Student's name

Instructor's name

Course

Date

Insurance and Its Role in the Development of Economics

The question of whether insurance boosts economic growth remains pivotal in the discourse of contemporary studies pertaining to economic growth. While some commonly agree that insurance is of little importance for the broader structure of the economy, others point out the exceptional role of insurance in the development of economics and respective economic growth. With regard to a wide range of credible studies on the subject, one may highlight the urgent necessity of reviewing the correlation between insurance and economic development. Although it may be contemplated that insurance plays an insufficient role in the overall structure of economic development and growth, a wide range of valid studies represents its immeasurable impact pertaining to economic growth, which may best be traced by reviewing employment opportunities, the broader extent of the insurance sector, and institutional environments.

Employment Opportunities and the Overall Impact of the Insurance Sector

What stands out most prominently in the context of economic growth is that the insurance sector generates employment opportunities disregarding the socioeconomic environment, which is capable of leading in the direction of capital formation. If to consider the fact that the insurance sector also impacts the provision of capital into productive segments of the economy, it would be dubious to claim that its effect on economic development is limited (Niavand and Mahesh 133). More precisely, the switch into the productive segment of the economy eventually leads to loss mitigation, financial stability, and the fostering of commercial activities in specific contexts. Alternatively, a wide variety of theoretical frameworks are applied to ensure that the insurance sector impacts economic development. One of the most widely used is the finance-growth nexus theory, which stresses that financial development promotes economic growth through the channels of marginal productivity of capital (Niavand and Mahesh 133). Therefore, the direct impact on macroeconomic figures, coupled with venture development and improvement, are the fundamental reasons to associate the insurance sector with economic development and growth. This statement might also be true while reviewing the fact that the insurance sector puts resources into different monetary areas that logically expand the venture level inside a nation. Overall, the macroeconomic implications and the capacity of the insurance sector to allocate resources through numerous financial channels are among the primary reasons to associate insurance with economic development and economic growth.

Broader Extent of Insurance Sector

As for the more sophisticated perspective on how insurance can boost economic development at a national level, one can put attention to the necessity to implement related policies from the side of the government. A research piece by Nwosa and Mustapha (2018) focused on tracking the dynamics of insurance development in Nigeria, which was pointed out as being insufficient to skyrocket the macroeconomic figures profoundly. The most critical insight that may be withdrawn from the findings is that governmental participation in the enhancement of the insurance factor is mandatory to have at least implications on financial growth. As revealed by scholars, the mere presence of the insurance sector in the structure of the Nigerian economy is not enough to bring the sound development of macroeconomic factors (Nwosa and Mustapha 43). Consequently, it should be noted that under no circumstances should underdeveloped insurance entities be entitled as drivers of economic growth.

The case study based on the Nigerian context should be further perceived as a role model for tracking the correlation between insurance and economic growth without proper attention from governmental initiatives. It would be reasonable to underline the relevance of insurance entities in the developing world. The only precaution in this context is the set of provisions required for these organizations to enter the domain of financial deepening, which equals implications for economic development and economic growth (Outreville 33). Once the developing states reassess the critical importance of insurance entities in the structures of their economies, empirical pieces of evidence might emerge concerning the importance of government assistance in the relationship of insurance and economic growth.

Institutional Environments

One of the most feasible parameters in the review of insurance and economic development is related to the presence of a healthy environment for growth. Since economic growth is a complicated matter that should not be assessed from merely a single perspective, it would be rational to review the institutional environments of pivotal importance in the correlation of insurance and economic development. The most prominent takeaway is that the states with either a harmful or marginal institutional environment represent the negative correlation between insurance and economic growth (Lee et al. 361). If a country manages to develop resilience in terms of institutional environments, it may proceed with the process of transitioning the insurance sector in the direction of sustainable growth. With regard to the empirical evidence of how the insurance sector impacts economic growth in the context of a negative institutional environment, developing states are generally backpedaling in terms of having a suitable climate for growth. More precisely, the most critical factors for economic growth and a boost in the insurance sector are those pertaining to economic, political, and legal domains (Lee et al. 364). If one of the indicated domains represents a marginality in development, the insurance sector cannot fit into the broader context of economic growth.

The same rules apply for transitioning states with an active boost in the insurance sector, which are generally African nations. The core of the problem under the mentioned circumstances is the inability to provide the necessary climate for the growth of the insurance sector as the intrinsic element of the monetary policy and economic structure of a particular state. In other words, the insurance sector is capable of delivering higher performance rates in healthy institutional environments, including economic, political, and legal ones, and hence the measurable rates of economic growth are possible merely in appropriate circumstances. Even though the development of the insurance sector is promising in developing states, a more sophisticated approach towards the institutional environment is mandatory to have measurable implications on economic growth.

Final Remarks

It would be reasonable to point out that the skyrocketing of the insurance sector might have decent implications on economic development and growth. The fundamental impacts of insurance include the possibility to allocate resources through numerous financial channels and the increase in capitalization rates within a state. However, it was identified that the benefits of insurance on economic development are possible merely by the functioning institutional environments that enable the allocation of resources through various financial channels. Subsequently, the question of whether the insurance sector fosters economic growth should be answered affirmatively but with a proper examination of the institutional context.

Works Cited

Lee, Chien-Chiang et al. "Economic Growth And Insurance Development: The Role Of Institutional Environments". *Economic Modelling*, vol 59, 2016, pp. 361-369. *Elsevier BV*, doi:10.1016/j.econmod.2016.08.010. Accessed 15 Aug 2019.

Niavand, Hossein, and R. Mahesh. "The Role Of Insurance Development In Financial And Economic Growth In Iran". *International Journal Of Management Studies*, V, no. 3(3), 2018, p. 133. *ERM Publications*, doi:10.18843/ijms/v5i3(3)/16. Accessed 15 Aug 2019.

Nwosa, Philip Ifeakachukwu, and Zainab Bolanle Mustapha. "The Dynamics Of Insurance Development And Economic Growth In Nigeria". *The Indian Economic Journal*, vol 65, no. 1-4, 2017, pp. 37-44. *SAGE Publications*, doi:10.1177/0019466217727813. Accessed 15 Aug 2019.

Outreville, J. François. "The Relationship Between Insurance And Economic Development: 85 Empirical Papers For A Review Of The Literature". *Risk Management And Insurance Review*, vol 16, no. 1, 2012, pp. 71-122. *Wiley*, doi:10.1111/j.1540-6296.2012.01219.x. Accessed 15 Aug 2019.