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The Relationship Between Financial Stability and Insurance

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Abstract: The present study aimed to review the literature for the relationship between financial stability and insurance. An overview of insurance was given to make the reader familiar with the insurance related terms. Financial development and inclusion were also discussed. Types of insurance including farmer's insurance, health insurance and life insurance were discussed. The last part of this study discussed the impact of financial stability on insurance as large business. We found that life insurance may be one of the best types of insurance because it involves the fluidity of cash flaws for the insurance company and for the overall economy. Taken together, the present study showed that insurance is a large business that is impacted by financial stability. Insurance as a business has a low margin of loss. One of the best sectors of insurance is the life insurance because it involves long term conditions. We recommend conducting more in-depth studies to analyze the local markets and their best long term investments to sustain the development in insurance business and to increase the coverage for people to be included under the umbrella of insurance.

Key words: Insurance, financial stability, farmer's insurance, health insurance, life insurance, umbrella

INTRODUCTION

An overview of insurance: Insurance is considered as a measure to protect against a loss of financial aspects (Marovie *et al*., 2010). Insurance is viewed as a type of risk management that is directed against uncertain loss (Gallati, 2003; Hussels *et al*., 2005).

Insurance is usually provided by an insurer such as insurance company, insurance carrier or underwriter (Venezian, 1985; Nekarda and Ramey, 2013). The insurance process implies that the insured pays in advance according agreement between the insurer and insured, small loss in the form of payment to the insurer so that the insurer is going to compensate the insured in case of the occurrence of loss (Cremades *et al*., 2018; Surminski, 2018; Lazar and Denuit, 2012). However, the loss should not always take financial forms but it should be expressed in terms of finance as the insured may have insurable interest as ownership (World Bank Group, 2013; Burman *et al*., 2015).

The insured usually sign a contract with the insurer, called the insurance policy in which there are details about the conditions and circumstances that identify how the insured is going to be compensated (Dreger and Marcellino, 2007; Istrate and Badea, 2017).

The insurer is likely to compensate the insured according to their insurance policy if the insured experienced loss, the amount of money received by the insured is called the premium (Jawadi *et al*., 2009).

FINANCIAL DEVELOPMENT

Financial development is considered an essential part in the total development of economy in addition to exhibiting a role in pushing growth (Beck *et al*., 2007; Law and Singh, 2014; Aizenman *et al*., 2015; Arcand *et al*., 2015). Financial development has a crucial role in growing economy that implied the existence of transforming point from measuring single terms such as the ratio of bank credit to overall economic activity (Cihak *et al*., 2012). Financial development as a concept involves depth, access, efficiency as well as stability (Sahay *et al*., 2015). Financial depth is involved in measuring credit-GDP ratios whereas financial access is identical to financial inclusion (Anonymous, 2014).

Insurance sectors: In this study, we will discuss different sectors of insurance.

Farmer's insurance: Farmer's insurance has gained much attention in developing countries as it brings a new

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experience in financial inclusion (Cole, 2009; Gaurav *et al.*, 2012). Insurance for weather and crop or livestock purposes to protect small and marginal farmers from suffers (Gill, 2016). In his study, Nair (2010) concluded, after using insurance data from the Agriculture Insurance Company of India, that weather insurance is feasible. The study of Cole *et al.* (2014) investigates the market of rainfall insurance purchases. The researcher found that there was a highly sensitive demand for payouts obtained from a household's village. These findings agreed with previous results obtained by Gine *et al.* (2008) who found that there is a need to make rapid payouts for farmers to release their loss and to make the insurance looks effective.

Takahashi *et al.* (2016) argued the matters of price sensitivity within the context of livestock insurance in Ethiopia. They concluded that increasing the knowledge through the distribution of learning kits did not increase insurance uptake.

In their study, explored essential factors for development to be achieved and if the risk inhibits the investment. They concluded that protection given to farmers had little impact on uptake or other outcomes.

Health insurance: It is very crucial for the community to offer health insurance for the poor as a type of financial inclusion. In industrial countries, funded healthcare is provided. Due to the importance of health to people, health care has become emotive subject. Because of the high cost of health care and due to economic burden of developing countries, the role of health insurance programs for the poor has become greater and involves more access to health care (Singh, 2017).

Inclusion can be achieved through community-based health insurance schemes. As an illustrating example, Jutting (2003) studied such models of health insurance and found that access to health care was increased but the poorest are not included. Another study targeted community-based insurance for China by Wang *et al.* (2005) indicated that richer participants were more likely to benefit from insurance and the researchers made focus on the difficulties involved and how to make appropriate targeting and design. In another study, McCord (2001) expressed his opinions in which micro-insurance for health care involves complicated issues with accompanying challenges.

Studies from India, a country with large number of population, showed recent efforts in increasing the coverage of health insurance programs for the poor (Singh, 2017). Palacios *et al.* (2011) conducted institutional details and argued problems of implementation. In another study by Nandi *et al.* (2013), the determinants of engagement in new health insurance schemes were discussed. Selvaraj and Karan (2012) found that public health insurance is not working with private provision and the researchers exhibited their views against the involvement of private sector.

THE IMPACT OF FINANCIAL STABILITY ON INSURANCE BUSINESS

It has been realized that classical insurance business is not considered as a source of systemic risk (Anonymous, 2011, 2015). Great differences have been reported to describe the relation between insurance business activities and financial stability. As an illustrating example, life insurers are likely to be sensitive to risk and experienced a higher liquidity risk (Cummins and Weiss, 2016; Paulson *et al.*, 2014). Under the conditions in which life insurance contracts are lapsed, the behavior of life insurers may be directed towards fire-sell assets as a response to emerging shocks. However, these behaviors of insurers may be debated (Anonymous, 2016). Various factors make life insurers more sensitive to risks of the market these factors include the scope of long investment and the vision of insurers to make focus on accumulation of insurance products (Cummins and Weiss, 2014).

In Europe, the environment of having contradicted elements such as low interest rate for a long time accompanied with a drop in asset prices makes the most important impacting factors for destabilizing for life insurers and economy (Anonymous, 2015). On the other hand, life insurance acts to stabilize cash flaws for future because the existing contracts offer long term liquidity to the insurance company (Anonymous, 2014). According to, this context, life insurers are likely to be involved in long term projects for the real economy through offering funds for long term projects such as infrastructure projects (Anonymous, 2012).

CONCLUSION

The present study showed that insurance is a large business that is impacted by financial stability. Insurance as a business has a low margin of loss. One of the best sectors of insurance is the life insurance because it involves long term conditions. We recommend conducting more in-depth studies to analyze the local markets and their best long term investments to sustain the development in insurance business and to increase the coverage for people to be included under the umbrella of insurance.

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