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Life Insurance Corporation - Indian Economic Development

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Introduction

Life insurance had its origins in ancient Rome, whore citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors banking some payments. In 1347, in Genoa, European maritime nations entered into the earliest known insurance and decided to accept marine insurance as a practice. Mack to the 17th century, in 1693, astronomer Edmond Halley constructed the first mortality and compound interest. I he 19th century saw huge developments in the field of insurance, with newel products being devised to meet the growing needs of urbanization and industrialization.

Life insurance in India

Insurance in India can be traced back to the Vedas. For instance. Yogakshema, the name of life Insurance Corporation of India's corporate headquarters, is derived from the RigVeda. I he term suggests that a form of 'community insurance' was prevalent around 1000BC and practiced by the Aryans. Bombay Mutual Assurance Society, the first Indian life assurance society, was formed inl870.

By the mid — 1950s, there were around 170 insurance companies and 80 provident fund societies in the country's life insurance sector. However, in the absence of regulatory systems, scams and irregularities were almost a way of life at most of these companies' funds. As a result, the government decided to nationalize the life assurance business in India. The Life Insurance Corporation of India was set up in 1956 to take over around 250 life assurance companies.

Currently LIC has no other great role than making life insurance business successful in India. This is the only role an Insurance company needs to and can play in a civilized open economy. Once the insurance business is undertaken, investments have to take place automatically. This will help economic growth.

Life insurance is considered by many financial experts to be the foundation of a total financial plan. That's because it's uniquely designed to perform three vital roles in the life of an individual, family and business, namely asset accumulation, estate planning, and estate distribution.

Role of Insurance in the life of an individual: Asset Accumulation

During our productive earning years, the ability to generate an income is typically our greatest asset. When income is saved and invested rather than consumed, the potential result is asset accumulation, which takes a lead role in helping to assure that current and future economic needs will be met.

It's also a time when premature death may not only undo asset accumulation but also create a critical need for funds, now and in the future. Let's look at the needs created when an income earner dies.

Final expenses

The need for immediate cash at death is universal. Final expenses typically include the cost of a last illness—which could span days, weeks or longer—along with funeral and burial expenses. Death can also create a tax liability requiring immediate funds to take care of it.

Outstanding debt

Debt includes charge card balances, auto and school loans, home equity loans and other f installment accounts that had formerly been met by an ongoing

Role of Insurance in the family and business

Housing expenses

Survivors need money for mortgage or rent payments. Ideally, funds should be earmarked to pay off a mortgage or make rental payments for a number of years.

Family income

The need to find replacement income usually is by far the largest and most important consideration. Even when there is more than one breadwinner, die loss of just one income can be devastating.

Education fund

For a young family, an especially critical need is money to pay for a dependent child's 'education—something a parent's continuing income probably had been counted upon to provide.

Social Security "blackout" period

Generally, a surviving spouse with young children receives Social Security benefits until die youngest child reaches age 16. Then the spouse's benefit stops until age 60 when widow's or widower's benefits become payable. Funds may be needed to fill in this drop in income for a surviving spouse.

Special needs

Providing for children with special needs presents its own challenges. While life insurance may be a cost-effective way to help provide money for supplemental needs, careful planning is required. It is best to work closely with a qualified attorney to make sure good intentions do not have unintended consequences.

Estate Planning

When we reach the end of our working years and are in or near retirement, there's still a need to help protect the assets we have built up over the years and to prevent needless estate shrinkage.

A need for cash

Once an estate has reached a respectable size—thanks to increasing income, savings, successful investing and similar wealth-building activities—there can still be a need for cash at the estate owner's death. This is especially true when the property consists of non-liquid assets such as real | estate, a business, or other property that can't quickly be converted to cash.

Estate taxes can't be ignored. Depending on the size of the estate, federal estate and income taxes, state taxes and other levies can dramatically shrink assets, particularly money in a qualified retirement plan. And they're typically payable at the time of death or shortly thereafter—in cash.

A need for income

Immediate cash needs aside, a surviving spouse may need additional income if Social Security or pension benefits are lost or reduced at a spouse's death, for example. And depending on what kind of retirement planning job was done, there may be a need to supplement retirement earnings whether or not the estate owner dies.

Estate Distribution

When estate assets are no longer needed to provide for the individuals who accumulated them, they take on a new role. This is the point where decisions must be made about the orderly distribution of the assets to the people and institutions on the receiving end.

Family members

An important consideration is how to give family members equitable and fair treatment in the distribution of estate assets. Proper planning can go a long way in avoiding conflicts and assuring family harmony. An example is the case where a son or daughter may be in line to take over ownership and control of a family business. If the business assets are given to that person, other family members may be shortchanged unless there are other assets available to provide equitable estate distribution.

Life insurance as a 'Device of Risk Coverage

First and foremost, insurance is about risk cover and protection - financial protection, to be more precise - to help outlast life's unpredictable losses. Designed to safeguard against losses suffered on account of any unforeseen event, insurance provides you with that unique sense of security that no other form of investment provides. By buying life insurance, you buy peace of mind and are prepared to face any financial demand that would hit the family in case of an untimely demise.

To provide such protection, insurance firms collect contributions from many people who face the same risk. A loss claim is paid out of the total premium collected by the insurance companies, who act as trustees to the monies.

Insurance also provides a safeguard in the case of accidents or a drop in income after retirement. An accident or disability can be devastating, and an insurance policy can lend timely support to the family in such times. It also comes as a great help when you retire, in case no untoward ; incident happens during the term of the policy.

With the entry of private sector players in insurance, you have a wide range of products and services to choose from. Further, many of these can be further customized to fit individual/group specific needs. Considering the amount you have to pay now, it's worth buying some extra sleep.

Life insurance as "Tax planning"

I Insurance serves as an excellent tax saving mechanism too. The Government of India has offered tax incentives to life insurance products in order to facilitate the flow of funds into productive assets. Under Section 88 of Income Tax Act 1961, an individual is entitled to a rebate of 20 percent on the annual premium payable on his/her life and life of his/her children or adult children. I The rebate is deductible from tax payable by the individual or a Hindu Undivided Family.

Conclusion

LIC is one of the strongest pillars of India's social and economic structure. Ever since the opening up of die insurance sartor in the year 2000, LIC is performing marvelously dominating the insurance market. The public sector LIC has surprised the critics with a very strong performance.

It is very much apparent that die insurance sector is poised for huge growth by way of number of policy holders, policy premium, new product, and increased technology focus; this would in turn play an important role in vacillating and sustaining growth. Life insurance has today become a mainstay of many market economies since it offers plenty of scope for garnering large sums of money for long periods of time. A well regulated life insurance industry which ' moves with the times by offering its customers to satisfy their future.

In spite of the sterling performance by the Life Insurance Corporation of India, the government, under pressure from the international finance capital, is making attempts to weaken the public sector.

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