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Balancing Between Risk and Returns amongst Child Insurance Plans

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Abstract: -

The study is carried out to understand the awareness of individuals in terms of Risk-Return Trade off, of the Child Insurance Plans. Three Child Insurance plans, are considered namely Canara, HSBC OBC Life Insurance (Future Smart Plan), SBI Life Smart Champ Insurance and LIC Jeevan Ankur. Primary data was collected by administrating questionnaire to parents in the age group of 25 to 35 years along with interaction with them about the awareness of benefits in general and concept of nominal and real gains

Data analysis was carried out in two parts. First Part deals with the analysis of responses of 100 respondents and second part is related to computation of NPV of amount to be received. The result of the study revealed that the buyers of Insurance are not very systematic, critical and analytical while buying the policies in terms of real gain computations and comparison. The most important outcome of the project is that the total amount of insurance when bifurcated into two or more policies then the process is called approximation which shall yield more sound balance of risk and return. Recommendations are: a) the insure needs to compare different plans on the basis of computation of NPV or real gains. b) Parents need to calculate the real value on maturity whether sufficient to meet personal objectives. c) Notional PV at the year in which it may be probably received .d) Approach should consider possibility of approximation.

Keywords: Risk Return Trade off, NPV, Child Insurance Plans, Approximation of Plans

I. Introduction :

"In simple words Insurance is a Risk-transfer mechanism that ensures full or partial financial compensation for the loss or damage caused by event(s) beyond the control of the insured party."

So the importance of being insured is very well-known to the entire world. Still most of the times individuals get attracted to insurance plans as one of the investment avenue without having sufficient knowledge about the features of the plan and about the benefits and returns they could fetch from that plan.

Therefore the researcher thought it necessary to undertake a pilot survey of few individuals (i.e. salaried people) so as to understand their basic understanding about insurance plans/products.

The results of the pilot survey brought to light following facts.

1. Most of the individuals are of the opinion that everyone must have a life insurance policy in order to get the Life Risk Cover.
2. At the same time when it was enquired what is their exact requirement or need for the insurance policy, they gave equal weightage to the four most important parameters that is investment, tax benefit, risk cover and returns at the time of maturity.
3. Most of individuals have also shown keen interest in getting lump sum amount after a long period ranging 15-20 years, as they could use this money for their children's education or marriage purpose.
4. Again most of the respondents expressed their worry if in case of their sudden demise, what will happen with their children? In terms of their education and settlement. That's why they are buying insurance policies knowing the fact of lesser returns too.
5. A trend has been observed that, without doing any financial planning just for a sake of getting insured (as knowing the importance of getting insured) most of the respondents buy insurance products blindly.
6. Those who buy insurance also think that they are investing, another reason for this is that premium amount of insurance is considered for getting tax benefit.
7. The individuals are unaware or have lack of knowledge in terms of their

financial planning, in terms of their expectations of returns from the insurance products and the risk covered against it.

II. Significance of Child Insurance :

The child today is the support of tomorrow. One cannot permit him grow without education or marriage in case of girls. Apart from the natural instinct for progeny, the parents take this as their prime responsibility also, the instinct of today is that parents always feel that what we were deprived of in our youth our child should not suffer in the same way. Thus buying the child plan is a compulsion from being dutiful parents as well the natural and social instincts point of view. It is interesting to have a look at what sum shall be needed for different course in future.

The following table shows Financial Expenditure that will be required for Child's higher education.
The following table lists the Best Career Choices along with the fees.

Profession	Current Fees* (Rs.)	After 10 Years (Rs.)	After 15 Years (Rs.)	After 17 Years (Rs.)
Doctor (MBBS)	20,00,000	36,00,000	48,00,000	54,00,000
Management Graduate (MBA)	15,50,000	28,00,000	37,50,000	42,00,000
Engineer (BE|B.Tech)	8,00,000	14,50,000	19,50,000	22,00,000
Lawyer (BA LLB)	8,70,000	15,50,000	21,00,000	23,50,000
Fashion Designer (NIFT)	6,50,000	11,50,000	15,50,000	17,50,000
Hotel Management (IIHM)	5,60,000	10,00,000	13,50,000	15,00,000

***source: ww.shiksha.com** *and NIFT website Average Inflation: 6%*

Calculation of Corpus that the parents will need for their children:

	For Example
Name of the Child	XYZ
Current Age:	3 years
Number of Years after which the child will join the college (N) = 18-Current Age (round off to 10/15/20/25 years)	18-3=15
Desired Profession	Doctor
Current Course Fees (F) (In Rs. Lacs)	20 Lacs
Course fees when child reaches college age = F8Multiplication Factor	20*3= Rs. 60 lacs

N	10	15	20	25
Multiplication Factor*	**2**	**3**	**4**	**5**

***The Multiplication Factor is calculated on the basis of Average Indian CPI Index for the years2002-11*

III. Objectives:

1. To study different plans under child education caring plans of different companies.
2. To compare the plans from the view point of risk coverage and NPV of the amount it will fetch to them with a discounting factor of 10 % (which is just above the inflation rate)
3. To prepare a list of considerations useful for buying the insurance with striking the balance between risk and return.
4. To prepare comparative statements by computing NPV and rank them according to the receipts from the policy without an early claim or early claim at each year. From these statements to see whether the amount of sum assured is bifurcated in two different policies of two different companies would increase the volume of benefits.

IV. Hypothesis:

H1: The children Insured by parents for the purpose of education are underinsured.

H2: The parents are needed to be educated for balancing Risk and return of child insurance plan.

V. Scope of Study:

Primarily, the study has two parts

(a) Awareness Survey about risk and return with respect to child insurance plan as regards risk and returns

(b) Comparison of insurance plan by application of present value method i.e. discounting of cash outflow and inflow at inflation rate.

For this study, the child insurance plans which are of unit linked (Having the feature of investing the funds received from such policies by insurance company in to debt and equity) are not considered for the purpose.

It is survey conducted in small part of Pune city i.e. Kothrud area and it considers Child Insurance Plans of following companies. 1. LIC 2. SBI 3.Canara-HSBC-OBC.

In ordinary course, parents think of buying one insurance plan from one company. However, if it is possible to take the child insurance plans from two different companies which is considered as combination here, whether would render additional financial benefits greater than taking a single plan.

E.g. parent's wants to buy the insurance of sum assured of Rs. 10Lakhs. In this case it can buy it from one single company or it can buy two insurance plans of Rs. 5 Lakhs each from two different insurance companies

For this purpose primary data is collected about general awareness and risk and return perceptions from hundred couples, and responses are analyzed.

In Nut shell the study is of a very primary nature but provides guidelines for the purchase of Child Insurance Plan and what should be the considerations for the same, as an outcome of the research.

VI. Literature Review:

Against the background of the Research Theme and Problem Stated, the researcher has undertaken extensive review of following literature:

1. Research Papers related to buying behavior of parents towards Child Insurance Plans
2. Various Child Insurance Plans floated by various companies
3. Journals like Money Today, websites like policy bazaar.com etc.

After making detailed study of literature reviewed the findings and observations made by the researcher are presented as below:

VI. A] Insurance Related Terms:

For any context, essential terms and their comprehension is necessary to understand the context, concepts, etc. holistically. Rather, the terms are the different elements which weave the context. Following terms show the different dimensions of any insurance plan and now to be seen later with reference to Child Insurance Plan as they are equally and commonly applicable to the trade off balance under consideration of the study.

1. Risk:

Here the term risk is used in the context of individuals being prone to risk of any contingent, uncertain loss, which can be anything right from an accident, causing serious injury or death of a person or any other unpleasant event like fire or theft etc.

(In case of a Child Insurance Plan has embedded risk is mainly that the child may not be able to receive the amount in future which would be sufficient to provide him completion of education. This part is covered by the above term by stating the words: Individuals being prone to any uncertainty)

2. Returns:

Here the term Returns is taken in the context of firstly monetary gain from the particular or specific Insurance Plan /Product and secondly the risk coverage of the plan.

3. Risk Return Trade off:

The word risk is associated with the probable loss due to some kind of peril, like death, illness or natural calamities like cyclones or flood etc. This loss can be quantifiable in terms of money and with reference to its happening. The context of the study deals with the insurance (a kind of deemed investment.) and receiving the amount in terms of sum assured and some additional benefits either on completion of endowment period or occurrence of death prior to that.

The value of trade off computation is not possible unless alternative policies are compared with regards to:

1. Monetary Benefits received in addition to sum assured
2. Translating these benefits into real value of such sum to be received
3. The schedule and manner in which the amounts are to be received with their present value
4. Converting other benefits into their notional value and Present value of such quantified sums on death or otherwise for each year of the endowment.

Thus, tradeoff can be decided and ranked after computing NPV of the Policy. So trade off is the outcome of computation and comparison leading to maximization of the benefit.With above outlook, further exercise is being done and presented with suitable methodology of computation and three policies are compared and ranked.

4. Nominal Gain:

Nominal gain means the gain which is not discounted for inflation or it is the amount at its nominal value. In the present context it is the difference in amount which a layman can calculate in the first instance. i.e. the difference between the amount he is paying per year (as a premium) multiplied by total number of years and the total amount he will be receiving as returns on the maturity is called as nominal gain.

5. Net Present Value:

Net Present Value is an amount of the difference between Nominal Value and the real value (Value obtained after discounting the nominal amounts and aggregating them). Contextually it is the amount received on maturity and the total amount of premium paid. It may workout negative also depending upon the situation.

6. Real Gain:

The difference in amount of premiums paid and the returns to be received at the time of maturity, when calculated by using Net Present Value Technique that amount can be called as Real Gain. Computation of NPV and the gain is if NPV is positive, which is computed while the comparison of three different policies followed in next part.

7. Endowment:

Endowment is an amount received by the policy holder or his heir, on maturity or death. It depends upon the number of years of the policy as well as the sum assured. In case of few policies it is given after the critical illness or permanent disability.

8. Peril:

It means the cause of loss or the likely hood of risk on account of a particular reason. If the goods are turned to ashes then here the peril is fire.

9. Concept of Child Plan:

Child Insurance Plan offers a lump-sum payment on the death of the policyholder, but the policy does not end. All future premiums are waived and the insurance company continues investing this money on behalf of the policyholder. The child gets the money at specified intervals as planned under the policy. In this way, the parent ensures that his child's needs are taken care of even if he is not around.

All life insurance firms have Child Plans in their Portfolio of Offerings		
1.	Some of these are Market-Linked Policies	Which allow policyholders to invest in Equities and Debt
2.	others are Traditional Plans	Which invest only in Debt
3.	The premium paid for a Child Plan is eligible for Tax Deduction under Section 80C	Any income from the plan is Tax-Free under Section 10 (10D).

(*Source: http://economictimes.indiatimes.com)*

10. Comparative Study of selected Child Insurance Plans in Tabular Format:

	Canara	**SBI**	**LIC**	Comment /Ranking
Name of the Plan	Future Smart Plan	SBI Life Smart Champ Insurance	LIC Jeevan Ankur	
Web Links	Brochure in Hard Copy is used. Not available as web link.	http://www.sbilife.co.in/sbilife/content/9_8491	https://www.licindia.in/children_need_0010_sales_brochure.htm	Please refer comparative statements in Part B of Analysis
Minimum age of child	*0 years	0 years	0 years	
Maximum age of child	*17 years	13 years	17 years	
Minimum age of life assured	18 years	21 years	18 years	
Maximum age of life assured	60 years	50 years	75 years	

**In Canara Bank Brochure, no specific mention is made but years are assumed in line with and at par of other similar child insurance plans*

11. Comparison of benefits:

		Canara	**SBI**	**LIC**
Benefits on Maturity:		1.Sum Assured 2.Fund Value Paid	SA + Terminal Bonus+ Discounted value of future due installments	SA + Loyalty addition
Benefits on death:	**A. Life Assured** (Who Pays the Premium)	1. Sum Assured 2. Future Premium funded by the Insurance Company	1. Sum Assured 2. Future Premium funded by the Insurance Company	1. SA 2. 10% of SA for next each year
	B. Death of a child			Can be nominated to other child without any extra charges and continuity of the policy

		Canara	SBI	LIC
Sr. No.	**Other Benefits of the plans**	Future Smart Plan	SBI Life Smart Champ Insurance	Jeevan Ankur
1.	Tax Benefit	At Par	At Par	At Par
2.	Accident Benefit	Not Available	Available	With additional charge
3.	Permanent Disability	Not Available	Available	Not Available
4.	Critical illness Benefit	Not Available	Not Available	With additional charge
5.	Revival Facility	Not Available	Available	Available
6.	Paid up Value	Not Available	Available after 3 years	After 3 years
7.	Surrender Value	Not Available	Available after 3 years	Not available
8.A)	Single Premium Policy	Available	Available	90% after 1 year
8.B)	Regular Premium Policy	Available	Available	30% after 3 years
9.	Loan Facility	Not Available	Available	No Loan Facility
10.	Service Tax	Not Available	Not Available	Not inclusive in premium amount
11.	Cooling off Period	Not Available	Available	within 15 days if not satisfied

12. Consideration Checklist:

Sr. No.	Type of Investment	Points to be given thought
1.	Investment in Long Term Fixed Deposit for the Child	Is it Tax Free?
2.	Investment in Property to provide for funds	Can it be liquidate quickly?
3.	Education Loan can provide for my child's education expenses	What would you like to give your child-an Asset or Liability?
4.	Retirement fund can be used for funding Child's Education	Is it wise to withdraw retirement savings for funding your child's education as having ample corpus for your golden years is equally important?

(Source: http://www.canarahsbclife.com/lifeinsurance/portal)

13. Features and Flexibilities of a Typical Child Plan:

Following are the key parameters one should consider before buying a child plan:

a) **Premium Amount:** It more or less depends on the Sum Assured and Maturity Amount you choose.

b) **Mode of Premium Payment:**

- **Regular premium**: As the name implies, the premium is paid on a regular basis. This can be yearly, half yearly or even quarterly.
- **Single premium**: The premium is paid as a single payment.

c) **Sum Assured**: The thumb rule to follow is that the Sum Assured should be around 10 times your present income.

d) **Policy Term**: An ideal Policy Term for a Child Plan is the time you think your child needs to get on his feet. If your child is 10 years old, your policy term should be 8 years.

e) Maturity Amount: Sit with your financial advisor and taking into account the inflation rate and other such factors, work out a Maturity Amount that you would require at the end of the Policy Term. Maturity Amount can be received as a lump sum or in a frequent period of 5 years.

f) Waiver of Premium: This is a kind of rider that comes inbuilt in Child Plans. However, if this is not a part of the policy, it is always advisable to opt for the same. In case of death of the insured, this rider enables the policy to continue by passing off the financial burden to pay the rest of the premium to the insurer.

g) Partial Withdrawals: Some parents prefer withdrawing chunks of Maturity Amount at pre-fixed intervals instead of getting a lump sum amount at one go. The intention to opt for this feature is to meet the financial needs of your kid at the key moments in his life.

h) Riders and Benefits: These are the add-ons that make your coverage financially and qualitatively more valuable -

- Premium Waiver Benefit
- Accidental Death and Disability Benefit
- Critical Illness Rider Benefit

(Source: http://www.policybazaar.com/life-insurance/child-insurance-india.aspx#ixzz3aeeyWIWp

VII. Research Methodology:

- **Research Design:** Research design is of Descriptive in nature. It encompasses

a) The features of the Child Insurance Plans of different companies

b) Awareness of parents about Risk, Returns and general awareness related to policies

Further, in order to understand the risk and return payoff, computation on the basis of Net Present Value of the amounts to be received by the policy holder are computed and ranked in case of A) Amount to be received on maturity B) Amount to be received w.r.to the early claim at each year of a policy.

- **Research Plan:**

In ordinary course, the population and the sample are significant. However, this research project is done with an intension to just peep into the considerations given for Risk And Return while buying the Child Insurance Plan for the provision of education of a child.

Therefore, the nature of enquiry is limited to a kind of pilot survey. The survey includes 100 couples and the primary data was collected from either mother or father. Thus the total number of respondents amounted to hundred persons.

The couples chosen were by convenience random selection; however the age group is purposely taken between 25 to 35.

- **Secondary Data:**

The nature of secondary data is in the form of details of conditions and terms of different policies of following companies:

1. Canara HSBC OBC Life Insurance (Future Smart Plan)
2. SBI Life Smart Champ Insurance
3. LIC Jeevan Ankur
4. Child Insurance Plans of other companies referred from various websites.

For 1 and 2 the details are in the form of information brochure and for 3 and 4 the details are procured from the websites.

- **Primary Data:**

The source for primary data is based on interaction and survey questionnaire encompassing the elements of objectives and hypothesis as well**.** A questionnaire was prepared which is annexed as Annexure A

It contains the information about the mother or the father of a child. Q. 1 and Q. 2 asked for the details of the policy. Q. No. 3 enquires about the purpose which is consistent with objective number 3, Question No. 4 deals with level of sufficiency of the amount provided for the education as compared to expenses of education in future. Q. 6 deals with influence of the major factor leading to buying of insurance plan. Q. 7 is of core nature as it seeks the views of the respondents regarding risk and return of the policy. Q. 8 consist of 16 statements and whether they are true or false. These statements are in a mixed order which throw light on risk return and general awareness of the respondents. These questions after the analysis of responses result into the perceptions about risk and return at the time of purchase of child insurance policy.

- **Data Analysis:** There are two parts of it. The first part deals with the analysis of responses of 100 respondents. The second part is related to calculation of NPV.

A] Analysis of Responses
B] NPV based Comparative Statements

- **Limitations of Study:**

Even after consideration that it is kind of peep into enquiry, there are certain limitations encountered during the study.

1. It is limited to respondents dwelling in local area of Kothrud, Pune
2. The selection of respondents is not in a form of a stratified nature
3. The survey is of a Primary level.
4. Respondents who have taken the policies before two years and earlier needed a struggling recall.

VIII. DATA PRESENTATION AND ANALYSIS

PART A] ANALYSIS OF RESPONSES

Here under, Question wise Analysis and its inference and interpretation are stated.

- For question number 1, it has been observed that 100% of the respondents have taken child insurance policy/plan.

- Question Number 2, was asked with an intension to seek the details about the child plans of the respondents, and the responses are presented below in a tabular format.

Table No. 1 Composition of Insurance Companies

Company Name	Frequency
LIC	72%
SBI	10%
HDFC	7%
Bajajallianz	4%
Aviva	3%
Tata AIG	2%
Reliance	2%

Interpretation:

72% of respondents purchased Child Plans from LIC, Followed by SBI and HDFC, and other companies like, Aviva, Tata AIG, Reliance etc. constitue a smaller praportion i.e. 11%.

Table No. 2 Composition of Child Insurance Plans:

LIC		SBI		HDFC	
Komal Jeevan	8%	SBI Life Scholar II	2%	HDFC Life Youngstar Udaan	4%
Jeevan Ankur	19%	SBI Life Smart Scholar	2%	HDFC Young Star Super Premium	3%
Jeevan Shiksha	18%	SBI Life Smart Champ Insurance	6%	**Reliance**	
Jeevan Chhaya	8%	**Bajajallianz**		Reliance child plan	2%
Jeevan Anand	6%	Bajajallianz Young Assure	4%	**Aviva**	
Samruddhi Plus	7%	**Tata AIG**		Aviva Young Scholar Advantage	1%
Jeevan Kishor	6%	TATA AIA Star Kid Plan	2%	Aviva Young Scholar Secure	2%

Interpretation:

The above Table presents the composition of Child Insurance Plans of various insurance companies. It has been observed that 72% of respondents preferred LIC Plans Followed By SBI, over, other companies child insurance plans.

Interpretation of Other Information, from question No. 2, with respect to:

a) Annual Premium Range **b)** Average Tenure or Period **c)** Average Child Age

a) The Annual Premium range depends upon annual income of the parents, therefore annual premium varies as per income level of the parents.

b) Average Tenure or Period depends upon the year in which the child plan is bought in this survey the average tenure is revealed 19 years.

c) Average age of Child for buying insurance plan: No such trend has been revealed from the primary data. General observation drawn from the survey brings to light that right from birthday of the child or first week to 6th year is the average age of the child for buying child insurance plan.

- Question Number 3, was asked in order to understand the most important motive behind buying the Child Insurance Plan and the responses are analyzed below:

Table No. 3

Composition of Motives

Motives	Percentage
Education Purpose	71%
Marriage Purpose	13%
Tax Benefit	7%
Investment Purpose	3%
Risk Cover	6%
Any other	0

Interpretation:

The above Table and Graph shows that the Percentage of Motives behind taking child Insurance Plans, Motive of Education is high (i.e. 71% as compared to other purposes), from the sample dat collected from Pune city.

- Question Number 4, was asked to ascertain parent's agreement level regarding the extent sufficiency amount and the responses are analyzed below:

Table No. 4 Agreement Level regarding extent of sufficiency

Level of Agreement	Percentage of Respondents
Quite sufficient	16%
Sufficient to Large Extent	8%
Sufficient to some extent	67%
I am not sure	9%

Interpretation:

From the above graph and table, it is observed that, 67% of respondents feel that the amount which they will receive at the time of maturity is some what sufficient to cater their needs, and not to the fullest level.

- Question Number 5 was asked in order to identify highest important item for insurance buying decision

Table No. 5 : Hierarchy of Importance in Buying Decision

Factors	Percentage
Pressure of Family Members	11%
Pressure of friends/well wishers	6%
Employer's Policy	2%
Hard Chasing by Insurance Counselor/ Advisor	7%
Wealthy state of income	5%
Good at Personal Financial Planning	65%
Exclusively for the purpose of Financial Benefits	4%

Interpretation:

The above table and graph reveals that amongst all the respondents 65% of respondents buy Insurance Policies because they think that they are good at Personal financial planning, followed by presuure of family members to buy insurance i.e. 11% respondents reported this.

- Question Number 6, was asked to understand the views of the buyers about the risk and return of the policies they have taken. The summary of responses is presented below in a comment form:

Comment: Responses to these questions were only 8 and they were related to return as lump sum amount is received. No respondent has given any specific comments regarding Risk and Return together. This may be attributed to: 1. Lack of awareness 2. Lack of calculative attitude 3. Casual Approach in financial matters 4. Attitude to think over short term results 5. Lack of education regarding personal financial planning.

- Question Number 7 consists of 16 statements, which were asked to judge the awareness of buyers about Risk, Return and overall awareness of the insurance. The 16 Statements are categorized in three types i.e. Risk, Return and General awareness and the break is presented below in tabular format:

Table No. 7 Element wise breakup of Statements

Sr. No.	Details	Related to
1.	The value of policy has two different values i.e. Real and Nominal	Risk
2.	Educating the buyer about insurance is not necessary for child plans	Return
3.	There cannot be any other intensions other than provision for education and provision of marriage behind child insurance	Motive
4.	All child insurance plans floated by LIC have been continued even today	Awareness
5.	All child insurance plans are backed up by central government security agency	Risk

Sr. No.	Details	Related to
6.	IRDA does not have control over child plans of private insurance companies	Risk
7.	Child insurance plan do not get the benefit under Income Tax in India	Awareness
8.	Child insurance pays amount on maturity to child only	Awareness
9.	In case of girl child the installment to be paid is less that the boys	Awareness
10.	There is special bonus amount paid to child insurance plan of girls	Return
11.	The child insurance plan is required to be taken for minimum 22 years	Awareness
12.	If the parents go and stay abroad during the duration of three to five years then child the it automatically gets discontinued	Awareness
13.	Insurance gives you very high returns as there is no expenditure for the insurance company.	Return
14.	Insurance is a kind of saving which supersedes all other ways of savings because of its high returns	Return
15.	Insurance advisors are not well trained to tell all the advantages of the plans	Awareness
16.	Insurance policies for child can be given as a collateral security for the loans	Awareness

7.1Analysis of responses of the Question Number 7.

Following table depicts the correct answer and the responses received.

Table No. 7.1 Frequency Distribution:

Q. No.	Correct Answer	TRUE	FALSE	Not Sure	Don't Know
1	TRUE	**50**	10	10	20
2	FALSE	0	**75**	15	0
3	FALSE	45	35	5	0
4	FALSE	35	**5**	25	20
5	FALSE	30	0	30	25
6	FALSE	10	35	20	25
7	FALSE	5	**75**	0	5
8	FALSE	10	**65**	0	10
9	FALSE	5	**50**	20	15
10	FALSE	10	40	20	30
11	FALSE	25	**35**	20	10
12	FALSE	5	**20**	20	40
13	FALSE	5	**50**	20	15
14	FALSE	20	**60**	10	0
15	TRUE	45	**30**	15	0
16	TRUE	30	**25**	25	10

A] Question Number 1,4 and 5 are related to Risk out of this Real and Nominal Value are Different is well understood by 50% of the respondents, however continuity of plan and central government security do have very high impact on Risk part of the policy. In these elements only 5% have the right understanding of impact on risk of these factors.

Inference:

Considering, very low level of responses to question number four and five, it is inferred that the parents need to be educated in case of risk elements in insurance

B] Question Number 2,10, 13 and 14 are related to Return, out of this 75% respondents feel that educating buyers about child insurance plans is necessary. Further responses to the question number 13 and Question Number 14 reveal that on an average 55% of the respondents are aware of, that child insurance do not provide high returns as compared to other savings avenues..

Inference:

It can be inferred from the response to the Question number 2,13 and 14 that, on an average 61% of the respondents revealed awareness about the returns from child education Plans.

C] Question Number 4,7,8,9,11,12,15,16 are related to awareness of the buyers about child insurance plans. Responses to the questions 7,8, and 9 reveal that on an average 63% of the respondents are aware of the fact that, Child insurance Plan provides tax benefits, there is no such condition that only child will get the money on maturity, also parents need not to pay less installments for girl child to that of boys. For question number 11,12,15,16 the average of the responses are 27.5% which is half of the threshold

Inference:

On the points, minimum period of policy, change in domicile place, service of Insurance advisor and collateral security and such other points, the parents need to be educated.

Interpretation:

With reference to the inferences of question number six, seen along with the collective view of above inferences given in A B and C clearly indicate that out of 16 elements, the parents need to be educated in remaining 11 elements. Out of 16 as 11 is 69% which is above 50% leads to acceptance of Hypothesis No. 2

Hypothesis Testing:

H1: The Insurance plans purchased for children education by parents are not sufficient as insurance to meet the future expenditure i.e. there is underinsurance.

(The statement connotes that when the child shall grow to the level of education and the insurer who may be one of the parents or both have been survived and the maturity amount received by the child or the parents, as per the stipulations of plan is not sufficient to meet the needs in terms of expenditure related to education of a child, here the concept of underinsurance is in terms of sufficiency of the amount to be received from the policy either after maturity or early claim)

In order to throw the light on this state of a child and his parents, in questionnaire, Q. No. 5 is posed. In order to understand the magnitude or degree of sufficiency four scale degrees are enquired for.

The respondents, by and large have responded to these questions with their own judgmental perception and therefore the degrees do not have any specific mathematical calculation support. Such a state of responses is quite obvious as they have not thought of the trade off by such insurance policies with reference to futuristic expenditure level and also they have different capacity to invest in such kind of insurance.

Refer Analysis and Interpretation of Question 4

(From the Table and Graph No.4.4, it is observed that, 67% of respondents feel that the amount which they will receive at the time of maturity is some what sufficient to cater their needs, and not to the fullest level.)

As 9% are not sure, hence excluded from the calculation. Thus remaining who responded are 91. Only 16% confirmed that sufficient amount shall be available after maturity to meet the education expenditure. Rest are more than 50% which is ordinarily, the threshhold limit and therefore the hypothesis is accepted.

H2: The parents are needed to be educated for balancing Risk and Return of child insurance plan.

In the beginning, both the terms, Risk and Return are well explained, in order to take out the perceptions about them, question number No. 8, is mixed with three elements as statements. The respondent has to recognize it whether True or False. Out of these 16 statements (in a scrambled manner) 3 related to risk, 4 related to returns and rest are related to general awareness. Following table shows the focus of the statement.

Please refer Analysis of Question Number 7

Interpretation: With reference to the inferences of question number Six, seen along with the collective view of above inferences of question Number 7, given in A B and C clearly indicate that out of 16 elements, the parents need to be educated in remaining 11 elements. Out of 16 as 11 is 69% which is above 50% leads to acceptance of Hypothesis No.

PART B] NPV Based Comparative Statements

Refer Objective No. 5

B.I **Comparison of NPV of Total Receipts at the maturity (**No early claim or death):

Method of Computation:

1. Sum assured for all policies is Rs. 2, 50,000/-
2. Each Year's Premium is shown in Column II
3. Premium payment is considered as yearly payment
4. Amount of Premium is adjusted for service tax and other cess
5. Tax Benefit in Column III is subtracted from column II to arrive at Net Outflow, shown in Column IV
6. Average Inflation rate is considered as 10% and therefore discounting factor are taken at 10%
7. Total Outflow (total of premium paid for ten years) Less Total amount to be received on maturity are taken at their respective PV and the difference is calculated.

Plan A] Canara HSBC Oriental Bank of Commerce Life Insurance, Future Smart Plan:

- *(Refer table no. 10 and 11. from literature review chapter for comparative understanding)*

Table No. A . 1 Present Value Computation:

Policy Term	Annual Premium	Premium Payment Term	Policy Amount	Tax Saving	
10 years	25,000	10 years	2,50,000	25,000*30%	7,500

Table No. A .2

Year	Outflow	Tax Savings	Net Outflow	Discounting Factor	PV of CO
I	II	III	IV	V	VI(IV*V)
1	25,000	7,500	17,500	1	17,500
2	25,000	7,500	17,500	0.909	15908
3	25,000	7,500	17,500	0.826	14455
4	25,000	7,500	17,500	0.751	13143
5	25,000	7,500	17,500	0.683	11953
6	25,000	7,500	17,500	0.621	10868
7	25,000	7,500	17,500	0.564	9870
8	25,000	7,500	17,500	0.513	8978
9	25,000	7,500	17,500	0.467	8173
10	25,000	7,500	17,500	0.424	7420
				PV of Total Cash Outflow	**1,18,265**

Table No. A. 3

Amount Receivable at the time of Maturity	10th Year's Discounting Factor	Present Value of Cash Inflow
I	II	I*II
2,50,000	0.424	1,06,000

Table No. A. 4

Total Cash Outflow	1,18,265
Total Cash Inflow	1,06,000
Net Gain	12,265

- **Plan B] SBI Life Smart Champ Insurance**
- *(Refer table no. 10 and 11. from literature review chapter for comparative understanding)*

Table No. B. 1 Present Value Computation:

Policy Term	Annual Premium	Premium Payment Term	Policy Amount	Tax Saving	
10 years	22,500	10 years	2,50,000 Plus 25% Bonus	22500*30%	6,750

Table No. B. 2

Year	Outflow	Tax Savings	Net Outflow	Discounting Factor	PV of CO
I	II	IV	V	VI	VII (V*VI)
1	22,500	6,750	15,750	1.000	15,750
2	22,500	6,750	15,750	0.909	14,317
3	22,500	6,750	15,750	0.826	13,010
4	22,500	6,750	15,750	0.751	11,828
5	22,500	6,750	15,750	0.683	10,757
6	22,500	6,750	15,750	0.621	9,781
7	22,500	6,750	15,750	0.564	8,883
8	22,500	6,750	15,750	0.513	8,080
9	22,500	6,750	15,750	0.467	7,355
10	22,500	6,750	15,750	0.424	6,678
11	22,500	6,750	15,750	0.385	6,064
12	22,500	6,750	15,750	0.350	5,513
				PV of Total Cash Outflow	**1,18,015**

Table No. B. 3

Amount Receivable at the time of Maturity	10th Year's Discounting Factor	Present Value of Cash Inflow
I	**II**	**I*II**
312500	0.35	1,09,375

Table No. B. 4

Total Cash Inflow	1,09,375
Total Cash Outflow	1,18,015
Net Gain	-8,640

- **Plan C] LIC Jeevan Ankur**
  - *(Refer Annexure table no. 10 and 11. from literature review chapter for comparative understanding)*

Table No. C. 1

Policy Term	Annual Premium	Premium Payment Term	Policy Amount	Tax Saving	
10 years	23,250	10 years	2,50,000	23250*30%	6,750

Table No. C. 2

Year	Outflow	Tax Benefit	Net Outflow	Discounting Factor	PV of C0
1	23250	6975	16275	1	16275
2	23250	6975	16275	0.909	14794
3	23250	6975	16275	0.826	13443
4	23250	6975	16275	0.751	12223
5	23250	6975	16275	0.683	11116
6	23250	6975	16275	0.621	10107
7	23250	6975	16275	0.564	9179
8	23250	6975	16275	0.513	8349
9	23250	6975	16275	0.467	7600
10	23250	6975	16275	0.424	6901
					1,09,986

Table No. C. 3

Amount Receivable at the time of Maturity	10th Year's Discounting Factor	Present Value of Cash Inflow
I	**II**	**I*II**
5,00,000 (S.A. 2,50,000+2,50,000 Maturity Benefit)	0.424	2,12,000

Table No. C. 4

Total Cash Inflow	2,12,000
Total Cash Outflow	1,09,986
Net Gain	1,02,014

Table No. D **Summary of NPV (No death claim and maturity):**

	Canara Smart Future	SBI	LIC
Cash Inflow	**106000**	**114363**	**212000**
Cash Outflow	**118265**	**118015**	**109986**
NPV	**(12265)**	**(3652)**	**102014**
Rank	**III**	**II**	**I**

IX. Conclusions:

1. Canara and SBI result into negative NPV
2. LIC Jeevan Ankur results into positive NPV by 51%
3. Positive NPV can be attributed to the bonus payment made on sum assured by LIC
4. However, this is single sided view as Canara and SBI pay more in case of early claim as compared to LIC
5. LIC offers you the nomination of policy to another child which is not with other plans
6. Purely from returns to installment paid till last year of the policy, LIC is certainly more beneficial and therefore in order to balance risk and return LIC Jeevan Ankur Plan should be given due consideration
7. As a general principle of insurance when the risk is covered with more amount then the returns at the end i.e. maturity are bound to tend less. In other words higher the risk cover, lesser the terminal value and vice versa. This is evident from Table No. 4.16 on page no.36
8. Another alternative to not exclusively going for returns but also the risk is to be balanced then, suppose the total sum assured if Rs. 20 Lakhs then it can be bifurcated in proportion of NPV. Thus the combination may be sought of Rs. 20, 00,000 as approximation of combination of sum assured can be approximated as under:

   SBI : Rs. 2,50,000 + Canara Rs. 7,50,000+10,00,00 LIC

B. II Notional Value NPV on death year wise

It is fascinating to look at the figures, computed for the same plans with same terms and conditions and similar outflow.

Method of Computation:

1. The computation is made for each year and what is received by the beneficiary as total amount received which includes amount received at death and in future till the termination of the policy.
2. Outflow consists of premium paid up to death.
3. Notional amounts and their PV are calculated and at the end of the term of the policy such PVs are aggregated and considered as the amount of the total inflow.

   Comparative Present Value @ total amount received after death

Table No. B.II. a) Calculation of Notional Gain For Canara – HSBC- OBC

Year	Cash Outflow	Cumulative Cash Outflow	Cash Inflow	Discounting Factor 10%	Discounted Cash Inflow (PV of CI)	Sum received at the time of death	Sum Received at the time of Maturity (Present Value)	Total Amount to be Received (PV)
I	**II**	**III**	**IV**	**V**	**VI (IV*V)**	**VII (VI-III)**	**VIII**	**IX (VII+VIII)**
1	17500	17500	250000	1.000	250000	232500	106000	338500
2	15907.5	33408	250000	0.909	227250	193843	106000	299843
3	14455	47863	250000	0.826	206500	158638	106000	264638
4	13143	61005	250000	0.751	187750	126745	106000	232745
5	11953	72958	250000	0.683	170750	97793	106000	203793
6	10867.5	83825	250000	0.621	155250	71425	106000	177425
7	9870	93695	250000	0.564	141000	47305	106000	153305
8	8978	102673	250000	0.513	128250	25578	106000	131578
9	8172.5	110845	250000	0.467	116750	5905	106000	111905
10	7420	**118265**	250000	0.424	106000	-12265	106000	93735

Table No. B.II. b) Calculation of Notional Gain For SBI Life Smart Champ Insurance

Year	Cash Outflow	Cumulative Cash Outflow	Amount to be received on death CI (Paid/Unpaid praportion)	Discounting Factor 10%	Discounted Cash Inflow (PV of CI) on death	PV of Sum received in last four years	Sum Received at the time of Maturity (Present Value)
I	**II**	**III**	**IV**	**V**	**VI (IV*V)**		**VIII**
1	15750	15750	22727	1	22727	101625	124352
2	14316.75	30067	50000	0.909	45450	101625	147075
3	13010	43076	83333	0.826	68833	101625	170458
4	11828	54905	125000	0.751	93875	101625	195500
5	10757	65662	178571	0.683	121964	101625	223589
6	9780.75	75443	250000	0.621	155250	0	155250
7	8883	84326	250000	0.564	141000	0	141000
8	8080	92405	250000	0.513	128250	0	128250
9	7355.25	99761	250000	0.467	116750	0	116750
10	6678	106439	250000	0.424	106000	0	106000
11	6064	112502	250000	0.385	96250	0	96250
12	5513	118015	250000	0.35	87500	0	87500

Table No. B.II. c) Calculation of Notional Gain For LIC Jeevan Ankur

Year	**Sum Assured**	**Discounted factor**	**PV OF CI**	**Income Benefit**	**PV of benefits**
I	**II**	**III**	**IV**	**V**	**VI**
1	250000	1.000	250000	250000	250000
2	250000	0.909	227250	22725	249975
3	250000	0.826	206500	43375	249875
4	250000	0.751	187750	62150	249900
5	250000	0.683	170750	79225	249975
6	250000	0.621	155250	94750	250000
7	250000	0.564	141000	108850	249850
8	250000	0.513	128250	121675	249925
9	250000	0.467	116750	133350	250100
10	250000	0.424	106000	143950	249950

Table No. B.II. d) Ranking and Summary of Notional Gain

Year	LIC	Canara, HSBC, OBC	SBI
1	250000	338500	124352
2	249975	299843	147075
3	249875	264638	170458
4	249900	232745	195500
5	249975	203793	223589
6	250000	177425	155250
7	249850	153305	141000
8	249925	131578	128250
9	250100	111905	116750
10	249950	93735	106000
Rank	**I**	**III**	**II**

X. Conclusions:

1. If we look at the above table in case of Canara Bank, the benefit on death keeps on decreasing after the fifth year keeps on increasing. Similar is the case with SBI.
2. Thus for Canara and SBI cut off year of decrease is fifth year
3. However in case of LIC the sum is almost same for any year of the death. Very Marginal difference is noticed for all the ten years.
4. From merely seen from risk point of view then the first rank would be given to Canara Bank, Second will be LIC and third shall be SBI.
5. However looking at only risk point of view is not rational view therefore it should be approximated on the basis of amount to be received on death at and after the death.

XI. Findings and Conclusion:

It is customary as per research process to summarize the findings and present them in a summary form. However, the findings in this text are given in appropriate places of analysis of primary data. Secondly the findings are in computational forms which are given beneath each table. In order to avoid mere repetition, the findings are not so summarized.

XII. Suggestions:

While buying the insurance, of any kind it has two factors as of prime consideration, i.e. Risk and Return. Basically, when it is insurance, it is not having the pure status of the investment as in case of gold or property or bonds and equity therefore, it is not a pure investment but some returns are offered by the insurance companies.

The risk of loss on death is transferred to the Insuring Company through a contingent contract. At the termination of the policy sum assured is received along with some returns on it. In case of Death, the sum assured is received and even after death certain sum is paid. This part is moreover applicable to child insurance plan.

In literature review chapter the comparison of terms and conditions is given. From literature review, responses to questionnaire, analysis in terms of NPV and their comparison has induced to render following suggestions, while buying an insurance plan for the provision of education of the child. These suggestions also can be taken as considerations while buying the child insurance plan.

Prepare a table of benefits as shown in literature review table no. 11 and 12.

1. Assess overall benefits from the policy e.g. in case of child insurance plan of LIC i.e. Jeevan Ankur has a very peculiar benefit of transfer or nomination to another child in case of death of first child.
2. Give a weightage to each benefit according to the significance of individual couple's needs and priorities as well as ability to pay at present and in future
3. After taking the summation of each plan of their weightage the two plans having the highest and the second highest weightage be further scrutinized.
4. Insurance advisor must be interrogated for even minute points without any hesitation and comparison so made be shown and discussed with him.
5. The real prudence is in balancing the risk and return from the plan, for that purpose either oneself or with the help of the other:
   a) Net Present Value must be computed in order to ensure

whether there is sufficiency of level of amount is available or not with reference to estimated inflation rate.

b) Notional gain in case of early claim and its PV also provides a vital information about the sufficiency of the funds for the purpose of the plan

It reduces the chances of underinsurance which is most likely to happen even when there is an ability of the person to pay.

6. The most important outcome of the project is that the total amount of insurance when bifurcated into two or more policies (combination or approximation) then the process is called of approximation which shall yield more sound balance of risk and return.

7. Tax benefit is essential to be considered as a part of the payoff

8. From the responses to the questionnaire and general interaction with the respondents and otherwise, the buyers of insurance are not very systematic, critical and analytical while buying the policies.

9. If they follow the above recommendations they shall receive a better payoff with more balanced combination of risk and return.

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