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The Impact of the Life Insurance on Economic Growth in ASEAN

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Research Highlights

The development of the insurance business in ASEAN has an impressive growth in the course of recent years. Reverse statement from Ouédraogo et al., (2016) who explained the level of life insurance development in developing countries remains low comparatively to developed countries. The ASEAN insurance industry, with the increasing number of insurance companies and people using insurance services, can even play a greater role in supporting overall economic growth in that region. This study aimed at examining the contribution of life insurance sector which is measured by three parameters e.g insurance penetration, insurance density and premium volume to the economic growth in the sample of 6 developing countries on ASEAN religion during 2005-2015 period i.e. Singapore, Malaysia, Phillipine, Thailand, Vietnam and Indonesia. The analytical method is applied by using fixed effect model. The result of this study showed that the life insurance premium volume, penetration and density have positive effects on economic growth.

Research Objectives

The insurance industry in ASEAN has strength in economic growth because ASEAN is one of the regions with great potential of world economic power. Some things that show that countries in ASEAN have the potential to become the world economic power, namely the Gross Domestic Product of countries in the ASEAN region which continues to increase every year and the development of the insurance industry in the region. In addition, ASEAN is seen as having the potential because it has a productive young workforce and is a large number as evidenced by the number of workers in the ASEAN region being the third largest in the world after China and India so as to encourage the growth of Gross Domestic Product. The flow of foreign investment into the ASEAN region also increases every year, making it a strong proof that this will encourage ASEAN economic growth. This research was conducted to investigate what factors are related to the life insurance industry that affect the economic growth of 6 countries in ASEAN area during 2000-2015 period ie Singapore, Malaysia, Phillipine, Thailand, Vietnam and Indonesia. The results of this study can be used by policy makers in each ASEAN countries to be more attentive to the development of the insurance industry because of its relation to economic growth so that insurance companies can optimally in promoting and improving their activities.

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Methodology

This research utilized the 15 years periods of cross-sectional and time series data which is secondary panel data set accessed from the Data of World Bank. It analyzed the sequence data taken from 2000 until 2015. The explanatory variable used in this research are the life insurance premium volume, the life insurance penetration, the life insurance density, which are considered as insurance proxies, labour, foreign investment, export growth, and domestic credit. This study has a methodological stages as follows.

1. Data exploration with descriptive statistics, scatterplots, graphs and coefficient of correlation testing among variables.
2. Builded the hypothesis which can be framed based on the literature reviewe of this study.
   a. H1: Life insurance penetration positively contributes to the economic growth
   b. H2: Life insurance premium positively contributes to the economic growth
   c. H3: Life insurance density positively contributes to the economic growth
3. Modelled the data using fixed effect model. This model assumes that the intercept is different for each subject while the slope remains the same between subjects. In distinguishing one subject from another subject, dummy variables are used.
4. Evaluated the model and assessing the goodness of fit using R-squared value and interpretated the results of analysis by determining which factors that have been explained before affect the economic growth
5. Obtained the conclusion of the study and made a suggestion.

Results

In this study, the dependent variables are the development of insurance which proxied by the volume of life insurance premiums, the ratio of life insurance premiums to gross domestic product which is usually known as insurance penetration, the ratio of life insurance premiums to the population which is usually known as insurance density. The result revealed the premium volume of life insurance is positively affecting the economic growth at 5% level and and this is as hypothesized before. Cristea, Marcu, & Cârstina (2014), revealed that the life insurance with its gross written premiums positively contributes as indepedent variables to the economic growth. Labor force variable has also a positive contribution on economic development. Both for life insurance penetration and density which are also found having a significant effect on economic growth at 5% level and the coefficient of regression are positive. This results are consistent with previous studies focused on developing countries, one of them is revealed by Ul Din, Abu-Bakar, & Regupathi, (2017) life insurance penetration has positive and a significant relationship with economic growth in a

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developing/emerging countries. Pradhan, Dash, Maradana, Jayakumar, & Gaurav (2017) also showed there is an unidirectional causality from life insurance density to economic growth (GDP) for the countries in Eurozone. Another explanatory variable of labour workforce also generates a positive impact and increase the economic growth. This statement is supported by the study from Raleva, (2013) who explained the increase in real GDP was positively influenced by labour developments of varying over time intensity.

Findings

Our results showed that the development of life insurance activity is an important determinant of economic growth on the sample of 6 developing countries over the period 2000-2015. The coefficients of life insurance premium, penetration and density in the regression equation is 0.56, 0.39, 0.37 respectively. This is occured based on the increase of in the number of business actors in ASEAN life insurance industries. Despite the amazing growth seen in the insurance industry in several countries, insurance contributions to GDP in several countries are very diverse, due to differences in the development of social and economic conditions in various countries in ASEAN.

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