
# Financial Role of Insurance on Economic Development in Denmark

**Jens Malthe Molyneux & Henrik Soren Matheson**

**ISSN: 2616-4965**

# Financial Role of Insurance on Economic Development in Denmark

**[1]*Jens Malthe Molyneux & [2]Henrik Soren Matheson**

**[1*]Postgraduate Student, Aalborg University**

**[2]Lecturer, Aalborg University**

**Email of the corresponding author: malthemolyneux@gmail.com**

*How to cite this article:* **Molyneux, J., M, & Matheson, H., S. (2022). Financial Role of Insurance on Economic Development in Denmark.** ***Journal of Finance and Accounting*** **6(1), 1-9. https://doi.org/10.53819/81018102t5042**

## Abstract

The insurance plays an essential role in economic development by alleviating business risks occasioned by abrupt and disastrous incidents in established and developing nations. Thus, the research assessed the financial role of insurance on economic development in Denmark. The research adopted the descriptive research design. The target population was 200 insurance companies. The research study sampled 100 participants that were chosen from the target population of 200. The sampling technique that was considered the most appropriate was stratified. Questionnaires were utilized to gather the data. The study results showed that insurance is significant in impacting the economic development in Denmark. Insurance activity improves families and organizations' financial stability and helps with competitiveness and the growth of trade and business. Insurance companies help businesses mitigate risk and protect their employees, thus spurring economic development. In addition, insurance companies help finance economic development projects. The study recommended that more emphasis should be developed by all the stakeholders in Denmark, including the government, to ensure the insurance companies are sustainable. The regulatory authorities should establish policies to make it attractive for its residents to patronize the insurance business. This would certainly translate to enhanced insurance investment and more outcomes to the development of the economy because insurance investment has a positive link with GDP. Insurance policies must be made mandatory for people and enterprises to motivate and shield financiers and ensure sustained economic growth.

**Keywords:** *Insurance, Economic Development, Denmark*

## 1.0 Introduction

Insurance coverage turns accumulated capital into effective investments (Kalemli-Ozcan, Ryder & Weil, 2020). Insurance likewise makes it possible for reduction of losses, financial stability and promotes trade and commerce tasks those outcomes right into sustainable economic growth and advancement. Hence, insurance plays an essential role in the sustainable development of an economy. It promotes economic growth via resources accumulation and technological progress by boosting the savings rate, mobilizing and merging savings, generating information concerning financial investment, facilitating and motivating the inflows of foreign funding, in addition to enhancing the allowance of resources. Insurance market plays fantastic role in boosting GDP (Kahandawala, Jayasena, Kumari, Kumari, TPerera & Rasika, 2019). All premiums accumulating by insurance firms affect economic advancement positively. Besides that, insurance positively affects the balance of payments and financial security and increases employment in the economy. These elements also accelerate financial growth. A considerable effect of life insurance on financial growth is observed in India.

Insurance can be defined as an enabler for individuals and businesses to take risks and as a means to permit people's minds and assets to be productive and with confidence invest in the economy. Greater financial growth usually leads to larger risk-taking and higher financial inclusion and sophistication supporting insurance advancement. Insurance stipulation assists in enhancing the total efficiency of the financial sector, notably by helping with the stipulation of credit to the private sector (Herd, Koen, Patnaik & Shah, 2018). Reduced levels of economic growth are typically related to reduced insurance penetration, with casual and traditional self-insurance schemes operating instead. Insurance has a crucial function as an economic stabilizer in times of private shocks, smoothing the consumption of people dealing with distinctive or aggregated shocks like natural catastrophes or financial crises (Berg and Schrader, 2020).

The role of contemporary insurance is multi-layered (Rana, 2018). Insurance enables individuals and companies to take risks and innovate by managing threats. Insurance additionally reduces the level of rates of interest by decreasing default likelihoods and investing with long-lasting perspectives. Finally, insurance changes the level and allocation of individual and aggregate financial savings, leading to a much more optimum capital allocation (Webb, 2020). Doing so impacts the financial cycle, the nature of economic growth, and the circulation of revenue and shocks throughout economic agents.

The insurance business plays a crucial role in financial growth by alleviating company risks occasioned by sudden and devastating events in established and developing nations (Jarzabkowski, Bednarek & Spee, 2018). The sector provides threats management and adjustment services to other economic markets like industrial, transport, farming, mining, petroleum, banking, etc. It likewise adds to economic development by functioning as a financial intermediary via capital formation and gives business financing for deficit markets of the economy. According to Shang-mei, Yong & Yu-feng (2019), many researches have shown the insurance industry's contribution to financial development and growth. These empirical and academic researchers have revealed that the insurance sector contributes to economic development by providing a comfortable investment environment in the economy.

A strong insurance sector development brings about solid financial development, productivity enhancement, and resources buildup (Becsi and Wang, 2019). In industrialized nations, insurance influences growth primarily via performance development, while in developing nations, it enhances resources accumulation. Insurance is a largely invisible yet ubiquitous segment of our various nations. Health, transport, purchases, residences, and even lives are covered by insurance. Without insurance, the unpredictability of the future would certainly be too great and it would certainly be hard to take risks and innovate. Insurance typically permits individuals to break the emotional and financial barriers which normally stop them from participating in possibly riskier tasks hence forgoing better benefit and innovation (Lawrence, 2018). Insurance has led to macroeconomic growth via economic development, stabilization, distribution, and innovation.

### 1.1 Research Objective

The research objective was to determine the financial role of insurance on economic development in Denmark

## 2.0 Literature Review

Caporale, Rault, Sova and Sova (2019) analyzed how the growth of an insurance market is connected to economic development in former transition nations. A multiple regression evaluation was used to estimate the insurance-development partnership, making use of a cross-country panel dataset analysis tracking yearly total insurance penetration in 10 nations, and using a set impact design to check the theory that this affiliation is demonstrably favorable. The outcomes revealed a negative and statistically non-significant relationship between insurance and GDP growth, suggesting an absence of evidence that insurance promotes economic development in post-transition nations.

Sawadogo, Guérineau and Ouedraogo (2018) scrutinized the partnership between insurance penetration and economic development of Nepal on yearly macroeconomic information. It was revealed that the actions of Nepalese insurance on the context of economic development. Pragmatic outcomes reveal favorably high connection between infiltration and economic development. Nevertheless, there is reduced portion of insured residents in Nepal. Detailed statistics and Pearson correlation was made use of to detect arise from information. The research divulges the favorable and considerable partnership in between insurance penetration and economic growth.

Pradhan, Arvin, Nair, Hall, and Gupta (2017) the study explored connection in between insurance market growth and economic development in Indonesia. The research took on (GDP) as proxy for economic development and the response variable, while total insurance investment (INV), overall insurance premium (PRE), and complete insurance claims (CLA) were utilized as proxies for insurance sector growth and the predictive variables. The research used descriptive statistics and multiple regression approach. The empirical outcomes revealed that total insurance policy investment, complete insurance premium and overall insurance cases had significant result on gross domestic product, proxy for financial development. The research has developed that the insurance field growth contributed mostly on economic development in Indonesia. Based upon the findings this research suggested that insurance be made compulsory for residents and business firms to encourage and safeguard financiers in addition to make certain sustained economic development. The regulatory authorities ought to put in place plans to apply clear and reliable management of capital by insurance providers; while the latter must diversify their portfolio of investments to enhance returns and their ability in claims settlement.

Abedifar, Ebrahim, Molyneux and Tarazi (2018) examined the relationship in between insurance business and economic development in 20 countries. In the research design financial growth was represented by GDP, while insurance task was represented by net insurance created costs, insurance infiltration and insurance density as dependent variables. The Hausman test statistics they used for information analysis verified that insurance tasks had positive effect on economic development. Non-life insurance firms were much better primary than life insurance practice.

Svendsen (2019) analyzed the connections of insurance and economic development across some of the European Union nations. The researchers performed this by utilizing descriptive statistics evaluation and econometric techniques too. The study has added to understanding of the necessity of the insurance development nexus and brought together various strategies dominating in the current scientific literary works. The study resulted in the following broad verdicts: a detailed statistics evaluation has actually revealed that the insurance industry advancement is greater in financially abundant nations; a positive statistically significant relationship between insurance infiltration and economic development has been found in Luxembourg, Denmark, The Netherlands and Finland. Besides, a negative statistically substantial partnership has been recognized in Austria, Belgium, Malta, Estonia and Slovakia. The case of Austria has actually revealed bidirectional causality in between the variables. The evaluation has offered the absence of causality in between insurance and economic development in Slovakia.

Laurenceson and Chai (2020) financial institutions and insurance firms should contribute to economic development by facilitating the effective appropriation of funding. To check their duties in development, a Solow design with a set of performance parameters is estimated. Recognized endogeneity is controlled for utilizing an iterated 3 phase least squares synchronized estimate with exogenous instruments as vital variables. The exogenous parts of banking and life insurance infiltration are discovered to be robustly anticipating of raised performance within 55 nations for the 1980-1996 period, after managing for the influence of learning, exports, government displacement of the economic sector, and investment on development. The outcomes additionally recommended that greater levels of banking and insurance penetration collectively generate a better impact on development than would certainly be suggested by the amount of their private contributions.

Portney (2018) along with lots of other crucial factors, the sustainable economic development of a country is related to its level of economic development. According to theory, the networks where financial growth influences economic development is the following: limited productivity of funding, the saving-to-investment performance conversion, the saving rate, and technical technology. The influence of economic development is understood with the features of economic middlemen's, the mobilization of savings, the decrease in the expense of capital with economies of scale and expertise, arrangement of threat management and liquidity, renovation of resource appropriation. Insurance providers play a significant duty in these features and thus ought to additionally play vital duty in economic development, as they are the major risk management resource for firms and residents. With releasing of insurance they collect funds which are after that transferred to deficit economic tools for the financing of genuine investment. Therefore, insurance sector is just one of the elements adding to economic development. Link between insurance growth and economic development theory and conversation about possible payment of insurance growth to financial growth (making use of the theories of economic intermediation and endogenous growth as a basis). It also offers a testimonial of empirical researches on the insurance-growth nexus. The study results show that insurance growth, as a part of financial advancement, supplies a favorable impact on long-term economic growth.

Nazlioglu, Yalama and Aslan (2019) performed research to investigate the financial market policies and economic development link in Turkey. The research embraced the moment collection study layout. Gross capital formation, overall insurance premium and overall insurance financial investment were utilized to represent financial field plans, and GDP was utilized as proxy for economic development. Data was evaluated utilizing descriptive data and numerous regression techniques. The research found that gross capital development and overall insurance investment were dramatically related to GDP, and overall insurance premium had trivial result on GDP. Additionally, gross resources formation and overall insurance premiums had negative impact on GDP; however total insurance investment was favorably related to GDP. The research concluded that financial sector policies made statistically considerable contribution to the development of the Turkey economy. It is suggested that the regulatory authorities need to implemented plans to make it attractive for Turkey citizens to patronize insurance company as this would convert to raise insurance investment and additional result to development of the Turkey economy given that insurance investment was discovered to have favorable relationship with gross domestic product.

Moses, Dorsey, Matheson and Thier (2020) the duties of the insurance sector and links into other financial fields have actually grown in relevance. While there is a variety of study on the causal connection in between financial institution financing and economic development and capital markets and economic growth, the insurance field has actually not received enough focus in this regard. These voids are filled by evaluating concept and empirical proof and identify networks of influence. Cross-country panel data analysis was used and yearly insurance premium information from 29 European nations. It was discovered that weak evidence for a growth supporting duty of life insurance and describe this with similarities to recent bank and stock field findings.

Dash, Pradhan, Maradana, Gaurav, Zaki and Jayakumar (2018) examined the connection between insurance market penetration and per capita economic development in 19 Eurozone nations. 3 various signs of insurance market penetration (IMP), specifically life insurance penetration, non-life insurance infiltration, and overall insurance penetration. Specifically, emphasis got on whether Granger origin exists in between these variables both means, one method, or otherwise at all. The empirical outcomes regard both unidirectional and bidirectional causality between rogue and per head economic development. The plan ramification is that the economic policies ought to recognize the disparities in the insurance market and per capita economic development in order to maintain sustainable development in the Eurozone.

## 3.0 Research Methodology

The research adopted the descriptive research design. The target population was 200 insurance companies. The research study sampled 100 participants that were chosen from the target population of 200. The sampling technique that was considered the most appropriate was stratified. Questionnaires were utilized to gather the data.

## 4.0 Research Findings

The correlation analysis is presented in Table 1

**Table 1: Correlation Analysis**

| | | Economic Development | Insurance |
|---|---|---|---|
| Economic Development | Pearson Correlation | 1.000 | |
| | Sig. (2-tailed) | | |
| Insurance | Pearson Correlation | .345** | |
| | Sig. (2-tailed) | 0.000 | 0.000 |

The correlation results from Table 1 show that insurance is positively and significantly associated with economic development (r=.345, p=0.000). This implied an improvement in insurance leads to an enhancement of the economic development in Denmark. The results concur with Laurenceson and Chai (2020), which articulated that greater levels of banking and insurance penetration collectively produce a better impact on development than would certainly be suggested by the amount of their private contributions.

### 4.2 Regression Analysis

The results presented in Table 2 indicate the model fitness

**Table 2: Model Fitness**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .172a | 0.142 | 0.136 | 0.000 |

The result from Table 2 shows that insurance was found to be satisfactory in explaining the economic development in Denmark. This was supported by the coefficient of determination, also known as the R square of 0.142. This implied that insurance explains 14.2% of the variations in the economic development in Denmark.

The regression coefficient is depicted in Table 3

**Table 3: Regression of Coefficient**

| | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|
| | B | Std. Error | Beta | | |
| (Constant) | 0.0152 | 0.051 | | 6.214 | 0.015 |
| Insurance | 0.4512 | 0.845 | 0.355 | 3.142 | 0.004 |

Based on the results presented in Table 4, it was found that insurance was positively and significantly related to economic development (B=0.4512, p=0.004). This was supported by a calculated t-statistic of 3.142 larger than the critical t-statistic of 1.96. The results implied that when the efficiency in the insurance improves by one unit, the economic development in Denmark will increase by 0.4512 units while other factors that influence the economic development are held constant. Moses, Dorsey, Matheson and Thier (2020) uncovered that the economic policies ought to recognize the disparities in the insurance market and per capita economic development to maintain sustainable development

## 5.0 Conclusion and Recommendations.

The study concluded that insurance is significant in impacting the economic development in Denmark. Insurance activity improves families and organizations' financial stability and helps with competitiveness and the growth of trade and business. Insurance companies help businesses mitigate risk and protect their employees, thus spurring economic development. In addition, insurance companies help finance economic development projects. Insurance activity enhances the financial security of households and businesses; it likewise facilitates competitiveness and the advancement of profession and business by boosting creditworthiness and reducing the total required amount and costs of resources, and likewise, by reducing total risk, this enables enterprises to enter new business endeavors and take additional risk. Insurance task substitutes and complements public industry expense on security programs help with loss avoidance either straight by investing in loss avoidance programs such as medical research, fire prevention, highway security, or indirectly by connecting premiums to lose experience. Insurance providers, along with main functions, i.e., service providers of risk transfer and indemnification, offer the same functions as various other financial intermediaries.

Moreover, the study concluded that the growth of insurance contributes to economic development in several means: by raising liquidity and the availability of overall capital stock in an economy, along with the efficiency of resources allocation. On top of that, empirical evidence from established economies reveals that insurance companies are significant employers and financiers. Hence, they might positively impact crucial aspects of economic development, such as private savings rates, the percentage of savings directed in the direction of investments, and the low performance of the financial investment. Like that of banks, their activity may create development in the economy. The channels of the effect of the development of insurance on economic development are as follows: raising the total performance of productive aspects is more typical for developed countries than for developing ones and resources accumulation, and promoting the inflow of foreign investment that promotes the advancement of technological innovation. This channel is more often used in nations with low and average levels of prosperity.

The study recommended that more emphasis should be developed by all the stakeholders in Denmark, including the government, to ensure the insurance companies are sustainable. The regulatory authorities should establish policies to make it attractive for its residents to patronize the insurance business. This would certainly translate to enhanced insurance investment and more outcomes to the development of the economy because insurance investment has a positive link with GDP. Insurance policies must be made mandatory for people and enterprises to motivate and shield financiers and ensure sustained economic growth.

## REFERENCES

Abedifar, P., Ebrahim, S. M., Molyneux, P., & Tarazi, A. (2018). Islamic banking and finance: Recent empirical literature and directions for future research. *Journal of Economic Surveys, 29(4), 637-670.* https://doi.org/10.1111/joes.12113

Becsi, Z., & Wang, P. (2019). Financial development and growth. Economic Review-Federal Reserve Bank of Atlanta, 82(4), 46.

Berg, G., & Schrader, J. (2020). Access to credit, natural disasters, and relationship lending. *Journal of Financial Intermediation, 21(4), 549-568.* https://doi.org/10.1016/j.jfi.2012.05.003

Caporale, G. M., Rault, C., Sova, A. D., & Sova, R. (2019). Financial development and economic growth: Evidence from 10 new European Union members. *International Journal of Finance & Economics, 20(1), 48-60.* https://doi.org/10.1002/ijfe.1498

Dash, S., Pradhan, R. P., Maradana, R. P., Gaurav, K., Zaki, D. B., & Jayakumar, M. (2018). Insurance market penetration and economic growth in Eurozone countries: Time series evidence on causality. *Future Business Journal, 4(1), 50-67.* https://doi.org/10.1016/j.fbj.2017.11.005

Herd, R., Koen, V., Patnaik, I., & Shah, A. (2018). Financial sector reform in India: Time for a second wave?.

Jarzabkowski, P., Bednarek, R., & Spee, P. (2018). Making a market for acts of God: The practice of risk-trading in the global reinsurance industry. Oxford University Press, USA.

Kahandawala, K. A. D. K. H., Jayasena, R. P. D. L., Kumari, H. M. T., Kumari, T. P., Perera, H. M. S., & Rasika, D. G. L. (2019). *Journal of Relationship between Insurance Penetration and Economic Growth in Sri Lanka.*

Kalemli-Ozcan, S., Ryder, H. E., & Weil, D. N. (2020). Mortality decline, human capital investment, and economic growth. *Journal of development economics, 62(1), 1-23.* https://doi.org/10.1016/S0304-3878(00)00073-0

Laurenceson, J., & Chai, J. C. (2020). Financial reform and economic development in China. Edward Elgar Publishing.

Lawrence, M. B. (2018). The Social Consequences Problem in Health Insurance and How to Solve It. Harv. L. & Pol'y Rev., 13, 593.

Moses, H., Dorsey, E. R., Matheson, D. H., & Thier, S. O. (2020). Financial anatomy of biomedical research. Jama, 294(11), 1333-1342. https://doi.org/10.1001/jama.294.11.1333

Nazlioglu, S., Yalama, A., & Aslan, M. (2019). Financial development and investment: cointegration and causality analysis for the case of Turkey. *International Journal of Economic Perspectives, 3(2), 107-119.*

Portney, K. E. (2018). Taking sustainable cities seriously: Economic development, the environment, and quality of life in American cities. MIT Press.

Pradhan, R. P., Arvin, M. B., Nair, M., Hall, J. H., & Gupta, A. (2017). Is there a link between economic growth and insurance and banking sector activities in the G-20 countries?. Review of Financial Economics, 33, 12-28. https://doi.org/10.1016/j.rfe.2017.02.002

Rana, P. B. (2018). The evolving multi-layered global financial safety net: Role of Asia. S. Rajaratnam School of International Studies, Nanyang Technological University. https://doi.org/10.4324/9781315090467-17

Sawadogo, R., Guérineau, S., & Ouedraogo, I. M. (2018). Life insurance development and economic growth: Evidence from developing countries. *Journal of economic development, 43(2), 1-28. https://doi.org/10.35866/caujed.2018.43.2.001*

Shang-mei, Z., Yong, L., & Yu-feng, P. (2019). Theoretical model and exponential analysis on insurance industry's contribution to economic growth [J]. Insurance Studies, 1.

Svendsen, G. T. (2019). The political economy of the European Union: Institutions, policy and economic growth. Edward Elgar Publishing.

Webb, I. P. (2020). The effect of banking and insurance on the growth of capital and output. Georgia state university.