Risk Management & Investment Avenues in Insurance Sector

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Abstract

*Investment alternatives for any person are divided into a real asset and financial asset. Real assets deal with property, precious objects etc. Though real asset takes a large portion of money when it comes to investment, major efforts for making investment decision are dedicated to financial assets. Any investment has two aspects - **time & risk**. An investment in an asset is a sacrifice of current consumption to get some return in future. Assets are expected to generate cash flows and the probabilities of variation in the expected cash flow in future give rise to risk. So, all the alternatives are analyzed for their time and risk factor before selecting a particular asset for investment.*

Through this study, an analysis has been made into preferred investor's behaviour towards investment avenues. It has also studied the difference of opinion of age on investor behaviour while selection of any avenue.

Keywords: Investment Avenues, Investment Portfolio, Liquidity, Risk & Return

Introduction

Investment is the commitment of Funds, with the long term time framework, the objective being additional income to regular receipts and growth in value of funds of Investor. Investment involves waiting for the future reward in terms of income through regular interest, dividends, premiums, or appreciation in value of principal capital. Investors have a lot of avenues to park their savings. The risk & return available from each of these investment avenues differ from one avenue to another.

When it comes to investing, the volume of facts and information available can be incredibly time consuming to wade through and for many individuals it is just too confusing. Yet we need a good understanding of the financial options available to us to be able to make good investment decisions. In India, many investment avenues are available where some are marketable and liquid while others are non-marketable and some of them are highly risky while others are almost riskless. The investor has to choose Proper Avenue depending upon his specific need, risk preference, and returns expected.

In India Life Insurance Companies have achieved a good growth in spite huge competition in the sector and there is huge scope for the insurance companies in the country. However with the expansion of Life insurance industry, companies in this industry are involving themselves in several investment activities.

Objectives of Study

Before talking about the impact of Investment on Investors, in relation to Safety, Income & Growth whether it's risky or riskless, it's better to have an idea on the study about the objectives in relation with its effect:

- To find out structure of Investment Portfolios of Insurance Companies in India
- To review the progress of Insurance Sector and trends in mobilisation of Savings and Investment,
- To observe the growth of Insurance Industry,
- To find out determinants factors affecting Investment Portfolio, and
- To suggest measures for consideration of policy makers for strengthening Insurance Companies.

Research Methodology

Keeping in view of the objectives, in the present study secondary data has been used. Information regarding the investment portfolio of selected Insurance Companies has been collected from the annual report of the concerned companies. Besides that, IRDA reports are utilized to get required information. So it can be said that the paper is based on secondary data source. The study of the paper takes into consideration the Life Insurance Companies for Investment pattern.

Registered Investment Insurers in India

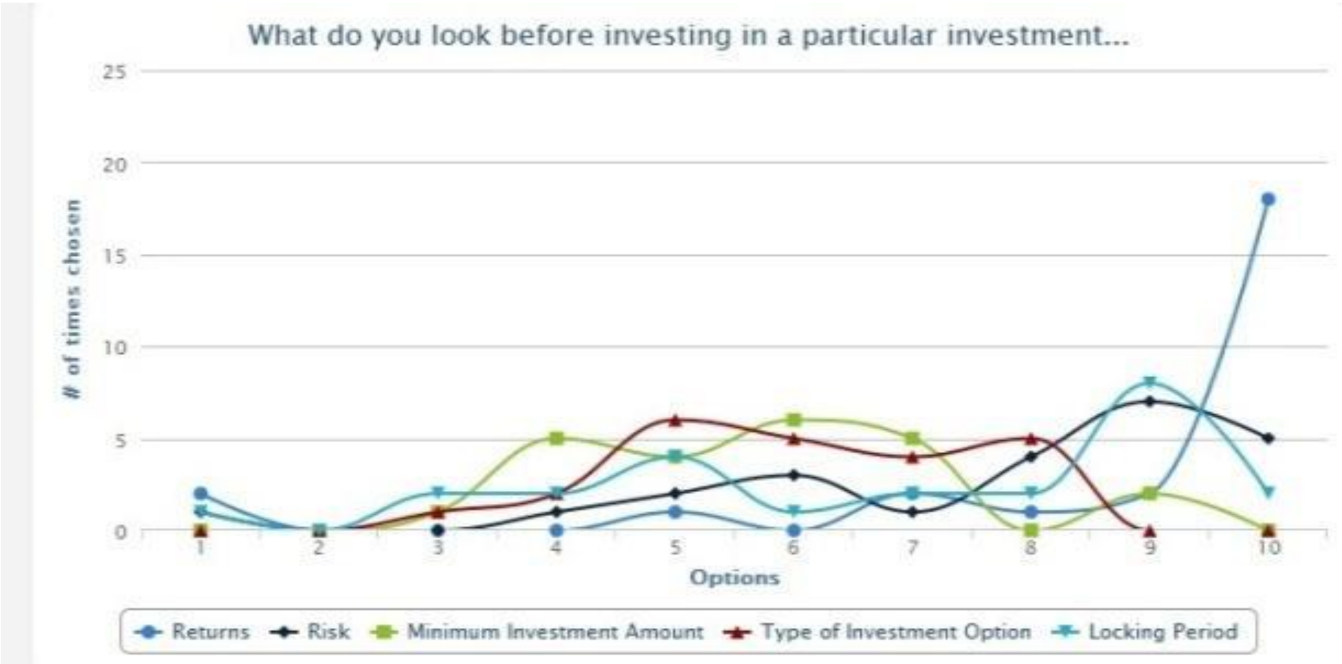
All insurers are required to adhere the pattern of Investments as stipulated under the Investment Regulations. The details of Registered Investments Insurers made by Insurance sector are summarised below:

Registered Insurers in India (as on 31st March, 2018)

Types of Business	Public Sector	Private Sector	Total
Life Insurance	1	23	24
General Insurance	6	17	23
Reinsurance	1	8	9
Health	0	6	6
TOTAL	**8**	**54**	**62**

Source: Economic Times

Factors Considered before making an Investment



From the diagram it is stated that among people the most important factor they consider before making investment is the returns followed by risk, locking period, type of investment option and minimum investment amount. The people have rated the following factors out of 10 which gave the rating as follows Returns (8.73 / 10), Risk (7.71 / 10), Locking Period (6.79 / 10), Type of Investment Option (6.04 / 10), and Minimum Investment Amount (5.74 / 10). The basic factor includes:

a. ***Past Market Trends:***

Sometimes history repeats itself; sometimes markets learn from their mistakes. The investors need to understand how various asset classes have performed in the past before planning for their finances.

b. ***Risk Appetite:***

The ability to tolerate risk differs from person to person. It depends on factors such as the individual financial responsibilities, environment, basic personality, etc. Therefore, understanding the investor's capacity to take on risk becomes a crucial factor in investment decision making.

c. ***Investment Horizon:***

It is the period that the investor can keep his money invested. The longer the time-horizon, the greater are the returns that should be accepted. Further, the risk element reduces with time.

d. ***Investible Surplus:***

It basically refers to how much money is the individual able to keep aside for investments. The investible surplus plays a vital role in selecting from various asset classes as the minimum investment amounts differ and so do the risks and returns.

e. ***Investment Trend:***

It refers to how much money does the investor needs at the time of maturity. This helps the investor to determine the amount of money that they need to invest every month or year to reach the magic figure.

f. ***Expected Return:***

The expected rate of returns is a crucial factor as it will guide the choice of investment. Based on the investors' expectations, the investor can decide whether they want to invest heavily into equities or debt or balance their portfolio.

Investment Avenues

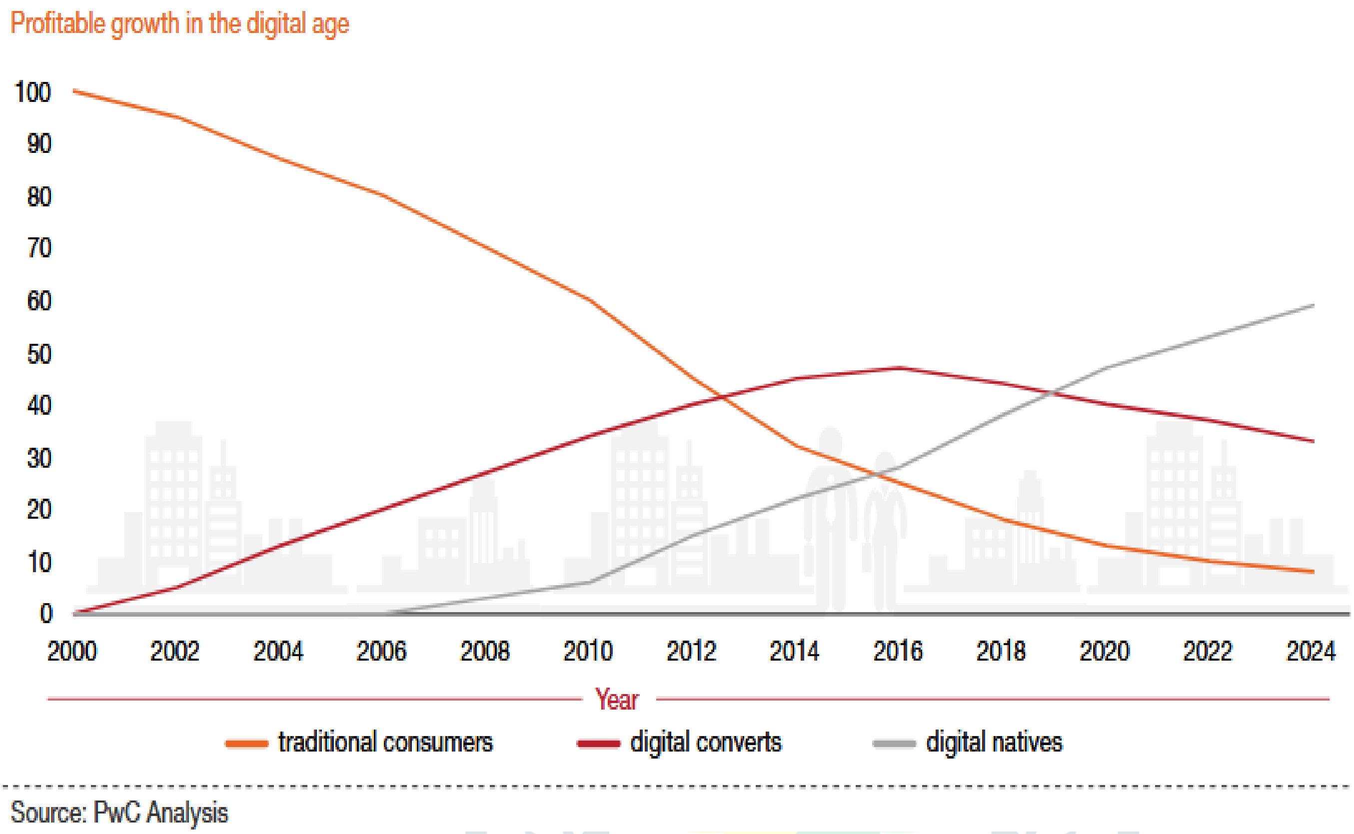
Investment in any of the alternatives depends on the needs and requirements of the investor, corporate & individuals have different needs. Before investing, these alternatives of investments need to be analyzed in terms of their risk, return, term, convenience, liquidity etc.

1. **Financial Instruments**
   a. ***Equities*** are a type of security that represents the ownership in a company. Equities are traded (bought and sold) in stock markets. Alternatively, they can be purchased via the Initial Public Offering (IPO) route, i.e. directly from the company. Investing in equities is a good long-term investment option as the returns on equities over a long time horizon are generally higher than most other investment avenues. However, along with the possibility of greater returns comes greater risk.
   b. ***Mutual funds*** allow a group of people to pool their money together and have it professionally managed, in keeping with a predetermined investment objective. This investment avenue is popular because of its cost-efficiency, risk-diversification, professional management and sound regulation. You can invest as little as Rs. 1,000 per month in a mutual fund. There are various general and thematic mutual funds to choose from and the risk and return possibilities vary accordingly.
   c. ***Bonds*** are fixed income instruments which are issued for the purpose of raising capital. Both private entities, such as companies, financial institutions, and the central or state government and other government institutions use this instrument as a means of garnering funds. Bonds issued by the Government carry the lowest level of risk but could deliver fair returns.
   d. ***Deposits*** - Investing in bank or post-office deposits is a very common way of securing surplus funds. These instruments are at the low end of the risk-return spectrum.
2. **Non-financial Instruments**
   a. ***Real estate***; with the ever-increasing cost of land, real estate has come up as a profitable investment proposition.
   b. ***Gold***; the 'yellow metal' is a preferred investment option, particularly when markets are volatile. Today, beyond physical gold, a number of products which derive their value from the price of gold are available for investment. These include gold futures and gold exchange traded funds.

Economic Impact of Insurance Investments

Insurance can be described as an enabler for people and companies to take risks and as a way to allow individuals' minds and assets to be productively and confidently invested in the economy. Higher economic development usually leads to larger risk-taking, and greater financial inclusion and sophistication supporting insurance development. Insurance provision helps to improve the overall efficiency of the financial sector, notably by facilitating the provision of credit to the private sector.

Low levels of economic development are usually associated with low insurance penetration, with informal and traditional self-insurance schemes operating instead. At levels of around $3,000 to $5,000 GDP per capita, insurance penetration rates rise faster than GDP until a maturation of the markets sets in to form a kind of "plateau". One study (Lee et al. 2013) suggests that for OECD countries, a 1% increase in life insurance premia raises real GDP by 0.06% per year. On a dataset of 77 advanced and emerging economies from 1994 to 2005 Han et al. (2010) find that a 1% increase in total insurance penetration led to a 4.8% increase in economic growth per year.



Insurer's Investment in wider Economy

Importance of the activities of insurance companies carries out the activities in the financial markets, reflected in the following:

1) Insurance provides financial stability and reduce uncertainty through indemnity all those who have suffered loss. In this way it reduces the effect of mass bankruptcies that could have catastrophic consequences on production, employment, state tax revenues, and the state of an economy in general.
2) Voluntary pension insurance as one of the most important types of insurance in terms of investments of these funds on financial markets provides security for future pensioners that their retirement based on their payments be paid out monthly is stable until the end of their lives.
3) Growing of small amounts of money collected in the form of premiums, insurance companies are able to finance large investment projects and thus positively affect the economic growth of the country.
4) Insurance provides effective risk management and transforming evaluating risk, when investing, insurance companies thoroughly investigate the creditworthiness of the borrower, which allows other investors in the market to obtain information about the characteristics of other firms in the environment when making investment decisions.
5) Conducting international trade between partners who are not sufficiently familiar with is often conditioned by the existence of certain types of insurance. Thus ensuring encourages the development of international trade.

6) Granting discounts in premiums, and preventive measures to protect against fire, injury at work, etc., insurance companies affect the prevention and reduction of losses of the insured or of society as a whole.

Conclusions

The present study endeavoured to give a look on behaviour of investors towards investment avenues. The different avenues can be preferred provided it is put forth before young and different age group investors in the desired form. If the younger generation starts investing at such an early stage on regular basis, they will be able to save more for their future. Facts revealed in this study highlight the perception of varied age group investors who desire to invest in different avenues which give high returns and growth prospect.

The present study has important implications for investment manager. As it has come out with certain important facets of an individual investors, individual investors still prefer to invest in financial product which give risk free returns. The Indian investors are very much aware about the concept of portfolio allotments and risk and return of the investment. The investment product designers can design product which can cater to the investors who are low risk tolerant. As its a clear cut situation of following the saving mantras: by investors predicting, "Prevention is better than Cure", they expect more income, but less risk.

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