International Journal of Applied Research 2015; 1(9): 100-103

ISSN Print: 2394-7500
ISSN Online: 2394-5869
Impact Factor: 5.2
IJAR 2015; 1(9): 100-103
www.allresearchjournal.com
Received: 18-06-2015
Accepted: 20-07-2015

Dr. Adgaonkar Ganesh
Kalikadevi Art's, Commerce & Science College, Shirur (Ka), Dist. Beed.

Correspondence:
Dr. Adgaonkar Ganesh
Kalikadevi Art's, Commerce & Science College, Shirur (Ka), Dist. Beed.

Insurance awareness of India

Adgaonkar Ganesh

Abstract
Insurance is a protection against financial hammering arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial militate against adverse financial loads suffered. Insurance is a contract between two parties, the insurer or the insurance company, and the insured, the person seeking the cover. Within this contract, the insurer agrees to pay the insurer for financial losses arising out of any unforeseen events or risk in return for a regular payment of premium. Therefore, these insurance plans are also called as a Risk Cover Plans, which means to financially compensate for losses that occur uncertainly through accident, illness, theft, natural disaster.

Keywords: Insurance, awareness, India

1. Introduction
Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobilize of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector.

Concept of Insurance
Insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss. Insurance is defined as the equitable transfer of the risk of loss, from one entity to another, in exchange for payment. Insurance is essentially an arrangement where the losses experienced by a few are extended among many who are exposed to similar risks. It is a protection against financial loss that may occur due to an unexpected event. The transaction involves the insured assuming a guaranteed and known, relatively small, loss in the form of payment to the insurer in exchange for the insurer's promise to compensate or indemnify the insured in the case of a large, possibly devastating, loss. The insured receives a contract called an insurance policy which details the conditions and circumstances under which the insured will be compensated. Insurance can be classified broadly into: (a) life insurance, and (b) general or non-life insurance.
(a) Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay the designated beneficiary a sum of money upon the occurrence of the insured individual’s death or other event, such as terminal or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. Life-based contracts tend to fall into two major categories:

- Protection policies: designed to provide a benefit in case of a specified event, typically against lump sum payment. A common form of this policy is term insurance.
- Investment policies: the main objective is to facilitate the growth of capital by single or regular premiums. The common forms in this category include whole life, universal life and variable life policies.

(b) General insurance or non-life insurance policies, including automobile and homeowners’ policies, provide payments depending on the loss from a particular financial event. General insurance typically comprises any insurance cover that is not deemed to be life insurance. Some categories of general insurance policies are: vehicle, home, health, property, accident, sickness and unemployment, casualty, liability, and credit. The terms of insurance generally depend on the company providing the cover.

2. Objective of the study
1. To study the present Insurance Scenario in India
2. To study Why Awareness is Important in Insurance

3. Research Methodology
Exploratory research methodology is used here to analyze the data. Data was collected from multiple sources such as books, journals to understand the Life insurance industry. In this paper, we have referred previous research articles. Apart from this, we have visited different websites and professional magazines

3.1 Importance of Insurance
Life insurance is generally considered a mean of protecting one's family against the unforeseeable circumstance of the death of an earning member. However, there are a number of other benefits that are not apparent. Some benefits accrue to the individuals and their families, while others assist economic development. For instance, an insurance company takes the risk of large and uncertain losses in exchange for small premiums. This gives a sense of confidence and security to the insured individual through the protection of insurance in the event of an unfortunate incident. In large sized commercial and industrial organizations, it facilitates operations as many of the risks are transferred to the insurer. Insurance, particularly life insurance, is one of the ways of providing for the future. A life insurance policy which gives an annuity is a combination of protection and investment. It increases the creditworthiness of the assured person because it can provide funds for repayment in the event of death. It also reduces losses owing to theft, robbery, fire accidents, etc. In addition, it serves as a solution to social problems. For instance, while compensation is available to victims of industrial injuries and road accidents, financial difficulties on account of old age, disability or death is minimized. Investment of accumulated resources by the insurer facilitates the overall development of the country. Capital is usually risk averse, but if insurers provide protection against risks, then several investors would come forward to invest their funds. In many developed countries, citizens are to a certain extent protected by social security schemes provided by the government. These schemes offer financial aid to citizens who are eligible on grounds of unemployment, old age, sickness, disability, etc. The social security scenario in India is quite different, having traditionally been the responsibility of the family or community. However, with industrialization, urbanization, breakup of the joint family system and weakening of family bondage, it has become necessary to provide social security arrangements that are institutionalized and regulated by the state rather than the society. Issues relating to social security are listed in the directive principles of state policy. While social security and insurance, employment and unemployment form Item 23 of the concurrent list, the welfare of labour including conditions of work, provident fund, employee's liability, Workmen's compensation, invalidity and old age pension and maternity benefits form Item 24, also of the concurrent list. During the initial years of development planning, it was believed that with the process of development, a greater number of workers would join the organized sector and eventually get covered by formal social security arrangements. However, the actual experience has proved otherwise. There is now almost a stagnation of employment in the organized sector with increase in the inflow of workers into the informal sector. The unorganized workforce is characterized by scattered and fragmented areas of employment, seasonality, lack of job security and low legislative protection. Currently, out of an estimated workforce of nearly 400 million, only less than 10 per cent have the benefits of formal

3.2 Important Developments in the History of Indian Insurance Business
The insurance industry in India consisted of only two state insurers, namely Life Insurance Corporation of India (LIC) for life insurance, and General Insurance Corporation of India (GIC) with its four subsidiaries for general insurance. According to the Insurance Regulatory and Development Authority (IRDA), the insurance industry in India at present consists of 24 general Insurance companies including specialized insurers such as Export Credit Guarantee Corporation of India and the Agricultural Insurance Corporation of India, and 23 life insurance companies. Of the 22 insurers who set up operations in life insurance after the industry was opened up for the private sector, 20 are joint ventures with foreign companies. Similarly, of the 17 non-life insurers, including health insurers operating in the private sector, 16 are in collaboration with foreign partners. Thus, 36 insurance companies in the private sector are operating in collaboration with well-established foreign companies. Prior to the opening up of insurance for the private sector, non-life products were limited and were classified on the basis of their being regulated by tariffs or otherwise. Those such as fire insurance, motor vehicle insurance, engineering insurance and workers compensation came under tariff regulation while others such as burglary insurance, mediclaim, and personal accident insurance did not. In addition, most specialized insurance products, such as race horse insurance, did not fall under tariff regulation. After the opening up of the sector to private players, new products were introduced and these included products' liability, corporate cover, professional indemnity policies, weather insurance, credit insurance and travel insurance.

3.3 Important Developments in the History of the Indian Insurance Industry

Year	Description of New Developments and Important Events
1912	The Life Insurance Companies Act was passed, making it mandatory for companies to get their premium rate tables Certified by an actuary.
1938	The Insurance Act of 1938 became the first legislation governing all forms of insurance to provide strict state control over insurance business.
1956	Life insurance in India was completely nationalized on January 19 by means of the Life Insurance Corporation Act. All 245 existing companies operating in the country were merged into one entity, namely the Life Insurance Corporation of India (LIC)
1957	The General Insurance Council, a wing of the Insurance Association of India, was formed and framed a code of conduct for ensuring fair conduct and sound business practices
1968	The Insurance Act of 1938 was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set up.
1972	The General Insurance Business (Nationalization) Act was passed. With effect from January 1, 1973 107 companies were amalgamated and grouped into four companies, namely National Insurance Company Ltd., Oriental

	Insurance Company Ltd., New India Assurance Company Ltd and United India Insurance Company Ltd
1993	The Government of India set up a committee under the chairmanship of RN Malhotra, then Governor of the Reserve Bank of India, to propose recommendations for reforms in the insurance sector that would complement the reforms in the financial sector.
1994	The Amphora Committee submitted its report, recommending that entry of the private sector be permitted in the insurance sector and that foreign companies be allowed entry by floating Indian companies, preferably as joint ventures with Indian partners.
1996	Following the recommendation of the Malhotra Committee, an interim Insurance Regulatory Authority was set up.
1999	The Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objective of IRDA Includes promotion of competition in order to improve customer satisfaction through increased customer choice and lower premiums, while ensuring the financial security of the insurance market. The IRDA deregulated the insurance sector and permitted the entry of private companies. Foreign investment was also allowed and capped at 26 per cent holding in the Indian insurance companies.
2006	The Actuaries Act was passed to give the profession statutory status on par with chartered accountants, notaries, cost and works accountants, advocates, architects and company secretaries

3.4 Insurance Scenario in India
The insurance industry of India consists of 52 insurance companies of which 24 are in life insurance business and 28 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from that, among the non-life insurers there are six public sector insurers. In addition to these, there is sole national re-insurer, namely, General Insurance Corporation of India. Other stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claims. Out of 28 non-life insurance companies, five private sector insurers are registered to underwrite policies exclusively in health, personal accident and travel insurance segments. They are Star Health and Allied Insurance Company Ltd, Apollo Munich Health Insurance Company Ltd, Max Bupa Health Insurance Company Ltd, Religare Health Insurance Company Ltd and Cigna TTK Health Insurance Company Ltd. There are two more specialized insurers belonging to public sector, namely, Export Credit Guarantee Corporation of India for Credit Insurance and Agriculture Insurance Company Ltd for crop insurance. India's life insurance sector is the biggest in the world with about 36 crore policies which are expected to increase at a compound annual growth rate (CAGR) of 12-15 per cent over the next five years. The insurance industry plans to hike penetration levels to five per cent by 2020, and could top the US$ 1 trillion mark in the next seven years. The total market size of India's insurance sector is projected to touch US$ 350-400 billion by 2020 from US$ 66.4 billion in FY13.The general insurance business in India is currently at Rs 77,000 crore (US$ 12.41 billion) premium per annum industry and is growing at a healthy rate of 17 per cent.

The Rs 12,606 crore (US$ 2.03 billion) domestic health insurance business accounts for about a quarter of the total non-life insurance business in the country. Investment corpus in India's pension sector is anticipated to cross US$ 1 trillion by 2025, following the passage of the Pension Fund Regulatory and Development Authority (PFRDA) Act 2013, according to a joint report by CII-EY on Pensions Business in India. Indian insurance companies are expected to spend Rs 117 billion (US$ 1.88 billion) on IT products and services in 2014, an increase of five per cent from 2013, as per Gartner Inc. Also, insurance companies in the country could spend Rs 4.1 billion (US$ 66.11 million) on mobile devices in 2014, a rise of 35 per cent from 2013

3.5 Why Awareness is Important
The growing need for financial education for the families to take better financial decision and to increase their economic security has been widely recognized. It is felt that well informed and well educated customers can create economic ripples. They make better financial decisions for themselves and their families, increasing their economic security and wellbeing. Secured families are more involved in their communities as home owners and voters. They are more involved as parents with their children's schools and teachers, enabling better educational and economic outcomes for their children. They contribute to vital, thriving communities, further fostering community economic development. Thus, being financially literate is not only important to the individual household and family, it is also important to communities and societies. Insurance companies can address the problem of financial illiteracy of consumers by educating them. This point was corroborated by the Max New York–NCAER survey (NCAER, 2008) [3] which showed that even though a majority of Indian households are good savers, they do not undertake financial planning and are financially at risk. Households need to understand the risk of both 'living too long' and 'dying too young'. Further, in urban India and amongst the salaried class, insurance is largely used as a tax saving tool, rather than for protection against risk. There is need to reorient the consumer about the benefits of life insurance for both financial protection as well as for long-term wealth creation. The importance of insurance is unquestionable in modern economies as it serves a broad public interest and is vital to individuals' security. Advocacy of insurance and risk issues is an important tool that complements the insurance regulatory and supervisory framework. This is particularly so given: **(i)** households' growing risk exposures and responsibility for covering them; **(ii)** increasing diversity and complexity of insurance products; and **(iii)** heterogeneity of insurance providers and distribution channels. Advocacy can typically**: (i)** heighten individuals' awareness and responsibility towards potential risks; (ii) enhance understanding of insurance mechanisms that can cover these risks; and **(iii)** enable the development of consumers' knowledge and capacity in order to make informed decisions as regards insurance matters (OECD, 2006) [2].

Private insurers have introduced many innovative products and offer incentives on policies in order to woo consumers. The market share of private insurers has increased steadily on the basis of total premium from 14.25 per cent in 2005–06 to 29.90 per cent in 2009–10. In today's context, though the customer has a variety of products to choose from, wise choices are possible only with requisite awareness. Besides, it is not enough for the customer to have knowledge only of the various policies available. It is possible that a customer has problems with a particular policy and should ideally be aware of organizations that look into grievances and make prompt payment of claims. The customer must also be informed about the lapse of policies, revival of policies, and the value of a policy in case of surrender. Hence, the customer must not only choose a product which is suitable, but also engage with a company in which the agents provide correct information. The results of the Max New York Life–NCAER Survey on India Financial Protection (NCAER, 2008) [3] indicates that awareness of life insurance stands at a high of 78 per cent on an all-India level with more urban households (90%) aware of it than rural households (73%). The level of awareness has increased with education, age and income levels. However, ownership of insurance products was low at only 24 per cent. Further, it was the salaried class that tended to buy insurance the most, followed by businessmen. Also, as compared to others married people are more likely to buy insurance.

4. Conclusion

Even among uninsured households, 60 per cent have heard of life insurance. However, for health insurance, the level of awareness is much lower since people tend to associate insurance with death. Although many might have heard about life or health insurance, there is a lack of knowledge about the various aspects of insurance even among policy holders. For instance, not all policy holders know that their policies could be cancelled because of non-payment of premium. Though most know when they can claim their policy amounts, and to some extent the procedure involved in claim settlement, they have no idea about the time taken for a claim settlement or the amount they would receive if the policy is surrendered before maturity. A high percentage of households know that a nomination facility is available. However, more people know about their duties rather than their rights as policy holders. The most important duty mentioned by households is the 'duty to pay the premium 'and the most important right is the 'right to pay the premium'.

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