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Study of Traditional Investments in Insurance

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Abstract*: As the people are becoming more and more and aware of their Life Style and Income level. They needa plan, which has an optimum balance between their Investment and Savings. They require anintegrated financial plan for investment. The customer requires those investment options, whichprovide them with flexibility and Liquidity and tax benefit. Among the various other investmentoptions, Insurance has gained a prominent place. It provides the policyholder with the benefit of LifeProtection and at the same time allows him to take the benefit of the fluctuations of the share market.Thus, Life Insurance has taken a very vital position as a wholesome investment option. LifeInsurance is gaining public awareness and interest very rapidly. It was till now been thought as awayto ensure lives, But, recently it is emerging as a prominent Investment avenue. It has come up as awholesome Investment Avenue & provides the benefit of flexibility, Liquidity and Life protection.Along with added benefits like the rider attachments which protect the policyholder from variouskinds of diseases and accident etc*

Keywords: Life Insurance, Investments

I. INTRODUCTION

The insurance industry provides protection against financial losses resulting from a variety of perils. By purchasing insurance Policies, individual and businesses can receive Reimbursement for losses due to car accidents, theft of property, and fire and storm damage, medical expenses and loss of income due to disability or death. The insurance industry consists mainly of insurance carriers (or insurers) and insurance agencies and brokerages. In general, insurance carriers are large companies that provide insurance and assume the risks covered by the policy. Insurance agencies and brokerages sell insurance policies for the carriers. While some of these establishments are directly affiliated with a particular insure and sell only that carriers policies, many are independent and are thus free to market the policies of variety of insurance carriers. In addition to supporting these two primary components, the insurance industry includes establishments that provide other insurance-related services, such as claims adjustment or third-party administration of insurance and pension funds. Insurance carriers assume the risk associated with annuities and insurance policies and assign premiums to be paid for the policies. In the policy, the carrier states the length and conditions of the agreement, exactly which losses it will provide compensation for, and how much will be awarded. The premium charged for the policy is based primarily on the amount to be awarded in case of loss, as well as the likelihood that the insurance carrier will actually have to pay. In order to be able to compensate policyholders for their losses, insurance companies invest the money they receive in premiums, building up a portfolio of financial assets and income-producing real estate, which can then be used to pay off any future claims that may be brought.

MEANING

Insurance in broad terms may be described as a method of sharing financial losses of few from a common fund that are equally exposed to the same loss.

DEFINITION OF INSURANCE

A contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

FEATURES OF INSURANCE

1. Insurance (excluding life insurance which tends to pay after certain period of time) is not an investment rather it is a hedge against the future probable losses.

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2. It gives you the comfort that in the event of any loss from unforeseen events will be compensated by the insurance companies.
3. One has to pay premiums regularly to the companies providing insurance in order to enjoy the benefits of insurance.
4. It can be of many types like life insurance, fire, marine, health insurance and so on and one can take any of the above polices depending on the risk with which an individual is exposed to.
5. Insurance policies can be modified and offered to people depending on their risk profile and the need of the insurer.
6. There is a limit to the amount by which an insurance company will compensate for the loss incurred by the insurer. The amount is mentioned in the insurance policy and the more the amount of insurance cover the more will be the premium which one has to pay to the company.
7. A person can take more than one policy, in other words there are no restrictions on the number of policies which one can take.

INSURANCE MARKET IN INDIA:

India with about 200 million middle class household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance sector in India has come to a position of very high potential and competitiveness in the market. Innovative products and aggressive distribution have become the say of the day. Indians, have always seen life insurance as a tax saving device, are now suddenly turning to the private sector that are providing them new products and variety for their choice. Life insurance industry is waiting for a big growth as many Indian and foreign companies are waiting in the line for the green signal to start their operations. The Indian consumer should be ready now because the market is going to give them an array of products, different in price, features and benefits. How the customer is going to make his choice will determine the future of the industry. The insurance industry in India can broadly classify in two parts. They are: Life insurance.
Non-life (general) insurance.

THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY(IRDA)

Reforms in the Insurance sector were initiated with the passage of the IRDA bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA‘s online service for issue and renewal of licenses to agents. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. In the private sector 14 life insurance and 9 general insurance companies have been registered

Objective of IRDA:

The main objectives of IRDA are:
- To take care of the policy holders interest
- To open up the insurance sector for private sector
- To ensure continued financial soundness and solvency
- To regulate insurance and reinsurance companies
- To eliminate dishonesty and unhealthy competition
- To supervise the activities of the intermediaries

PRINCIPLE OF INSURANCE

In insurance, there are 7 basic principles that should be upheld, ie Insurable interest, Utmost good faith, proximate cause, indemnity, subrogation, contribution and loss of minimization.
1. Principle of Utmost Good Faith This is a primary principle of insurance. According to this principle, you have to disclose all the information that is related to the risk, to the insurance company truthfully. You must not hide any facts

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that can have an effect on the policy from the insurer. If some fact is disclosed later on, then your policy can be cancelled. On the other hand, the insurer must also disclose all the features of a life insurance policy.
2. Principle of Insurable Interest According to this principle, you must have an insurable interest in the life that is insured.

That is, you will suffer financially if the insured dies. You cannot buy a life insurance policy for a person on whom you have no insurable interest.

3. Principle of Proximate Cause While calculating the claim for a loss, the proximate cause, i.e., the cause which is the closest and the main reason for a loss should be considered. Though it is a vital factor in all types of insurance, this principle is not used in Life insurance.

4. Principle of Subrogation This principle comes into play when a loss has occurred due to some other person/party and not the insured. In such a case, the insurance company has a legal right to reach that party for recovery.

5.Principle of Indemnity The principle of indemnity states that the insurance will only cover you for the loss that has happened. The insurer will thoroughly inspect and calculate the losses. The main motive of this principle is to put you in the same position financially as you were before the loss. This principle, however, does not apply to life insurance and critical health policies.

6. Principle of Contribution According to the principle of contribution, if you have taken insurance from more than one insurer, both insurers will share the loss in the proportion of their respective coverage.
If one insurance company has paid in full, it has the right to approach other insurance companies to receive a proportionate amount.

7. Principle of Loss Minimisation You must take all the necessary steps to limit the loss when it happens. You must take all the necessary precautions to prevent the loss even after purchasing the insurance. This is the principle of loss minimization.

II. LITERATURE REVIEW

Venugopalan, K.,V.(2011): conducted a study on global financial crisis and Lifeinsurance sector in India by undertaking a comparative study of LIC with Private Sector.The impact of the Global Financial Crisis of 2007 to the Indian Life Insurance Sector ismeasured by using the following variables insurance penetration, insurance density,number of insurance policies issued, number of insurance premiums collected, totalpremium collected, profit obtained. The period covered in the study was from 2004-05 to2010-11. The study suggested insurance sector to be an emerging and untapped sector inour country with good growth potentials. A mixture of traditional Policies wasalso suggested in the study.

Manvendra Pratap Singh et al. (2011): identified the contemporary issues andchallenges in the marketing of life insurance services in India. They listed some of theimportant contemporary issues in life Insurance business for which all insurancecompanies have to pay more attention and adequate measures to overcome. According tothem, the contemporary issues are pension plans, alternative channels, productpositioning, investor education, product line, information technology, rural marketing andinvestor service. The challenge thus facing life insurance industry is the need fordiversification of insurance products better tailored and suited to meet the needs. Packageproducts have proven to be inadequate risk covers for the insured,significantly affect life insurance business. This may become a major threat in future forthe growth of the life insurance industry. They concluded that the orderly growth of lifeinsurance business is conducive to the growth of our nation

Rao,T. and Samuel, S.(2009): studied the reforms in the insurance industry andsuggested that the reforms would create the potential for further growth in the industry, itmight totally transform the industry and also that the future of insurance industryaccording to them was a blend of opportunities and challenges.

R.P.(2009): compared the public and private sector life insurance companies on thebasis of investment funds. The period covered in the study was from 2002-03 to 2006-07.The study revealed that the private sector insurance companies collected more funds fromunit-linked plans that LICI and therefore, were more exposed to stock market. During theyears 2005-06 and 2006-07 the return on investment was found to be higher for theprivate players compared to LICI owing to buoyant stock market conditions. The studyalso suggested that the private players might not repeat this in later years due to stockmarket meltdown.

Khurana&Sunayna (2008): in their research ‚‖Investor Preferences in Life InsuranceIndustry in India‖ had made an attempt to identify investor preferences regarding plansand company, their purpose of buying insurance policies, their satisfaction level and theirfuture plans for the new insurance policy. Data were collected from Hisar city in Haryanathrough structured questionnaire from 200 investors. The sample is collected on the basisof the Convenience Sampling method. For analyzing, Percentage, frequency and crosstabulation methods have been use.

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