A STUDY ON RISK MANAGEMENT TOOLS AND TECHNIQUES IN LIFE INSURANCE INDUSTRY IN INDIA

MBA Hospital and Health Management

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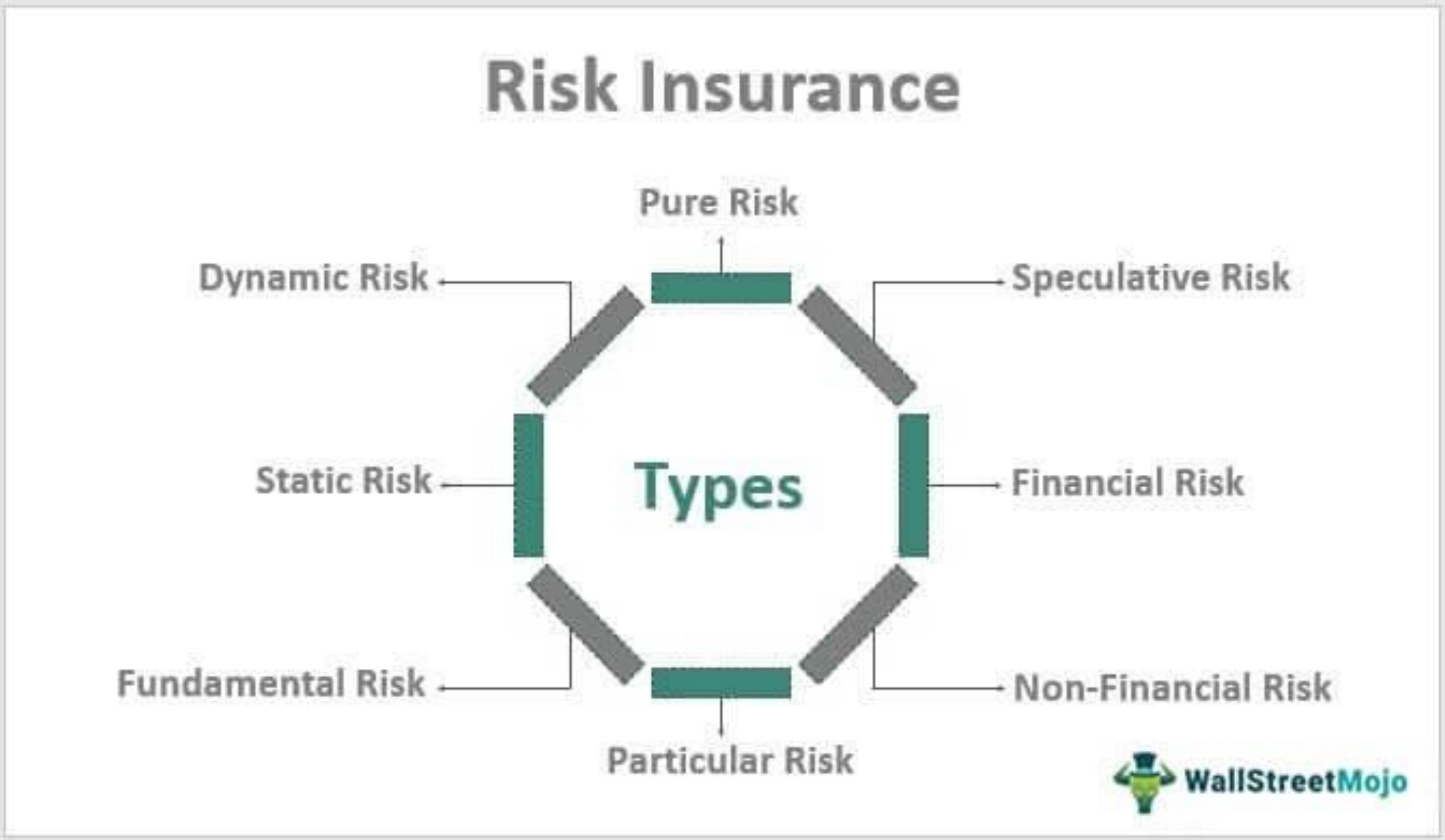
What is life insurance and Risk in insurance ?

Life insurance : Life insurance is a contract between an insurance policy holder and an insurer or assurer, where the insurer promises to pay a designated beneficiary a sum of money upon the death of an insured person. Depending on the contract, other events such as terminal illness or critical illness can also trigger payment.

In insurance terms, risk is the chance something harmful or unexpected could happen. This might involve the loss, theft, or damage of valuable property and belongings, or it may involve someone being injured.

Types of Risk in insurance ?



Risk Management and tools used to reduce risk.

- Risk Management: Risk Management is the process of identifying, assessing and controlling financial, legal, strategic and security risks to an organization's capital and earnings.
- Four types of Risk Management are:

1.Risk Avoidance:Avoidance of risk means withdrawing from a risk scenario or deciding not to participate.

2.Risk Reduction:The risk reduction technique is applied to keep risk to an acceptable level and reduce the severity of loss through.

3.Risk Transfer:Risk can be reduced or made more acceptable if it is shared.

4.Risk Retention:When risk is agreed, accepted and accounted for in budgeting, it is retained

Introduction

- There are 28 active life insurance firms in India, and they are expanding at a pace between 16 to 27 percent.
- India has a sizable insurance industry, and insurance services, along with banking services, contribute around 7% of the nation's GDP.
- The Indian insurance industry is governed and developed by the Insurance Regulatory and Development Authority. It was created by an act of the Indian Parliament, the Insurance Regulatory and Development Authority Act, 1999.
- The primary objective of this study is to develop risk management tools and procedures that life insurers can use to assess the risks that their first-tier clients are exposed to.
- Risk analysis and risk management have become crucial during this stage of the Indian economy's liberalization.
- To increase the subscriber base and ensure a broader reach, the Central Government has loosened a few rules for its flagship insurance program, Atal Pension Yojana (APY).
- The ideal risk management model is one that prioritizes risks first, then deals with risks that have the highest losses and highest probabilities of occurrence first, and then deals with risks that have lower losses and lower probabilities of occurrence.
- The main purpose of this study is to develop a tool and technique for risk management for life insurer to analyze the customer at primary stage for the risk he/she is exposed to.

Aim

The main aim of this study is to develop a tool and technique for risk management for life insurer to analyze the customer at primary stage for the risk he/she is exposed to.

Research Questions

1.What are the determinants of risk for life insurance?
2.What are the determinants that affect a life insurer?
3. How the relationship between risk management and life insurance industry is influenced by customer's background data (gender, age, education, income level)

Objectives

1. To study the impact of risk management guidelines of IRDA.
2. To evaluate the benefits of such measures in life insurance companies.
3. To identify the level of risk management in insurance companies.

Methodology

- Sampling Methods: Stratified purpose Sampling
- Sample Size: The sample size of the study is 200 Customers who are categorized according to   their profession as Business class ,Govt. employee ,Manufacturing sector ,Service sector and others including housewife & retired person.
- Data Collection: It is through questionaries.
- Type of Research: Primary research using google forms
- Duration of study: April 2023 to June 2023

Results

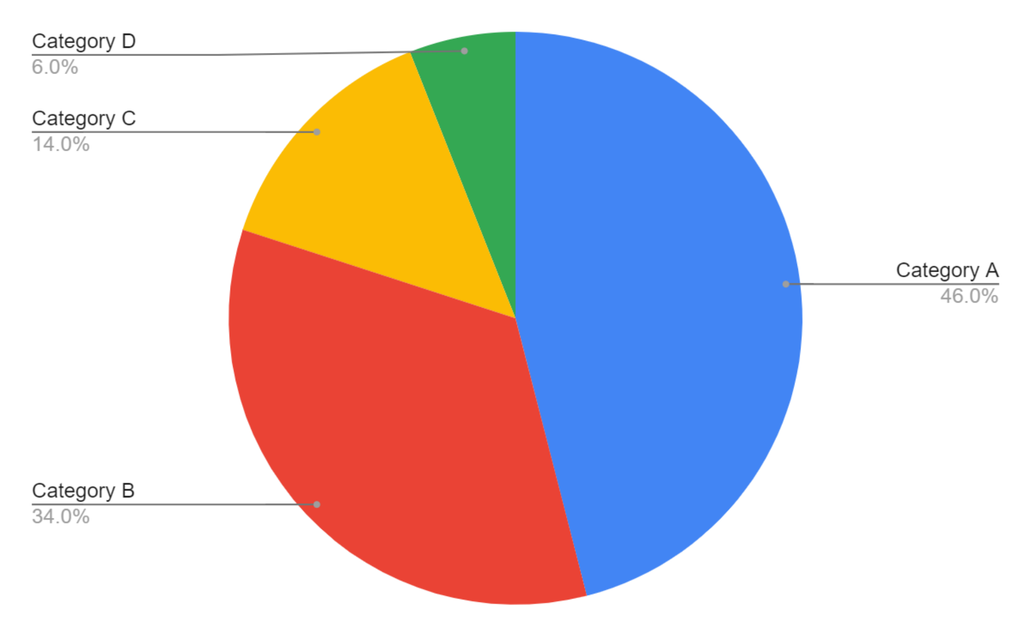


Figure 6.1 Breakdown of Indian sample based on risk categories.

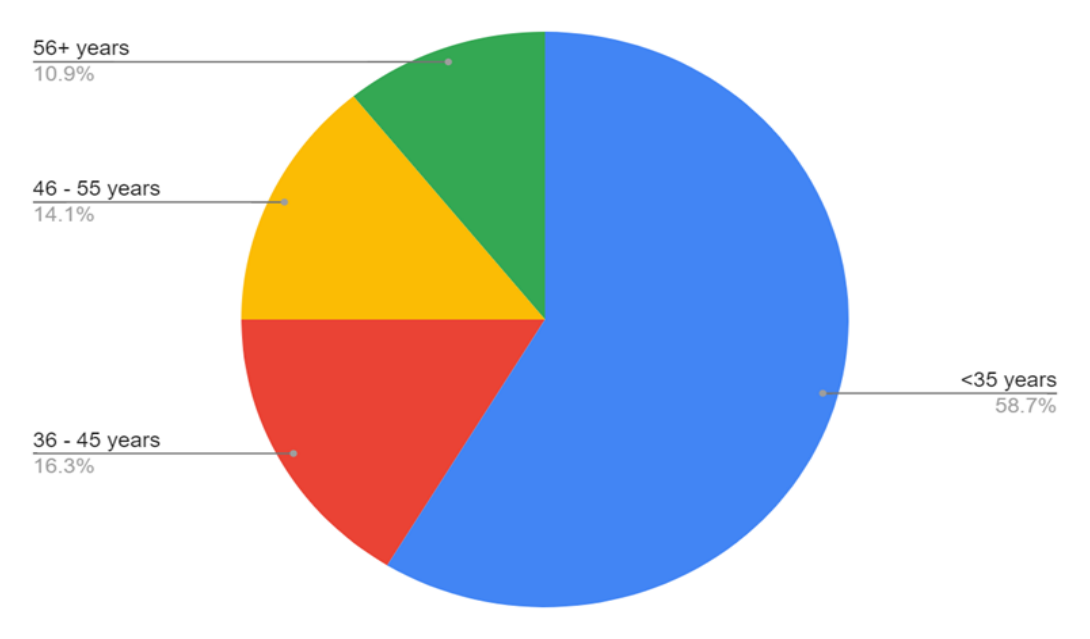


Figure 6.2 Breakdown by age group in category A

46% of the sample fells in Category A hence there are ample customers in India who can be insured with minimal risk for insurance company.

The people who fell in category A were mostly of young age as 58.7% of people were below 35 years age. India is an attractive place for insurance companies as it has an ample young sample .

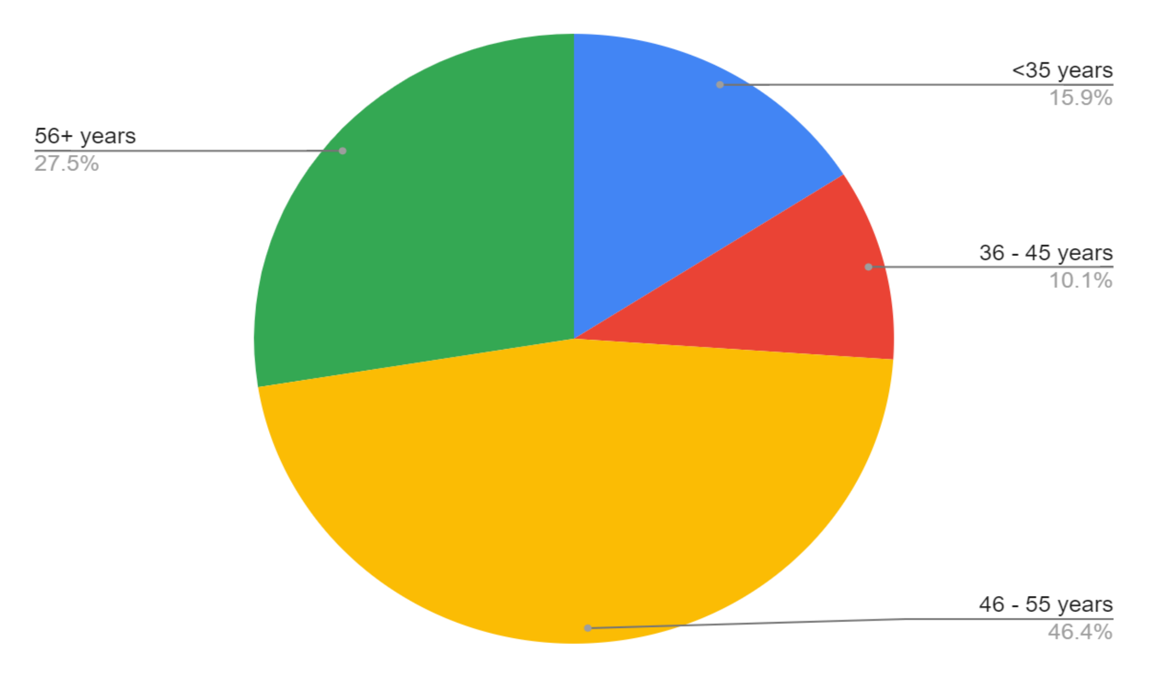


Figure 6.3 Breakdown by age group in category B

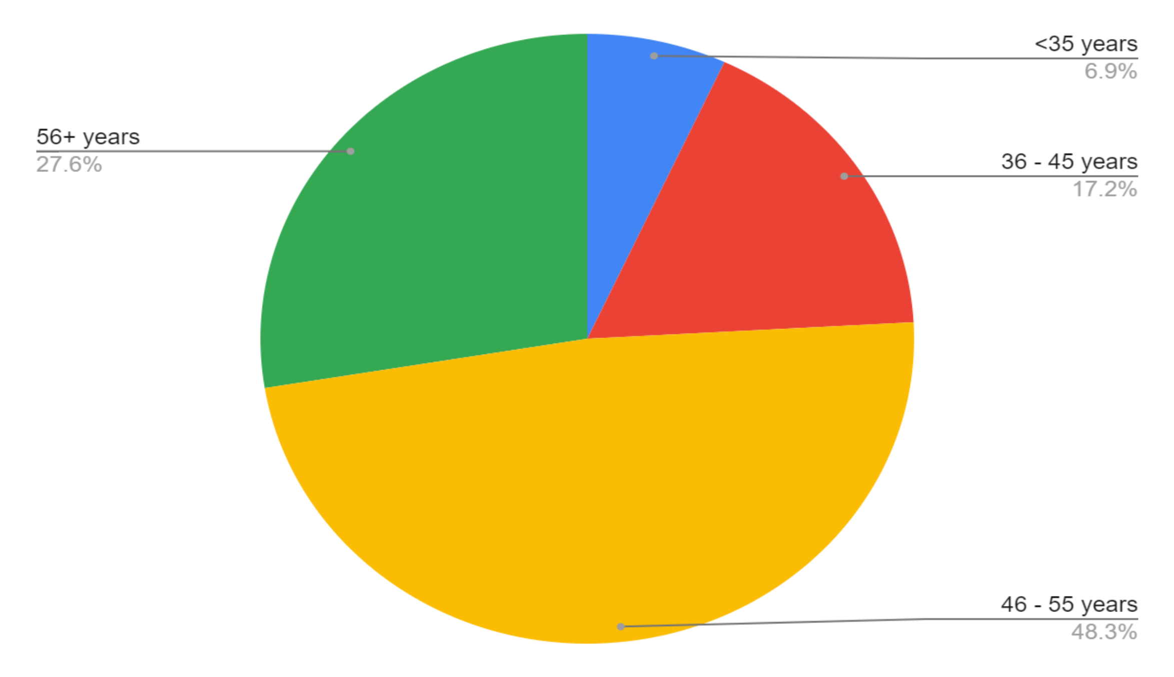


Figure 6.4 Breakdown by age group in category C

The people who fell in category B were of older age. Only 15.9% of people were below 35 years of age while mostly people fell in 46-55 yrs. Companies must avoid giving insurance to those people who are above 56 years of age if it has a choice.

The people who fell in Category C were mostly of 46-55 years age group. They are not very ideal people to be insured. Companies should give preference to younger people to give insurance.

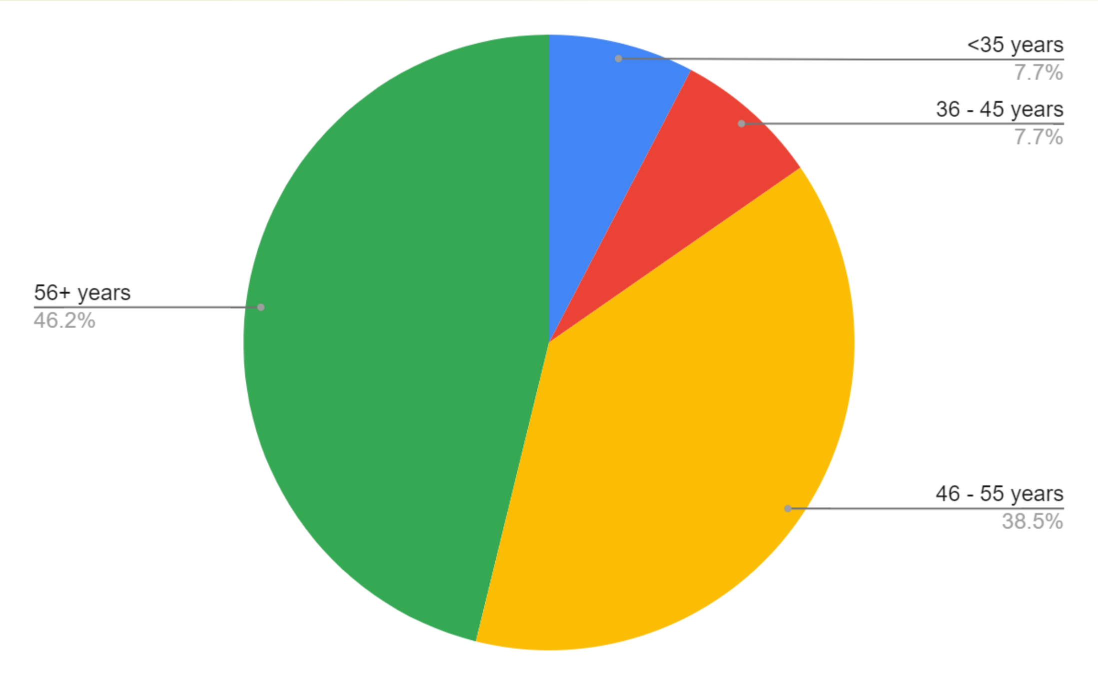


Figure 6.5 Breakdown by age group in category D

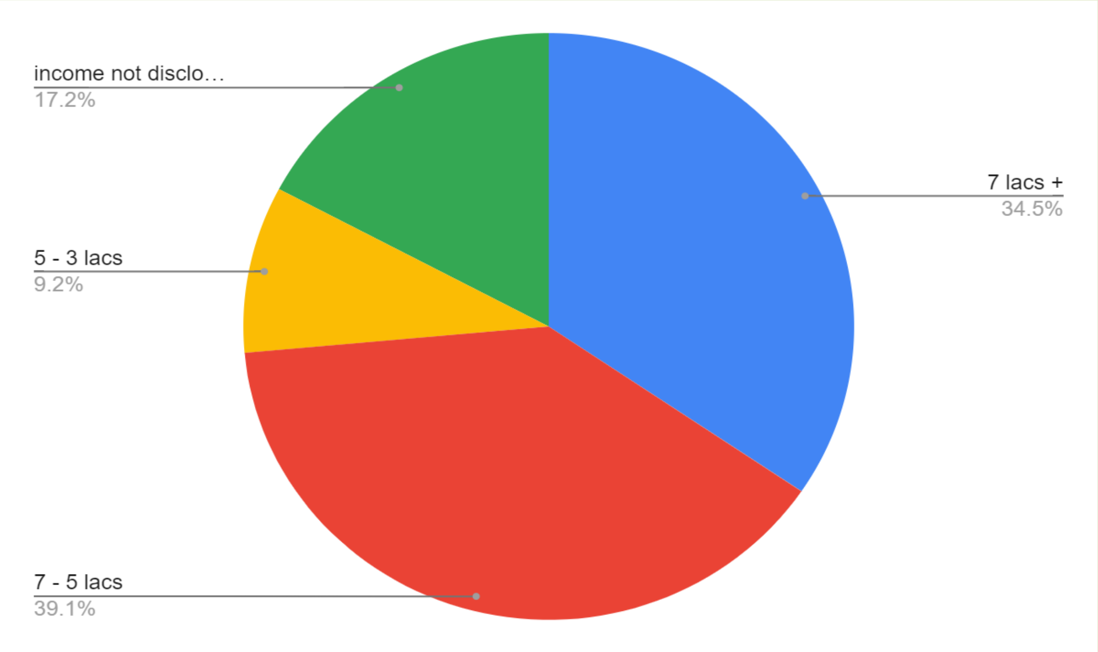


Figure 6.6 Breakdown by income in category A

Category D people mostly belong to the 56+ age group. They are not the ideal group to be insured. Companies should not give insurance to such people.

16% of people who fell in category A did not disclose their income group. Income ensures the timely premium payment. Hence a person whose income is not disclosed is not a very ideal person to be insured.

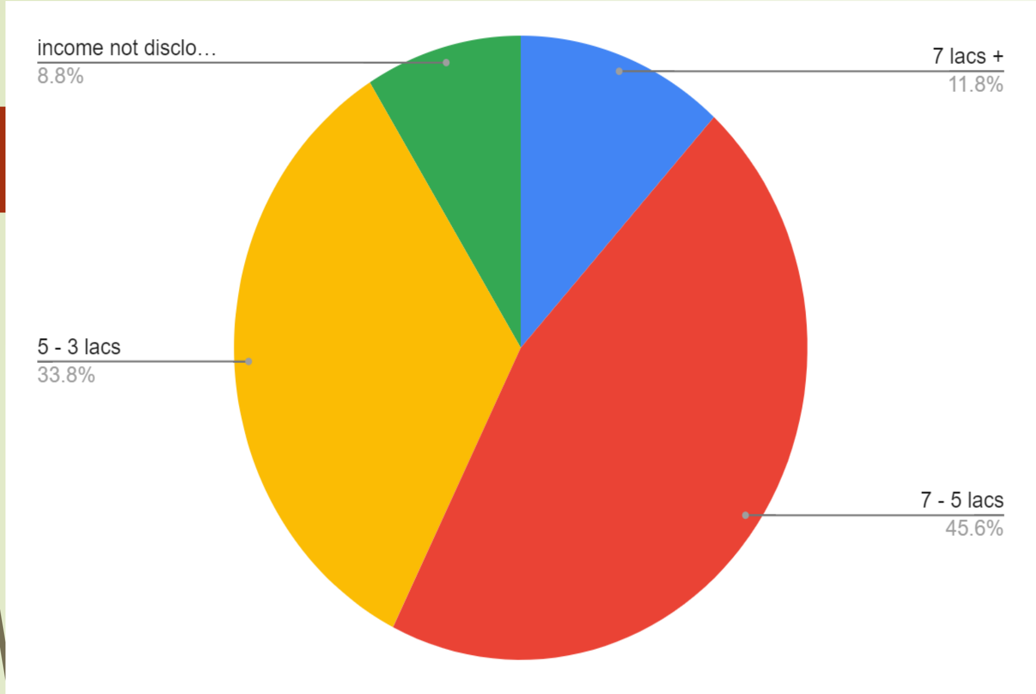


Figure 6.7 Breakdown by income in category B

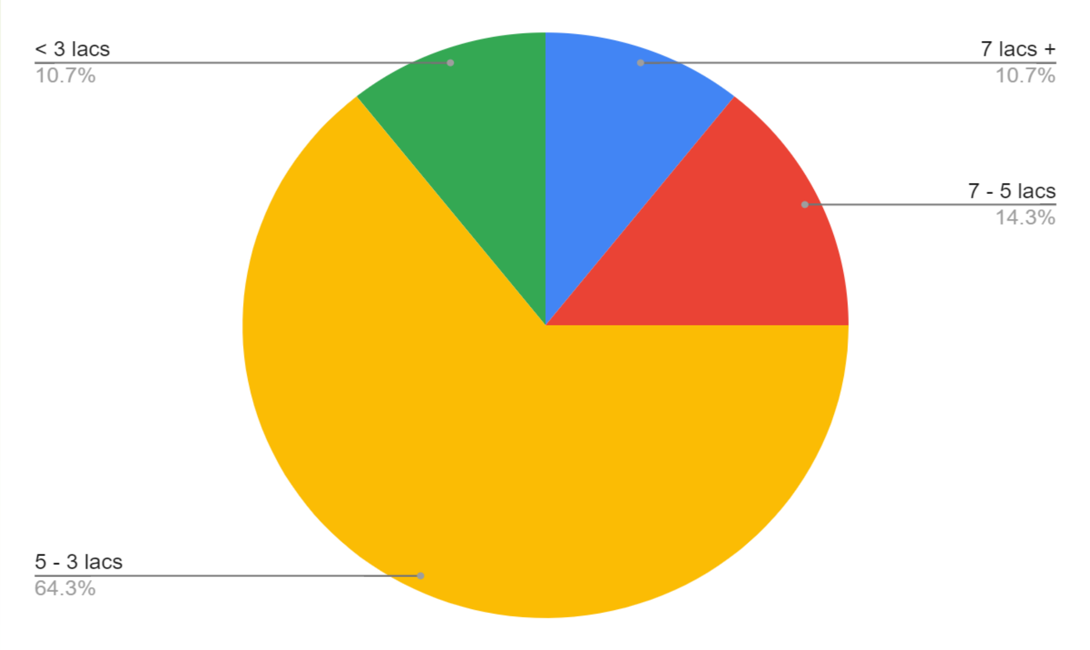


Figure 6.8 Breakdown by income in category C

The people who fell in category B mostly belong to the average income group. Companies must ensure that the person they are insuring is capable enough to pay premium.

Most people who fell in category C belong to the average income group. Although these people are category premium they fell in risk category, company should try to avoid giving insurance to such people.

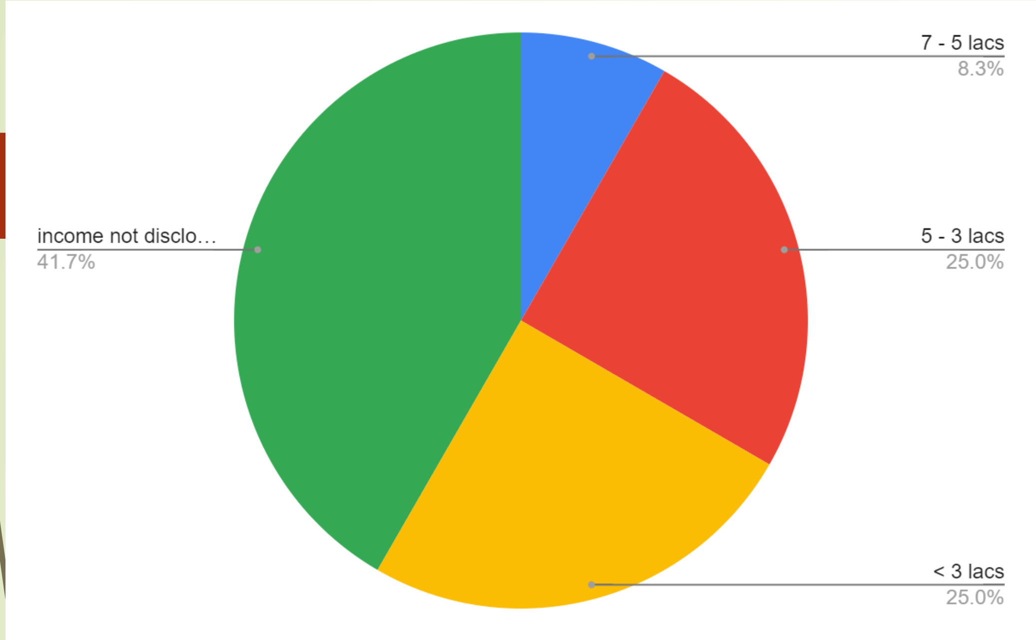


Figure 6.9 Breakdown by income in category D

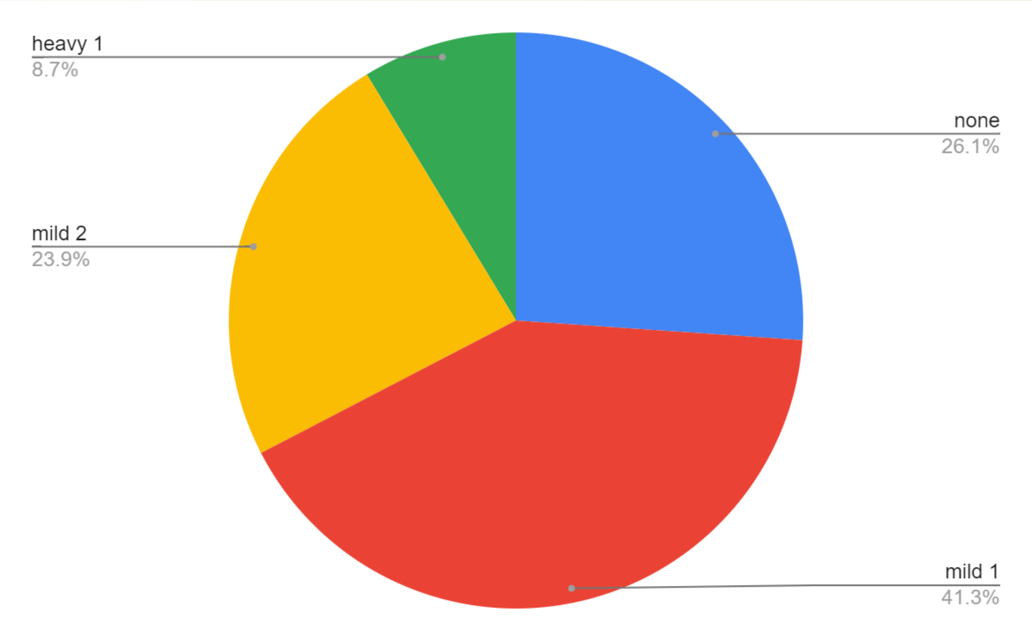


Figure 6.10 Breakdown of habits in category A

The people who fell in category D belong to the income group 3-5 lac. or have not disclosed their income. It may be the case that the person belonging to the D category is capable to pay premium, but company must not give insurance to such person.

26.1% of the sample of India does not have any bad habits. That is one of the reasons why most people fell in Category A.

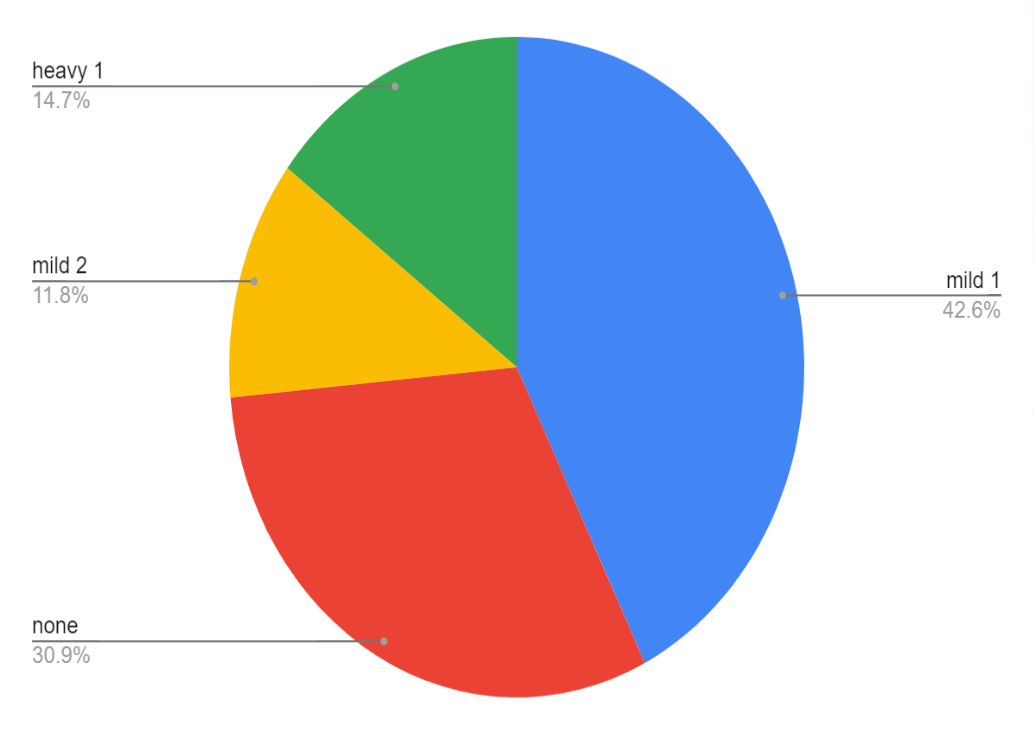


Figure 6.11 Breakdown of habits in category B

The people felling in Category B either do not have bad habits or they have mild bad habits which comprises 73% of the population. It is less risky to insure such persons.

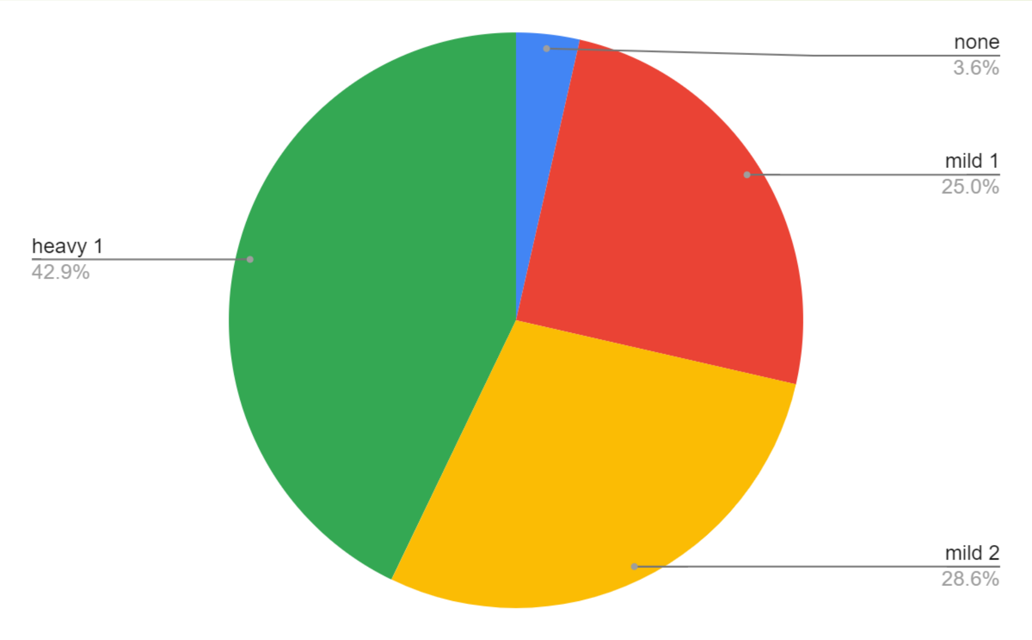


Figure 6.12 Breakdown of habits in category C

The people felling in the C category have bad habits. They are at least consuming two or more products which are not good for their health. Companies must avoid insuring persons falling in the C category.

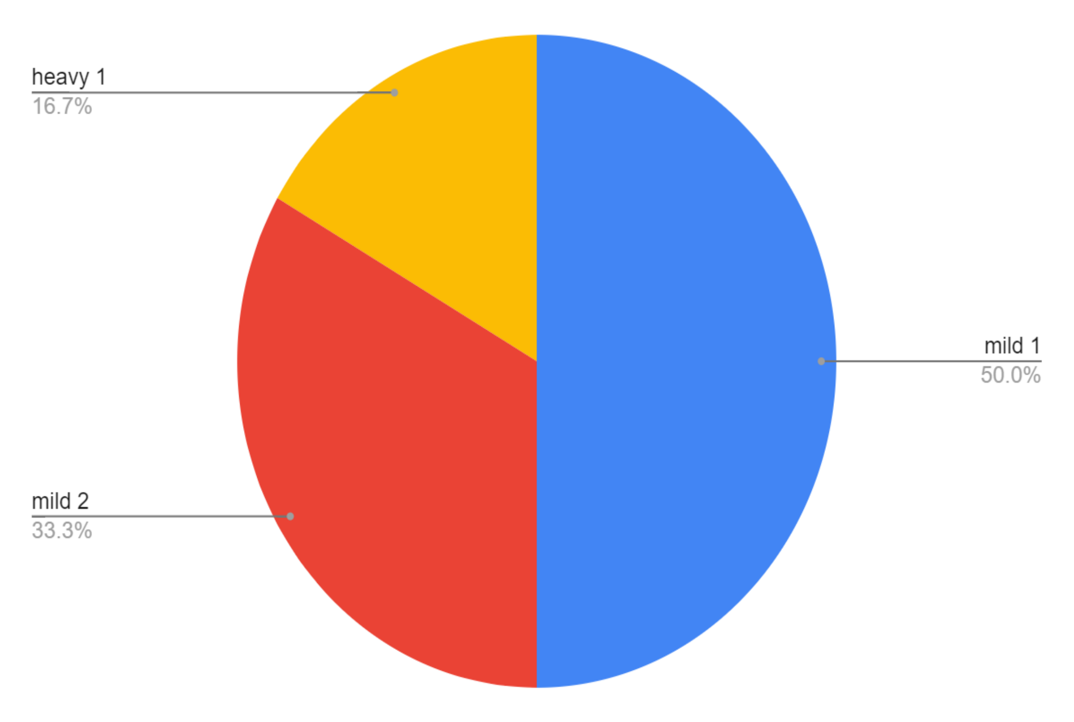


Figure 6.13 Breakdown of habits in category D

The person felling in the D category has bad habits. Companies must not insure such a person whose health may be an issue in future.

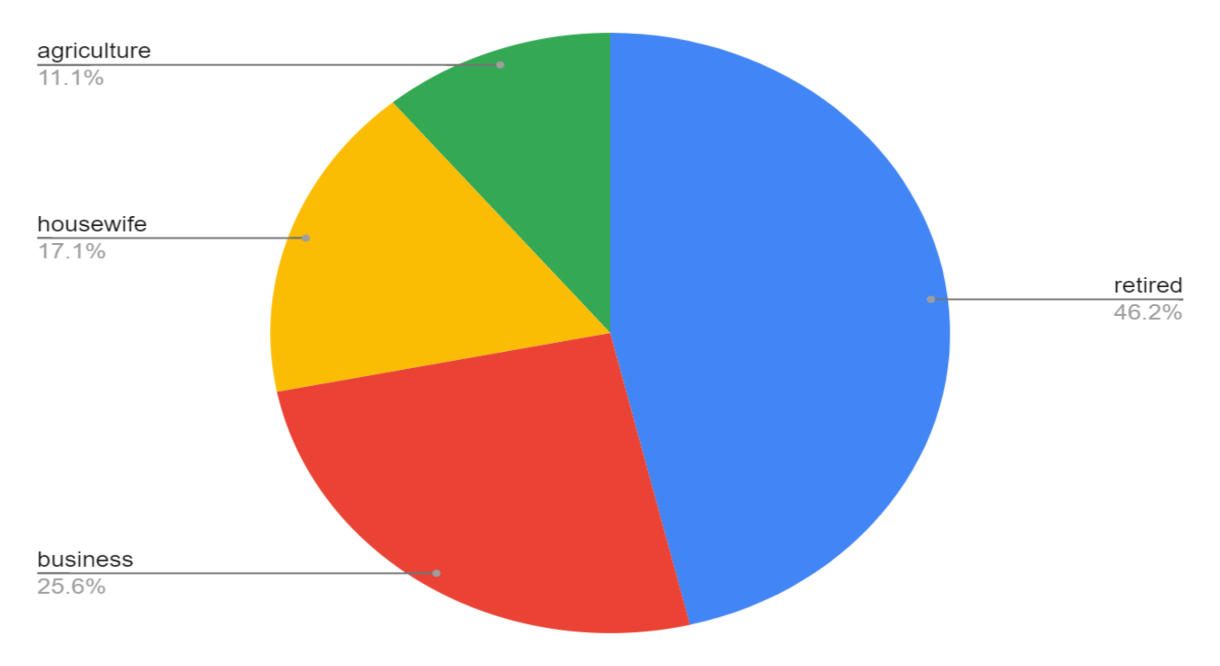


Figure 6.14 Breakdown of people who did not disclose their income.

46% of people who have not disclosed their income are retired. Hence, they don't have any source of income. Additionally, housewives which comprise 15% of the population also don't have any source of income. So, it is require ensuring the premium payments before insuring such people.

Findings from the data Analysis

1. In this study, I had divided prospective customers into four categories as per risk attached to them. Category C & D are the category of people who are risky to be insured. The study shows that they comprise 20% of sample.

2. This study shows that 58.7% people of Category A are below 35 years of age. It shows that majority of people of Category A are young.

3. The study further shows that only 10.9% sample in India is above 56 years of age in Category A.

4. The study reveals a descending pattern in income group category vise. Category A belongs to higher income group and Category D belongs to lower income group.

5. The income and age group data shows that an elderly person as well as a low-income person can also fell in Category A. while a young person with bad habits may fell into C or D category.

6. The study shows that 10% housewife and 46.2% retired, who does not have any source of income. 11.1% of people belong to agriculture and 25.6% % people belong to business, which had income but did not disclose them.

7. There were 13% % people who had income but did not disclose. It may be because of lack of trust.

8. The study shows that the average income of people in India is 5 to 7 lacs.

9. The study shows that the people who fell in Category A & B had either no bad habit or very mild bad habit.

10. The study shows that the people who fell in category C & D were elderly aged, with low income and bad habits. All these factors made them unsuitable for insurance companies as a prospective customer.

Conclusions

1. Insurers strive to mitigate risk, but insurers themselves are also exposed to many risks dangerous. One of these risks is insuring someone whose claim may exceed the amount.
2. Bundling policyholders reduces this risk. But what happens when companies don't follow strategy? And form a pool of risky customers.

3. One marketing technique in the insurance industry is aggressive selling Likelihood of choosing risky individuals as prospects for sales managers to meet his goal.

4. This is why companies take risks. This allows the company to charge different premiums to different customers for the same sum insured.

5. Each company has its own calculator for calculating premiums.
6. This study is merely an attempt to gain insight into possible insurance coverage. Firms ensure high-risk customers even though there are too many low-risk customers. For companies, this is an opportunity cost.

Recommendations

1. An insurance company should improve its risk management tool so that it covers all kinds of risk associated with a prospective customer.

2. A CRO should have knowledge of all the risks that an insurance company is exposed to.

3. A CRO must balance the cost of risk management so that it does not exceed the loss from risk.

4. The main soul of risk management is its framework. If the risk management framework is effective, then the person handling it will bring positive result.

5. The risk management tool should also be measured time to time in terms of stronger business performance, better decision making, improved returns and better approach toward uncertainties.

Thank you