

# Insurance : An Investment Opportunity & Tool for Risk Management ( A comparison between Individual assurance and Pension Plans of LIC)

**Dr. Ruchi Jain**

Sr. Assistant professor  
Department of Financial Studies  
The IIS university, Jaipur (Rajasthan)

## **Abstract**

In the past few years, in the urge of financial reforms and economic activities; the financial system ,financial concepts, needs, and methods of investment and Risk management have undergone a sea change across the financial and business world of the country . The Insurance industry which has become very vibrant in the last few years and No longer only a device for risk cover for the contingencies but emerged as an innovative tool of investment and risk management which is no exception now a days. Following and implementation of Risk management Policy Programme within a hand of investment opportunities; Insurance is proven to be the need of hour. Various plans of insurance confined to investment and for future income generation with special reference to pension plan is essential for overall development of risk management through insurance channel .This paper shows the changing scenario of investment towards the Individual assurance and Pension plans over the past five years and establish with the reference of amount received by LIC as premium. Analysis of this paper shows the shifting of traditional psychology of risk cover to the new investment pattern of pension plans and also for taking corrective actions in the context..

## **Keywords:**

Financial Reforms, Individual Assurance,Pension plans, Investment opportunity.

## **Introduction**

LIC is termed to be the safest mode of investment for the coverage of risk ; but now a days it is evolving like an attractive investment avenue. Initially the psychology of taking insurance policy has been changed and now, it is tilting towards the investment needs combined with other objectives such as moderate risk with moderate returns, fulfilling future needs of an individual and family. Various kinds of plans designed for the different needs of investors. This study focuses on the Life insurance company's two categories of plans viz. individual assurance and pension plans. LIC has been taken up as a company of study as the biggest insurance player of the country of public sector and holds the major position in this respect of no. of policies and premium

received is concerned. LIC has the largest pool of saving as compare to any other company of private sector of insurance. Safety, Liquidity and return are three basic goals of risk management.

This study shows the shifting pattern of investment among two forms of insurance.

### Objectives

- To find out the difference in premium received between the Individual Assurance and Pension plans of LIC.
- To identify the factors for the inclination towards pension plans now a days.
- To assess the growth of the plans under study over the period of study.
- To make suggestions for enhancing the investment in insurance sector.

### Review of Literature

Monheit C. Alan, Cantor C. Joel opined that "implementation of regulatory reform in the small-group and individual health insurance, With accelerating health care costs and double-digit increases in health insurance premiums, it is likely that only a more direct and mandatory approach will be able to address the underlying reasons for the lack of coverage among millions of individuals and families."

M Saraswathy discussed that the insurance industry, that has been reeling under the impact of macro-economic situations and low penetration, has a reason to cheer. The insurance companies have seen a higher profit margin for financial year 2012-13, as compared to the previous fiscal. Life insurance industry, in particular, which has seen a slowdown in new business premium collection, has also fared better in terms of profitability.

Glaser William A, witnessed that Every country with obligatory social health insurance also has private health insurance for the voluntarily insured and for extra benefits beyond those of the statutory system. Therefore, every country has two channels of regulation and financial monitoring—one over the social insurance carriers and the other over the private health insurance companies.

### Hypothesis

H0- There is no significant difference between the selected plans in respect to the amount of premium received by LIC over the period of study.

H1- There is no significant difference between the selected plans in respect to the amount of premium received by LIC over the period of study.

### Research Methodology

The present study has been designed with a view to investigate the investment pattern in insurance in terms of premium received by LIC in the specified plans, to find out the effect of various aspects (growth pattern in plans, Is there any shift towards individual plans to pension plans ) on amount of premium received. The study covers two plans of LIC in all, taking Individual assurance and pension plans.

### Research Design

Secondary data from various reports of LIC has been gathered for this purpose. The coverage is adequate keeping in view the nature of the study.

Test of Normality, validity and two sample t test is used.

### Analysis

The data is related with the amount of premium received by Life Insurance Corporation of India (LIC) extracted from the various annual reports of LIC from 2008 to 2013 has been shown in Table 1.

Table 1

LIC data( New Business in India)		
	Amount of Premium(cr.)	
Year	Individual assurance	Pension fund
2008-09	16858.57	27.25
2009-10	20948.53	37.78
2010-11	23586.25	57.81
2011-12	25599.07	160.74
2012-13	25502.55	23.91
	22498.994	61.498
Average		

Source: Annual reports of LIC from 2008 to 2013.

Individual assurance Plans in terms of premium received in crores increased about 10,000 crores from 2008 to 2013. It shows very slow increment from 2010 to 2011 and decrease in 2012.

Figure 1 shows the year 2008-09 premium received is 15%,

2009-10 shows 18%, 2010-11 shows 21% and 2011-12 and 2012-13 have the same percentage of 23%.

This shows a balanced growth pattern except 2012-13 which shown slight decline of 96.52 crores in premium received.

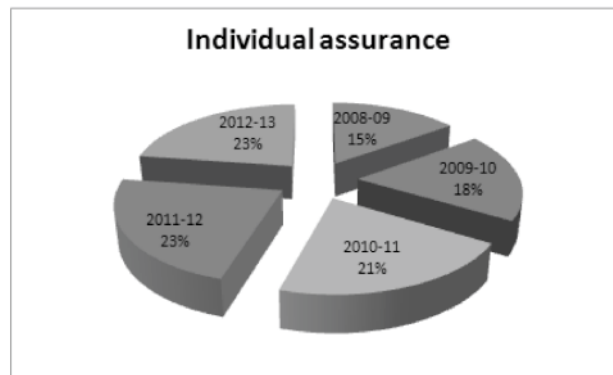


Figure 1

From the table 1 ; it reveals that the amount of premium received by LIC in Pension Plans are approx.27 crore in 2008-09, approx.37 crore in 2009-10, approx.57 crore in 2010-11, and significant increase around three times approx. 160 crores in 2011-12 and high dip in 2012-13 i.e. around 23.91 crore .

It shows very balanced growth in first three year of the study and high fluctuations in last two years 2011-12 and 2012-13.

Figure 2 shows the pattern of premium received by LIC over the period of study. Year 2011-12 has highest share around half of the share of premium received by LIC in the period of study, in the other years 2008-09 it is 9% , 2009-10 it is about 12% and in 2010-11 it is 19%, 2011-12 52% and in the year 2012-12 around 8%, which is least in the period of study.

The pattern of investment in pension plans shows fluctuations over the years. Initial years it shows increment but last two years high increase followed by high dip.

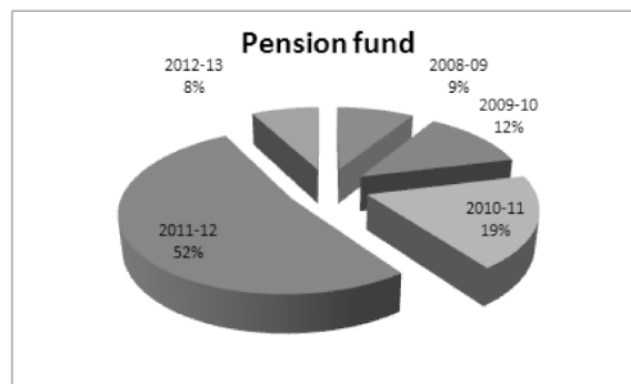


Figure 2

Finding of the data is represented by table 2 , t-test is applied on the data. For the normality of data and reliability of data Levin test is applied .

According to test data is normally distributed and valid

Independent Samples Test										
		Levene's Test for Equality of Variances		t-test for Equality of Means						
									95% Confidence Interval of the Difference	
		F	Sig.	t	df	Sig. (2-tailed)	Mean Difference	Std. Error Difference	Lower	Upper
Amount of premium	Equal variances assumed	12.702	.007	13.649	8	.000	22437.49600	1643.85641	18646.75632	26228.23568

The significance level is less than .5 it means the null hypothesis is rejected and there is significant difference between the amount of premium received between the plans.

Data is reliable as the levins test is more than .05. Data is valid

One-Sample Kolmogorov-Smirnov Test			amount of premium
N			10
Normal Parameters <sup>a, b</sup>	Mean		11280.2460
	Std. Deviation		12076.82972
Most Extreme Differences	Absolute		.321
	Positive		.321
	Negative		-.188
Kolmogorov-Smirnov Z			1.016
Asymp. Sig. (2-tailed)			.253

a. Test distribution is Normal.

b. Calculated from data.

Data is normally distributed as Asymptotic significance value(2-tailed) is .253 is greater than .05; which shows that

the data is normally distributed.

#### Two sample independent t-test

##### Group Statistics

type of plans provided by LIC		N	Mean	Std. Deviation	Std. Error Mean
amount of premium	individual assurance	5	22498.9940	3675.33220	1643.65853
	pension plans	5	61.4980	57.03267	25.50579

### Interpretation/Findings

- The result of the test shows The significance level is less than .5 it means the null hypothesis is rejected and there is significant difference between the amount of premium received between the plans.
- Difference of amount of premium received between the Individual assurance plans and pension plans are very high.
- Difference of average of individual assurance and pension plans are very high.
- Individual assurance and pension plans shows stable growth in initial three years of study but fluctuating trend in last two years.

### Conclusion

- The reason of the fluctuating growth of the plans are macro economic factors such as GDP growth rate , Gross Domestic savings, global recession , fiscal position of the country, Monetary policy of RBI etc. are the factors which effect the investment pattern and amount of premium in both the plans overall ,This shows very less change in the the tendency of Investment.
- Individual assurance plans are still the first choice of investment in insurance in LIC as compared to Pension Plans.The reason behind can be the conventional objective of taking Individual assurance is only risk coverage and moderate return,where as people do not find annuity as impressive avenue than the assurance but the investment in pension plans register growth during the past decades.
- Pension plans are still growing reason behind the less job security , less government jobs where pension option can be taken up, more private jobs where career succession and advancement is not planned and designed, growth in the salary these years specially 2011-12.
- Young generation have more Private jobs,they work in MNC's where high salary but less job security is there; which influence them to invest in pension plans so that they can secure the future

### Suggestions

- LIC should make the assurance plans and pension plans according to the requirements of individuals, for this purpose proper survey should be made.
- LIC should also intensively market the pension plans so that overall amount of premium of LIC will be

increased.

- LIC should identify the factors of Low inclination towards pension plans and make change in the features of plans .
- LIC should target the young people of age group 25 to 45 , specially working in private jobs and design the pension plans according to their future needs and for their career planning.
- LIC should make aware the people about their plans specially Pension Plans.
- LIC should design their plans according to the competitor Private Companies of these segment.

### Limitations of the Study

- Present Study is based on secondary data, so the results can be more authentic if primary data will be used.
- Scope of the study can be increased by taking two or more companies or other different other plans of the same company for the further research.

### References

- Annual reports of LIC(2008-09 to 2012-13)
- Scott Harrington,Risk Management and Insurance,(2003)
- Alan C. Monheit C. Alan ,Cantor C. Joel ,State Health Insurance Market Reform: Toward Inclusive and Sustainable Health Insurance Markets , Routledge,( 2004)
- William A. Glaser, Jossey-Bass Publishers,San Francisco, (1991)
- James Trieschmann ,Risk Management and Insurance,) Amazon publisher,(2009)
- IRMI Research Analyst,Glossary of Insurance and Risk Management Terms Reference At-A-Glance. (2009)
- Dorfman Mark s.,Introduction to Risk management and Insurance PHI ,Delhi 9<sup>th</sup> edition ,(2012)
- Abkowitz Mark D., Operational Risk Management: A Case Study Approach to Effective Planning and Response by; April (2008); ISBN-10 0470256982; ISBN-13 978-0470256985
- Abkowitz Mark D.Managing Risks in Public Organisations August (2006)
- Pickett K. H. Spencer;Auditing the Risk Management Process by June( 2005)