



Heading towards secured or Unsecured life: Underinsurance in India

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Abstract:

The issue of uninsured and underinsured are two different issues but in the Indian context, both are simply ignored by people in general, and most of the time uninsured people choose to remain uninsured because of a lack of knowledge or simply unaware of future risks. The purpose of Insurance in India is always taken wrongly as it is treated as a product of Investment rather than risk coverage.

The paper aims to study India's contribution to Global Insurance Market, possibly finding out the reason for uninsurance and underinsurance and find out, Is Insurance is the product of Investment or serves another purpose? The paper is exclusively based on secondary data and it is descriptive in nature. The paper will draw the attention of the government and Insurance authorities towards unseen risks which India is likely to face in the future, thus can affect the economic health of the country.

Key words: Insurance, Uninsured and underinsured, financial literacy, Risk, Investment

Introduction

The global insurance market continues to consolidate around the US, China and Japan which were the world's top three insurance markets by size in 2020, together accounting for almost 58 per cent of the global market. The six Asian countries (China, Japan, South Korea, Taiwan, India and Hong Kong) with market share of about 25 per cent in global market. In life insurance business, India stood tenth rank in the world same as previous year. India's share in global life insurance market was 2.90 per cent during 2020. In non-life insurance business, India is ranked fourteenth in the world improved by one rank from last year. India's share in global non-life insurance market is 0.77 per cent during 2020, that is less than one percent. Insurance penetration is not only low in India but also underinsurance. surprisingly, the importance of income protection or health insurance becomes evident only in times of crises and it was proved when the whole world was facing global health and economic crisis in the form of covid-19. The another issue the India is facing is the meaning and purpose of Insurance, the lines between Insurance and Investments are getting blurred, the factors attribute to these are the lack of adequate financial knowledge as well as push strategy by advisors/agents on account of higher commissions offered on insurance products and more over Unit linked Insurance are misguiding the purpose and existence of insurance and thus resulting in making thin contribution to global Insurance Market.

Objectives of study

To know the concept of Underinsurance.

To study the reason for underinsurance in India.

To know the difference between Insurance and Investment.

To provide reasonable solution for underinsurance in India.

Literature review

General Insurance Companies are companies which provide coverage in the form of compensation amount which is given to the insurer at the time when there is loss, damage, injury, treatment, hardship, incurred due to accident or any calamity against the premium paid by the insurer (**Kelkar, James & Kumar, 2015**)

The LIC of India being giant investor for capital market, Classified its Investment into Two: investment of non-linked business and investment of linked business by safe guarding the investible fund with certain rate of return. However, bulk of the LIC investment goes in Govt. securities to serve the purpose of safety (**Bhagat,2015**)

Issue of uninsured and underinsured in India

The liability to be incurred by the insurance company in the event of a total loss is based on the sum insured declared at the time of policy issuance, by the person insured and it is expected from a customer to pay regular premiums to ensure their assets remain protected from losses. But unfortunately, it is seen that the asset has not been insured for the full value. This results in the insurance pay-out being less than the actual value. This condition is called underinsurance or Condition of Average. It is estimated few more crore people are likely to undertake Insurance in the coming years but how many would be fully insured, it is still a big question. The issue of being uninsured and underinsured are the outcome of ignorance or the mindsets of the people in general. Most of the time, uninsured people choose to remain uninsured because of the lack of the knowledge or simply being ignorant towards future risks.

Discussing reasons for underinsurance in India

As of now we have understood the issue of underinsurance. let us know the factor attributing to it.

1. Investing in insurance for saving taxes: Specially life insurance products are lured with huge tax benefits. So, many people buy insurance policies on pretext of saving taxes and forget that the main purpose of life insurance. Hence, they end up settling for underinsurance.
2. Investing in Insurance for Investment purpose: In India Insurance are never taken as an insurance, people buy Insurance with the pretext of investment, as now many Insurances product are coming with ULIP (Unit linked Insurance Plan) concept and diluting the objective of Insurance.
3. Greedy agents: Most insurance agents become successful of selling that insurance product which ensure them hefty commission. Hence, they do not prioritize the need of insurance that you required.
4. Wrong product: There is a huge range of insurance products available online and offline. However, not every product is designed to meet the needs of every single policyholder. If you end up buying the wrong product, you will either unnecessarily pay a higher premium or end up with an inadequate cover.

Is Insurance being an investment?

The lines between insurance and investments getting blurred and the factors attributing it, the most common one is the lack of adequate financial knowledge as well as push strategy by advisors/ agents on account of earning hefty commissions offered on insurance products. Insurance and investments are crucial pillars of financial system of the country, but they both serve very different purposes, and hence should not be used interchangeably.

Conclusion

To grow manifold penetration of insurance in India, Private corporations along with government agencies need to educate people about importance and significance of having Insurance and how risk full it would be, if we step out our home or drove a car without having Insurance. Government should make specially health Insurance mandatory for employers over employee, both in the organised and unorganised sectors. The pandemic has cemented positive paradigm shifts for insurance. Higher risk awareness and acceleration in digitization are positive structural trends for insurance in India.

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