formation of the capital market in Vietnam. The capital source providing for the economy has grown strongly in recent years. However, the efficiency of financial intermediation is still limited, the products of financial intermediaries are still monotonous, investment forms are not yet diverse, focusing mainly on certain tools to promptly meet regular payment needs, so the efficiency is not high. Therefore, to promote the role of a financial intermediary, insurance needs to diversify its investment portfolio and provide a variety of products to the financial market; Increase capital scale for investment activities through increasing equity and increasing idle capital from operational reserves. That requires insurance companies to improve their financial capacity, expand market share and seek revenue from selling insurance products.

Also according to Nguyen.Y. *et al* (2010) [9]: Insurance has a positive relationship with economic growth, countries can benefit from allocating more resources to both life and non-life insurance industries. Therefore, adjustments in development policies for the insurance industry are very necessary. It is necessary to improve the system of mechanisms and policies on insurance business to be fully, transparent, equal and synchronous, approaching international standards and practices on insurance business, creating favorable conditions for development insurance market comprehensively. The better the quality of a country's legal system and the protection of property rights, the better its insurance development (Nguyen.Y. *et al*, 2010) [9].

In short, according to many studies insurance has a positive impact on the country's economic development. The development of the insurance industry contributes to economic growth; helps reduce shocks to the economy, ensuring financial stability for businesses, households and individuals. In Vietnam, the young insurance industry needs policy mechanisms and solutions to promote market development, helping to enhance the role of insurance in economic development.

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