

## UNCERTAINTY AND ROLE OF INSURANCE

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### ABSTRACT

*Insurance is a transfer of losses from one party to another in exchange of payments. The main purpose of this article is to explore the association between life insurance and policyholder. For this purpose, survey conducted through questioners and find out the opinion of policyholders. Variables like insurance is an instrument for sheltering of dependent ,life insurance is a source of covering risk, life insurance is attractive and beneficiary risk coverage for an employee have been analyzed. T-test is used and result indicates that life insurance provides shelter and benefit to policyholders and in case of death to their dependent.*

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## INTRODUCTION

The objective of this article is to find out the importance of life insurance for developing countries policyholders but also to consider that how this investment might be financially helpful to the dependent. Life insurance can play a very important role in the settlement of heir's life after the uncertain death of policyholders. Most of the research work related to importance of insurance conducted for developed countries like Yanyun Zhu(2007) explained the decision of individual to purchase of life insurance and purchase of stock.. Mark V.Pauly and Bradley.Herring(2007) examined the different models of demand for insurance. Adam Smith had recognized that people are an important element of nation's wealth, so the essence of human capital is that investment are made in oneself with an expectation of future benefit, so the concept of insurance is established because insurance is a pooling of risks to enable to share risks. A number of research articles explained the importance of life insurance e.g. Zhu(2007) explained the decision of individual to purchase of life insurance and purchase of stock. It was explained that life insurance and purchase of stock are not dependent to each other. Researcher used fisher's model to explain the importance of life insurance.

Chen, CFA, Ibbotson, sky, and Zhu(2006) in the article explained the importance of insurance by giving explanation related to increase in demand of life insurance in case of loss of human capital.

By considering the research work related to importance of insurance for developed countries in this article emphasis is given on the importance of life insurance from developing countries especially Pakistan so following hypothesis are developed for this purpose.

- 1) Life insurance is a better instrument for sheltering the heirs of the deceased salaried persons.
- (2) Life insurance policy is a source of covering personal risk to a great extent
- (3) Life insurance is attractive and beneficiary risk coverage instrument for an employee.
- (4) Life insurance is often an important component for dependent heirs of the deceased person.

Gutter and. Hatcher(2008) in the article explained that life insurance protect the racial differences of human capital . For that purpose, survey had been conducted and tried to find out the attitude of white household and black house hold towards life insurance for the protection of their wealth Researchers prepared a model for this purpose and divided it in two steps. 1st step

demand of life insurance with related to racial differences, 2<sup>nd</sup> step explained that how much human capital invested by white household and black household for life insurance.

Life insurance coverage is dependant variable in the study. Probability analysis was also considered and concluded that white households are much better to black household, regarding to different aspects so they were more interested towards life insurance and invested more in life insurance.

Central features of Huang, Mileusky, Wang (2008) article was the correlation between innovations to the labour come process and financial returns. Main focused of paper was labour income and life insurance purchase. They explained that how much life insurance family unit protected against the loss of the earning member of that family. For research purpose, consider the family life cycle model. In the model, input variables were time horizon of the family, time of retirement and last one was at the time of loss of main earning member of family. The findings of the result showed that family utilized their financial resources in a way that protected the family in a best condition and gave them better satisfaction by purchase of life insurance.

Gatzert and Kling (2007) focused on risk measurement approach with a concept of risk- neutral valuation and tried to find out key risk drivers for participating life insurance contracts. According to them insurance contract market value has same risk but variation in the risk coverage of insurance company that explained through developed different models for analyzing the relationship between actuarial approach and financial approach and concluded that risk neutral valuation for insurance contract is concerned with insurance liabilities handling method.

,Borz,Ngugen and Timothywee(2007) examined that in OECD countries life insurance consumption determinants and focused on different socio economic factors.

With the help of univariate analysis researchers concluded, that income variable has a positive significant influence on life insurance demand.

Pauly, Bradley and Herring(2007) examined the different models of demand for insurance. In this study estimate demand for insurance by taking data from the individual or nongroup health insurance market was considered.

Dependent variables were degree of restrictiveness of insurance plan chosen by insured person, cost –sharing of the plan chosen. Explanatory income, age variables were, gender, family size, education, health status.

Zhu(2007) studies explained the decision of individual to purchase of life insurance and purchase of stock. There is no dependency between purchase of life insurance and stock. Researcher used fisher's model to explain the importance of life insurance. According to the research all policy holders purchase life insurance for the benefit of their dependent in case of uncertain death of policy holder and individual buys stock only when the rate of interest high. Purchase of life insurance dependent on the size of income as well as risk aversion habit of an individual. Shrivastava (2005 explained the terrorism and effects of terrorism in an individual life. Because of increase in trend of terrorism uncertainty of life can be manageable to the great extent through insurance that will be beneficial to the insured as well as their dependent. Puelz (1991) prepared a model that assist an individual to choose best life insurance contract that helped them in minimizing risk. He used Analytical hierarchy process model for that purpose. This AHP model helps an individual to select the best insurance.

Therefore it is evident from literature that there is a positive link between risk and insurance and because of this insurance becomes a big industry that is beneficial to the development of any country.

#### **METHODOLOGY AND DATA**

Major focus of this study is importance of life insurance. Population of present research study adopts both quantitative and qualitative paradigm. The study uses mix method designed i.e. survey as a quantitative mode of enquiry or case study as a qualitative study. Sample consists of 193 life insurance policyholders of different insurance companies working in Pakistan In this study, all categorical variables converted in to scale variable and then apply T-test for finding associations between uncertainty and insurance. For this purpose assign numbering to hypothesis and allocate related questions. Of the total sample respondents, it is found that 34.2percentage are in the age group 36-40 years old. The majority of the sample is male i.e77.7percentage. Most of the sample respondents have attained bachelor's degree.

#### **RESULTS**

The result of following table indicates that mean value of hypothesis is more than 4 shows that respondents are more than agree with hypothesis. The standard deviation indicates that there is approximately the same deviation in the response.

**ONE- SAMPLE STATISTIC**

	N	Mean	Std. Deviation	Std. Error Mean
Life insurance may be a better instrument for sheltering the heirs of the deceased Salaried persons	193	4.2632	.41021	.02953
Life insurance policy is a source of covering personal risk to a great extent	193	4.3510	.41003	.02951
Life insurance is attractive and beneficiary risk coverage instrument for an employee	193	4.2422	.54241	.03904
Life insurance is often an important component for dependent	193	4.0881	.75520	.05436

Test Value = 4						
					95% Confidence Interval of the Difference	
t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper	

Life insurance may be a better instrument for sheltering the heirs of the deceased Salaried persons	8.914	192	.000	.26321	.2050	.3215
Life insurance policy is a source of covering personal risk to a great extent	11.894	192	.000	.35104	.2928	.4093
Life insurance is attractive and beneficiary risk coverage instrument for an employee	6.204	192	.000	.24223	.1652	.3192
Life insurance is often an important component for dependent	1.620	192	.107	.08808	-.0191	.1953

Results indicate that hypothesis 1 is accepted. Hau also proved it (March, 2000). In the article, developed a model for an individual who allocate his resources for the consumption of their dependent. Demography and personal characteristics are less important as compare to financial and wealth variable at the time of selecting life insurance policy. Policyholders are interested to buy the insurance policy that will give maximum benefit at minimum cost to him as well as dependent also.

Terrorism causes increase in risk and motivate people to invest their amount in such type of schemes that will benefit to them as well as their dependent in case of any loss. Not only terrorism in developing countries increase in inflation also encourages people to invest their savings in buying life insurance scheme. Shrivastava(2005) explained the terrorism and effects of terrorism on individual's life. Because of increase in trend of terrorism uncertainty of life can

be manageable to the great extent through insurance that will be beneficial to the insured as well as their dependent.

Secondly it is also find that (H2) is also positive i.e. life insurance policy is a source of covering personal risk to a great extent ( $p < .05$ ). Thus investment in buying life insurance policy is beneficial to the policy holders in case of any disability and also provide security in case of loss of human capital. Puelz (1991) presented a Analytical hierarchy process model that helps an individual to choose life insurance for minimizing risk.. This AHP model helps an individual to select the best insurance.

Thirdly, it is also notified that (H3) is also accepted i.e. life insurance is attractive and beneficiary risk coverage instrument for an employee. ( $p < .05$ ). In this modernize and advance technology era everyone is interested to render their services to those organization, which provide full security to employees as well as their dependent. Organization can easily hire talented, skill labour force by giving them some incentive in form of life insurance, and in return, it will be beneficial to the organization. Santomero and. Babbel (1997) explained the process of analyzing financial management risk by insurance companies. For this purpose authors consider a committee comprises of different persons of management side and lead by a senior manager of the organization to find out the way that how the risky condition can be manageable with the help of insurance company.

Fourth hypothesis (H4) is not accepted i.e. life insurance is often an important component for dependent ( $p > .05$ ). It indicates that not only life insurance is important component to dependent but also the presence of earning member. No doubt that up to some extent life insurance can cover the financial crisis but cannot fulfill the all requirement of dependent. Some religious point may effect on decision of buying life insurance scheme.

## CONCLUSION

.Pauly and Herring (2007) developed a model that shows demand for life insurance. Study estimating demand for insurance has taken data from the individual or nongroup health insurance market. Dependent variables were chosen insurance plan's restrictiveness, chosen plan cost, whether any coverage obtained. Explanatory income, age variables were, gender, family size, education, health status. Moffets (1979) introduced the new matrix that explained the concept of saving related to life insurance. Model considered premiums, death benefit and survivor.

Mathematical relations explained the importance of life insurance that in the presence of different saving schemes how the insurer increases the customer for life insurance.

Different authors explained insurance in different ways related to uncertainty bases, but in this article major emphasis given to role of insurance to cover up uncertainty that will be beneficial to insured as well as his dependent.

The basic purpose of buying insurance policy is to make investment as well as safety of wealth and maintain same standard of living of dependent after the uncertain death of policyholders.

Study have been done related to life insurance demand basically for developed countries where fully resources are available to insurance industry and government also pays more attention on this investing activities. But for developing countries lack of financial availability and increase in terrorism increases the uncertainty and increases the demand for life insurance

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