

# The Importance of Insurance Companies for Financial Stability

P.Madhavi

*MBA II Year, Sridevi Women's Engineering College*

**Abstract - Insurance Can Be Important for The Stability of Financial Stability of Financial System. Mainly Because They Are Large Investors' Mainly Because There Are Growing Links Between Insurances and Banks and Because Insurances Are Safeguarding the Financial Stability of Households and Firms by Insuring Their Risks.**

**This Special Feature Discusses the Main Reasons Why Insurance Companies Can Be Important for The Stability of The Financial System. It Also Highlights the Special Role of Reinsurances in Insurance Sector and Discusses Some of The Key Differences Between Insurers and Banks from A Financial Stability Point of View.**

**Index Terms – Financial Stability ,Risks, Safeguarding, Role of Reinsurances, Insurer.**

Growing. It Is Insurance Companies, Given Their Often Also Support Financial Stability.

The Importance of Insurers for Financial Stability Is Also Increasing as The Size of The Euro Area Insurance Sector Has Grown Rapidly Over the Last Decade for Example, Euro Area Insurers Financial Assets Increased by Some 90% From Early 1999 To 2008 Or From 35% To 50% of Euro Area GDP. This Growth Was Mainly Driven by Economic Development, Which Raised the Demand, Which Raised the Demand for Non-Life Insurance and Pension Funds as Their Development Are Likely to Continue in The Future It Is To Be Expected That The Growing Role Of The Insurance Sector Will Continue In The Years A Head

## INTRODUCTION

The Insurance Sector Has Traditionally Been Regarded as A Relatively Stable Segment of Financial System. This Is Mainly Because Most Insurers Balance Sheets, Unlike Those of Banks Are Composed of Relatively Illiquid Liabilities That Protest Insurance Against the Risk of Rapid Liquidity Shortages That Can and Do Confront Banks. In Addition, Insurers Are Not Generally Seen to Be a Significant Potential Source of Systemic Risk One of The Main Reasons for This View Is That Insurers Are Not Interlined to The Same Extent as Banks Are for Instance, In Interbank Markets and Payment System The Insurance Sector Can, However, Be A Source of Vulnerability for The Financial System and The Failure of An Insurance an Event That Has Occurred from Time to Time Can Create Financial Instability in Addition the Traditionally View That Insurers Pose Limited Systemic Risk Can Be Challenged, However, Because It Does Not Take Account of The Fact That Interaction Account of The Fact That Interaction Between Insurers Financial Intermediaries Has Been

## OBJECTIVES

- To Promote Growth and Financial Stability of Insurance Companies
- To Professionalize Insurance Services and Develop Insurance Consciousness
- To Establish a Sound National Insurance Market,
- To Safeguard the Rights and Interest of Insuring People

## REVIEW OF LITERATURE

- Aditya Nath Jha : Studied Proper Analysis of Various Distribution Channels in Life Insurance Industry in India Has Been Done .Before Privatization Expanded.
- Anand Thukur : Studied Critical Review of Present Marketing Strategies in Health Insurance Sector Has Been Aailed and Useful Marketing Ideas Has Been Suggested Health Insurance Market but At Present There Are Limited Products and Less Awareness Resulting In Poor Penetration.

Definition

Insurance Companies

Insurance Companies Means A Company Organised As An Insurance Company Whose Primary Business Is Writing Insurance Or Reinsuring Risks Underwritten By Insurance Companies And Which Is Subject To Companies And Which Is Subject To Companies And Which Is Subject To Supervision By The Insurance Commissioner Or A Similar Official Or Agency Of A State.

Definition

Insurance Company

Insurance Companies Means an Association, Or Fraternal or Credit Life, Contract Mutual Benefit Organization Whether or Not For Profit, Engaged In The Business Of Providing Life Endowments, Annuities, Or Insurance Including Accident, Burial, Casualty, Credit Life, Contract Performance, Dental, Disability, Fidelity, Fire, Health, Hospitalization, Illness, Life, Malpractice, Marine, Mortgage, Surety, Waage Protection, And Workers Compensation Insurance

Meaning : Insurance Is a Contract Policy in Which An Insurer Indemnifies Another Against Losses From Specific Contingencies Or Perils. There Are Many Types of Insurance Policies. Life, Health, Homeowners, And Auto Are the Most Common Forms of Insurance

Types Of Insurance : There Are Different Types of Insurances That Every Individual Needs or At the Very Least Needs to Consider.

- Life Insurance
- Disability Insurance
- Long-Term Care Insurance.
- Homeowners And Renters Insurance.
- Liability Insurance.
- Automobile Insurance.
- Health Insurance
- Protect Yourself.

Life Insurance

There Are A Wide Variety Of Life Insurance Policies. The Most Basic — And Least Expensive— Is Term Life Insurance, Which Pays A Specific Amount If You Die Within The Time Frame Of The Policy. For Example, Let's Say You've Purchased A \$500,000,

20-Year Term Policy. If You Die Within Those 20 Years, Your Heirs Will Receive \$500,000, Tax-Free. Other Policy Types Include “Permanent” Life Insurance, Which Doesn't Lapse As Long As You Pay Your Premiums.

Life Insurance Is A Complex Subject, And Each Person Should Buy It In Accordance With Their Needs. People With Children Who Are Minors Likely Need A Higher Amount Of Coverage. That Way, The Costs Of The Children's Care And Upbringing Will Be Covered In The Unfortunate Event Of A Parent's Death. Couples Who Are Dependent On One Spouse's Higher Income Might Also Need More Coverage. If The Higher-Wage- Earning Spouse Dies Prematurely, Life Insurance Will Mitigate The Loss Of Family Income

Disability Insurance

Most Major Corporations Offer Some Form Of Disability Insurance To Their Employees, But Many Smaller Businesses Do Not. This Type Of Coverage Is Intended To Replace Your Salary If You Were To Become Temporarily Or Permanently Disabled Be Aware That Disability Coverage, Like All Insurance, Has A Lot Of Significant Nuances. For Example, Are You Disabled And Unable To Perform Any Work, Or Are You Just Unable To Work At Your Normal Occupation? These Definitions Have A Major Impact On When You Can Receive Coverage

Long-Term Care Insurance

This Insurance Helps Cover Costs In The Event You Need To Be In Nursing Care, Either On A Short- Or A Long-Term Basis. You Should Also Consider Whether You Have Assets Outside The Policy That Could Pay For Your Care. If Not, Strong Coverage May Be More Necessary For Your Family.

Unfortunately, Long-Term Care Insurance Can Be Very Expensive, But You Can Look Into Hybrid Policies That Cover The Same Events. For Example, You Could Share A Policy Between Spouses Or Find A Policy Attached To An Annuity.

Homeowners And Renters Insurance

Homeowners Insurance Pays For Partial Damage Or The Complete Destruction Of Your Home. Often, It Also Covers The Damaged Contents Of Your Home, As Well As The Funds Necessary To Rent

Accommodations While Your Home Is Being Repaired.

Your Home Is Likely The Biggest Purchase You Will Ever Make, So This Is A Very Important Type Of Insurance To Have. Be Sure To Look At The Details, Though. Will The Policy Cover What You Paid For The Home Or The Price Of What It Would Take To Rebuild It? These Could Be Very Different Numbers. If You Are A Renter, You Also Need Coverage. Structural Damage Is The Responsibility Of Your Landlord, But Renters' Insurance Will Protect Your Personal Possessions.

#### Liability Insurance

Liability Insurance Is Often Attached To Your Homeowner's Policy, And It Covers Accidents That May Happen At Your Home. For Example, If A House Guest Slipped on Your Stairs, You Might Be Responsible For Their Medical Expenses If You Were Found Liable For The Accident. Liability Coverage Would Mitigate Those Costs.

It Frequently Also Extends to Accidents Involving the Homeowner That Take Place Outside the Home. For Example, If Your Dog Escaped from The Yard And, In A State of Fear, Bit One of Your Neighbours, Liability Insurance Could Cover the Damages

#### Automobile Insurance

If You Own a Car, You Are Already Intimately Familiar with Automobile Insurances. That's Because It's One of The Most Important Kinds of Coverage You Can Have. In 2019, Around 4.4 million People Were Involved in Car Crashes Serious Enough to Require Medical Attention. Even Less-Critical Accidents Like Fender- Benders and Stationary Collisions Can Set You Back a Lot for Repairs. Automobile Insurance Pays in The Event That You Experience a Car Wreck, And It Will Also Pay for The Other Party's Damages If You Are at Fault.

Insurance Companies and Financial Stability : There Are Three Main Reasons Why Insurers Are Important for The Stability of The Financial System.<sup>1</sup> First, Insurers Are Large Investors in Financial Markets.<sup>2</sup> Second, Insurers Often Have Close Links to Banks And Other Financial Institutions, And Problems Confronting An Insurer Can Therefore Spread To The Banking Sector. Third, Insurers Contribute to The

Safeguarding Of The Stability Of Household And Financial Balance Sheets By Insuring Their Risks.

Insurance Companies As Large Financial Market Investors

Insurance Companies, Especially Composite And Life Insurers, Are Large Investors In Financial Markets Since They Invest Insurance Premiums Received From Policyholders. The Total Value Of The Investment Assets Of Euro Area Insurers Amounted To €4.4 Trillion In 2008 (See Table E.1). Most Of The Time, Given Their Often-Long-Term Investment Horizons, Insurers Are A Source Of Stability For Financial Markets. However, Because Of The Sheer Size of Their Investment Portfolios, Reallocations Of Funds Or The Unwinding of Positions By These Institutions Has The Potential To Move Markets And, In The Extreme, Affect Financial Stability By Destabilising Asset Prices. The Largest Asset Class in Which Euro Area Insurers Invest Is Debt and Other Fixed Income Securities. Direct Investment by Euro Area Insurers in Such Securities Amounted to Over €2 Trillion In 2008 (See Table E.1). On Average, Large Euro Area Insurers Have About Half of Their Bond Holdings in Corporate Bonds and Half in Government Bonds. Because of These Large Government and Corporate Bond Investments, The Investment Behaviour of Insurers Has the Potential to Affect Long- Term Interest Rates and Pricing in The Secondary Markets. Furthermore, It Makes Insurers Important for The Provision of Financing to Both Governments and Financial Institutions. For Example, around 20% Of the Debt Securities Issued by Euro Area Governments Are Held by Euro Area Insurers and Pension Funds. Out Of the Total Of €4.4 Trillion They Hold in Investment Assets; Euro Area Insurance Companies' Equity Holdings Amount to Around €550 Billion

Insurance Companies Links with Banks: From A Financial Stability Perspective, The Identification of Linkages Between the Banking and The Insurance Sectors Is of Importance Because Such Linkages Determine the Channels Through Which Potential Problems In One Sector Could Be Transmitted To Another. Such Contagion Channels Can Be Either Indirect – E.G., Via Insurers' Financial Market Activities (As Described Above)

– Or Direct Through Ownership Links and Credit Exposures (Discussed Hereafter). In Recent Decades, The Direct Ownership Links Between Banking Groups and Insurance Undertakings Have Increased and Many “Financial Conglomerates” That Offer Both Banking and Insurance Products Have Emerged. The Reasons for Conglomeration Were Mainly to Diversify Income Streams, To Reduce Costs and To Take Advantage of Established Product Distribution Channels. In Addition, Some Banks and Insurers Saw Benefits in Joining the Different Balance Sheet Structures of Banks – The Assets of Which Have a Longer Maturity Than Their Liabilities – And Insurers – Which Generally Have Liabilities With A Longer Maturity Than Their Assets – To Reduce Balance Sheet Mismatches.

#### FINDINGS

As Discussed Above, The Insurance Sector Can Be Considerable Importance to Financial System Stability, But Insurance Do Not Pose the Same Systematic Risk for Financial System as Banks. This Is Because Insurers Are Not as Closely Interconnected as Banks Since They Do Not Directly Participate in Bank Since They Do Not Directly Participate in Payments Systems This Does Not Necessarily However Mean That Simultaneous Defaults Are Likely to Occur in The Insurance Sector.

#### CONCLUSION

Although Insurers Can Contribute to Financial Stability on Account of Both Their Capacity to Reallocate Risks in The Economy and Their Often-Long-Term Investment Horizons, They Also Have the Potential to Destabilise the Financial System. In Particular, A Problem Confronting an Insurer Could Affect Not Only Households and Firms That Have Bought Insurance, But Also Financial Markets – Via Insurers’ Investment Activities – And Banks and Other Financial Institutions – Via Direct and Indirect Links. All This Warrants a Regular Analysis and Monitoring of Insurers’ Financial Performance and Assessments of Their Risk by Central Banks, International Organisations and Other Bodies That Cover Countries/Regions Where the Insurance Sector Plays a Significant Role. In Addition, Given That the

Banking and Insurance Sectors Have Become Increasingly Interlinked, Financial Stability Assessments Should Avoid an Approach That Is Too Sector-Oriented and Should Take into Account the Linkages Between These Different Parts of The Financial System

#### REFERENCE

- [1] <https://www.semanticscholar.org/paper/Health-Insurance-in-India-%3a-A-Review-of-Literature-Aditya>
- [2] <https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.682.6500&rep=rep1&type=pdf>
- [3] [www.wikipedia.in](http://www.wikipedia.in)

#### Examples of Insurance Companies in India

1. Life Insurance Corporation of India: Life Insurance Corporation of India Popularly Known as Lic Is the Largest Life Insurance Company in India Owned by The Government of India. Lic, One of The Top 10 Insurance Companies in India, Came into Existence in The Year 1956. Lic Makes Insurance Accessible for Every Person in Any Corner of The Country With 2048 Branch Offices, 113 Divisional Offices, 8 Zonal Offices And 1408 Satellite Offices. Currently, Lic’s Total Assets Under Management Are Inr 3,111,847 Crores (Usd 450 billion). Lic Being the Dominant Insurance Player Has a Huge Customer Base of Over 29 Crores Policyholders. Lic Is a Trusted Insurance Brand That Offers Great Convenience to Its Customers Through Its Excellent Customer Services on The Digital Platform and Also Through Branch Offices and Various Other Tie-Ups. Lic Offers Numerous Life Insurance Products That Can Meet the Unique Needs of a Variety of Customer Segments. For All the Milestones It Has Achieved, Lic Has Been Consistently Recognised and Awarded. Following Are Some of The Awards Received by Lic:

- Lic Has Been Consistently Winning the Reader’s Digest Trusted Brand Award
- According To the Brand Trust Report, Lic Has Been Consistently Voted As ‘India’s Most Trusted Brand’ In the Bfsi Category
- Lic Has Won ‘Best Life Insurance Company of The Year’ And ‘Most Preferred Life Insurance Company of The Year’ Award

- In Fact, The Flexibility Offered with The Lic Plans Is So Diverse That Choosing a Lic Policy Itself Can Be Quite a Dilemma. To Make Things Easier for You, We Have Compared the Top Policies Offered by Lic Along with Their Features And Benefits In The Post Linked Below.

2.Max Life Insurance Companies: Max Life Insurance C The Year 2000 Is the Largest Non-Bank Private Sector Insurance Company in India. Max Life Insurance Company Is a Joint Venture Between Indian Max India Ltd, A Multi-Business Indian Corporation and Mitsui Sumitomo Insurance Company, A Japanese Insurance Company. Max Life Insurance Company Is One of The Fastest-Growing Insurance Companies in India with Assets Under Management of Inr 90, 407 Crores. The Company Has a Customer Base of More Than 32 Lakhs. With A Strong Online Presence, A Wide Portfolio of Products, Multi-Distribution Channels and Offices Across the Country, Max Life Insurance Company Provides High-Quality Customer Services. Max Life Has Been Receiving Awards and Recognitions Consistently. With A High Claim Settlement Ratio, Max Life Has Been Awarded As ‘Claims Service Leader’ And ‘E

3.Hdfc Life Insurance Company:Hdfc Life Insurance Company, One of The Top Insurance Companies in India Is a Joint Venture Between Hdfc Ltd, A Leading Housing Finance Institution In India And Standard Life Aberdeen, A Global Investment Company. Founded In the Year 2000, Hdfc Life Offers a Wide Array of Insurance and Investment Solutions to Various Customer Segments. Hdfc Life Serves Its Customers Across the Country Through 390 Branches and Additional Distribution Touchpoints and Bancassurance Partners. With A Strong Digital Platform, Services Are Accessible Easily to The Customers. Hdfc Life Has Received Many Accolades and Awards for Its Continuous Contribution to The Indian Insurance Industry. Following Are Some of The Details:

- Hdfc Life Is Ranked As ‘Most Valuable Private Life Insurance Indian Brand’
- Hdfc Life Has Received ‘Creative Excellence Award’ At Indiaa Awards 2018
- Hdfc Life Has Received ‘Best Life Insurance Company’, ‘Best Analytic Initiative of The Year’

And ‘Best Underwriting Initiative of The Year’ At Bfsi Awards.

- Hdfc Life Is Recognised as The Best 50 Pci Companies For 2019
- Hdfc Life Has Received the Yuva Unstoppable Changemaker Award In 2021
- Hdfc Life Is Recognised as Superbrand 2021
- Hdfc Life Insurance Offers Considerable Flexibility with Their Insurance Policies, at 99.07%, Their Claim Settlement Ratio Is Quite Impressive as Well. Click The Link Below to Know More About the Life Insurance Plans Offered by Hdfc.