A STUDY ON THE RISK ANALYSIS AND RISK MANAGEMENT IN INVESTING INSURANCE POLICIES WITH SPECIAL REFERENCE TO THRIKKAKARA

1. INTRODUCTION

All assets in this world have some economic value and some amount of risk carrying with them. All assets have some expected life also and if it's get lost or destroyed there are many chances that owner will suffer some amount of loss which can be financial or in any other form. So to protect the owner from suffering a huge amount of loss we can assure these assets.

Insurance is a contract between the insurance company (insurer) and the policyholder (insured). In return for a consideration (the premium), the insurance company promises to pay a specified amount to the insured on the happening of a specific event. We all need insurance because it not only transfer the risk but also have other benefits like tax saving.

Investments are both important and useful in the context of present day conditions of the economy. It is a common saying "One paisa saved is one paisa earned". Life is a roller coaster ride and is full of twists and turns. Insurance policies are to safeguard against the uncertainties of life. The insurance principle comes to be more and more used and useful in modern affairs. Not only does it serve the ends of individuals, or groups, it tends to pervade and to transform modern social order, too. At this juncture, the extent to which Life Insurance goes to attract the investors has been undertaken in this study. The analysis of the data evidenced that investment were not determined by either income or education of the respondents, instead they understood the necessity of investment in life insurance for their future requirements which is said to be forced Investment. So, it has been concluded that making sound investment decision requires both knowledge and skill apart from other factors.

A person carries various types of risk in his life term and it can be classified in many ways. But first we need to understand the meaning of risk. It is difficult to give the exact definition of risk but it can be defined in the respect of insurance sector as the possibilities of unfavourable event happing like death or physical damage.

As there are different types of in insurance policies in the market it becomes difficult for a customer to understand the actual value of its life i.e. Human Life Value. Before buying an insurance police a person should to knowing the purpose for which he is buying the insurance and how to analyse its value.

India is the second largest country in the world in the respect of population. The GDP growth of India was likely to slow down to just 6%in 2019 from 7.4% the previous year. India is expected to grow by 7%in 2019 and 7.2% in 2020; the general insurance industry recorded 12% growth in premiums underwritten.

Purchasing insurance is one of the most important decisions in life because it is very long term investment. With over 300 million life policies in force, substantial premiums and double-digit growth in both segments (life and non-life), India's insurance sector is poised to mark incredible pace of progress in the years to come. Privatization in the sector led to the entry of foreign players with

significant capital commitments and growth aspirations in the Indian insurance arena. So comparison of insurance providers is very crucial for people before buying insurance product. Each and every insurance provider performs in the different manners in term of providing services, market share, collecting premium amount and much other financial performance. Because of this variation, it is very essential to get quotes and other financial results from as many insurance companies as possible. This gives an opportunity to compare and choose the most affordable policy with the best options for personal situation.

Insurance because it is becoming basic need of any individual in terms of considering the financial risk after once death or even any financial loss during the life. Insurance is very big business and crores of life concerned and dependent on this business. It is win-win situation form insurance business side and insurance investors' point of view. The insurance business safe guards the uncertain risk of the insurance policy holders regarding any life, health, property and for many others.

The project has been undertaken to know about different types of risk that can covered by insurance policies and how to analyse and mange those risks as there are various types of risk that a person can suffers in his life term. The project talks about what are the various things that customer should Consider before buying an insurance policy and various steps that need to consider before buying it.

1.1 STATEMENT OF THE PROBLEM

As the insurance sector expected to increase between 12-15% over the next five years .It is important for a customer to understand the basis steps to buy an insurance policy. With the growth of professional risk management, the insurance device has become more and more popular these days. It is also going to help companies to understand that how can they convince their customers to buy an insurance policies. The project has been undertaken with an aim to analyse insurance firm and how to calculate their need analysis. Life Insurance plays vital role in the field of investment. Investments are both important and useful in the context of present day conditions. It is a common saying "One paisa saved is one paisa earned". In the present financial market the investor are facing either the problem of safety or unattractive returns. At this juncture, the extent to which LIC goes to attract the investors has been undertaken in this study.

1.2 OBJECTIVES

- To make people aware about the steps they should consider before buying Insurance Policies.
- To know about various analytical tools that can value Insurance Policies.
- To find whether need analysis is compulsory before buying Insurance Policies.
- To study the risk taking attitude of people in investing the Insurance Policies.

1.3 HYPOTHESIS

H0 : There is no significant relationship between Age and Risk taking attitude of people.

H1 : There is significant relationship between Age and risk taking attitude of People.

1.4 SCOPE OF THE STUDY

The scope of the study is limited to only insurance & no other financial instruments were considered .The study will help us to know the perception of customers about insurance policies. The various risks involves in buying an insurance policy and how to tackle it. It will also help us to get a basic knowledge about need analysis calculation and its requirement .The main purpose of the study is to develops a tool and techniques for risk management for life insurer to analyse the customer at primary stage for the risk he/she is exposed to.

1.5 RESEARCH METHODOLOGY

Both primary and secondary data were used and out of sample 50 policyholders responded the questions in a fair manner and the same has been undertaken for the analysis. The data collected were analyzed and interpreted with the help of statistical tools. The following tables highlight the socio-economic factors of the respondents as well as their preference towards the investment in Life Insurance.

1.5.1 PRIMARY DATA:

Primary data is the one which is collected specifically for the purpose of the project, and can be obtained from various people working in the organization. Primary data was collected through survey by administering questionnaire and Direct Interviews.

1.5.2 SECONDARY DATA:

It refers to the statistical material which is not originated by the investigator himself but obtained from someone else's records, or when Primary data is utilized for any other purpose at some subsequent enquiry it is termed as Secondary data. However, it plays a significant role in the project. For this study the secondary data was collected from the following sources:

Books related to risk management and insurance.

Websites related to risk management and insurance.

1.5.3 SAMPLE SIZE

A sample of 50 is selected for the study**.**

1.5.4 SAMPLING TECHNIQUES

Purposive and Convenience sampling method is used to select samples.

Descriptive type of research adopted for studying the Risk analysis and Risk management in Investing in LIC Insurance Policies.

1.5.5 TOOLS FOR DATA ANALYSIS

The information is selected through the questionnaire were analysed and interpreted.

Simple descriptive statistics such as percentage analysis is used to analyse the collected data .
Correlation test is used to test the hypothesis framed by the study. Statistical tool i.e. SPSS is used in order to analyse the data.

1.6 LIMITATIONS

- The study is limited due to constraint of time and information available.
- Possibility of error in data collection because many of respondent may have not given actual answers of questionnaire.
- This project only talks about three risk analysis tools there are other tools also which can be used.
- The study had done only on 50 respondents.

1.7 CHAPTERISATION

Chapter -1 Introduction

Introduction includes the general information about Insurance sector, and It also includes statement of the problem, significance of the Study, Objectives, Research Methodology,scope of the study etc.

Chapter -2 Review of Literature

This chapter includes literature review of the study.

Chapter -3 Theoretical Framework

This chapter is confined with an overview of the topic **"RISK ANALYSIS AND RISK MANAGEMENT IN INVESTING INURANCE POLICIES"**

Chapter-4 Data Analysis and Interpretation

This chapter includes analysis and interpretation of Data collected through Questionnaires.

Chapter -5 Findings, Suggestions and Conclusion

This chapter includes the Findings , suggestions and conclusion of the entire project.

Tappan Sinha (2005) in his paper entitled "**An analysis of the evaluation of insurance in India**" discussed the current state of play and projected future of the industry. And also he examined the overall expenses as a percentage of premium income, rural share of life insurance business value, investment portfolio of the life insurance corporation from the year 1980 – 2000. This paper concludes that India will become an attractive insurance market over the next decades.

Chinnadorai, Kalpana and Sadhana (2007) has studied about the ***"Motivational factors and level of satisfaction of agents development officers of LIC of India"***, with the aim to study the performance of agents & development officers in team building, and the training methods used by the development officers to train their agents and the level of satisfaction of agents on various aspects and identify the factors that motivates the agents. This study was conducted in the city of Coimbatore. Primary data has been used which was collected from a sample of 50 agents and 50 development officers through an interview schedule. The study was conducted to know the performance-oriented team building aspects of agents in LIC of India in the context of the competitive environment created by the private players of the insurance industry. The development officers motivate agents and guide them to perform better as a team. From this study, it can be inferred that the team building can be enhanced by increasing commission of the agents, co-operation and co-ordination between the development officers and the agents, adopting innovative training techniques and motivating through personal approach. The study concluded that the agents and the development officers play a vital role in performance - oriented team building activity in the insurance business and thus give a personal touch in the insurance business. Hence the management of the life insurance corporation of India should take good care of their agents and development officers.

Ramana (2007), in his article, observed that in the light of duties and obligations cast on the regulator in respect of protection of policyholders‟ interest, growth and development of insurance business in India. What has been done and achieved till now is only a sound beginning. Much remains to be done to become true to the ideas with which the regulatory body has been conceived and constituted, particularly in the context of economic reforms initiated in our country. With increasing complexity and novelty of business opportunities thrown open to more and more players in the insurance market, the regulatory body too needs to gear up its administrative and regulatory machinery to have in place a more structured, systematic and effective approach to successfully find solutions to more and more challenges and issues in the days to come, as the market is destined to experience extreme aggressive stances both from the existing players and also the new entrants queuing up and knocking the doors of IRDA for the green signal and operational permit.

Seal and Debnath (2007), observed that detariffing in the insurance segment has been to the advantage of the consumers. The rates of premium in fire and engineering have decreased. Even though the

premiums, for a segment of motor insurance increased, despite charging such increased rates of premium, insurance companies will be at loss in the area of motor insurance. Competition will bring more and more new and better products at some discount. Finally, consumers will be the beneficiaries of detariffing. The survey indicates that though a large number of studies have been conducted on the non-life insurance sector at the international level, at the national level researchers have mainly emphasized on life insurance sector. Although a few studies have been conducted on the performance of the general insurance sector prior to reforms, no worthwhile research relating to the measurement of the overall performance of the general insurance companies in the post-reform period has been conducted, making a comparative study of the public and private sector general insurance companies. No proper study has been conducted to assess the impact of reforms on profitability and efficiency of the public sector general insurance companies and the comparative service quality level offered by the public and private sector general insurance companies. Thus, there exists a research gap and this study titled, "Performance Evaluation of General Insurance Companies - A Study of Post-Reform Period" is an attempt to fill this gap.

A study conducted by **Sunayna Khurana (2008)** article **"Customer Preferences in Life Insurance Industry in India"**, revealed that the insurance sector plays a very important role in the development of any economy. It is necessary for the economic and overall development of any country. In today's competitive economy, the business, finance and insurance sector plays a very important role. More and more job opportunities are available in these sectors.

Carole Bernard and Christiane Lemieux (2008) in their paper entitled **"Fast Simulation of Equity-Linked life insurance Contracts with a Surrender option"** discussed equity-linked life insurance contracts that give their holder the possibility to surrender their policy before maturity. In this type of policies are valued using simulation methods proposed for the pricing of American options, but the mortality risk must also be taken into account when pricing such contracts. In this paper the authors used the least-squares Monte Carlo approach of Long staff and Schwartz coupled with quasi-Monte Carlo sampling and a control variety in order to construct efficient estimators for the value of such contracts.

Charlas L.J (2009) in his paper "**Investors choice – LIC Vs Private Insurance Companies"** concludes that in the post-liberalization era in India, there has been a phenomenal growth in the insurance sector with a population of over one billion, national and international Life Insurance Companies, see India as a land of opportunities and a market for big business. Until 1999, the business of life insurance in India was the monopoly of Life Insurance Corporation of India (LIC). However, now consistent growth has been observed in the private insurance markets. The life insurance market in India is emerging and growing at the rate of 32-34per percent in the year 2009.

Praveen Sanu Gaurav Jaiswal and Vijay Kumar Panday (2009)95 in their article, **"A Study of Buying Behaviour of Consumers towards Life Insurance Company**", Prestige institute of Management and Research, Gwalior, revealed that in present Indian market, the investment habits of Indian consumers are changing very frequently. The individuals have their own perception towards various types of investment plans

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Monica Billio, Mila Getmansky, Andrew W. Lo, and Loriana Pelizzon
(2010) in their working paper "**Measuring Systemic Risk in the Finance and Insurance Sectors**" measured five forms of the systemic risk based on statistical relations among the market returns. In this paper they used correlations, cross-autocorrelations, principal components analysis, regime-switching models, and Granger causality tests. In this paper the authors find that all four sectors have become highly interrelated and less liquid over the past decade, increasing the level of systemic risk in the finance and insurance industries. These measures can also identify and quantify financial crisis periods. The results of this paper suggest that while hedge funds can provide early indications of market dislocation, their contributions to systemic risk may not be as significant as those of banks, insurance companies, and brokers who take on risks more appropriate for hedge funds.

Ade Ibiwoye, Joseph O, Ideji, Babatunde O. Oke (2010) in their study entitled **"The determinants of Life Insurance Consumption in Nigeria: a co-integration approach**" examine the determinant of life insurance consumption in Nigeria during the period 1970 – 2005 within an error correction framework. Co-integration technique revealed that Real Gross Domestic Product (RGDP) and SAP positively and significantly influence Life Insurance Consumption (LIC) in Nigeria while indigenization policy and Domestic Interest Rate (DIR) are statistically significant but inversely related to Life Insurance Consumption (LIC). On the other hand, the authors discover that the Return On Investment (ROI), Inflation Rate (IR), openness of the economy (OPEN) and political instability are insignificant predictors of Life Insurance Consumption (LIC) in Nigeria. In addition, the results of this study indicate a well defined error correction term which is significant at 1 percent with a feedback effect of about 58 percent. The explanatory power of the independent variables is also strong at about 94 percent. The Durbin Watson statistics of 1.89 indicates the presence of very little form of auto-correlation.

Hanifehzadeh Latif (2011)13 in the paper entitled **"Studying the Structure of Ownership and Efficiency of Insurance Companies in Iran**" The purpose of this study is determining the suitable structure of ownership to increase the efficiency of insurance companies. This study evaluated the comparison between the governmental companies and the other private companies with legal block structures. The Data Envelopment Analysis (DEA) and Financial ratios like
1. Liquidity ratios 2. Leverage ratios 3. Activity ratios 4. Profitability ratios 5. Market ratios. are used in organizations to analyze the financial state of companies.

Altaf Ahmad Dar, (2011) made a study titled, ***"Awareness of Life Insurance-A Study of Jammu and Kashmir State"***, explains that to find out the awareness of life insurance in the population of Jammu and Kashmir state, a community-based cross sectional study was carried out. A total number of 242 respondents from 242 households were interviewed by using a pretested questionnaire after obtaining informed consent from the participants. The awareness of life insurance was found to be 64.0 per cent. Around 45.0 per cent of the respondents came to know about life insurance from the media which played an important role in the dissemination of information. The mean premium amount agreeable to be paid by the respondents for life insurance was found to be Rs 1804.00; even the low socio-economic group of people was also willing to part with a reasonable amount of Rs. 697.00 annually for life insurance. The middle and low socio-economic groups favoured government life insurance compared to private life insurance as they have more faith in Government Companies. The findings indicate that the government should come out with a policy, where the public can be made to contribute to a life insurance scheme to ensure unnecessary events and also better utilization of life insurance facilities.

Kavitha, Latha, and Jamuna., (2012) made a study titled, ***"Customers' Attitude towards General Insurance - A Factor Analysis Approach"***, explains that with over a billion people, India is fast becoming a global economic power. With a relatively youthful population, India will become an attractive insurance market over the next decades. This study examines the customer attitude towards General Insurance. A study has been conducted at Erode district with the sample of 750 respondents to find out the influencing factor of the policy holders in the study area. In this context, the respondents' opinion on the various related statements were collected with a 5 point scaling. Factor analysis, an important multivariate technique has used to reduce the large number of factors in a small group of factors. 25 factors which are considered to be the different type of policyholders conscious. This study helps to find out the various customers which are having different expectations from the General Insurance Companies in the study area.

Bashir Ahmad Joo (2013) made a study entitled, ***"Analysis of Financial Stability of Indian Non Life Insurance Companies"***, reports that World over after liberalization insurance sector has undergone significant transformation. This is also true with Indian insurance market, where insurance penetration and density is very low compared to other countries. Therefore, many foreign insurance companies were lured to make entry in Indian insurance in order to insulate positive spread from large untapped insurance market, mainly by entering into joint ventures with local partners. Thus Indian insurance market after liberalization was assaulted by the pressure of globalization, competition from multinational insurance companies and lavish underwriting chases which are seen as threats as well as opportunities for insurance companies. However, the entry of new players has resulted in heavy underwriting losses for Indian public and private insurers. But heavy underwriting losses had a reverse

impact on their solvency margins. In present study, the Insurance Solvency International Ltd. (ISI) predictors have been employed in this study to study the solvency position of Indian non life insurers. Further, study highlights the extent of relationship between various factors and solvency of non life insurers in India by using multiple regression analysis. The result of the study has shown that claim ratio and firm size have a greater impact on the solvency position of insurance companies.

Dr Sunayna Khurana (2013), in her article, **"Analysis of Service Quality Gap in Indian Life Insurance Industry"** says that Life insurance companies in India offer similar kinds of plans and services, but they could provide differences in terms of service quality .In this context this research tried to find out the gap between Customer expectation & customer perception in the Life insurance industry by examining a Sample of 200 customers of 10 top performing Life insurance companies in Haryana state. The study found that there is the highest gap in customer expectations and perceptions towards the competency dimension of service quality. That means customers are expecting high service quality and perceiving very less quality in case of services related to competency dimensions.

Simona Laura Dragos (2014), in the research article, **"Life and non-life insurance demand: the different effects of influence factors in emerging countries from Europe and Asia"**, Economic Research. Many previous researches have shown that Urbanisation, incomes and their distributions, and the population degree of education are relevant factors for the development of the insurance sector in any nation. This present paper tried to test the above said variables using econometrics of panel data on 17 emerging economies from Asia and Europe over a 10-year period from 2001 -11.This research brought out findings that urbanisation influenced significantly the life insurance demand in Asia countries so it pointed out that the main insurance opportunity will be in emerging Asia (especially China and India), where the urbanisation rate is lower than it is in Central and Eastern Europe. It also highlighted that tertiary education as a proxy for risk aversion is not appropriate for the life insurance sector because of the complexity of wealth accumulation and distribution of wealth products so a reliable solution for this could be the high level of financial literacy.

Savita Jindal (2014), in her study on, **"Ethical Issue in Insurance Companies: A Challenge for Indian Insurance Sector**" has attempted to find out various ethical issue of insurance companies in India by examining a sample of 50 people from insuring public were interviewed with insurance policies of life insurance to find out the ethical ways in settlement of claims. The study revealed that insurance companies in India are Failing in identifying the customer's needs and recommend products and services that meet their need followed by Misrepresenting in terms and conditions while selling products to customers, Unethical remarks about competitors, their products, or their employees or agents and lastly lack of expertise or skills to competently perform one's duties. Finally the paper concludes that insurance companies have recognized the moral dilemma in claims settlement; they understand that if

claims are not settled in ethical manner it will result in bad consequence for company image which will fall back on the insured or the beneficiary. Finally the research stated that the insurance business sector has many areas for improvement and development.

Choudhuri (2014) explained that as a social being customers are not only relationally attached with the different kinds of people in their daily life but also directly related with their service providers in different ways. Empirical studies indicated that in the modern age of the society, the technology savvy customers‟ awareness about the several existing life insurance products depends on a number of factors where over times these factors vary situation wise, culture wise, nationwide, sector wise as well as industry wise. Considering awareness scenario of the customers of Life Insurance Corporation of India (LICI) about its available products in the present life insurance market, the researcher in this study conducted a study in Burdwan district, West Bengal, to identify the significant factors that play a noteworthy role in customers‟ mind to make them aware about the different products of the LICI.
Mouna Zerriaa and Hedi Noubbigh (2015), in their research paper, "Determinants of Life Insurance Demand in the MENA Region" have tried to investigate the determinants of life insurance consumption in the Middle East and North Africa (MENA) region using a sample of 17 countries over the period 2000- 2012.They have used two measures of life insurance demand: insurance density and insurance penetration. This research states that consumption increases with income, interest rates and inflation and also it highlights that country's level of financial development, life expectancy and educational attainment stimulates life insurance demand in a nation.

Balaji (2015*),* in his paper**- Customer awareness and satisfaction of life insurance policy holders with reference to Mayiladuthurai town** tries to measure awareness among the urban and rural consumer about the insurance sector and also the various policies involving various premium rates. The study was conducted by examining around 100 sample respondents which revealed that 100% of respondents are aware of the life insurance policies; where as 87% of the respondents came to know about insurance policies through agents. But it also came to light that Most of the respondents are aware of government insurance company LIC and in the private sector HDFC Standard Life insurance. Finally the research concludes that the penetration level of insurance in India is only 2.3% when compared to 9-15% in the developed nations. So there is a huge market for the Insurance products in the future in Indian insurance demand in a nation.

INSURANCE

Insurance is a contract between the insurance company (insurer) and the Policy holder (insured). In return for a consideration (the premium), the insurance company promises to pay a specified amount to the insured on the happening of a specific event. We all need insurance because it not only transfer the risk but also have other benefits like tax saving.

The first Indian insurance company was formed in the year 1818 which was oriental life insurance company and the Indian life assurance companies' act 1912 was the first statutory measure to regulate life business which was finally amended in the year 1938. In the year 1999 Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate all the insurance companies in India which came in power in the year April 2000. Under the current regulation a foreign companies cannot have more than 26% of stake in joint venture.

Benefits of Insurance

- Investment option : It is good investment option because insurer will not get the Insurance cover but also the in some amount of return.
- Tax benefits: We can also save tax up to RS 100000.
- Loan on insurance: Customer can also take loan against insurance policies.
- Habits of saving : It also develops the habits of saving certain amount of money Which can be helpful in future.
- Employment generation: An increase in the penetration of insurance is going to generate more employment as insurance policies will require more advisors.
- Social benefit: It is going to help in developing the infrastructure of the country.

Types of Insurance policies

The different types of life insurance policies are following:

- Whole life insurance plans
- Endowment insurance plans
- Term Insurance plans
- Pension and savings plans
- Unit linked insurance plans

If you're considering purchasing life insurance as an investment, you need to understand two things:

1) The differences between the four types of life insurance, and

2) The purposes of those different types of life insurance.

Traditionally, life insurance in the form of "whole life insurance," or permanent life insurance was considered a part of a sound investment portfolio. This type of insurance can provide investment returns in the form of dividends in retirement, and then a cash benefit upon death.

Meanwhile, "term life insurance," which doesn't pay dividends, wasn't considered a financial investment. However, many people still consider it a sound investment in financial security, since it pays cash benefit to the policyholder's family (or other beneficiaries) upon the policyholder's death.

Insurers also offer variable life insurance and universal life insurance, each of which have their own benefits and drawbacks. The Life Insurance Corporation (LIC) of India is India's biggest insurance company. It is also India's biggest investment firm. It is so big that it keeps coming to the rescue of the government now and then, when the government cannot find enough buyers for the financial securities that it wants to sell. Before we figure that out, it is good to point out that LIC is basically an investment firm which also sells insurance. A major portion of the money that it collects as premium from Indians, against the so called insurance policies that it sells, is invested in stocks and bonds (both private as well as government).
The insurance policies that LIC sells are basically investment plans with a dash of insurance. And given that the premium that it collects and in turn invests, should be generating decent returns for the policyholders (actually investors). Of course, the tragedy is that most of these policy holders don't even know that they are actually investors. The investment returns of LIC have been consistently lower than the 10-year government bond returns. First and foremost, this tells us that the investment management capabilities of LIC are very bad, given that its investment returns have been 120 basis points lower than returns on a 10-year government bond, over a period of ten years.

Further, LIC would be simply better off by buying government bonds and then holding on to them till maturity, instead of actively trying to manage money. It would probably end up earning higher returns than it currently does.

As individuals it is inherent to differ. Each individual's insurance needs and requirements are different from that of the others. LIC's Insurance Plans are policies that talk to you individually and give you the most suitable options that can fit your requirement.

LIC Plans with Highest Return. LIC offers a wide range of life insurance policies designed to provide higher returns. The following plans by LIC provide you with the maximum benefits – Jeevan Akshay VI, New Children's Money Back Plan, New Endowment Plan, New Money Back Plan- 20 years.

LIFE INSURANCE PRODUCT AND STRATEGIES

In a broad sense life insurance policies are viewed in India mainly as investments. Here the premium amount represents the sacrifice and the sum assured is the benefit amount to be availed of under the different types of policies prevent in India.

Life Insurance Policies are also preferred as financial assets (nonmarketable). The basic customer needs met by life insurance policies are protection and savings. Policies that provide protection benefits are designed to protect the policy holders (or his/her dependents) form the financial consequences of devastating blows such as sudden death or prolonged sickness or disability. Policies that are designed as savings contracts allow the policyholder to build up funds to meet specific investment objectives such as income in retirement or repayment of a loan. Most of the Life Policies basically provide a mixture of savings and protection benefits.

The Pros of LIC investment

1. Insurance
2. Accident Benefit
3. Disability Benefit
4. Loan facility
5. A collateral security.
6. Sovereign Guarantee
7. AAA rating
8. Liquidity
9. Tax Free returns under 10(10(D))
10. Tax exemptions under 80(C)

1. **Return On Investment (ROI) based on net money returns is *less?***

This is one of the major criticism, endowment based LIC policies face from critics. To understand the trustworthiness of this allegation, we need to understand the “Rule of 72” in detail and its significance in estimating the returns from a certain investment. With respect to this rule, if you look at the broad majority of all the savings avenues available in India today, *the actual return on any investment*, ***with a guaranteed level of growth***, *after paying income tax, is just 6% to 8% only*. The illusory truth effect is a psychological technique of making a lie seems true by saying it again and again.

2. **LIC offers long term plans only?**

This is another major complaint LIC faces. . This is true. If you go through the published plans, you can see the minimum tenure offered is 10-12 years and the maximum policy duration is 30-40 years.

Reason 1 – Life planning is not a short term process

Offered policies from LIC are life linked, Which means, products which grows and flourishes along with the policy holder. Any single policy is a relationship which is vital for every life scenario, whether it is *children's education needs* or *marriage fund creation for daughter* or *pension planning for our old age* or *estate creation for our future generation*. It is obvious that a life fund must start its timeline in the present and fulfil its need at a future date.

That future date cannot be just 2-3 years or even just 5 years far. Tell me a normal person who starts a marriage fund after his child reached 18 years. No responsible father will start saving for their children's higher education after they have passed 12th. These scenarios reiterates the need for a long term investment solution.

Reason 2 – LIC cannot guarantee returns for short term

The biggest lender from Life Insurance Corporation of India is Union Government and state governments for infrastructure projects and other development activities. LIC's help is often sought after to revitalize PSUs. So is the case with Indian Railways. 2019 budget is expected to utilize 1.7 trillion for railways. So all the investments done by LIC is for long term, that too in guaranteed funds with sovereign guarantee. Since the investments are secure, the returns from those debt funds are also guaranteed for LIC. So is the case with the policy holder. We can assume a guaranteed level of growth for our investments, irrespective of the market conditions.

I hope you got the idea**. LIC is for those who look at life from a long term perspective**. So many possibilities like Recurring Deposit or Bank Fixed Deposits are there for mitigating short term saving goals. Please do not blame LIC.

3. **No top ups to existing policy premiums**

Quite often people ask me whether they can have some flexibility of premium payment. Their idea is, say for example, and invest 1000 rupees this month. If by chance if they have excess money next month, will they be permitted to put 2000 instead of regular Rs. 1000. The answer is "NO".

Insurance is a contract

Behind the scene, every insurance policy issued by LIC is an agreement between the corporation and the policy holder. The basic terms and condition being, LIC will safeguard the nominee with the Basic Sum Assured (+ bonuses + benefits) for the entire policy tenure; provided the policy holder paid all due

premiums regularly. Since this contract is relevant only on the grounds of premium payment, there cannot be varying premiums.

Yet the **customer is free to purchase as many number of policies** from LIC, based on the financial capability and health status. But not allowed to change the premium of a running insurance policy.

MAJOR PRINCIPLES OF INDIAN INSURANCE CONTRACT

- Principles Utmost Good Faith
- Principles of Insurable Interest
- Principal of material facts
- Principles of Indemnity

Principle of Utmost Good

Faith Insurance contracts are based upon mutual trust and confidence between the insurer and the insured. Hence, they are said to be uberrimae fidei i.e. of the utmost good faith. Utmost good faith in insurance means that each party to a proposed contract is legally obliged to reveal to the other party all information which would influence the other's decision to enter the contract, whether such information is requested or not. Though the insurance contracts are subject to good faith and are based upon mutual trust and confidence, it is not possible to apply any doctrine or caveat emptor (let the buyer beware) because of the fiduciary nature of insurance. The information necessary for the parties to assess the contract adequately cannot be ascertained as with contracts of sale where the buyer before contracting to purchases anything must satisfy himself as to nature and quality of good he needs.

Principle of Insurable Interest

The second principle of insurance is that the subject-matter of the insurance must be of insurable interest. This means that the insured stands in such relation to the subject –matter of insurance that he suffers loss by its destruction or damage and is benefited by its safety, or existence. An insurable interest is "an interest of such a nature that, if the event insured against takes place, the insured might suffer a financial loss. If the happening of the event insured against cannot cost the insured money, then there is no insurable interest". Thus insurable interest mean proprietary or monetary interest. It is the legal right to insure as an insurance policy does not cover property, but relates to the insured's interest in the property. In every contracts of insurance, the law regards possession of an insurable interest in the subject-matter of insurance to be a necessary pre-requisite. The insured must own either own part or whole of it or he must be in such a position that injury to it would affect him adversely.

Principle of Material Facts

A material fact is one which affects the nature or incident of risk in a proposed insurance. It is an essential fact which the insurer will take into consideration in deciding whether to accept the insurance proposal for a given risk or not. It is the fact which has a bearing or which is expected to influence the amount of premium. Thus, the material fact depends on the circumstances of a case and the subject-matter of insurance. However, unimportant facts or omission or misstatements may be excused.

Principle of indemnity

This is the regulating principle of insurance. It is applicable in all contracts of insurance except life, personal accident and sickness insurance. It does not apply to every class of business but it applicable to fire, marine, burglary or any other policy and not on the life insurance policy. Under an insurance contract the insurer undertakes to "indemnity" the insured against loss suffered by the latter. Indemnity literally means "security against damages or loss" or "compensation for loss". Prof. Hansel has defined it as "an exact financial compensation". In the case of loss against which the policy has been made the assured shall be indemnified for only the actual loss suffered by him but will never be more than fully indemnified. Thus indemnity restores the insured to the same financial position after a loss as he enjoyed immediately prior to the loss. This is in conformity with the basic concept of insurance, whereby an insurer is required to compensate the unfortunate few for the loss they sustain but does not allow to earn profit from misfortune. Under the principle of indemnity no profit can be made out of the insurance contract

RISK

A person carries various types of risk in his life term and it can be classified in many ways. But first we need to understand the meaning of risk. It is difficult to give the exact definition of risk but it can be defined in the respect of insurance sector as the possibilities of unfavourable event happing like death or physical damage.

The various types of the risks are following:

- Market risk
- Interest rate risk
- Inflation risk
- Political risk
- Financial risk
- Pure risk
- Particular risk

Out of all these risk, the insurable risks are following:

- Financial risk : The outcome of risk which can be measured in financial term like loss of life
- Pure risk : Pure risks are those risks where there is no possibility of making a profit.
- Particular risk : These are the three risks which can be insured by having insurance policies and the insured persons can transfer his risk to insurer.

Under risk profile of insurance companies, the following risks would be covered:

(1) Insurance Risk

(2) Investments Risk

(3) Credit Risk

(4) Asset Liability Management Risk

(5) Liquidity risk

(6) Operational Risk

(7) Environmental Risk

Risk analysis and Risk management

As there are different types of in insurance police in the market it becomes difficult for a customer to understand the actual value of its life i.e. Human Life Value. Before buying an insurance police a person should to know the purpose for which he is buying the insurance and how to analyse its value.

It might be confusing for many that for what value they should buy an insurance policies i.e. how they are worth for.

There are two methods to calculate the human life value

- Income replacement method
- Simple method

Income replacement method: This method takes into consideration the Future income earning potential of a person during the remaining years of their Working life.

It is a two-step method:

Step 1: Calculate the income of person in the future working years.

Step 2: this is its HLV, now take inflation in account and calculate how much should be enough for his family in case of his death.

Simple method: In this method we consider the present interest rate in a fixed deposit in a bank and then we calculate that how much amount person should get insured. But we always need to keep in mind that HLV in not a onetime calculation and it should get revised from time to time. Now as there are many insurance policies in the market it becomes difficult to decide which will be suited best for you. So it is always best for anyone to take the policies which is best suited for them. Anyone can easily find out which policies best suited for them by following these three steps:

Step 1: Identify your needs: you always need to understand you goals and need after considers these factors:

- marital status

- future financial goals
- number and age of dependants on you
- employment status
- income – which includes salary, business income and income from other sources and investments existing protection, savings and retirement provision

Step 2: Quantifying needs: Then you need quantify your needs and then calculate suitable amounts that you need to save in future the future.

Step 3: Priorities your needs: then you need to priorities you needs based upon your requirements. It is important because you have only a specific amount of money to invest and that money should be invested in a best product mix.

Step 4: Compare: it is always best for you to compare the policies which you are going to take with all the other similar polices in the market. So this how any individual can decide on what polices is best suited for him and whether he should consider to by that specific insurance policies or not.

The insurance is established a way long before and it is growing well since then. The first insurance company was formed United States in the year 1782 in South California. Since then various insurance company are founded and today hundreds on insurance companies are operating well.

Insurance sector in India

1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta but in 1968, the Insurance Act was amended to regulate investments and set minimum solvency margins. But actually grow in the insurance sector in India begun from the year 2000 with the formation on IRDA. IRDA is a regulatory body to manage working of all the insurance company in India .Foreign companies were allowed ownership of up to 26% and invest in insurance policies in India. The insurance sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country's GDP. Life insurance Company has acquired in India .With the entry of new private players insurance sector has seen a huge growth in last five years and it is expected to grow in future.

Risk and Need analysis

Use of the analytical tools examined in this report is not anything new to insurance regulatory authorities around the world. Insurance authorities make use of a diverse set of tools for the analysis of insurance markets or insurance companies in their domestic markets. The set of analytical tools each of them employs reflects the specific country context in terms of the level of development of the domestic insurance market, the number of operating companies as well as other factors.

As a customer you should always know your value in the market so that you can take a police according to your exact value. Three various approaches are used to determine the amount of life insurance to own:

1. Human life value approach

2. Needs approach

3. Capital retention approach

HUMAN LIFE VALUE APPROACH

HLV can be defined as the present value of the family's share of the deceased breadwinner's future earnings. It can be calculated by the following steps:

1. Estimate the individual's average annual earnings over his or her productive lifetime.
2. Deduct federal and state income taxes, social security taxes, life and health Insurance premiums and cost of self maintenance.
3. Determine the number of years from person's present age to the contemplated age of retirement.
4. Using a reasonable discount rate, determine the present value of the family's share of earnings for the period in the previous step.

Examples: Assume that Raj, age 25 is married and has two children. He earns Rs.25000 annually and plans to retire at age of 65. Of this amount Rs10000 is use for federal and state taxes, life and health insurance and his personal needs. The remaining 15000 is used to support his family. What should be value of insurance if discount rate is 6%?

Solution: Using the give discount rate the present value of Rs1 payable annual for 40 years is Rs15.05 So Raj has a human life value of (15000*15.05)= Rs225750

NEEDS APPROACH

The second method for estimating the amount of life insurance to own is the needs approach. The various family needs that must be met if the family head will die are analysed. The most important family needs are following:-

- Estate clearance fun.
- Income during the readjustment period.
- Income during the dependency period.
- Life income to the surviving purpose.
- Special needs.
- Retirement needs.
- **CAPITAL RETENTION APPROACH**

This method preserves the capital needed to provide income to the family. This methods works in following step:

- Prepare a personal balance sheet.
- Determine the amount of income producing capital.
- Determine the amount of additional capital needed.

So these three analysis tools can be used by the customer to determine the exact value of a life insurance required customer to support their family. It will also help them to decide on which type of polices they

should invest according to their requirements. It will also help in determining amount of risk in that policy.

Analytical Tools in Insurance Markets

This section provides an overview of the analytical tools in the insurance industry, including the objectives that regulatory authorities as well as other interested parties hope to achieve with these tools. An explanation and evaluation of the types of indicators and analytical tools that have been developed – or are under development – for monitoring of industry performance and risk is also provided. The discussion throughout this section embeds the findings from the responses to an OECD survey. The survey sought information on the use of analytical tools, including periodic reviews and stress testing and financial market indicators, in the surveillance of insurance markets and individual insurance company performance and risks in the respondent countries as well as on any data gaps related to specific indicators and tools. The survey comprised four main sections:

i) indicators related to the monitoring of the depth and competitiveness of domestic insurance markets;

ii) financial indicators and ratios that may be used to monitor various components of the insurance business;

iii) common market indicators of insurance company performance and risk; and

iv) Analytical tools used to monitor insurance market risks, including potential systemic risks. Each section consisted of questions about the use and relative value of a set of commonly-used (and emerging) analytical tools and indicators, from the perspective of market and macro-prudential surveillance as well as the relative value of including the given indicator in future OECD reports on *Global Insurance Market Trends*, where:

● Supervisory and/or market surveillance refers to the monitoring of performance and risks among specific firms and/or groups of firms for the purposes of identifying potential idiosyncratic risks to the financial soundness of individual firms or groups of firms.

● Macro-prudential surveillance refers to the monitoring of performance and risks across the sector for the purposes of identifying potential systemic risks to the broader financial system. In providing a rating of the relative value of a given indicator for surveillance purposes, the respondents were asked to select one of the following four categories:

● "Very high" indicating that the indicator is monitored regularly and considered a crucial indicator For surveillance purposes on a continuous basis.

● "High" indicating that the indicator is often monitored and considered an important indicator For surveillance purposes under certain market conditions.

● "Low" indicating that the indicator is monitored occasionally and considered of potential value Under some market conditions.

● "Very low" indicating that the indicator is rarely monitored.

RISK MANAGEMENT

Insurance Risk Management is the assessment and quantification of the likelihood and financial impact of events that may occur in the customer's world that require settlement by the insurer; and the ability to spread the risk of these events occurring across other insurance underwriter's in the market. Risk Management work typically involves the application of mathematical and statistical modelling to determine appropriate premium cover and the value of insurance risk to 'hold' vs 'distribute'. Risk management is structured approach to managing uncertainly related to a threat, through a sequence of human activities including: risk assessment, strategies development to manage it, and mitigation of risk using managerial resources.

The approach of risk management include :

- Transfer risk to another party
- Avoid the risk
- Lessen the harmful effect of risk
- Bearing some part or all loss/cost/consequence of the risk

Some conventional risk managements are focused on risks curtailing from material or legal causes (e.g. natural disasters or fires, accidents, death and lawsuits) while Financial risk management focuses on risks that can be managed using traded financial instruments. The objective of risk management is to reduce different risks related to a preselected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organization and politics. On the other hand it involves all means available for humans, or in particular, for a risk management entity (person, staff, and organization). If we talk about perfect model of risk management, it says first prioritize the risk and then handle the risk with greatest loss plus greatest probability first and risk with lower loss and probability of occurrence later in descending order. As per now the process seems very simple but in practice the process can be very difficult. The main point of confusion will come while prioritizing the risk with its probability in a case like balancing between risks with a high probability of occurrence but lower loss versus a risk with high loss but lower probability of occurrence.

Sometimes an organization ignores a risk which has a 100% probability of occurring. The organization does so due to lack of ability to identify that risk. The happening of any such mistake is a risk for organization itself.

There are certain types of intangible risks always attached like lack of knowledge gives rise to a knowledge risk. An ineffective association gives rise to relationship risk. Process-engagement risk may be an issue when ineffective operational procedures are applied. These risks directly reduce the efficiency of knowledge human resources, decrease cost effectiveness, productivity, service, excellence, status, brand value, and income worth. Intangible risk management permits risk management to generate instant worth from the recognition and reduction of risks that reduce efficiency.

Risk management also counters problem in assigning assets. The mistake in allocation of resources gives rise to opportunity cost i.e. resources spent on risk management could have been spent on more profitable activities. Thus if the cost of managing risk exceeds the cost from loss, utilizing the risk management tool itself becomes a risk for organization. Thus a perfect model of risk management should characterize with minimum expenses and maximum risk mitigation.

Risks in General Insurance business

Players in the general insurance business are likely to be exposed to varieties of financial and non-financial risks like capital risk, enterprise risk, asset liability management risk, insurance risk, operating risk and credit risk arising out of the nature of business and the socio economic environment in which they operate.

Financial risk Insurance business basically being financial business in nature attracts financial risks in the forms of capital structure risk, capital (in)adequacy risk, exchange rate risk, interest rate risk, investment risk, underwriting risk, catastrophic risk, reserve risk, pricing risk, claims management risk, reinsurance risk, policy holders and brokers risks, claims recovery risk and other debtors risk. Insurance business undertakes various plans to manage the financial risk by adopting techniques like interest rate hedging and reserving determined through financial modeling with the inherent 'model risk' given that such financial models may fail to predict the real outcomes within an acceptable range of error.

Risk management mechanism in general insurance adopted by the insured in the general insurance business broadly takes the form of 'enterprise risk management', whereas that of the insurer broadly assumes the 'risk based capital management' and 'reserving'.

Risk management mechanism adopted by the insured

It is of utmost importance for any organization to minimize its exposure to risk of loss arising out of unforeseen events like the natural calamities, earthquake, flood, fire, theft, and so on. To ensure that a risk minimization and mitigation mechanism is in place that the insured need to go for an effective risk management drive. The technique available to the insured for such risk management is known as the enterprise risk management.

- Enterprise Risk Management (ERM)

ERM is the process of planning, organizing, leading, and controlling the activities of an organization in order to minimize the effects of risk on an organization's capital and earnings. As regulators and markets around the world judge companies on their risk management effectiveness, ERM is rapidly becoming a standard industry practice for managing risk.

Scope of enterprise risk management:

Enterprise risk management takes a vast field of loss possibility and breaks it down into a number of more manageable categories. Apart from the core financial risks inherent to the business, enterprise risk for an insured may be classified into strategic risk and operational risk as described below: A. Strategic risk Strategic risk occurs based on corporate decisions that have an impact over time. Growth strategy, executive decision making, mergers and acquisitions, and approaches to capital management are all areas of strategic risk. The very act of strategic planning represents an attempt to manage strategic risk, but such efforts can be greatly enhanced by an enterprise risk management approach. A simple example of strategic risk is the entrance by a player into a new product line with inadequate operational expertise. The failure to anticipate the strategic moves of competitors is itself a strategic risk. Strategic risk management may include risk-adjusted pricing, capital budgeting, hedging, investments, and risk-adjusted performance measurement through the creation and use of financial reporting systems. B. Operational risk Operations refer to all the activities of a company in their day to day activities. Operational risk arise out of activities that may hinder or bring a company's operations to a halt such as natural disasters, labour problems, fraud perpetrated from within the company, and data problems. In India, there is an increasing awareness of the need to manage operational risk as it is intimately related to the other areas of risk.

Components of ERM strategy:

The components of ERM strategy include planning, risk tracking and reporting, implementation and the tools of ERM implementation. The components are described as follows:

A. Planning:

Irrespective of the company's strategy to hire a risk management team, outsource enterprise risk management, or simply work with a team of current employees; ERM begins with an audit of an organization's potential liabilities with special attention to their severity. This risk plan is reviewed periodically and adjusted in the light of changing conditions and ongoing risk management efforts. Another element of planning is to define a company's risk tolerance and propagate it to decision makers throughout the enterprise. If a risk is highly unlikely and not particularly severe, it may be just left alone.

B. Risk tracking and reporting:

Another key element of ERM is to track risks over time to see how well they are being managed and to deal with the trends early. Comparing them to each other is not as important as establishing a baseline that can be tracked across reporting periods. Insured need to continually remind them that just because a risk cannot be effectively quantified or compared to others does not mean it should be discounted or excluded from the ERM plan. Even if the financial impact of a risk is difficult to measure, its occurrence can still be recorded and tracked. After the relative severity and likelihood

of various risks is assessed, a mitigation plan is developed. In other cases, a mitigation strategy for one risk could actually increase the likelihood or severity of another risk, and in such case the trade-off must be examined carefully. While ERM might increase a company's reserve or liability coverage requirements, its goal is to provide the optimum preparation for adverse events. In some cases, an ERM framework will reduce certain costs by reducing the double-counting of risks by previously undertaken risk management efforts. In any case, under ERM a broader variety of risks is likely to be considered.

C. Implementation:

The insured takes into account the objectives, scope, organization, and tools of enterprise risk management to establish an ERM framework and its implementation. For an ERM strategy to be successful, it is important to prioritize the objective according to company needs.

D. Tools:

Some of the specific tools that are important for implementing ERM are:

i. Risk audit guides: These guides can be used for risk mapping of individual risks, risk assessment workshops, and risk assessment interviews. The risk assessment interviews are very effective at uncovering how the business actually works.

ii. Stochastic risk models: Stochastic model is a rigorous mathematical model used to simulate the dynamics of a specific system by developing cause-effect relationships between all the variables of that system. This plays a vital role in quantifying the risk components, its severity and the required risk management efforts to offset the risk.

iii. Risk monitoring reports: These can include regular reports to managers, Boards, and relevant external stakeholders such as the regulators and investors. This may be more formal where the reports are more likely to go to the executive committee and the board of directors and may be informal when such reports are likely to go for frequent adjustment in actions.

RISK MANAGEMENT PROCESS

i. Risk identification:

The risk identification activity broadly involves an in-depth understanding of the industry, the areas and markets it serves, its activities, range of products, social, legal and economic environment in which it operates and other physical and natural hazards associated with the company's operations. Developing and exercising proper checklist for identifying these hazards is part of risk management process. When either source or problem is known, the events that a source may trigger or the events that can lead to a problem can be investigated. For example, major explosion in a mini steel plant may affect business continuity of the unit; the stakeholders withdrawal during a project may endanger funding of the project; fire damage caused to a chemical firm due to missing lightening arrestor may result in major material damage; flood damage to a pump station of irrigation project due to a facility located in a low lying area might delay the project completion schedules; and a delayed or missed inspections may result in failure to identify these factors.

As risk identification process involves identifying the risk factors and evaluating the potential loss that might take place, it is more important for the insured to pay special attention on the following two most important components as contained in the risk identification chart:

A. **Maintenance procedures**: The risk identification procedure must take into account the identification of the nature and extent of maintenance procedures, their regularity and the skills of the technicians undertaking the work. It is equally important to conduct non destructive testing along with the regular maintenance testing. A study of moral factors by means of appropriate interviewing of the people in plant or by observations may be undertaken to obtain multiple indicators of moral hazards in the risk. B. Physical factors: Physical factors are essentially sensory, visual signs of lack of due care and control of the working environment to avoid damage. A clean, tidy and uncluttered work environment not only denotes pride of possession but more importantly, a culture of loss avoidance. Business interruption susceptibility of an organization depends on the kind of service that the organization provides. Thus there is a need to conduct periodic hazard and operability study which will help in detecting any predictable undesirable event by using the imagination of members to visualize the ways of conceivable malfunctioning.

B. Risk Assessment

Once risks have been identified, they must then be assessed as to their potential severity of loss and probability of occurrence, called 'risk quantification'. These quantities can be either simple to measure, in the case of the value of a lost building, or impossible to know for sure in the case of the probability of an unlikely event occurring. The fundamental difficulty in risk assessment is determining the rate of occurrence, i.e., the 'loss frequency'. Proper risk assessment helps the underwriter to apply judgment to the risk by securing material information and by determining the actual conditions.

C. Risk avoidance and risk retention:

Risk avoidance is non-performance of an activity that could carry risk. For example, the risk of potential damage to a control room in a petrochemical complex can be avoided by making the control room blast proof; potential damage by flood to a pharmaceutical warehouse could be avoided by shifting warehouse to a higher elevation. For the insurers, avoidance may seem the answer to all risks; but avoiding risks also means losing out on the potential gain that accepting (retaining) the risk may have resulted in. Not entering a business to avoid the risk of loss also avoids the possibility of earning profits. Risk retention involves acceptance of loss. All risks that are not avoided or not transferred are retained by default. This includes risks that are so large or catastrophic that they either cannot be insured against or the premiums would be infeasible. War is an example since most property and risks are not insured against war, so the loss attributed by war is retained by the insured. Risk retention is a viable strategy for small risks that can be absorbed and where the cost of insuring against the risk would be greater over time than the total losses sustained. True self insurance is risk retention for an insured. For example a large and financially strong firm

may create a self insurance fund to which periodic payments are created. Risk retention pools are technically retaining the risk for the group, but spreading it over the whole group involves transfer among individual members of the group. This is different from traditional insurance, in that no premium is exchanged between members of the group up front, but instead losses are assessed to all members of the group. Risk transfer means causing another party to accept the risk, typically by contract or by hedging. Insurance is one type of risk transfer that uses contracts. Risk transfer takes place when the activity that creates the risk is transferred. Other times it may involve contract language that transfers a risk to another party without the payment of an insurance premium. Liability among construction or other contractors is very often transferred this way. Other examples of risk transfer could be subcontracting a hazardous operation outside the manufacturing facility.

D. Risk reduction and control

Risk improvement and mitigation is an important task of risk management which involves methods that reduce the severity of the loss. For example, the sprinkler system designed to put out a fire to reduce the risk of loss by fire. For the risk reduction, a mitigation plan is prepared. The purpose of the mitigation plan is to describe how this particular risk will be handled and what, when, by who and how will it be done to avoid it or minimize consequences if it becomes a liability. Loss prevention in risk management further aims to eliminate or to reduce these losses.

E. Implementation of the recommendations:

Implementation of the recommendations for risk mitigation should be properly undertaken so as to ensure effective management of risk by the insured.

F. Periodic review of the risk management programs:

Risk is a relative measure and from insurer perspective it is important to map the risk consequence with probability in a risk coordinate system.

Risk management techniques adopted by the insurer

The risk management mechanism adopted by the insurer in the general insurance business broadly falls into two categories: ‘risk based capital management’ and ‘reserving’. It may not be out of context to mention here again that included in the ‘risk based capital management technique’ category are the management role, capital and solvency margins, and risk based capital; and in the ‘reserve’ category of risk management techniques included are the unearned premium reserves, unexpired risk reserves, outstanding claim reserves, incurred but not reported reserves, catastrophe reserves and claims equalization reserve.

Risk based capital management technique

The insurance business, unlike other financial institutions, faces unique challenges in risk management. Assuming the risks of others and guaranteeing the payments of claims based upon

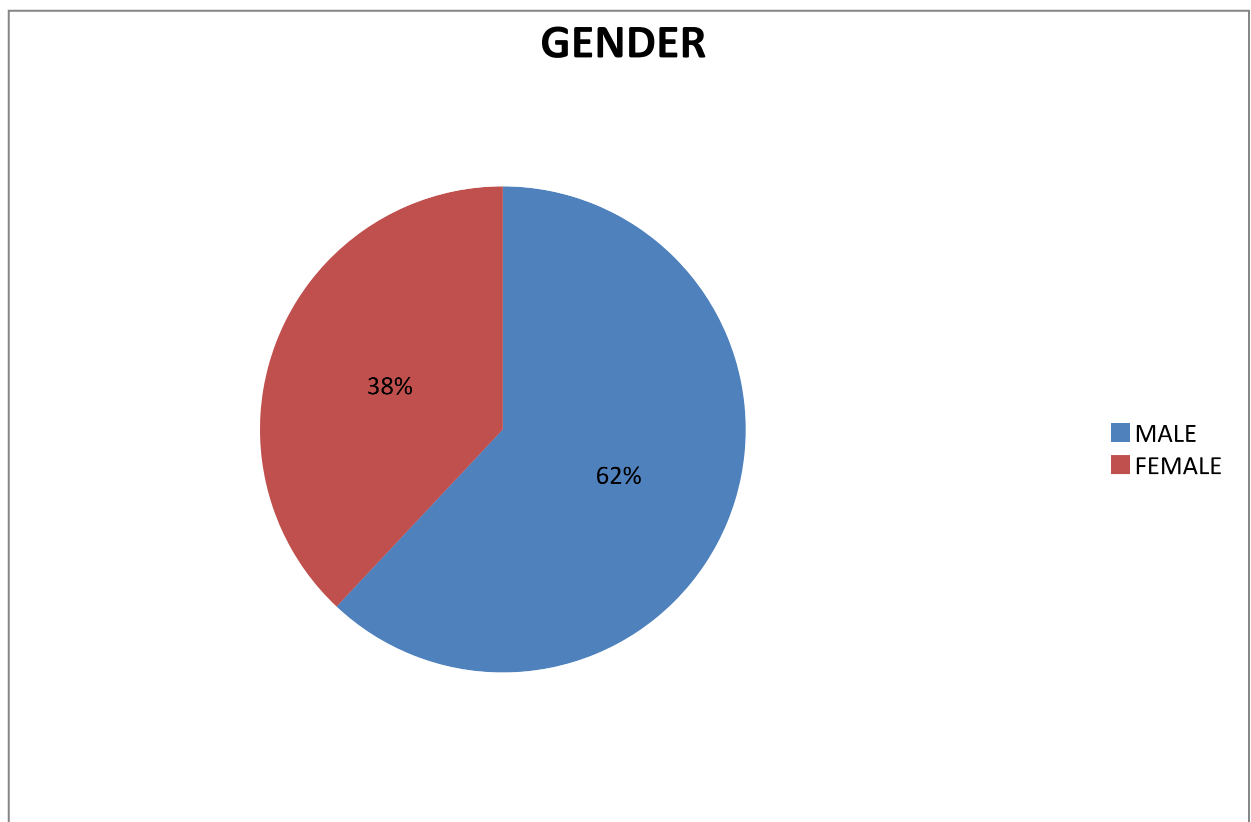
perils that are random and uncertain are the kind of operational risks found as additional and unique to the insurance business over and above any other risks inherent to the financial institutions in general. Though the insurance regulatory authority, i.e., the IRDA, does not undertake the responsibility of risk management of the individual players, it gives greater emphasis on monitoring the conduct of the players in dealing with the risks to protect the interest of the customers. In the context of risk based capital management technique, the role of board of directors and the management is worth mentioning.

PERCENTAGE ANALYSIS

1. GENDER OF THE RESPONDENTS

	Frequency	Percentage
MALE	31	62%
FEMALE	19	38%

Figure 4.1



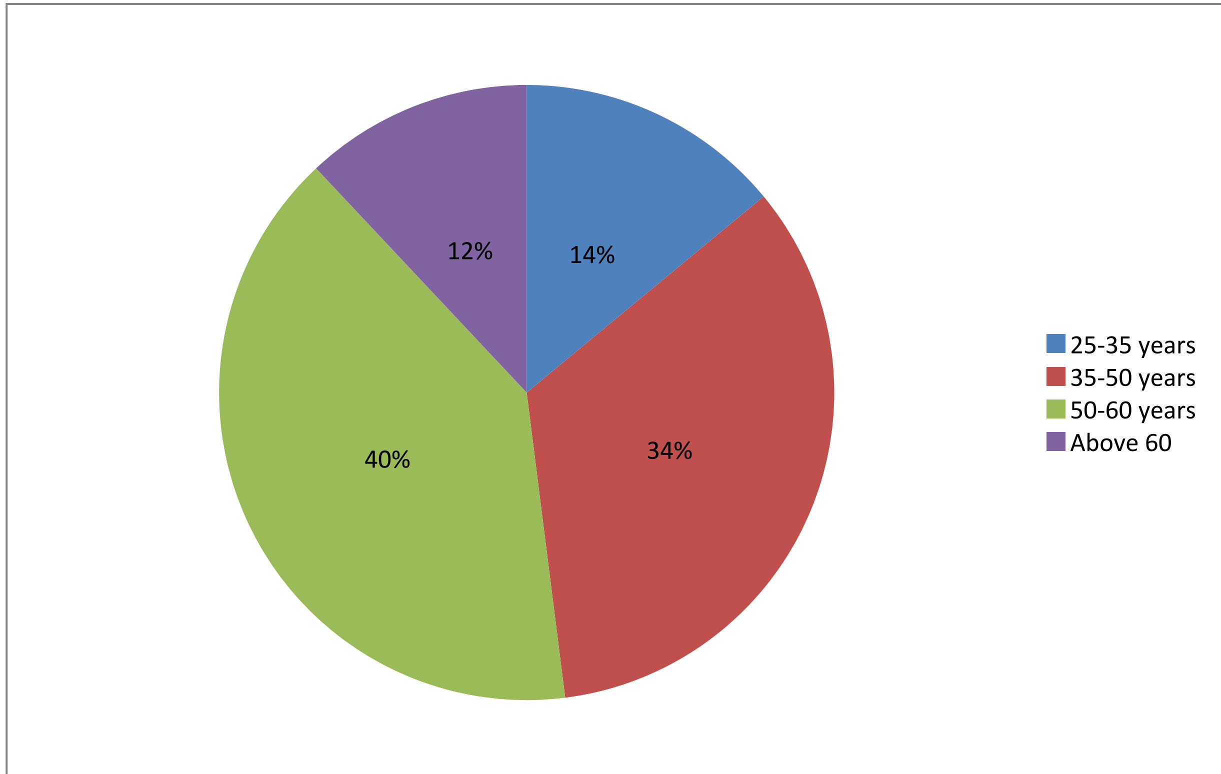
Interpretation:

In the above diagram, we can see that Out of 50 respondents, majority of the respondents are male and remaining are females.

2. AGE OF THE RESPONDENTS

	Frequency	Percentage
25-35 years	7	14%
35-50 years	17	34%
50-60 years	20	40%
Above 60	6	12%

Figure4.2



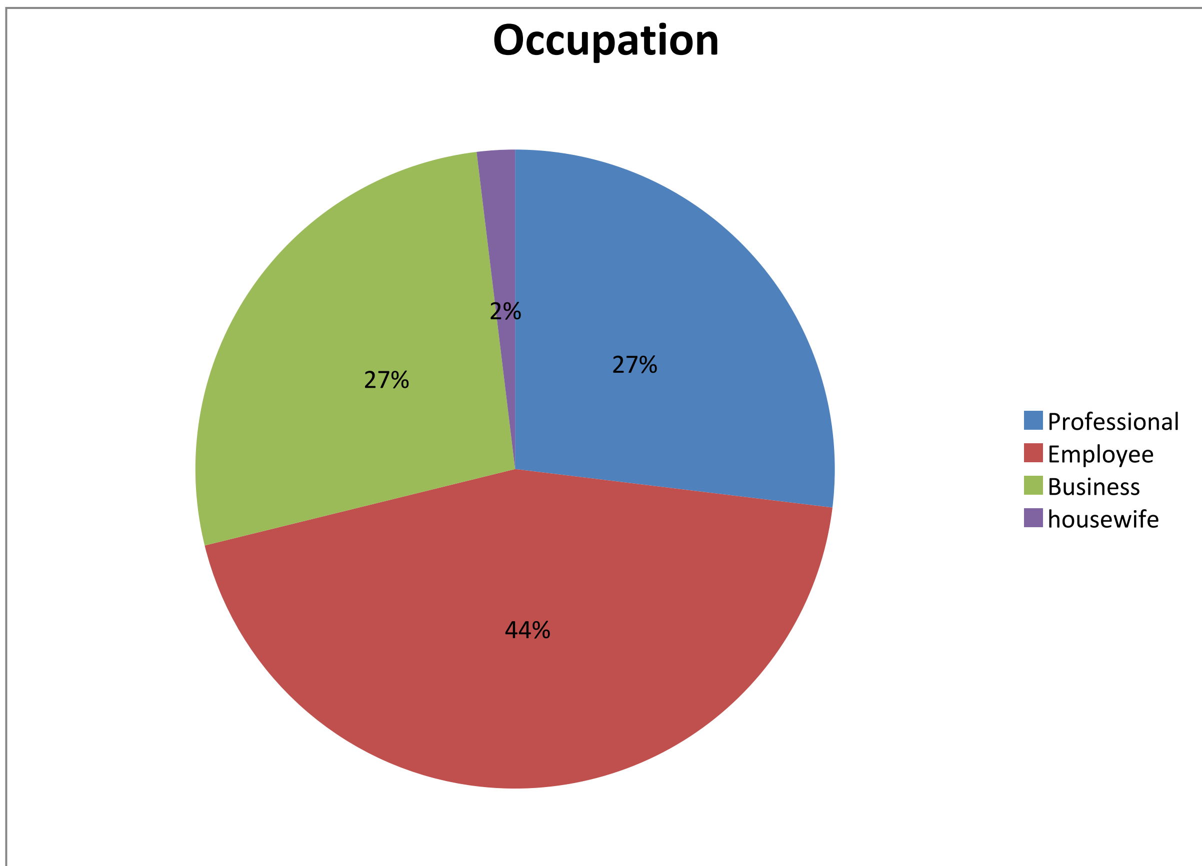
Interpretation:

From above chart, most of the respondents are at the age of between50-60. Out of 50,20 among them are between at the age of 50-60.6 respondents are between the age of above 60 years , 7 respondents are between the age of 25-35 years and 17 respondents are at the age of 35-50 years.

3. OCCUPATION

	Frequency	Percentage
Professional	14	28%
Employee	23	46%
Business	14	28%
housewife	1	2%

Figure 4.3



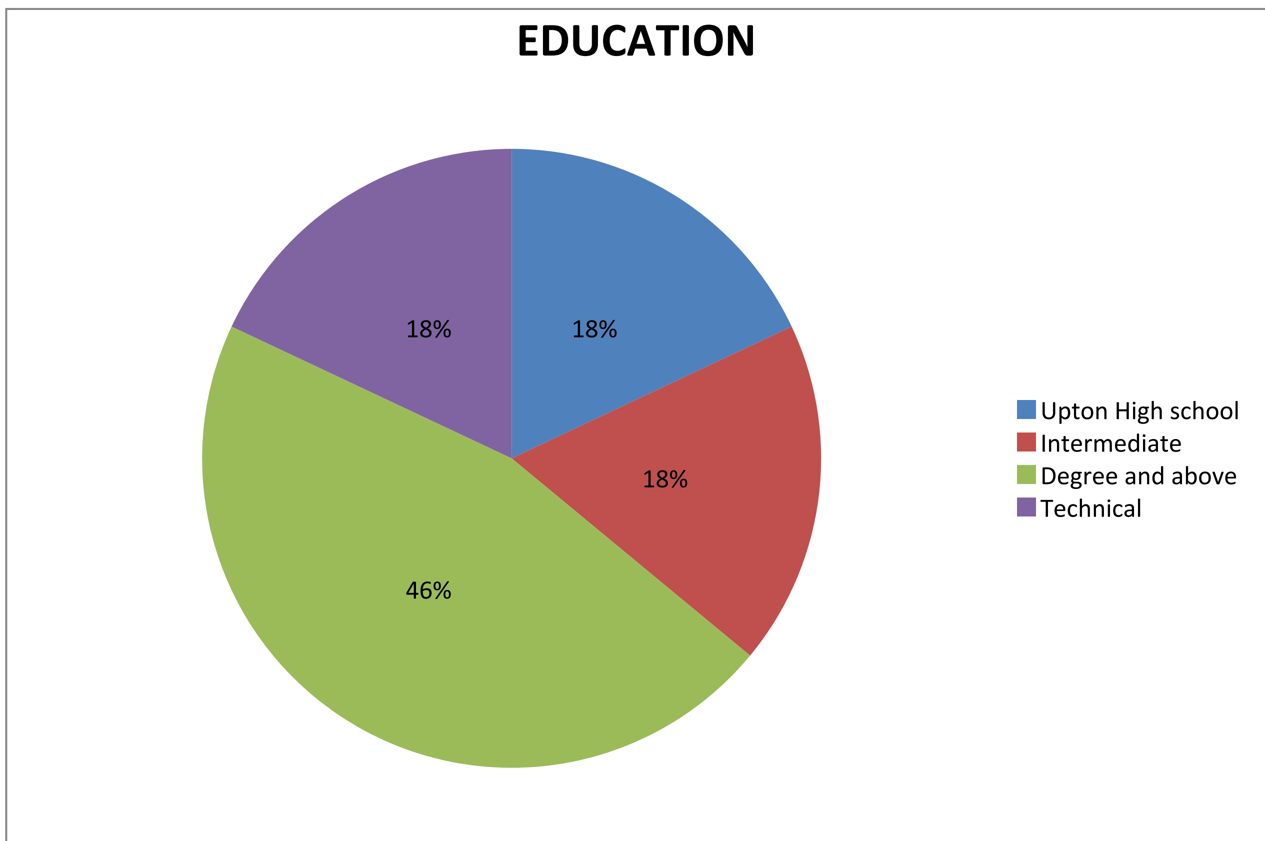
Interpretation:

From the above chart, Out of 50 respondents, maximum respondents belong to Employees, followed by professional and business, and then minimum respondents are from housewife.

4. EDUCATION

	Frequency	Percentage
Upton High school	9	18%
Intermediate	9	18%
Degree and above	23	46%
Technical	9	18%

Figure 4.4



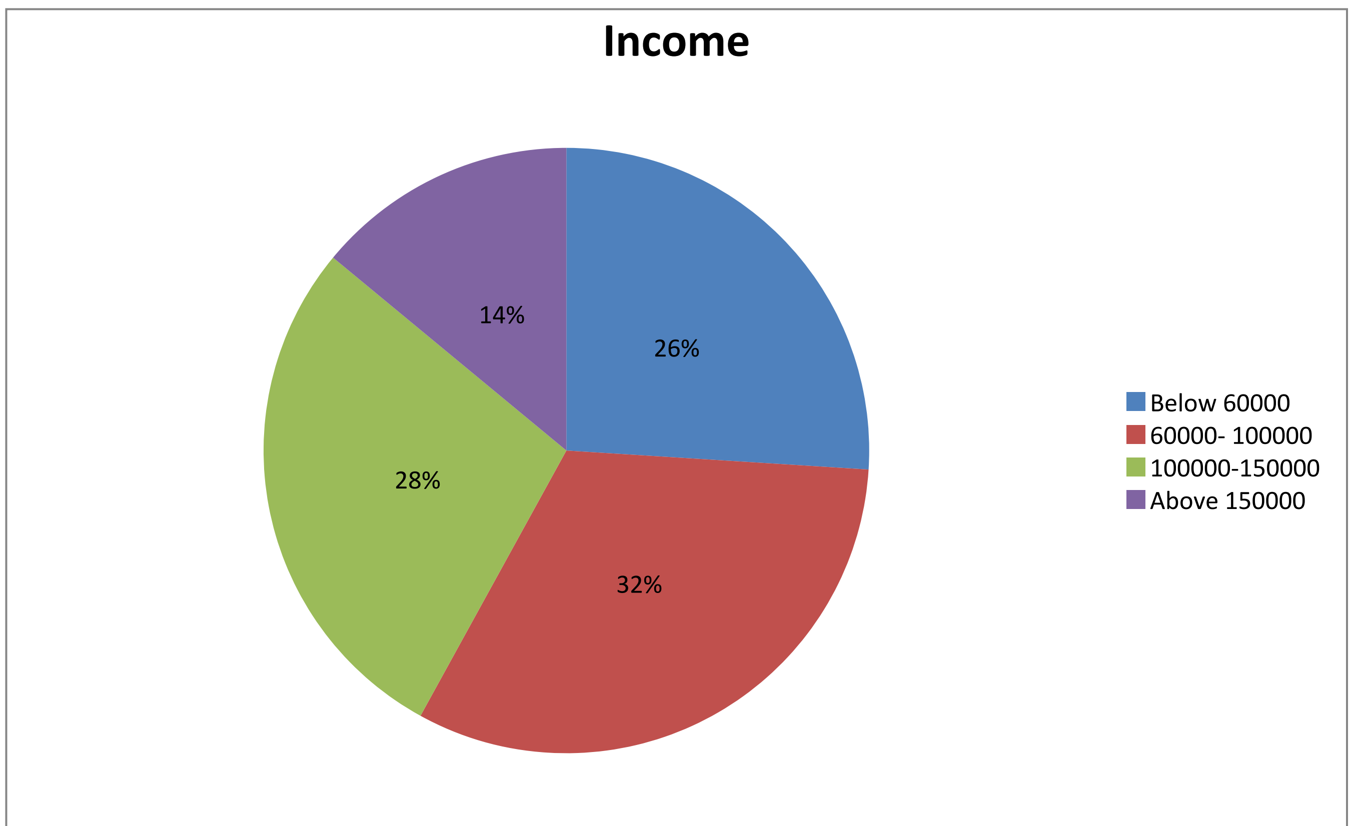
Interpretation:

From this chart , we can understand that most of respondents has the education of Degree and above, followed by equally on Upton High school , Intermediate and Technical education.

5. Income Per Annum

	Frequency	Percentage
Below 60000	13	26%
60000- 100000	16	32%
100000-150000	14	28%
Above 150000	7	14%

Figure 4.5



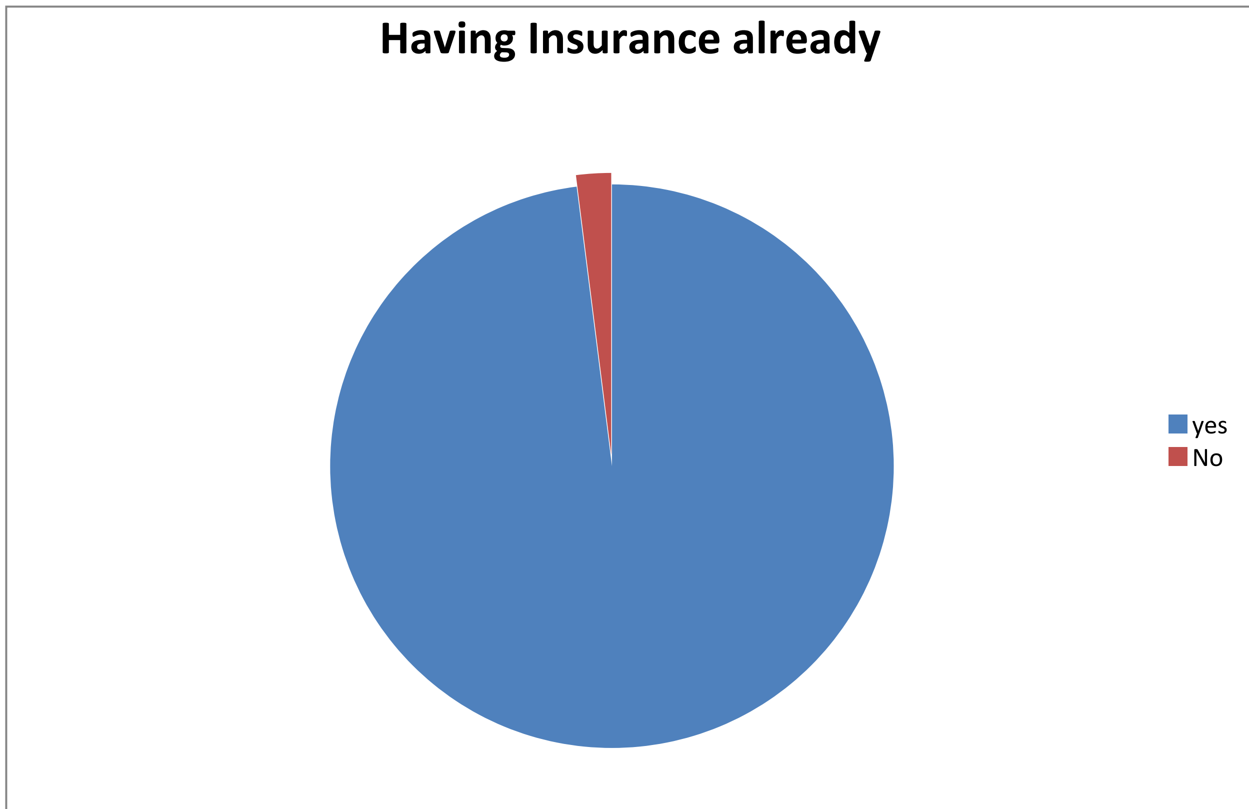
Interpretation:

From this chart, majority of the respondents have the income Between rs.60000-100000, followed by between rs.100000-150000 and below rs.60000 and minimum income has above rs.150000 for respondents.

6. Having Insurance already

	Frequency	Percentage
yes	49	98%
No	1	2%

Figure 4.6



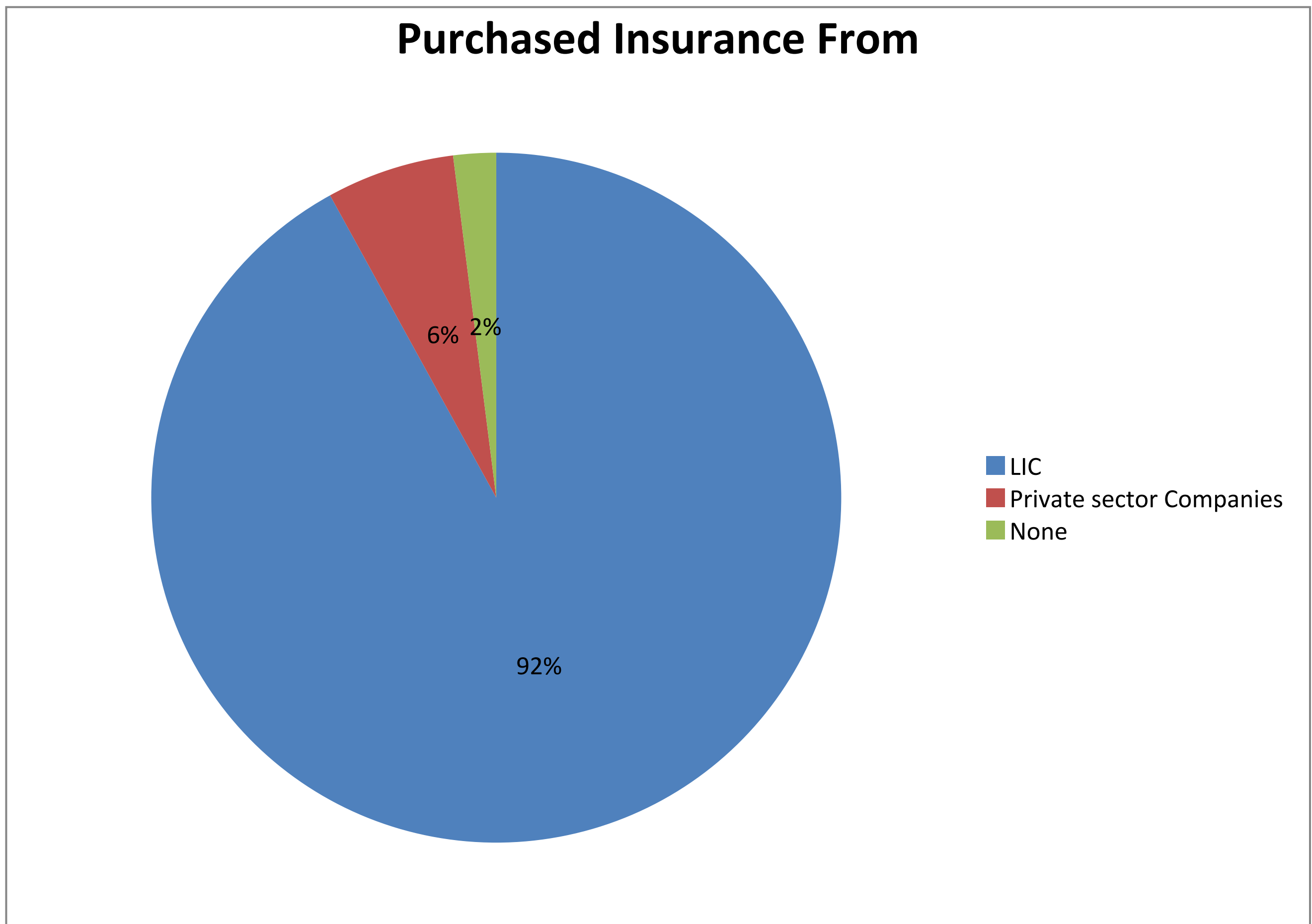
Interpretation:

From above chart, we can infer that 98% respondents already have insurance policies, whereas 2 % does not have insurance policies.

7. Where did you Purchased Policy from?

	Frequency	Percentage
LIC	46	92%
Private sector Companies	3	6%
None	1	2%

Figure 4.7



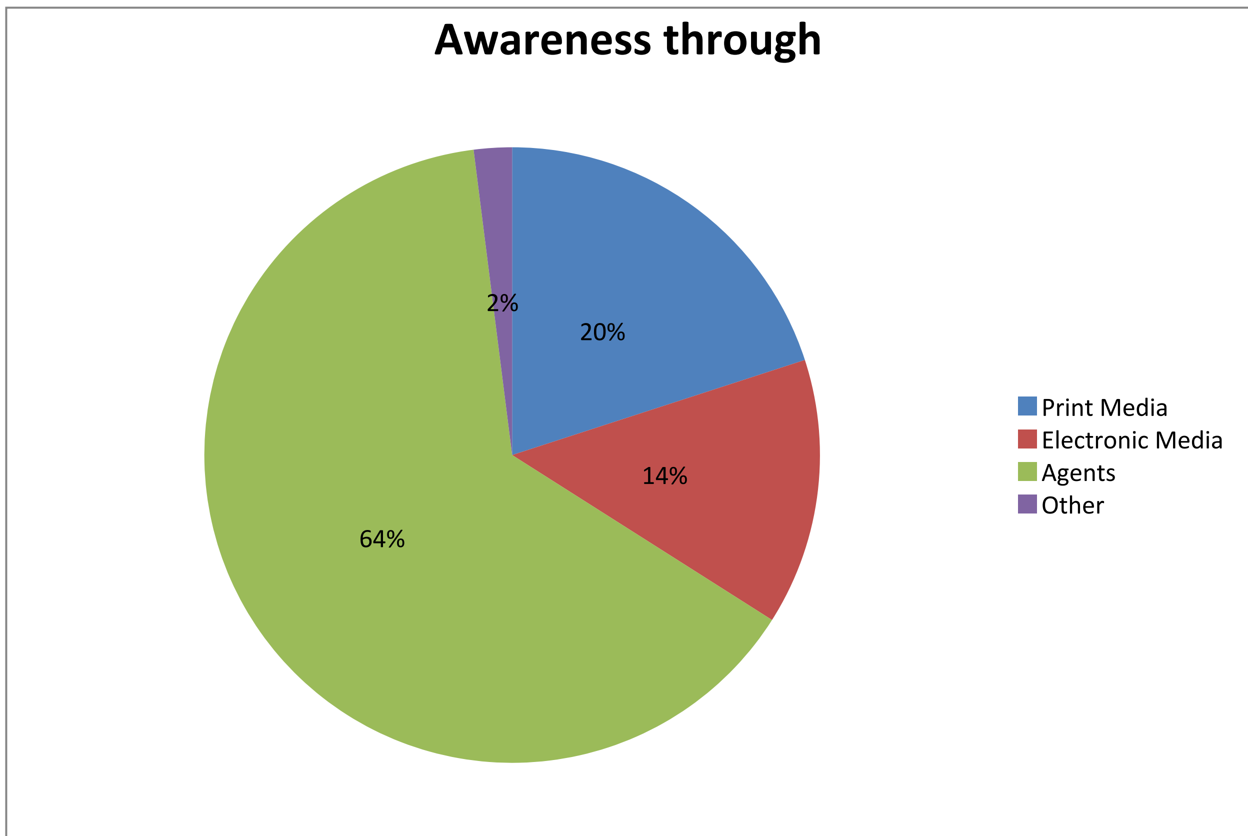
Interpretation:

From this above chart ,we can infer that majority of the respondents has purchased Insurance from LIC Policies and 6% from Private sector Insurance Companies, whereas only 2% of respondents have purchased Insurance from another options.

8. Awareness of Life Insurance through

	Frequency	Percentage
Print Media	10	20%
Electronic Media	7	14%
Agents	32	64%
Other	1	2%

Figure 4.8



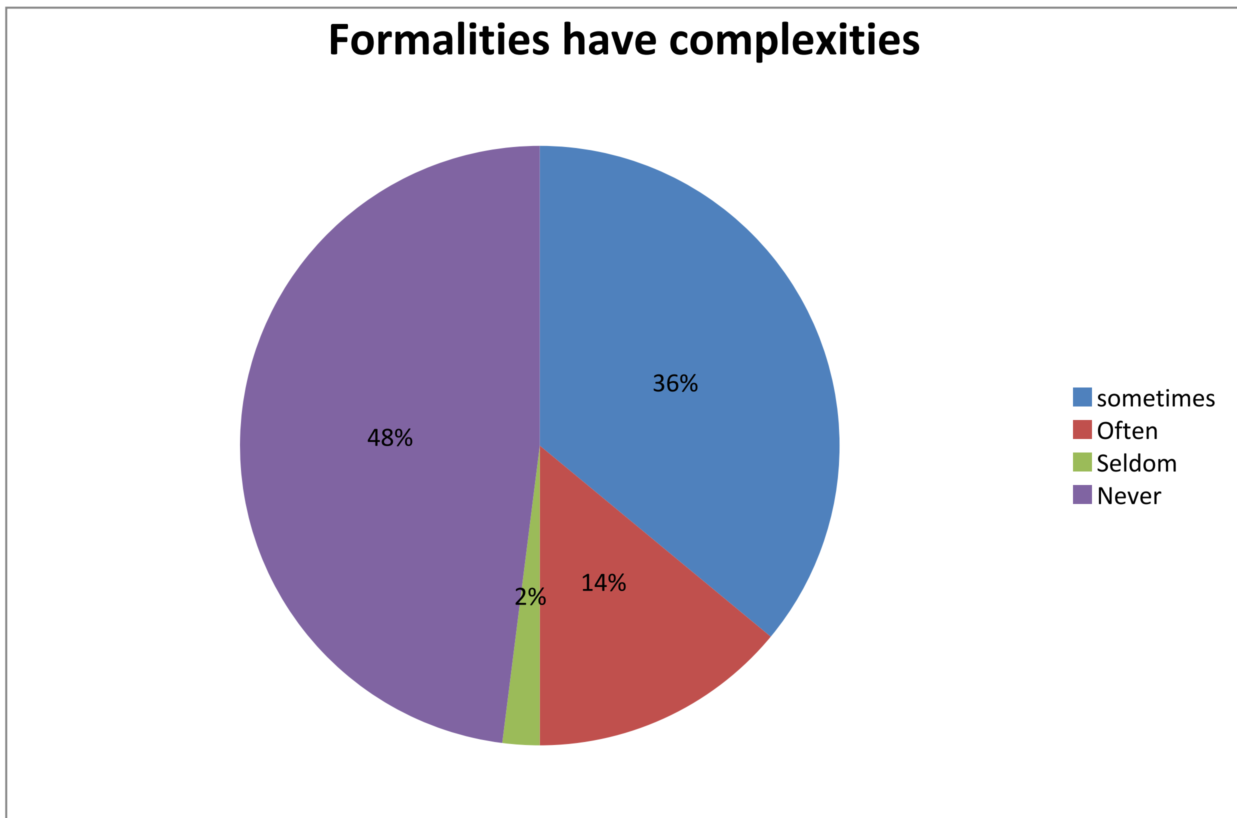
Interpretation:

From this chart we can say that majority of respondents are aware of insurance policies through agents, followed by print media, then electronic media.

9. Formalities for Opening a Policy have Complexities

	Frequency	Percentage
sometimes	18	36%
Often	7	14%
Seldom	1	2%
Never	24	48%

Figure 4.9



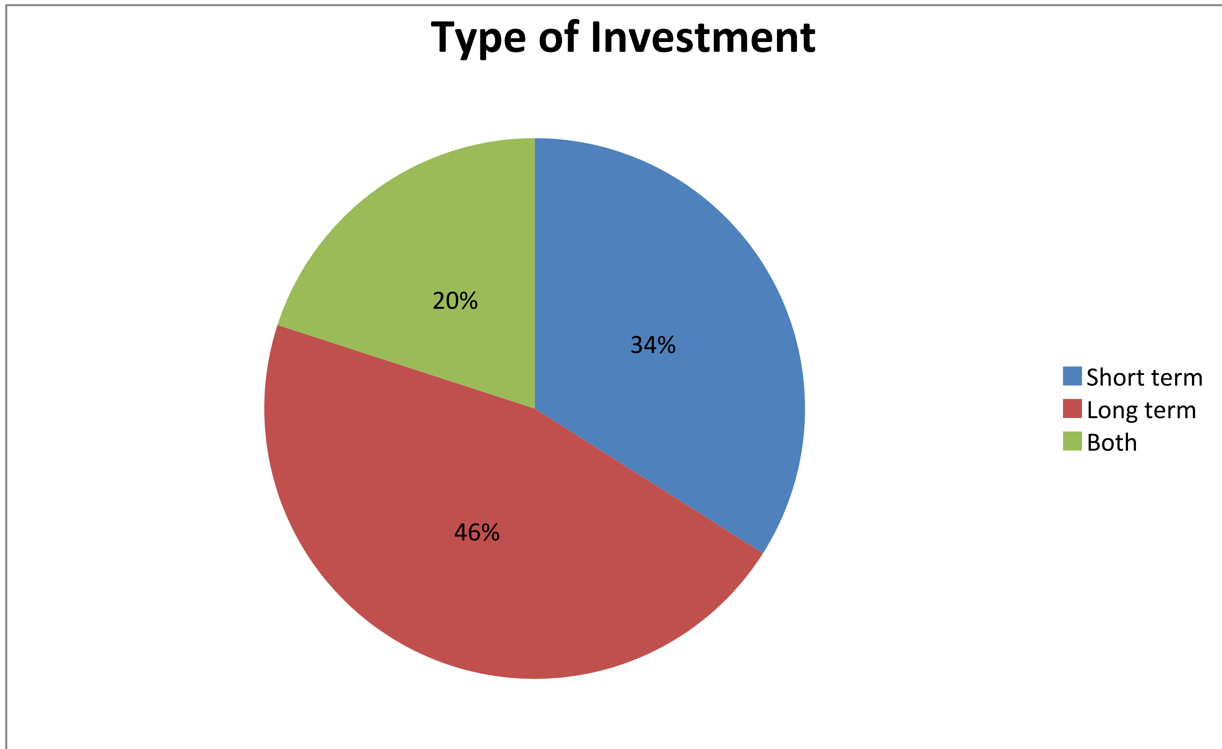
Interpretation:

On the basis above chart, we can infer that most of the respondents doesn't feel that formalities for opening a Policies have too complex, followed by Sometimes and Often, then seldom respectively.

10. Kind of investment Prefer

	Frequency	Percentage
Short term	17	34%
Long term	23	46%
Both	10	20%

Figure 4.10



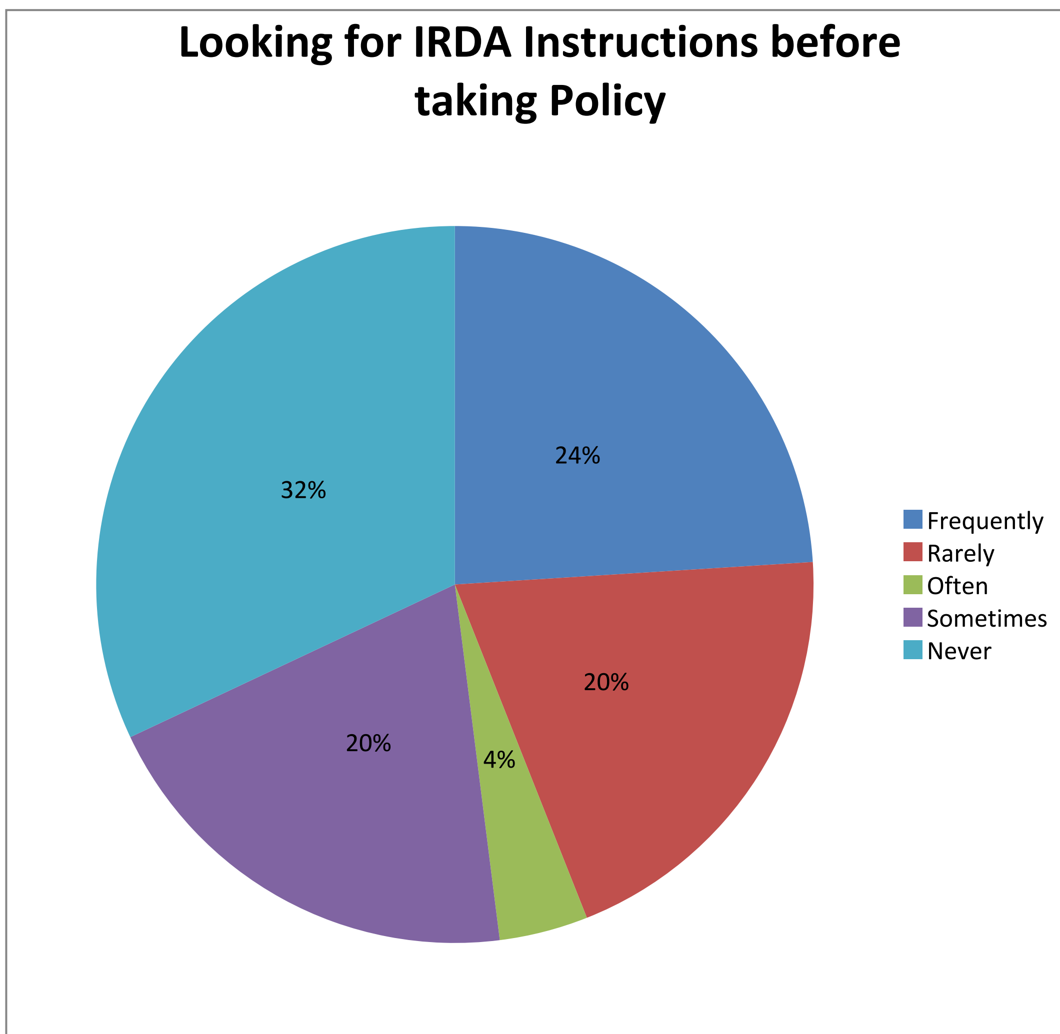
Interpretation:

From above chart, majority of the respondents are prefer to buy Long term Investment Policies, and followed respondents are prefer to buy Short term Investment ,whereas minority of the respondents has prefer both Long term and short term kind of Investment.

11 .Looking For IRDA Instructions Before Taking Insurance Policy

	Frequency	Percentage
Frequently	12	24%
Rarely	10	20%
Often	2	4%
Sometimes	10	20%
Never	16	32%

Figure 4.11



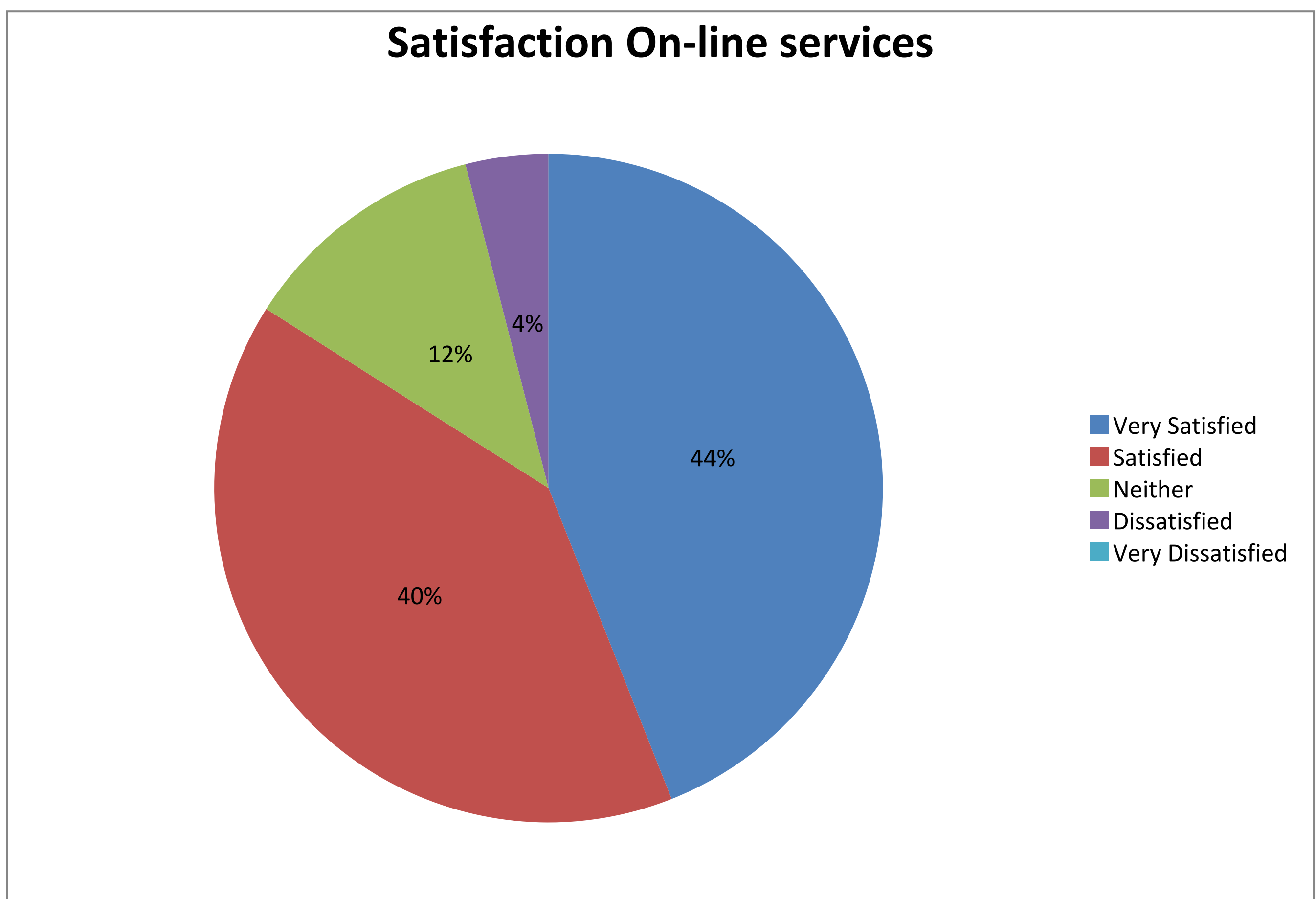
Interpretation:

On the above chart , we can infer that majority of the respondents are doesn't look for IRDA instructions before taking policies, whereas and 24% of respondents are frequently follows the instructions and then minority of the respondents are looking the instructions Rarely and Sometimes.

12. Satisfied with On -line Service Of Insurance companies

	Frequency	Percentage
Very Satisfied	22	44%
Satisfied	20	40%
Neither	6	12%
Dissatisfied	2	4%
Very Dissatisfied	0	0

Figure 4.12



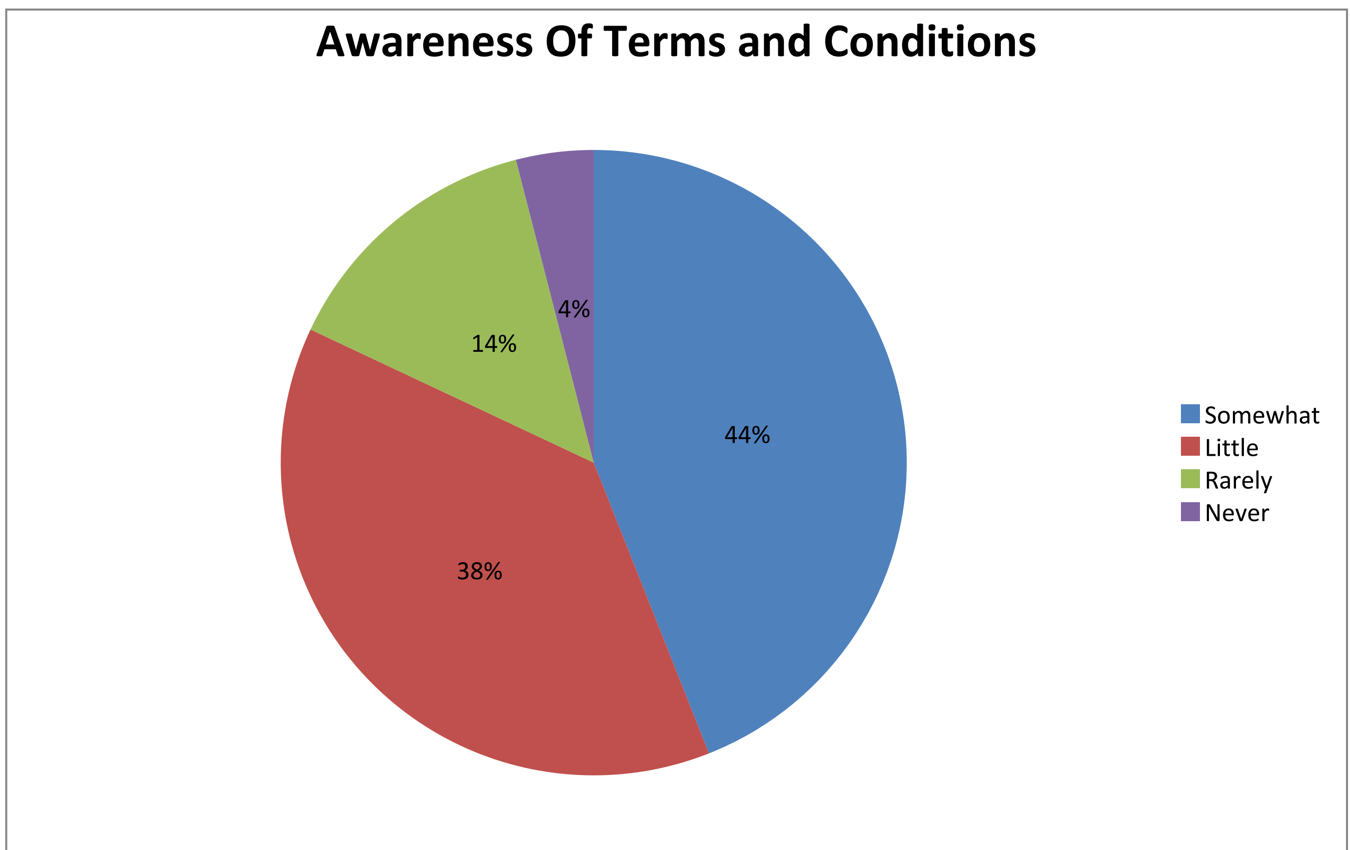
Interpretation:

From the above chart, we can infer that 44% of the respondents are very satisfied with the online services of Insurance companies and 40% of the respondents are also satisfied and 12% of them are satisfied on neither satisfied nor not dissatisfied, whereas 4% are dissatisfied with their Services and no one has been very dissatisfied with the services.

13. Awareness about Terms and Conditions of Policy

	Frequency	Percentage
Somewhat	22	44%
Little	19	38%
Rarely	7	14%
Never	2	4%

Figure 4.13



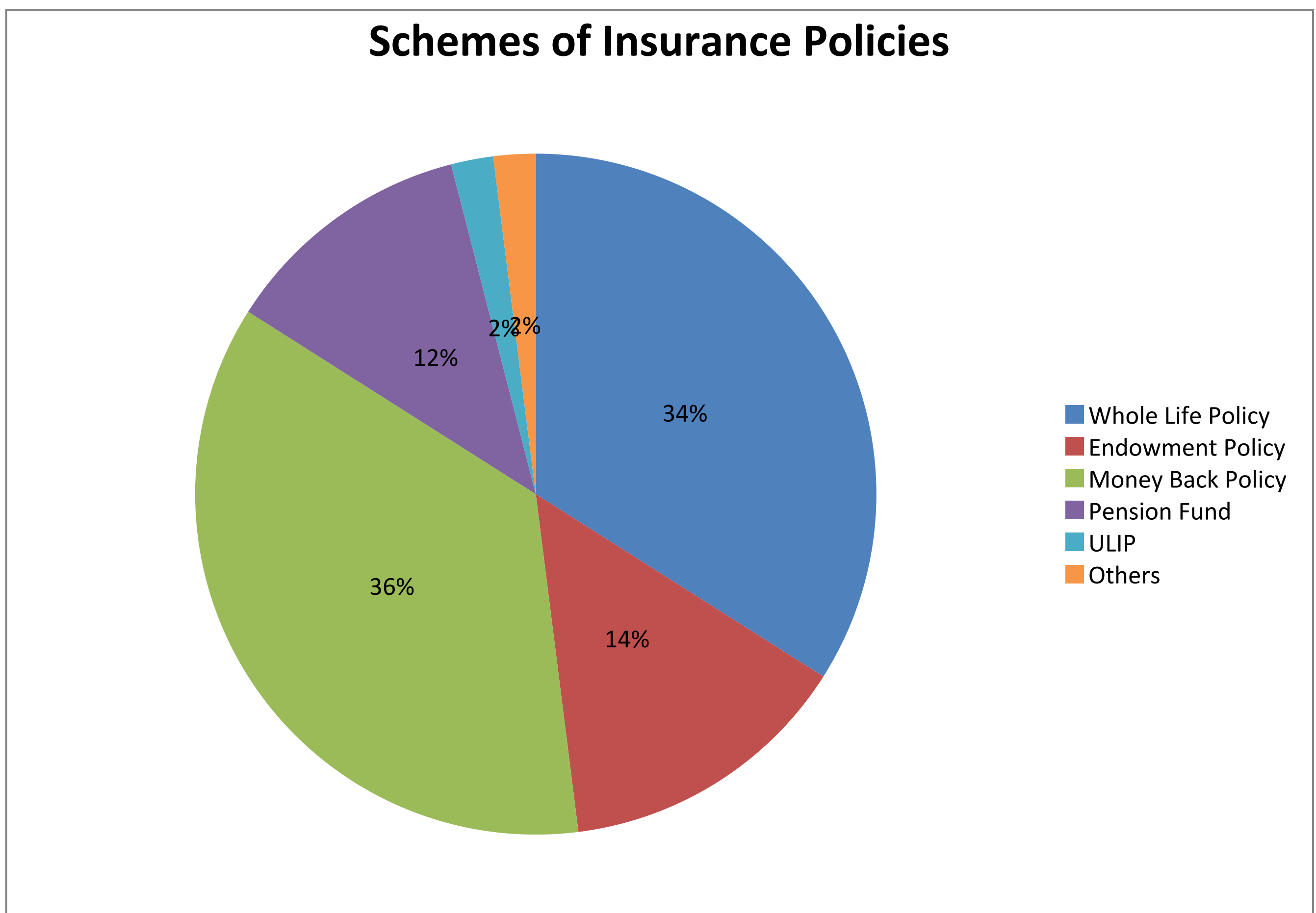
Interpretation:

From the above chart, we can see that majority of the respondents are somewhat aware about terms and conditions of policy , followed by 38% of them has little awareness, whereas 14 % are rarely aware and 4% of them are not aware.

14. Schemes of insurance Policies Has Taken

	Frequency	Percentage
Whole Life Policy	17	34%
Endowment Policy	7	14%
Money Back Policy	18	36%
Pension Fund	6	12%
ULIP	1	2%
Others	1	2%

Figure 4.14



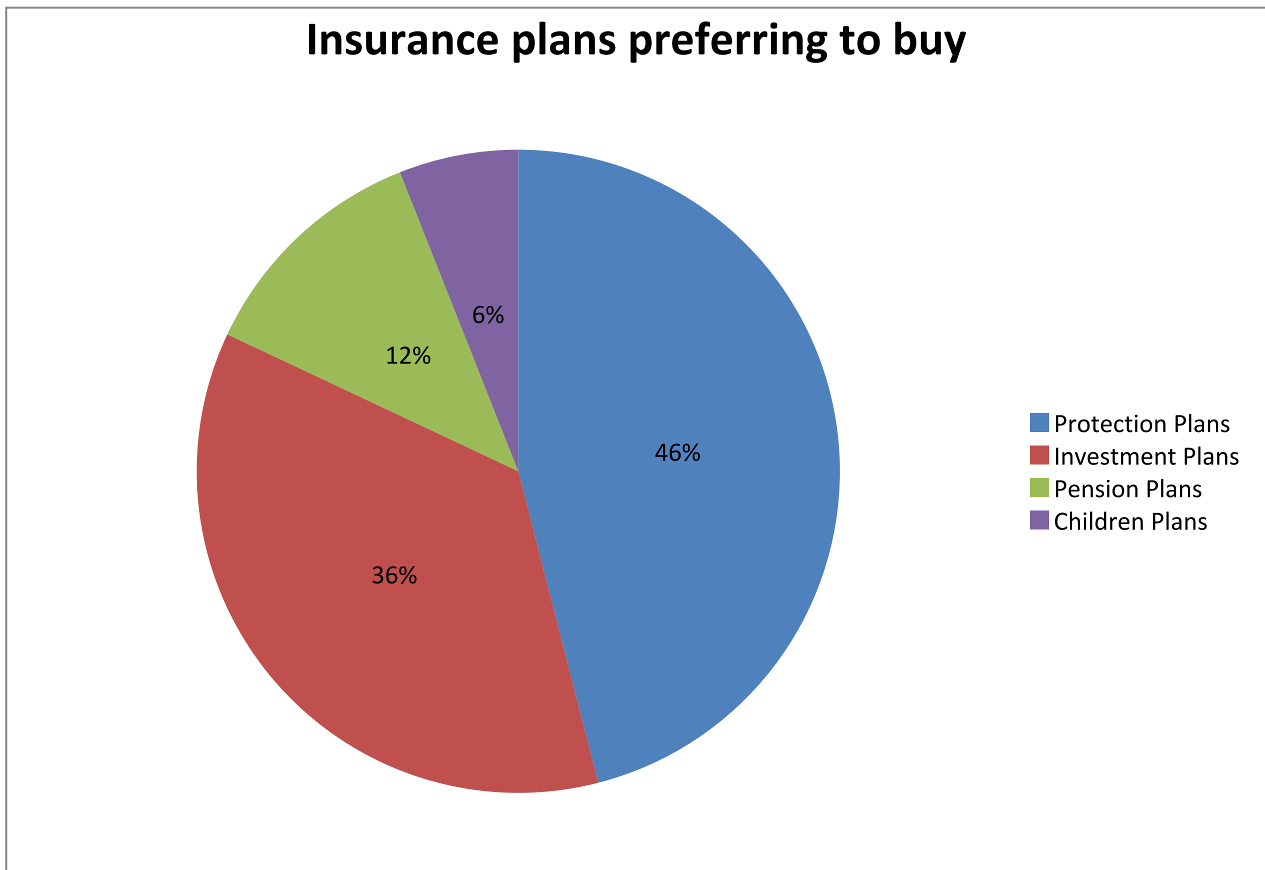
Interpretation:

On the above chart, 36% of the respondents are selected money back policy and 34% of them are whole life policy, followed by 14 % of them are Endowment policy and 12 % are of Pension fund, whereas least oof them are selected ULIP and Other Schemes.

15. Insurance Plans preferring to buy

	Frequency	Percentage
Protection Plans	23	46%
Investment Plans	18	36%
Pension Plans	6	12%
Children Plans	3	6%

Figure 4.15



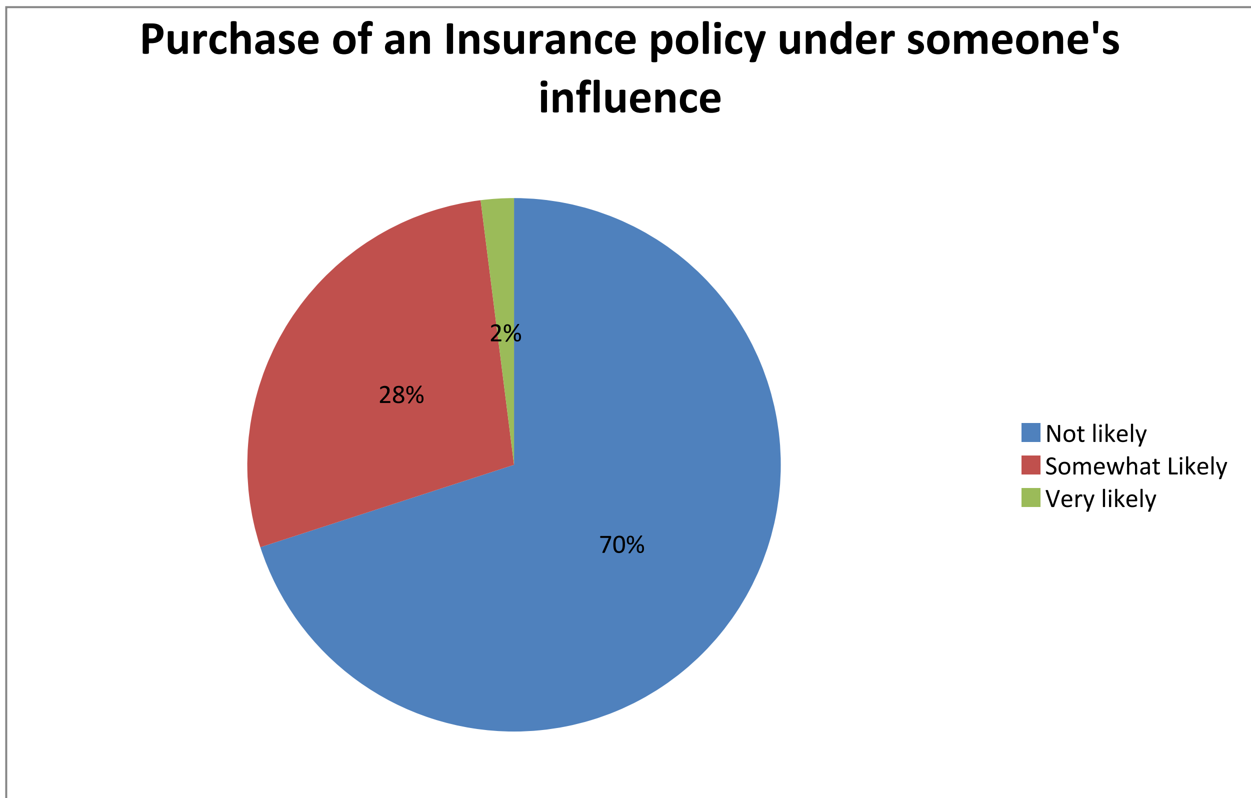
Interpretation:

On the basis of above chart ,we can interpret that protection plans are prefer to buy most of the respondents and followed by investment plans ,whereas pension plans and children plans are prefer to buy are minority of the respondents.

16. Purchase an Insurance policy under someone's influence

	Frequency	Percentage
Not likely	35	70%
Somewhat Likely	14	28%
Very likely	1	2%

Figure 4.16



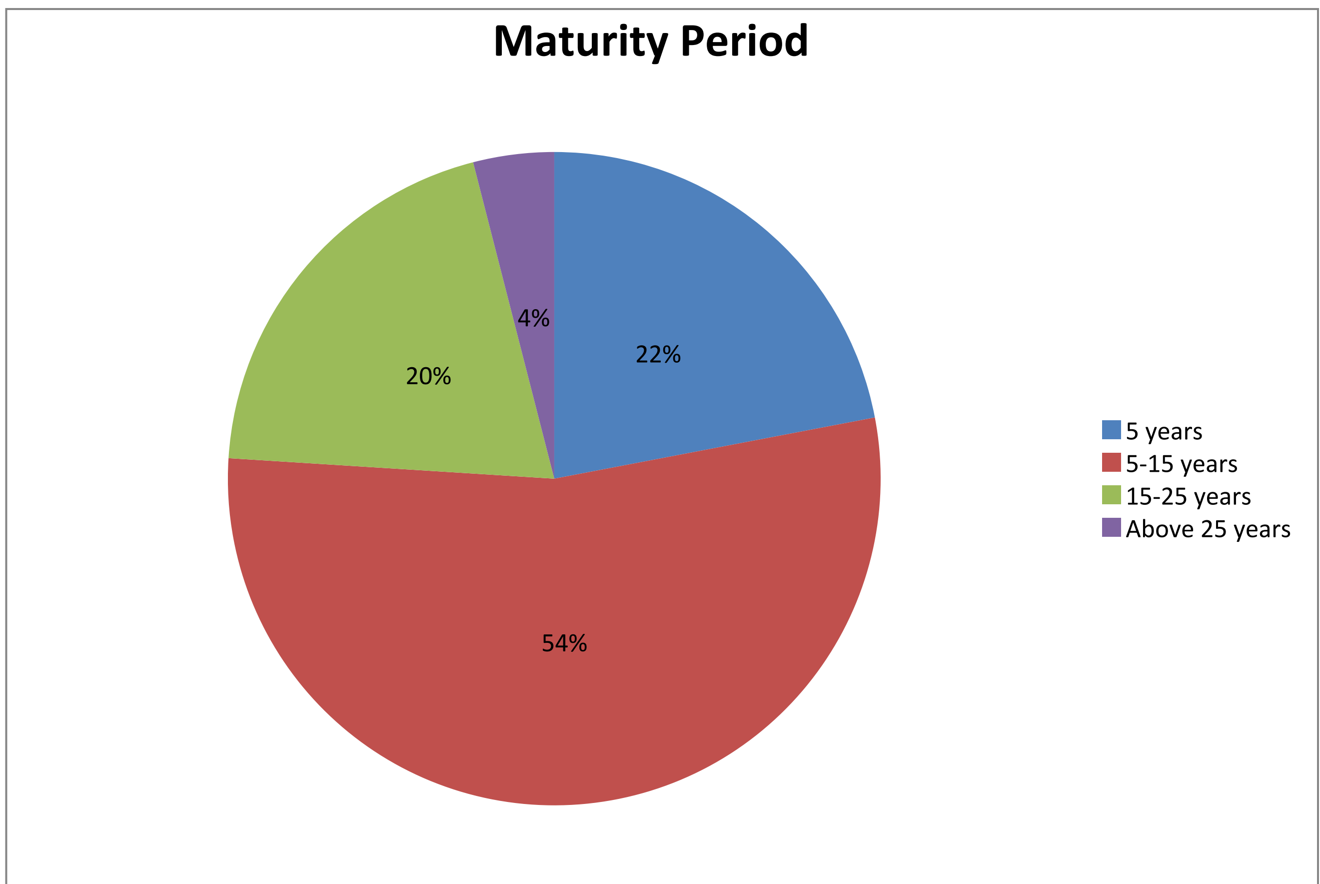
Interpretation:

According to graph out of 50 respondents 70% are not likely to influenced by someone and 28% are somewhat likely to purchase policy by someone's influence and 2% of them are buy insurance due to someone else influence not according to their requirement.

17. Maturity period of the policy has taken

	Frequency	Percentage
5 years	11	22%
5-15 years	27	54%
15-25 years	10	20%
Above 25 years	2	4%

Figure 4.17



Interpretation:

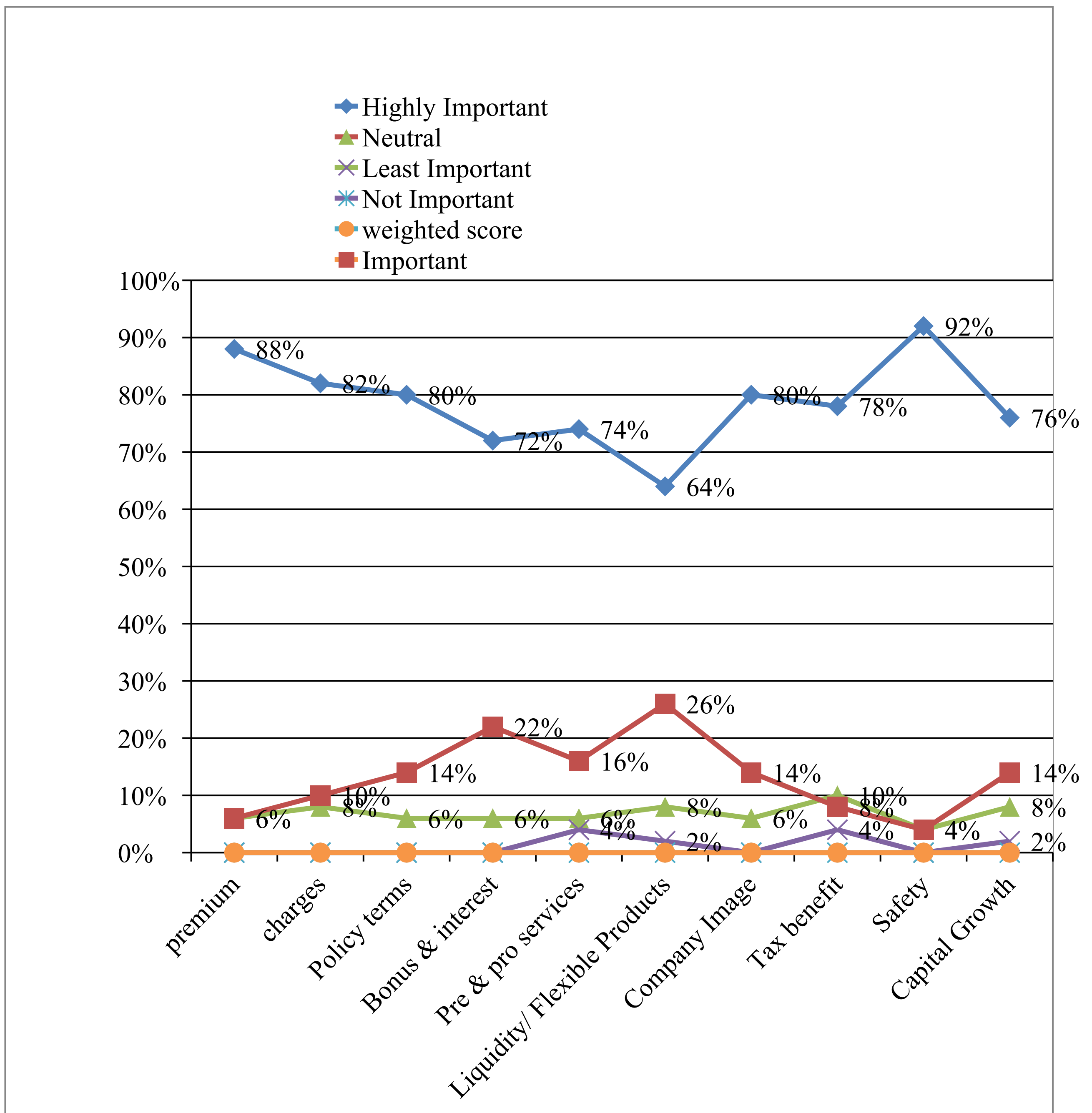
According to graph out of 50 respondents, most of them are taking the policy of above 5 -15 years followed by 5 years respectively, whereas 20% of them are 15-25 years and minority of 4% are above 25 years.

18. Parameters looking at the time of buying policies

In order to understand the factors considered while buying policy from LIC of India, the sample respondents were asked to indicate their opinion on a 5 point rating scale starting from very high to very low. For computing the weighted score ‘ highly important’ was assigned 5 points, ‘important’ has 4 points; ‘Neutral’ has 3 points, ‘least important’ has 2 points and ‘very low’ has 1 point. The weighted score is calculated by multiplying the responses with corresponding frequencies.

Particulars	Highly Important		Important		Neutral		Least Important		Not Important		Weighted Score	Rank
	No	%	No	%	No	%	No	%	No	%		
premium	44	88%	3	6%	3	6%	-	-	-	-	241	2
charges	41	82%	5	10%	4	8%	-	-	-	-	237	3
Policy terms	40	80%	7	14%	3	6%	-	-	-	-	237	3
Bonus & interest	36	72%	11	22%	3	6%	-	-	-	-	233	4
Pre & pro services	37	74%	8	16%	3	6%	2	4%	-	-	230	6
Liquidity/ Flexible Products	32	64%	13	26%	4	8%	1	2%	-	-	226	7
Company Image	40	80%	7	14%	3	6%	-	-	-	-	237	3
Tax benefit	39	78%	4	8%	5	10%	2	4%	-	-	230	6
Safety	46	92%	2	4%	2	4%	-	-	-	-	244	1
Capital Growth	38	76%	7	14%	4	8%	1	2%	-	-	232	5

Figure.4.18

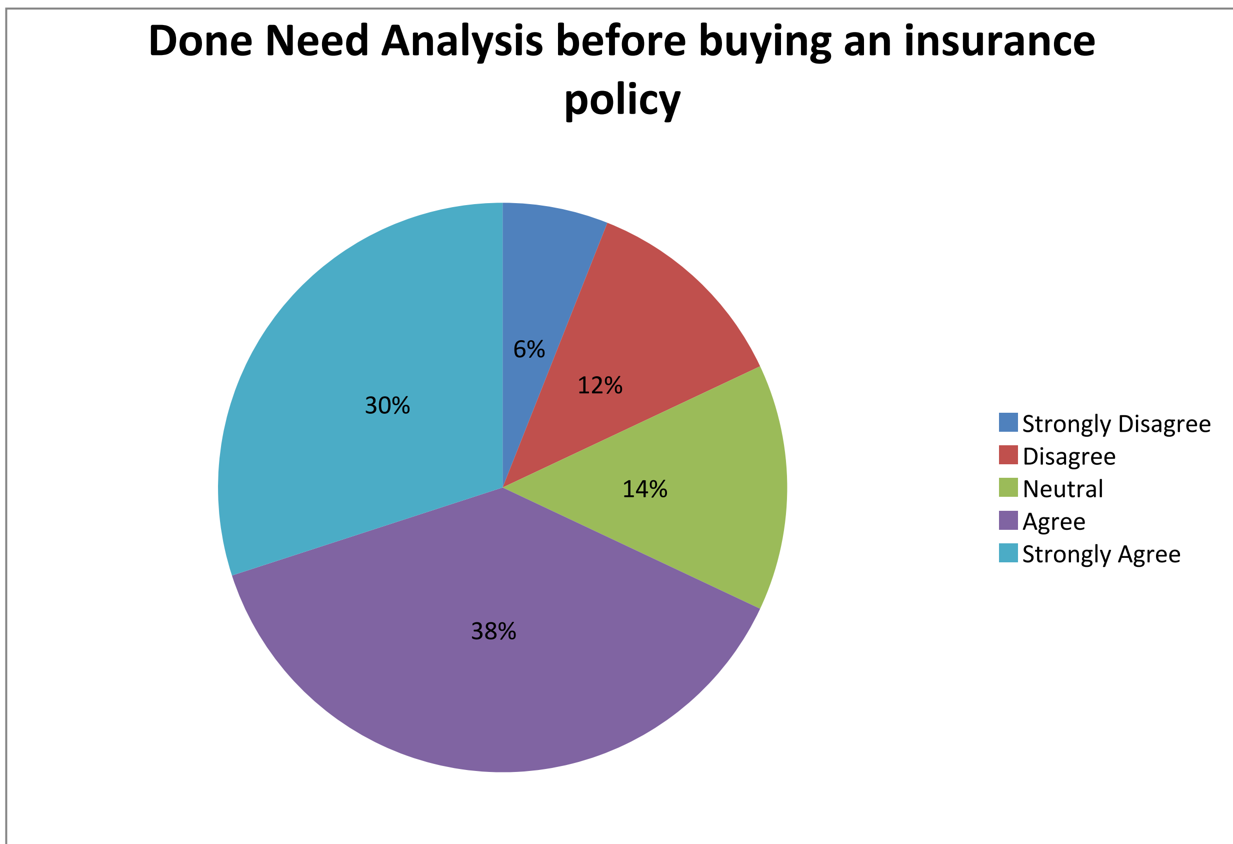


Interpretation: It is evident from the Figure that majority of respondents invest in life insurance for safety , followed by Premium, charges , Policy terms,CompanyImage ,Bonus & interest, capital Growth, Pre & pro services, tax benefit and liquidity or flexible products.

19.” I prefer to do need analysis before buying an Insurance policy”

	Frequency	Percentage
Strongly Disagree	3	6%
Disagree	6	12%
Neutral	7	14%
Agree	19	38%
Strongly Agree	15	30%

Figure 4.19



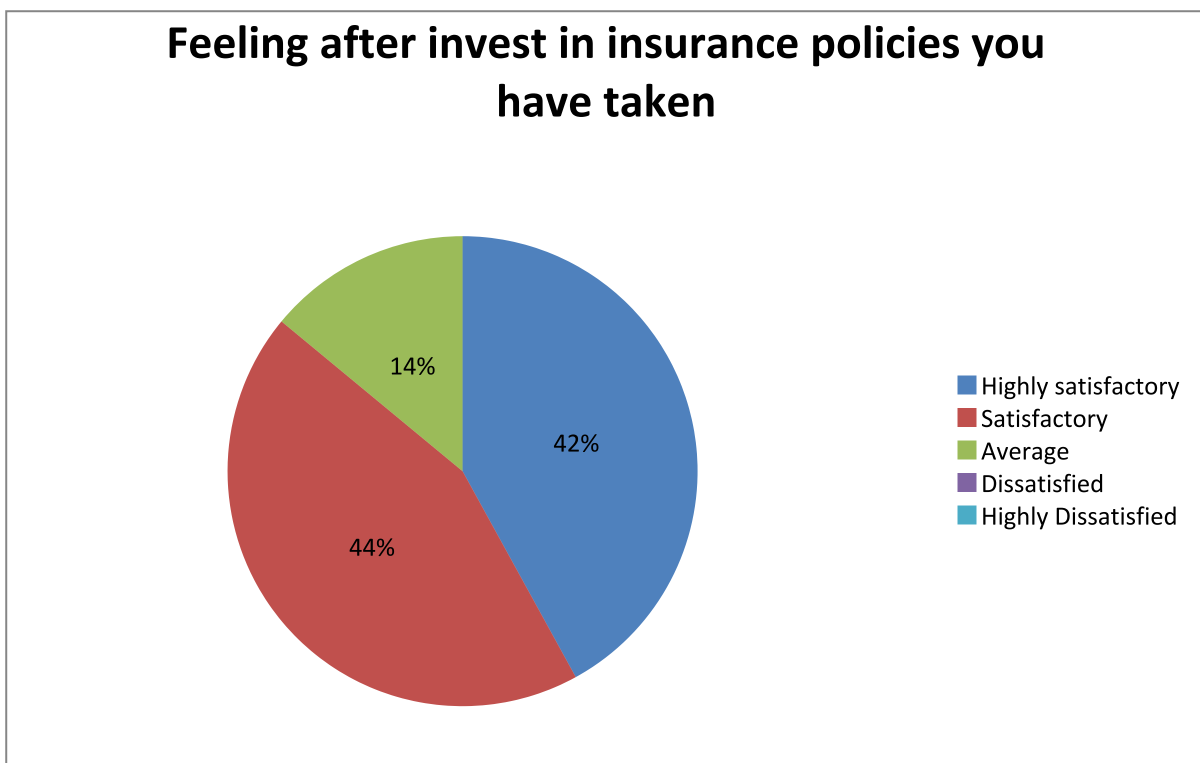
Interpretation:

According to the graph out of 50 respondents majority of customers prefer to do need analysis before buying insurance policies , whereas least number of respondents do not look at their needs before buying an insurance policies.

20. Feeling after invest in Insurance policies you have taken

	Frequency	Percentage
Highly satisfactory	21	42%
Satisfactory	22	44%
Average	7	14%
Dissatisfied	-	-
Highly Dissatisfied	-	-

Figure 4.20



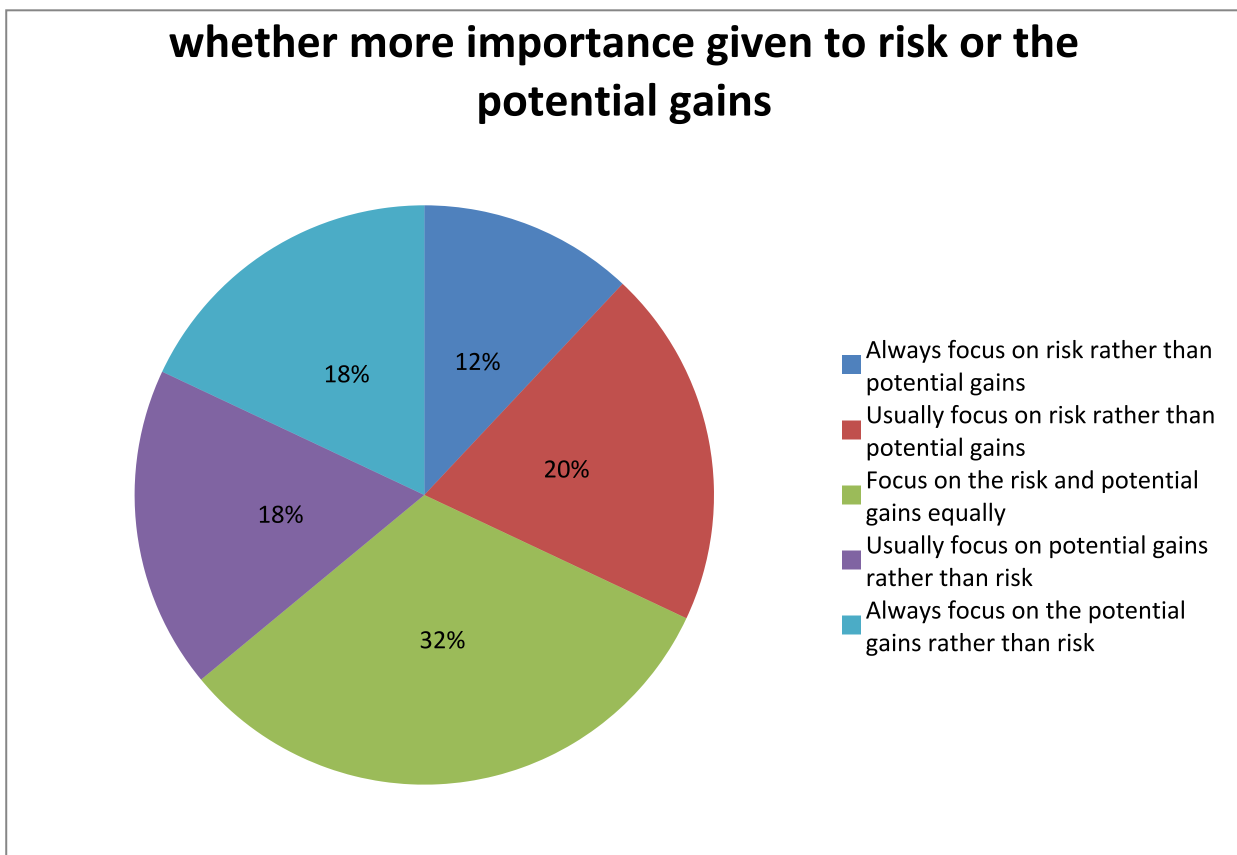
Interpretation:

On the above analysis we can say that most of the respondents are satisfied and highly satisfied with the insurance policies they had bought, whereas only 14% of respondents are selected an average satisfaction and no one is dissatisfied with their investment.

21. Whether more Importance is given to risk or the potential gains

	Frequency	Percentage
Always focus on risk rather than potential gains	6	12%
Usually focus on risk rather than potential gains	10	20%
Focus on the risk and potential gains equally	16	32%
Usually focus on potential gains rather than risk	9	18%
Always focus on the potential gains rather than risk	9	18%

Figure 4.21



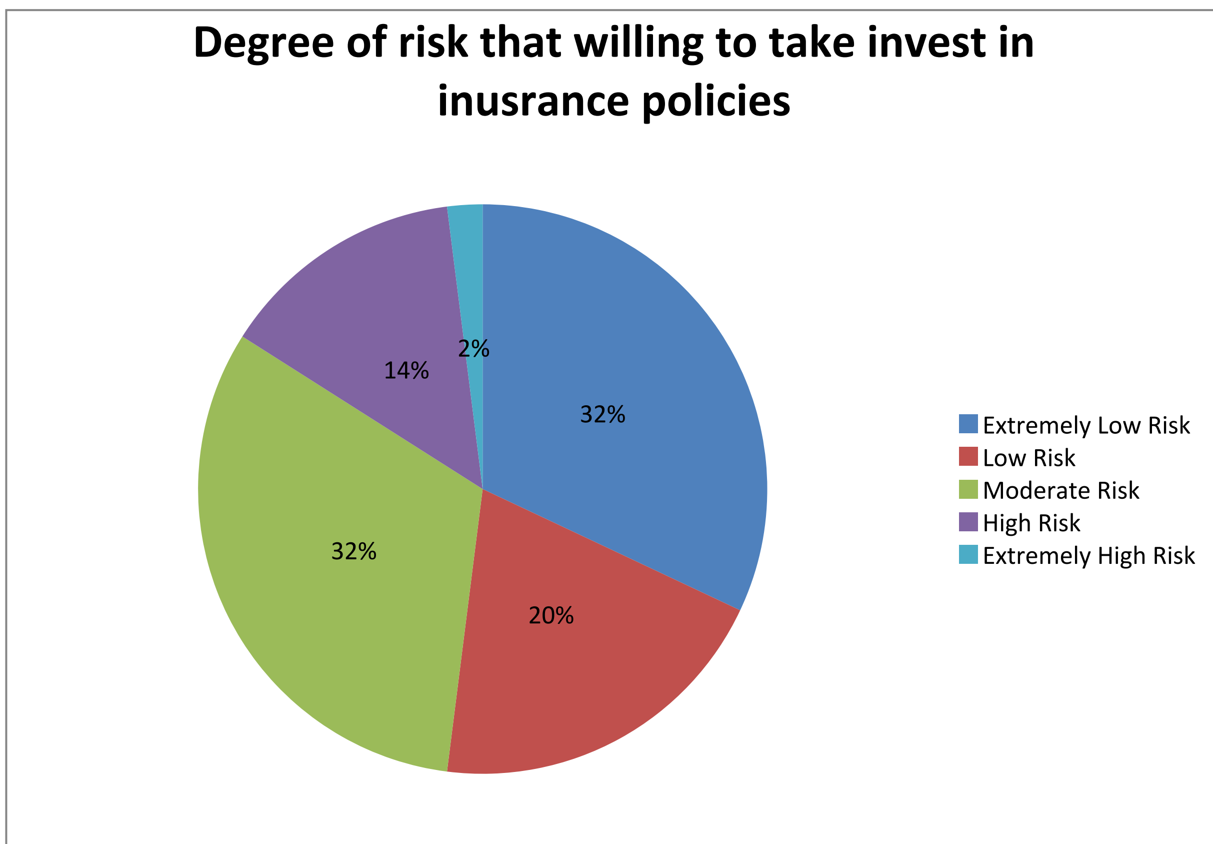
Interpretation:

This Figure depicts that most of the respondents are given more importance to risk and potential gains equally, followed by usually focused on risk rather than potential gains and remaining number of respondents are mostly focus on potential gains rather than risk, whereas only least number of respondents are focused always on risk rather than potential gains.

22. Degree of risk that you are willing to take invest in insurance policies

	Frequency	Percentage
Extremely Low Risk	16	32%
Low Risk	10	20%
Moderate Risk	16	32%
High Risk	7	14%
Extremely High Risk	1	2%

Figure 4.22



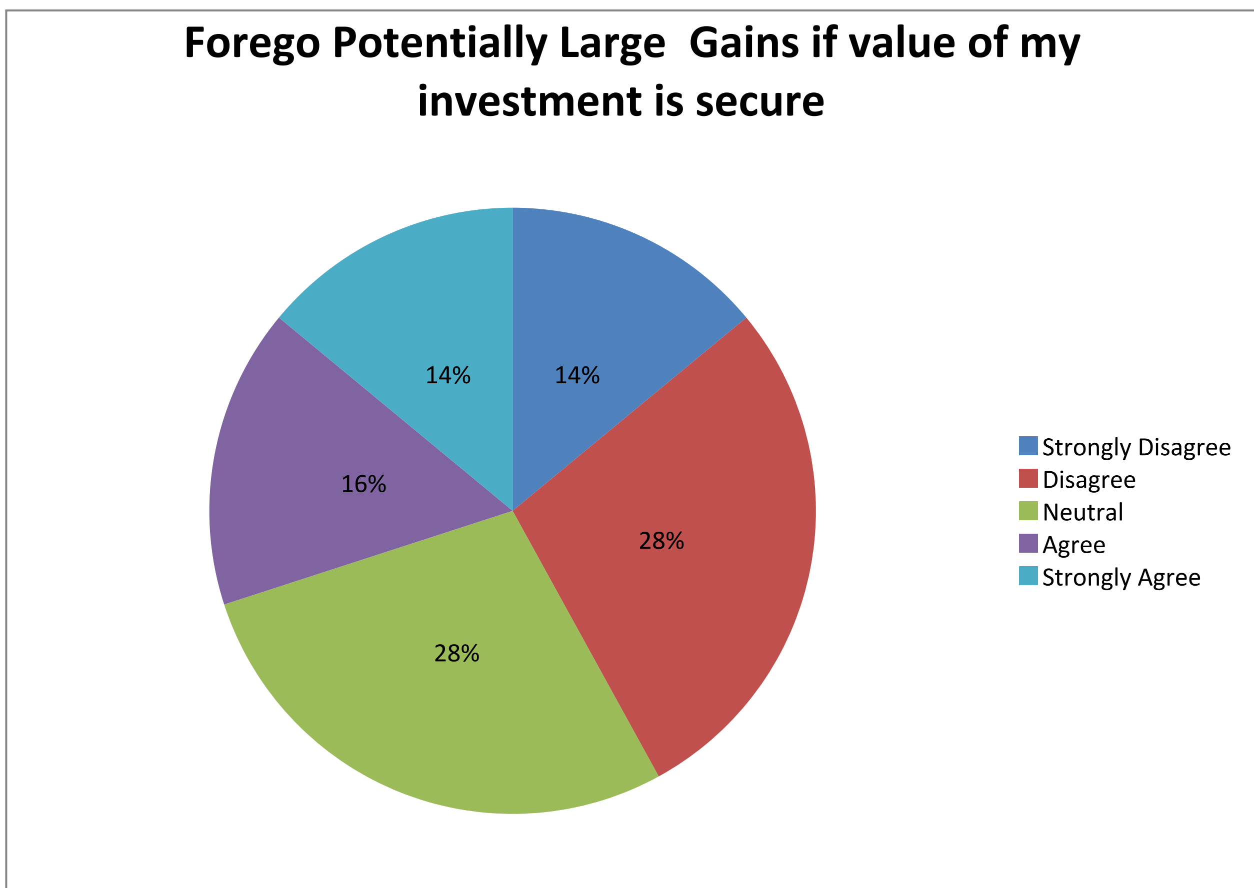
Interpretation:

Out of the selected sample most of the respondents are willing to take Moderate risk , Extremely Low risk and Low Risk in their investment. Only least number of respondents are willing to take Risks in their investment.

23."I'm prepared to forego Potentially Large gains if it means that value of my investment is secure."

	Frequency	Percentage
Strongly Disagree	7	14%
Disagree	14	28%
Neutral	14	28%
Agree	8	16%
Strongly Agree	7	14%

Figure 4.23



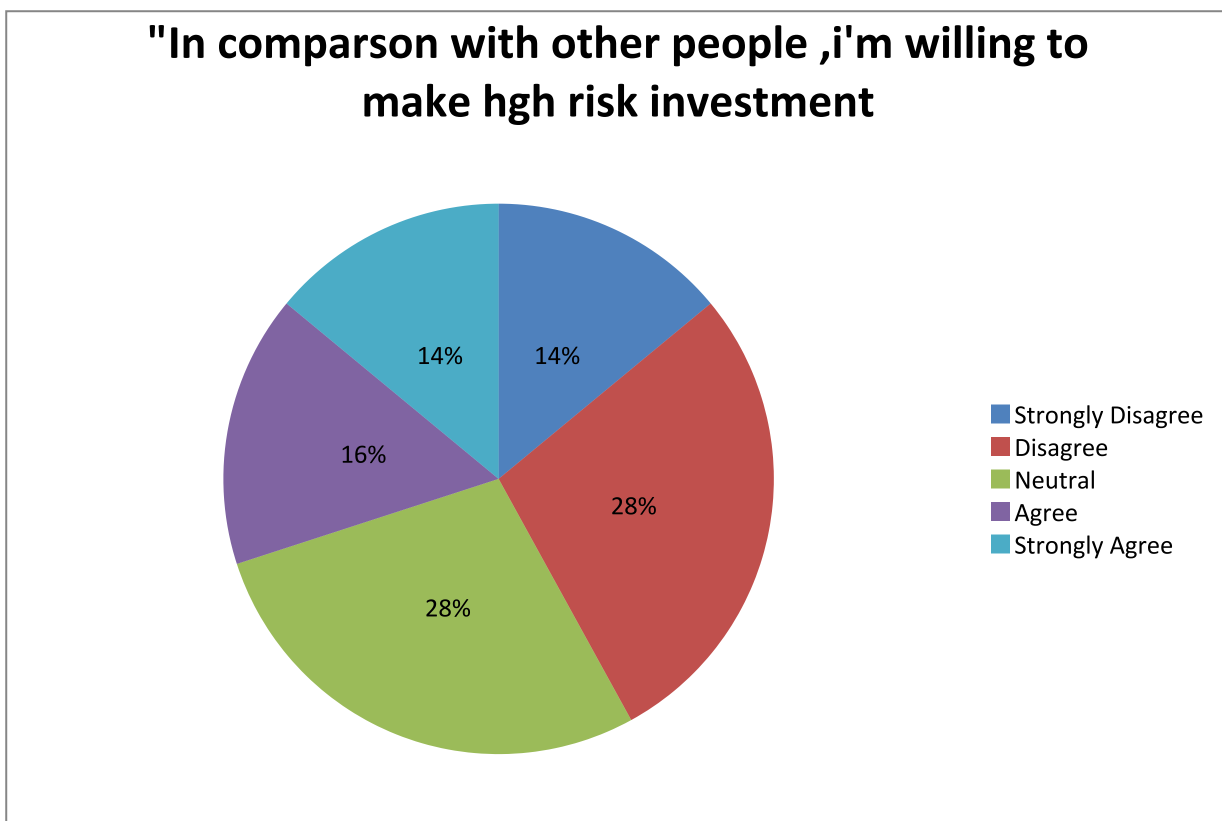
Interpretation:

From above figure, 28% of respondents are Disagree with the fact that they didn't forego potentially large gains if their value investment is Secure, they are focused more on their returns. Other 28% are neither agree nor disagree with this statement. Remaining 16% are agreed and 14% strongly agreed others are strongly disagreed with this statement.

24. “In comparison with other people, I’m willing to make high risk investment.”Do you agree?

	Frequency	Percentage
Strongly Disagree	7	14%
Disagree	14	28%
Neutral	14	28%
Agree	8	16%
Strongly Agree	7	14%

Figure 4.24



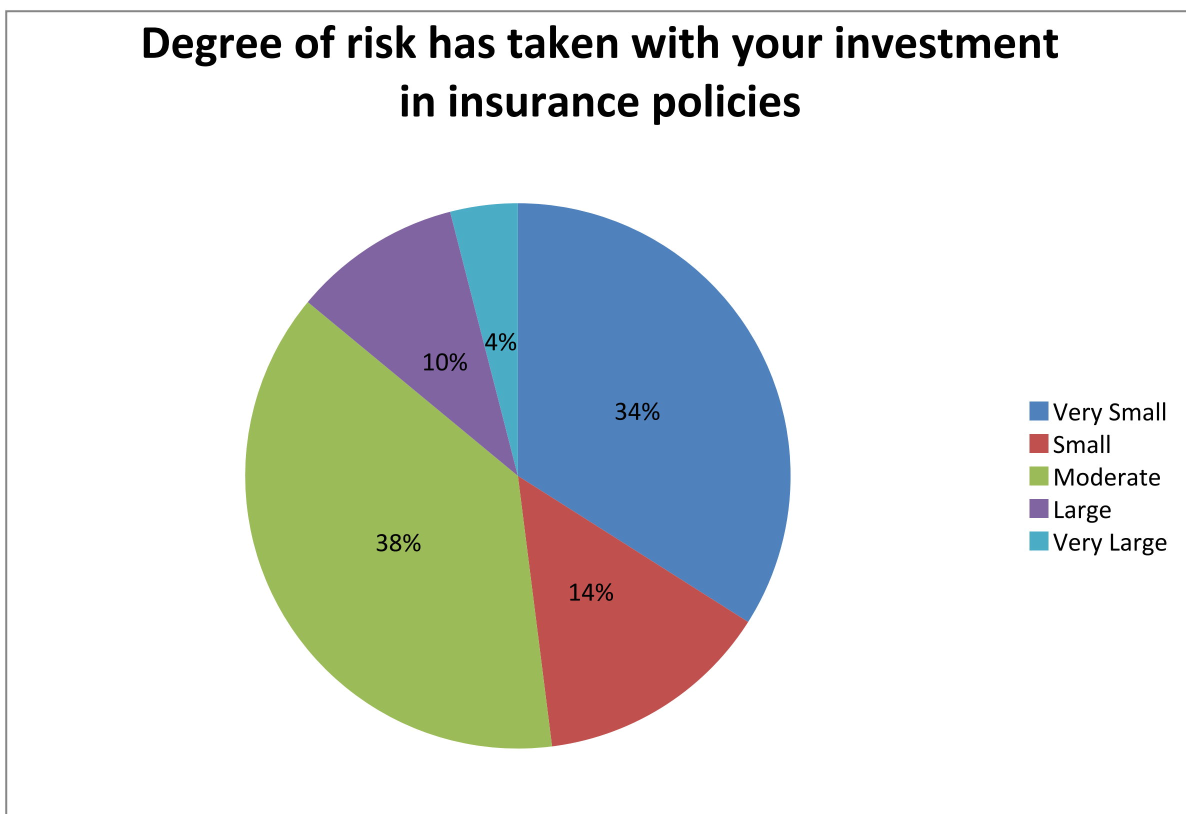
Interpretation:

Out of the sample selected 28% of respondents are disagree with this statement and other 28% have neither agree nor disagree with this, whereas 16% of them are agreed with the fact and followed by strongly agree and strongly disagree.

25. Degree of risk would you say you have taken with your investment in insurance policies

	Frequency	Percentage
Very Small	17	34%
Small	7	14%
Moderate	19	38%
Large	5	10%
Very Large	2	4%

Figure 4.25



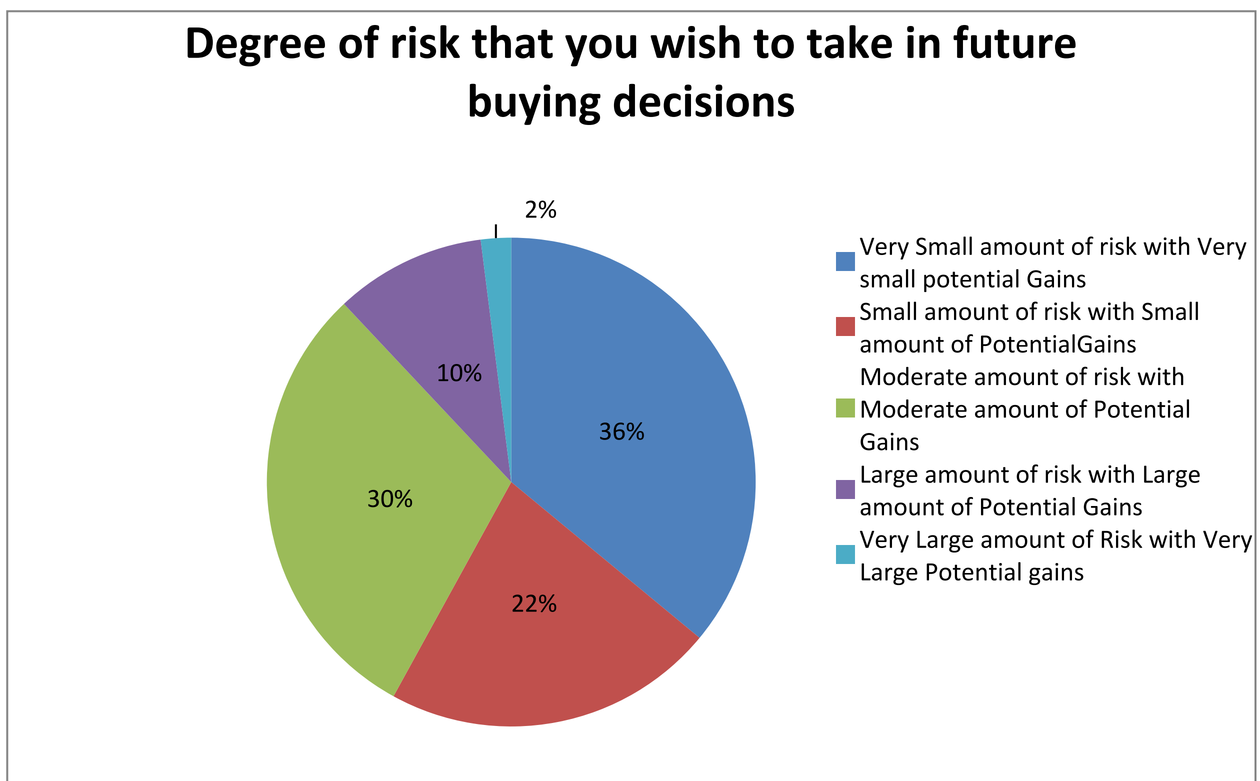
Interpretation:

38% of the respondents has taken moderate risk in their investment and 34% of them has taken very small risk. They are taken comparatively lower risk in their investment than taking large risks.

26. Degree of risk that you wish to take in future buying decisions

	Frequency	Percentage
Very Small amount of risk with Very small potential Gains	18	36%
Small amount of risk with Small amount of Potential Gains	11	22%
Moderate amount of risk with Moderate amount of Potential Gains	15	30%
Large amount of risk with Large amount of Potential Gains	5	10%
Very Large amount of Risk with Very Large Potential gains	1	2%

Figure 4.26



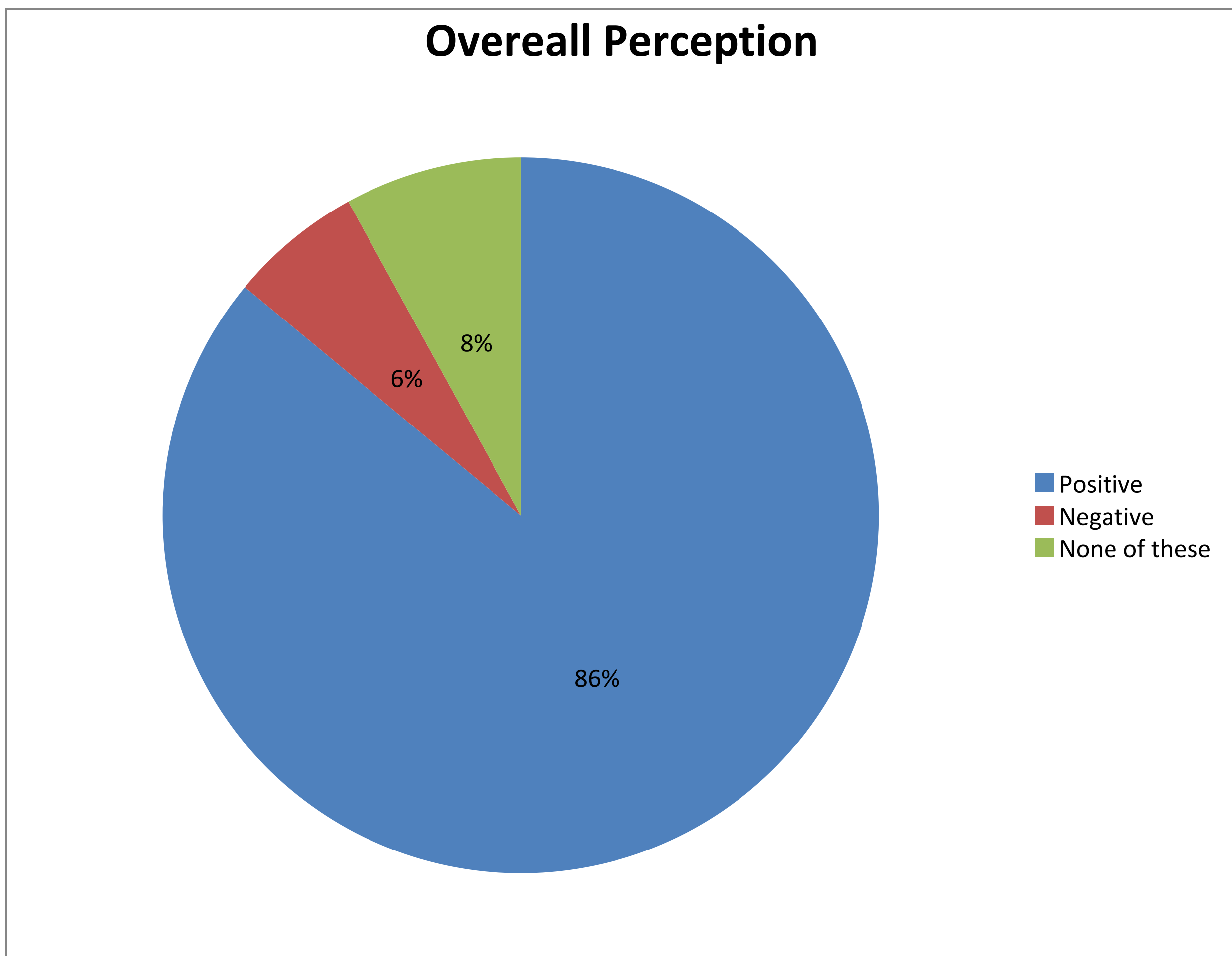
Interpretation:

This table depicts that respondents are mostly preferred to take very small amount of risk with very small potential gains and Moderate risk with moderate potential gains in their future buying decisions because of fear of risk.

27. Overall Perception about investing in insurance policies in neither LIC nor Private Sector companies.

	Frequency	Percentage
Positive	43	86%
Negative	3	6%
None of these	4	8%

Figure 4.27



Interpretation:

Out of this table majority of the respondents has Positive perception about insurance and only least number of respondents have negative perception.

TESTING OF HYPOTHESIS

Table Showing The Relationship Between The Age And Degree Of Risk Taking Attitude Of Customers While Investing In Insurance Policies

CORRELATIONS

		AGE	20. What degree of risk would you say you have taken with your Investment in Insurance Policies?
AGE	Pearson Correlation	1	.679
	Sig. (2-tailed)		.000
	N	50	50
20. What degree of risk would you say you have taken with your Investment in Insurance Policies?	Pearson Correlation	.679	1
	Sig. (2-tailed)	.000	
	N	50	50

Interpretation:

If p <_.01 the test significant (there is significant relationship between age and Risk taking attitude of people) <_1 not significant(not a significant relationship between Age and Risk taking attitude of people**)**

5.1 FINDINGS

1. From the analysis, it is inferred that respondents belonging to age group, between 35-50 years found to be more interested in buying a life insurance.
2. Among the 50 respondents 62% of the sample belongs to masculine gender.
3. Among the 50 respondents 46% of the sample are Employees.
4. Majority of respondents are aware about life insurance policy mostly from agents.
5. It is found from the analysis that out of 50 respondents,48 % of respondents has not face any complexities while opening a policy.
6. 44% of respondents are very satisfied with the On-line service of Insurance companies.
7. Most of the customers buy an insurance premium for safety and tax purposes.
8. Only 38 % and 30% of customers do need analysis before buying an Insurance Policy.
9. It has inferred from the analysis that most of the respondents are focused on risk and potential gains equally.
10. The customers are prefer to buy insurance policies as on the nature of Protection plans ,Investment plan, Pension plans and children plans.
11. 36% of respondents mentioned that money back guarantee is the most attractive feature of their life insurance policy.
12. The analysis indicates that most of the customers prefer to invest in a very small amount of risk with small of potential gains or moderate risk moderate potential gains in the future buying decisions too.
13. 36%of respondents are willing to forego potentially large gains if it means that the value of investment is secure.

5.2 SUGGESTIONS

- Customers should be made more aware of need analysis as there is low awareness level among them.
- Insurance companies should take more effort in spreading awareness about need analysis calculation.
- Insurance companies should also give training to their advisors to explain about need analysis calculation to customer properly as customer how do need analysis are more satisfied with their policies.
- Insurance companies should have a reasonable premium rate as most of the customers prefer so.

5.3 CONCLUSION

Insurance sector in India is growing at a very high rate and it is expected to grow more in future. This study had made an attempt to understand the various risk involves in investing in insurance an how to manage those risk. I observed that most of the people buy an insurance police under agent's influence and not according to their requirement. Also there is a very low awareness about need analysis calculation. Many people do not pay their premium as they did not purchase their policies according to their requirement. Customer satisfaction plays a very important role in increasing the market share of the company and it is very hard to get. So insurance companies should sell their insurance policies according to needs of customers in this way they can easily acquire customer's loyalty.