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PROBLEMS AND PROSPECTS OF LIFE INSURANCE SECTOR IN INDIA

Dr. Brahmdeo Modi*

ABSTRACT

The massive increases in the size of the economies, reduced and rapid globalization that were witnessed in the recent times have led to unprecedented changes in the way the economies function. In the same way after the liberalization the Insurance industry too has witnessed revolutionary changes with a creation of recent classes of products, increasing complexity of the products and a growing preference among the institutions to expire investment risk to the investors. At the moment as many life insurance companies are operating in India and everyone is issuing policy formats with different variations. As there's no uniformity, it's difficult for the market furthermore as policyholders to understand and make reasonable comparisons of terms and conditions, privileges and benefits offered by different insurers. Although most of the earliest studies have predicted about the varied problems & growth opportunities in the life insurance sector but most of them belongs to pre- liberalization period which isn't significant during this liberalized and competitive era where most of the businesses are private apart from LIC. Hence, it's worthwhile that a heavy research should be done to search out out the complexities of the life insurance market with a view on growth opportunity which provides much needed solution without compromising the competitive spirit of the market. Therefore this much needed study target this problems with a view to formulate the solutions and explore the new avenues of growth. Since only a few researchers has done significant study in the newly emerging field of life insurance. Supported the above problems & prospect in the insurance market the problems that must be addressed is on a way to sustain the competitive advantage for a protracted period of time with effective service to the shoppers & company's attempt at build up and maintaining advantage over competition for an extended period. The current study identifies the issues & prospects of the insurance industry with a view to suggest suitable strategies for improving their performance and potential in the global market.

KEYWORDS*: Liberalization, Compromising, Strategies, Responsibility, Claim Refund.*

Introduction

The life insurance contracts are heavily enthusiastic about reciprocal obligations and in a perfect situation, where both the parties have fully understood their rights and responsibilities, and acted accordingly; matters of dispute never arise. We've observed the amount of dissatisfaction is higher privately company's customers due to fake promises made during selling process. it's often been said that there's a good deal of asymmetry of knowledge in insurance contracts; and most of this asymmetry arises because the policyholder doesn't understand the degree of the contract either on account of the shortage of awareness or due to the very fact that the insurer has not bothered to

* HOD of Commerce, RNYM College Barhi VBU Hazaribag, Jharkhand, India.

elucidate the terms of the accept their exhaustive detail. The insurance sector features a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we live in a very more risky world. Life is becoming increasingly riskier. In this more uncertain world, that enough evidence is on the market in the recent period, life insurance will have a very important role to play in reducing the danger burden individuals and businesses need to bear. In the emerging scenario, the insurance industry must listen on emerging problems and know the ways for grabbing the potential of the market.

Insurance – A Conceptual Framework

Insurance may be a tool by which losses of a little number of persons are compensated out of funds collected from sizable amount of persons. Insurance is safeguard against uncertainties. It provides financial reimbursement for losses suffered because of incident of unanticipated events, insured in policy of insurance. But in life insurance we can't reimburse anybody's life that's why we call it "Life Insurance" means we assure an amount where a family can maintain the quality of living. It's a commonly acknowledged phenomenon that there are numerous risks in every sphere of life. For human life there are risks of death or disability; for property, there are fire risks; for shipment of products, there are perils of sea and then on. The probabilities of occurrences of the events causing losses are quite uncertain because these may or might not happen. Therefore, with this view in mind, people facing common risks move and make their small contributions to the common fund. While it should not be possible to inform before, which person will suffer the losses, it's possible to figure out what percentage persons on a mean out of the group, may suffer losses. When risk occurs, the loss is created good out of the common fund. In this way, each and each one shares the danger.

Concept of Life Insurance

The family is put to hardship. Sometimes, survival itself is in danger for the dependants. Risks are unpredictable. Insurance is insurance on persons. Though Human life cannot be valued, a monetary sum may be determined which relies on loss of income in future years. Hence in insurance, the Sum Assured (or the number absolute to be paid in the event of a loss) is by way of a 'benefit' in the case of life insurance. Life insurance products provide an exact amount of cash to the dependants of the insured just in case the life insured dies during his active income earning period. An individual also can protect his maturity when he ceases to earn and has no other means of income by purchasing an annuity product. There are variety of life insurance products which supply protection and also plus savings. An insurance product provides a hard and fast amount of cash on death during the amount of contract. A Life insurance product provides a set amount of cash on death. A life insurance product provided a set amount of cash either on death during the amount of contract or at the expiry of contract if life assured is alive. A a reimbursement insurance product provides not only fixed amounts which are payable on specified dates during the amount of contract, but also the total amount of cash assured on death during the amount of contract. An annuity product provides a series of monthly payments on stipulated dates only if the life assured is alive on the stipulated dates. A Unit linked product provides not only a set amount of cash on death but also sums of cash which are linked with the underlying value of assets on the required dates.

Present Situation in India

The insurance sector was detached for personal participation on the bottom that, in spite of giant contributions made by the general public sector (LIC) to expand the coverage and spread awareness about insurance, the interests of the consumers would be better served if there's competition among the life insurers. The explanations that prompted the government to herald reform in the insurance sector are well-known. While the general public Sector insurance companies made enormous contribution in the spread of awareness about insurance, and expanded the market, it absolutely was recognized that their reach was still limited, the range of products offered restricted and therefore the service to the patron inadequate. It had been also felt that the rapid economic process witnessed in the 90s cannot be sustained without a blooming insurance sector. Country contains a vast potential waiting to be tapped and this could be done only we've an outsized number of companies spreading their business across the country and offering a spread of products catering to the stress of various sections of the population. It absolutely was also felt that competition would generate a healthy attitude towards redressal of consumer grievances and improve the standard of service. The insurance sector was, therefore, unfolded for personal sector participation with provision for limited foreign equity exposure. We've got now nine years of experience of public and personal sector operating together and it's, perhaps, time to determine whether the expectations are fulfilled or not. And there's must reveal the untapped potential and specialize in the prevailing problems related with operations & customer satisfaction.

Problems of Life Insurance

Life Insurance contracts are heavily hooked in to reciprocal obligations and in a perfect situation, where both the parties have fully understood their rights and responsibilities, and acted accordingly; true of dispute never arise. it's often been said that there's an excellent deal of asymmetry of data in insurance contracts; and most of this asymmetry arises because the policyholder doesn't understand the degree of the contract either on account of the shortage of awareness or due to the very fact that the insurer has not bothered to clarify the terms of the go for their exhaustive detail. In any case, the controversy arises only if there's a repudiation of a claim, and by then it's too late.

- **Insurance Awareness:** The large increases in the size of the economies, reduced government interventions and rapid globalization that were witnessed in the recent times have led to unprecedented changes in the way the economies function. In the same way the Insurance industry too has witnessed revolutionary changes with a creation of latest classes of products, increasing complexity of the products and a growing preference among the institutions to pass away investment risk to the investors. Recent technological innovations have changed the way the financial sector operates. While it's indisputable that an honest number of the above changes indicate progress and are therefore quite welcome, they need raised fresh demands on individuals. The new financial set-up creates a bunch of opportunities for those that are savvy enough to grasp and operate it. At the identical time those lacking in awareness could expose themselves to losses, exploitation and denial of opportunities. Thus the knowledge requirement is higher now than ever before, and selection is working more on the economic/ financial basis than earlier. Intro visible of the increasing role of economy and finance in the society and their growing complexity, it's extremely important for a personal to create an endeavor to know them. At the societal level, a population that's illiterate in these areas signifies backwardness in the society and impedes its progress.On the opposite hand literate populations tend to form right choices and show quicker progress. Concerted efforts therefore must be made to rid the society of economic/financial illiteracy to boost the well-being of its public.
- **Delay in Payment of Premium**: Insurance is valid only as long as premiums are paid and only it's kept in an "active" state. There are several instances where delay in premium payment may lead to the policy being "lapsed" during which period the customer isn't covered under the advantages of the policy. This is often very often a serious reason because of which customers / claimants are unable to receive benefits which can have otherwise been available to them.
- **Breach of Principle of Utmost Good Faith**: On a really different consideration, we must also speak about the principle of "Uberrima fides", or the principle of utmost honesty, on which all insurance contracts are based. This dictates that while applying for a contract the customer must disclose all facts known to him. The insurer would then decide the acceptable rates for the policy. Under breach of this principle (where the customer misrepresents / suppresses facts), the insurer could also be placed under an inferiority where appropriate rates might not be applied or a policy could also be given where none was financially viable. In the financial interest of the insurer (and the interest of other policyholders) such claims could also be repudiated and also the policy could also be considered "void".
- **Claim Fraud:** All Insurers are in the business of paying claims to serve the aim of insurance. Most claims would be from honest contracts and from persons having the primary rights on the funds in the life assurance pool. Notwithstanding this, it doesn't imply that every one claims would get paid. Only legitimate claims warrant settlement. Legitimacy of a claim may be a contentious issue and therefore the objective is to determine this by causing least possible inconvenience to the client. The sanctified principle is 'Innocent until proven guilty'. Considering the promising stage of the private insurance industry, where most of the target population has practically no knowledge of the industry, it'd be extremely unproductive for claim analysts to think about all claimants being 'Fraudulent until proven otherwise'. Premiums payable for

getting an insurance cover is but only atiny low amount as compared to the number receivable on settlement of a claim. This is often likely to end in scenarios where insurance cover is taken not for the valid need of economic security except for in anticipation of gain if a claim is settled. The industry has already witnessed several concerted efforts by individuals, and groups of individuals, who have devised intriguing methods to say for these amounts when none was payable. These range from the common, taking cover on people during terminal illness or providing altered documents to prove loss, to the more severe where people are 'invented' and their deaths presupposed to claim for the proceeds. Often, these incidents come to fore at the time of claim processing and investigation. Multiple insurance companies operating in the same market clearly adds to the benefit in which such operations could also be distributed and not be discovered. Claim declinature alone isn't visiting be enough in such instances, unless we are ready to take action against the individuals and groups involved.

- **Possibility of Moral Hazard**: Although from the statements made in the proposal form, personal statement and written report (where required) the insurer is in an exceedingly position to determine the chance involved because it can ascertain there from the age, sex, occupation, physique and present condition of health of the individual; the danger of death in the case of a specific proponent depends also on other factors like his own personal habits, his standard of living, income etc. to the current extent, the insurer relies upon the agent for a real and proper picture of the individual to incline in the Agent's Confidential Report, which is required to be completed altogether cases. The income of a proposer plays a awfully important part to decide the financial loss involved in acceptance of the danger on his life. Financial loss would operate in cases where there's no genuine need for insurance. the necessity for insurance which may be a financial transaction are often measured by the loss to the beneficiary resulting from the cessation of the income earned by the life assured due to his death. Income from investments or property doesn't bring about to a requirement for insurance because it doesn't cease on the death of the holder. Policies of insurance are sometimes taken for securing rebate of income tax; such rebate is offered in respect of premiums paid not only under standard tables of insurance but under Deferred Annuities similarly, subject to certain conditions.

Conclusion

The insurance sector features a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we reside in a more risky world. Trade is becoming increasingly global. Technologies are changing and getting replaced at a faster rate. In this more uncertain world, that enough evidence is on the market in the recent period, life assurance will have a vital role to play in reducing the chance burden individuals and businesses should bear. In the emerging scenario, the insurance industry must concentrate to (a) product innovation, (b) appropriate pricing, and (c) speedy settlement of claims. In the wake of the worldwide financial meltdown, most investors are viewing options which help them safeguard their capital. Life assurance is seen to be one such avenue. The three key triggers for getting insurance are Family Protection just in case of untimely death, Retirement Corpus and Securing Child's Future. Hence the mission of the life assurance sector in India should be to increase the sum of money over a bigger section of the population and a wider segment of activities with none problems. The three guiding principles of the industry must be to charge premium no beyond what's warranted by strict actuarial considerations, to speculate the funds for obtaining maximum yield for the policy holders per the security of capital and to render efficient and prompt service to policy holders. With imaginative corporate planning and an abiding commitment to improved service, the mission of widening the spread of insurance is achieved.

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