

A Study On the Effectiveness of Tax Saving as a Selling Tool or Life Insurance Investment Strategy

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Abstract: Human life is the most important asset and so the life insurance is the most important type of insurance which provides financial protection to an individual and his or her family at the crucial time of uncertain risks. LIC provides protection to individuals and also encourages savings among peoples. The present exploratory; descriptive based study was selected with an objective to identify whether the insurance is opted for tax saving; it is to infer the period of tax planning; to study the factors chargeable for the choice of life insurance. The data for the research has been collected from primary source. The primary study is limited to Kolkata district; sample size is 170 out of which 149 opted for LIC; 10 policyholders of private insurance; the rest 11 opted for both. Researchers had analysed them with the help of various statistical tools like correlation, goodness of fit test and the data has been presented in the form of table, pie charts. Over all findings reveals that most adopted instrument to save tax is insurance, and the second most is the provident fund; it also reveals that most of the customers those who plan for tax they have chosen APRIL, MAY, JUNE and the second most is JANUARY, FEBRUARY, MARCH. Last but not the least the most important factor behind choosing LIC is mostly brand name and second most factor is oldest(trusted) - LIC being an oldest company so peoples became dependent on LIC. So, it concludes that the peoples are mostly aware about brand name, trusted rather than tax saving or flexible premium rate.

Keywords: LIC, Selling tool, Tax saving.

1. Introduction

An investment policy narrates the framework for investing government funds and recognizes the financing objectives, preference or forbearance for risk, hampering the investment portfolio and therefore the method the investment programs are managed and monitored.

Tax Saving Schemes: It is the simplest method to make investment to save lots of tax by claiming deduction available under the provisions of the Income Tax Act, 1961. The tax saving scheme provide a platform to the taxpayers through which they will easily save tax. The assorted schemes for trouble free tax saving are as follow:

1) *Public Provident Fund (PPF)*: Investment during a public provident fund is that the best choice to save lots of tax under section 80C. PPF allows a contribution to a limit of Rs.150000, which might be done by small investments or payment. Interest earned is tax free. The lock-in period for PPF is 15 years.

- 2) *5 years bank fixed deposits (FDs)*: It is that amongst of the tax saving schemes under section 80C. It is homogeneous to the fixed deposits having a 5 years lock-in period.
- 3) *Insurance*: During a life assurance policy, the premium paid and maturity proceeds toward the policy are tax exempted. Moreover, the return offered under the policy like endowment or money-back also are tax free.
- 4) *National savings certificate*: It's the tax saving scheme, which ensures the protection of investment because it may be a government- initiated savings scheme. The interest received on the certificates is added back to the primary investments and is entitled for tax exemption.
- 5) *Unit Linked Insurance Plan (ULIP)*: ULIP are another tax-saving investment which not only provides the advantages of tax exemption but also helps them to realize high return on investment over a long- term period. ULIP plans include a lock-in period of 5 years.
- 6) *National Pension Scheme (NPS)*: It's also one among the tax saving investment schemes which helps to supply tax-exemption where the contribution up to the most limit of Rs. 5 lakhs is claimed for tax exemption; one can get additional deduction up to Rs. 50,000.

2. Objectives of the Study

- To study the apprehension among customers on the advantages of life insurance as a tax planning tool-identify whether insurance is opted as a tool for saving tax.
- To infer the timing of tax planning among the purchasers.
- To study and rank the factors chargeable for the choice of life insurance as an investment option.

3. Literature Review

(Geetha & Ramesh, 2011) A Study on people's preferences in investment behaviour the author concluded that the various age groups give importance to investment in insurance, NSC, EPFs & bank deposits. The income level of respondents is additionally important for the aim of investment. (Shetty, Gopalkrishnan, & Mane, 2013) studied about preference towards various tax saving schemes. The tax saving schemes during which investors have invested, to identify patterns of

investment in tax saving schemes. Data required to identify the historical growth of investment in several tax saving schemes. (Kanthi & Kumar, 2013), Holding Behaviour of Individual Investors in Coimbatore District, The paper studied the personality kind of the individual investment and to research investment holding behaviour of individual investors across their personality type, study carried at on individual investors of Coimbatore dist. (Khan, 2018) Studied about the investment and taxes are the 2 important facets of an economy on one hand the taxes constitute a very important component for the revenue generation of the exchequer and therefore the other hand investment in tax saving schemes reduces the tax liability of an assess however is a very important wheel of economic development. (Yadav & Tiwari, 2012), a study on factors affecting customer's investment towards life assurance policies, International Journal of Selling, Financial Services and Management Research. The aim of the study was to seek out factors affecting investment decisions in life assurance, to judge preferences of consumers while taking an insurance, the study conducted found that the age groups 30-40 yr were more curious about taking life assurance than other age groups. (Thirumaran & Ganesh, 2012) has found that insurance companies in India are vital for one's saving purpose. He made a study to understand the attention level of consumers about insurance products, factors influencing the choice of insurance products. The study revealed that the start of insurance was checked out as a 'tax-benefits' investment. (Gupta, 2012) Impact of taxation on Saving and Investment: the study was undertaken to go looking out the socio-economic status, knowledge about the tax saving scheme, amongst the individuals and investors. to research whether these schemes, inculcate a saving habit for investors and suggesting suitable measure for better tax structure. The paper concluded that if the liabilities of an investor is reduced, he would have more income which alternatively are often used for saving and investment. Invalid source specified. Studied the notice and perception regarding various tax saving instruments available many to avoid wasting lots of the tax to the teachers of upper education. The study conducted to work out the tax saving investment options which are preferred many to avoid wasting lots of tax and what the factors are considered before making investment decisions. Invalid source specified. The research found that lenders are conscious of investment avenues convenient in India but still investors are favoured to finance in bank deposits, real estate. The study reveals that 39 percent trust protection is a zone of chief concern while doing investment and the second major categories comprising of 25 percentages of the respondents are investing their funds within tax saving scheme to utilize tax benefits. (Savita & Gautam, 2013), taxation Planning: A Study of Tax Saving Instruments: the paper studied the alternatives for investments for tax savings, the object of the study was to go looking out the foremost popular kind of investment for tax savings. it absolutely was observed that investment by way of premium obtained insurance, followed by

provident fund contribution and glued deposits savings were the foremost popular variety of investment. It also expresses that as income increases the investment for tax saving increases so it is the direct relationship between income and investment.

4. Research Methodology

The study is based on the systematic method of data collection and analysis of the data collected. The data is collected through primary data. The study is based on whether people purchase LIC for tax saving or not. The questionnaire contained two parts. The first part contains the demographic factors like age, gender, occupation, educational qualification etc. In second part, 8 questions were prepared from some factors regarding the topic. The factors are preference of investment, preference of insurance, reason for choosing LIC, source to save tax and tax planning period. The questions used five-point Likert scale ranging from 'Outstanding' to 'Poor'. Online questionnaires were used to collect the data. SPSS was utilized as the tool for analysis.

- The quantitative type of research had been used to collect the data (from 170 respondents).
- Primary data had been used in the research method.
- Method- Karl Pearson correlation analysis, Goodness of fit test and graphical representation (Pie Chart).
- The sample collection duration was 2 Weeks.
- The data had been collected from the people of West Bengal (mostly from Kolkata)
- The following instruments were utilized- A five point Likert type scale [poor (1), average (2), good (3), very good (4), outstanding (5)] with 8 items.

Aspects: The basic six aspects are- preference of insurance, preference of investment, source to save tax, tax planning period, reason for choosing LIC and reason for choosing any other (PVT. insurance). Preference of insurance and preference of investment have two items each. Source to save tax has 6 items, tax planning period has 4 items, reason for choosing LIC has 6 items and reason for choosing Private Insurance has 4 items.

5. Data Analysis and Interpretation

A. Correlation

Table 1
Correlations

		PO_INV	PO_INS	A1
PO_INV	Pearson Correlation	1 ^a	.697** ^b	.165* ^c
	Sig. (2-tailed)		.000	.045
	N	149	149	149
PO_INS	Pearson Correlation	.697** ^b	1 ^a	.252** ^d
	Sig. (2-tailed)	.000		.002
	N	149	149	149
A1	Pearson Correlation	.165* ^c	.252** ^d	1 ^a
	Sig. (2-tailed)	.045	.002	
	N	149	149	149

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

Source: Self-created by SPSS

By gazing at the outcomes in the above table,

- a) It shows that the correlation in the diagonal part is all identical to 1. This is because available is ideally perfectly correlated with itself.
- b) It can also be seen that the correlation between preference of investment and preference of insurance gave a Pearson correlation coefficient (r) value of 0.697, indicates a moderate positive association between the two variables. Also, the P value was 0.000 and 49% (0.697²) of the variation in preference of insurance is predicted by preference of investment.
- c) It can also be seen that the correlation between preference of investment and brand name (A1) gave a Pearson correlation coefficient (r) value of 0.165, which indicates a weak positive association between the two variables. Also, the P value was 0.045 and 3% (0.165²) of the variation in brand name (A1) is predicted by preference of investment.
- d) It can also be seen that the correlation between preference of insurance and brand name (A1) gave a Pearson correlation coefficient (r) value of 0.252,

which indicates a weak positive association between the two variables. Also, the P value was 0.002 and 6% (0.252²) of the variation in brand name (A1) is predicted by preference of insurance.

Table 2
Correlations

		PO_INV	PO_INS	TPP
PO_INV	Pearson Correlation	1 ^a	.697** ^b	-.011 ^c
	Sig. (2-tailed)		.000	.896
	N	149	149	149
PO_INS	Pearson Correlation	.697** ^b	1 ^a	-.018 ^d
	Sig. (2-tailed)	.000		.826
	N	149	149	149
TPP	Pearson Correlation	-.011 ^c	-.018 ^d	1 ^a
	Sig. (2-tailed)	.896	.826	
	N	149	149	149

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Self-created by SPSS

By gazing at the outcomes in the above table,

- a) It shows that the correlation in the diagonal part is all identical to 1. This is because a variable is ideally perfectly correlated with itself.
- b) It can also be seen that the correlation between preference of investment and preference of insurance gave a Pearson correlation coefficient(r) value of 0.697 which indicates a moderate positive association between the two variables. Also the p value was 0.000 that is highly significant different from zero (p<0.01). Also we can say that 49% (0.697²) of the variation in preference of insurance is predicted by preference of investment.
- c) It can also be seen that preference of investment and tax planning period does not correlate each other because it's significant value 0.896 which exceeds 0.01.
- d) It can also be seen that preference of insurance and Tax planning period does not correlate each other because its significant value given 0.826 which exceeds 0.01.

By gazing at the outcomes in the table 3,

- a) It shows that the correlation in the diagonal part is all identical to 1. This is because a variable is ideally perfectly correlated with itself.
- b) It can also be seen that the correlation between preference of investment and annual income gave a Pearson correlation coefficient(r) value of 0.292, which indicates a weak positive correlation between the two variables. Also, the P value was 0.000 that is highly significant different from zero (P<= 0.01). Also, we can see that 8% (0.292²) of variation in annual income is predicted by preference of investment.
- c) It can also be seen that the correlation between preference of insurance and annual income gave a Pearson correlation coefficient (r) value of 0.270, which indicates a weak positive correlation between the two variables. Also the P value was 0.001 that is significant (P<0.001). Also we can see that 7% (0.270²) of

Table 3
Correlations

		PO_INV	PO_INS	SAVD	GEN	AI
PO_INV	Pearson Correlation	1 ^a	.697** ^{ce}	.144 ^f	.132 ^f	.292** ^{bb}
	Sig. (2-tailed)		.000	.079	.109	.000
	N	149	149	149	149	149
PO_INS	Pearson Correlation	.697** ^{ce}	1 ^a	.149 ^f	.096 ^f	.270** ^{cc}
	Sig. (2-tailed)	.000		.070	.243	.001
	N	149	149	149	149	149
SAVD	Pearson Correlation	.144 ^f	.149 ^f	1 ^a	.111 ^f	.357** ^{dd}
	Sig. (2-tailed)	.079	.070		.178	.000
	N	149	149	149	149	149
GEN	Pearson Correlation	.132 ^f	.096 ^f	.111 ^f	1 ^a	.098 ^f
	Sig. (2-tailed)	.109	.243	.178		.235
	N	149	149	149	149	149
AI	Pearson Correlation	.292** ^{bb}	.270** ^{cc}	.357** ^{dd}	.098 ^f	1 ^a
	Sig. (2-tailed)	.000	.001	.000	.235	
	N	149	149	149	149	149

** . Correlation is significant at the 0.01 level (2-tailed).

Source: Self-created by SPSS

variation in annual income is predicted by preference of insurance.

- d) It can also be seen that the correlation between percentage of monthly salary save and annual income gave a Pearson correlation coefficient (r) value of 0.357, which indicates a weak positive correlation between the two variables. Also, the P value was 0.000 that is highly significant different from zero ($P < 0.001$). Also, we can see that 12% (0.357^2) of variation in annual income is predicted by percentage of monthly salary saved.
- e) It can also be seen that the correlation between preference of investment and preference of insurance gave a Pearson correlation coefficient (r) value of 0.697, which indicates a moderate positive association between the two variables. Also, the P value was 0.000 that is highly significant different from zero ($P < 0.01$), also we can say that 49% (0.697^2) of the variation in preference of insurance is predicted by preference of investment.
- f) Here, gender doesn't correlate with annual income because the significant value is 0.235 which exceeds 0.01 significant level as well as preference of investment doesn't correlate with % of monthly salary saved as its significant value given is 0.079 which exceeds 0.01; preference of investment doesn't correlate with gender as its significant value is 0.109 which exceeds 0.01; preference of insurance doesn't correlate with % of monthly salary saved as its significant value is 0.070 which exceeds 0.01; preference of insurance doesn't correlate with gender as its significant value given 0.243 which exceeds 0.01; % of monthly salary saved doesn't correlate with gender as its significant value given 0.178 which exceeds 0.01.

B. Correlation

Table 4

PO_INS			
	Observed N	Expected N	Residual
1	49	49.7	-.7
2	75	49.7	25.3
3	25	49.7	-24.7
Total	149		

Table 5
Test Statistics

	PO_INS
Chi-Square	25.181a
Df	2
Asymp. Sig.	.000

a. 0 cells (.0%) have expected frequencies less than 5. The minimum expected cell frequency is 49.7.

Source: Self-created by SPSS

Interpretation:

Step-1: Hypothesis

H_0 : In general population, there is no preference of any specific term of insurance policy.

H_1 : In general population, one or more of the specific terms of insurance policy is preferred over the others.

Step-2: significance level

$\alpha = 0.05$

Step 3: Rejection region

If $p \leq \alpha$ we will reject H_0 or else not

Step-4: In table 1 we can see that 49 respondents were using 1(short term) while the expected frequency is 49.7.

Step-5: In second table it can be seem that the value of r^2 (25.181), its degree of freedom (2), and the p value is 0.000.

Step-6: Make a decision

As the given p value is 0.000 is less than $\alpha(0.05)$ we will reject H_0 and conclude that the respondents preferred one or more of the specific terms of insurance policy.

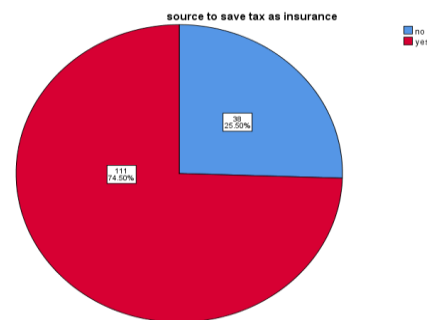


Fig. 1. Source to save tax as insurance

Interpretation:

It is revealed that exactly at what source to save tax (insurance) by the respondents are choosing LIC. Here we can see that mostly 74.50% {111 respondents} that is most of the respondents they are choosing insurance as their source to save tax, and followed by 25.50% {38 respondents} that is less no of respondents are choosing insurance as their source to save tax. Hence we can conclude that the respondents those who use insurance for tax saving are preferring LIC.

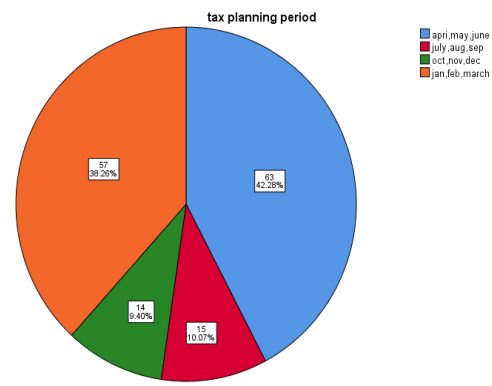


Fig. 2. Tax planning period

Interpretation:

It is quite evident from the above pie chart that maximum of the respondents {63} that is of 42.28% are choosing period of APRIL, MAY, JUNE as their tax planning period to ensure tax

efficiency, followed by 57 respondents {38.26%} are preferring JAN, FEB, MARCH and rest 15 respondent {10.07%} are choosing JULY, AUG, SEP and lastly 14 respondents {9.40%} are opting for OCT, NOV, DEC.

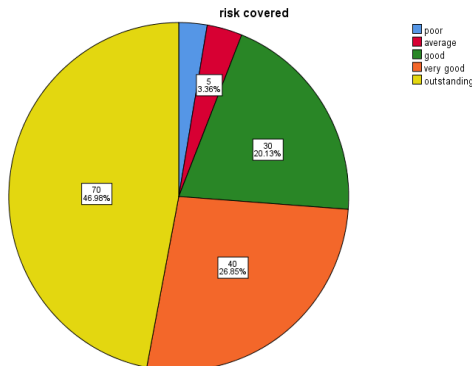


Fig. 3. Risk covered

Interpretation:

It is quite evident from the above pie chart that maximum of the respondents {70} that is of 46.98% has rated risk covered as outstanding as they are much confident with the risk coverage through LIC, followed by 40 respondents {26.85%} has rated risk covered as very good, 30 respondents {20.13%} has rated risk covered as good and the rest 5 respondents {3.36%} and 4 respondents {2.68%} has rated risk covered as average and poor.

6. Findings

- In the study the researcher has investigated 170 respondents of West Bengal (mostly from Kolkata).
- 87.64% of the respondents choose LIC.
- 5.88% of the respondents choose PVT insurance.
- 6.47% of the respondents choose both LIC and PVT insurance.
- 50.34% of the respondents choose LIC for brand name.
- 34.90% of the respondents choose LIC for flexible premium rate.
- 38.93% of the respondents choose LIC for tax savings.
- 42.28% of the respondents choose LIC for oldest (trusted).
- 46.98% of the respondents choose LIC for risk covered.
- 31.54% respondents choose FDs for tax saving.
- 38.26% respondents choose PPF for tax saving.
- 5.37% respondents choose NPS for tax saving.
- 12.08% respondents choose NSC for tax saving.
- 2.01% respondents choose ULIP for tax saving.
- 74.50% respondents choose Insurance for tax saving.
- 42.28% respondents choose April, May, June for tax planning period.
- 38.26% respondents choose January, February, Mar for tax planning period.

- 10.07% respondents choose July, August, September for tax planning period.
- 9.40% respondents choose October, December for tax planning period.

7. Limitation and Recommendation

In present competitive world, customer satisfaction has become an awfully important aspect to retain the consumers, not only to grow but also to survive. Customer is that the crucial success parameter and non-public insurers through their best services would be able to reposition and differentiate itself from LIC.

- Private insurers should emphasis more on advertising and this will help in spreading insurance awareness among the common people.
- Life insurance companies should come up with innovative products with brand name, high risk cover, more tax savings to attract more no of customers.
- Awareness as well as attention is needed to create the significance of life insurance not only for high class people but also for others.
- The sample size was 170.
- The people those who planned for tax at the month of April, May, June as well as January, February, March and more or less same. So, in this period the industry should benefit by coming up with appropriate measures to influence those people.
- People should now buy LIC not only for the other perspective but also for tax saving as they were much aware about brand name

During the period of survey there was an announcement in budget 2020 that the government proposes to sell a part of its holding in LIC and also to sell its stake in IDBI bank to private investors, so the peoples at that time felt insecure to give their responses.

8. Conclusion

Life insurance is an important form of insurance and November necessary for every individual. Life insurance is sold with many aspects and one of the major promoting aspects is taxation. The study was conducted by taking a limited number of sample sizes. After the analysis and interpretation, it is concluded that out of 170 respondents: 149 respondents have chosen LIC and 21 respondents has chosen Private Insurance Company or both. It is revealed from the data analysis that the percentage of choosing LIC is more than the percentage of choosing PVT insurance or both.

Customers are the real factors of the success of life insurance and thus it is important for insurers to keep their policyholders well satisfied and assured about insurance. After the analysis we have found that customers are buying LIC not for tax saving but on the other hand it can be seen the customers are opting for insurance as their source to save tax among the other sources

(FDs, PPF, NSC, NPS, ULIP). The peoples are preferring APRIL, MAY, JUNE as their tax planning period other than JAN, FEB, MARCH; JULY, AUG, SEP and OCT, NOV, DEC. Last but not the least, the factors which the peoples are choosing for LIC are brand name as they LIC being the oldest company, risk covered as if any uncertain accident occurs then the individual will be provided financial protection.

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