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EFFECT OF GOVERNMENT AND REGULATORY FRAMEWORK ON GROWTH OF INSURANCE INDUSTRY

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ABSTRACT

Purpose: The study investigated the effect of government and regulatory framework on growth of insurance industry.

Methodology: The approach we used in this literature review was to gather and analyze a wide range of research articles related to the effect government and regulatory framework on insurance industry growth.

Findings: The findings showed that the regulatory bodies plays a crucial part in assuring the continued viability, integrity, and stability of the financial system, as well as the continued public confidence in the financial structure of an economy.

Unique Contribution to Theory, Policy and Practice: It recommended that regulatory bodies and other market actors in the insurance industry should form a partnership in order to build and design product and pricing structures that are aimed at people of varying financial levels.

Keywords: *Regulatory Framework, Insurance Industry Growth, Effect of Government.*

INTRODUTION

Insurance is a type of risk management that is generally utilized to hedge against the risk of the possibility of suffering an unforeseen financial loss. Insurance can be understood as a mechanism in which the losses sustained by a select few are distributed among a large number of individuals who are subject to risks that are comparable. It is a safeguard against the possibility of suffering monetary loss as a consequence of an unforeseen occurrence in the field (Jegede et.al, 2020). Any nation's economy would suffer without the contribution that insurance makes to it.

Insurers that do not meet the regulatory financial standards and/or are regarded to be in a dangerous financial state are subject to regulatory intervention, which can take the shape of either a formal or an informal investigation. Formal interventions often involve regulators seizing control of a firm, and depending on the status of the insurer and its prospects, these interventions can be classified as conservation, rehabilitation, or liquidation. When regulators come in, it is very uncommon for an insurer's financial statement to be altered (Michael, 2022). As a result, regulatory measures can quickly advance from merely restricting an insurer's transactions to the liquidation of the insurer if restructuring or rehabilitation is not practicable.

To speak in more general terms, the function of the regulator in the insurance industry is to guarantee not only the viability, integrity, and stability of the financial system, but also to guarantee that the general public continues to have faith in the institutional financial structure of the economy as a whole. Due to the fact that the insurance industry is rather heterogeneous and becoming an increasing amount more complex, its regulation and supervision are significantly more difficult. In addition, during the course of the past two decades, the rapid expansion of the insurance industry has made it difficult for regulators to keep up with the changes that have occurred in the structural makeup of the industry (Feyen et.al, 2021). In conclusion, the fact that financial conglomerates are frequently subject to multiple regulatory agencies creates coordination problems between the various regulatory agencies, which may even lead to problems of regulatory arbitrage.

There is a great deal of inconsistency in the regulation and supervision of the insurance sector from country to country. In spite of recent efforts made by the International Association of Insurance Supervisors, this remains the case (IAIS). Even among the industrialized nations, for instance, there is a wide range of approaches when it comes to the supervision of adequate levels of capital and reinsurance (where supervisory practices vary considerably even within the European Union). These inconsistencies raise the risk of leaving regulators and supervisors ill-equipped to monitor the financial strength and risk profiles of insurers and reinsurers. This risk is compounded by the high mobility of capital (Tornyeva and Wereko, 2022). This, in turn, can have repercussions that are detrimental to the stability of the financial system.

Legislation that defines the role, duties, and powers of an independent supervisory authority is required for the insurance services industry to be able to operate in a manner that is both effective and well-functioning. The additional difficulty of dealing with rapidly changing domestic insurance markets that are being influenced by international tendencies in the financial services industry is a burden that developing nations must bear. Depending on the scope of the regulation, there are a few various angles from which to examine insurance regulation. These angles include

market-impacting regulation and the regulation of market conduct, prudential regulation, and transparency/information regulation (Alhassan and Fiador, 2017).

In a society that is becoming more globalized, the operations of the government that regulate us face issues that arise from the linkages that exist between the national and international levels. Two of these potential linkages are of particular interest for developing countries and their participation in international trade in insurance services. These are (a) trends towards the harmonization of prudential measures as well as the development of international standards for insurance services more generally; and (b) the fact that the GATS refers to international standards and, in the Annex on Financial Services, sets out a carve-out for prudential measures. Both of these are of particular interest for developing countries and their participation in international trade in insurance services (Gronde et.al, 2017).

The tasks of government regulators in the insurance industry can be broken down into two primary categories: 1) financial or solvency regulation, and 2) market regulation. In addition to these two core areas of responsibility, state insurance departments also engage in a variety of other functions, such as disseminating information to policyholders, in order to boost levels of competition and improve market outcomes. These types of actions have the potential to play a significant role in advancing regulatory goals and could perhaps reduce the necessity for more onerous regulatory limits and mandates. On the other hand, the states do not consider these efforts to be adequate replacements for active regulatory oversight and enforcement operations (Gaganis et.al, 2019). The aim of this study is to understand the effect of government and regulatory frame work on the growth of insurance industry.

LITERATURE REVIEW

The disparity in interests between owners and managers or between owners and debt holders, which ultimately leads to conflict, is the root cause of the agency cost (Feyen et.al, 2021). When corporations use equity capital, they incur a variety of costs, one of which is the agency cost of capital. This cost occurs within the firm as a result of the conflict of interests that exists between shareholders and management in connection with the decision-making process of the company (Gronde et.al, 2017). The agency cost of debt would materialize in the event that there was a conflict within the company between the shareholders and the holders of the debt. Therefore, it would be dangerous for the continued existence of the company if the management were to make improper use of debt or equity in the process of forming the debt equity mix. Sundararajan (2018) recommends that debt holders make use of their credit as a means of managing managers in terms of the enforced restrictive covenants so as to reduce the severity of the problem.

The numerous options for finance and business strategy have the potential to provide motivating incentives to the various stakeholders. These incentives can limit value-reducing conduct, which in turn helps to reduce the relevant agency costs. In particular, the selection of management and ownership structures, as well as the use of debt and the distribution of earnings as dividends, can help to minimize agency costs resulting from the financing contracts of the companies (Cavalcante et.al, 2018). Jegede et.al (2020) made the suggestion that management should increase its percentage of ownership in a company and work toward aligning their interests with those of the shareholders. This would ensure that there is convergence of interests.

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In the course of his investigation on the manner in which government regulation affects the insurance industry, Benczur et.al (2017) discovered that government control is unpredictable across the board for insurance businesses of all types. He points out that the fines that were applied to AIG for issuing guarantees on credit insurance in the financial markets were fundamentally different from the restrictions that were applied to health insurance providers. Because of this, the cost of conducting business in the insurance industry is driven up by government laws, which restrict underwriting methods in terms of the products and services that may be supplied to policyholders.

Alhassan and Fiador (2017) conducted research into the relationship between government controls, a manufacturer's preferred approach, and their company's overall performance in the manufacturing business. During the course of the inquiry, a hypothetical framework was developed regarding the connection between government controls, industrial practices, and performance. They used a structural equation model along with a sample of 135 SMEs from the province of Jiangsu to conduct their research and assess the relationship between government directives, strategy, and performance. Their findings were presented in their article. The findings of the analysis showed that administrative controls had a significant good effect on all three aspects of cost, quality, and development. According to the results of the research, government restrictions have a considerable and beneficial impact not just on costs but also on quality and creativity. In addition, they discovered that cost, quality, and innovation each had a considerable positive influence on financial success; however, only quality and innovation had a significant positive effect on non-financial performance, whereas cost had no influence at all in either area.

Mainini (2018) investigated corporate governance and regulation in Australia, focusing on how these factors affect the success of non-listed small businesses. The data from the 387 respondents was collected by the researcher through the use of structured online questionnaires. The concepts of governance, regulation, financial performance, social performance, and sustainable performance were all subjects of his research. The outcomes of the study demonstrated that governance had a negative influence on both financial performance and corporate social responsibility, but regulation had a favorable impact on both financial performance and corporate social responsibility.

In his 2017 study, Outreville focused on the various ways in which governmental regulation affects the insurance industry. The study's primary focus was on the ways in which government regulation affects the insurance industry, but it made no attempt to investigate the industry's long-term viability. This constituted a hole in our understanding of the notion. Tornyeva and Wereko (2022) investigated corporate governance and regulation in Australia, focusing on how these factors affect

the success of non-listed small businesses. Due to the fact that the research was carried out in Australia, there is a contextual mismatch.

Domanski et.al (2017) had the goal of identifying the external environmental constraints that were affecting the performance of the health insurance sub sector in Kenya. The research was carried out on sixteen different insurance companies that deal with health insurance. Questions were sent to insurance companies with the intention of targeting underwriting and claims management. Data was obtained utilizing these questionnaires. To make things easier on the responders, we addressed some of the questions to the specific managers who worked for each of the different businesses. After obtaining the data, they were examined, and the mean and standard deviation of the parameters that affected the organizations' performance were determined. The strength of the link between the factors impacting the organizations and the performance was analyzed using correlation, which was done so that a determination could be made. According to the conclusions of the study, the performance of the health insurance sub-sector in Kenya is affected by a number of environmental difficulties. These environmental issues include political factors, economic factors, social factors, and technological factors. The findings of this study are significant because they will contribute to the formulation of policies and strategies that will make health insurance in Kenya profitable. For this reason, the findings of this study are relevant. This includes, as found in the study, the involvement of insurance regulatory institutions in Kenya in formulating policies and a regulatory framework, responding effectively to the needs of customers, developing products that are affordable, encouraging healthy eating as a means of mitigating the risk of lifestyle diseases, developing new and appealing products, and raising more awareness on the benefits of medical insurance.

Michael (2022) set out to determine the factors that contribute to the low number of people who have insurance, the difficulties that insurers have in marketing their products, and then to determine the strategies that Kenyan insurance companies can implement in order to increase the number of people who have insurance. A questionnaire was used in the collection of the primary data for this study. Interviews were conducted with senior executives, operational managers, and customer service managers from twenty-five different insurance organizations. It has been determined that there are a number of factors that contribute to the low level of insurance penetration in Kenya. These factors include a lack of knowledge and awareness on the part of the general public regarding insurance products and the benefits they provide, a negative perception, cultural and religious beliefs such as merry go rounds and harambee mentality, inappropriate products, and limited distribution channels, to name but a few. Legal language in documents, which gives the impression that a lot of important information is buried in the fine print, is one of the obstacles that insurance companies must overcome in order to advertise their products effectively.

According to Singh and Akhilesh (2020), the market for insurance in India has expanded during the course of the previous six years. The liberalization of the market has made it possible for a number of new players to enter the market. These new players have contributed to the expansion of the market, which is now over forty percent on an annual basis, by increasing consumer education and information as well as product awareness. The percentage of people who have

insurance and the number of people who have insurance have both increased dramatically over the years, particularly after the insurance market was opened up to the private sector.

Domanski et.al (2017) investigated the connection between the techniques used and the level of performance achieved at Britam. Interview Guides were used to collect primary data, and secondary data was extracted from previously published and unpublished records. These records included things like the Association of Kenya Insurers and Insurance Regulatory Authority Annual Publications, Articles, related Journals, Electronic data, and the company's audited Financial Statements. Primary data was collected through the use of Interview Guides. The Content Analysis Technique was used to do the analysis on the data that was obtained. The findings of the study on the policy suggest that the Kenyan government, acting through the Insurance Regulatory Authority, should be able to devise guidelines and laws that would increase the number of people purchasing insurance policies in the country's market. In order to ensure that customers are protected, as stipulated by the bill of rights in the existing constitution, the bodies of the government should also have the ability to monitor and regulate insurance companies and brokers (Authority, 2019). The findings provide credence to the conclusions reached by earlier empirical studies about the connection between organizational performance and the adoption and successful implementation of organizational strategies.

METHODOLOGY

A search of the relevant literature was incorporated into the work technique. The research was carried out with consideration given to previous theoretical literature, both that which had been published and that which had not. This study focuses mostly on conducting a literature review, specifically one that examines previous research on insurance industry and regulatory framework. The search through the body of literature was carried out beginning in 2017 and ending in 2022. This conclusion was reached after doing an in-depth search using a mix of keywords in different databases. The authors conducted basic and advanced searches, respectively, on Google and the other database engines. The phrase "insurance industry and regulatory framework" was what was utilized as the search term when looking through the data. The phrase "effect of government regulatory framework on growth of insurance industry" was the subject of the initial search and the Google search that followed. The criteria for including the article or report were as follows: the article or report needed to be peer-reviewed; it needed to be written in English; it needed to indicate the purpose of the study; it needed to describe the method that was used; it needed to report the results of the study; and it needed to draw a conclusion. To identify the effect of government regulatory framework on growth of insurance industry, the articles were read several times to obtain a sense of the content.

CONCLUSION AND RECOMMENDATIONS

From the findings, the costs imposed by regulation are the primary challenges it presents. These costs consist of administration costs, costs related to compliance, and costs related to efficiency. The costs of administration would include the time and pay sacrificed by the officers who are responsible for ensuring that the players in the industry adhere to the rules and guidelines. The charges that are levied upon the players on an annual basis as transactional fees for certification and standard expectations are included in the compliance costs. In addition to other taxes, this may

present an investment opportunity that is less appealing to any potential investor. The mix of output that is products being sold and the quality of agents getting insurance to consumers are the two primary factors that determine the costs associated with efficiency (Jegede et.al, 2020).

In order for insurance companies to maintain their profitable status, they need to become familiar with and comply with the regulations set forth by the government. In addition, there are certain regulations that, if put into effect, would lead to an increase in the number of market opportunities available to insurance companies. This finding agree with a study by Gronde et.al (2017) who investigated the strategic measures taken by insurance companies, in order to increase the number of people who have insurance. The study collected data from a variety of insurance companies located within the county. According to the findings, insurance regulators and insurance regulations play an important part in the overall insurance industry. The importance of insurance regulation to the insurance industry is highlighted by the results of these studies. These studies, however, do not focus on the influence that particular regulations have on the number of people who have insurance.

Proposals set forth to achieve this purpose include forcing financial institutions to retain appropriate capital accessible as a cushion against poor market outcomes. The classical, normative (i.e. how it should operate) view of economic regulation is that its objectives should be to limit the impact of severe market imperfections (or market "failures") relative to the ideal of a perfectly competitive market (Outreville, 2017). This is such that the characteristics of the market are to diverge greatly from those of a completely competitive market, then there would be need for regulation. A completely competitive market is defined by a high number of buyers and sellers, widely available information and cheap cost of entry. Thus a market with few suppliers and high cost/barriers to entry would suggest that the sellers have the power to increase prices on their own free will (above the marginal cost) (above the marginal cost). While according to the capture hypothesis, the prediction is that regulation often will benefit the regulated industry at the expense of consumers (Alhassan and Fiador, 2017). Regulatory bodies have to find a balance between accomplishing its aims of safeguarding consumers and overregulation.

The regulator plays a crucial part in assuring the continued viability, integrity, and stability of the financial system, as well as the continued public confidence in the financial structure of an economy. The heterogeneous and ever-increasingly complex nature of the insurance sector, in addition to the fact that financial conglomerates are frequently subject to the jurisdiction of various regulatory authorities, makes the regulation and supervision of the insurance sector significantly more difficult. Additional difficulties have arisen as a result of the rapid changes that have occurred in the insurance industry over the course of the past few decades. These rapid changes have made it difficult for regulators to keep up with advances in the industry. Even if rich countries have also encountered failures, the difficulties faced by developing countries are significantly greater due to the fact that their regulatory infrastructure typically remains poor or minimal. Therefore, regulatory organizations and other market actors in the insurance industry should form a partnership in order to build and design product and pricing structures that are aimed at people of varying financial levels.

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