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The relationship between insurance and economic growth in Romania compared to the main results in Europe – a theoretical and empirical analysis

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Abstract

The correlation between insurance and economic growth has been analyzed by many authors at the international level, thus there are a lot of studies seeking to assess the causal relation between macroeconomic performance and the size of the insurance sector. The insurance becomes a major component in certain economies, consequently the weight of insurance to the GDP of every country being over 10% in some European countries (such as the Netherlands, the United Kingdom and Finland), and it is even higher as the economic development is higher. We can say that the percentage in GDP of a country is the measure of the development of that respective state. The purpose of this paper is to establish the correlation between insurance and economic growth in Romania, by taking into consideration the share of gross premium written to GDP (insurance penetration), and the average value of the insurance premium paid by an inhabitant across one year (insurance density), as insurance indicators. The methodology of our research employs statistical methods concerning the analysis between the GDP and insurance indicators. The results obtained will be compared with those obtained on other markets.

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1. Introduction

The link between insurance and economic growth has been dealt with by many specialists in the field, and led to the conclusion that there is a direct causal link between them, while their degree of insurance development is influenced by the level of economic development of the country.

The variety and diversity of the insurance products depend on the maturity of the sector, the market and the customer on the market in question. There are insurance markets where there prevails a larger number of products for life insurance, providing protection, as well as the opportunity to save money, that is, a possibility for financial investment, while on other markets their share is smaller (usually among countries with less financial power), in favor of compulsory insurance, as well as that of a higher likelihood of risk occurrence.

In addition to their degree of development and state involvement in the economy, cultural and religious traditions play a greater or a lesser role in insurance development from one country to another, while the need for insurance is very diverse, being a part of education.

Insurance has currently become a major component in the economies of developed countries. The share that insurance has in the GDP of each country is ever higher, reaching over 12% in certain countries (such as Great Britain), while the higher the economic development of the respective country is, the higher this share becomes.

In developed countries, insurance is a part of education, of tradition, of life, while, in Romania, nowadays, we are far from a discussion about any education of the entire population in this field. Financial factors add to the circumstances in our country, as the offer is limited, less adapted to the needs of the market, and of low flexibility.

2. Theoretical basis

In a study carried out by the European Committee in the field of insurance (Committee of European Insurance) on the insurance contribution to economic growth, it is pointed out that the insurance industry promotes economic growth and structural development through the following channels: Offering protection to firms; in this way their financial stability is enhanced by the insurance company taking over any damage or interruption in the production process occurring as a result of the insured events; Promoting entrepreneurial attitude, encouraging investment, innovation, the vitality of the market and of the competition; Offering protection, in joint participation with the state, relieving pressure on the state with regard to covering large damages; Increasing financial intermediation, the creation of liquidity and savings through life insurance products; Promotion of risk prevention from the companies or the people, thereby contributing to sustainable and responsible development.

Most of the empirical studies with respect to economic growth have generally dealt with the impact of the banking sector and the capital market on the economic growth (Levine, 2004). Even though the potential contribution of the insurance markets on economic growth has been recognized, the assessment of the potential causal relations between the insurance business and economic growth has not been studied in as much as that of banks (arena, 2006).

However, ever since 1964, in the context of the UNCTAD conferences, the importance of insurance in the process of economic growth of a country has been fully recognized, being regarded as a very important national sector, which is an essential feature of a suitable economic system, at the same time contributing to the economic growth and the promotion of employment.

Jan Webb (International Insurance Foundation), Martin Grace (2001) and Harold Skipper (2001) have carried out an empirical analysis between several countries (cross country) and have concluded that the development of the insurance sector and of financial intermediation increases the total productivity of the production factors by facilitating the efficient allocation of capital.

Francois Outrevillle (UNCTAD, 1990) has carried out a pioneering examination of the relation between insurance development and economic growth in developing countries. His results have shown that both non-life and life insurance generate economic growth.

The insurance facilitates not only economic transactions by transferring risks and granting insurance benefits should risks occur, but it is also regarded as a promoter of financial intermediation (Ward and Zurbruegg, 2000).