

**BUSINESS ECONOMICS - MICRO**

---

# LIFE INSURANCE

**PREPARED BY**

ISHIKA SHAH

Roll No.: 42

---

**SEMESTER III**

## INDEX

---

<b>PREFACE.....</b>	<b>01</b>
<b>PRODUCT ANALYSIS.....</b>	<b>02</b>
<b>ABOUT THE DATA .....</b>	<b>05</b>
<b>DEMAND.....</b>	<b>06</b>
<b>MARKET ANALYSIS.....</b>	<b>07</b>
<b>SUPPLY.....</b>	<b>09</b>
<b>PRICE ELASTICITY.....</b>	<b>10</b>
<b>INCOME ELASTICITY.....</b>	<b>11</b>
<b>CONCLUSION.....</b>	<b>12</b>
<b>REFERENCES.....</b>	<b>15</b>

# PREFACE

My topic for this research work is Life Insurance.

The objective of this is to understand the market of Life Insurance Industry and to analyse the customer behaviour with the change in price.

This project is based on the data collected through the google forms.

Each individual who has filled the form was informed that the data would be used in the research paper which would be shared with

**Miss Radhika Talekar** and the **faculty at Institue of Actuarial and Quantative Studies.**

A faint, dark grey watermark is visible on the right side of the page. It consists of a stylized umbrella icon at the top right, with the word "Insurance" written in a large, sans-serif font below it, slanted diagonally across the page.

# PRODUCT ANALYSIS

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 (often the policy holder).

Depending on the contract, other events such as terminal illness or critical illness can also trigger payment. The policy holder typically pays a premium, either regularly or as one lump sum. The benefits may include other expenses, such as funeral expenses.

Life policies are legal contracts and the terms of each contract describe the limitations of the insured events. Often, specific exclusions written into the contract limit the liability of the insurer; common examples include claims relating to suicide, fraud, war, riot, and civil commotion. Difficulties may arise where an event is not clearly defined, for example: the insured knowingly incurred a risk by consenting to an experimental medical procedure or by taking medication resulting in injury or death.

## FEATURES

---

1. Insurance provides certainty of payment for the risk of loss
2. The second main feature of insurance is to provide protection from probable chances of loss
3. On the happening of a risk event, the loss is shared by all the persons exposed to it
4. The accumulated funds of the insurer received by the way of premium payments made by the insured are invested in various income generating schemes.

# PRODUCT ANALYSIS

## PRICING

The pricing of a Life Insurance is very wide. While pricing, each policy is depended on multiple factors ranging from their gender to their lifestyle. Hence a generalised form of pricing model if made where in variables are feeded in resulting in a cummulative price for each individual. the pricing largely depends on law of large numbers the minimize the speculative element and reduce volatile fluctuations in year to year losses.

Following are the pricing elements:

- 1.The probability of the insured event
- 2.The time value of money
- 3.Loading to cover expenses, taxes, profits and contingencies
- 4.The benefits promised

## AVAILABILITY

There are multiple companies in the market that offer Life Insurance Policies. However, this market is not a common one, where the customer would approach company for a policy unless they were approached by an agent or advised by a family to do so. There is a lot of speculation with respect to the Insurance Policies as there is less information on the customer side. Nevertheless, the market is observing a slight change with more awareness of the same.

## UTILITY

- 1.Financial protection for the family
- 2.Encouranges savings
- 3.Channel for investment
- 4.Exemptions from income tax
- 5.Helps in capital formation
- 6.Credit facilities

# PRODUCT ANALYSIS

## SWOT ANALYSIS

### Strengths

1. Premium rates are increasing and so are commissions
2. The variety of products is increasing
3. Prospects expect more services from their brokers

### Weaknesses

1. Insurance companies are often slow to respond to changing needs
2. There is an increasing trend of financial weakness among the companies
3. There are more competitors for agencies to compete with banks and Internet players

### Opportunity

1. The ability to cross sell financial services is barely being tapped
2. Technology is improving to the point that paperless transactions are available.
3. The client's increasing need for an "insurance consultant" can open new ways to service the client and generate income

### Threats

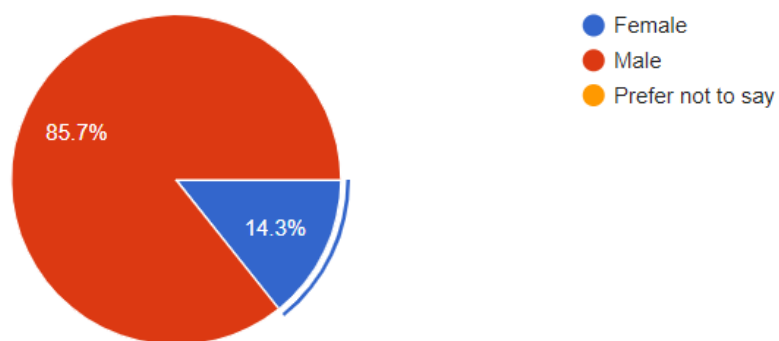
1. The increasing cost and need for insurance might hit a point where a backlash will occur
2. Government regulations on issues like health care, mold and terrorism can quickly change the direction of insurance. Increasing expenses and lower profit margins will hit hard on the smaller agencies and insurance companies.
3. Increasing expenses and lower profit margins will hit hard on the smaller agencies and insurance companies

# ABOUT THE DATA

**Total number of response is 28.**

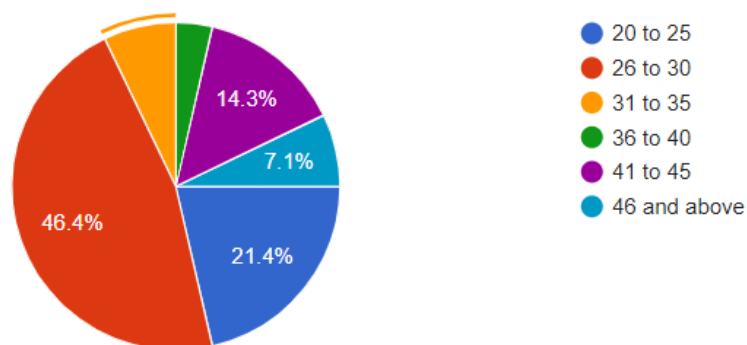
How do you identify yourself as?

28 responses



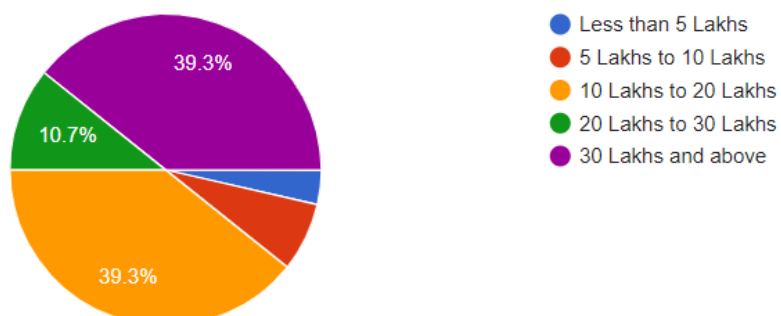
What age category do you fall in?

28 responses



What is your Annual Household Income?

28 responses



# DEMAND

I received 28 responses and as per the data received it seems as though the demand is high for Life Insurance Policies as all of them have purchased it.

However as per the data collected the following can be determined:

## **1.As per INCOME**

- 3.6% of the people demanded Life Insurance Policies when their income was less than ₹5 Lakhs
- 7.1% of the people demanded Life Insurance Policies when their income was between ₹5 Lakhs to ₹10 Lakhs
- 39.3% of the people demanded Life Insurance Policies when their income was between ₹10 Lakhs to ₹20 Lakhs
- 10.7% of the people demanded Life Insurance Policies when their income was between ₹20 Lakhs to ₹30 Lakhs
- 39.3% of the people demanded Life Insurance Policies when their income was more than ₹30 Lakhs

## **2.As per PROFESSION**

- 3.6% of the people that demanded Life Insurance Policies were Frontline Workers
- 3.6% of the people that demanded Life Insurance Policies were Homemakers
- 42.9% of the people demanded that Life Insurance Policies were businessmen
- 49.9% of the people demanded that Life Insurance Policies were employees

## **3.As per TYPE OF LIFE INSURANCE**

- 71.5% of the people demanded Term Life Insurance Policy
- 17.9% of the people demanded Whole Life Insurance Policy
- 10.7% of the people demanded Endowment Policy
- No one demanded for Unit Linked Insurance Plan

# MARKET ANALYSIS

## MARKET CONDITIONS

In India, the overall market size of the insurance sector is expected to US\$ 280 billion in 2020.

The life insurance industry is expected to increase at a CAGR of 5.3% between 2019 and 2023. India's insurance penetration was pegged at 3.76% in FY20, with life insurance penetration at 2.82% and non-life insurance penetration at 0.94%. In terms of insurance density, India's overall density stood at US\$ 78 in FY20.

In the life insurance segment, private players held a market share of 33.78% in premium underwritten services in FY20.

In FY22 (until May 2021), premiums from new businesses of life insurance companies in India stood at US\$ 3.0 billion.

According to S&P Global Market Intelligence data, India is the second-largest insurance technology market in Asia-Pacific, accounting for 35% of the US\$ 3.66 billion insurtech-focused venture investments made in the country.

## ECONOMIC INDICATORS

The following are some of the major investments and developments in the Indian Insurance sector.

- In FY21 (until March 2021), premium from new business of life insurance companies in India stood at US\$ 31.9 billion
- In FY21, LIC achieved a record first-year premium income of Rs. 56,406 crore (US\$ 7.75 billion) under individual assurance business with a 10.11% growth over last year
- In June 2021, Bharti AXA Life Insurance reported a 10% renewal premium increase of Rs. 1,498 crore (US\$ 200.64 million) in FY21
- On July 1, 2021, the LIC introduced its Saral Pension Scheme, which is a non-linked, non-participating, single premium, individual immediate annuity plan

# MARKET ANALYSIS

- In July 2021, Gallagher announced plan to acquire 100% stake in India's Edelweiss Gallagher Insurance Brokers
- In June 2021, Aditya Birla Sun Life Insurance announced the launch of a new Vision LifeIncome Plus Plan that will provide guaranteed regular income plus flexible bonus payouts to policyholders
- In May 2021, Max Life Insurance Co. Ltd. launched 'Max Life Saral Pension', a non-linked, individual immediate annuity plan

## GOVERNMENT INITIATIVES

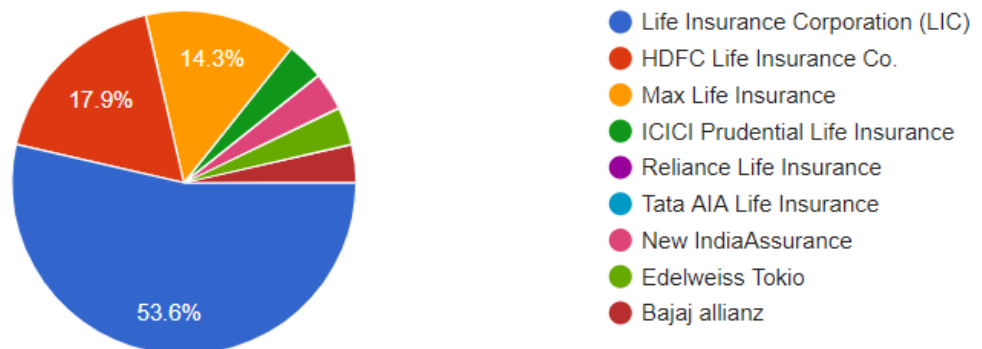
The Government of India has taken number of initiatives to boost the insurance industry. Some of them are as follows:

- Union Budget 2021 increased FDI limit in insurance from 49% to 74%. India's Insurance Regulatory and Development Authority (IRDAI) has announced the issuance, through Digilocker, of digital insurance policies by insurance firms.
- Under the Union Budget 2021, Finance Minister Nirmala Sitharaman announced that the initial public offering (IPO) of LIC will be implemented in FY22, as part of the consolidation in the banking and insurance sector. Though no formal market valuation has been undertaken, LIC's IPO has the potential to raise Rs. 1 lakh crore (US\$ 13.62 billion).
- In June 2021, the government extended a Rs. 50 lakh (US\$ 66.85 thousand) insurance coverage scheme for healthcare workers across India until the next one year.
- In February 2021, the Finance Ministry announced to infuse Rs. 3,000 crore (US\$ 413.13 million) into state-owned general insurance companies to improve the overall financial health of companies.
- Under Union Budget 2021, fund of Rs. 16,000 crore (US\$ 2.20 billion) has been allocated for crop insurance scheme.

# SUPPLY

Where have you purchased your Life Insurance Policy from?

28 responses



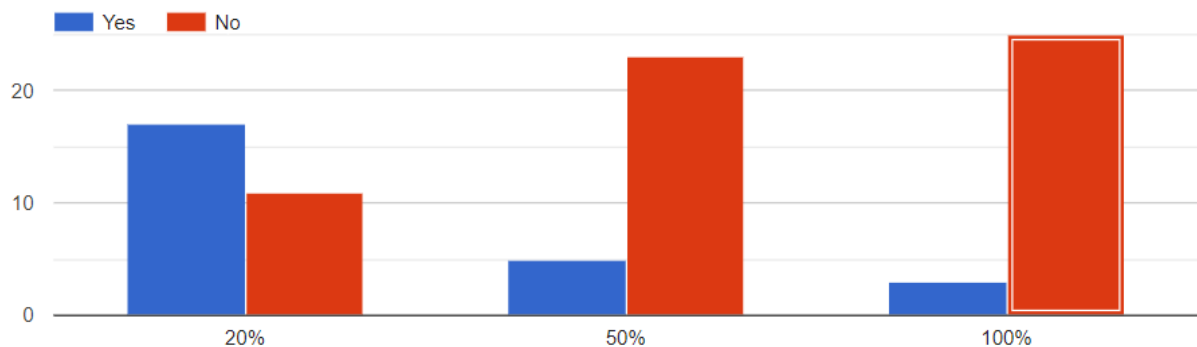
According to the data we see the following:

- Life Insurance Corporation (LIC) supplies to 53.6% of the people
- HDFC Life Insurance Co. supplies to 17.9% of the people
- MAX Life Insurance supplies to 14.3% of the people
- ICICI Prudential Life Insurance supplies to 3.6% of the people
- Reliance Life Insurance supplies to 3.6% of the people
- Tata AIA Life Insurance supplies to 3.6% of the people
- New India Assurance supplies to 3.6% of the people
- Edelweiss Tokio supplies to 3.6% of the people
- Bajaj Allianz supplies to 3.6% of the people

However in the entire market there are 24 Life Insurance Companies. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. There are six public sector insurers in the non-life insurance segment. In addition to these, there is a sole national re-insurer, namely General Insurance Corporation of India (GIC Re). Other stakeholders in the Indian Insurance market include agents (individual and corporate), brokers, surveyors and third-party administrators servicing health insurance claims.

# PRICE ELASTICITY

Will you purchase the same life insurance policy if the premium increases by:



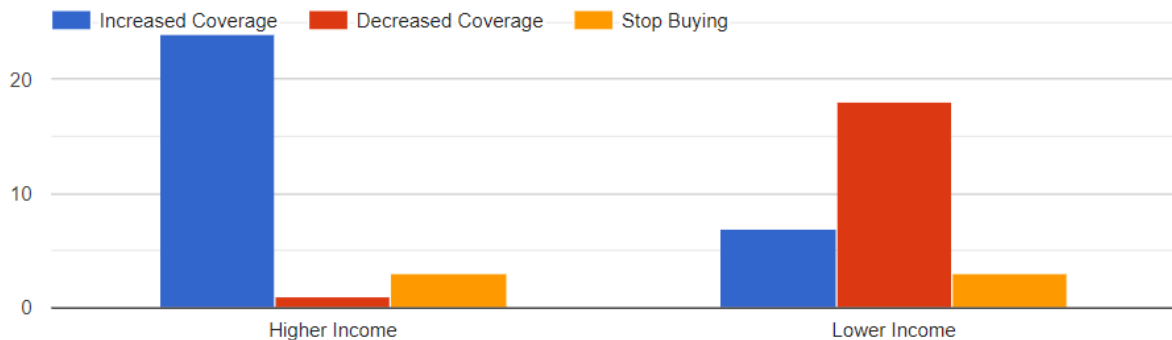
According to the data we see the following:

- A 20% increase in the premium rates would compel 11 people to not purchase the policy
- A 50% increase in the premium rates would compel 23 people to not purchase the policy
- A 100% increase in the premium rates would compel 25 people to not purchase the policy

This indicates that a product such as Life Insurance is elastic, that is, an increase or decrease in the price of the product would lead to decrease or increase in the demand respectively.

# INCOME ELASTICITY

Will a change in income shift your Life Insurance Policy Preferences?

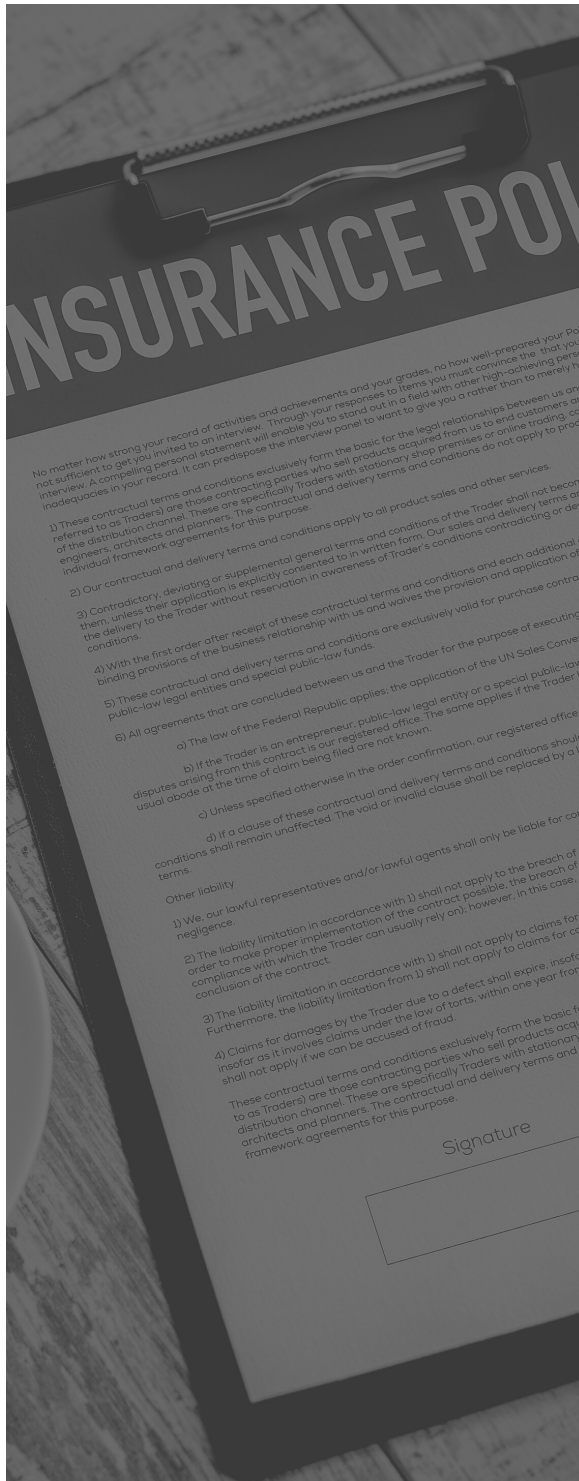


According to the data we see the following:

- With higher income 24 people would opt for increased coverage, 1 person would opt for decreased coverage and 3 people would stop buying insurance policy
- With lower income 7 people would opt for increased coverage, 18 people would opt for decreased coverage and 2 people would stop buying

This too indicates that a product like Life Insurance Policy is price sensitive and that a change in income affects a change in the demand.

# CONCLUSION



a Life Insurance is a vaste product that needs maximum specification and detailing.

Life Insurance holds alot of product in itself such that it makes research interesting.

With respect to the economic clarification on this product there were many holes in the information, However i have tried my best to get to the conclusion with the available data.

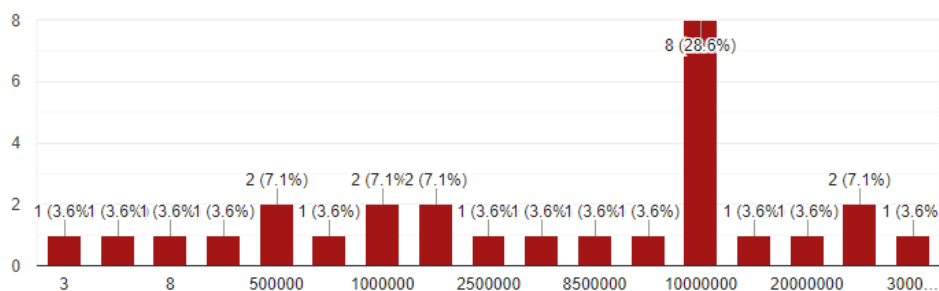
# CONCLUSION

## INSIGHTS

1. The demand for Life Insurance is more in the working class and the retired, students don't feel the need to purchase Life Insurance Policy irrespective of the fact that earlier the policy is purchased, the cheaper it is
2. Since insurance works on Law of Large Numbers, it suits the market to have high demand and hence cheaper policy
3. Both Demand and Supply reach at an equilibrium such that the price for it is suitable for each individual. This happens because pricing of each policy is based on different variables catering to each individual
4. The pricing for each individual is subjective and depends on a lot of factors, that is, age, gender, income, profession, lifestyle, no. of dependants and so on
5. Even with same claim amount the premium charges are different

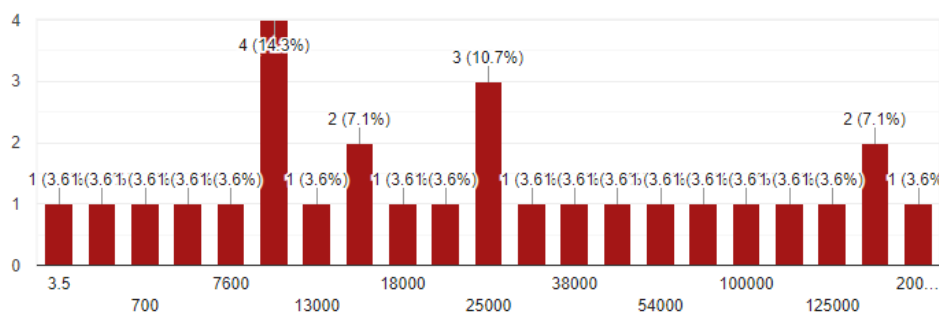
What is your Policy Cover Amount?

28 responses



How much premium do you pay for Life Insurance annually?

28 responses



# CONCLUSION

## LEARNINGS

1. Had it been a single type of Life Insurance Policy, that is, either a term life, whole life endowment or etc. the data collected could have been streamlined and much more appropriate conclusions could have been drawn
2. It would have also had better conclusions if the sample space was more than 28
3. Framing of the questions could have been better such that it was not open ended and resulted in a concrete answer

## FURTHER SCOPE

The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers.

The overall insurance industry is expected to reach US\$ 280 billion by the end of 2020. Life insurance industry in the country is expected to increase by 14-15% annually for the next three to five years.

The scope of IoT in Indian insurance market continues to go beyond telematics and customer risk assessment. Currently, there are 110+ InsurTech start-ups operating in India.

Demographic factors such as growing middle class, young insurable population and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.

# REFERENCES

1. Insurance Sector in India, available at  
<https://www.ibef.org/industry/insurance-sector-india.aspx>
2. Study Material of IAQS Institute, Semester I, Life Insurance

**BUSINESS ECONOMICS - MICRO**

---

**THANK YOU**

---

**LIFE INSURANCE**