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The Role of Insurance Sector in the Development of the Economy of Oman

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Abstract: Financial mediators carry out the function of directing saving into domestic investment. They simplify effectual distribution of capital resources, which on the other side increase productivity and improve economic effectiveness which leads to decrease capital output ratio. The insurance sector performs exceptionally useful function in economy as financial intermediaries.

This paper examined the role of insurance sector in Oman economy using real gross domestic product (GDP) as representative for Oman economy performance (economic growth). The central objective of the paper is to scan the role of insurance sector on economic growth in Oman, using secondary data (time series) for the period 2008-2017, a total of 10 observations, were used. Data is collected from the various sources, security market in Muscat (MSM) annual reports and the annual reports of the central bank of Oman. The method used includes the implementation of multiple regression analysis to explain the role of the insurance companies on the Omani GDP. The results so far showed that there is a positive relationship between insurance sector and economic growth in Oman for the considered period. So the main recommendation is that, Oman should give more attention to the financial sector development with more concentration on insurance sector development to grantee economic growth.

Keywords: *GDP, Oman economy, GOIS, insurance premium and Muscat security market etc.*
JEL classification: G22, I13, I31, G29

1. Introduction:

From the period of second world war to present, economic and social development has become a prominent place among economic, political and social studies. Economic and social development is carried out by relying on different sectors of the country's economy. The insurance sector services are vital to because of its contribution to social development by providing the necessary protection for the wealth and property of the country.

Most governments all over the world, strive to utilize their insurance resources towards attaining and preserving sustainable development and growth to promise a better standard of living for their people. Oman, like any other country, has continuously tried to improve her status in the intercontinental economy by promoting its insurance sector and resources. This can be achieved by the actions (measures) being introduced by the government in the form of policy documents comprising the development goals and expectations of the nation. The insurance industry has the potential to achieve some of these goals and expectations. A number of indicators have revealed that, the insurance industry in Oman is at the earliest stage in that there are a lot of challenges and risk. The necessity for insurance arises from scare of the anonymous, fear of risk and distress of loss. People need to be insured against the unidentified and elements for which they don’t have complete control. Nevertheless, insurance as we all know did not shaped up but has progressed over centuries built on modifications in need, rule, and know-how (Buckham & etal , 2010).

In addition, it contributes to the provision of income and financing of various investments in the local market and with the technological development witnessed in this century and then reexamination of many of the most important data: the study of the various types of risk to which the individual is exposed as a result of entering into multiple transactions enter the element of industry and competition The spread of machinery and the consequent losses that may be fatal occur with the lowest possible risk. This perception relates to the damages that occur to persons and property.

The insurance concept is a cooperation and interdependence organized and managed by the insurance institutions, which supports a contract stating the rights and requirements of the insured and the insurance company.

Insurance institutions are financial institutions that practice a double circle. An insurance institution provides the insurance service to those who request it. It is also a financial institution that obtains money from the insured to reinvest it in exchange for returns, thus playing a key role in achieving economic and social progress. The insurance sector has taken international and regulatory dimensions due to the economic development and the global transformations experienced by most countries, especially the developing countries, to meet the requirements of the insurance needs. This is considered to be the openness and rapid change in the global economy, where the security activity has managed to make its way to approach today's transformation into a security industry with its local rules and features. As a result, most countries of the world have mastered the economic and social importance of insurance and promoted, developed, motivated the technological progress that has imposed itself in recent times to advancing development including the insurance sector.

In most of the literature, the starring role of the insurance companies in fostering development of the economy has been dedicated to assess the association between growth of the economy and deepening the financial market. Whereas the banking and securities markets are strictly interrelated, insurance meets the various economic functions to some extent do supplementary financial services, and this in turn needs certain situations to enhancement and provide a full economic input.

Luckily, few years ago, many of the exciting lines began interesting research to draw precise participations from insurance to the process of economic growth along with for the welfare of the poor. Proof recommends that the insurance subsidizes substantially to economic growth by improving the investment environment and encourage more effectual combination of activities to be carried out in the lack of risk management tools. It doubles this influence through the integrated development of other and financial institutions mainly banks.

Experimental studies propose that nonlife insurance participates to all countries' growth at different stages of development. While, life insurance marks a significant contribution to the growth of most of them in richer nations, where life insurance is usually having the minimum share of the total insurance market contribution in countries of low-income. The connection between spread rate of the insurance and individual income levels is similarly solid in the opposite trend, with high income constituting a robust driver of life insurance coverage. Though, it is not easy to separate whether low insurance consumption at low income levels reveals low demand for life insurance products or supply side restrictions related with weak controlling and guiding environments and higher insurance costs.

The economy of any country is built on different sectors because of the contribution of these sectors to the production and contribution of national income to the economy. It is noteworthy that one of the most important sectors is the insurance sector, which is considered one of the most important service sectors, which has developed as a pilot.

He plays a social role with his safety and as a show of cooperation and solidarity. It also has a role in the economic life as a means of credit, and an effective means of gathering the necessary capital for the economy as a component of production, which leads to the revival and consolidation of the national economy and ensures the consolidation of economic forces and guarantees them.

Through these jobs, we find that insurance is a means of advancing this economic development, I try to show it through this research.

Oman, like other countries, has seen a growing development in the insurance industry, especially after its entry into the market economy, this has witnessed an expansion in insurance activity and a development in professional competencies modernity represented in the mergers and banking insurance, and because of its importance, the State has established several companies either whether public, private or cooperative, to insure most of the risks in economic life.

Research problem:

It is perceived that, there has been a substantial growth in the insurance sector in the last few years back, crosswise the entire world. Simultaneously the input of insurance to the financial sector is notable. Utilization of local savings, further effective super vision of various risks, alleviation of losses and additional efficient distribution of national capital and upgrade of financial stability has been investigated by numerous researchers. These researches likewise indicate a direct impact between insurance and economic growth. Oman, like other developing countries, has a limited insurance sector which has seen a growing development in the last few decades. So this paper is an attempt to analyze the impact (contribution) of insurance sector (as one of the components of financial sector) on economic growth mostly in national context. So the paper examines the link (relationship) between different types of insurance (life insurance, general insurance and non-life insurance) and economic growth in Oman.

Objectives of the study:

The main objective of this paper is to examine the role that insurance sector played in economic growth of Oman. Other objectives are as follow:

- To identify the role of gross output of the insurance sector (GOIS) in economic growth in Oman.
- To assess the role of insurance premium (IP) in economic growth in Oman.
- To find out the problems facing the insurer and the insured in Oman

Model specification, data and methodology:

The data collected from different sources like, Muscat security market official annual reports, the annual reports of CBO, statistical bulletins, and insurance companies' annual reports. Multiple regression is used to generate the results. The paper is fundamentally time series data covering 2008 to 2017. In identifying the influence of insurance companies on economic growth, we applied the OLS method. Thus insurance impact was substituted by the gross output of the insurance sector (GOIS), and insurance premium (IP), whereas economic growth was exchanged by real gross domestic product (GDP). In this study, statistical method of multiple regression approach was used. Their findings conclude that economic growth is considerably affected by gross output of the insurance sector, and insurance premium.

Model description:

In this paper, the model uses the functional relation as given below:

$$GDP= f\,(GOIS, IP) \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \quad (1)$$

The model is stated as follows:

$$GDP=\beta 0+ \beta_1\, GOIS + + \beta_2\, IP +\mu \ldots\ldots\ldots\ldots\ldots\ldots.\ (2)$$

Where: GDP=gross domestic product, GOIS = gross output of the insurance sector IP = insurance premium, β_0, β_1, andβ_2 = constant parameters and μ = the error term.

2. Literature Review:

Beck, Thorsten (2003) in his study about life insurance, argued that, life insurance has become progressively an essential part of the financial sector during the last 40 years, supplying a variety of financial services for customers and start to become a one of the most important sources of investment in the capital market. On the other hand what pushes the huge differences in life insurance consumption through nations remains uncertain. By means of a panel data, for sixty eight countries for the period 1961–2000 aggregated at different frequencies, this paper concludes that economic measures- like banking system expansion, inflation, per capita income, and institutional indicators are the strongest predictors of the use of life insurance. The magnitude of the social security scheme, education, life expectation and the children dependency ratio, seem to have weak relation with life insurance consumption. The findings highpoint the significance of price stability and banking industry progress in completely be aware of the savings and investment functions of life insurance in an economy.

Palgrave Macmillan Ltd (2007) argues that, insuring risks in a contemporary economy of many dimensions undertaking. It is a compound business that interrelates with several aspects of our lives. The significance of the insurance business for an economy can partially be estimated by the pure size of its business, the assets under controlling, and the number of employees in a given country or input to the national GDP. It really plays a more essential role in the workings of a modern society, being a required prerequisite for many accomplishments that would not take place were it not for insurance. Insurance is a main constituent of economic development and this research is worried with the inputs that insurance makes the development of a contemporary economy.

Haiss, P (2008) The input of insurance businesses has acknowledged less consideration than bank and stock markets, even though it is developing and it playing a significant role in financial intermediation, mostly as a supplier of risk transfer in only one country or very dissimilar samples. Haiss examined equally that influence of premiums (payments) and insurance investment on gross domestic product (GDP) growth in Europe countries. He piloted a cross-country panel data examination from year 1992 to year 2005 for 29 European countries. He reached to conclusion that, there is direct (positive) effect on GDP growth in the fifteen European countries. Concerning the new European Union member countries from eastern and central Europe, he fined a greater effect for liability insurance. Moreover, Haiss's results highlight the influence of the degree of economic progress and the real interest rate on the insurance-growth relationship. He states that the insurance business wants to be given more care in financial sector investigation as well as macroeconomic policy.

Chang, Lee, and Chang (2014) investigated the link between insurance and economic growth for ten countries of organization for economic co-operation and development (OECD). They use Granger causality model for the period 1979–2006. They showed that one-direction Granger causality going from all insurance actions to economic growth for countries like United Kingdom (UK), Switzerland, Netherlands, Japan and France. Additionally, economic growth Granger reasons insurance actions for total and life insurance in Italy, for total and non-life insurance in United States of America (USA) and for life insurance in Canada. They defend their findings as contrasting to Ward and Zurbruegg's (2000) results, (1) they make use of the supreme current data for investigation and (2) they perform their analysis on country-to-country basis while we did it on panel framework.

Mansour Al-Jamri (2015) According to the annual report issued by the capital market authority of Oman, the insurance sector contributed to the GDP of the Sultanate of Oman by about 1.3% in 2014, while the contribution of the sector in the GDP of non-oil activities about 3% in the same year. The total premiums were Riyal Omani (RO) 400 million during the year compared to RO 359 million in 2013, the report said. He pointed out that the insurance industry has countersigned notable growth as a consequence of the economic growth witnessed by the Sultanate of Oman throughout the last years and the increase in the awareness of insurance among the people in Omani, particularly in the branch of health insurance which witnessed a clear growth during the few past years.

Sameh Amin (2016) argued that, the insurance industry is one of the energetic industries that the economy can depend on to make a qualitative hike in the domestic economy. Its facilities advantage from the several economic sectors and donate to social and economic development and defend them by offering the essential protection for people (individuals) and companies along with financing many investments. The insurance market has attained noble growth rates in Oman. In the last year, the market has reached nearly 500 million (half a billion) Omani Riyals of insurance premiums and has grown by 14.8% in the past seven years. The Sultanate's growth and development, contributes to the amplified awareness of the growth of the insurance sector to achieve a growth in the total written premiums in 2015. Written premiums amounted to RO 446 million, an increase of 11% compared to the fiscal year 2014, in which premiums amounted to RO 400 million. The capital market authority (CMA) in Oman, which manages the insurance industry, give more emphases to the quality of the facilities (services) delivered by the insurance corporations and the competitiveness between them to make a qualitative hike in the insurance sector, besides improving the percentage rate of Omanization and consideration to human staffs and several technical and managerial fields of specializations for personnel (employees) in the insurance companies. As the international insurance industry is countersigning the advancement and rise of new insurance facilities and the formation of products to fascinate more customers, it is essential that the insurance companies in Oman sustain this development by introducing fresh insurance products to invite clienteles with unlike interests. However, in the event of an accident, there is a delay in ending the procedures for insurance of vehicles at the time of the accident. Consequently, the concerned parties should put in place new mechanisms to terminate these procedures as soon as possible. Health insurance also affects an important aspect of the society, which is their health. Therefore, it is necessary to introduce new products in the health insurance sector and intensify the awareness programs of this type of insurance, considering the provision of an advanced health service and encouraging the community to work health insurance by offering a variety of services.

Ahmed Al-Jahouri (2017) As for the health insurance sector, the health insurance sector has witnessed rapid growth in the Sultanate. For example, in 2016, health insurance premiums accounted for 26% of total premiums written in the Sultanate, with car insurance, which has been in control for years, Data show that in the last five years, the health insurance sector in the Sultanate has witnessed an increasing demand by the beneficiaries. The cumulative annual growth rate of the sector is about 34%, which is indicative of the growing health insurance and the increase in the demand for private health services.

The insurance industry generally involves three sets: re-insurance non-life, life insurance. Life insurance signifies prolonged term funds whereas, Non-life insurance signifies funds for short-term. On the other hand, re-insurance assurances or defends other insurance concerns with respect to loss by dispersal their risks to other insurers/reinsurance. The title role of insurance in the economy of Nigeria is unexaggerated. First key role of the insurance business in Nigeria is to encourage development and secure of the insuring community against their insurable risks (Fadun, 2013; Yinusa & Akinlo, 2013). Insurance companies‟ funds are invested in stock markets thereby increasing stocks‟ prices for the benefit of investors and improvement of Nigeria economy (Agwuegbo, Adewole & Maduegbuna, 2010; Igbodika et al., 2016; Ubom, 2014). In 2016, the Nigerian insurance sector invested an estimated N178 billion in the banking industry as placements and deposits and held treasury instruments of over N270 billion (Agusto & Co, 2017).

The insurance companies play a title role in the advancement of any country by offering a instrument for conveying companies and individual risks from titleholders to insurers. In various countries, the insurance business plays an important role and acts as leader in the steadiness and effectual diversification of risks; thus supporting nationwide economic development. The input of insurance in the Nigeria cannot be exaggerated; yet, the Nigeria insurance industry has not fully exhausted its massive potential (Gabriel, 2015). The Nigeria insurance business planned significance is underpropped grounded on supporting business and individual risks over which projected gross premium income (GPI) of N356 billion in 2016 was generated, which represent around 10% growth given GPI in 2015 (Agusto & Co, 2017). With respect to Oxford Business Group (2017), the insurance industry has countersigned fast growing in past few recent years. The supporters of Nigeria listed total gross written premiums (GWPs) of about N350 billion in 2015, which was around 19% more than preceding year, beside the fact that insurance market has absorbed a number of overseas insurance investors and practitioners (Oxford Business Group, 2017).

A current paper by Din et al. (2017) examined the association between insurance and economic growth for Malaysia, India, USA, China, Pakistan and the UK, applying autoregressive distributed lag and pooled mean group (ARDL/PMG). They specified direct and substantial link between total insurance, measured by net premiums and economic growth for entirely six countries. Furthermore, at per country level; non-life insurance is similarly significantly related with economic growth for totally six countries. Yet, life insurance is merely encouraging economic growth for Pakistan, UK, and India whereas the opposite is right for Malaysia USA, and China.

Insurance sector and economic development in Oman:

a. Contribution to GDP:

The sector plays a vital role in the economic and social development of Oman through its various activities. The gross domestic product of the insurance sector amounted to RO 15.8 million in 1995, while it represented RO 26.8 million in 1997, an increase of 70% during this period. But during the period of year 1998 to 1999 counted only RO 17.1 million. The sixth five-year development plan (2001-2005) determined the growth of general insurance by 7% every year and life insurance 15% every year.

Saving and diversification of investments:

The total capital paid to National insurance companies ranged between RO. 2 million and RO. 10 million. The total asset of national and foreign companies amounted to RO. 91.7 million in 1994, compared to RO. 143.2 million in 1999, an increase of 56.0% or an annual growth rate of 11.2%. The insurance companies collect the money resulting from their various insurance schemes, which represents a kind of savings are used in many aspects of investment. The total investment in the sector amounted to RO 99.9 million in 1997, of which RO. 68.8 million was for national companies and RO 31.1 million for foreign companies. National investments accounted for 69% of the total investments. Total investments in 1998 decreased to RO 87.99, The value and prices of these companies, while the value of these investments increased slightly to reach RO 88.9 million in 1999. The investments of national and foreign companies were distributed on various investment aspects, which included, according to importance, cash deposits, shares in other companies, government bonds, real estate, loans and insurance policies. Despite the diversification of investment activities, cash deposits constituted a large share of the total investments, which amounted to 57.8%.

b. Protection of funds and rights of investors and believers:

Insurance industry work to protect and insured the investors through the assets of these companies in addition to provisions of current notification of the calculation of compensation under emergency and other settlement plans. The provisions for life insurance increased by 8.8 percent during year 1997 to year 1998, RO 28.6 million to RO 31.1 million respectively. And general insurance provisions also increased by RO 23.9 million to RO 38.6 million, an increase of 61.5% during the year. The technical provisions amount to RO 69.8 million.

c. Employment of Omani workers:

The total numbers of Omani technicians increased from 121 to 265 in during the year 1995 to year 1999, an increase 119% during this periods, with average annual growth of 29.8% counted. In contrast, the number of non-Omani technicians increased from 203 to 351 technicians during 1995 to year 1999. Average growth rate counted 72.9%, during the of year 1995 to 1999, and annual growth rate of 18.2%. The annual growth rate of Oman's technical workforce is higher than that of expatriate workers, but the former accounted for 43% of the total technicians and the remaining 57% for non-Omani technicians in 1999. As for Oman's non-technical employment, the number of workers increased from 98 in year 1995 to 161 in year 1995, an increase of 64.3% during this period, while the number of expatriate workers decreased from 82 to 52 workers, a decrease of 36.6% in the same period. There was a significant increase in the Omanization rate in 1999 (51.4%) compared with 1995 (43.4%). This is due in large part to the increase in the percentage of Omani non-technical employment which reached 75.6% in 1999 compared to 43% General.

3. Data Analysis and interpretation:

The estimations of the influences of the models for three relations are offered in the following tables. To test the link between insurance measured by gross output of the insurance sector (GOIS) and insurance premium (IP) and economic growth in Oman, correlation and multiple regression analyses were conducted. Table 1 which shows summary model results indicate that the multiple regression model with the two forecasters (GOIS/IP) created adjusted R^2 = . 0.879, $F(3, 10) = 221.24$, $p < 0.001$.

Table-3 shows factors estimated using ordinary least square (OLS). According to the results for the model specification the Gross output of the insurance sector (GOIS) variable enters positively in growth equations, and it is significance. The coefficients of all variables have the expected sign and they are significant. The insurance premium (IP) variable's parameter in the model specification is positive and significant and. The results confirm theoretical literature on the linking between insurance development and economic growth. All coefficients have expected sign and they are significant.

Table(1):Model Summary

Model	R	R square	adjusted R square	Std. error of the estimate	Statistics		
					F	Observations	sig.
1	0.892	0.884	0.879	0.546699	221.24	10	.000

a- Predictors: (Constant), GOIS, IP

Table(2)

ANOVA					
	df	Sum of Squares	Mean Square	F	Significance F
Regression	2	132.2457	66.12284099	221.24	.0000
Residual	7	2.092158	0.298879716		
Total	9	134.3378			

a- Dependent variable: GDP

b- Predictors: (constant), GOIS, IP

Table(3): Coefficients

Model	Coefficients(β)	Standard Error	t Stat	Sig.
Intercept	25.387	0.313	81.002	.000
Variable 1 (GOIS)	0.000301	0.00000143	20.965	.000
Variable 2, (IP)	0.00776	0.000379	20.471	.000

a- Dependent variable: GDP

The regression equation-

Y = 25.39 + 0.0003 GOIS – 0.0078 IP

The above table -2, f ratio is 221.24 and significant value at p = .000. This evidence provides the existence of linear relationship between GDP and the explanatory variables (GOIS and IP).
In table.1 shows that effect of GOIS and IP on GDP. Adjusted R Square = 87.9% indicating that about 87 % of the variation in GDP can be accounted by the GOIS and IP.

4. Conclusion and suggestions:

If we look at the reality of insurance in Oman, we can say that despite the fact that many measures and legislations are adopted administratively, it is still far from the levels of global dealings. In Oman, compulsory insurance is limited and other types of insurance are neglected and marginalized. The formulation of insurance is still lacking in concepts, and it is clear that the problem is not a problem of legislation, although with the multitude and diversity suffers from some shortcomings. However, the bottom line is non-mutual trust between the insurance companies and the individuals, since the client or the dealer with the insurance companies in general does not go to the insurance company unless he is obliged to do so. The evidence is that the insurance on the cars (which is compulsory) and compared with the insurance on life (which is test) There is a measure with the difference in terms of the number of insured or in terms of monetary value. This is mainly due to the companies operating in Oman, which did not gain the trust of the Omani citizen, either for the high prices of their products or because of their inability to win their customers, and remains the internal and external competition approved by many Legislation and legislation P lost trust to the customer on the one hand, and work to reduce their products on the other hand.

The research tries to discuss with role between insurance industry and economic growth in Oman. The results outcomes by using multiple regression analysis between the periods of year 2008 to 2017 years, taken two explanatory variables GOIS and IP and dependent variable GDP. The outcomes explain that GOIS and IP value positively contributed in GDP by 87.9 percent.

The overall fitness of the model and explanatory power of the model is much better, and results suggested that almost 87.9 % variation has been explained by the independent variables since adjusted R^2 is 87.9 %. Thus the role of GOIS and IP have statistically significant influence on GDP.

In light of findings, we suggest a following point:

- Companies need to recognize that customer needs are evolving from time to time and therefore they must keep pace with these developments by continuously improving service levels in order to keep them in the market.
- The need to spread awareness of security in the social sphere and many people do not know the importance of fullness in daily life.
- Training and development of human skills and competencies in the field of insurance: through the opening of new specialties in the field of insurance in various Algerian universities and the establishment of insurance institutes.
- Development of advertising and marketing methods: through the insurance companies to carry out information campaigns and educate individuals about the importance of insurance in their lives.
- Encouraging the state to protect citizens and to motivate the investment companies to invest.

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