

Impact of Demonetisation and GST in Life Insurance Sector

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Abstract- Demonetization is the act of stripping a currency unit of its status as legal tender. It occurs whenever there is a change of national currency. The current form of money is pulled from circulation and retired, often to be replaced with new notes or coins. Sometimes, a country completely replaces the old currency with new currency (Sundar, 2017). This paper deals with Impact of Demonetization and Goods and Service Tax (GST) on Life insurance sector. It outlines the effects of demonetization and GST on the Life of insurance agents, awareness among the customers and procurement of new business. For this purpose a sample of 130 was collected from the Life insurance employees of Cochin region based on random sampling method. Descriptive statistics and Anova test were used to analyse the data. The conclusion is that demonetization and GST have a positive impact in Life insurance sector.

Index Terms- Demonetisation, Good and Service Tax, Agents, Customers

I. INTRODUCTION

DEMONETISATION
Demonetisation of currency means discontinuity of the particular currency from circulation and replacing it with a new currency. In the current context it is the banning of the 500 and 1000 denomination currency notes as a legal tender. Government of India announced demonetisation of the high value currencies of Rs. 500 and 1000 with an objective to unearth the black money and to curb the corruption, counterfeit currency as well as terror funding. This decision is considered as biggest cleanliness drive against the black money in the history of Indian economy whose benefits will be reaped in the long run (Uke, February 2017).

According to the report released by Insurance Regulatory and Development Authority of India (IRDAI), the individual single premiums collected in November 2016 for all Life insurance subscriptions were Rs 6,692 crore. There is an increase of 507% more than what was collected in November 2015. The insurance segment grew by 170% from Rs2,481 crore collected in October 2016. The total amount of first-year premiums (both regular and single premium) grew 113% on a year-on-year basis, and 45% compared to the collections in October 2016. The insurance industry, which was growing at a decent 28% on a month-on-month basis, grew more than 40% in November 2016.

It was a pleasant surprise for all players in the sector (kannaiah, 2017).

II. GST

Goods and Services Tax, popularly known as GST, is a reform for our economy's indirect tax plan. On 8th August 2016, GST Bill (which was long pending) was passed in Lok Sabha. It was possible after a very long journey flooded with challenges, confrontations, and what not. At last, the GST bill has entered the phase of implementation, which will come into effect from July 1, 2017. GST would make changes in the tax structure between the center and the state. GST is a VAT, i.e. Value Added Tax that will eradicate the cascade effect/ double taxation from the price of goods and services down the value chain. It would surely affect the incidence, structure, and calculation of the indirect taxes, which will lead to a comprehensive refurbishment of the current tax system in India.

A policyholder pays service tax only on the risk factor of the premium element, whereas the investment component of the insurance plans usually isn't included in the service tax umbrella. After the GST is implemented, insurance plans, including Life, motor, and health would become more expensive, as taxes would be hiked (Pudari, 2017).

III. NEED FOR THE STUDY

Life insurance provides an infusion of cash for dealing with the adverse financial consequences of the insured's death. Life insurance enjoys favorable tax treatment unlike any other financial instrument. Death benefits are generally income-tax-free to the beneficiary. However the implementation of demonetization and GST have a major impact in Life insurance products. The study covers procurement of new business, collection of renewal premium, awareness among the customers, need of training for insurance people to adapt to the changes and growth of Life insurance.

IV. RESEARCH GAP

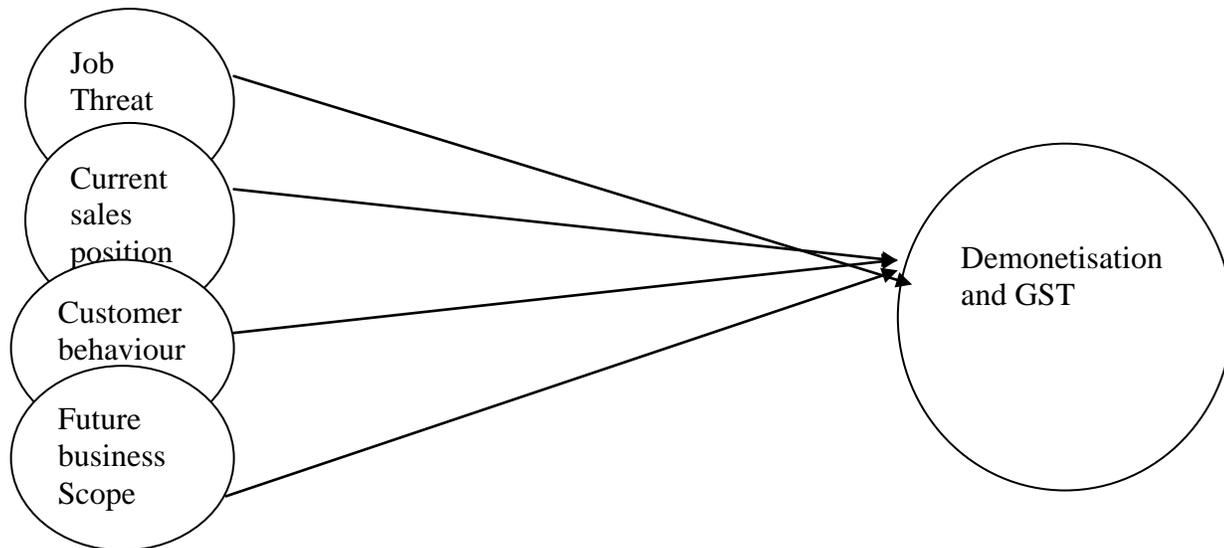
There are some articles available separately as Demonetisation and GST on insurance products. But no research was done with Ernakulam region. Also most of the studies were

conducted through secondary data and no primary data was collected from the customers, agents and officials.

THEORETICAL FRAMEWORK

The demonetization and GST have a great significant and immediate impact on the state of the Indian economy. In this paper, an attempt has been made to find impact of

demonetization and GST on insurance segment. Samples of 130 respondents were randomly selected from Ernakulam District. The study was conducted mainly on four areas such as threat to job, current sales position, customer behaviour, future business scope.



V. HYPOTHESIS

H01: There is no influence of demonetization and GST in business of insurance agents.

H02: There is no significant relationship between attitude of customers and GST.

VI. OBJECTIVES OF THE STUDY

- i) To analyze the effect of demonetization in Life insurance in terms of positive or negative.
- ii) To understand about people's attitude towards buying insurance products.
- iii) To analyze the impact on job of insurance agents.
- iv) To analyze the growth of Life insurance.

VII. RESEARCH METHODOLOGY

Research methodology is a way to systematically solve the research problem. Research methodology used in this study is Descriptive in nature. For this study, the data and information has been collected with the help of questionnaires, journals and articles.

VIII. SAMPLING DESIGN & TOOLS APPLIED

Sampling techniques

Sampling Unit:

Sampling unit can be defined as the basic unit containing the Life insurance officials of Ernakulam city .

Sampling Size:

In this research, the sample size amount to one hundred and thirty, which are surveyed from Life insurance officials of Ernakulam city. And also, the statistical tool are applied viz.

- (a) Descriptive statistics
- (b) Anova Test

IX. DATA COLLECTION

Data has been collected from 130 respondents by using primary source of data collection and secondary source of data collection

a) **Primary Source of data collection:** In primary method of data collection, data has been collected by taking personal interviews of insurance agents, officials and customers and collect the responses from questionnaire and by observing the behavior.

b) **Secondary Source of data collection:** In secondary source of data collection, data has been collected from journals, newspapers, magazines, and websites.

X. DATA ANALYSIS

Future business performance	20	1.85	.933
Valid N (listwise)	20		

Agents

Descriptive Statistics

	N	Mean	Std. Deviation
New Business Performance	60	2.10	1.003
Income earning	60	2.10	1.003
Security of business	60	1.82	.537
Area of work	60	1.67	.629
Valid N (listwise)	60		

INTERPRETATION

Total number of agents 60

The above data shows the impact of demonetisation and GST in business of agents. Demonetisation and GST have a positive impact in the business of agents. The business of insurance agents flourished compared to the sales before demonetisation and GST. Customers were investing in insurance leading to the growth of business of agents. Agents were focussing on the sale of Jeevan Akshay single premium policy. Agents received high rate of commission through the sale of single premium policies. Thereby business of insurance agents increased.

Descriptive Statistics

	N	Mean	Std. Deviation
Growth in business	60	3.38	1.648
Change in profession	60	2.52	1.692
Suggestion of agency	60	3.53	1.443
Training	60	3.35	1.665
Customer aware of increase in premium	60	4.33	1.068
Valid N (listwise)	60		

INTERPRETATION

Total number of agents 60

Training was given to insurance agents to cope up with the current market scenario. Through adequate training agents were able to sell insurance products more effectively. Implementation of GST has increased the premium amount of policy and most of the customers are aware about it. The purpose of getting insurance is far more important than increased interest rates.

Officials

Descriptive Statistics

	N	Mean	Std. Deviation
New business performance	20	2.40	.940
Morals of employees agents	20	1.70	.733
Customer response	20	1.25	.550

INTERPRETATION

Total number of officials 20

From the above table we can understand that the Life insurance business has increased after implementation of demonetisation and GST. Sale of single premium policies have increased. Customer response towards the Life insurance industry is slightly affected because of the increase in premium amount. Future of Life insurance industry will be good as new policies were introduced according to the current market scenario.

Customers

Descriptive Statistics

	N	Mean	Std. Deviation
Interest in insurance has come down	50	2.62	1.398
Insurance industry is badly affected	50	2.62	1.398
Aware of increase in premium due to GST	50	3.90	1.233
Convincing customers	50	3.32	1.421
Future of insurance business will be good	50	3.32	1.421
Valid N (listwise)	50		

INTERPRETATION:

Total number of customers 50

Insurance industry is slightly affected by the implementation of demonetisation and GST. As there is an increase in the premium amount due to GST, some customers are not willing to buy policy. Most of the customers are aware about the increase in premium amount. Agents were able to convince the customers to an extent. New policies are introduced to cope up with current market scenario, so that the future of insurance industry will be good.

HYPOTHESIS TESTING

H01 : There is no influence of demonetization and GST in business of insurance agents.

ANOVA

		Sum of Squares	df	Mean Square	F	Sig.
New_Business_Performance	Between Groups	24.205	2	12.102	19.600	.000
	Within Groups	35.195	57	.617		
	Total	59.400	59			
Income_earning	Between Groups	24.205	2	12.102	19.600	.000
	Within Groups	35.195	57	.617		
	Total	59.400	59			

As the significance level .000 is less than .05 null hypothesis is not accepted. There is influence of demonetization and GST in job of insurance agents. Income earning of agents has changed due to demonetization and GST. Agents focusing on high income earning customers have a positive impact whereas agents focusing on low income earning customers have negative

impact. The amount of commission insurance agents receive has changed. Agents who are affected have a fear of job loss.

H02 : There is no significant relationship between attitude of customers and GST.

ANOVA

Aware of increase in premium_due_to_GST

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	20.988	4	5.247	4.412	.004
Within Groups	53.512	45	1.189		
Total	74.500	49			

Null hypothesis is not accepted as the significance level is .004 less than .05. So there is significant relationship between attitude of customers and GST. The premium amount of insurance policies have increased by 3%. Therefore some customers are not interested in buying insurance policies.

XI. FINDINGS

Insurance industry is positively affected after the implementation of demonetisation and GST. Sale of single premium policy have increased as the customers wants to invest money in bulk. Thereby there is an increase in growth of business. Agents dealing with premium customers have a positive impact as their commission rates were increased compared to sales before demonetisation and GST. Agents dealing with middle and low income earning customers were slightly affected as there is an increase in the premium amount some customers were not willing to purchase policies. So the commission of those agents decreased. In order to increase the Life insurance policy sale, new policies have introduced according to the current market scenario. Rural areas are slightly affected because most of the customers are middle or low income earners. Most of the insurance agents are full time agents.

XII. LIMITATIONS

There may be a bias in collection of primary data towards the research. The research was conducted in Ernakulam region only. The data collected from the respondents were limited to 130.

XIII. CONCLUSION

The insurance market will expand as income of the individual and business is expected to rise. As of now the implementation of demonetisation and GST have a positive impact in Life insurance industry. The sale of insurance policies are much higher compared to the sales before demonetisation and GST. There is also a positive impact in the business of insurance agents. Future of the insurance industry will be good as new policies were introduced to cope up with the current market situation.

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