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An Analysis of Investors Attitude towards Investment Instrument: Insurance as a Taxsavings and for Investment

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Abstract: Income Tax, Act 1961). The tax saving schemes in which investors have invested, to identify patterns of investment in tax saving schemes. Data required identifying the historical growth of investment in different tax saving schemes. It is suggested that government and financial institutions educate people about tax planning in general and tax saving schemes to achieve that in particular. The concern that these schemes are not up dated as per market returns also needs to be addressed. We also have a tendency to save certain amount of money and this saving is done mostly for fulfilling future needs or unknowingly or knowingly it is made as a hedge against expected inflation for coming period. The process of increasing wealth actually starts with savings. Savings are also essential for the nation's growth. If the savings are not properly channelized it will not give us the desired fruits. For all the above mentioned activities appropriate decisions have to be taken. This paper is an attempt to understand and present a glimpse of research work done on the said subject. For the purpose of the study the research papers were selected on random basis from various National and International Journals & Conference Proceedings.

Insurances are similar to banks and capital markets as they serve the needs of business units and private households in financial intermediation. The availability of insurance services is essential for the stability of the economy and can make the business participants accept aggravated risks. By accepting claims, insurance companies also have to pool premiums and form reserve funds. So insurance companies are playing an important role by enhancing internal cash flow at the assured and by creating large amount of assets placed on the capital market and hence may contribute to economic growth. The amount and complexity of the ties of an insurer to other institutions and the environment are equal to those of banks. Literature on insurance-growth nexus, however, is rare and mainly due to the lack of appropriate data sources the significance of econometric analysis is weak..

Keywords: Insurance, tax savings, investment, instrument, population, government.

I. INTRODUCTION OF BANK, BANKING AND ITS HISTORY

The direct tax which is paid by individual to the central government of India is known as Income Tax. It is imposed on our income and plays a vital role in the economic growth and stability of our country. For years the government is generating revenue through this tax system. The study is about an investor's centric analysis of various tax saving schemes available in India. As in other countries India also has an established system of Taxation. In case of individual taxation government has offered few schemes in which the investments are not subjected to tax liability. It is as per government policy and is liable to change over time. From government side intention is to channel investments in desired avenues and also give benefits to the investors. These benefits vary from scheme to scheme.

In the old era also people knew the importance of savings, they use to save but the savings were mostly in the form of hard cash, gold/silver ornaments, precious stones etc and all savings may be of any current period or cumulated were either kept at home specially in underground castles or with some acquaintances on whom people could trust. The basic reasons for such acts could be non-availability of proper banking system or investment alternatives. The amount of expenditure and proportion of savings largely depends upon the income levels of people. It is also seen that people also saves when they get some surplus from occasional events like amount of some capital gain received from sale of some property, share from some ancestral property or some bonus, commission, prize money etc. 'Saving & investment behavior has always been an area of interest to the researcher. The economic cycles of boom, recession, depression & recovery not only effect the level of GDP but also the income of the households & hence the saving ratio & investment behavior.'(Kanti Das Sanjay 2012). The propensity to spend and save depends upon personal nature, future needs, present financial status and risk taking capacity of an individual. It may be found out that people with superior income might not be interested to save or if found interested the amount of saving might be minimal.

Saving Schemes in India:

Savings has an important place in the mobilization of resources for development expenditure because the investors would not only get back their money ,but also some interest and they would therefore prefer to lend money in this way instead of paying it as outright tax. Further in a developing economy in which there will be always surplus money available with some sectors to the extent that the savings are tapped the money available for circulation is taken away and to that extent pressure on prices and inflationary trend is reduced. So therefore savings have got a very important role to play in the sphere of economy.

II. THE INSURANCE GROWTH CHANNEL

The role of the financial sector is to channel resources from savers to investment projects. The financial sector (1) improves the screening of fund seekers and the monitoring of the recipients of funds, thus improving resource allocation; (2) mobilizes savings; (3) lowers cost of capital via economies of scale and specialisation; (4) provides risk management and liquidity (Wachtel, 2001). Insurance companies play a major role in these functions and thus should also play a major role in economic growth. In analogy to other financial sectors (Blum et al 2002), the link between the insurance and the real sector can be classified in terms of causality with respect to five possible hypotheses: (1) no causal relation; (2) demand following, e.g. economic growth leads to a rise in demand for insurance; (3) supply-leading, e.g. growth in insurance smoothes short-term economic volatility and thus induces economic growth in the long run, plus growth in investment by insurance companies induces economic growth; (4) negative causal link from insurance to growth (e.g. growing insurance causes more reckless behaviour ("moral hazard"), resulting in a less efficient and more volatile economy; (5) interdependence. In the following, we discuss the various functions performed by the insurance sector and its possible link to economic growth. The organization of the subchapters was revised several times, due to the complexity of topic, the great number of cross-links and the indistinct borders of each function described. Since we don't follow the segmentation according to the function perspective on a financial intermediary3, it may be helpful to explain the approach in short: Starting with the client side of an insurance company, the next five subchapters describe the flow of money from the assets of the policyholder to the capital markets or the asset side of the insurance company. Each subsection and at each stage we explain the positive and negative implications for the acting parties and the results for economic growth.

Investment and Insurance Assets

At a first glance the inside of an insurance company seems to be quite simple. As an intermediary the insurance aids the unfortunate who suffer losses by compensating them from funds collected from many policyholders. According the "law of large numbers" and actuarial theory the sum of the supposedly few compensations paid are smaller or equivalent to the large number of premiums received. In the ideal model the premium inflow is quite steady over time and cumulative amount big enough to fulfill the claims. By selling different types of contracts the insurer can diversify his income risk and manage his income stream. So these earnings found the capital basis of the company from which the compensations are paid and can be separated into two parts. The first and most important portion is the technical reserve, which forms the counterpart to the premiums collected and is defined by a certain percent of the future liabilities of the insurer dependent on the contracts sold. The host countries regulations further may alter/define the size and quality of the technical reserves. The second part of the capital basis is denoted as the sur-plus and may derive from different sources like insurance provision, investment sur-plus, etc. plus a possible regulatory minimum. Since the insurance policy entitles the policyholder to receive a certain amount of money in future and this is the main burden of the insurer, it is corollary that not the capital inflow, but rather the future obligations define the characteristics of the insurer's assets. So to understand the nature of insurance assets it is important to know the peculiarities of the insurer's liabilities. The value of the liabilities can be indefinite (e.g. product liability insurance) or defined in nominal or real terms or can be linked to labour earnings (e.g. defined benefit contract) or other indexation and the contracts can include a guaranteed minimum. Furthermore policy loans that are common in the life insurance business may raise capital needs during contract term. The maturity can be indefinite (e.g. for non-life business) and floating between setup and withdrawal (e.g. point of retirement for pension plans). To meet the appreciation needs, to match maturity of assets and liabilities and to prevent the company from liquidity bottleneck premiums collected have to be managed in professional ways. Illiquidity can occur because the receipt of the premiums and the payment of insurance liabilities are temporally independent and the sudden appearance of a disaster can cause a peak demand for financial coverage. Where aloud liquidity requirements are mainly satisfied by the usage of derivatives. The increase in value is achieved by the insurers' investment capabilities and hence by the yields obtained through the activities performed on the financial market. So insurance companies are major investors within the economy, and increasingly so: aggregate investment by insurance companies grew by 1/3 relative to GDP in Europe 1992-2002; investment by life insurance companies nearly doubled over the same period. An interesting endeavor might be to depict the impact of insurance investments onto the economy. The manner of how the investment activity is accomplished influences the overall performance of the insurance companies and carries over onto the economy at large. Depending on their will to bear entrepreneurial risks, insurers can implement their investment activities in two different ways. First, they can act as a simple funds manager, preventing assets from devaluation, fulfilling claims of those entitled and collecting premiums to maintain a satisfactory financial basis. The insurers' profits´ could be a percentage of the premiums collected, dependent on the annual average of assets managed or the company could be set up as a mutual insurance company. Second, the insurance companies could be established as a venture selling titles of compensation on occurrence of a certain event. The insurers can achieve additional pay-offs from the difference between the moral hazard of the policyholder and the physical hazard calculated on actuarial basis.

III. REVIEW OF LITERATURE

The glimpses of prior studies made in relation to the current study undertaken are enumerated here. An attempt has been made to review researches covering different categories of investors of different areas and different factors as far as possible are covered.

Das Kanti Sanjay (2012) studied the middleclass household's investment behavior and found that the trends of investment by households are not similar in nature and they vary between several financial instruments. The study reveals that amongst other avenues the bank deposits remain the most popular instrument of investment followed by insurance and small saving scheme with maximum number of respondents investing in fixed income bearing option.

Chaturvedi Meenakshi & Khare Shruti (2012) studied the Saving Pattern and Investment Preferences of Individual Household in India found out that most investors preferred Bank Deposit as the first choice of investment and next to bank deposits small saving schemes constitutes the second choice of investment

Geetha N, & Ramesh M. (2012) studied the Relevance of Demographic Factors in Investment Decision and reveals that there is significant relationship between the demographic factors such as gender, age, education, occupation, annual income and annual savings with the sources of awareness obtained by the investors.

Shaik Pasha Majeeb Abdul, Murty Dr. T. N., R.Vamsee Krishna, Gopi Kiran V.Hemantha (2012), the study examines that the level of importance assumed by the retail equity investors on various investment objectives based on the socio economic variables and selective investment profile factors. With the help of average score analysis with the help of Kruskal Wallis H-Test found out that the investors attach/attract more importance to liquidity, quick gain, capital appreciation and safety in equity investments compared to others.

Bhat Abass Mohd, Dar Ahmad Fayaz (2013) studied the role of emotions in individual investment behavior describe and conduct a research on what factors, **investing** characteristics, and decision-making processes affected individual investors and analyzed the emotional factors that are in the back of an investor when he makes an investment decision.

Kumaran Sunitha (2013) has explored whether there was a link between an individual's personal epistemology, such as Locus of Control, and the mechanism of stock market decision-making (using gambler's fallacy versus hot-outcome). The primary outcome of the paper, has confirmed that an individual's personal epistemology does have an effect on the investment decisions.

Objective 1: To study investors preference towards various tax saving scheme:

Across most of the considered age groups pension plans and fixed deposits are the plans which are most preferred by investors for investment and tax planning. But it does not mean that other plans are not good for them. Actually they are not aware of some schemes and this restricts them to take a decision of investment in those schemes. Pension Plan has been chosen by most of the respondents for investment, followed by Fixed Deposits, Public Provident Fund, Mediclaim Policy, Children's Education Plan and finally National Savings Certificate.

Objective 2: To describe the reasons for investment in tax saving schemes:

Majority of investors invest in these tax saving schemes because it yields tax benefits but apart from that they also think of risk minimization as the key benefit of investing in these schemes. Middle class forms a major chunk of population in any economy and these are the people who are relatively more risk averse. It was also observed that people who invest in schemes like med claim policy and children's education are those who invest only when specific conditions arise.

Objective 3: To rank various tax saving instruments on basis of investor's preference:

Fixed Deposits (above 5 years) are the most popular tax saving schemes as far as awareness is concerned, (96 out of 100 respondents) are aware of it. It is followed by Pension plan about which (85 out of 100 respondents) are aware. Then comes Public Provident Fund (58 out of 100 respondents),Children's Education Plan (50 out of 100 respondents), and Mediclaim Policy (32 out of 100 respondents). Respondents in the study are least aware of National Savings Certificate (15 out of 100 respondents).

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