

An Analysis of Investment Pattern of Insurance sector in India

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ABSTRACT

Every insurer carrying on the business of life insurance shall at all times keep invest his controlled fund in the following manner. The type of investments that public and private insurance companies make include industrial investment, infrastructural investment, government securities, investments in corporate bonds, cash and money market, equities, mutual funds. They invest in stock market by buying shares of blue chip companies

1. Introduction

It is a well established fact that development brings crisis with it. Higher the level of development, higher will be the level of crisis. History has proved the same. That is why it is said that life is a story of uncertainties and unexpected happening. With the pace of development, man has indulged in a unending race to secure the lion's share of the development. But due to the class society, development has also acquired a class character, which deepens the disparity in the society. Thus, along with natural calamities, man himself has generated adversaries amidst development, such as poisonous food through chemically yield increasing technology, anti-environment industrialization, deforestation, arm race on both earth as well as space, inter-state and cross country mobilization of capital and labour, irrational urbanization, etc. this entire scenario has added to the severity and incidence of disease and accidents.

Life insurance is one of the most common forms of insurance. In this process, life is insured against disease and death. Though life insured against disease is a new concept but is spreading very widely and broadly among people across all the regions of the country. Its popularity is acquiring important place amidst increasing incidence of life threatening diseases and very costly treatment. This type of insurance is called mediclaim insurance which helps to save the life while life insurance helps to support the family of an insured person after his/her death. Thus, both types of insurance are equally important.

Pattern of Investment

The reserve or life fund represents the accumulated liabilities of the insurance companies towards policyholders and is to be kept as trust money. The companies invest it to earn the assumed interest. The supreme consideration in the investment of life fund is to preserve the interests of the policyholders.

Every insurer carrying on the business of life insurance shall at all times keep invest his controlled fund in the following manner:

The type of investments that public and private insurance companies make include industrial investment, infrastructural investment, government securities, investments in corporate bonds, cash and money market, equities, mutual funds. They invest in stock market by buying shares of blue chip companies.

The pattern of investment of insurance companies is different and has their own choice of making investments whether in share market, government securities, equities or mutual funds. How much investment is made where depends upon the type of insurance policy in question.

2. Objectives of the study and Research Methodology

Objectives of the study:

1. To study the different insurance policies and their benefits;
2. To probe the pattern of investment of LIC of India and private insurance companies for economic development; and
3. To put forth remedial measures to further expand the insurance business in India.

Research Methodology

In order to achieve the specified objectives of the study, following research methodology was used:

Sampling Design:

Comparison of LIC of India with private sector insurance companies is to be made therefore, along with Life Insurance Corporation of India, the following private sector insurance companies were randomly selected for the study:

1. ICICI Prudential Life Insurance
2. HDFC Standard Life
3. Bajaj Allianz Life Insurance

Data Collection:

Both primary as well as secondary data were collected for the study. Secondary data include the information about main products of different insurance companies, investment pattern, employment pattern, financial year business, role of premium, methods of business of selected insurance companies. These

data were collected from the management of the said companies.

3. Analysis of Data

Table: Pattern of investment of different plans premium (%age)

Type of Investment	LIC India	Private Sector
A. Endowment Plan		
Govt. Securities	75-100	60-75
Equities Stock Market	0-20	0-35
Money & Cash Market	0-5	0-30
B. Money Back Plan		
Govt. Securities	0-15	0-10
Equities Stock Market	0-20	0-15
Money & Cash Market	65-100	75-100
C. Pension Plan		
Govt. Securities	70-100	50-90
Equities Stock Market	0-20	0-40
Money & Cash Market	0-10	0-20
D. Children Plan		
Govt. Securities	80-100	70-100
Equities Stock Market	0-15	0-20
Money & Cash Market	0-5	0-10
E. Unit Linked Plan		
Govt. Securities	0-40	0-30
Equities Stock Market	60-100	50-90
Money & Cash Market	0-10	0-20

The data given in Table shows that if it is a pension plan, then 50%-90% of the premium collected through this plan is invested in government securities, 0%-40% is invested in equities, 0%-20% is invested in money and cash market by the private sector companies while it is 70%-100%, 0%-20% and 0% to 10% respectively by the LIC, India.

If it is a unit-linked policy, then 0%-30% of the premium collected through this policy is invested in government securities, 50%-90% is invested in equities and stock market, 0%-20% is invested in cash and money market, by private companies while it is 0%-4%, 60%-100% and 0%-10% respectively by LIC India.

If it is an endowment plan, then 60%-75% of the premium collected through this plan is invested in government securities, 0%-35% is invested in equities and 0%-30% is invested in cash and money market by private companies whereas it is 75%-100%, 0%-20% and 0%-5% respectively by LIC India.

Similarly, premium collected from other insurance policies is invested accordingly. These investment patterns are not the same for all the companies and also the percentage keep varying with respect to the same company according to the needs and requirements. No company has a set pattern of investment.

With a large capital outlay and long gestation periods, infrastructure projects are fraught with a multitude of risk throughout the development, construction and operation stages and include risks, associated with project implementation including geological risks, maintenance, commercial and

political risks. Insurance companies not only provide risk cover to infrastructure projects, they also contribute long-term funds. In fact, insurance companies are an ideal source of long term debt and equity for infrastructure projects. With long term liabilities, they get a good asset-liability match by investing their funds in such projects. The insurance sector enables investments in intra structure development to sustain economic growth of the country.

4. Investment Prospects

The opening of the insurance sector offers ample opportunities to both existing as well as new players to penetrate into untapped areas, sectors and sub sectors and unexploited segments of population as presently both insurance density and penetration are at a low level. Only 20 percent of the Indian population is under life insurance cover. India has a low insurance penetration of 2.5 percent which continues to be below international standards. This, itself, is an indicator that growth potential for insurance sector is immense and hence the investment prospects in various fields.

Insurance penetration broadly measures the significance of insurance industry in relation to a country's entire economic productivity through investment in industrial as well as infrastructural buildings. It indicates importance of insurance industry in the national economy as a whole. Insurance density reflects upon the country's insurance purchasing power. Both indices being at very low level in the country even compared to the countries with the same level of economic development and per capital income are indicative of the vast potential of the growth of this sector in future. Besides, as the economy grows at the rate of 7%-8% in future, the scope for increasing insurance network in the country further grows up. The LIC, India has contributed to a great extent by giving huge funds for the five year plans. The insurance sector can go a long way in investment for better development of the country if it goes to explore the following fields.

Untapped Market

While nationalized Life Insurance Corporation (LIC) of India has done a commendable job in extending their services throughout the country but the choices available to the insuring public are inadequate in terms of services, products and prices. The untapped potential is quite large. In India, premium per capita is only 4% and premium as percentage of GDP is 2.5%, which is very less in comparison of United Kingdom where premium per capita is 2581 and premium as percentage of GDP is 11.2%. This huge gap from the global benchmark is itself lucrative. Thus, there is a great scope of collect greater level of premium.

Mandatory Insurance

In disaster prone areas, Government of India is going to make insurance mandatory. The interim report of the high powered committee set up by the centre on disaster management, has proposed mandatory insurance of life and property by people residing in disaster prone area such as coastal belts, flood prone areas, site near nuclear, chemical and hazardous industries and thickly populated areas. The

insurers can avail this opportunity and increase their market share in order to make more investments in different fields.

More Products Offered

A state monopoly has little incentive to offer a wide range of products as seen by a lack of certain products from LIC's portfolio. More competition in this business will spur firms to offer several new products and more complex and extensive risk categorization. This will fetch higher level of premium and hence higher level of investment.

Growth of Economy

With holding of equity shares by foreign company either itself or through its subsidiary company or nominee not exceeding 26% of paid up capital of Indian Insurance Company, various joint ventures between foreign investors and Indian partners would result into supplementing domestic savings and economic progress of the country.

Health Sector

The penetration of health insurance cover is quite low in our country with about 50 lac Indians having some kind of health cover. Until now, this sector was presently being catered to largely by GIC through their 'MEDICLAIM' schemes. But now the private life insurance companies have started bringing out health products like Bajaj Allianz's Health Care, ICICI Prudential's Health Assure and Health Assured Plus. The scope in this sector is immense and private life insurance companies by bringing more such products in the market can increase their share in this sector. This will boost the investment in health sector by collecting the premium in the name of health services.

5. Challenges and Suggestion

It is clear that the face of life insurance in India's is changing. But with the changes come a host of challenges, and its only the credible players with a long-term vision and robust business strategy that will make an impact.

1. Confidence of the Customers

One of the most important challenges for the private insurers is to compete with Life Insurance Corporation (LIC). Though the private insurance companies are doing well, in just five years they have captured 9% market but still they have to work really hard to sustain the confidence of the customers.

2. Appropriate Products, Prices and Profitability

Privatization of insurance sector has changed mindset of customers. Customers are now looking at insurance as complete financial solution offering stable returns coupled with total protection. Understanding the customer is very important that will enable insurance companies to design appropriate products, determine price correctly and increase profitability.

In the growing and competing insurance market, it had become imperative for the private insurers to offer products that meet ever changing customers' needs. Customers expect good innovating products with low premiums .

3. Tax Saving v/s Safety Net

On the ground, the biggest challenge for the insurance companies is to change the mindset of people, especially in life insurance. In India, life insurance is seen more as a tax saving mechanism rather than safety net in case of death.

4. Distribution Network

For the private insurers to increase their penetration they have to increase their distribution network. Proper distribution of insurance products will play an important role from strategic (structuring of product supply), cost efficient (reduction of intermediation costs) and/or market-oriented (customer-service) points of view.

5. Rural Market

Another big challenge for the private insurers is to capture the rural market. Today 97% of the rural market is catered by the LIC and only 3% market is catered by private insurance companies.

6. Quality of Services

The shift from monopoly to competitive market besides being an opportunity, also post challenges to both existing as well as to new private firms. The challenge will be in term of increasing sensitivity of the consumers to the quality of services offered by the firms, in terms of policy conditions, time consumed in the delivery of policy documents, pricing of products, expedition settlement of claims, marketing channels etc. With the arrival of private firms in the industry, consumers expect new product designs at lower prices, their professional selling responsive services and the firms lagging in these areas are likely to loose share of market in a very short time and may even be forced to leave the industry. Thus the competition while offering ample opportunities to the firms to widen the horizon of the market are also subjected to serious challenges due to increased sensitiveness of consumers to quality of customer's service. There will be change from sellers to the buyer's market in the insurance industry.

7. Vision and Strategy

Private life insurance companies with a long term vision and a robust business strategy can make a difference. They can play very positive role in the economic development as they can provide long term funds for infrastructure development and at the same time strengthen the risk taking ability. The insurance sector, can enable investments in infrastructure development to sustain economic growth of the country.

8. Policy Matters

During the course of the study, it was found that government of India is planning to discontinue its support in the form of policy cover that it provides, in case LIC is not able to pay the sum assured during the settlement of claim or at the time of maturity. And this would bring LIC at par with private life insurance companies in terms of risk factor. Therefore private insurance companies with their innovative products and better services can score over LIC.

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