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A STUDY ON THE INSURANCE POLICIES AND THEIR ROLE IN FINANCIAL RISK MANAGEMENT

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ABSTRACT:

Insurance policies play a pivotal role in financial risk management providing individuals, businesses, and institutions with a valuable mechanism for mitigating the potential financial consequences of unforeseen events. This abstract delves into the fundamental concepts of insurance, exploring its significance in safeguarding against a wide array of risks, from health and property damage to liability and beyond. It examines how insurance functions as a risk transfer tool spreading the financial burden across a diverse pool of policyholders. Additionally, this abstract highlights the critical factors to consider when selecting insurance coverage such as policy terms, premiums, deductibles, and coverage limits. Furthermore, it discusses the various types of insurance policies available encompassing life insurance, health insurance, property, and casualty insurance, and more, each tailored to address specific financial risks. The abstract also discusses the benefits and limitations of insurance as a risk management tool, emphasizing its importance in promoting economic stability and safeguarding individuals and entities against unforeseen events. The abstract also discusses the benefits and limitations of insurance as a risk management tool emphasizing its importance in promoting economic stability and safeguarding individuals and entities against unforeseen events.

KEY WORDS: Insurance, Risk management, Business, Premium, Financial risk.

INTRODUCTION:

Insurance policies play a crucial role in risk management by providing a mechanism for individuals and organizations to transfer some of their financial risks to an insurance company. Here's how insurance policies function in risk management:

Risk Transfer: Insurance policies allow individuals or businesses to transfer the financial burden of certain risks to an insurance company. In exchange for regular premium payments, the insurance company agrees to cover specific losses or liabilities outlined in the policy. This transfer of risk helps protect policyholders from the full financial impact of unexpected events.

Financial Protection: Insurance policies provide a safety net against various types of risks, including property damage, liability claims, illness, accidents, and more. Depending on the type of policy, insurance can cover losses related to health, life, auto, home, business, and other areas.

Legal and Contractual Requirements: Some insurance policies are required by law or contract. For example, auto insurance is mandatory in many places, and lenders often require mortgage insurance for home loans. These policies help ensure compliance with legal and contractual obligations.

Risk Diversification: Insurance companies manage a broad range of policies covering different types of risks and a large number of policyholders. This allows them to diversify and pool risks, making it more affordable and predictable for individuals and businesses to manage their specific risks.

Premium Payments: Policyholders pay regular premiums to the insurance company

OBJECTIVES

- To study about the risk management in life and health insurance policies.
- To study about the general insurance policy in India.
- To analysis the average claims of General Insurance of the Bajaj Company over the last 3 FY's.

LITERATURE REVIEW:

Anthony M. Santomero is Richard K. Mellon Professor of Finance and Director of the Financial Institutions Center at the Wharton School, University of Pennsylvania. David F. Babbel is Associate Professor of Insurance and Finance at the Wharton School, University of Pennsylvania.

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The Journal of Risk and Insurance management and control systems to reduce their exposure to risk and better manage the amount they accept. In short, the industry has turned to financial risk management techniques as a way to improve performance.

Coincidental to this activity, and, in part, because of our recognition of the industry's vulnerability to financial risk, the Wharton Financial Institutions Center,

With the support of the Sloan Foundation, has been involved in an analysis of financial risk management processes in the financial sector. During 1995 and 1996,

On-site visits were conducted to review and evaluate the risk management systems and the process of risk evaluation that are in place.

In the insurance sector, system evaluation was conducted covering a number of prominent life/health and property-liability insurers, both in the United States and abroad. The information obtained on the philosophy and practice of financial risk management comes primarily through intensive interviews of these insurance firms, conducted by a team of researchers from the Wharton Financial Institutions Center.' Measured in terms of admitted assets, these firms range in size from \$7 billion to well over \$100 billion. They are organized as stock, reciprocal, or mutual insurers. Some firms restrict their activities to life insurance and pensions;

Others are multiline insurers, selling the full range of property-liability and life/health products. These visits were augmented by interviews conducted with additional large insurance firms domiciled in Japan and Europe as well as North America. As was the case above, these firms include life insurers, property-liability insurers, and a multiline company.

RISK MANAGEMENT

In layman's terms, risk management refers to identifying and controlling the risks associated with your actions. Risks can be related to assets, health, life, etc. Hence, staying emotionally and financially prepared for competently dealing with such risks becomes imperative.

One of the most preferred tools to manage such risks is life insurance. A top financial expert said, 'Life insurance is not an investment. It is a risk management tool to protect future income'. A life insurance policy provides substantial coverage to an insured person to effectively deal with such risk.

Here is a comprehensive guide on purchasing an insurance policy that can help you reduce various risks.

The two major risks that are common for all people include life risks and health risks. These risks usually demand a lot of money for proper management and can financially ruin people's lives. Apart from these, other risks can pose a monetary hurdle.

Here are some ways in which insurance policies can provide monetary coverage to the policyholder when they face any of the above risks:

Risk of Life

This is mainly beneficial to the nominee when the policyholder passes away. It can also provide monetary support to the insured if they outlive the policy duration. An insurance policy can provide support in the following manner:

- Securing your family's future: By purchasing a life insurance policy, your family can stay financially protected after your demise.
- Encouraging savings and investments: Putting your money in insurance policies encourages you to save more. Also, there are several life insurance policies like ULIPs where a part of your premium is invested in various financial instruments. This can provide you with sumptuous returns and help in wealth creation.
- Fulfilling financial goals: Wondering how life insurance can fulfill financial goals? Life insurance policies like ULIPs allow you to withdraw money after the completion of the lock-in period to provide money

Risk of Health

It is mandatory for individuals to purchase a health insurance policy so that they will not have to worry about money when their condition is critical. Many insurers also offer cashless claim settlements so that policyholders can get treated at the right time.

- Providing monetary support: A health insurance policy can act as a cushion when the policyholder has to undergo an expensive treatment.
- Offering additional protection: You can purchase several riders along with your insurance policy for extended coverage

TYPES OF INSURANCE:

While there is a wide range of Insurance types available in the market, all of them can be broadly classified into two main categories:

1. General Insurance
2. Life Insurance

While Life Insurance provides you with financial coverage against your life, a General Insurance policy indemnifies you against any losses for your non-life assets.

Below is the further classification of the above two types of Insurance:

1. General Insurance

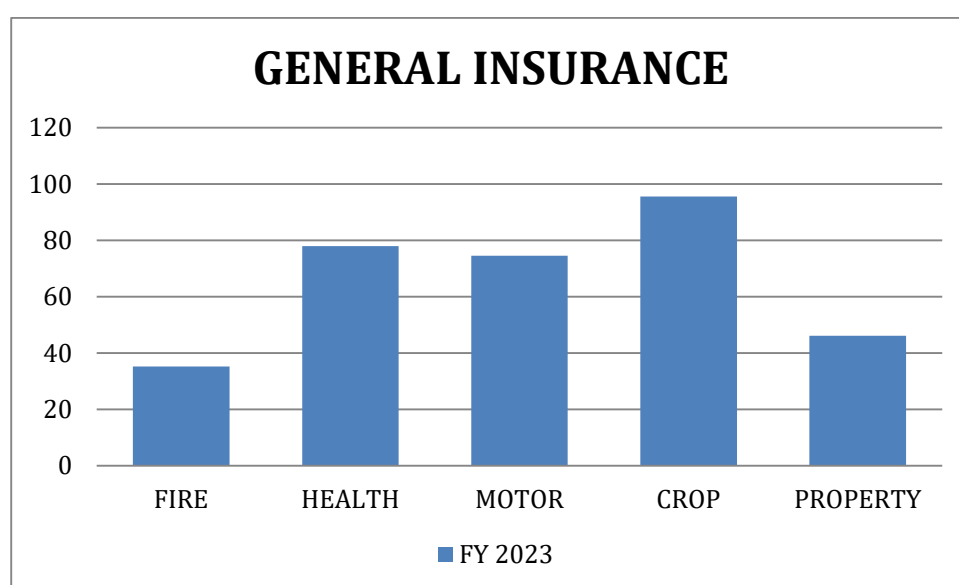
The major kinds of General Insurance Policies in India are:

- Health Insurance
- Motor Insurance
- Fire Insurance
- Property Insurance
- Crop Insurance
- Commercial Insurance

DATA ANALYSIS:

Table-1 Showing general insurance of Bajaj company in 2023.

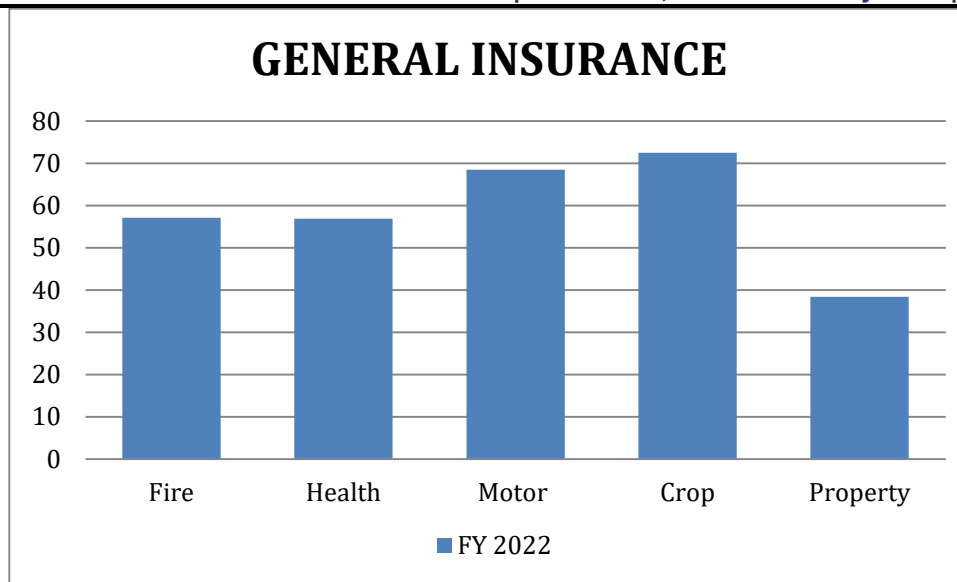
GENERAL INSURANCE OF 2023	PERCENTAGE
FIRE INSURANCE	35.2
HEALTH INSURANCE	77.9
MOTOR INSURANCE	74.5
CROP INSURANCE	95.5
PROPERTY INSURANCE	46.1

**INTERPERTATION:**

From the above graph crop insurance is highest with 95.5 when compared to the other insurances.

Table-2 Showing general insurance of Bajaj Company in 2022

GENERAL INSURANCE OF 2022	PERCENTAGE
FIRE INSURANCE	57.1
HEALTH INSURANCE	56.9
MOTOR INSURANCE	68.5
CROP INSURANCE	72.5
PROPERTY	38.4

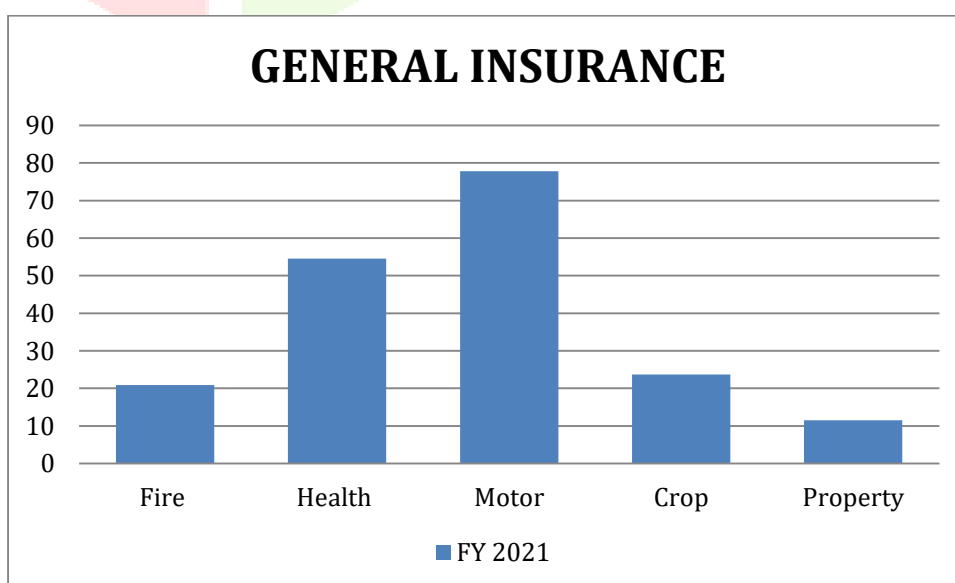


INTERPERTATION:

From the above graph crop insurance is highest with 72.5 when compared to the other insurances.

Table-3 Showing general insurance of Bajaj Company in 2021

GENERAL INSURANCE OF 2021	PERCENTAGE
FIRE	20.9
HEALTH	54.5
MOTOR	77.8
CROP	23.7
PROPERTY	11.5

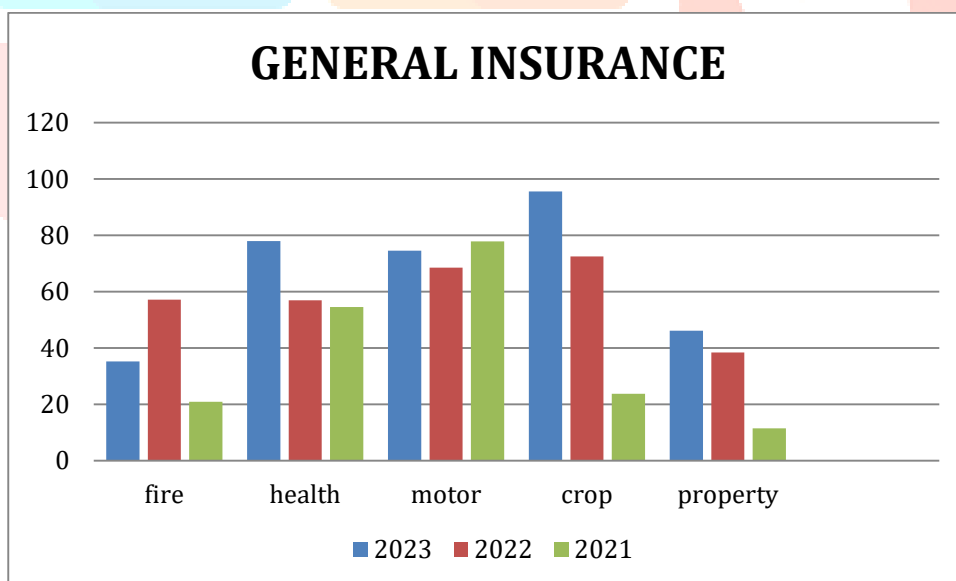


INTERPERTATION:

From the above graph motor insurance is highest with 77.8 when compared to the other insurances.

Table-4 Showing general insurance of Bajaj Company of 2023,2022,2021

GENERAL INSURANCE	Year 2023	Year 2022	Year 2021
FIRE INSURANCE	35.2	57.1	20.9
HEALTH INSURANCE	77.9	56.9	54.5
MOTOR INSURANCE	74.5	68.5	77.8
CROP INSURANCE	95.5	72.5	23.7
PROPERTY INSURANCE	46.1	38.4	11.5



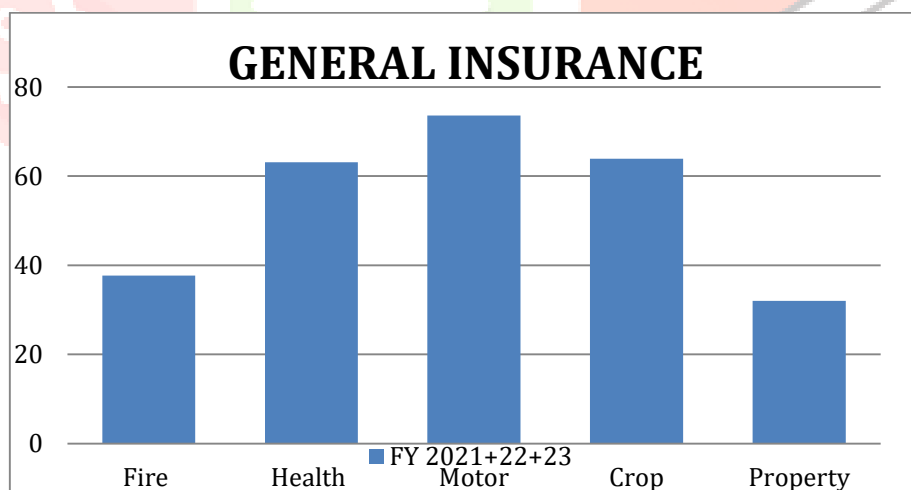
INTERPERTATION:

From the above graph crop insurance is highest in overall 3 years when compared to the other insurances.

Table Showing: Average claims of General Insurance of the Bajaj Company 3 FY's.

GENERAL INSURANCE OF 2021,22,23	PERCENTAGE
FIRE INSURANCE	37.7
HEALTH INSURANCE	63.1
MOTOR INSURANCE	73.6
CROP INCURANCE	63.9
PROPERTY INSURANCE	32

Graph Showing: Average claims of General Insurance of the Bajaj Company over the last 3 FY's.



INTERPERTATION:

From the above graph the average claims of General Insurance of the Bajaj Company over the last 3 FY's the motor insurance is highest with 73.6 when compared to the other insurances.

2. Life Insurance

The major kind of Life Insurance Policies in India are:

- Term Insurance
- Whole Life Insurance
- Endowment Policy
- Money Back Policy
- Pension Plan
- Unit Linked Insurance Plans
- Child Plans

Let's have an extensive look at all the above types of Insurance:

Life Insurance

Life Insurance provides financial coverage for the most uncertain part of human life: Life itself! Thus, it offers financial protection to the Life Assured's family in case of unfortunate events like the death or disability of the policyholder. In addition to the life coverage, some policies also provide a savings component and can be used as a prudent investment option. Below are the major types of Life Insurance policies in India:

1. Term Insurance:

Term Insurance is the most basic type of Life Insurance that provides Life Cover for a predetermined period called the 'term' of the policy. Since they do not offer any cash value, they are generally available at a much lower premium than other products for the same amount of coverage.

2. Whole Life Insurance:

Also known as Traditional Life Insurance, Whole Life Insurance provides coverage for the policyholder's entire life. Besides this life cover, they also have a savings component and accrue periodic bonuses.

3. Endowment Policy:

A perfect mix of Investment and Insurance, Endowment Plans provide Life Coverage and help build a corpus for major life goals. A portion of the premium goes towards Sum Assured while the other portion is invested in certain low-risk investments. In case of the policyholder's demise during the policy term, the Sum Assured is paid to the nominee. However, if the policyholder survives the term, they receive a maturity amount along with the accrued bonuses. Thus, Endowment Plans serve the dual purpose of Insurance and Investment.

4. Money Back Policy:

Money Back Policies are essentially the Endowment Plans only with the additional feature of payments at certain pre-defined intervals during the policy term. Additionally, on maturity, the maturity benefits are paid along with accrued bonuses.

5. Unit Linked Insurance Plans:

ULIPs provide Life Coverage and capital-building opportunities by investing in various market-related instruments and funds of varying risks. ULIPs have some underlying funds related to different asset classes like Equity, Hybrid and Debt funds where a certain portion of the premium is invested as per the policyholder's risk appetite.

FINDINGS:

- In risk of life the insurance policy can provide support in securing your family future or encouraging, savings and investments, fulfilling financial goals.
- In risk of heal the policy holder can get treated at the right time in providing monetary support offering additional protection.
- For the year 2023 crop insurance as the most of the clams that is 95.5%.
- Crop insurance as more clams that is 72.5 in the financial year 2022.
- In the financial year 2021 among all general insurance motor insurance has the majority clam of 77.8%.
- The motor insurance has the highest average of 73.6% of the 3 FY's.

CONCLUSION:

By having the right insurance coverage, we can minimize the financial impact of such events and ensure that we're well taken care of. It's always a good idea to review your insurance needs regularly to make sure you have adequate coverage. Insurance policies play a crucial role in financial risk management. They provide protection against unexpected events and help mitigate potential financial losses. By transferring the risk to an insurance company, individuals and businesses can have peace of mind knowing that they are financially protected. In conclusion, insurance policies act as a safety net, offering financial security and stability in the face of uncertainties.

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