



INSURANCE IS AN INVESTMENT: A STUDY FROM CONSUMERS PERSPECTIVE

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Abstract:

As finance is the lifeblood for all economic activities, one aspect of financial arena, which plays a very important role, is insurance. Insurance is the outcome of man's search for safety and security, and to find out ways and means to minimize the hardship, which are beyond his control. Because of the economic reforms introduced by the government we can see that due to this globalization and privatization there is enormous increase in the private sector players queuing in the insurance sector. This entry of private players has enhanced the competitiveness and quality of service with many innovated products. In this paper we have tried to collect primary data from the insurance policy holders. Insurance industry is one of the corner stone of any economy and financial system. Insurance industry contributes its major part in increasing the saving and the fund collected is utilized in developmental programs. The insurance sector constitutes a very important and vital financial intermediary for the growth of the economy.

Index Terms: Policyholders, Security, Economic Growth & Developmental Programmes

1. Introduction:

Insurance industry is one of the corner stone of any economy and financial system. Insurance industry contributes its major part in increasing the saving and the fund collected is utilized in developmental programs. The insurance sector constitutes a very important and vital financial intermediary for the growth of the economy. According to E.W. Patterson, "insurance is a contract by which, one party for a consideration called premium, assures a particular risk of the other party and promises to pay him or his nominee a certain or ascertainable sum of money on a specified contingency". Insurance is a means of protection from financial loss. It is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. An entity which provides insurance is known as an insurer, insurance company or insurance carrier. A person or entity who buys insurance is known as an insured or policyholder. The insurance transaction involves the insured assuming a guaranteed and known relatively small loss in the form of payment to the insurer in exchange of insurers promise to compensate the insured in the event of a covered loss. The loss may or may not be financial, but it must be reducible to financial terms and must involve something in which the insured has an insurable interest established by ownership, possession or pre-existing relationship. Insurance has become part and parcel of the financial system because it:

- ✓ Reduces the uncertainty of businesses losses.
- ✓ Increases business efficiency
- ✓ Identifies key men.
- ✓ Enhances the credit.
- ✓ Takes care of welfare of the society.
- ✓ Protect the wealth of the nation.
- ✓ Helps to attain economic growth
- ✓ Reduces the inflation level.

In order to choose the suitable policy and invest in them it is very important to know different product offerings by all financial companies. Insurance can be broadly classified into two categories: life and general insurance.

2. Objectives of the Study:

- ✓ To know which insurance policy is frequently used by the respondents.
- ✓ To find out the attitude of respondents towards investment in insurance policies.
- ✓ To study the awareness of consumers regarding the loss that could arise by not making an investment.
- ✓ To know the reason behind choosing an optimum investment in insurance policy.
- ✓ To offer suggestions for further improvement.

3. Scope of the Study:

The present study is limited in scope and is conducted in Mangalore city only. It relates to respondents within the Mangalore city and is conducted to study the behaviour of consumers to different insurance schemes.

4. Material and Methodology:

Primary Data: Primary data has been collected by conducting a survey of customers in the Mangalore city through the distribution of questionnaire to 60 respondents.

Secondary Data: This can be journals, magazines, publications, project reports etc. in this study the secondary data consists of textbooks, journals, project reports, websites etc.

5. Literature Review:

V. A. Avadhani [2010], Here the author is trying to find out the main objectives of investment. He is stating that in order for the investment to be successful and achieve the desired outcome the investor needs to specify his objective because the terms and conditions applying to each case is different and the result alters from the purpose intended. And each obligation earns different rate of return for example banking insurance etc.

Preeti Singh [2011] The main purpose an investor is to get return out of his investments, for this the investor must hold the stock for a longer period of time and not for shorter period of time because it leads to speculation. An investment is done for future benefits and fundamental analysis helps in forecasting the future price of a stock and thus helps an investor to estimate his expected future return through economic, industry and company analysis

Nalini Prava Tripathy and Prabir Pal [2006] Here the authors are trying to tell us about the dual benefit of insurance investment to both the banking sector and the insurance companies. They explain the advantages of both the sectors which have their benefits in relation to each other. They even mention that there should be diversification in this stream of investment as well for the possibility of risk reduction. For both, the banking and the insurance companies, the primary motive is to earn investment returns for which the authors suggest diversification. In turn the authors speak about the ‘one stop shopping’. The surveys conducted and analysed by the authors show that the consumers prefer ‘one stop shopping’ opportunity better as they claim on getting better and mass services at a lower and attractive price because of the running high competition in the market.

Hennin [2011], Insurance is basically an investment made in order to compensate for the loss of a thing or person or for the future benefit of an individual. According to the author Hennin, in the above he speaks about the insurance claims. Insurance is claimed by the holder at the time of loss suffered by the holder or owner. The author here speaks about the how and where abouts of claiming and it’s protection and on who receives the insurable interest as per the policies. The author also speaks about the duplicate or overlapping coverage or claims. The above says that duplication or overlapping may be common error, inadvertent overlap, or a potential fraud which means, it can be unintentional or intentional. On such ground the authors suggests the methods of claim and discover if any other insurance held by the insured may apply to the claim.

Saraswani Sankar, Madhuri Sharma, A. N. Kaikini, R. Chandrasekaran [2014] There are different ways through which risks can be managed. Insurance is the best means through which risks can be avoided. Amount paid to the Insurance Company as premium helps for the company’s investment to some other company which in turn leads to the growth of the economy. Insurance promotes investment as a result it considered as an avenue for investment. Insurance is basically a backbone for a business loss as it acts as a support to the business at the time of loss where the insurance company will analyse, allocate, and discharge the funds in the form of claim. The authors have mentioned the above as facilitation on sharing losses of a few by many which is officially termed as ‘principle of indemnity’.

Emmett J. Vaughan and Therese M. Vaughan [2007] The author in the above states that any property destroyed by an insured contingency is not necessary to be replaced through the existence of an insurance contract. The funds from the insurance company may be used to replace the property, but as an insurance is an economic device that checks the certainty of any financial burden and then spreads the losses over the compensating claims through the process of interpretation, analysis, allocation of funds and finally discharge them to the insured on the losses bourne.

S. S. Raju and Ramesh Chand [2008] The author in his book states agricultural insurance as a safe and a mandate form of investment which will serve the purpose of the farmer at the time of distress in the mere future. They claim it as a subsidiary investment done by the farmer for his/her safety along with the other agricultural investments with lesser risk.

Allan. H. Willett [1951] According to the author the person who is adapted to the risk is the one who will undertake it. He even mentions that insurance is a combination of an investment aspect and a transfer of risk aspect. Thus it is understood that insurance is an investment which is much more safer and reliable as it is a compensating investment for both, an individual and a business as it is ideal.

Ben G. Baldwin [1994/2002] According to the author, the individual investing in the insurance products has to importantly have a picture about the scenario of the previous years and check on whether the insurance companies are doing well or stumbling in the market. On the observation of the context it is understood that the author is trying to tell us that the insurance company has to follow the principle ‘high returns, less expenses’. It is the investor or the policy holders duty to check on the proceedings and the stability of the company in the market and make a smart move and act wise.

6. Analysis of Survey Data:

Table Showing Profile of the Respondents:

Elements	Frequency	Percentage
Time horizon of the respondents in their insurance investments.		
Less than a year	13	21.67
1-4 years	8	13.33

5-10	14	23.33
More than 10 years	25	41.66
Company preference of the policy holders for purchase of insurance investment plans.		
Government owned company	27	45
Public Ltd. Company	5	8.33
Private company	21	35
Foreign based company	7	11.67
Reason behind choosing particular investment company		
Safety	34	56.67
Brand name	2	3.33
Good track record	9	15
Good return	15	25
Awareness of the policy holders towards ULIP [Unit Linked Investment Plan].		
YES	33	55
NO	27	45
Preference of policy holders towards insurance plans in the present market scenario:		
Life insurance	31	51.67
Pension plan	6	10
Life insurance and investment plan	8	13.33
Child plan	7	11.67
Tax saving plan	6	13.33
Reason behind choosing investment plan:		
Security	25	41.67
Savings	10	16.67
Tax benefits	10	16.66
High returns	15	25
Annual investment of the policy holders in insurance:		
Less than Rs.6000	14	23.33
Rs.6000-10000	11	18.33
Rs.10001-25000	19	31.67
Rs.25001 & above	16	26.67
Ideal policy term of insurance plan according to the policy holders:		
3-5 years	16	26.67
6-9 years	7	11.67
10-15 years	17	28.33
16-20 years	9	15
21-25 years	6	10
26-30 years	2	3.33
Whole life policy	3	5
The aspects that motivate policy holders to choose the insurance plans:		
Advertisements	2	3.33
High returns	18	30
Family responsibility	25	41.67
Advice from friends	5	8.33
Financial advisor	7	11.67
company	3	5
Kind of investment preferred by policy holders:		
Short term	14	23.33
Long term	20	33.33
Both	26	43.34
Company in which the policy holders have invested:		
LIC	23	13.33
SBI life insurance	6	10
Bajaj alliance	5	8.33
Reliance life insurance	3	5

HDFC life	3	5
ICICI prudential	4	6.67
Others	16	26.67
Type of policy preferred by policy holders as their investment:		
General insurance	12	20
Life insurance	48	80
Choice of policy holders towards payment of insurance premium:		
Monthly	17	28.33
Quarterly	11	18.33
Half yearly	8	13.33
yearly	24	40
The policy holders have surrendered their policy:		
Yes	5	8.33
No	55	91.67
Loan availed against insurance policy:		
Yes	3	5
No	57	95
Showing insurance policy as a help to avoid risk from the overall risk of their investments:		
Yes	42	70
No	18	30

7. Findings:

- ✓ From the study it is found that nearly 85% of the policyholders in the city of Mangalore prefer to invest in insurance schemes.
- ✓ The policy holders prefer to invest in long term insurance schemes rather than short term insurance schemes.
- ✓ Most of the policy holders prefer to purchase investments from government owned companies. However, few of them also prefer to purchase from private companies. On the other hand, a very few prefer investing in public ltd and foreign based companies.
- ✓ From the study it is found that the main aspect considered by the policyholders in selecting an insurance scheme is safety of insurance investment.
- ✓ From the study it is clear that the policyholders are aware about the ULIP [Unit linked insurance plan] introduced by the Government of India and now under the C/O IRDA. However a few of the policy holders are still unaware about this plan
- ✓ From the study it is found that most of the policy holders prefer to invest in Life Insurance over other insurance plans. This indicates that the policy holders' main objective is security/safety of life than any other considerable aspect.
- ✓ From the study it is found that, most of the policy holders would like to invest annually a sum of Rs.10,000& above in their insurance investments. However only a few of the policy holders invest annually less than Rs.10,000/-
- ✓ According to the policy holders, the ideal policy term is 10-15 years.
- ✓ From the study it is found that, most of the policy holders expect a minimum return of 11-15% from their insurance investments.
- ✓ Most of the respondents have chosen to invest in a particular scheme for the purpose of supporting their families and also to get good or high returns.
- ✓ Most of the policy holders save less than 15% of their salary for the purpose of investing in insurance. But a few of the policy holders save more than 15% of their salary for investment.
- ✓ The policy holders prefer to invest in both long term and short term insurance investment plans.
- ✓ Most of them prefer to invest in life insurance than general insurance.
- ✓ Based on the study, most of the respondents would like to pay their premiums annually.
- ✓ From the study it is found that the number of policy holders whose policy has lapsed due to non payment of premium is very less.
- ✓ From the study it is found that, most of the respondents have not received any incentives from the insurance companies on the premiums paid by them.
- ✓ From the study it is found that, most of the policy holders have held their policies in hand till the date of maturity, but only a few have surrendered due to unforeseen circumstances.
- ✓ On observing the respondents response, it is found that, nearly 95% of the respondents have not availed any loan against their insurance plans.
- ✓ Nearly 70% of the policy holders have used their insurance investments to avoid overall financial risk.

8. Suggestions:

Based on the study following recommendations can be made to the insurance companies:

- ✓ From the study, it is realised that, most of the policy holders are unaware of all beneficial insurance plans and scheme. Hence the insurance companies through the insurance agents or media should make it a point to reach out to the customers.
- ✓ Since the individuals from the survey are interested more in insuring their family members, the insurance companies should offer more plans in favour of family security and increase the awareness of family responsibility among the public.
- ✓ ULIP [Unit Linked Insurance Plan], a government framed insurance plan is the best for small time investors, but its benefits and features are not known clearly. Hence the company has to use various strategies in order to encourage investments in ULIP.
- ✓ Around 80% of the policy holders from the above study have invested in insurance by the guidance of the insurance agents on the whole without any personal detailing. Hence the companies have to use different techniques so as to guide the customers on their investment and avoid fraudulent activities by the agent.
- ✓ In present competitive world, customer satisfaction has become an important aspect to retain the customers, not only to grow but also to survive. Customer service is the critical success factor and private insurers through their best services would be able to reposition and differentiate itself from LIC
- ✓ Life insurance companies should come up with innovative tailor-made products with high risk cover, more return and low insurance premium to attract more number of customers.
- ✓ Insurance companies should devise policies which provide effective risk coverage rather than focusing on the tax benefits and also encourages them for long term investment in insurance.
- ✓ Private insurers should emphasis more on advertising and building brand awareness through different modes of communication. This will help in spreading insurance awareness among the common man.
- ✓ The company has to check on which policy is frequently used by the customers and have to frame different policies in accordance to the same, so as to both, the companies and the customers benefits.
- ✓ Based on the attitude of the customers towards investment in insurance policies, the company has to create the awareness among the customers regarding the chances of future losses that might have to be borne by the customers in their investments.

9. Conclusion:

The main objective of this study was to identify the attitude of respondents towards investment in insurance schemes. This chapter presents conclusions from the research findings through questionnaire as per the objective of the study. Based on the findings of this study, recommendations have been given to insurance companies. The limitations of the study as well as suggestions for further research have also been discussed. From the above study done it can be concluded that the policy holders in the city of Mangalore prefer to invest in insurance schemes, in both long term as well as short term and their primary objective behind investing in insurance is security of investment and family responsibility. However, the policy holders would like to invest for longer time period in order to get good returns. Most of the policy holders have an inclination towards investing in life insurance plan over other insurance plans. The motive behind the policy holders' decision to go for such plans is clearly understood, being security of life. The policy holders also feel that their insurance investments help them in avoiding risk to a certain extent, which again is a positive factor that compels the policy holders to invest more in such schemes. It is also studied that only a few respondents have surrendered their policies before the maturity date. But however majority of the policy holders hold on till the due date. This indicates the right use of insurance schemes and also enables the policy holders to get good returns on maturity of the instrument. However, in this study the insurance companies are also advised to create awareness among people who have been ignorant towards such schemes. The insurance companies can come up with consumer friendly schemes that will enable even the small investors to enjoy the benefits. Life insurance has come a long way from the earlier days when it was originally conceived as risk covering medium for short periods of time, covering temporary risk situations. As life insurance became more established it was realised how useful it is for a number of situations. One of the most important needs is investment. Life insurance can be one of the best investment decisions. With stringent regulatory conditions to safeguard policyholders, life insurance policy carry minimum investment risk and provide long term insurance benefits. Most life insurance policies include retirement income on maturity. Another advantage of life insurance is that the coverage amount can be increased over time. While choosing a life insurance policy, it is generally advisable to look at various products different organisations provide. It is always better to invest your hard earned savings which will provide you with long term benefits than to seek short term benefits from high risk investment ventures.

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