

LIFE INSURANCE AS AN INVESTMENT STRATEGY

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Abstract: Insurance industry is an important and integral component of macro economy and has emerged as a dominant institutional player in the financial market impacting the health of economy through its multidimensional role in saving and capital market. It acts as a mobilizer of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. Insurance companies invest their shareholder's funds, policyholder's fund and other temporally available financial resources, which have a valuable contribution to firm as well as to economy. Insurance investments are oiling the wheels of economic and social development of the nation.

I. Introduction

Investment in financial assets are more productive in various degrees depending on their use. As the people are becoming more and more aware of their life style and income level, they require an integrated financial plan for investment. The investors require more investment options, which provide them with flexibility, liquidity and tax benefits. Thus insurance has taken a very vital position as a wholesome investment option. Investment management is a backbreaking area of operation in any insurance company, which has to keep generate reserve for claims that might arise over a period keeping in view the different risk level, regulations and a variety of investment objective implicit in mind of policyholders and shareholders.

II. Why life insurance?

Life insurance is gaining public awareness and interest very rapidly. It was till now though as a way to insure life but recently it has emerged as a prominent investment avenue, as it provides the policy holder with the benefit of protection and at the same time allows him to take the benefits of the fluctuations of the share market. Thus insurance has taken a very vital position as a wholesome investment option. The new Unit Link Insurance Plans which provides a combination of risk cover and investment is one major development in the insurance industry. Various innovative products offered by life insurance companies makes the investments in life insurance more attractive.

III. Types of life insurance

Term Life Insurance: A term life Insurance provides death risk cover for a specified period. In case the life assured passes away during the policy period, the life insurance company pays the death benefit to the nominee. It is a pure risk cover plan that offers high coverage at low premiums. The death benefit is payable as lump sum, monthly payouts, or a combination of both.

Unit Linked Plans (ULIPs): A unit linked plan is a comprehensive combination of insurance and investment. The premium paid towards ULIP is partly used as a risk cover and partly investment in funds. One can invest in different funds offered by the insurance company depending on his is appetite. The insurance company then invest accumulated amount in the capital market i.e. in bonds, equities, debts, market funds or any hybrid funds.

Endowment plans: Endowment plan is another type of life insurance plan, which is a combination of insurance and savings. Endowment plan may offer bonuses periodically, which are paid either on maturity or to the nominee under death claim.

Money back Life Insurance: Money back plan is a unique type of life insurance policy, wherein a percentage of the sum assured is paid back to the insured on periodic intervals as survival benefit. Money back plans are also eligible to receive the bonuses declared by the company from time to time. This way, policyholder can meet short-term financial goals.

Whole life insurance: A whole life insurance policy covers the life assured for whole life, or in some cases up to the age of 100 years. The premiums are higher as compared to term plans. Whole life insurance plans also offer a partial withdrawal after completion of premium payment term.

IV. Benefits of life insurance

- **Protection element:** The insured who enters into the insurance contract feels a sense of protection because in the event of death, the insured sum will be paid to the nominees who may be the members of the family.
- **Investment element:** The regular premium paid by the insured is just like regular deposit under recurring deposit scheme or like regular investment under systematic investment plan of a mutual fund.
- **Convenience element:** The insured is allowed to pay premium at regular interval that is pre-fixed according to the convenience. The premium may be payable yearly or half yearly or quarterly or even monthly.
- **Tax element:** Section 80C of the Income Tax Act is an effective way for the salaried person to reduce tax liability. Payment of life insurance premium is eligible for deduction under this section. These deductions can be reduced from the gross total income.

V. Conclusion

The life insurance industry has changed rapidly in the challenging economic environment throughout the world. In the current scenario, the insurance companies have become competitive in nature and are providing appropriate distribution channels to get the maximum benefit and serve customers in manifold ways. The basis intention of taking life insurance is to overcome the risk of uncertainty that is likely to happen in future. Financing the future needs are considered as the important benefit of life insurance.

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