

## Importance of Life Insurance in Meeting out Financial Needs and Security

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### Abstract

The journey of human life, from womb to tomb is full of woes, worries and needs. Man is endowed with highly intellectual ability and he makes persistent efforts for the betterment and advancement of his. life, which gives him the highest happiness and comfort, also benefiting in that process all those who depend on him for economic security.

**Keywords :** ULIPs, FPI, Integrity, IRDA, LIC

### Introduction

Needs and securities in current scenario with challenges and emerging trends are changed. American psychologist Abraham Maslow's theory of hierarchy of needs has calibrated these human needs into five stages,

- 1) **Physiological Needs,**
- 2) **Safety/Security Needs,**
- 3) **Social Needs,**
- 4) **Ego Needs and**
- 5) **Self Actualization/Self Fulfillment needs.**

In the present socioeconomic scenario, the human needs can be restructured in a FEP module i.e. on Financial, Emotional and Philosophical aspects, and here we will throw light on these three with reference to insurance.

### Financial Aspect:

Finance plays a crucial role in a human life. Every human being exerts himself to acquire financial power, using his muscle power and intellectual power; so that he can have that money power. The financial needs can be split into four S's,

- i) **Swapping**
- ii) **Saving**
- iii) **Stocking and**
- iv) **Securing.**

While people roll in the first three steps, i.e. Swapping, Saving and Stocking gradually in that order; the fourth one, i.e. Securing lacks behind. Man seems to relegate 'financial security' to a

lower down position. Financial security is as important need in the personal financial planning of an individual as other needs are. Hence it deserves the full attention for enduring financial stability. Insurance is a firm fulcrum for providing this stability. Yet people are by instinct averse to insurance. This can be attributed to the peculiar characteristics of insurance, such as, intangibility of the product and benefits appearing to come to fruition at too distant a future.

### Emotional Aspect

Insurance is significantly concerned with emotions. Insurance is meant for catering to unpredictable and deferred needs. It should, however, be purchased well before its need arises, lest it get too late. It is of little use digging a well when thirsty, or trying to lock the stable after the horses have fled. People postpone availing of insurance cover as they don't sense the immediate need thereof. Some people sarcastically feel that not many persons are really benefited by insurance. It is true that many people come out 'unhurt and safe' in the journey of life. But quite a good number of unfortunate people, though relatively lesser in number, face the 'storm' and they and/or their loved ones are forced to bear the brunt and to face a life of hardship by the happening of an unfortunate tragedy which apparently had a low probability but turned out to be a calamity of utmost severity. It is therefore better to keep the lifeboat ready when one gets set for a voyage. It is rightly said that "It is better to have insurance for a hundred years and not need it, than to need it one day and not have it".

Insurance is concerned with dreaded and disliked eventualities like death, disease, disability and dilapidation. Everyone is exposed to these risks. Everyone has to accept these realities of life and be well prepared to face them. Insurance is undoubtedly the best way out. People act on emotions rather than on reason. Insurance is a long term contract. The benefits fructify in future. The timing of fructification is to be decided in the initial stage by proper planning. The fruit reaper has to have patience, if he wants to enjoy the fruit.

### **Philosophical Aspect:**

Insurance means spreading of risk and sharing of loss amongst the community of insured people. It is a co-operative venture. Insurance is beneficial not only to the individual but to the entire community of the insured people. Thus it promotes fraternal concern. When an individual dies, three deaths occur, that of

- i) **the individual himself or herself**
- ii) **a father, a mother, a brother, a sister, a son, a daughter or some such relative,**
- iii) **a breadwinner of the family.**

The third death is the most disastrous. As it results in stoppage of the income, the family is made to face a financial crisis. Nevertheless, if the deceased individual were to be insured, there would be only two deaths. The third death would be avoided, economically at least, and the family would be financially secure. If the number of such secured families is more in the society, the socio-economic inadequacy would be minimized to a great extent. The money paid by the insured public by way of premium does not remain idle in the coffer. World over, it is used for promoting industries, business, commerce and developmental programs particularly in developing countries like India. Indirectly, the insured community contributes for a noble cause - nation building activity. With a proper perspective, insurance can be used as a means to achieve many objectives. One can perform his duties as a father, as a husband or as a son by insuring himself so that financially the dependents do not become orphaned in the event of his premature death. He can express his love and affection towards his beloved ones even from beyond the graveyard. Finance can be managed in a better way with the help of insurance. Men have

many wants, needs and desires. They can fulfill their desires by means of insurance, which means freedom or liberation from all worries, which insurance undoubtedly ensures. It can, therefore, be said that insurance is a multifaceted tool in the hands of mankind for a number of purposes. About 10% of the GDP of the developed countries comes from insurance premium (in India it is a little over 4%). Insurance as a business activity is a driver of economic development. Insurance is an effective device which promotes stability, prosperity and happiness to the individual and the society at large. Development and insurance are also complementary to each other. Prudent men will realize the importance of insurance and will accept it as an integral part of the way of financial planning in life.

### **Review of Literature**

Another important and heart warming trend in insurance industry is that the insurers are trying to discharge their Corporate Social Responsibility as much as they can. An insurer is judged not just by the greatness of its products but also by its human face. When insurers directly do some work in building the infrastructures of the society or help some underprivileged sections of society, people become more respectful of them and can eventually become loyal customers

Insurance can indeed change the face of India as it can provide confidence to people to take more risks which are very important for taking the country to the next level of growth and development. If the insurers can involve rural and urban youths as volunteers in this campaign along with employee volunteers of the insurers, the required level of awareness can surely be generated in a few years.

### **Decisions of quantum:**

For an individual, having decided to obtain insurance, the next logical dilemma to deal with is to the quantum of insurance that he or she should purchase. With the dynamics of finance and economy ever being so volatile, it is certainly a major decision and is something that is not easy to arrive at. Besides, current affordability as also the projected affordability in future, considering the fact that it is a long term commitment, is another

factor that has to be weighed sensibly. In such a scenario, the Human Life Value (HLV) provides the most objective and need-based solution. Human life has an economic value. It is the monetary worth of an earning person and is the capitalized value of his net future earnings less cost of his current self maintenance. It is exactly to preserve or secure this economic value of human life, which is subjected to vagaries of nature, that life insurance was devised. Once the prospect realizes this important fact, his endeavor to purchase life insurance is to protect his dependants from any eventuality. If the human life value-based selling and after sales service are rendered by the agent in letter and spirit to the client's utmost satisfaction, there will be further development and conservation of life insurance business. Human life's value may be defined as the capitalized value of the net future earnings of an individual after taking into account appropriate costs for his/her self maintenance. It is the monetary value of an earning person. The facts that determine it are training and education, character and health and, above all, his ability to work. The higher these factors, the higher are the values; and the lower these factors, the lower is his economic value. Human life value-based selling and appropriate after-sales service are the need of the hour. The emphasis should be on the total needs concept, as the basis for developing life insurance programs for individuals. In the same vein, emphasis should be on the concept of building a life insurance clientele, which can be achieved only by an agent who gives professionally competent service and advice. If these two aspects are pursued by the insurer in letter and spirit, there is ample scope for increase in volumes of business, and its retention.

### **Challenges of the Industry**

Life insurance industry is passing through a difficult phase in our country. There is enormous scope for the industry to grow. Yet, the industry is unable to grow in recent years. There has been de-growth in 2012-13 to the extent of 6.32% in terms of First Premium Income (FPI). The economy is growing and so is the per capita income in all the segments of the economy. But, the life insurance industry finds it difficult to make use of this golden opportunity. Insurance intermediaries lost much of their credibility after the ULIPs failed to generate expected returns. A lot of ULIPs were

sold on false promises. So, now the insurance intermediaries find it difficult to regain the same confidence of people. This is a great challenge. This challenge is greater for those agents who operate in the rural and semi-urban areas. As agents still contribute 78.69% of total business, their success is critical for the success of the life insurance industry in India.

The productivity of the agents is low because of mis-selling of ULIPs. Barring a small proportion of agents who have got MORT or similar recognition for the consistency of their performance, a very large number of agents have failed to become true professionals. They are mostly part timers and do not even have the inner motivation to grow. If insurance industry has to grow, the same way, the skills, competencies and attitudes of all agents have to get a total face lift. Professionalizing a vast sales force is a big challenge for all insurers. The average number of policies sold by the agents in 2011-12, proves that an insurance agent, on an average, has not been able to make a career out of his job. If an agent is not fully devoted in this profession on a regular basis, it is very difficult for him to bring quality business and also to give proper services to the customers.

Perhaps the biggest challenge is the lack of proper insurance awareness. Even after 57 years LIC was formed, many people still do not understand the value of insurance properly. Although LIC did a commendable job in spreading the message of insurance, most people still can not distinguish insurance from other forms of investments. That is why only a few products are demanded by the market. Our agents have failed to market need based insurance. At best, insurance is sold as a savings instrument or an investment instrument. Most of the agents continue to push products which give more commissions or where service obligations are less. Agents could have been the ideal medium for generating insurance awareness as they are in direct contact with the customers. But lack of competency, professionalism and integrity on the part of many of the agents (and of other intermediaries as well) have prevented them from improving insurance awareness to the extent it should have been.

## Recent Trends in the Life Insurance Industry

The good news is that the insurers are trying their best to meet the challenges. Recent trends in the industry show that the insurers are fast changing the way of their functioning. Insurers are now trying to sell a blend of linked and non-linked products. They are also trying to sell more of long term products. This is a step in the right direction. People indeed need more of long term insurance products, covering them protection throughout their working life. This will also ensure consistency of business for the insurers.

Many insurers, especially the private insurers are now successfully marketing term assurance among the youth. This is great as the youth can get a large cover at the minimum of premium. Term assurance carries no maturity value and therefore it is heartening that the new generation is able to pick up a product which is pure insurance. But, while granting a huge cover, the insurers have to assess the quality of each risk carefully because if a claim is repudiated later, it can shake the confidence of the people in the institution called life insurance.

Another important trend in insurance industry is that a large volume of selling is happening online. Some private insurers have been doing business on line for quite some time. Since the new generation is tech savvy and makes a lot of buying online, insurers are rightly catching the young customers in the internet. After all, an insurer has to be present wherever the customers are i.e. purely customer friendly. The insurers are rightly doing a lot of marketing and brand building activities in the social media.

Although insurers know that it is difficult to professionalize lakhs of tied agents with diverse social and educational backgrounds, they understand the importance of training in improving the skills and attitudes of the agents working across the length and breadth of the country. Even today, common people get to interact with the agents only, before buying insurance. If the agent is found knowledgeable and trustworthy, it improves the image of the insurers.

All insurers have started depending heavily on their banc assurance partners, for increasing

insurance penetration in special segments. In our country, people depend a lot on banks and therefore banks have earned more acceptability in rural as well as in urban areas. New IRDA regulation is going to allow banks to sell insurance products of multiple insurers. So, all insurers have a great chance to increase their sales as people will have a freedom to choose whichever insurer they want to go with. LIC has been asked to make its presence felt in areas where population is more than 10,000. Probably, LIC will do this by opening one man offices within the premises of its banc assurance partners. Other insurers are surely contemplating similar actions, to go deeper into the insurance market.

## Conclusion

Globalization has become a broad heading for a multitude of global interactions, ranging from the expansion of cultural influences across borders to the enlargement of economic and business relations throughout the world. It has different dynamic force for different person. It may be treated as a phenomenon, a philosophy and a process, which affects human beings.

Insurance being an integral part of financial service could not claim immunity to the impact of the globalization process and opened up to private and global player world over, including India. So many MNCs are now entering into the insurance sector which is now a booming sector. Marketing after globalization has become more customer oriented, better service oriented and more competitive. To sustain in present era insurance sector has to provide better satisfaction, more value addition and strategic development.

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