

Social security and need of life insurance an empirical study

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Abstract: India is a federal country comprising 29 States and seven Union Territories. It gained independence in 1947. After following relatively inward-looking economic policies for several decades since gaining independence, India adopted an open economy- open-society strategy of economic growth in 1991, with the aim of integrating with the world economy in a market-consistent manner (Kelkar, 2004). As India addresses the challenges of the twenty-first century and manages its rise globally, constructing and implementing a modern social security system represents one of its major imperatives. A modern social security system can enable India to cushion the burden on workers of restructuring public and private organizations; to increase the legitimacy of further reforms; and to encourage individuals and firms to engage in entrepreneurship and make creative career choices. All three are essential for India to emerge as a resilient knowledge-driven economy and society. The purpose of this paper is to understand the investment pattern for security against risk of uncertainty of an individual depending upon different demographics.

Key words: Social security, individuals, investment pattern, LIC (Life insurance Policy).

I. Introduction:

Social protection refers to a set of benefits available (or not available) from the state, market, civil society and households, or through a combination of these agencies, to the individual/households to reduce multi-dimensional deprivation. This multi-dimensional deprivation could be affecting less active poor persons (such as the elderly or the disabled) and active poor persons (such as the unemployed).

This broad framework makes this concept more acceptable in developing countries as the concept of social security. Social security is more applicable in the conditions, where large numbers of citizens depend on the formal economy for their livelihood. Through a defined contribution, this social security may be managed. The framework of social protection is thus capable of holding the state responsible to provide for the poorest sections by regulating non-state agencies.

Prior to 19th century a class of general casual labourer was almost unknown in India. When ever required the community either collectively labour or forced labour of cultivators was used in the construction of railways, roads, government buildings dams, bridges, agriculture, military services, and irrigation services. In the second half of the 19th century the periodic occurrence of famines led to misery and loss of fodder that leads to the lost of cattle wealth – causing improverisation of peasantry and debt bondage laws favored money lenders and it led to the transfer of land from agriculturists to money lenders.

After independence with initiation of process of planned economic development in India, abolition of zamindari system the rapid growth of population and relative limited shift of population from agriculture to non agriculture sector led to progressive decline of land holdings and an increase in the number of marginal farm households. As a result of slow growth of organized employment in Indian economy, need for a social security net arises primarily for retirement benefits where in a person is beyond employable age or is in capable of working due to age or in case of contingency like death illness and disability.

Various studies estimated that the organized sector comprises only 10% to 15% of total work force today the remaining are still either self employed or casual wage earners. With economic liberalization the socio economic nature of our society is changing today there are increasingly more and more families which are turning nuclear. Hence expenses and a fragile support system in case of contingency leads to higher aspiration which is consumption oriented, with higher cost of living and have an access to better facilities and technologies and hence higher expenses. Insurance companies, banks and various agencies have been focusing on the working population to provide alternative and additional solutions to address these needs. However, due to low penetration of services and ease of reaching out to them; they have focused primarily on the working population in the organized sector.

Under the recent socio-economic changes, which we have been witnessing post liberalization of the economy there has been a steady growth of the lower middle class. A study of McKinley has estimated that over the next 20 years the middle class will represent more that 50% of the Indian Population including shop owners, small businesses, vendors, doctors, lawyers, auto rickshaw pullers etc. They are more vulnerable to

contingencies. The cost to both the individual and family is huge for such people as they generally don't have any support system either from family or govt. to fall back upon.

Insurance is one of the ideal solutions for addressing each of the social security needs and requirements. Insurance products like pension, annuities, term insurance, and health insurance can be customized according to one's needs and cater to the changing needs throughout various life stages. In this respect, the insurance companies have been able to reach out to them also, but it has been more due to either a generic coverage plan or due to regulatory requirements. There has not been any specific targeting or profiling of this segment as there are various challenges in reaching to this customer base. Experience of the last more than a decade has highlighted the challenges faced by both the consumers and insurer.

Review of literature

Social security is a concept enshrined in Article 22 of the Universal Declaration of Human Rights which states, Everyone, as a member of society, has the right to social security and is entitled to realization, through national effort and international co-operation and in accordance with the organization and resources of each State, of the economic, social and cultural rights indispensable for his dignity and the free development of his personality.

Maslow's hierarchy of needs In an interpretation of Maslow's hierarchy of needs, represented as a pyramid with the more basic needs at the bottom. Which further suggests that the most basic level of needs must be met before the individual will strongly desire (or focus motivation upon) the secondary or higher level needs.

Safety and Security needs include:

- Personal security
- Financial security
- Health and well-being
- Safety against accidents/illness and their adverse impacts

The American Society, in 1952 has defined Social Security (Minimum Standards) Convention, the International Labour Organization where the traditional contingencies covered by social security were as follows:

- Survival beyond a prescribed age, to be covered by old age pensions;
- The loss of support suffered by a widow or child as the result of the death of the breadwinner (survivor's benefit); family benefit; medical care; maternity benefit; unemployment benefit; sickness leave benefit; disability benefit;
- Physical disability and employment injuries.

One billion people still live in poverty in Asia and the Pacific. Social protection is affordable and a crucial investment in development. Education, health, and employment are key priorities in the region.

Edward Palmer (1994) In the paper entitled **The Swedish Pension Reform Model: Framework and Issues**", he had described that Life expectancy is factored into the NDC annuity, and together with the financial account system, this innovation helps to shift the risk of an aging society onto workers while they are still active. There is no maximum retirement age, and the system offers a broad range of options for labor-force exit for older workers.

Sophie (2003) in the paper entitled "**Women and Individual social Security accounts in Chile, Australia and UK**", he concluded that optimistic projection for improvements in women's retirement incomes under individual account systems tend to depend on changes in both social attitudes and women's behaviour not yet pervasive anywhere in the world as women have to make a balance in their work and family responsibilities and reduced medical care and limited opportunities for women make it less likely for women to be able to earn and save enough for a reasonable retirement income on their own.

Susan Harkess, Jeanne Fagnani and Klaus Haberkern and their colleagues in their research paper "**The future of Families to 2030 – a synthesis report – OECD (2010)**", had concluded that there is need for a long term fiscal projections, and scenarios of future public spending on health, long term care, pensions and social benefits to under pin the developments of a truly forward looking agenda to prepare for future fiscal stress. A first step for this would be family centered policy integration what works and appears to be good practice that could survive and thrive in tomorrow's world.

Objectives of the study:

1. To understand the investment pattern for security against risk of uncertainty of an individual depending upon different demographics (age, annual income, no. of dependents, area to which he belongs to, no. of dependents, etc)

II. Research Methodology:

Data collection method

1 PRIMARY

- a. **Questionnaires** : 300 questionnaires were administered to people from diverse educational and occupational backgrounds within varying age groups
- b. **Personal interviews**: the attitude of the investor has been measured by the survey methods like face to face interviews.

2. SECONDARY

- a. Website of different insurance companies is visited.
- b. Research articles: from books, publications, magazines, and journals.

Statistical Tests Applied:

Non parametric tests have been applied.

a) **Mann Whitney U Test** has been applied for determining the relation between samples from same or different populations to analyze the data which is categorical and only two independent samples of populations are involved. (E.g. Male and Female)

b) **Kruskal Wallis test** has been applied for determine the relation between samples from more than two populations is involved to analyze ordinal data and is not based on any assumption about the population shape. The process of computing a Kruskal Wallis, K statistic begins with ranking the data in all the groups together. (E.g. age, income, educational qualification, designation, etc)

III. Data Analysis And Interpretation

1. **Annual income of the respondent plays a significant role in investment in LIC and financial coverage against risk.**

Kruskal-Wallis Test

Table 1

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	investment in Tuition Fees
Chi-Square	6.214	3.633	9.807	1.266	4.848	19.686	14.298	8.608	10.276	6.863
df	3	3	3	3	3	3	3	3	3	3
Asymp. Sig.	.102	.304	.020	.737	.183	.000	.003	.035	.016	.076
	H1	H0	H1	H0	H1	H1	H1	H1	H1	H1

H0: Population categorized on the basis of income groups (four categories) has identical financial planning for social security.

H1: Population categorized on the basis of income groups (four categories) does not have identical financial planning for social security.

Interpretation for Table 1:

H0 is accepted: Population categorized on the basis of income groups has identical financial planning for social security by investing in Mutual Funds and infrastructure bonds.

H1 is accepted: Population categorized on the basis of income groups does not have identical financial planning for social security by investing in LIC, Equity Linked small Savings, PPF, NSC, KVP, FDR, Housing Loan, Tuition fees.

2. Age of the respondent plays a significant role in investment in LIC and financial coverage against risk.

Kruskal Wallis Test

Table 2

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	investment in Tuition Fees
Chi-Square	4.796	.309	3.590	6.856	1.982	3.954	9.522	7.525	5.017	11.776
df	2	2	2	2	2	2	2	2	2	2
Asymp. Sig.	.091	.857	.166	.032	.371	.138	.009	.023	.081	.003
	H1	Ho	H1	H1	Ho	H1	H1	H1	H1	H1

Ho: Population categorized on the basis of age groups (three categories) has identical financial planning for social security.

H1: Population categorized on the basis of age groups (three categories) does not have identical financial planning for social security.

Interpretation for Table 2:

Ho is accepted: Population categorized on the basis of age groups has identical financial planning for social security by investing in Mutual Funds and infrastructure bonds.

H1 is accepted: Population categorized on the basis of age groups does not have identical financial planning for social security by investing in LIC, Equity Linked small Savings, PPF, NSC, KVP, FDR, Housing Loan, Tuition fees.

3. Area to which respondents belongs to plays a significant role in investment in LIC and financial coverage against risk.

Kruskal Wallis Test

Table 3

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	investment in Tuition Fees
Chi-Square	.758	1.387	.684	8.221	1.122	17.662	1.559	1.941	4.642	1.304
df	2	2	2	2	2	2	2	2	2	2
Asymp. Sig.	.685	.500	.710	.016	.571	.000	.459	.379	.098	.521
	Ho	Ho	Ho	H1	Ho	H1	Ho	Ho	H1	Ho

Ho: Population categorized on the basis of area (three categories) has identical financial planning for social security.

H1: Population categorized on the basis of area (three categories) does not have identical financial planning for social security.

Interpretation for Table 3:

Ho is accepted: Population categorized on the basis of age groups has identical financial planning for social security by investing in LIC, Mutual Funds, ELSS, PPF, KVP, FDR, and Tuition fees.

H1 is accepted: Population categorized on the basis of age groups does not have identical financial planning for social security by investing in Infrastructure bonds and Housing Loan.

4. The type of job (pensionable / not pensionable) plays a significant role in investment in LIC and financial coverage against risk.

Mann-Whitney Test

Table 4

Test Statistics^a

	Area	Marital Status	Age Group	No. of financial dependents	Education Qualification	Employment Status	Gender	Gross Annual Income	Importance of Financial Planning
Mann-Whitney U	228	172	252	284	68	212	232	112	128
Wilcoxon W	1.07E+04	10612	10692	294	10508	10652	242	10552	10568
Z	-1.015	-1.598	-.510	-.049	-2.942	-1.085	-.826	-2.200	-2.069
Asymp. Sig. (2-tailed)	.310	.110	.610	.961	.003	.278	.409	.028	.039
	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho

Ho: Population categorized on the basis of job (two categories) has identical financial planning for social security.

H1: Population categorized on the basis of job (two categories) does not have identical financial planning for social security.

Interpretation for Table 4:

Ho is accepted: Population categorized on the basis of job (pensionable / non pensionable has identical financial planning for social security by investing in all the instruments of tax saving.

H1 is accepted: Surprisingly No Population is categorized in this group.

5. The gender of the respondent plays a significant role in investment in LIC and financial coverage against risk.

Kruskal Wallis Test

Table 5

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	investment in Tuition Fees
Chi-Square	.236	2.078	.136	.954	1.895	.770	.012	10.054	7.726	1.304
df	1	1	1	1	1	1	1	1	1	1
Asymp. Sig.	.627	.149	.712	.329	.169	.380	.913	.002	.005	.254
	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho

Ho: Population categorized on the basis of gender (two categories) has identical financial planning for social security.

H1: Population categorized on the basis of gender (two categories) does not have identical financial planning for social security.

Interpretation for Table 5:

Ho is accepted: Population categorized on the basis of gender has identical financial planning for social security by investing in all the instruments of tax saving.

H1 is accepted: Surprisingly no Population is categorized in this group.

6. The no. of dependents plays a significant role in investment in LIC and financial coverage against risk.

Kruskal Wallis Test

Table 6

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	Investment in Tuition Fees
Chi-Square	15.879	8.437	5.379	3.705	8.610	1.650	14.844	10.434	3.903	14.258
df	5	5	5	5	5	5	5	5	5	5
Asymp. Sig.	.007	.134	.371	.593	.126	.895	.011	.064	.563	.014
	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho

Ho: Population categorized on the basis of no. of financial dependents (six categories) has identical financial planning for social security.

H1: Population categorized on the basis of no. of financial dependents (six categories)) does not have identical financial planning for social security.

Interpretation for Table 7:

Ho is accepted: Population categorized on the basis of no. of financial dependents has identical financial planning for social security by investing in all the instruments of tax saving.

H1 is accepted: Surprisingly No Population is categorized in this group.

7. Marital Status of a plays a significant role in investment in LIC and financial coverage against risk.

Kruskal Wallis Test

Table 7

Test Statistics^{a,b}

	investment in LIC	investment in MF	investment in ELSS	investment in Bonds	investment in PPF	investment in NSC	investment in KVP	investment in FDR	investment in Housing Loan	investment in Tuition Fees
Chi-Square	1.146	5.628	4.872	5.940	2.961	1.559	2.638	5.681	3.804	2.933
df	2	2	2	2	2	2	2	2	2	2
Asymp. Sig.	.564	.060	.088	.051	.228	.459	.267	.058	.149	.231
	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho	Ho

Ho: Population categorized on the basis of marital status (three categories) has identical financial planning for social security.

H1: Population categorized on the basis of marital status (three categories) does not have identical financial planning for social security.

Interpretation for Table 8:

Ho is accepted: Population categorized on the basis of marital status has identical financial planning for social security by investing in all the instruments of tax saving.

H1 is accepted: Surprisingly No Population is categorized in this group.

IV. Conclusion

1. It can be concluded from above that every one plans for their future but what matters is the understanding towards financial planning and social security
2. Insurance advisors and insurance companies should launch awareness campaigns to make the public aware about the insurance products and their benefits to the family members.
3. People are looking for short term planning's by investing in ELSS, MF, NSC, KVP, FDR's and immediate liquidity from the investments in which they don't want to loose any thing by paying anything (except tax). But while paying to insurance company as they think - Man is mortal why should I give any chance to my family members to kill me / pray for his death so that the family members will get huge amount from insurance company (as he himself has become greedy).

V. Recommendations

1. Small investment in insurance plans can provide security to the family as in case any misfortunate-happening family will get insurance amount instead of few amount invested in other investment instruments like FDR, ELSS, MF, NSC, Bonds (under 80C).
2. Housing Loan and Tuition fees are the regular compulsory liability and not investment for social security.
3. Term insurance should be preferred for the longer period as the premium will be less and the person will be covered for the longer time period instead of 10 yrs depending upon a person's financial need for the family for the years to come. Earlier a person enters into the policy the lesser the premium. A person can opt for Term insurance / whole life insurance without benefit (non participatory) in which the premium is less than Rs. 10/- to 20/- a day depending upon the age of the person.
4. One should revise the risk coverage from time to time depending upon different stages of life and responsibilities associated from time to time so that all the dreams and expenses should be meet even in the absence of the main bread winner of the family. Insurance Risk cover should increase with increase in income.
5. Money can be invested in other instruments but one should be aware whether it is taxable or covered under 10(10C) of income tax on maturity.
6. Today woman plays an important role in the family not only by taking care of household chores but earning income for the family and kids. So, their insurance is equally important. As their absence/illness can lead to the expenses of daily chores, education of kids, and financial liability shouldered by them in taking housing/car loans and other expenses.
7. As major category of working people lies in the non pensionable jobs - they must opt for pension plans available in the market for secure future.
8. One Health insurance policy should also be taken for the family, as it happens at times that the whole investment is used in one go for the small medical expenses for the family / self in case of any emergency (illness or accident) for paying hospital bills, tests recommended by doctors, bills of medicines.

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