International Journal of Research Publication and Reviews

Study on Awareness of Life Insurance and Valuation of Insurance Premium in India

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A B S T R A C T

life insurance companies plays as covering life risk with income savings and is also promoter of investment activities. And Most of the people are not in India literate about life insurance companies and how much life insurance cover they can take from insurance companies , For this Purpose Human value and valuation of premium is important concept for calculation of life insurance premium for Indian people. The need to create awareness of life insurance product and life insurance companies is required. Thus the study concludes that awareness should be created among Indian people regarding valuation of premium and need of life insurance in current scenario.

Keywords: Life Insurance, Valuation of premium, HLV (Human life value), Knowledge of life insurance.

1. Introduction

Life insurance is a form of financial protection against financial loss resulting from the occurrence of an unforeseen event. Premiums are collected by insurance firms to offer this protection. Insurance is extremely vital and crucial for those who earn a living and whose families rely on them.. People don't aware about benefits of insurance and value of their life, because of that reason people have not done their financial planning till now. Because of the incorrect presentation of insurance by agents in the past, life insurance is now a very difficult chore. Because of this, life insurance is no longer a popular choice among new agents.

Life insurance is a co-operative form of distributing risk to group of persons who are exposed it.

1.1. Types of lifeinsurance

- Term Plan
- Endowmentplan
- Money-backplan
- Whole lifeplan
- Unit linked insurance plan(ULIP)
- Pension Plan

1.2. Valuation o fPremium

Concept of the worth of a human life, In traditional life insurance policies such as term, whole life, and endowment, the method of determining the premium takes into account the following factors:

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The present worth of future income, spending, liabilities, and investments is determined by the human life value. The HLV figure is typically used to determine how much money would be required to protect the lives of everyone involved.

There are seven points taken into account to assess the HLV

1.Age 2. Gender 3. Occupation 4. Retirement Age 5. Annual income 6. Employment benefit 7. financial information of family.

Mortality charge and interest :

The first element in premiums is mortality. Their mortality is estimated using a Mortality table, which serves as an indicator of mortality rates for various ages. We can calculate the cost of claims that are anticipated to be paid for an entire period or term by adding together the individual risk premiums for different ages. Say you're between the ages of 35 and 55. It tells us how much money we'll need from the future to settle claims that may arise. To determine Net Premium, multiply Risk Premium by Interest. The premium would be higher if the mortality rate in the mortality table was higher. The lower the anticipated interest rate, the higher the assumed interest rate.

When you buy a life insurance policy, you would be charged a fee to cover the cost of the insurance protection and certain other expenditures. Mortality charge is the term for this. It refers to the life insurance company's actual cost of protection. Before investing your money, it is usually deducted along with other policy charges.The sum at risk (sum assured minus fund value) affects mortality, which should decrease as the fund value increases over the policy term. It is determined as a percentage of the total amount at risk. The larger the amount at stake, the higher the fee. It should, in theory, reduce when the fund's value rises, but it does not.

Expenses of management and Reserve :

Life insurance have to incur various type of operating expenses including : Agents training and recruitment , commissions of agents , staff salaries office accommodation, office stationary Electricity charges other miscellaneous etc. All these have to be paid from premium that are collected by insurers. these expenses are loaded to the net premium. The first known as "New Business Expenses" are incurred at the beginning stage of the contract.

2 .Review of Literature

Guru P, Umamaheswari D, Sathyapriya J, (2020), Consumer perceptions of life insurance in India are examined in this research report. Life insurance has a long history in India. It necessitates numerous modifications in terms of legal, product, service, and even usage. The topic of this research report is on how Indian consumers perceive the life insurance market.According to the marketing demand concept, life insurance is categorised as negative demand, which means that the consumer's perception of it will have a significant impact on their purchasing behaviour. It would assist life insurance marketers in coming up with fresh ideas to raise awareness and combat consumers' negative perceptions of life insurance.

Raavi, Radhika &Satuluri, Ramesh. (2019) , In this research paper , With the passage of time, the IRDA act 1999, a study of life insurance penetration in India was conducted. The insurance industry is now open to private companies, and there are currently 24 life insurance companies operating in India, with a deployed capital of around 36625 crore, 20 lakhs distributers, and 32.5 crore in force policies, indicating that life insurance penetration in the population is now required.This article attempts to address the issue of low penetration by offering suggestions to all stakeholders on how to increase life insurance penetration.

Joshi ,Mrunal&Takodia , Tejal (2017) , In India, a study of contemporary trends, awareness, and preferences in the life insurance business. Following the implementation of a new industrial policy in India, the life insurance business was opened to private as well as foreign players. However, after the insurance regulation and development authority was established as a statutory agency in April 2000, new players could effectively operate.Currently, there are about 24 companies working in the life insurance sector, but despite the fact that IRDA has been in place for more than a decade and the sector is open to private as well as foreign players, LIC still holds more than 73 percent of the market share. As a result, investor and consumer preference for other insurance companies is required, and this research paper provides knowledge about this concept.

C. Balaji (2015), in his paper- Customer awareness and satisfaction of life insurance policy holders with reference to Mayiladuthurai town aims to assess consumer awareness of the insurance sector, as well as the various products involving varying premium rates, among urban and rural consumers. The survey examined roughly 100 sample respondents and found that 100% of them are aware of life insurance plans, while 87 percent learned about insurance products from brokers. However, it was discovered that the majority of respondents are aware of the government-run LIC and the private sector's HDFC Standard Life Insurance.Finally, the study revealed that insurance penetration in India is barely 2.3 percent, compared to 9-ten percent in developed countries. As a result, there will be a large market for insurance goods in India in the future.

Dash (2012), The expected disparities in opinions of customers and executives of the life insurance product regarding the impact of policy price on the final policy buying decisions of potential policy holders have been observed. The following are the numerous elements that go into life insurance policy pricing: price level, payment terms, customer's own estimated value, and policy quality and price.

3 Research Methodology

Primary Data:

Primary data is collected from the prospective friends, agents, trainers and the staff of sud life. And the collection of the data through interaction with various respondents.

In this method first we fill up questionnaire and collect data from respondent.

Secondary data:

Secondary data collected from the published magazines and websites to collect the data. The secondary data is collected from the following sources. Business magazines, Journals, Company broachers and books Published books Website

Population

City's Residents of Vadodara , Ahemadabad and Himmatnagar in Gujarat – India.

Sample size

The sample size is 100 respondents for the study.

Sampling Method

Non Probabilistic sampling method.

Data collectionInstrument

Questionnaire (Online Survey Method).

4 Objective , Scope and Limitation of the study

Objective of thestudy

- Mostimportantobjectiveofthisstudyistogiveawareness&properguidanceaboutlife insurance.Andalsocreate afinancialplanning.
- To Know the Preferences of retail investors among selected life insurancecompanies.
- To find out awareness about valuation ofpremium.
- To know what are the priorities of people of city for makinginvestment.
- To determine mortality charge & human life value which affect on premium ofinsurance.
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Scope of thestudy

- It provides knowledge of insurance sector inIndia.
- It provides a view in Indian insurancemarket.
- Scope is limited up to one hundred respondentsonly.

Limitation of thestudy

- Perception of people changed time totime.

This study is restricted to only one hundred respondents of Vadodara Ahemadabad, Himmatnagar city of Gujarat- Indiaonly

4 Presentation and Analysis of Data

To ascertain the overall understanding i.e. awareness of samples towards insurance and human value concept ,Thirteen Questions were asked to respond on mostly yes or no questionary due to considering respondent literacy level. The data analysis has done using Presentation of data ,Calculations and Contingency analysis of chi-square test of Independence (Statistical software is not used due to small number of respondents).

Table:1 Demographic Data

Attributes	Category	Frequency	%
Gender	Male	90	90
	Female	10	10
Age	21-30	64	64
	31-40	28	28
	41-50	06	06
	Above 50	02	02
Occupation	Job (Government)	13	13
	Business	35	35
	Service (Private)	12	12
	Other / Student	35	35

Sources : Primary data collected

The table show that there are 90 Male and10 female. There are 4 age group of respondent out of 64% respondents are come under age group between 21-30, 28% respondents are come under age group between 31-40, and remaining 06% respondents are come under age group between 41-50 and above -50 are 2 respondents. The above graph shows that out of 100 respondents 13% are doing job, 35% are doing business, 12% are doing service, and the remaining 35% is doing other work or students.

Table:2 Respondents Awareness about investment Planning

Particular	No. of Respondents	%
Yes	94	94
No	06	06

Source : Primary data collected

The above table shows that out of 100 respondents 94 % believe in investment Planning and 06% not interested in investment.

Table :3 Respondents Awareness about long term (10 year) Savings

Investment Plan	No.of Respondents	%
Life insurance	22	23
Fixed deposit	18	19
Mutual fund	15	16
Securities	13	14
Post office	23	25
Other	3	3
Total	94	100

Source: Primary data collected

The above table shows that out of 100% respondents 23%respondents are prefer money planning in Life insurance, 19% respondents are prefer money planning in fixed deposit, 16% respondents are prefer money planning in Mutual fund and 14% respondents are prefer money planning in securities, highest 25% in post office and remaining 3% in other.

Hypothesis Testing :
Hypothesis testing : 1

Ho : *Types of Investment preferred is independent of age.*
Ha : *Types of Investment Preferred is not independent of age.*

Table No : 3 - **chi-square test of independence** is applied for- Investment preference is related with age or not .

Table :3.1 Contingency table for the Respondent preferences about Long term (10 Year) savings (investment) with reference to age.

Age	Life Insurance	Fixed Deposit	Mutual Fund	Securities	Post office	Other	Total
21-30	15	10	10	10	11	03	58
31-40	05	08	05	03	07	-	28
41-50	02	-	-	-	04	-	04
50 Above	-	-	-	-	01	-	01
Total	22	18	15	13	23	03	94

Source: Primary data collected

Table :3.2 Calculation

Fo	Fe	(fo-fe)	(fo-fe)^2	(fo-fe)^2/fe
15	13.81	1.19	1.42	0.10
10	11.30	-1.30	1.69	0.15
10	9.41	0.59	0.35	0.037
10	8.03	1.97	3.89	0.48
11	14.44	-3.44	11.83	0.82
03	1.88	1.12	1.25	0.66
05	6.55	-1.55	2.4	0.37
08	5.36	2.64	6.97	1.3
05	4.46	0.54	0.29	0.065
03	3.87	0.87	0.76	0.20
07	6.85	0.15	0.025	0.0036
02	1.64	0.36	0.139	0.079
04	1.71	2.29	5.24	3.064
01	0.24	0.76	0.58	2.42
Total				9.55

$\chi 2 \text{Cal} = \frac{\Sigma (fo-fe)2}{fe} = 9.55$

Df= (c-1)(r-1) =(4-1)(6-1)=15

$\chi 2$ α ,Df = $\chi 2$ 0.05,15

$\chi 2$tab=24.99

  $\chi 2$ tab   > $\chi 2$

4 Conclusion

The tabular value is greater than the calculated value. We can not reject null hypothesis So, it may be concluded that the Type of investment preferred is independent to occupation of respondents.

Table: 04 Respondents awareness about Valuation of life insurance premium

Valuation of Premium Concept	Knows	Respondents	%
Human life value	Yes No	25 75	25 75
Mortality charges	Yes No	12 88	12 88
Expenses of Insurance company	Yes No	12 88	12 88

Source : Primary data collected

Above table:04 show that 25 % respondent are aware of human life value concept, and 75 % respondent are not aware of human life value concept in life insurance policy, 12 % respondent are aware of mortality charge and 88 % respondent not aware of mortality charge in life insurance and 25 % respondent are aware of Expenses of insurance on premium, and 75 % respondent are not aware of Expenses of insurance company on premium in life insurance policy.

Human life value : Data Analysis.

Table: 4.1 Calculation of Human life value of one respondent

Name :	*Nazim vasiwala*
Current Age:	*40*
Retirement Age:	*60*
Occupation:	*Business*

Nazim aged 40 has an annual earning of Rs 12,00,000/- and he has another 20 years to earn. And as he told that he spend Rs 6,00,000/- annually on personal expenses, the income for the family comes to Rs 6,00,000/- P.A. Assuming the earning to be constant, the total loss of income to the family for 20 years will be Rs 1,20,00,000/-. So he will require insurance cover of Rs 1,20,00,000/- to protect his family against the loss of income in the event of his untimely death.
(Source: primary data collected)
Sum assured amount 1200000 annually (monthly salary = (1200000/12) = 1,00,000 Monthlyexpenses   50,000 (50,000 * 12 = 6,00,000 annually)
Currentage40year

Retirementage   60year

Total remaining working years = 60 years - 40 years
= 20 years Expenses annually = 6,00,000 ,
Annually Savings = 6,00,000 (assured amount-expenses) (12,00,000-6,00,000)

Human life value=
(total assured amount - total annual expenses) * remaining number of working years
= (Rs.12,00,000   - Rs. 6,00,000) *20year
= (Rs. 6,00,000) * 20year
= Rs. 1,20,00,000

INTERPRETATION

The above data shows that the current age of Nazim is 30 year and their annual income (sum assured amount) is Rs. 12,00,000 and the annual expenditure is rs.6,00,000 and the remaining working year of Nazim is 30 year so he required Rs. 1,20,00,000 of insurance coverage and the human life value of Nazim isrs.1,20,00,000.

Mortality charge on premium
Table: 4.2 Calculation of Mortality Charge and Expenses of insurance Co. on Premium of one respondets

Name	*Nazim vasiwala*
Gender	*Male*
XYZ Plan	*Term Life Insurance*
Sum Assured	*20 Lakhs*

Age	*40*
Mortality charge (Age wise yearly charged on premium)	*1.86 Per 1000 Rs Sum Assured*
Annual premium (Premium paid upto 60 year of age)	*6200 Rs (Next year primium changed)*

Source : Primary data collected and Standard Mortality charge table from personalfinanceplan.in.

Calculation of Mortality charge will be done on monthly premium payment or Yearly payment of premium, in calculation of mortality charge in the premium Gender, Age and sum Assured amount taken in to consideration.

Here, Mortality amount is , Respondents age is 40 year and Sum assured is 20 lakhs , 2000000*1.86/1000 =3720 Rs annual Charge Premium amount is Rs 6200 Rs -3720 Rs (Mortality Charge)= 2480 Rs (Expenses of Insurance Company)

Monthly Premium Amount is Rs6200/12 = 516.66 Rs, 3720 Rs/12 =310 Rs Monthly Mortality charge

So Monthly Premium Include Expense of Insurance company is Rs 516.66 Rs – 310 Rs = 206.66 Rs Monthly on premium .

Note : Mortality charge is the breakeven points for the every life insurance company and Mortality rate will be changed with the age of person who pay premium.

5 Suggestion And Recommendation

From the above observation and finding I can suggest some of my view which is given below

1.   Proper Awareness plan is required likes pamphlet, Advertisement channel for the insurance plan and concept of expenses included in the insurance premiumAmount

2.   Future market for insurance in India is bright so proper risk awareness is required as a slogan with ' Insurance is a risk control plan not a Investment plan'

3. Experience agent required to deliver proper knowledge to customer about companypolicy.

4. Proper awareness among the individual about how to calculate the premium isrequired.

5.   The Rural people mostly unaware about life insurance expenses there for care should be taken to provide maximum transparency about charges included in premium amount i.e. Human life value concept , Mortality charge and other expenses of insurancecompany

General recommendation:
Insurance of life is important for our family safety.

6. Conclusion

Due to lack of knowledge about life insurance benefits people are not taking life insurance. And people is also thinking that life insurance is only investment of money not a risk coverage for family. Public awareness in valuation of premium is considerable so proper channel marketing for awareness is required. And people also can get knowledge about why life insurance company is charging this particular amount as premium.

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