

Vol II Issue XI Dec 2012

ISSN No : 2230-7850

Monthly Multidisciplinary
Research Journal

Indian Streams Research Journal

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RNI MAHMUL/2011/38595

ISSN No.2230-7850

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CREDIT LIFE INSURANCE FOR HOME LOAN CUSTOMERS IN INDIA

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Abstract:

Insurance market of Asia has higher growth being a developing market. Especially Life insurance premiums, in emerging Asia grew strongly by 16.8%, in real terms in 2010 from 10.7% in 2009 and it is expected to grow by around 10.3% in 2011. India's life insurance premium expected to grow remarkably by 9.5% and 10% in 2011 and 2012 respectively (after adjustment for inflation). The life insurance industry has affected positively by Bank loan procedures which emphasis on life risk coverage of their customers. Among different types of customers Home Loan customers has been surely assured by their policy compulsion.

The credit life insurance is basically a Life insurance product falling under option of group policy. This paper is an attempt to reveal the less focused area and also an attempt to focus on opportunities attached with it especially when this policy concern with home loan customers. The Study also focuses on comparative analysis of different policies offered by market players in India for housing loan customers. The study indicates the features availability with credit life insurance increases as newer policies commencing as per the need of the day. Moreover Variety of features available with products serves plenty of special needs of Home loan customers like coverage of EMI payment for period of health issue or disability, insurance coverage during moratorium period.

KEYWORDS:

Mortgage, Life Insurance, Home Loan Customer.

INTRODUCTION

After Liberalization, the pattern of working environment of Insurance sector has been changed by the entry of foreign players with Indian private players. The Major Milestone was resolution of IRDA Act 1999. Afterwards IRDA has been an apex body for Insurance Sector in India. Presently Life Insurance sectors have twenty four players approved by IRDA. (June 2011). Competition converted the market effort in the line of more Product innovations to make better experience for existing customer and tap the newer market segments. Indian insurance Market has experienced addition of new range of insurance products for life and non life segment. Credit insurance, credit life insurance, credit health insurance and microfinance insurance has been available as a result of these innovation oriented efforts in life insurance segment. Credit life insurance policy is a innovative kind of product which has been found high growth rate in other developed countries like United states, United kingdom etc.

BASIC CONCEPT

Credit insurance is basically differing with credit life insurance. Credit insurance is basically related to trade credit insurance under which the life of debtor of business created by credit sales is insured. Benefit of claim is basically paid to the trader who purchased insurance for his customer.

Credit Life insurance is basically group life insurance policy which provides the outstanding loan (home loan, education loan etc) amount to the financial institution in case of death of loan borrower against of remain unpaid EMIs after the death. Credit health insurance is focusing of disability risk benefits for the loan customer as insurer.

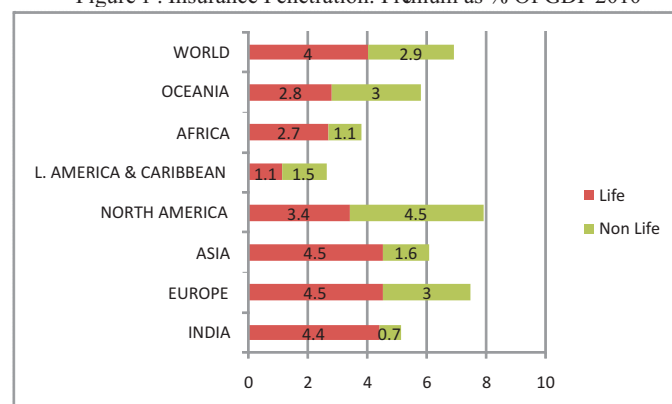
OPPORTUNITIES IN INDIA AND WORLDWIDE

The idea of potential market share of Credit life insurance has relation with mortgage to GDP ratio and Insurance coverage expenditure to GDP ratio. The credit life insurance market in india has good potential which is based on significant growth in mortgage to GDP ratio and growth in life insurance premium collection.

LIFE INSURANCE PREMIUM COLLECTION

The global Life insurance industry had an annual growth rate of 4% in 2010 and expecting growth of 3.8% and 4.2% in 2011 and 2012 respectively. Indian life insurance has 4.4% ratio of premium to GDP ratio compare to 4.5 % in Europe and Asia territory and 3.4% in North America.

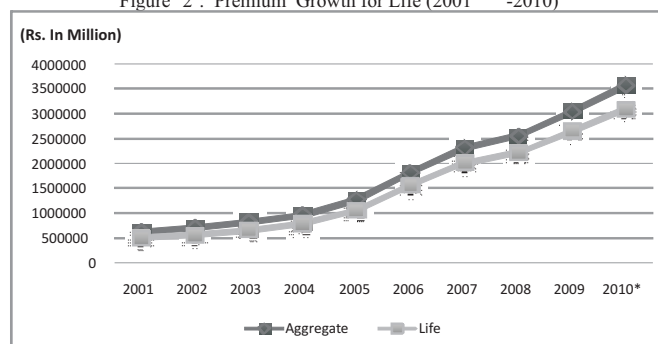
Figure 1 : Insurance Penetration: Premium as % Of GDP 2010



SOURCE: SWISS Re. Sigma No 2/2011

Presently IRDA, being a statutory body, is regulating and controlling the Indian Life insurance sector. In the line of controlling the Unit linked plan, Steps had a major hurdle which decreased the growth rate in 2008. The growth rate of Life Insurance is comparative higher than non- life as it reached from 5 lack million to 30 lacks million rupees in comparison of 1.2 lack million to 4.8 lack rupees.

Figure 2 : Premium Growth for Life (2001 -2010)



Data Compiled: SWISS Re. Sigma World Insurance Report 2003, 2005, 2008, 2010

MORTGAGE TO GDP RATIO

Mortgage to GDP represent the formal finance scenario in the country. Morocco, Nigeria, India has very low Mortgage to GDP ratio compare to countries like UK, USA, Denmark. India had mortgage outstanding to GDP ratio 4% in 2006 compare to other developed countries it was very low. Low mortgage-GDP ratio provides room for ample growth to housing finance Industry where Financial Institutions and Banks. According to Emkey global it is expected the mortgage industry in india to witness steady 15% CAGR over FY11-15E and the ratio of mortgage/GDP to inch towards 13% (+300bps) by end-FY15E.

Table 1 : Mortgage Outstanding as Percentage of GDP (2006)

Country	Mortgage Outstanding as Percentage of GDP	Country	Mortgage Outstanding as Percentage of GDP
Morocco	2%	Hong Kong	60%
Nigeria	2%	Germany	52%
India	4%	Singapore	68%
Korea	14%	USA	86%
Thailand	18%	UK	72%
Malaysia	23%	Denmark	90%

Source: Saravanan (2007)

OBJECTIVES

The paper aims to examine the present status of credit Life Insurance services in India for Home loan customers. Attempt has been made to achieve following specific objectives:-

- To understand the emerging scenario of Credit life insurance market in India.
- To study key features of different credit life Insurance products for home loan customers in India.
- To identify on key difference through Comparing the present products offered in india

RESEARCH METHODOLOGY

The present study is of exploratory and descriptive study in nature. Secondary data has been utilized for the study. Data collected mainly through various product brochures, newspapers, magazines, and websites consist of mainly Life insurance companies and IRDA.

This study has taken 23 credit life policies offered by Indian life insurance companies as group policy product. The brochure available from the respective sites has been collected. The information available with brochure has been found different approach to provide information. Missing information of policies was collected from IRDA website and other internet based sources. Although few information of policies has not been found which has been taken as a missing data and deducted those policies while considering service / feature providers for that particular feature's comparative analysis.

PREVIOUS RESEARCH

The study of Stuart Land (2006) concluded that insurers should work closely with lenders for shaping credit life insurance policies. It also concluded that credit life needs to be approached differently than other life insurance business. as its distribution mainly through credit insurance.

The study on (Shilpa rustogi, 2009) life insurance industry competitiveness studied hybrid model for a globally competitive industry based competition which fulfilled market need of fit and proper market players in life insurance industry. Moreover in presence of adequate number of insurer to provide competition and choice to customer has led to establishment to an overall regime committed to an overall development of insurance market.

The study on Indian life insurance by Govind Shinde (2011) concluded that life insurance will grow very rapidly over the next decade based on major drivers like economic fundamentals, rising middle income class improving regulatory framework and rising risk awareness.

COMPARATIVE ANALYSIS OF CREDIT LIFE INSURANCE POLICIES

Credit life insurance has been found very focused product as it has been introduced by most of players (20 players introduced it out of 24 players). Credit life insurance market has twenty four plans approved by IRDA. The first plan was introduced by Tata Aig Life Insurance in india followed by Met life insurance, Life insurance corporation and HDFC Standard life.

Credit Life Insurance market in India has basically 21 players offering Group credit life policies. Each credit life Insurance policy has been approved by IRDA. Basic service related feature has been found many similarities. In comparison following Features has been found similar in every policy,

- Free lock in period of 30 days
- No Survival Benefit
- No Loan Availability on Policy
- Tax Benefit under Section 80(c) and Section 10 (10D)
- Waiting period (for coverage)of 45 days
- Exclusion up to 1 year in case of suicide
- In Reducing coverage based on Initial Policy schedule
- Grace Period for Premium payment 30 days.
- Death Claim Settlement/ Benefits

Moreover, following are the features which have been found special of credit life insurance, where each player tried to be unique and simultaneously being in boundaries of rules and regulation as it has been approved by IRDA.

Special Plan or Joint plan: Many players identified the need of Home loan customers for credit insurance and designed a group insurance product. Especially Tata AIG Life, Kotak Mahindra old mutual life and Reliance life has been focused credit life insurance and provided two special plans for concern customers. There were special five plans which introduced specially for home loan customers in Indian Life Insurance Market whereas other plans has been found focusing on home loan, education loan, credit card etc.,.

Plan Option: Level term / Reducing term Cover : Credit life Insurance policy has been found with two option for coverage i.e., reducing coverage and level cover. Many players introduced both option in single policy and some players introduced in separately. Although Majority players has been found with only one option with reducing term coverage.

Premium Mode: Single / Short term / Regular: Customers of Credit Life Policies has been found with three options for premium payment i.e., Single pay, short pay and regular pay. Regular pay has normally 2/3 time allowed for premium payment. In Short pay option of 2 year, 3 year and 5 year has been found in many cases. Majority of players has been found with two option of single and short pay.

Moratorium period Option: Basically Moratorium period is a period between first disbursements of loan to Final disbursement which would be base to starts EMI. Coverage of Moratorium period has been required when a home loan approved for home construction. Majority players which has been providing special plan for home loan customers found having option of Moratorium period which ranges from one year to 6 years.

Sum Assured limits: Basically sum assured has been found equal to loan schedule in reducing term cover whereas in Level cover it has been equal to loan amount. Only one policy Rina Raksha of SBI has been found with a option to cover 120% of loan amount coverage. Maximum limit of Sum assured has been found varies from Rs. 20 lack, 30 lack and 50 lacks. Many policies do not have limitation for sum assured. Eligibility in term / age: Age criteria have been found very much difference in credit life policies. Most of Policies has found with different years limitation for minimum age and maximum age to enter. It has been found that minimum age range between 18 to 21 years and maximum age range between 55 to 69 years In Majority policies the cover ends at an maximum level of 30 years. Although most of policies has mentioned maximum limit of term to cover is 30 years.

Co applicant options and its benefits: Normally Loans are having Co- applicants as per the need of the day. To cover this need most credit life policies mentioned the coverage of co-applicants. Credit life policies has been found with two option of co- applicant i.e, a) joint loan b) loan share/ proportion basis. Majority of

policies have an option of two applicants and the procedure to handle with share basis and joint bases has been found similar.

Rider's availability: Riders are co-products of insurance companies which are optional. In Credit life insurance market Disability rider, Critical illness rider found offered by most of players who has provided an option for rider. It has been also observed that few policies do not provide any option to add rider. Market has been found with some new innovative riders which covers risk of fluctuating interest rate, hospital cash benefits.

Female applicant benefits: Female applicant benefit is a part of promotional scheme. Few policies have been shown specifically the benefits to lady applicant either in joint application or individual application. A main benefit to female applicant has been observed that three year younger risk table would be applicable to female applicant.

Comparison with other plan: Credit life insurance reducing balance is unique plan whereas Credit life insurance with level cover has been found similar to term life insurance. Both has similarities in terms of premium paying option, life risk cover, sum assured has specific choice in term insurance which has been observed limited in credit life insurance with loan amount. It has been found that in Life term insurance has more Rider options availability than credit life insurance. In against of this credit life insurance has group benefits through Bancassurance.

FUTURE PROSPECTS

Credit life insurance market has very good potential opportunities in Future. Still there is a huge banking credit which has been uncovered with the insurance coverage for life of borrowers. Indian housing industry has expected to grow at a double digit growth rate in US\$ 150 Billion by 2013. According to trend and progress reports the commercial banks has increasing share compare to housing fiancé companies in total housing finance of india. Competition made the market very innovative and this competition commenced new financial innovation like Bancassurance. In India Bancassurance is dominating distribution channel for credit life insurance than other channels (Srinivas,2006) which supports potential growth chances of Credit life insurance policies with good Bancassurance.

MAJOR FINDINGS

- Out of 23 covered policies, all players are providing Reducing term coverage under Credit life insurance policies. Although level cover has been found with only seven policies.
- Most of the Players providing common plan (for all types of loan) of group credit life. Only seven policies are available which has been made for specially home loan customers.
- Moratorium period is key requirement benefit of house construction loan but still few players have been found providing this benefit.
- An eligibility criterion of Age has been found different ranges, higher flexibility has been found with RiNa Raksha plan of SBI.
- Co applicant with sharing basis and joint basis have been found with most players however it is found that RiNa Raksha plan of SBI offer option of three applicant coverage if required.
- Sum assured figure up to 120% of loan amount has been available with only one policy of SBI.
- Riders like critical illness, Total permanent disability, and accidental death have been found common riders in policies which provide option of rider. Specially Fluctuating Interest rate rider found innovative and attractive for home loan customers.
- Group credit life insurance has been found more appropriate for home loan customers as it is convenient and easy at the time of death claim settlement

CONCLUSION

Credit life insurance is still in infant stage in India. The experienced trend of developed countries like United States, United Kingdom gives idea of future pictures of credit life insurance market potentiality for India being a developing country. Especially Next decade has wide scope for it where expected growth for housing industry and growth in life insurance premium collection are expected to grow as per the different estimations.

Significant steps have been taken by Indian credit life market players for capturing opportunity in

this emerging market. Most players offer the special policy for credit life coverage with reducing cover with optional riders like critical illness cover, permanent disability cover. It is found that many of the market players offers separate policy of home loan credit life cover. The requirement of Moratorium period, Interest rate fluctuation cover and coverage of co applicants are specially covered in this plans to fulfill the need of home loan borrower. Rina Raksha policy of SBI has found greater flexibility options for home loan customers as longest moratorium period, higher age range, interest rate rider.

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Annexure 1 Present Credit Life Plans In India

Sr.No	Name of Insurance Company	Name of Plan	Plan No.	Plan Commence on Date
1	Aviva Life	Group Life Protect	122N080V01	2/08/2010
2	Bajaj Allianz Life	Bajaj Allianz Protector	116N025V01	25/03/2004
3	Bharti AXA Life	Bharti AXA Mortgage Credit Shield	130N011V01	10/10/2007
4	Birla Sun Life	Group Asset Assure Plan	109N045V01	28/07/2009
5	Canara HSBC Oriental Bank of Commerce Life	Group Loan Protection Plan	136N007V01/02	16/12/2008 24/09/2010
6	Edelweiss Tokio Life	Group Credit Protection	147N002V01	10/01/2011
7	Future Generali India Life	FG group Credit Suraksha	133N005V01	03/06/2008
8	HDFC Standard Life	HDFC Home Loan Protection Plan	101N013V01/02	06/10/2003 05/08/2004
9	ICICI Prudential Life	Credit Assure Utility	105N066V01	11/10/2006
10	IDBI Federal Life	Homesurance	135N002V01	26/02/2008
11		Homesurance Protection Plan	135N005V01	15/12/2008
12	IndiaFirst Life	Credit Life Plan	143N005V01	12/03/2010
13	ING Vysya Life	Smart Shield	114N037V01	09/07/2008
14	Kotak Mahindra Old Mutual Life	Kotak Group A ssure Group Shield	107N051V01/02	25/11/2008 03/08/2010
15		Kotak Group S hield	107N050V01/02	25/11/2008 03/06/2010
16	Life Insurance Corporation of India	Group Mortgage Redemption Assurance Scheme	512N219V01	05/03/2003
	Max New York Life	Group Credit Life	104N018V01	01/07/2004
17	Met Life India	Met Mortgage Protector Plus Non participating	117N004V01	27/05/2002
18	Reliance Life	Reliance Credit Guardian Plan	121N013V01	10/02/2004
19		Reliance Special Credit Guardian Plan	121N014V01	10/02/2004
20	SBI Life	SBI Life - RiNn Raksha	111N078V01	11/03/2011
21	Shriram Life	Shriram Credit Shield	128N019V01	06/01/2009
22	Tata AIG Life	Credit Life Regular Premium Mortgage Reducing Term Insurance Plan	110N012V01/02	03/08/2001 03/08/2002
23		Credit Life Single Premium Mortgage Reducing Term Insurance Plan	110N013V01/02	03/08/2001 03/08/2002

Source: Data Compiled from IRDA Product Details Life insurer/company wise list of plans.

Commencement date: In revised plan the second date indicates closing of first plan and commencement of second plan.

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