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Determinants of Self Exclusion: a Study on the Deterrents of Insurance on Life of self and Significant Others

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ABSTRACT

The phenomenon of self exclusion wherein a prospective customer decides not to insure the life of self and others, in whom he/she has insurable interest, is widely prevalent. This study proposes to investigate into the phenomenon of self exclusion from insurance of life of self and others in whom potential buyers have insurable interest. The objective of the study is to discover the factors that dissuade the potential subscribers from availing of insurance cover on life. The study uses qualitative as well as secondary sources of data. The study finds that one of the reasons for self exclusion is the perception of investors that a rupee earned today is more profitable than the rupee earned tomorrow.

KEYWORDS : Life insurance, Self exclusion

Introduction

It is an undisputed fact that India is emerging as a major economic power with substantial improvements in terms of many economic and social variables. Considerable amount of developments have taken place in the financial services sector, such as, expansion of financial markets, increasing number of players coupled with mounting competition, emergence of greater range of financial products and better avenues for information acquisition and dissemination. However, the fruits of development have not percolated evenly into all sections and classes of people. One significant sector in our economy where this phenomenon is conspicuous is the financial sector.

The development needs of any economy are intrinsically linked to the efficiency with which its financial services reach its citizens. Therefore, financial exclusion of the underprivileged has become a matter of general interest to the academia as well as policy makers. Deliberate policies are being introduced by the government to ensure equitable participation in the financial market by all sections of the society. Many initiatives have been there for widening and improving access to financial services. One such constructive policy which is expected to have far reaching positive consequences towards bringing the economically vulnerable sections into the mainstream of the society is that of 'financial inclusion'. Even though the financial inclusion initiatives have been gaining wide popularity of late, it is only a fact that, even today, a disproportionately high percentage of population is fully or partially excluded from various financial services. From the point of view of equitable and just growth, obviously, this is not a healthy trend.

Life insurance has been commonplace financial service for a long time in our country. This sector has shown tremendous growth in terms of potentiality due to the influx of private players consequent on liberalization. Direct marketing, better targeting, product diversity with varying types and range of products , more flexible insurance products, considerable increase in financial retail outlets reducing the problems of physical access, more favorable terms and conditions, compulsory life insurance schemes, new promotion and delivery channels such as Bancassurance etc. On the demand side, there are favorable developments such as, growth in employment levels and incomes, increased standard of living, high literacy, consumer education, active involvement of insurance agents in sales of insurance products etc. Given these developments, one should expect greater integration and growth in the demand for life insurance products and services as well. However, contrary to this, there has been a persistent decline in demand over the last few years. This sector is also conspicuous by the wide disparities that persist in financial inclusion.

Background of the study

As per the published reports of Swiss Re, in life insurance business India has the 11th position among 88 countries. There are 24 companies doing life insurance business in India. According to IRDA reports 2013-2014 life insurance industry recorded a premium growth of 9.43 percentages while private sector insurers posted 1.35% decline in their premium income and in the case of regular premium registered a growth rate of 1.03per cent in 2013-14, as against 16.21 per cent decline in 2012-13. In the case of unit linked products the total premium declined considerably to 11.95 per cent in 2013-14 as against 16.98 per cent in 2012-13. As per the published annual report of IRDA 2011-12, the life insurance industry recorded a premium income with a negative growth of 1.57%. The private sector insurers showed a decline of 4.52 %(11.08% growth in previous year) in their premium income, whereas LIC recorded 0.29% decline (9.35% growth in previous year). According to the report, the industry witnessed 8.22% decline (9.53% decrease in 2010-11) in number of new policies issued.

According to IRDA reports during 2013-2014 life insurers issued 408.72 lakh new policies, out of which LIC issued 345.12 lakh policies and the private life insurers issued 63.60 lakh policies. In the number of new policies issued against the previous year LIC showed a decline of 6.17% while private sector insurers showed a decline of 14.11%. The overall rate of decline in the life insurance industry is 7.50%. India is considered as the second largest populous country in the world but when we compare the number of population and the number of persons insured we can see a tremendous difference. The present study try to analyze why these gaps arises in such a favourable situations where govt spends a lot of money for financial inclusion with the aim of up liftment of economically vulnerable secessions into the main streams of the society.

Rationale of the Study

Many potential buyers of life insurance products have disengaged from availing of life insurance. This phenomenon of self exclusion wherein a prospective customer decides not to insure the life of self and others, in whom he/she has insurable interest, is widely prevalent and is demonstrated by statistics in respect of growth. Many non-users are not covered by other welfare programs as well. Various reasons are assigned to this undesirable state of affairs such as, problems related to access, affordability, lacunae in marketing efforts, lack of financial literacy etc. There is reason to believe that there are complex set of reasons for remaining uninsured. This study proposes to investigate into the phenomenon of self exclusion which means a person is reluctant to take insurance for the life of self and others in whom potential buyers have insurable interest.

Objectives

The overall objective of the study is to explore the multiple dimensions of the phenomenon of self exclusion from life insurance by discouraged prospects. The specific objectives of the study are

- To discover the factors that dissuades the potential subscribers from availing of insurance cover on life.
- To explore the perceived institutional barriers contributing to non participation in the life insurance market
- To evaluate the investors perception about life insurance

Methodology

Extant scientific knowledge in respect of self exclusion is limited. The determinants of self exclusion are not known or researched extensively. The population of this study consists of all non users of life insurance products of any type. However, the population of this study is not explicitly known or clearly identifiable. Moreover, it is very large in number and irregular as well. Therefore, the study uses snow ball method of sampling. Unstructured interview were conducted among 10 respondents to analyze the reasons for self exclusion and the secondary data published by various agencies were used to find out whether the statements given by these respondents are acceptable. The study uses secondary as well as qualitative method of data analysis.

Findings

All the 10 respondents who participated in the interview are of the opinion that the investment in LIC or other life insurance business is not profitable unless some unforeseen contingency arises. Majority of the respondent has the opinion that the investment is worthwhile only in case of death of the insured. In all other cases the insured will not get simple interest on the amount invested. The concept of time value of money is not applicable in the case of the amount invested. One of the respondents commented that "as a result of the active involvement of the insurance agents people fall into this trap". All the respondents are of the opinion that it is better for them to pay tax rather availing the benefit under section 80c by taking the insurance policy. Another respondent opined that "I can avail the benefits of insurance only if I die before the maturity of the tenure. In all other cases I am simply wasting my hard earned money, by investing the amount in life insurance".

So the study tries to unearth the pros and cons of investing the money in life insurance by keeping in mind the principle of time value of money. According to the principle a rupee earned today has more value than a rupee earned tomorrow. For analyzing the statement given by the respondent's the details about LIC's single premium endowment plan is taken from the Website of Life Insurance Corporation. Then the benefit illustration given in the website for Single Premium Endowment plan is compared with the benefits that the customer derives if he/ she invest the same amount in a nationalized bank. Single Premium Endowment Plan is a participating non-linked savings cum protection plan, where premium is paid in lump sum at the outset of the policy. Rupees 23,545 should be the premium amount and the term of the insurance policy is 25 years. So for comparison purpose the researcher calculated the total amount that a person receives if he/she deposits the same amount in SBI for the same period.

The rate of interest is 8.25% (the interest rate given by SBI) then the total amount accrued after 25 years is calculated with the help of fixed deposit calculator and the result is as follows:

If the amount is compounded yearly: 1,70,842.66 interest earned is Rs1,47,297.66
If the amount is compounded half yearly: 1,77,684.45 interest earned is Rs 1,54,139.45
If the amount is compounded quarterly: 1,81,350.56 interest earned is Rs 1,57,805.56

On the other hand if the amount is invested in single premium endowment plan the benefit that we receive at the expiry/ surrender of the policy is illustrated below

Benefit Illustration

Particulars	
Age of entry	30
Policy term	25
Sum assured	50000
Amount of single premium	23545

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Variable Scenario 1: gross investment return@ 4% p.a
Variable Scenario 2: gross investment return@ 8% p.a

End of year	Total premiums paid till end of year	Amount payable on death during the year/ maturity					Amount payable on surrender during the year **				
		Guaranteed	Variable		Total		Guaranteed Surrender value	Surrender value of bonus		Total guaranteed surrender value	
			Scenario 1	Scenario 2	Scenario1	Scenario 2		Scenario 1	Scenario 2	Scenario 1	Scenario 2
1	23545	50000	0	1900	50000	51900	16482	0	284	16482	16765
2	23545	50000	0	3800	50000	53800	21191	0	575	21191	21765
3	23545	50000	0	5700	50000	55700	21191	0	871	21191	22061
4	23545	50000	0	7600	50000	57600	21191	0	1172	21191	22362
5	23545	50000	0	9500	50000	59500	21191	0	1477	21191	22688
6	23545	50000	0	11400	50000	61400	21191	0	1782	21191	22983
7	23545	50000	0	13300	50000	63300	21191	0	2119	21191	23309
8	23545	50000	0	15200	50000	65200	21191	0	2465	21191	23656
9	23545	50000	0	17100	50000	67100	21191	0	2835	21191	24026
10	23545	50000	0	19000	50000	69000	21191	0	3236	21191	24426
11	23545	50000	0	20900	50000	70900	21191	0	3674	21191	24865
12	23545	50000	0	22800	50000	72800	21191	0	4008	21191	25199
13	23545	50000	0	24700	50000	74700	21191	0	4362	21191	25553
14	23545	50000	0	26600	50000	76600	21191	0	4748	21191	25939
15	23545	50000	0	28750	50000	78750	21191	0	5176	21191	26366
16	23545	50000	0	30650	50000	80650	21191	0	5654	21191	26845
17	23545	50000	0	32800	50000	82800	21191	0	6195	21191	27386
18	23545	50000	0	34950	50000	84950	21191	0	6816	21191	28007
19	23545	50000	0	37100	50000	87100	21191	0	7527	21191	28717
20	23545	50000	0	39250	50000	89250	21191	0	8356	21191	29547
21	23545	50000	0	41400	50000	91400	21191	0	9329	21191	30519
22	23545	50000	0	44050	50000	94050	21191	0	10471	21191	31661
23	23545	50000	0	48700	50000	96700	21191	0	11825	21191	33016
24	23545	50000	0	49350	50000	99350	21191	0	13680	21191	34871
25	23545	50000	0	52500	50000	102500	21191	0	166625	21191	37816
The single premium shown above is exclusive of tax and extra premium if any											
** Special surrender value may however be payable, if it is more favorable to the policy holder											

Source: copied from http://www.licindia.in/single-premium-endowment-plan-01-benefits-illustration-2014.htm

Through a detailed examination of the benefit illustration the table reveals that the maximum amount that the insured receive will be 1, 02,500 at the end of 25th year. But if he/she invest the same amount as a fixed deposit for 25 years he/she will get a return of at least 1, 70,000. The difference is more than 60000 rupees. This may be one of the reasons were the respondents commented that the investment is not profitable or were the respondents is reluctant to invest their money in life insurance.

Discussions

Even though India has acquired 11th position in life insurance business as per the report of Swiss Re the market is still in its infancy stage. In a country like India, were population explosion is a great economic problem the life insurance business can take a great advantage of this disadvantage. However the growth of life insurance business is in a diminishing trend. A lot of innovation has taken place in the industry like the introduction of foreign direct investment, privatization etc through which the industry can easily raise funds and focus on the needs of its customers.

The study reveals that customers are not considering life insurance as a method of investment. A rupee earned today has great value than a rupee earned tomorrow. So in order to attract more customers the time value of money should also be taken into consideration. Though the investors are considering life insurance as a method for reducing the loss caused by the death of the insured they are reluctant to invest their money in life insurance. In a collectivist culture people will invest money in life insurance for the benefit of their dependents. Due to modernization and the western influence the individualistic culture plays a prominent role in the changing Indian society. In such situations attractive offers should be introduced to pull the customers attention towards life insurance business.

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