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**NEED/IMPORTANCE OF THE STUDY**
**STATEMENT OF THE PROBLEM**
**OBJECTIVES**
**HYPOTHESIS (ES)**
**RESEARCH METHODOLOGY**
**RESULTS & DISCUSSION**
**FINDINGS**
**RECOMMENDATIONS/SUGGESTIONS**
**CONCLUSIONS**
**LIMITATIONS**
**SCOPE FOR FURTHER RESEARCH**
**REFERENCES**
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# A STUDY OF RISK PERCEPTION AT BRANCH LEVEL OF THE NEW INDIA ASSURANCE COMPANY LIMITED OPERATING IN DIBRUGARH TOWN

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## ABSTRACT

*Life and assets are not immune to loss. Every individual wants to build one and safeguard the same. In the present context, both finance and insurance has aided people to acquire assets and to reimburse the loss, if any. The insurance sector has grown tremendously over the decade. Although the insurance products have sufficiently minimized the risk of an individual's life and property but, the risk borne by the company is understated till now. This paper reinstates the risk of an insurance company (NEW INDIA ASSURANCE COMPANY LIMITED) at the branch level (Dibrugarh, Assam). Every company has a different risk management mechanism and every manager implements the set mechanisms using their personal tact and integrity. Insurance being a boon for society, the benefits must exceed the cost and hence, the risk. Re-insurance, large number of exposure units, early policies, definitely aid in minimizing risk to a certain extent. Moreover, the principles of insurance aid in managing and to some extent, mitigating some unknown loss ventures. The study revealed that, the application of those principles and policies are dependent on the personnel dealing with the ultimate customers. The managers may have different way of dealing different customers as every case is unique in itself and the principles are just a guiding force in the same. The risk perception of the branch is basically based on both set regimes and rules along with their personal experiences in the position they hold.*

## KEYWORDS

branch level, insurance, perception, risk management.

## JEL CODES

G22, G32.

## INTRODUCTION

Needs and growing needs are the only common link between every individual irrespective of caste, creed, sex, religion and nation. The need for more and more has created unprecedented demand and has been one of the root causes of all problems today. As righty stated by Abraham Maslow in his 1943 paper 'A Theory of Human Motivation', needs do have a hierarchical establishment. Under the category of basic needs, come safety and security needs. Insurance addresses this particular need of a human and hence is as basic as cloth, house and food today. Insurance being a protective shield which reimburses individual against loss, the insurer needs to absorb risk. Risk of insurance is both unique and basic. And in field operation, the risk ascertainment and management techniques are prone to personal touch, as every manager have different risk perceptions and the way they deal with these risks are subjective. But few things are universal and true like the relationship between premium and risk exposures, principles of insurance and the relationship of insurer and insured, in general.

Insurance has always been a subjective subject. Starting from the amount of premium to the policy schedule, it is need based and to some extend tailor made. The company being an artificial person is based on the discrepancy of the employees to run the company. Psychological perspective and analysis of every individual differs as we all come from different background, society and different stimulus trigger us in general and hence every individual absorbs a different level of risk. The books and real life definitely are not completely coincident to each other as different personnel perceive the same thing differently- *the glass may be half filled or half empty*. Even the road may be left pinned or right pinned based on the position from which we observe. Same goes on here, the same risk may be perceived as one by the top managerial personnel of the company, something else by the employees interacting with the customers and definitely not the same by the branch that we are studying (here, NEW INDIA ASSURANCE COMPANY LIMITED, DIBRUGARH BRANCH).

## REVIEW OF LITERATURE

Not much literature was found on the intended area. However, some of the notable ones are stated as under:

Hariharan et.al., (2017) tried to find out the various reporting practices used by Indian life insurance companies for risk management and risk governance in their annual reports. The researchers selected five factors to interpret the overall quality of risk reporting namely Risk Management Framework, Risk Governance, types of Risks Explained, post of Chief Risk Officer (CRO) and his/her Independence/Capability and Quality Standards Certification. The results showed that there was a wide variety in content of their disclosures although the same corporate governance guidelines of the Insurance Regulatory and Development Authority of India (IRDAI) were followed.

Diacon and Ennew (2001) in their research paper presented the results of a detailed investigation of some of the factors that characterize the perceived risk in various personal financial services, life insurance and banking products currently available to individual savers in the United Kingdom. The researchers used psychometric scaling methods to calculate the perceived risk and benefits. The results of the analysis suggested a vital role for the regulators of the personal financial services market in taking measures which can improve consumer trust in products and providers, and in ensuring some protection from serious adverse financial consequences.

Alhakami and Slovic (1994) attempted to identify the factors that determine the interdependence between risks and benefit judgments and to understand why some items have higher negative relationship than others. The study revealed that the relationship between perceived risk and perceived benefits may depend on the individual's general affective evaluation of the product. The researchers opined that items or products towards which people had positive attitudes were viewed as having high benefits and low risk and vice versa.

## NEED AND IMPORTANCE OF THE STUDY
Insurance has become an essential way of mitigating personal risks and one who assumes risk, carries it himself. So, insurance companies are assuming huge risks at company, branch and personnel level. Studying the perception of branch level will help us in understanding risk at ground level.

## STATEMENT OF THE PROBLEM
The risk perception of every personnel differs due to their social, psychological, economic differences etc. The study is based on understanding the risk perception at branch level (Dibrugarh Branch) of a reputed insurance company i.e., New India Assurance Company Limited.

## OBJECTIVES OF THE STUDY
1. To study the risk perception at branch level.
2. To understand the various risk diversifying techniques.
3. To understand the various aspects of risk control mechanism.

## RESEARCH METHODOLOGY
- Study Area: New India Assurance Company Limited
- Research Instrument: Interview Schedule
- Type of Data: Primary and Secondary Data
- Method of Analysis: Qualitative methods based on observation and data collected.

## RESULTS & DISCUSSION
**I. STATEMENT OF RISK ASSOCIATED WITH INSURANCE BUSINESS**

**1. Insurance business is associated with risk unique to insurance business**

The respondent strongly agreed to this statement and hence ranked it as 1.

**Interpretation:** Insurance companies have similar characteristics, but they are different from any other forms of business. They try to take a calculated amount of risk in order to earn profit in long run. The profit earning capacity of every insurance business depends on the risk ascertaining capacity of the manager. Low and medium risk ventures yield higher returns in terms of profit and vice- versa.

**2. For life insurance business, fixation of appropriate premium is based on mortality rate table.**

The respondent agreed to this statement and hence ranked it as 2.

**Interpretation:** Fixation of the amount of premium is primarily dependent on the age of the policyholder. Higher the age, higher is the amount of premium. This is because the likelihood that the insurer will have to pay out a heavy claim also increases. The mortality rate table gives the insurer the average life expectancy rate based on which they tend to develop the complete premium brackets. Apart from the age factor, there are many other factors viz. gender, health history, family health history, hobbies, occupation, the policy in concern etc. which determine the amount of premium.

**3. The insurance risk decreases when the number of exposure units increase.**

The respondent agreed to this statement and hence ranked it as 2.

**Interpretation:** Assurance companies rely on the law of large numbers to determine the premium amount. When the number of exposure units increase, the risk is basically shared by a larger population, resulting in less risk and so on. At the same time, it must be noted that the law is not absolute being the applicability deviates when applied in real life situations which is prone to certain changes, whereas the law was constituted under the periphery of ceteris paribus.

**4. The level of insurance risk determines the amount of premium.**

The respondent is neutral to this statement and hence ranked it as 2.

**Interpretation:** Insurance risk increases due to various factors starting from age to health conditions of individual. In case of an assurance company, the risk increases with useful life, location of property, etc. Normally, lower the age lower the premium, as younger people are less prone to co-morbid health conditions and other disorders. Similarly, in case of property insurance, say, a vehicle will have better performance and greater resistance to motor problems during its first year of operation as compared to later years say, the 5th year.

**5. Benefits of insurance should exceed the cost of insurance.**

The respondent agreed to this statement and hence ranked it as 2.

**Interpretation:** Insurance provides both benefits and costs to the society. In terms of social costs, people induce income stress due to high premium costs and difficulty in paying premiums which results in increased loans taken for premium payments and reduced consumption at individual level. In terms of social benefits, insurance also indemnifies for losses and restores the insured to the former position, acts as a source of investment, enhances credit and supports loss prevention mechanism.

**II. RISK DIVERSIFICATION**

**1. Reinsurance is the main element for risk diversification.**

The respondent disagreed to this statement and hence ranked it as 4.

**Interpretation:** Reinsurance is a phenomenon where the insurance company has to buy policy for itself. This is done in case of risk overload. Only those cases, which seem to be a costly affair for an insurance company, carrying huge policy value and multi layered risk, are opted for reinsurance. Normally, companies try to avoid those conditions which create such problem for the company, but some may creep in if it fits the conditions of the policy. Reinsurance is rare and is last resort for a company as every company wants to keep it's earning to itself.

**2. Financial market risk can be hedged by financial derivatives but not by insurance.**

The respondent disagreed to this statement and hence ranked it as 4.

**Interpretation:** The respondent should have strongly agreed to this statement as risk involved in financial market cannot be reduced through insurance.

Hedging can be used as a technique for transferring the risk of unfavorable price fluctuations. It is done to minimize or offset the chance of loss in value. Most investors hedge their risks using derivatives. These are financial contracts that derive their value from an underlying real asset. Options are the most commonly used derivatives which give one the right to buy or sell a stock at a specified price within a window of time.

**3. Risk relating to financial market operations is not covered by insurance.**

The respondent disagreed to this statement and hence ranked it as 4.

**Interpretation:** The respondent should have strongly agreed to this statement as financial market risk cannot be covered by insurance.

Risk relating to financial market operations is the probability that an investor may experience losses in his/her holdings due to various factors that may have an impact on the financial markets' performance as a whole in which he/she is involved. It is a type of systematic risk which cannot be diversified though it can be hedged to some extent in other ways. Hence, it is not covered by insurance.

**III. RISK CONTROL**

**1. To minimize the credit risk, the previous credit records of the customers should be checked.**

The respondent strongly agreed to this statement and hence ranked it as 1.

**Interpretation:** While selling insurance policies, the insurers should review and look into one's credit history to determine the timely premium paying capacity. Any default by a policyholder in the context of payment of premium will increase the credit risk of the insurer. As a result, the insurer may suffer a breakdown in cash inflows along with added collection costs. Having a positive credit history makes the insurer to sell the policies confidently and hence make effective selling decisions.

**2. Both public and private sector insurance companies are regulated by IRDAI.**

The respondent strongly agreed to this statement and hence ranked it as 1.

**Interpretation:** The Insurance Regulatory and Development Authority of India (IRDAI) is an autonomous statutory body setup mainly for regulating the insurance and reinsurance industries of the entire country. It has a role to protect the policy holders from any form of fraudulent practices. All companies must get themselves registered with the IRDAI and collect the registration certificates. Any alteration in the form of renewal or cancellation of these certificates will be dealt with by IRDAI.

**3. For effective risk control, insurance companies are required to follow strictly the principles of insurance.**

The respondent strongly agreed to this statement and hence ranked it as 1.

**Interpretation:** The complete business of insurance is based upon the fundamentals and basic principles of insurance. Insurance law can have substantial legal consequences for one after a loss occurs. Policies are purchased with the objective of covering unexpected losses. The laws and provisions relating to insurance determine whether one is covered and how much will be paid. These are complex legal documents reflecting law in general and insurance law in particular. Thus, one must have a clear idea of the basic principles that govern insurance contracts as they are meant to derive benefits for the society in general.

**4. Does your company organize awareness camps to educate policyholders on safeguard measures against the insured risks?**

The respondent reacted positively to this question and hence marked the option YES.

**Interpretation:** At branch level, the branch organizes awareness camps to create awareness about their various products to their present client base. Also, at company level, they organize annual vigilance week for public to eradicate corruption and promote integrity and hence take vigilance pledge.

## FINDINGS OF THE STUDY

The findings of the study have been summed up as under:

**TABLE 1: SUMMARY TABLE OF THE RESPONSES GIVEN BY THE BRANCH MANAGER**

| SCALE | RANKS | STATEMENTS |
|---|---|---|
| 1 | Strongly Agree | ✓ Insurance business is associated with risk unique to insurance business.<br>✓ To minimize the credit risk, the previous credit records of the customers should be checked.<br>✓ Both public and private sector insurance companies are regulated by IRDAI.<br>✓ For effective risk control, insurance companies are required to follow strictly the principles of insurance. |
| 2 | Agree | ✓ For life insurance business, fixation of appropriate premium is based on mortality rate table.<br>✓ The insurance risk decreases when the number of exposure units increase.<br>✓ Benefits of insurance should exceed the cost of insurance. |
| 3 | Neutral | ✓ The level of insurance risk is determined by the amount of premium. |
| 4 | Disagree | ✓ Reinsurance is the main element for risk diversification.<br>✓ Financial market risk can be hedged by financial derivatives but not by insurance.<br>✓ Risk relating to financial market operations is not covered by insurance. |
| 5 | Strongly Disagree | ----- |

## RECOMMENDATIONS

1. The employees need greater clarity in their conceptual framework and policies which guides the insurance business.
2. They need orientation programmes and training sessions which will help them in understanding the customer's better and hence minimize risk at its least.
3. Moreover, the customers need awareness programmes, which will induce their knowledge towards right investment.

## CONCLUSION

Risk perception consists of two main dimensions: the cognitive dimension implying how much people are aware about and understand risks, and the subjective dimension, which relates to how they perceive it.

The study so conducted focused on the perception and subjective judgment of the Branch Manager of the selected company, New India Assurance Company Limited, about the various risks attached with insurance policy covers and the effective ways such risks can be dealt with. The results revealed that the he was too sensitive with the risk element and little measures were pointed out regarding risk diversification as the company followed the insurance policies and principles with little deviation. However, he acknowledged the fact that insurance risk exposures, to some extent, can be diversified and controlled if the number of units exposed to such risk can be increased.

The business of insurance is entirely based on dealing with uncertainties and unforeseen events. Therefore, an insurer needs to consider a wide range of possible risks and the outcome that may leave an impact on the current and future financial position. Hence, an insurer should be prepared with every risk management technique available so that the losses can be controlled or eliminated to a great extent.

## LIMITATIONS

The study is based on the risk perception of only one insurance company (i.e. New India Assurance Company Limited) operating at the branch level in the town of Dibrugarh. Moreover, the branch manager erred in some cases while responding to the various questions indicating lack of fundamental conceptual knowledge to some extent. As a result, the conclusions drawn from such responses may not reflect the factual perception relating to insurance risks. Also, prior research literature that would have been relevant to the present paper might be limited. In this case, discovering a limitation might result in a new opportunity of identifying research gaps in the existing papers and to present the necessity for further development in the domain of study.

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## ANNEXURE

**SCHEDULE**

**A STUDY OF RISK PERCEPTION AT BRANCH LEVEL OF THE NEW INDIA ASSURANCE COMPANY LIMITED OPERATING IN DIBRUGARH TOWN**

a. **Name:**
b. **Designation:**
c. **Rank the given statements in a 5 point Likert scale where,**

1. Strongly Agree 2. Agree 3. Neutral 4. Disagree 5. Strongly Disagree

**I. STATEMENT OF RISK ASSOCIATED WITH INSURANCE BUSINESS**

1. Insurance business is associated with risk unique to insurance business.
2. For life insurance business, fixation of appropriate premium is based on mortality rate table
3. The insurance risk decreases when the number of exposure units increase.
4. The level of insurance risk determines the amount of premium.
5. Benefits of insurance should exceed the cost of insurance

**II. RISK DIVERSIFICATION**

1. Reinsurance is the main element for risk diversification
2. Financial market risk can be hedged by financial derivatives but not by insurance.
3. Risk relating to financial market operations is not covered by insurance.

**III. RISK CONTROL**

1. To minimize the credit risk, the previous credit records of the customers should be checked.
2. Both public and private sector insurance companies are regulated by IRDAI.
3. For effective risk control, insurance companies are required to follow strictly the principles of insurance.
4. Does your company organize awareness camps to educate policyholders on safeguard measures against the insured risks? Yes No

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In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

## Our Other Journals