Chapter 11
Prelude of Investment:
Freshman's Dilemma in the Insurance Sector Investments

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ABSTRACT

The government of India has taken multiple economic reforms such as Jan Dhan Yojna, UPI, demonetization, and digitalization moving India towards a cashless economy. The financial landscape of India has undergone a radical change with the insurance sector bearing the torch on the road of exponential growth. The insurance penetration recorded was only 3.69% in 2017. The shockingly low participation of individuals indicated the existence of challenges that need to be addressed. The first section of the chapter explores the various factors creating a dilemma for investment in the insurance sector. The other sections of the chapter focus on the current scenario of Insurance investment and the paradigm shift in the perception of customers towards insurance products. The basic purpose is to implement systems thinking of looking at the whole and holistic picture with the highest inclusion towards nation-building and improving the penetration percentage and density of insurance in India.

INTRODUCTION

In "Rigiveda" we find the term "Yogakshema Bahamayam" which is more or less akin to the well-being and security of people. This makes it clear that the traces of sharing the future losses were available even in ancient India (S. M. Jha, 2003). Though there is a long history in the legacy of India, the Insurance sector lacks behind from other economies in terms of penetration and density. The basic reason can be attributed to the perception of Insurance as a tax saving instrument since times immemorial in India specially. There is always a dilemmic situation in one's mind about whether to invest in Insurance

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securities or save the money for future? What should be the motivation to pay high premiums when easy and better options of increasing money at a guaranteed pace is available in the banks in the form of saving's account, Recurring deposit and fixed deposits? If one doesn't encounter the future contingency like accidents, the high premiums paid on insurance is lost.

Let's view this situation from a different perspective. The primary aim of forecasting the contingencies is identification of full range of possibilities, not just based on illusory certainties. Whether a specific prediction of accident, incurable ailment, retirement benefits actually turns out to be accurate or not is only a part of the unreleased picture. The most difficult thing in this world is an attempt to forecast the future and more difficult is controlling the uncertainties hidden in it (Paul Saffo, Six Rules for Effective Forecasting, HBR, July-August 2007). Insurance is a way to handle the hidden uncertainties.

As per a survey of Business Standard the investment of India in health care is only 5% compared to the developed countries. The low figure indicates the immense potential present in India. (Saraswathy, "Business Standard, March, 20, 2013).

Insurance is a necessity in the countries where there is a system of single earning member and no provision for social security. But Insurance sector has its own series of challenges and hurdles. This factor makes India the most favourable market for Insurance Investments (Sadhak, 2009). Insurance reduces the social liability of a developing country like India by increasing the aura of risk coverage and financial security. There is no amount of fixed requirement of money that can be kept aside for future use by the family members. Growth of money and return on investment is an important criterion in the society. After LPG in 1991, a milestone was achieved when the nation decided to privatise the industry along with requisite regulations. The Insurance sector in India has completed a full circle from being an open competitive market to nationalisation and back to a liberalised market again (Chaudhury & Das.2014).

The opportunity cost and the trade-offs between money and insecurity is too high. This is a problem every individual specially the novice investors face. While investing in the Insurance securities of the stock market only the theoretical part and perspective is considered but the problem lies in interpretation or perception of the theory inhaled subject to the varying mind set of the people involved.

The psychology of the individuals is never constant in every similar situation. A human mind always does the multitasking of thinking and evaluating multiple factors at a time based on their current situation and future expectations.

But things are changing. The 21st century known as the knowledge era brought with it a boom in the minds of investors in the Insurance sector. Overall insurance penetration reached 3.69% in 2017 from 2.71% in 2001 but this is still very low compared to the global market as indicated in figure1. A lot changed though very slowly and a lot is still to be changed in the next 5 years. The thought process of the matured investors of the stock market in the Insurance sector needs to be challenged and redirected to assure the novice players of a clean, clear and bias free market where the process is more important than the outcomes. Many of the novice participants exhibit a poor intuitive judgement of how co-variation of risk and return affects portfolio, acting as if diversifying always is the safest option even when facing contradictory evidence in the data (Hedesström, 2006). With small and dedicated effort we need to increase the participation of youngsters in the Insurance sector investments. Whether one is financially literate or not, every citizen has the objective of profit and wealth maximization in his own parlance for a better and secured future. This is a high time to think in a positive way, follow the interconnected grid of development and travel the road of Insurance Investment ahead with trust and confidence challenging the internal biases as well as external blocks existing in the system.