



An overview on Life Insurance Business in India

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Abstract: *This paper presents an overview on the life insurance business in India. It covers types of insurance also. Insurance is not an investment product; it's a Protection instrument for your Family or any one you want to cover. There are other products for your investments. There are plenty of advantages to life insurance but also some disadvantages. There are disadvantage of any life insurance policy is that it may be unsuitable for the policy owner based on budget, risk tolerance, liquidity needs and inappropriate polices for the planning goal.*

Key words: *Assurance, business, Insurance sector,*

Introduction

The insurance sector went through a full circle of phases from being unregulated to completely regulate and then currently being partly deregulated. It is governed by a number of acts. The first statute in India to regulate the life insurance business was the Indian Life Assurance Companies Act, 1912. The Insurance Act of 1938¹ was the first legislation governing all forms of insurance to provide strict state control over insurance business. Life insurance in India was completely nationalized on January 19, 1956, through the Life Insurance Corporation Act. All 245 insurance companies operating then in the country were merged into one entity, the Life Insurance Corporation of India. The General Business Act of 1972 was enacted to nationalise the about 100 general insurance companies then and subsequently merging them into four companies. All the companies were amalgamated into National Insurance, New India Assurance, Oriental Insurance and United India Insurance, which were headquartered in each of the four metropolitan cities.

Until 1999, there were no private insurance companies in India. The

government then introduced the Insurance Regulatory and Development Authority Act in 1999, thereby deregulating the insurance sector and allowing private companies. Furthermore, foreign investment was also allowed and capped at 26% holding in the Indian insurance companies. In 2006, the Actuaries Act was passed by parliament to give the profession statutory status on par with Chartered Accountants, Notaries, Cost & Works Accountants, Advocates, Architects and Company Secretaries. A minimum capital of US\$80 million (Rs.400 Crores) is required by legislation to set up an insurance business.

Definition of Insurance

A contract (policy) in which an individual or entity receives financial protection or reimbursement against losses from an insurance company. The company pools clients' risks to make payments more affordable for the insured.

You can find an insurance policy to cover almost anything imaginable but only a handful of policies are actually ones that you need to have. You work hard throughout your life to build wealth and live a happy and comfortable life, so some types of insurance can protect your



possessions, income and even provide for a loved one when you are gone.

Health Insurance:

One of the most important types of insurance to have is health insurance. Your good health is what allows you to work and earn money and otherwise enjoy life. If you were to come down with a sickness or have an accident without health insurance you may find yourself unable to receive treatment or even in debt to the hospital.

Many employers provide health insurance benefits to full-time and even some part-time employees. If you do not currently have health insurance coverage this is the first place to check as it will generally be the most affordable. If you are married, you may both be able to receive coverage under just one of the employer plans. If your employer does not offer health insurance or you are self-employed you still need it. While it may not be cheap the fact remains; what do you have if you don't have your health? Even a basic hospital bill without insurance can run into the thousands of dollars. It isn't worth risking financial ruin to save a few bucks on a health insurance premium.

Life Insurance:

This type of policy is more important if you are married and/or have children. Your life is valuable because it is what allows you to work and earn an income to provide for your family. When you are gone you create an income gap which could put your spouse or children in financial trouble.

Death is hard enough; don't make it even harder by putting your loved ones in a financial jam if the unfortunate does happen. Funerals alone can be expensive and it creates even more stress on the

family. At the very least you should have enough to cover basic funeral expenses and provide a cushion for your family, and at most it should provide a stream of income for your family that can replace what is now gone.

If you do not currently have life insurance your best bet is to check with your employer first. Many employers offer a basic life insurance as a benefit and some even allow you to purchase additional coverage at a very affordable rate. Outside of employer plans there are hundreds of insurance companies that can provide the right coverage for you.

Property Insurance:

One type of policy that for most people that is actually mandatory to have is homeowners insurance when you have a mortgage. If you borrow money from the bank to purchase a home they will require the asset to be insured. For many people this insurance premium is built into the mortgage payment. For many people their home is their greatest asset so it is vital to adequately protect it.

If you rent instead of own, a renter's insurance policy is just as important. Your belongings inside the dwelling can add up to a significant amount of money. In the event of a burglary, fire or disaster you should be able to at least have a policy that can cover most of the replacement costs.

Auto Insurance:

Another type of policy that is often required is auto insurance. Most states require by law that you have basic auto insurance. While it may be a law, too many people still drive around without it.

The most common reason to have auto insurance is to cover the replacement of an expensive asset. Like a home, automobiles can be quite expensive and if



it gets damaged you want to be able to repair or replace it. But there is more to auto insurance than just covering the car itself.

Most automotive insurance policies cover bodily injury or death of another person in an incident that you are legally responsible. While it generally pays for medical expenses related to the incident it can also cover legal defence costs. You will also generally find medical payment coverage that pays for medical treatment for you and your passengers during an accident regardless of who was at fault.

Types of Life Insurance Policies

Whole life policy:- the premium on this policy is payable throughout the lifetime of the life assured. The sum assured becomes payable only on the death of insured.

Endowment policy:

This policy is taken for a specific period known as 'endowment period'. The sum assured is payable either on the death of life assured or on the expiry of a fixed period. If the person does not die up to the maturity of the policy, he shall get back the insured amount after the maturity of life policy. It is the most popular form of life insurance.

Joint life policy:- In this policy, husband and wife or the partners of a business can have a joint policy. The sum assured is payable at the end of the endowment term or on the first death of any one of the lives assured, whichever is earlier. Such policies are usually taken by partnership firms.

Annuity policy:- In this policy, the amount is payable by the insurer not in one lump-sum but by monthly, quarterly, half-yearly or annual installments which are paid either until death or for a specified number of years. This type of

policy is very useful to those persons who desire to provide a regular income for themselves and their dependents after the expiry of a specific period.

Sinking fund policy:- this policy is mostly taken by firms and companies to accumulate funds to pay off a liability or for making a provision for the replacement of an asset after a period of time.

Group insurance policy:- this policy may be taken out for the protection of lives of all employees in a business concern. Dependents of the employees are entitled to the benefits of these insurances.

Life insurance is not covered under the provisions of double insurance as life insurance is not a contract of indemnity

Advantages of Life Insurance

Risk Cover - Life today is full of uncertainties; in this scenario Life Insurance ensures that your

loved ones continue to enjoy a good quality of life against any unforeseen event.

Planning for life stage needs - Life Insurance not only provides for financial support in the event of untimely death but also acts as a long term investment. You can meet your goals, be it your children's education, their marriage, building your dream home or planning a relaxed retired life, according to your life stage and risk appetite. Traditional life insurance policies i.e. traditional endowment plans, offer in-built guarantees and defined maturity benefits through variety of product options such as Money Back, Guaranteed Cash Values, Guaranteed Maturity Values. Protection against rising health expenses - Life Insurers through riders or standalone health insurance plans offer the benefits



of protection against critical diseases and hospitalization expenses. This benefit has assumed critical importance given the increasing incidence of lifestyle diseases and escalating medical costs.

Builds the habit of thrift: Life Insurance is a long-term contract whereas policyholder, you have to pay a fixed amount at a defined periodicity. This builds the habit of long-term savings. Regular savings over a long period ensures that a decent corpus is built to meet financial needs at various life stages. Safe and profitable long-term investment - Life Insurance is a highly regulated sector. IRDA of India, the regulatory body, through various rules and regulations ensures that the safety of the policyholder's money is the primary responsibility of all stakeholders. Life Insurance being a long-term savings instrument, also ensures that the life insurers focus on returns over a long-term and do not take risky investment decisions for short term gains.

Assured income through annuities: Life Insurance is one of the best instruments for retirement planning. The money saved during the earning life span is utilized to provide a steady source of income during the retired phase of life. Protection plus savings over a long term - Since traditional policies are viewed both by the distributors as well as the customers as a long term commitment; these policies help the policyholders meet the dual need of protection and long term wealth creation efficiently.

Growth through dividends - Traditional policies offer an opportunity to participate in the economic growth without taking the investment risk. The investment income is distributed among the policyholders through annual announcement of dividends/bonus.

Facility of loans without affecting the policy benefits - Policyholders has the option of taking loan against the policy. This helps you meet your unplanned life stage needs without adversely affecting the benefits of the policy they have bought.

Tax Benefits-Insurance plans provide attractive tax-benefits for both at the time of entry and exit under most of the plans.

Mortgage Redemption- Insurance acts as an effective tool to cover mortgages and loans taken by

the policyholders so that, in case of any unforeseen event, the burden of repayment does not fall on the bereaved family.

Conclusion:

Insurance is not an investment product, it's a Protection instrument for your Family or any one you want to cover. There are other products for your investments. There are plenty of advantages to life insurance but also some disadvantages. There are disadvantage of any life insurance policy is that it may be unsuitable for the policy owner based on budget, risk tolerance, liquidity needs and inappropriate policies for the planning goal.