

ROLE OF LIFE INSURANCE IN INDIA

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Introduction

Economic uncertainty during past few years has posed many challenges for the Insurance Industry along with a silver lining on the cloud. The short term doldrums were not able to overcast the strong long term growth perspective of the Insurance sector. The sector has shown a consistent increase in insurance penetration from 2.71% in 2001 to 5.20% in 2009. However the trend is on declining mode since then and reached 3.96 % in 2012 which is much below the global average of 6.5% of GDP.

The density of insurance business scaled upto 64.40 in 2010 from the low mark of 11.50 in 2001. But it is again on the downtrend as recorded density for the year 2013-14 is mere 41.00 .Major factor behind the tumbling numbers is deteriorating premium collections along with the declining household savings ratio. The reduction in the regulations governing the sector is also a decisive factor in the downfall of the industry.

Over the last few year, there is felt need for better informed and financially literate consumers that is been prompted by the proliferation of complex financial products in the market. The growing number of people reaching retirement, the shift towards personal responsibility to fund retirement, and the advent of electronic and internet banking are some of the factor promoting insurance business to grow. The poor literacy about financial products are seems to be the main reason of poor growth. Financial literacy is must for an aware, keen and committed consumer.

The financial education involves attitude, skills, knowledge and behaviour apt to make sound decisions for individual well being. Lack of awareness and knowledge leads to absence of financial planning or inadequate allotment of resources to risk management for your dependants. If a person does not plan its funds, he/she may not have left enough to save after day to day expenses. The modern marketing gimmicks also lure the customer to hoard things which may or may not be required leading him/her to accumulated debt; difficult to repay.

The knowledge of insurance help a lot in day to day management and long term financial investment and saving. Lack of financial skills leads poor financial planning and adversely affect economic growth. Saving are encouraged for future security and financial well being.

Awareness and knowledge of concepts of saving and investments is very low in our country. Along with lack of financial literacy, historical, cultural and behavioural factors also play important role in people's tendency to save and invest. Because of the varied factors involve; the policy makers have developed several strategies based on the above factors to influence and attract individuals. This normally includes consumer protection legislation, prudential regulations, financial awareness programs, incentive based policies along with advertising campaigns targeting the emotions fear and need of security to lead them to saving alternatives.

The winds of change swept the economic and service sector from a decade and half leading to phenomenal changes. These changes were imperative because of the global trends impacting the Indian service sector. To keep up the pace with the changing global market forces dramatic changes have been introduced in Indian insurance market to accommodate foreign players after the advent of liberalization and privatization. Financial market is the mainstay of economic development of any nation. It ensures the transfer of consumable funds from savings to national development. The interest of government and non government has lead to positive and far reaching changes in both life and non life insurance sector.

Insurance is an arrangement to deal with the unpleasant contingencies. The essence of insurance is sharing of losses and substitution of certainty for uncertainty. The concept of reducing risk in an increasingly competitive economy is well recognized and insurance sector has found a new dimension to increase its business.

Providing the protection to investors and businesses had its ripple effects felt on the domestic market leading to the spread of the insurance sector in domestic life. The financial education and awareness is making its need felt in the wake of continuous growth and evolution of the financial marketplace. Investment products are becoming increasingly complex and financial services increasingly diverse. As the onus of market shifts from employer to the individual, greater understanding of key financial concepts is required on the part of retail investors to understand and evaluate the choices available to them; as saving and investing in many jurisdictions, shifts from the employer to the individual.

Literature Review

Studies in micro insurance also give us the similar suggestions that inability to comprehend the financial products is the prime reasons of not buying or investing in the insurance schemes. In China, learning the concept of compound interest lead to better pension contributions (Song, 2013). Studies from Chile shows correlation between greater individual wealth, retirement planning and financial literacy rate (Hastings and Mitchell, 2011 and Behrman et al., 2012) (Landerretche and Martinez, 2013). In Mexico more financially educated people were seen choosing pension plans with lower administrative fee (Hastings and Tejada-Ashton, 2008).

The empirical evidences suggests financial awareness leads to more active and responsible financial behaviour, thus suggesting success of financial literacy programs. A recent World Bank Global Financial Development report (2014) concluded lack of financial knowledge as the prime road block to financial access among the grassroots. The report is based on a survey among the finance practitioners around the world and about 78% of participants agreed to the same reason of financial illiteracy for lack of widespread of financial products among multitudes. Congruently majority of the survey group advocated the widespread of financial literacy to uplift the accessibility to low income groups. The increased awareness and knowledge can have far reaching impact on low income borrowers and can widen the horizons of service and finance sector; helping to uplift the down trodden and unprivileged sections of society enroute.

Unfortunately we do not have much evidences about the efficacy of awareness drives on improved financial decisions. Few studies in Indonesia, Mexico bear no testimony of far reaching impact of financial literacy programs on savings or investments in risk managing ways like insurance. A few studies in the field of banking, loan repayments suggest the contrary. Cole et al. (2011) a randomized evaluation of financial literacy program targeted to enhance and induce saving behaviour among poor households of Indonesia shows no change in the saving behaviour of trained population. Bruhn et al (2013b) further present doubt as interest among multitudes about attending financial literacy classes is very low among the urban population of Mexico. Miller et al. (2014) presents that the financial education interventions have limited impact in a meta-analysis study. While inducing some financial behaviors, like record keeping, avoiding loan default they are generally ineffective.

Insurance sector in India is expanding owing to large population ,increased purchasing power, wider product base because of multi player insurance market, increased domestic savings, more aware consumer owing to well planned promotion plans(advertising-both in electronic and print media) and rising financial literacy.

Sharma (2005) in his study on 'Insurance perspective in Eastern-up' with the objective of probing into the reasons or the factors behind the purchase of the insurance product and found that according to 93.86% of respondents insurance policies are considered indispensable for risk protection. Factors such as consumers' perceived value, satisfaction and purchase decision-making responsibility have been considered as most important them of the literature on attitude and perception of life insurance policyholders. Namasivayam et al, (2006) in his studies show that socioeconomic factors are responsible for purchase of life insurance policies.

Role of Insurance for People in India

Post liberalization period has witnessed an incredible growth of service sector industries in India. The insurance sector has witnessed the steady or negative growth as compared to service industry. Privatization, liberalization and globalization have given an opportunity for insurance sector to grow but its growth seems to be stagnant. Inadequate financial literacy and awareness, lack of planning, higher rates of inflation and many individual (be it cultural or behavioural) factors plays a pivotal role in the buying decisions of a consumer. Reasons may be many but financial education is one of the important issue which need to be analyse and looked after in order to influence investors in favour of its products offering.

The nationalization of life insurance aims at widening the channels of public savings and is an important step towards mobilizing these savings more effectively than therefore, to finance national plans. The life insurance industry needs to further expand their reach by leveraging new delivery channels. New product development, managing talent, achieving efficiency in operations and a viable agency force are the other challenges the industry has to gear up for. Competition has been the key. It has resulted in innovation, new delivery channels and new product offering. The new delivery channels have speeded up the entire process and have resulted in reaching more customers in an efficient manner. Bancassurance has definitely helped the selling of insurance through the wide network of bank branches especially in villages and small towns, where the

insurance penetration has been very low and a cause of concern.

Since the inception of Insurance Regulatory and Development Authority (IRDA) in 2000, organisation has taken various initiatives in the area of financial literacy and consumer education. The different marketing media and other sources have been engaged for investor education and conducting awareness programmes and enhance the consumerism like messages about the rights and duties of policyholders, channels available for dispute redressal in multi languages. IRDA tries to educated customers through conducting seminar on policy holder protection and welfare and also partially sponsors seminars on insurance by consumer bodies. Another measure taken by IRDA are pan India survey on awareness levels about insurance. Several publication, books, comic books and varied social media network platforms are used by IRDA to educated consumer regarding safe investment and consumer safety and security.

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