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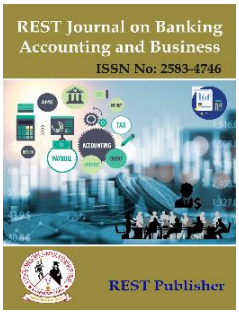

Impact of Covid-19 Pandemic on Performance of Life Insurance Companies in Terms of Policies Surrendered

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Abstract. *One cannot imagine life without insurance. In today's world full of uncertainties, life is always at risk. To be more specific, people have become more health conscious than before. Every life is valuable. The urgent need of financial support to family after demise of the bread earner of family has caused awareness among households. There is a competition among companies to sell their insurance plans in the market. The insurer takes up the plan as per their requirements and future family supporting plans. The real test of companies lies in reducing the number of policies surrendered by the insurer after few time of initial zeal towards policies. The pandemic has recently force people to take up new plans while at the same time surrender them due to their personal reasons or unexplained reasons. The present paper attempts to study the impact of covid-19 pandemic on surrender of policies among the two giant insurance companies of the country, Life Insurance Corporation of India (LIC of India) and State Bank of India Life (SBI Life). The secondary data was collected from company's annual reports. The claim amount pertaining to surrendered policies has been subjected to paired t test and the result showed that there had been significant difference in policy-surrendered claim value before and after pandemic for LIC of India whereas SBI Life result showed no significant difference in policy-surrendered claim value pre and post pandemic.*

Keywords: *LIC of India, SBI Life, Paired T-test, surrendered claim value, Insurance.*

1. INTRODUCTION

A healthy mind resides in a healthy body and health is wealth". A relaxed life is result of satisfaction gained in day-to-day activities. One cannot relax unless one is satisfied. Satisfaction comes from the feeling that a person is future-secured. Be it job security, family security or personal security and security from diseases. The greatest security comes from life security. Insurance is future savings for self and dependents. The insurance companies have a number of insurance plans to make the future secure of the person. The Insurance companies have a number of plans but the success of any company lies in the faith that the policy holder have on it. Every year companies launch many policies and also closes many. The policies are meant for the benefit of the public but still many policy holders refuse to carry on with the current policy and close them mid-way. The reasons may be several such as ill adaptation to the financial requirements of the policy guidelines which leads to non-payments of premium on time. Or the reason may be personal such as urgent requirement of the money and policy-surrendered claim amount is the only help and need of hour. Either way, the policy surrendered is a failure on the part of the insurance company and every company should try to avoid this situation. The Covid-19 pandemic has shaken the world and the insurance companies are trying at their level best in assuring the policy holders of their safety during the pandemic. The pandemic has left scars on the ever growing graphs of the insurance companies. The current paper highlights the impacts of covid-19 pandemic on policies surrendered and amount paid to the policy holders in the two giant Insurance companies, i.e., LIC of India and SBI Life. Both the companies are reputable especially among the rural masses of the country.

2. LITERATURE REVIEW

Some of the researchers as Yaari (1965) and Fischer (1973) showed that if individuals are uncertain about their date of death and do not want to die without leaving provision for the dependents, there will be non- trivial demand for life insurance. In a research on wealth-age relation with life insurance, C. A Pissandes (1980) showed that if there is a perfect life insurance, the consumption-age and bequest-age profile does not vary as income fluctuates. The life insurance products

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with and without reinsurance were compared by Marcos et. Al. (2022) through the concept of guarantee-equivalent utility gain. It was indicated that the reinsurance which is optimally managed by the insurer results in significantly higher capital guarantees to clients. The reinsurance benefits are prominent when the investment horizon is longer. The long-run impact of COVID-19 on life insurance profitability was studied by Maria et al (2022). A model was estimated by Fang, H and Kung, E. (2020) using the life insurance holdings from a study on Health and Retirement. They showed that the idiosyncratic shocks, uncorrelated with income, health and bequest motives are driving factors of life insurance lapsations, particularly with young policyholders. The bequest motive shocks are more important role-player during old age. The factors contributing to voluntary life insurance were identified by Agnieszka et al (2020) through Survey conducted among Polish households particularly from the region of Central Pomerania. They showed that the reason behind the life insurance in households was savings, education and financial services accessibility in the region. The life insurance industry in an emerging economy was examined by Frank Joseph Oscar Akotey G. Sackey, Lordina Amoah and Richard Frimpong Manso (2013). They found that large underwriting losses due to overtrading and price undercutting were incurred by the life insurers. The overall profitability of the life insurers was found to be setting-off. The lapse in life insurance was reviewed by Eling, M. et al (2013). They provided a classification of empirical research on life insurance lapse and theoretical lapse rate models. It was found that a fair amount of research had been conducted on how environmental variables affect lapse and lapse rate modeling was a very active field of research. It was rare to find research on individual policyholder and contract information. In the Ecuadorian insurance sector, Camino, M. S. et al (2019) investigated the main factors that led to insurance profitability on life and non-life segments. In the life insurance sector, the micro-determinants are technical reserves, net premiums, score efficiency and capital ratio whereas the claim level and liquidity ratio were also determinants in the non-life insurance sector. One of the prominent financial indicators of life insurance business is the surrender of policy at the request of policyholder. The amount equal to 30% of premium paid to date is considered as the guaranteed surrender value. Surrender value is an indication of policy-holder trust in insurance plan. The insurance companies always make effort to minimize the surrender of the plans by the insurer. To understand the impact of Covid-19 pandemic on the surrender of policies through the claim value paid to policy holders in the event of surrender of policy in LIC of India and SBI Life companies.

H1: There is a significant difference in claim value paid to policy holders in the event of surrender of policy before and after covid-19 pandemic in LIC of India. H2: There is a significant difference in claim value paid to policy holders in the event of surrender of policy before and after covid-19 pandemic in SBI Life.

3. RESEARCH METHODOLOGY AND DATA ANALYSIS

The research was a longitudinal study where data was collected for periods of pre-covid and then for post-covid. The research was exploratory in the sense that the impact of covid-19 pandemic was explored for insurance sector. In order to maintain parsimony, the LIC of India and SBI Life Insurance companies have been selected by the researcher. The performance of Insurance companies is analyzed from the perspective of surrender of Life Insurance policies. It is assumed that the claim value paid to policy holders in the event of surrender of policy is a reasonable measure of financial performance of the Company. A paired t-test was applied on the secondary data collected from the annual reports of the two insurance giants in the country. The period of pandemic (2019-20) has been purposely excluded from statistical test so that pandemic effect can be determined in the coming years. The table below shows the claim value paid to policy holders in the event of surrender of policy as paid by the insurance company to its policy holders during last seven years.

TABLE 1. Surrender amount paid by Insurance companies

Insurance Companies	**2017-118 (2 year before pandemic) Amount of surrender paid (Rs crore)**	**2018-19 (1 year before pandemic) Amount of surrender paid (Rs crore)**	**2019-20 (Year of pandemic) Amount of surrender paid (Rs crore)**	**2020-21 (1 year after pandemic) Amount of surrender paid (Rs crore)**	**2021-22 (2 year after Pandemic) Amount of surrender paid (Rs crore)**
LIC of India	52326.47	69163.18	70069.53	80347.55	95348.66
SBI Life	4269.28	4057.74	3709.09	4715.82	7101.58

Source: Annual Reports of Insurance Companies.

TABLE 2. Surrender amount paid by Insurance companies

Insurance Companies	**2017-19 (% increase) before pandemic**	**2020-22 (% increase) after pandemic**
LIC of India	32.18	18.67
SBI Life	-4.95 (decrease)	50.59

Source: Annual Reports of Insurance Companies.

The table shows that in LIC of India, during pre-Covid-19 pandemic there had been 32.18 % increase in amount of claims for surrendered policies than 18.67 % during post-covid-19 pandemic showing that the people had become more health conscious and increased faith in LIC of India due to pandemic (2019-20). The SBI Life shows a different picture

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where it had been observed that during pre-covid-19 pandemic, there was 4.95 % fall in amount of surrendered claims as compared to 50.59% increase in surrendered claim amount during post-covid-19 pandemic. This shows a large number of policies were surrendered during post-covid.

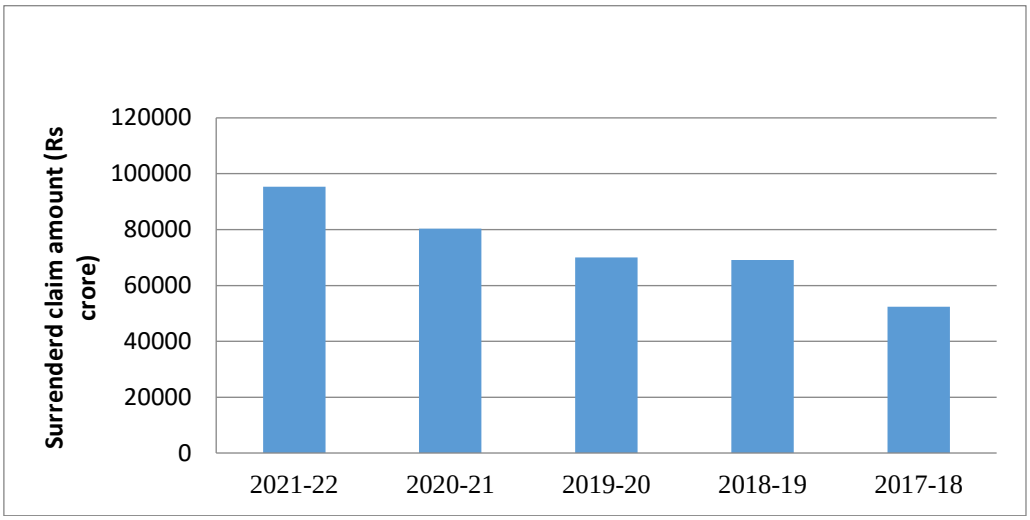

FIGURE 1. Trend of Surrender claim amount paid in LIC of India

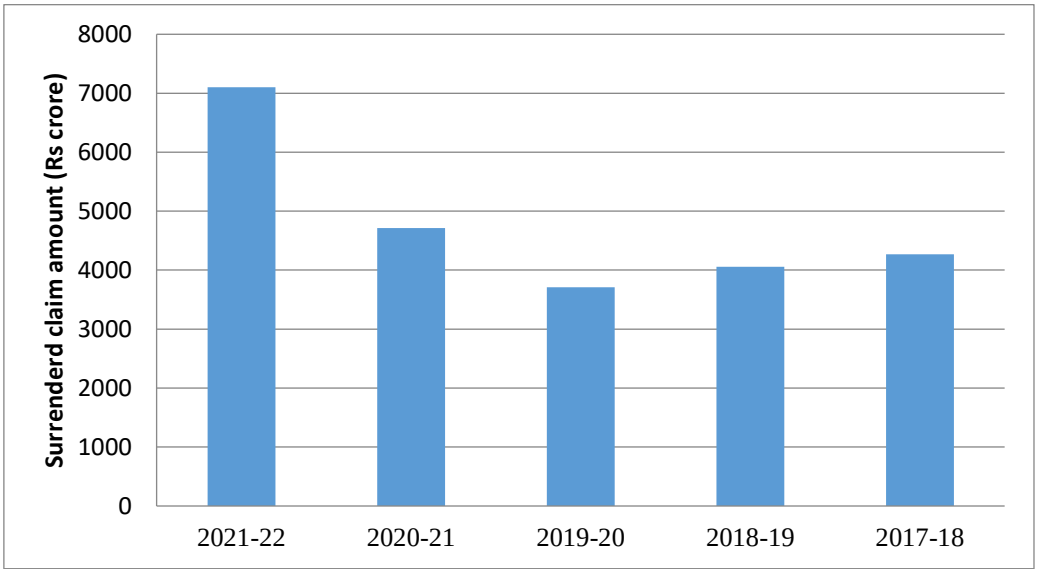

FIGURE 2. Trend of Surrendered claim amount in SBI Life

Source: SBI Life Annual Reports

TABLE 3. Paired t-test

Company		Mean	Std. Deviation	t-value	p-value
LIC of India	Pre	60744.8250	11905.35181	-29.531	**.022**
	Post	87848.1052	10607.38682		
SBI Life	Pre	4163.5100	149.58137	-1.344	.407
	Post	5908.7000	1686.98707		

Source: SPSS-20 statistical software tool

4. RESULTS

The results of descriptive statistics showed that there is a significant difference in claim value paid to policy holders in the event of surrender of policy ($p<0.05$) before and after pandemic in LIC of India. Therefore, Hypothesis H1 is accepted at 5 % level of significance. For SBI Life, there is no significant difference ($p>0.05$) in claim value paid to policy holders in the event of surrender of policy before and after pandemic. Therefore, the research hypothesis H2 is rejected at 5 % level of significance.

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5. CONCLUSION AND RECOMMENDATIONS

The two giants viz, LIC of India and SBI Life are serving the people of the country and have developed faith among far flung areas of the country. The statistical test showed that there is a significant difference in surrender value ($p<0.05$) before and after pandemic in LIC of India where during pre-Covid-19 pandemic there had been 32.18 % increase in claim value paid to policy holders in the event of surrender of policy than 18.67 % during post-covid-19 pandemic showing that the people had become more health conscious and increased faith in LIC of India due to pandemic (2019-20) as compared to SBI Life. It is a comparative study. There is scope for further improvement in policies so that the claim value paid to policy holders in the event of surrender of policy can be reduced and the policy holder can maintain faith in policies until maturity.

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