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THE IMPACT OF FINANCIAL CAPITAL ON THE INSURANCE SECTOR

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Abstract

Financial industry of India in past years have seen many ups and downs due to the national emergency. However, the significance of financial sectors in the nation's economy is significant. Financial companies are helping credible people having access to a certain amount of money and influences the market of insurance industry. The study investigates the role of micro finance and its influence on insurance industry in India. This research is based on secondary data. The study uses data came from the 2018 annual reports and share-market investment statistics of 33 banks, insurance companies, and financial services. The result of the study shows a significant effect of finance industry on the insurance sector. The study concludes that the proper use of financial investment will enhance the insurance industry to a better future of this industry.

Keywords: *Finance, financial industries, Insurance industry, impacts.*

Introduction

The most commercially and financially successful organizations rely on the financial markets to mobilize their domestic revenues and provide guidance. The capital market helps successful corporations to acquire underperforming businesses because of the rehabilitation of those businesses. As a result, those with good projects but no access to bank financing can now access the financial markets (Brzakovi, 2007) thanks to proprietary democracy. Competitiveness and specialization among stockbrokers lead to a lower cost of financial intermediation as a result of increased capital market development. When it comes to ensuring that the financial system will remain solvent, the capital market relies on an established secondary market capital to provide investors with the option of turning their investments into cash if they so desire. As a result, countries with a lack of financial resources benefit greatly from the development capital market, which facilitates the entry of foreign funds By selling shares, the capital market provides long-term ownership finance, therefore expanding the issuers' own capital. As a result of these downsides, "opening" a company comprises additional expenditures, such as a need to present more frequently and comprehensively to the public data (reports) on business.

Many researchers have focused on the link between economic growth and financial market development. With the exception of insurance, we've learnt a lot about banking institutions and securities markets. Financial services like insurance and banking play a role in the economy, but they do so in a way that is distinct from other financial services, and as a result, the insurance industry has unique needs that must be met for it to thrive and play its full role. Numerous studies have begun to investigate the specific contributions insurance has made in both promoting economic growth and ensuring a better quality of life for those in need. A growing body of data demonstrates that risk management instruments, such as insurance, significantly enhance economic growth by enhancing the investment method and encouraging a more effective mix of activities. Banking and other financial systems complement each other, increasing the impact. As evidenced by empirical studies, non-life insurance has a positive impact on economic growth in a wide range of countries. In high-income nations, life insurance is a major driver of economic growth, but this is mostly due to the fact that life insurance takes up a smaller share of the entire insurance market there. The association between per capita income and insurance penetration is equally significant in the other direction, with growing income driving life insurance coverage (Jack & Garry Kinder, 2007). Lower insurance consumption at decreased income levels may be due to lower demand for life insurance products, or it may be due to supply constraints brought on by a lack of adequate regulatory and supervisory frameworks, as well as the high cost of insurance coverage. On social welfare grounds, insuring the poor may make sense because they are more exposed to catastrophic shocks to their income and consumption, which could have a significant impact on overall aggregate growth. A increasing interest in micro insurance has emerged from nongovernmental groups and charitable foundations, who are cooperating with commercial insurers in order to give affordable insurance to those who otherwise would not be able to afford to do so.

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Study objectives,

- To investigate the financial industry of India
- To study the impact of capital market on the Indian insurance sector

Literature review

India's insurance sector's future growth will depend on fundamental legislative changes that will have a substantial impact on many other sectors, according to Hasan (2015), who has sought to examine FINANCE's impact on India's insurance industry. As a result, foreign investment and participation in the insurance business is critical to its long-term viability. They have the ability to bring the best practices to India and adopt those best practices in order to achieve improved results and production. As one of the world's fastest-growing insurance markets, India is predicted to increase by up to 125 percent over the next decade. Foreign insurance companies may be reluctant to invest in India because of the assumption that there is a certain element of risk involved, unless they have full management control over the company.

Researchers Hal and Douglas (2016) studied the effects of finance in India's insurance sector and found that the strengthening of Indian rupee in international markets has given policymakers an excellent opportunity to encourage more Finance in greenfield projects rather than brownfield projects. They recommended that the Indian government invite greenfield investments and found that the realization of approved investments has also been found to be a significant issue. Over the next ten years, many foreign researches have predicted that the insurance sector in India will increase by more than 120 percent. Despite this, India has been ranked as one of the world's quickest-growing insurance markets. As part of its current strategy, the Indian government is supporting collaborative ventures with global partners and the growth of local safety net providers in India. In addition, he warned that investors will be reluctant to engage in the Indian economy, particularly the insurance business, because some faraway guarantors will not be interested in contributing until and until they have full ownership. As things are, they will be unable to select India as an insurance target country.

Hafeman(2017) analyzes the Insurance Claims and provides detailed explanations and analysis with examples. Insurance claims for property, third-party liability, casualty, and insurance fraud are all discussed in depth. However, this book is a practical reference for everyone who works in the insurance business or frequently deals with insurance claims and their linked activities. This book analyzes all related issues. A lawyer, insurance claims person, insurance surveyor, insurance claims supervisor, or policyholder will find Zalma's book on Insurance Claims to be an invaluable resource.

In their study of the Indian insurance market, Dhar and Dhar (2007) delved deep. They argued that insurance corporations benefit globally from globalization, which they said is at the core of economic reality in India. All processes have become more worldwide, resulting in newer dangers, more types of insurance, and other radical changes in consumer service. According to the author, the developed market has a modest growth rate, whilst the developing economies have problems with long-term stability. Consequently, the insurance industry is put to the test, and its survival is put to the test as a result.

According to Niti Bhasin (2017), finance increases competition in India's insurance market, which is still underdeveloped compared to other developed countries. This is despite the fact that private players are now allowed to enter the market, which has resulted in a smaller pool of providers. More insurance firms, as well as better products and lower prices, may result from finance. However, considerable thought must be taken to guarantee that the investment is not removed in the short term, which would leave the enterprises and their domestic customers in a horrible position. The majority of profits produced on Indian land are kept here and not sent to foreign shores, just as we don't export all of our earnings. In order to ensure that Insurance Companies are subjected to relevant and severe governance as and when necessary, current regulatory restrictions must be revisited.

Data and Methods

This study's data came from the 2018 annual reports and share-market trading statistics of 33 banks, insurance companies, and financial services firms. Annual reports featured financial statements. Among Thailand's most competitive service industries, banking, insurance, and finance are experiencing significant expansion. Competitive advantages in this industry are mostly based on intellectual capital, including human capital. The analysis does not include any companies for which data is absent. Shareholders' capital gains are calculated by taking the average monthly return of each company's stock for 2018.

Design of study

Pulic (1998) discovered the VAICTM orvalue-added intellectual coefficient as a way to gauge a company's intellectual capital. To accommodate extra variables, Boremann Manfred (1999) expanded on it further. Three capital efficiency coefficients can be calculated by using financial statements from a company. Although VAIC relies on accounting data, it does not notice the company's costs. It does notice the effectiveness of resources that generate value for the company (Pulic 2000, Boremann 1999). Since the VAIC is used to monitor and analyze the assets of a company, managers can utilize it to formulate plans for gaining competitive advantages.

Regression model

The research employs a “multiple linear regression model” to investigate the association among investors' financial gains on shares and “VAIC” and its elements, such as “VAHC”, “VACA, and STVA”. Because of this, no other independent factors have been included into this equation to examine its full explanatory power.

Result and discussion

Descriptive stats

Here are the findings from the experiment, presented in the form of tables. It is determined how well SPSS Statistics program performs its job. Statistics show that in the financial and banking sectors in 2018, the mean financial gain on shares was 6.6 percent, and the risk was 21 percent. More than 60% of the Pearson correlation coefficient shows that there is a positive association amongfinancial gain on shares and “VAHC, STVA and VAIC”, which indicates that enterprises' financial gain on shares is favorably relevant to their intellectual capital investments. In contrast, the efficiency of the capital utilized, both “human capital effectiveness” and “structural capital effectiveness”, has depicted anoptimistic correlation with financial gains on stock prices.

	Mean value	Standard deviation	Value of N
MR	6.6395	20.91704	34
VAHC	3.8973	4.26685	34
VACA	0.0644	0.03932	34
STVA	0.4532	0.42958	34
VAIC	4.4152	4.55973	34

Table 1: Descriptive stats

Regression results

That test yielded a substantial result (P 0.05) recommends that a min of one independent factor, such as human assets or structural or physical assets, is associated with share price appreciation (MR). Capital gains on shares can be explained by 52.5 percent of the variation in the “Value-Added Intellectual Capital Coefficient” and its elements, such as human capital effectiveness, structural capacity and physical capacity.

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Model	Sum of squares	Df.	Mean square value	F	Significance
Regression	7352.256	4	2451.753	10.691	0
Residual	6646.441	30	229.259		
Total	14001.695	33			

Table 3: ANOVA test

Model	R-value	R squared value	Adjusted R squared value	Standard error of the estimation
1	0.727	0.527	0.47	15.14123

Table 4: Model summary

VAIC (Value Added Intellectual Capital Coefficient) has a substantial positive link with financial gain on shares (P-Value = 0.006 0.05), and both “structural capital” and “human capital” efficiency have favorable connections.

P-Value = 0.06 0.1 indicates a substantial, negative correlation between capital employed efficiency and share capital gains. As a result of a lack of detail in this analysis, it is possible that the unique characteristics of the financial and banking sector are to blame. As a result, further research is needed to examine the relationship amongfinancial gains on shares and capital invested, since this outcome does not agree with some prior study. As a result of this positive correlation, it has been eliminated from the regression analysis of coefficient of table below and is indicated in the excluded factors of coefficient. Capital gains on shares may be less influenced by the independent variable "human capital efficiency," according to this study. Increasing the VAIC's explanatory ability is a big addition of this study, in my opinion.

Model	Unstd. coefficients		Std. coefficients	t	Sig.
	B	Standard error	beta		
Const.	-0.185	6.042		-0.032	0.978
VACA	-138.449	72.446	-0.262	-1.913	0.068
STVA	9.712	8.962	0.197	1.086	0.289
VAIC	2.576	0.857	0.563	2.997	0.008

Table 5: Coefficients

Conclusion

Competitive advantages and greater financial performance can be generated by long-term investments in financial capital (Barney, 1991). According to this study, there is a strong correlation between investors' capital gains on shares and the value of a company's intellectual capital. Because previous research has demonstrated a strong correlation between VAIC and corporate financial performance, this research also indirectly establishes the favorable association between financial gains on shares and business financial performance (Barney, 1991; Pulic, 2000). This study has demonstrated the power of business intellectual capital in generating financial gains on share-markets and, as a consequence, attracting market investors. Thus, a business can devise business approaches to maximize the effectiveness of its resources and gain an advantage over the competition.

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