Investment Pattern of Investors in Insurance Companies

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Abstract

In India as Service industry covers almost half of the G.D.P. and in that Insuranance industry is the most growing industry. In the Insurance industry there is two major parts Life Insurance and General Insurance, so researcher going to make some narrow and selecting Insurance as an Area of Research. Here in the Industry there is lots of confusion regarding the purchase of Insurance Products that by the Influence of which particular factor people are purchasing the product. And also know about that in which type of company people like to invest. Weather they like Government Company or private company.

Majors influencing factors are Risk Cover, Investment, Saving, Tax Benefits, Returns, Brand Name, safety and security, Relationship, Skills of agent and features of product. By the research actually come to know really which is the Influencing factor in the purchase of insurance product. And also like to know the different question like what is the expectation ratio of investor for their policy. Also about how much they are usually invest in insurance? And also about what what kind of they have ?

Keywords :- Investment Patter, Insurance, Equity Plan, ULIP Plan

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Introduction

The Insurance sector in India is governed by Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and General Insurance Business (Nationalization) Act, 1972, Insurance Regulatory and Development Authority (IRDA) Act, 1999 and other related Acts.

With such a large population and the untapped market area of this population Insurance happens to be a very big opportunity in India. Today it stands as a business growing at the rate of 15-20 per cent annually. Together with banking services, it adds about 7 per cent to the country's GDP.

In spite of all this growth the statistics of the penetration of the insurance
In the country is very poor. Nearly 80% of Indian populations are without Life insurance cover and the Health insurance.

This is an indicator that growth potential for the insurance sector is immense in India. It was due to this immense growth that the regulations were introduced in the insurance sector and in continuation "Malhotra Committee" was constituted by the government in 1993to examine the various aspects of the industry. The key element of the reform process was Participation of overseas insurance companies with 26% capital. Creating a more efficient and competitive financial system.

Since then the insurance industry has gone through many sea changes .The Competition LIC started facing from these companies were threatening to the existence of LIC .since the liberalization of the industry the insurance industry has never looked back and today stand as the one of the most competitive and exploring industry in India. The entry of the private players and the increased use of the new distribution are in the limelight today.

The use of new distribution techniques and the IT tools has increased the scope of the industry in the longer run.

Nothing is certain in this world except the death but even in this the timing of death is not certain. Everyone has a desire to be secure. Everyone takes precautionary measures to prevent the unforeseen and events. Even then, accidents do occur.

Insurance is a technique, which provides for collection of small amounts of premium from many individuals out of which losses suffered by a few are reimbursed. In this method, the individual insured, is able to buy protection through the payment of a small cost viz. the premium.

Legally insurance is a contract between the insurer and the insured whereby in consideration of payment of the premium by insured, the insurer agrees to make good any financial loss.

Insurance is also referred to as a assurance and in the early part of the 17th century the term insurance was quite prevalent. The term assurance is the earlier term and was used alike for both life and general insurance. The term insurance was initially used in 1635 in connection with fire insurance and was quickly adopted extensively.

Development of Insurance in India:

The insurance industry in India finds its roots in 1818 with the opening of the first company in Calcutta the oriental life insurance company. Thereafter other major insurance company, which was opened, was the triton insurance company in 1850. The working was concentrated in urban areas only and surprisingly the Indian lives were subjected to a loading of 15 to 20% on the premium.

The first piece of legislation to regulate the insurance was Indian life assurance companies act, 1912. The act made important provisions relating to the following:

- Statutory deposits and registration of insurers
- Periodical returns to government.
- Fixation of commission rates and prohibition of rebating out of commission on premiums. Licensing of agents.

The insurance sector in India has come a full circle from being an open competitive market orgnationaltion and back to a liberalized market again. Tracing the developments in the Indian insurances360-degree turn witnessed over a period of almost two centuries.

Importance of Insurance

- Financial security to an individual
- Financial stability to industries
- Financial stability to community
- Reduction of losses
- Insurance provides funds for investment
- Earn foreign exchange

Literature Review

India's rapid rate of economic growth over the past decade has been one of the more significant developments in the global economy. This growth has its roots in the introduction of economic liberalization in the early 1990s, which has allowed India to exploit its economic potential and raise the population's standard of living.

Insurance has a very important role in this process. Health insurance and pension systems are fundamental to protecting individuals against the hazards of life and India, as the second most populous nation in the world, offers huge potential for that type of cover. Furthermore, fire and liability Insurance are essential for corporations to keep investment risks and infrastructure projects under control. Private insurance systems complement social security systems and add value by matching risk with price. Accurate risk pricing is one of the most powerful tools for setting the right incentives for the allocation of resources, a feature which is key to a fast developing country like India.

By nature of its business, insurance is closely related to saving and investing. Life insurance, funded pension systems and (to a lesser extent) non-life insurance, will accumulate huge amounts of capital over time which can be invested productively in the economy. In developed countries (re)insurers often own more than 25% of the capital markets. The mutual dependence of insurance and capital markets can play a powerful role in channeling funds and investment expertise to support the development of the Indian economy.

What is Insurance?

Insurance in its basic form is defined as " A contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premiums, to pay the other party called insured a fixed amount of money on the happening of a certain event."

In simple terms it is a contract between the person who buys Insurance and an Insurance company who sold the Policy. By entering into contract the Insurance Company agrees to pay the Policy holder or his family members a predetermined sum of money in case of any unfortunate event for a predetermined fixed sum payable which is in normal term called Insurance Premiums.

Insurance is basically a protection against a financial loss which can arise on the happening of an unexpected event. Insurance companies collect premiums to provide for this protection. By paying a very small sum of money a person can safeguard himself and his family financially from an unfortunate event

For Example if a person buys a Life Insurance Policy by paying a premium to the Insurance company , the family members of insured person receive a fixed compensation in case of any unfortunate event like death.

Role of Insurance Industry in Economic Growth

With the growth of a country's economy, there is in increase in the facilitating role played by the financial services sector. Financial Services play a supportive role in the basic activity of production. Insurance frees industries from the worries of losses and uncertainties.

Insurance helps process of the country's growth in various ways: Insurance covers many economic risks. It protects entrepreneurs against the risk of damage to or losses of the goods and other assets, which they employ in manufacturing, marketing, transport and other related activities. This protection offers a kind of stability to business.

With the cover of insurance on their assets, businessmen and industries are able to take bold decisions in enlarging their field of activity, and take financial risks which they cannot otherwise take. Hence, insurance plays a promotional role in nation-building and also increasing the number of jobs for the people.

Again, there is life insurance, which plays the most useful role in the lives of individuals. Life insurance offers economic safety at reasonable cost to millions of families in the country. In a way, this helps the government also as it lightens the government's burden of providing social welfare to affected families.

Insurance companies collect premium from policyholders and invest this money in government bonds, corporate securities and other approved channels of investment. In this way, insurance Companies are helpful in providing capital for new ventures or expansion of old units. These funds are also used for financing the infrastructure projects with long gestation period. This lending of funds for infrastructure and other development influences the decision-making process in the government.

Insurance in India today covering a broad range of topics, the booklet shows the diversity of Indian insurance, its development and its Prospects. It also provides a lot of international comparisons which put developments in India into perspective. Indian by nationality has pursued a lot of his professional career overseas.

In 2003, the Indian insurance market ranked 19th globally and was the fifth largest in Asia. Although it accounts for only 2.5% of premiums in Asia, it has the potential to become one of the biggest insurance markets in the region. A combination of factors underpins further strong growth in the market, including sound economic fundamentals, rising household wealth and a further improvement in the regulatory framework. The insurance industry in India has come a long way.

Since, the time when businesses were tightly regulated and concentrated in the hands of a few public sector insurers. Following the passage of the Insurance Regulatory and Development Authority Act in 1999, India abandoned public sector Exclusivity in the insurance industry in favors of market-driven competition. This shift has brought about major changes to the industry. The inauguration of a new era of insurance development has seen the entry of international insurers, the proliferation of innovative products and distribution channels, and the raising of supervisory standards.

By mid-2004, the number of insurers in India had been augmented by the entry of new private sector players to a total of 28, up from five before liberalization. A range of new products had been launched to cater to different segments of the market, while traditional agents were supplemented by other channels including the Internet and bank branches. These developments were instrumental in propelling business growth, in real terms, of 19% in life premiums and 11.1% in non-life premiums between 1999 and 2003.

There are good reasons to expect that the growth momentum can be sustained. In particular, there is huge untapped potential in various segments of the market. While the nation is heavily exposed to natural catastrophes, insurance to mitigate the negative financial consequences of these adverse events is underdeveloped. The same is true for both pension and health insurance, where insurers can play a critical role in bridging demand and supply gaps. Major changes in both national economic policies and insurance regulations will highlight the prospects of these segments going forward.

The objectives of this report are to explore the current state of development in India's insurance market and enumerate the opportunities and challenges offered by this exciting market.

This report begins with an overview of the Indian insurance market in Section II, which highlights the phenomenal growth experienced recently, in line with the country's improving economic fundamentals. Section III benchmarks the Indian insurance market against other regional counterparts. By comparing growth, Penetration, density and other insurance variables, it can be shown that, whilst India is still an underdeveloped insurance market, it has a huge catch-up potential.

Section IV presents a necessary overview of the historical development of the sector, but the relevance to the current marketplace is not lost, as the original 1938 Insurance Act still forms the backbone of present insurance regulation. A more detailed dissection of current regulatory issues is offered in Section V. Sections VI and VII discuss issues in the life and non-life insurance sectors respectively. Developments with far-reaching implications, like the proliferation of bancassurance as an alternative distribution channel and the move to allow non-life insurance companies greater freedom in pricing their products, are looked at in detail.

Finally, Section VIII summaries the potential and pitfalls of rural insurance in India. Even though there is strong potential for expansion of insurance into rural areas, growth has so far remained slow. Considering that the bulk of the Indian population still resides in rural areas, it is imperative that the insurance industry's development should not miss this vast sector of the population.

Insurance in India used to be tightly regulated and monopolized by state-run insurers. Following the move towards economic reform in the early 1990s, various plans to revamp the sector finally resulted in the passage of the Insurance Regulatory and Development Authority (IRDA) Act of 1999.

Significantly, the insurance business was opened on two fronts. Firstly, domestic private-sector companies were permitted to enter both life and non-life insurance business. Secondly, foreign companies were allowed to participate, albeit with a cap on shareholding at 26%. With the introduction of the 1999 IRDA Act, the insurance sector joined a set of other economic sectors on the growth march.

During the 2003 financial year1, life insurance premiums increased by an estimated 12.3% in real terms to INR 650 billion (USD 14 billion) while non-life insurance premiums rose 12.2% to INR 178 billion (USD 3.8 billion). The strong growth in 2003 did not come in isolation. Growth in insurance premiums has been averaging at 11.3% in real terms over the last decade.

Insurance development and potential

Notwithstanding the rapid growth of the sector over the last decade, insurance in India remains at an early stage of development. At the end of 2003, the Indian insurance market (in terms of premium volume) was the 19th largest in the world, only slightly bigger than that of Denmark and comparable to that of Ireland.2 This was despite India being the second most populous country in the world as Well as the 12th largest economy. Yet, there are strong arguments in favor of sustained rapid insurance business growth in the coming years, including India's robust economic growth prospects and the nation's high savings rates 3%.

The dynamic growth of insurance buying is partly affected by the (changing) income elasticity of insurance demand. It has been shown that insurance penetration and per capita income have a strong non-linear relationship.4 Based on this relation and other considerations; it can be postulated\ that by 2014 the penetration of life insurance in India will increase to 4.4% and that of non-life insurance to 0.9%.

This refers to the financial year ending 30 March 2004. Throughout this report, the “2003-2004 financial year” is interchangeable with the “2003 financial year” and so on. Data are based on the annual reports published by the IRDA and the “The Indian Insurance Industry (Non-Life)” reports produced by Interlink Insurance brokers Pvt. Limited. Figures for 2003 are estimates by Swiss Re Economic Research & Consulting.

Major Policy Changes :

Insurance sector has been opened up for competition from Indian private insurance companies with the enactment of Insurance Regulatory and Development Authority Act, 1999 (IRDA Act). As per the provisions of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) was established on 19th April 2000 to protect the interests of holder of insurance policy and to regulate, promote and ensure orderly growth of the Insurance industry. IRDA Act 1999 paved the way for the entry of private players into the insurance market which was hitherto the exclusive privilege of public sector insurance companies/ corporations. Under the new dispensation Indian insurance companies in private sector were permitted to operate in India with the following conditions:

- Company is formed and registered under the Companies Act, 1956;
- The aggregate holdings of equity shares by a foreign company, either by itself or through its subsidiary companies or its nominees, do not exceed26%, paid up equity capital of such Indian insurance company.

Research Objective :-

To know investment pattern of the investors in Insurance companies.

Sub objectives

1. To know the practical environment of insurance industry.
2. To know the investment pattern of investors in various insurance company
3. To understand the situation of insurance industry after the privatization
4. To know the insurance product most preferred by the consumers.
5. To know the most admired company in Insurance sector.
6. To identify the purpose of investment in insurance sector.
7. To check the knowledge of the Consumers regarding the purchased insurance products.
8. To know the most influencing and least influencing factor in purchase of insurance product.

Hypothesis

1. 70% people refer ULIP plan.
2. 45% people refer Equity plan.
3. Occupation and purchase insurance product are independent
4. Occupation and knowledge of the product is independent.
5. Income and purchase of fund is independent

Research Methodology

A questionnaire that includes 16 different questions was applied to 200 people in Patan City, in March 2012. The questionnaire was filled by the respondents in the presence of interviewer.

Research Instrument :-	Questionnaire
Population Consist of :-	Patan City
Types of Sampling :-	Random Sampling
Approach :-	Descriptive
Research Techniques :-	Survey and Interview
Sampling Unit :-	Individual

Data Analysis

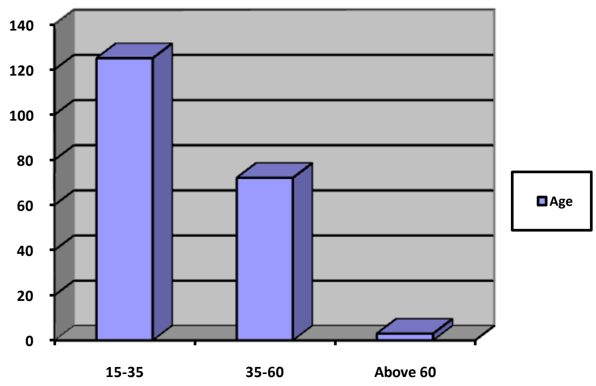
Sampling is one of the most important decisions of any report. Less no of survey may misguide the report. And large no. of survey wasting the time and money.

Sample size Determination :-

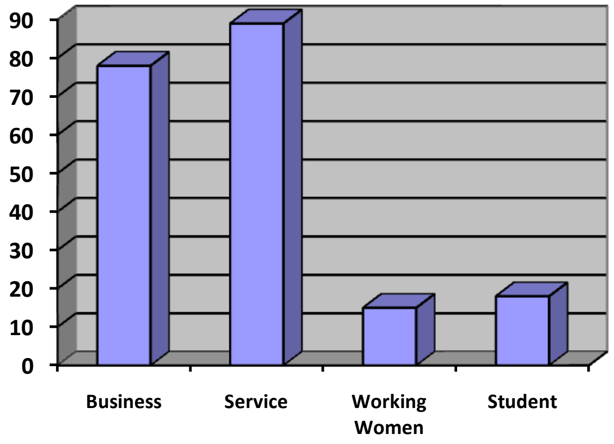
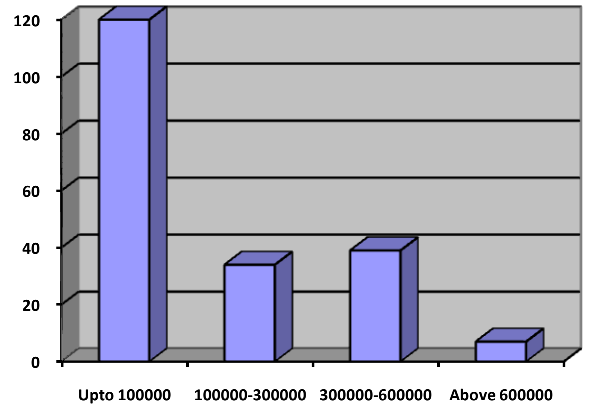
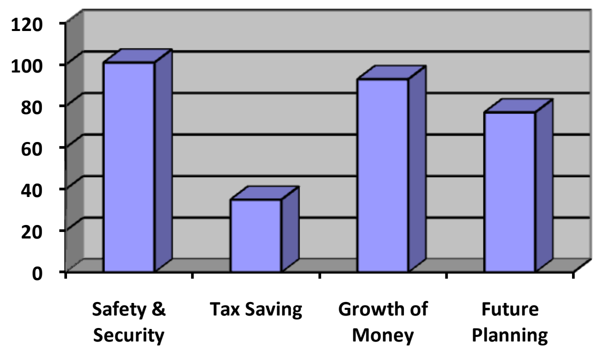
Population = 500000(approximately)
Around 14.68% of people have insurance, so 15% have insurance.
S0, 75000

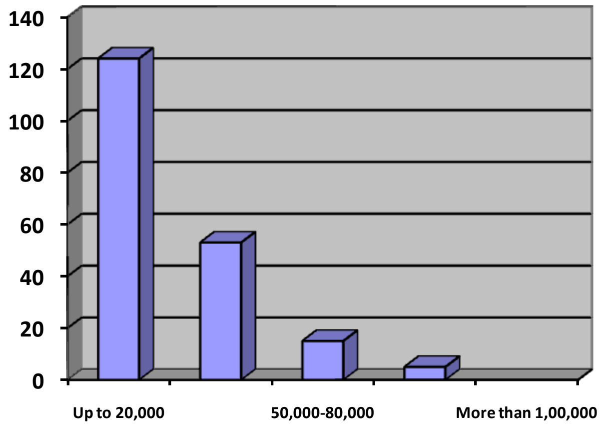
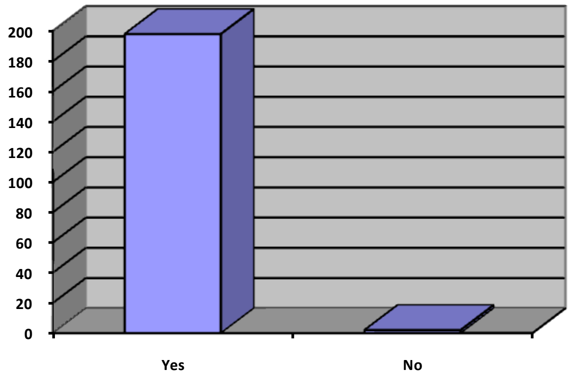
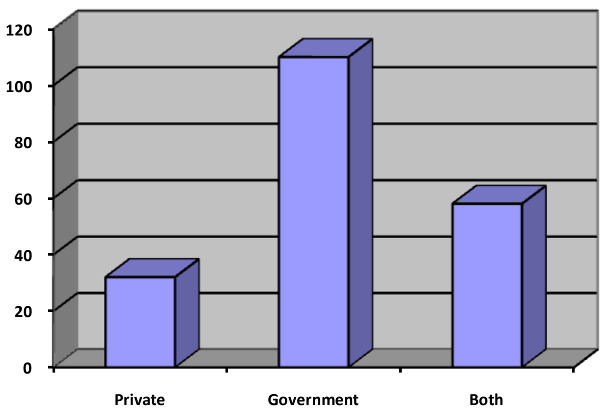
P= 15% so q= 85%, C.I= 95%, E=5 %(error)
SO, .95/2 = .475 So, Z_t = 1.96
N= Z_t p*q/e
1.96*1.96*.15*.85/.0025
n =195 sample
$\therefore n \approx 200$

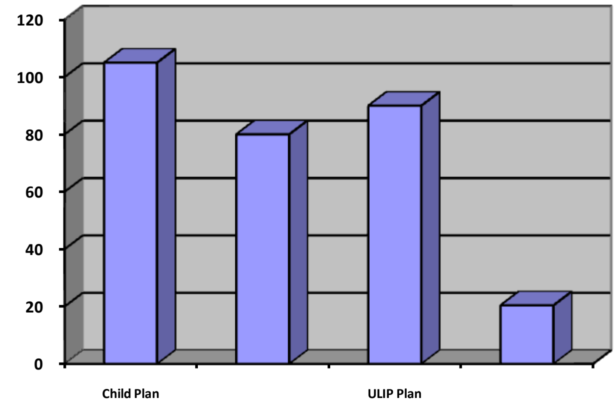
Data Analysis & Interpretation



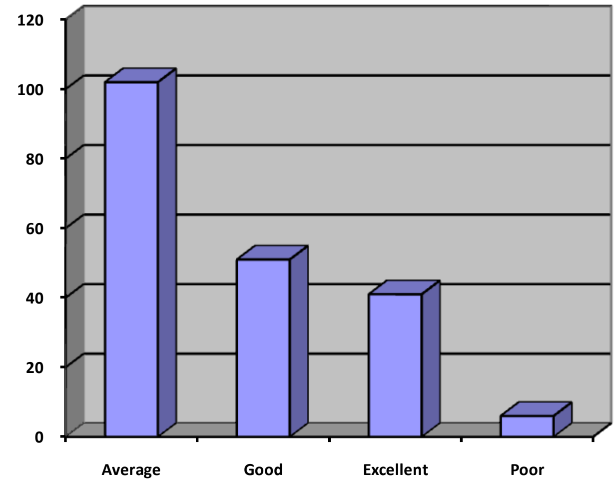
From the graph we can conclude that the respondents of age between 15-35 are the people who purchase maximum insurance. So they are the potential customers for the insurance industry.

	From the this graph we can conclude that businessman and serviceman are more insured rather than working women & student.
	From this graph we can conclude that the people whose income is 3 lakh or less than 3 lakh are more preferring insurance sector and people whose income is more than 3 lakh are investing in other sector.
	From this graph we can conclude that majority of the respondent invest for safety and security purpose and second is growth of money, future planning and very less respondent invest in insurance for tax saving.

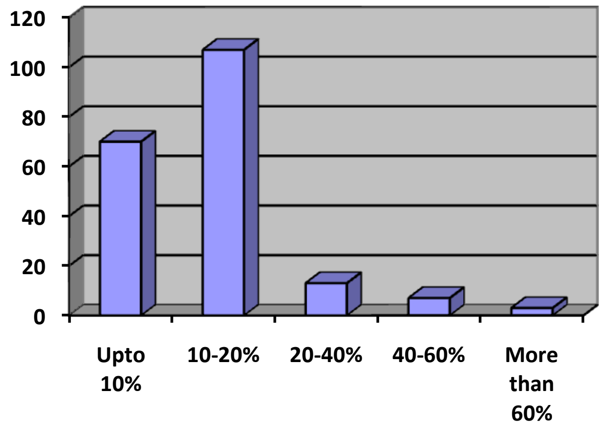
	From this graph we can conclude that majority of the respondents invest upto 20,000 in insurance and some higher income people invest around 50000 in the insurance. Less no of people are investing more than 50000.
	This graph indicates that the future uncertainty among the respondent. It is absolutely true from this graph that future is uncertain. Majority of the respondents believe that future is uncertain. So they are likely to take insurance.
	From this graph we can conclude that in spite of allowing the private sector in to the insurance market. People are more directed towards the government insurance (LIC) sector. This is the major drawback for the private sector that people have more trust in the government company. Some people are making their investment in both the companies.



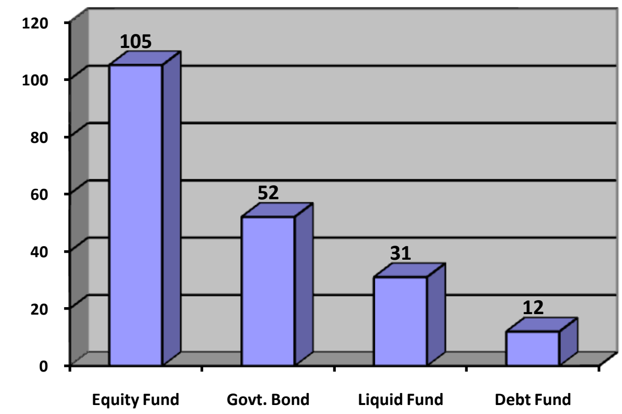
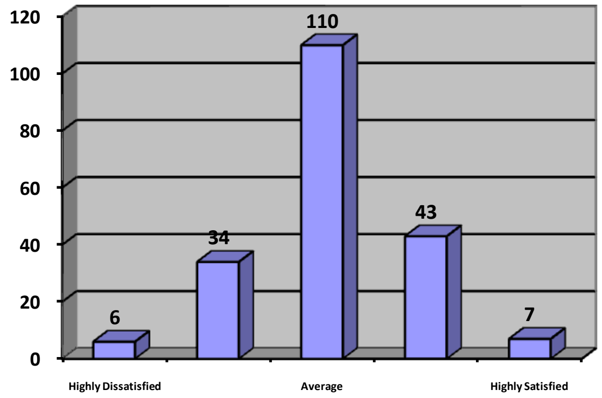
From this graph we can conclude that the majority of the respondents are investing in Child and ULIP Plan. Very less respondents are interested in endowment plan.



From this graph we can conclude that maximum people are having average knowledge about the policy so it is indicate that the purchase of policy is depend on other factor of environment like relation, advertisement and company. Only half of the respondents have good and excellent knowledge regarding product



From this graph we can conclude that majority of the investors expected rate of growth from their investment plan is 10-20%. 35% of the respondent believe that their plan will be not making more than 20% returns on the investment. Less no of people have expected more than 20%return

	From this graph we can conclude that investors are making more investment in equity fund & government bond rather than liquid fund and debt fund.
	From this graph we can conclude that investor's satisfaction ratio regarding the private sector is very average. This is the major limitations of the private company.

Hypothesis Testing

H_1: 77% People refer ULIP plan

P=0.77null hypotheses, Q=1-0.77=0.23, N= 200

Significant level is 0.05

p =78/200 = 0.39

So, $Z_c = \dfrac{p \sim P}{\sqrt{\dfrac{PQ}{n}}} = \dfrac{0.39 \sim 0.77}{\sqrt{\dfrac{0.77 \times 0.23}{200}}} = \dfrac{0.38}{0.0298} = 12.75$

Here Z_c = 12.75 (Calculated Value)

Z_t (table value) = -1.645.

Here $Z_c > Z_t$ So H_0 is rejected. So we can say that less than 77% people refer ULIP Plan. So Insurance Companies should make more promotional scheme for ULIP policy in the market.

H_2 : P = 45% People refer equity plan = null hypotheses

P = 0.45, Q = 1 – P = 1 – 0.45 = 0.55, N = 200

Significant level is 0.05

p = 105/200 = 0.525

So, $Z_c = \frac{p \sim P}{\sqrt{\frac{PQ}{n}}} = \frac{0.525 \sim 0.45}{\sqrt{\frac{0.45 \times 0.55}{200}}} = \frac{0.075}{0.0352} = 2.131$

Here Z_c = 2.131 (Calculated Value)
Z_t (table value) = 1.645.
Here $Z_c > Z_t$ So H_0 is rejected. So we can say that less than 45% people refer ULIP Plan. So Insurance Companies should make Companies make some liberal area for investors to invest in the equity fund plan.

H_3 : Occupation and purchase insurance product are independent

Occupation	Child plan	Term plan	Ulip plan	Endowment	Total
Business	45	37	54	19	155
Service	51	37	72	24	184
Wor.women	13	10	12	13	48
Student	7	10	15	9	41
Total	116	94	153	65	428

χ^2 = 12.67 (Calculated Value), DF=(r-1) (c-1) =3*3=9, 0.05 significant level, So, tabulated value is 16.91. From the above calculation we can interpret that calculated value is less than tabulated value, so Ho is accepted that means occupation and Purchase of product is independent.

H_4 : Occupation and knowledge of the product is independent.

Occupation	Average	Good	Excellent	Poor	Total
Business	27	25	16	10	78
Service	34	30	18	7	89
Wor. Women	5	4	2	4	15
Student	7	3	3	5	18
Total	73	62	39	26	200

χ^2 (Chi- square) = 9.16(calculated value), DF=(r-1) (c-1) =3*3=9, 0.05 significant level, So, tabulated value is 16.91. From the above calculation we can interpret that calculated value is small than tabulated value, so Ho is accepted that means occupation and knowledge is independent.

H_5 : Income and purchase of fund is independent

Income	Equity fund	Govt.bond	Liquid fund	Debt fund	Total
Up to 100000	35	46	42	25	148
100000-300000	48	49	38	32	167
300000-600000	24	34	30	29	117
Above 600000	20	17	28	24	89
Total	127	146	138	110	521

χ^2 (Chi- square) = 10.88 (calculated value), DF=(r-1) (c-1) =3*3=9, 0.05 significant level, So, tabulated value is 16.91. So from the above calculation I interpret that calculated value is less than tabulated value, so ho is accepted that means income and purchase of fund is independent.

Findings

- Out of total population of Patan city only 15% people have insurance.
- Age between 15-35 has more insurance policy
- Businessman and serviceman have more insurance policies.
- People whose income is Below 3 Lacs are More Preferring Insurance Sector.
- Majority of the people are Interested in ULIP Plan.
- Maximum people are having Average knowledge regarding the purchased insurance products.
- Purchase of insurance products Risk coverage is the most influencing factor and tax rate is the least influencing Factor among all the factors.
- More no. of people have investment up to the 20000r.s
- In spite of privatization in insurance sector people are more directed towards the government insurance company.
- Out of 200 sample survey less than 77% people prefer ulip plan.
- Out of 200 sample survey less than 52% people refer child plan.
- The highest investment ratio of investment pattern is 100-0.
- The expected rate of people is around 10 t0 20%.
- People have more amounts invest in equity fund and government bond.
- The satisfaction ratio of the people regarding private company is an average.
- Occupation and knowledge of the product is independent.
- Occupation and purchase of the product is independent.

Suggestions

After conducting the suitable survey we came to know so many relevant suggestions given by people and our valuable experience at time of survey which can be describe as follows:

- Private Insurance Company should improve the Service.
- As per my survey most of the people's need is Children education so the insurance companies must focus on products related to children education.
- Provide the complete and right information to the consumers about the products.
- Insurance company should give the proper training to the Insurance agent so he/she can give the complete knowledge to customer.
- Insurance companies should make the procedure of the claim simple and understandable.
- Insurance company should make more promotion of insurance in rural area.

Conclusions

From the above result and finding, most influence factor for purchasing the insurance product are safety and security, growth of money and planning for future. And also the investors are likely to make their investment in child and ulip plan. And in spite of privatization investors are more likely to invest in Government Company.

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