Chapter 7

Summary and Conclusions

"So long as the maintenance of a family depends on the earning power of the breadwinner, so long as the earning power can be destroyed by death, old age, or disability, just so long will life insurance continue to be the keystone of the individual and those who are dependent upon him."

--- Tryst with Trust: The LIC Story

The concluding chapter is divided into three parts. Part I seeks to sum up the main argument of the thesis. Part II presents the conclusions reached on the basis of the findings of the study. Part III pertains to the observations, suggestions, and recommendations made in consideration of optimal life insurance protection as it obtains in the present scenario, and what is desired or visualized for the future.

I

Summing Up

The most audacious terrorist attack ever on the twin towers of the World Trade Centre in New York and the Pentagon in Washington on 11 September 2001, resulting in incalculable physical damage and untold human misery has demonstrated, more than ever before, that we live in a world of risk. And we are constantly surrounded by forces, largely beyond our control, that threaten our physical and financial well-being. If some people experience destruction of homes and personal property, and loss of life, others are financially ruined because of double-digit inflation, over liability, and adverse court
judgments. From this it is doubly clear that certain risks which can result in catastrophic economic insecurity for individuals, families, and organizations are ever present in our society.

The rapidly changing and increasingly complex, competitive environment has created an array of risks to be managed. Risk is all pervasive, and the presence of risk in human activities entails a burden on society with certain undesirable economic, legal, and psychological effects. However, as though being true to the etymological meaning of risk ('to dare'), people today accept the risk of losing in the hope that they will win instead. In the process, they can reduce the consequences, if not the probabilities, of loss through risk management -- the identification, analysis, and economic control of those risks, which threaten the assets of an enterprise, or earning capacity of an individual. The quintessence of risk management consists in maximizing the areas where we have some control over the outcome while minimizing the areas where we have absolutely no control over the outcome.

The most practical method for handling major risks is insurance, which is one of the society's oldest and most important institutions for mitigating the loss potential of risk. Its purpose is to create certainty for us out of the greatest uncertainty with which we are confronted in our daily life. Insurance is a social device for the substitution of certainty for uncertainty through the transfer of risks of many individuals to one person, or a group of persons. In other words, it is a unique financial instrument that enables persons, exposed to loss from a particular source, to combine their risks and agree to share losses on some equitable basis. In a sense, life insurance takes funds already in existence from the fortunate many, and distributes the same among the unfortunate few.
This shows that the concept of insurance is not only democratic in method, but also socialistic in spirit. All types of insurance are concerned with four fundamental services - indemnification of the loss of values, the scientific treatment of risk bearing, the equitable distribution of the cost among the insured, and avoidance of loss altogether through systematic loss prevention, and conservation of values.

Life insurance, including health insurance, is concerned with the organization and management of economic value of human lives. The economic value of a human life arises out of its relations to other lives, either to family dependents, business associates, or educational and philanthropic institutions. Just as physical property is subject to destruction by natural or man-made disasters, the potential estate (economic worth) of the human life is constantly subject to destruction by loss of current earning power of the individual concerned through death or disability owing to sickness or accident. With the breadwinner's sudden death, the whole value is swept away, and the dependent family will be greatly affected. Hence the dire need for a mechanism by which the economic value of the deceased can be preserved. Life insurance acts as a hedge against such a loss. Perhaps, life insurance is the only scientific method of capitalizing the economic value of the human life and indemnifying for its loss, in case of premature death or total disability. It protects the insured against the financial consequences that result from a loss of life by guaranteeing to him/her what he would have acquired, but for his/her untimely death. Thus, the institution of life insurance provides to humanity a very suitable vehicle through which individuals can secure their human life values while pursuing their goals in the risk-ridden society.
Economists, who generally proceed cautiously in coming to grips with investment in human capital, have not, for long, stressed the fact that people with innate potentialities invest in themselves, and that these investments could be substantial and meaningful. However, economists since Adam Smith have rightly recognized that people are important elements of national wealth. It is now increasingly being realized that in any economy, the major source of productive power is not machinery, equipment, buildings and other physical capital, but the productive capacity of the human beings who compose the society. This has been, in a sense, endorsed by the essence of human capital is that investments are made in oneself with an expectation of future benefits. Our stock of human capital matters because we are in the midst of an economic revolution that is creating the Information Age. Knowledge has become the most important factor in economic life, the most important component of business activity. It is the chief ingredient of what we buy and sell, the raw material with which we work. Considered as an economic output, information and knowledge have become more important than automobiles, oil, steel, or any of the products of the Industrial Age.

Consequently, investment in human capital in the form of education, health, and training has become a cogent explanation for the phenomenal economic growth of countries like China. Intellectual assets continue to displace physical assets as factors of production. Every country, company, and individual depend increasingly on knowledge—patents, processes, skills, technologies, information, and experience. And, the increased productivity arising from solid investments in human capital is so significant that human resource management has become a force to reckon with in almost all institutions. Hence the usefulness of a conceptual framework, for estimating the value of assets in the form
of human capital. Just as the value of physical goods can be estimated by discounting its income stream, the value of investment in human capital can be determined by taking the present value of potential future earnings of the individuals concerned. Thus, the theory of human capital has ultimately led to the revolutionary concept of human life value.

Although this general area of enquiry has been under discussion for over four centuries now, the interrelationship between human capital and life insurance has been acknowledged only recently. Apparently, the concept of human capital was first applied to life insurance in the 1880s through the efforts of Jacob L. Greene, an outstanding critic of unsound industry practices. However, the concept of human life value (HLV) became established as the economic foundation of life insurance only in the 1920s when Dr. Solomon Stephen Huebner, a pioneering insurance educator, proposed it as a philosophical framework for the analysis of basic economic risks faced by individuals, arguing that the human life value has qualitative aspects that give rise to its economic value. Following the footsteps of S.S. Huebner, Kenneth Black Jr. and Harold D. Skipper Jr. of Georgia State University, U.S.A., contributed substantially to the growth and development of human life value concept through their erudite publications. In the Indian context, profoundly influenced by Huebner, B.S.R. Rao and Appa Rao Machiraju of the College of Insurance and Financial Planning, Hyderabad, made a pioneering contribution to the field of human life values and life insurance. The HLV concept is now largely accepted and appreciated by all those associated with the institution of life insurance. More importantly, the novel concept is changing the widely held view that life insurance is essentially a physical death proposition, with no profit to the premium payer.
The human life value concept is based on the fact that every person, who earns more than is necessary for his or her own self-maintenance has a monetary value to those who are dependent upon him or her. It is defined as the present value of the family's share of the deceased breadwinner's future earnings. In other words, human life value is the capitalized value of an individual's net future earnings after subtracting self-maintenance costs such as food, clothing and shelter. Viewed form the standpoint of one's dependents, an individual's human life value would be the measure of the value of benefits that they can expect from their breadwinner. Viewed from the standpoint of an organization, the human life value of an employee would be the value of his/her services to the organization concerned. So, there is no single, unique human life value. Properly understood, a given human life value is at once a function of its purpose and a value to others. It should, however, be noted that the human life value is subject to loss through premature death, incapacity, retirement and unemployment. So, one should not lose sight of the fact that any event that adversely affects an individual's earning capacity has a corresponding impact on his/her human life value.

From the viewpoint of HLV concept, a person possesses not only an acquired estate in the form of physical property and financial estates, but also a potential estate in the form of his/her monetary worth as an economic force. And, its chief concern is with the potential estate -- one's capability of earning for others beyond the limits of one's self-maintenance, and also accumulating, if possible, surplus earnings into an acquired estate. It may be noted that the potential estate is as much subject to loss as the acquired estate. Therefore, it is essential to protect the potential estate from total loss owing to premature death or disability of the breadwinner, by taking adequate life and health insurance. Even
if a family possesses a substantial amount of physical property, the need for optimal life insurance protection remains the same.

The insurable value of an individual's economic possibilities is the monetary worth of his/her qualitative forces -- ethical behaviour, good health, willingness to work, investment in mind, creative ability and judgment, and patience and ambition -- which are incorporated within one's being. Furthermore, the same economic principles that are applied for appraisal of the value of acquired property are applicable to the appraisal of earning capacity of an individual, also taking into consideration his/her potential value of future projected earnings including fringe benefits. The general elements of appraisal of potential earnings of an individual vary with such criteria as age, sex, race, residence, education, occupation, mobility, marital status and number of dependents.

The far-reaching significance of the HLV concept can hardly be exaggerated. It means more than a statement that a human life has an economic value to the dependent members of the family. The human life value is the key to turning of property values into a productive force. It constitutes the principal economic link between the present and the succeeding generations as the realization of the potential net earnings of the breadwinner lays the economic foundation for proper education and development of children. It also contributes to our national economic growth with the application of the same business management principles--appraisal, conservation, indemnity and depreciation--to the organization, management, and liquidation of human life values.

Above all, the HLV concept provides the philosophical basis and an economic rationale for the purchase of optimal life insurance. An examination of economic theories of consumption, however, reveals that the HLV concept provides an explanation for
economic rationale for the purchase of life insurance from a replacement cost perspective, but not an economic explanation for its purchase. In other words, the HLV concept provides a normative economic approach to life and health insurance planning, leading to results that are inconsistent with actual consumer behaviour. The consumption theories, however, reveal that life insurance is capable of absorbing all fluctuations in lifetime income, so much so that without it lifetime consumption pattern would be different, involving less utility in terms of enjoyment of life.

Traditionally, financial planners and life insurers have proposed such arbitrary rules as five or six times annual earnings for determining the amount of life insurance to own. These rules are meaningless since they do not consider that family size, needs, and financial goals vary from family to family. No doubt, some formulae have been developed in an attempt to establish proper relationship between family income and the amount of insurance to carry. But, such rules of thumb are too simplistic to take into consideration either accumulated assets or family composition. Ideally, the life of each productive member of society ought to be insured for an equal amount to his/her economic value as measured by contribution to those who depend on that income. But, practically attaining this ideal is difficult even when death benefits are available, and employee benefit plans are taken into account. The basic difficulty is that when both the economic value and the needs are at their maximum at younger ages, the funds available for premium payments are at their minimum. Therefore, the technically accurate method of computing the monetary value of individual is considered to be too complex for general use. The complexity of the problem gets accentuated by the fact that the cost of self-maintenance, life insurance premiums, and personal income taxes deducted from
each year's income. Hence the need for application of systematic approaches to the
determination of the correct amount of life insurance to own.

Three approaches -- human life value approach, needs approach, and capital
retention approach -- are used to estimate the optimal amount of life insurance to own. As
per the human life value approach, the present value of the family's share of the deceased
breadwinner's future earnings can be calculated by estimating the individual's average
annual earnings in his or her productive lifetime, by deducting federal and state income
taxes, insurance premiums and the cost of self-maintenance, by determining the number
of years from the person's present age to the age of retirement, and by deciding the
present value of the family's share of earnings, using a reasonable discount rate. Under
the needs approach, the various family needs are converted into specific amounts of life
insurance after considering other sources of income and financial assets. The difference
between the funds needed to meet the financial needs of the family and the funds
available from various sources represents the amount of life insurance an individual must
carry. The capital retention approach for estimating the amount of life insurance to own is
based on the assumption that income-producing capital will be preserved, and not
liquidated.

No doubt, the needs approach and the capital retention approach have been
considered to be more realistic and practical than the human life value approach from the
viewpoint of sales. All the same, a close study of these three approaches reveals that the
human life value approach is more comprehensive and desirable, encompassing as it does
the entire group of family needs for all life in the event of the premature death of
breadwinner, utilizing the concept of capitalization of the economic value of man. On top
of that, it takes into account, in advance, the need for protection against retirement or 'economic death' of an individual. On the retirement of an individual, the potential estate becomes an acquired estate, as a result of the economic endeavours of the insured during his/her working lifetime. The present study is, therefore, based on the human life value approach for determining the optimal life insurance an individual should carry.

II

To this end, a case study of seventy Indian life policyholders has been undertaken with a view to estimating their human life value in order to know whether or not they carry an optimal life insurance protection. For this purpose, a schedule and a data sheet have been prepared. The schedule consists of various factors -- life insurance purchase decision, type of policies purchased, sum assured, lapsation and renewal of policies, customer services, and awareness of economic value of life -- that have influenced and governed the life insurance policies of the select policyholders. The data sheet comprises four items -- (a) family information (b) occupation information (c) financial information, and (d) insurance information -- that have a direct bearing on the life insurance policy purchased. The schedule and the data sheet thus prepared have been administered to the seventy chosen policyholders, dividing them, on the basis of their monthly income, into three distinct groups -- (i) lower group (with monthly income below Rs.10, 000), (ii) middle group (with monthly income between Rs.10, 000 and Rs.20, 000), and (iii) upper group (with monthly income above Rs.20000), in order to collect the necessary data. The collected data has been edited, tabulated, and analyzed.
The analysis of the data collected through administration of the schedule to the seventy life policyholders under study has led to the following findings:

1. The insurance agent is the most dominant factor in the purchase of life insurance.
2. The income tax exemption is the most important reason for life insurance purchase.
3. The endowment policy and money-back policy are the most preferred types of life insurance.
4. Most of the policyholders do not have plans for the purchase of any more life policies.
5. The lapses in the payment of insurance premium are minimal, and the renewal of policy depends on the scheme under which the policy is taken.
6. Life insurance is beneficial only to the dependents of the policyholder, and not to the policyholder himself/herself.
7. The purchase of life insurance has become risky with the opening up of insurance to private sector.
8. The policyholders have mixed feelings regarding the customer services provided by the life insurance corporation of India.
9. The life insurance and health insurance are considered to be different though in reality they are one and the same.
10. A majority of the policyholders are not aware of the concept of economic value of human life though they presume that they are adequately insured.
(B) The analysis of the data collected through the data sheet from the seventy life policyholders has resulted in the following findings:

1. All the Indian life policyholders under the case study are underinsured from the HLV viewpoint.
2. There is no parity between the income of the policyholders and their insurance percentage vis-à-vis the HLV concept.
3. The obvious reason for the lowest HLV insurance percentage of the lower income group seems to be the lack of adequate income to meet the self-maintenance costs as well as the actual needs of the dependent family.
4. The probable reason for the lowest HLV insurance percentage of the middle-income group seems to be the lack of interest in investment in life insurance.
5. The possible reason for the lowest HLV insurance percentage of even the higher income group seems to be the lack of awareness of the far-reaching significance of the HLV concept.
The following observations, suggestions, and recommendations are made on the basis of the study:

(A) Observations

1. What distinguishes the modern times from the past is not simply the progress of science, technology, capitalism, democracy, and information revolution, but the mastery of risk -- the capacity to manage risk and make forward-looking choices, thereby transforming the perception of risk from fatalism into sophisticated forecasts of the future, from chance of loss into opportunity for gain, and from helplessness to choice.

2. By putting the future at the service of the present, modern risk management has shown the world how to understand risk, measure it, and weigh its consequences, thereby converting risk-taking into one of the prime catalysts that drives modern society forward.

3. The creative transformation in attitudes toward risk management has channelled the human passion for romance, games, and chivalry into economic growth, improved quality of life, and technological progress.

4. The idea of providing only for the present must give way to recognition of the fact that a person's responsibility to his/her family is not limited to the years of survival. Any person with dependent parents, spouse, or children has a moral obligation to provide them with optimal life insurance protection.
5. Life insurance is highly creative to the insured in that it enables him/her to accomplish his/her economic purposes, thereby proving that it is as utilitarian for the self-advancement and personal gain of the insured as any other economic action.

6. In its economic mission, life insurance is not limited to the indemnification of the life values. It is a powerful force in the production of wealth in that it frees the policyholder from the dampening and paralyzing influence of worry and fear, thereby enabling him/her to take initiative and increase efficiency.

7. The financial worth of the human life value is capable of scientific treatment like any property value through the medium of life insurance. The fundamental economic and statistical principles such as appraisal, conservation, indemnity, and depreciation that are generally applied to property affairs could be applied, in a practical way, to the organization, management and liquidation of human life values.

8. The human life values -- good health, education, personal skill, industry, driving force, creative ability and judgement, and ethical behaviour -- create property values, contrary to general opinion, serving as key to turning property into a productive force. 'Were it not for the life value, there would be no property value at all.'

9. The immensity of the economic worth of human life values (HLV) is bound to enjoy a phenomenal growth. Once the economic significance of human life value
in family and business relations, and the need for its scientific treatment through insurance, become properly recognized, life insurance is most likely to become the greatest single financial business.

10. If every person in the country insures himself/herself scientifically by way of capitalization of personal earning capacity for the benefit of his/her family and business, through the human life value approach to insurance, the total outstanding life insurance could be several times as large as all of the nation's property values.

11. The HLV approach to life insurance protection can provide the individual with an overt and constructive outlet for his/her emotional concerns, thereby offering a partial relief from anxiety, and enhancing peace of mind. For, it must be noted that irrespective of the economic bases upon which life insurance is purchased, the underlying motivation for the vast majority of life policyholders springs from the emotions of concern, love and affection that they hold for those who depend upon them.

12. The human life value approach to optimal life insurance protection provides a reasonable economic security by which one is motivated to accomplish the higher-order needs such as self-actualization, thereby finding greater meaning in life.
(B) Suggestions

1. The human life value (HLV) is so vast in its economic purview, and so significant to national economy that its proper protection and servicing, through life and health insurance for the benefit of individuals and their families, requires professional training, skill, and attitude of a high order comparable to such professions as engineering, medicine, and law.

2. Similarly, a proper servicing of life values, through the HLV approach to life insurance, requires of a life underwriter a high degree of professional preparation and ethics prove his/her mettle.

3. As the HLV concept constitutes the economic track upon which the life insurance industry should run, its practitioners have to strive to measure up to high professional standards of knowledge of subject matter, attitude and ethics.

4. Life insurance is so useful to society and so noble in its purpose that it should inspire love and enthusiasm on the part of its practitioners to make it their full time work.

5. The individual practitioners of life insurance should abandon the selfish, commercial view, and keep in mind the well-being and prosperity of the client.
6. The importance of the insurance agent as a grass-roots level functionary must be properly recognised and encouraged. The present binamy system of insurance agency must be put an end to forthwith. Only well-qualified and properly trained personnel should be allowed to work as insurance agents. It is equally desirable that life insurance agents should upgrade their services to the level of financial counsellors.

7. As the country scales technological heights and the economy becomes increasingly sophisticated, the insurance industry must have the imagination, innovativeness, expertise as well as the whiplash of competition to respond constructively and promptly to the changing and complex demands of the clientele and create employment opportunities for intelligent and skilled young men and women.

8. On top of that, a good grasp and proper understanding of the changing financial environment, the characteristics, strengths and weaknesses of the available financial instruments, and especially the changing scenario in the wake of the opening-up of insurance sector to domestic and foreign players would be of immense use to the proper and successful functioning of life insurance marketing force.

9. Although life insurance is a very significant factor in the present socio-economico-politico cultural life of India, its real progress is yet to come,
largely through the nation's educational system. The main key to its future progress is education of the public. The people must be educated and enlightened on the mission of life insurance to bring certainty out of the greatest uncertainty confronting family and business life. Life insurance education is, indeed, the need of the hour. It is high time it became an integral part of curriculum in all educational institutions. The increasing importance of, and the need for, life insurance as a unique financial instrument must be driven home to students at the secondary, tertiary, and university levels of education.

(C) Recommendations

The field of risk management is undergoing monumental changes. The focus all along has been on business risk management, neglecting the far-reaching significance of personal risk management in the present day risk-ridden society. Only recently the principles of corporate risk management are rightly applied to a personal risk management programme.

An interesting trend emerged in 1990s expanding the scope of risk management to include speculative financial risks and finally all risks faced by an individual or an organization. What is more, modern risk management has shown us how to convert risk-taking into one of the prime catalysts that drives modern society toward economic growth, improved quality of life, and technological progress, thereby transforming the perception of risk from fatalism into sophisticated forecasts of the future.
Similarly, investment in human capital has become so significant that human resource management has come to the fore as a major management responsibility in every type of institution in virtually every major society in modern times. Human capital matters because we are in the midst of an economic revolution in which knowledge has become the most important component of business activity. It is now increasingly being recognized that tangible assets and financial claims are less valuable than human capital since it is by far the largest income-producing asset for the great majority of people.

The human life value approach to the institution of life insurance has given it new dimensions. Recent studies have revealed that life insurance is meant not just for the benefit of the dependents concerned, but for the personal development of the insured himself/herself to accomplish his/her economic purposes. What is more, in its economic mission, life insurance is not limited to the indemnification of the loss of property and life values. It is a powerful force in the production of wealth in that it relieves the policyholder of corroding anxiety, and frees him/her from the dampening and paralyzing influence of worry and fear, thereby enabling him/her to take initiative and develop efficiency. The implications and consequences of the recent opening up of Indian insurance industry to private sector has come in for a good deal of heated discussion.

Though, the qualitative characteristics which are the economic forces of the individual human life value—good character, good health, willingness to work, investment in the mind by way of education and training and experience, creative ability and judgment, patience, and ambition—are considered to be as important as the quantitative characteristics of the human life value, the HLV of an individual has been estimated only quantitatively. Hence the need for estimating of HLV qualitatively, taking
into consideration the above-mentioned economic forces that are incorporated within one's being

From the above brief critical appraisal of the latest trends in the field of risk management and human life values, it is clear that there is a vast scope for further research. Keeping this research potential in mind, the following areas/topics of study are recommended for further investigation.

1. Personal Risk Management: Scope and Functions
2. Modern Risk Management: An Integrated / Holistic Approach
3. Risk Management as a Catalyst of Economic Growth and Technological Progress.
4. Human Capital as a Major Income-producing Asset.
5. Life Insurance as a Powerful Force in Production of Wealth.

To put it in a nutshell, an attempt has been made in the foregoing pages to appraise different approaches to optimal life insurance protection, with a view to estimating the human life value of select life Indian policyholders, in the light of the historical perspective of the human life value (HLV) as a philosophical framework for the analysis of basic economic risks faced by individuals through modern methods of risk management. The human life value has been estimated by analyzing the collected data secured through administration of a schedule to the chosen life policyholders. Based on the findings of the study, it is concluded that there is no cohesion between the income of
life policyholders under the study and their life insurance percentage, as a result of which they are underinsured from the HLV viewpoint.

However, given the complex nature and profundity of the chosen subject as well as the lacuna and constraints of secondary resources, the present study is not free from certain inherent limitations. Though the idea of capitalizing future earnings is not new, it is unfamiliar to most people. A human being rarely regards himself/herself as a form of capital, feeling that the comparison is demeaning and that the worth of a human being cannot be expressed in rupees. Furthermore, it is difficult to think in terms of lifetime earnings. We are familiar with weekly, monthly, and annual earnings, but lifetime earnings are not magnitudes with which we ordinarily deal, and so one tends to regard them as abstractions without practical meaning or importance. That is why, an individual's future earnings cannot be precisely foretold, especially in the present Indian context of fluctuating rates of interest and inflation.

The study is also circumscribed to some extent by the limited sampling. It provides only a rough approximation of some of the magnitudes involved in the subject. It is not a thorough micro-economic evaluation which gives due weight to the past experiences and future expectancies of a particular individual in his/her specific occupation and employment, covering all of his/her economic losses.

All the same, with all its limitations, the present study has its own significance. The study is significant in that it presents an independent and objective method for estimating the loss of earning capacity. It makes it possible to raise the level of accuracy in estimating human life values. It enables not only an individual to figure out his/her
own life value, but also financial planners to help a client do this scientifically. Besides, it enables judges and attorneys who become involved in the settlement of wrongful death and injury cases to determine damages more accurately. It can also help vocational counsellors to provide to their clients occupational perspectives in greater depth. Moreover, it presents statistical materials and methods in a way that can easily be used by persons without specialized training.

Carl Rogers and A.H. Maslow, the world famous Humanistic psychologists, believe that man is most human at the point of choice, when engaged in decision-making. This capacity of being most human permits one to maintain one's individual identity, as also to develop one's individual value system. An individual's reaction to various degrees of uncertainty in life influences decisions and provides an individualistic identity. It is only with reasonable economic security that one is motivated by, and makes decisions based on, the higher-order needs such as self-esteem and self-actualization. Therefore, the \textit{insurable value of an individual's ingrained economic worth} in the form of human capital, with which the present thesis is concerned, can provide one with an opportunity to become more attuned to oneself, to find greater meaning in life, and to ponder better human relationships.