Insurance is a risk transfer mechanism whereby the individual or the business enterprise can shift some of the uncertainties of life on the shoulder of the other. All the people will desire to live a cleaner, healthier, comfortable and easy life. To meet this requirement different enterprises produce and provide goods and services. They make innovation and inventions, which take great risk. Large responsibility falls on the shoulder of innovators and inventors. A small error or lapse may cause numerous side effects and cause death or disability. These types of risks highlight the importance of insurance. If there had not been insurance at the back of all innovators the world would have never progressed. After assuring this in security factor the enterprises started looking for new and more high-tech machines, robots and gadgets, atomic technology, space traveling, computers, deep sea exploration, development of Concord and Jumbos and medical technology. All these developments could be possible with the support of insurance.

In peace the insurance provides protection to trade and industry, which ultimately contributes towards human progress. Thus insurance is the most lending force contributing towards economics, social and technological progress of man. Without insurance cover all industrial, economic and social activity of the world will come to a grinding halt.

We may have our life, body or property insured. The insurance company makes good our losses as we pay the insurance premium regularly. Insurance is clearly of great advantage and importance. It plays following micro economics roles:

♦ Firstly, insurance, like banking, promotes savings to individuals.
♦ Secondly, insurance promotes investment. The insurance company can easily invest its funds in industry, agriculture and commerce.
♦ Thirdly, the insured person can get loans against the security of insurance policy from insurance company or from banks.
♦ Fourthly, insurance as we all know, protects against dangers to life and property. If a person has got his life insured, his family will get enough money on his death. If he had an insurance policy for a shop, he can get compensation for fire, theft etc.
♦ To be aware of the importance of insurance in our economy one must know roles performed by insurance in macro-economic development.

The role of Insurance for Economic Development:

1. Risk Transfer:
One of insurance’s key roles is safeguarding the financial health of small and medium-sized enterprises. Insurance cover is crucial for people to insure themselves against inability to work, set aside money for retirement or protect themselves against the loss of their assets. This is where insurance comes in as a key component in ensuring the healthy development of small and medium-sized enterprises.

A sophisticated insurance sector is also important in encouraging domestic production, innovation and trade. Insurance reduces the investment risk faced by companies and the state. Many companies find it far more expensive, if not impossible, to take out a loan without purchasing the requisite insurance protection. Insured, thereby reduces the costs of raising the capital they need. This is especially important in emerging markets, as a shortage of capital is one of the major disincentives to investment. A lot of investments in new production facilities and newly founded companies would never happen if every company was required to have the necessary financial means to make good every conceivable loss. While arguable, it is no exaggeration that the availability of insurance is sometimes being heralded as a factor of production itself.

The same applies to infrastructure investments: if it weren’t for insurance, a lot of infrastructure projects - such as power plants, railways or airports - would never be realized; because in the
absence of sufficient financial funds to enable them to resume operations in the wake of a loss and without insurance, these projects would be reduced to nothing more than white elephants.

2. Information Role:
Insurance plays an additional role in the economy by providing information. The level of insurance premiums provides an indication of existing risks and of how probable it is that a loss will occur. This helps companies make a comparison of the risk/return profiles of projects, thereby ensuring that the available resources are put to the best possible use. Insurance companies also offer consultancy services, advising on how to improve safety standards and a product's quality.

3. Capital Market Role:
As well as stabilizing the financials of individuals, companies and the state. In their role as institutional investors, insurance companies contribute to the development of a well-functioning capital market thanks to the huge amount of assets they have to invest. Insurance companies receive premiums and set them aside as provisions for the payment of future claims. They proceed to invest them in the capital market, which gives them the status of major investors. From a macro-economic point of view, the insurance market could help to mobilize national savings and narrow the investment gap of emerging economies. Insurance companies as important long-term institutional investors therefore function as financial intermediaries contribute to bringing together savers and borrowers. Life insurance, in particular, can make savings available although life insurers are themselves dependent on a functioning capital market if they are to play their role in the area of risk transfer.

Insurance is a barometer of economic activity in a country. If the economy of any country grows the insurance industry of that country also grows. So economy and insurance are interdependent upon each other.

At the time of independence Pakistan inherited 5 indigenous and 77 foreign insurance companies. With the passage of time number of local companies increased and foreign companies left Pakistan. Although Pakistan is a developing country but we have 30 non-life (General) insurance companies functioning, one specialized health insurance company, seven life insurance companies, and one reinsurance company working in the country. Takaful companies are also working in our economy side by side with conventional insurance companies. There are three General Takaful companies and two Family Takaful companies working at present. In the year 2007 General Insurance Sector (private sector) mobilized premium of Rs.32,172,990,000 with claims of Rs.14,203,256,000, Investment Income of Rs.34,401,643,000 and the profits of Rs.33,808,624,000.

The year 2007 registered premium growth of the non-life insurance at 17% to Rs.33.17 billion compared to Rs.28.36 billion in 2006. The growth in the life insurance business was 36% to Rs.8.84 billion compared to Rs.6.50 billion in 2006. The total assets of Private Sector Non-life companies were Rs.100 billion compared to Rs.55 billion as on December 2006 and of Life companies were Rs.22 billion compared to Rs.14 billion as on December 2006.

With gradual progress in our economy the insurance sector of Pakistan is also progressing. But still a lot remains to be done to get progressive insurance sector as well as progress in the industry, technology and education. There is an initiative taken by Punjab University to produce technically skilled manpower. Hailey College of Banking and Finance is now producing MBA's and BBA's of Insurance and Risk Management. We hope this will develop a sound insurance industry or in other words sound economy of the country.