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# Importance of Risk Management to Insurance Companies

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**Abstract:**

*Human assets in the form of life and property have been increasingly exposed to risks, which often yield catastrophic events. As the exposure to such risks rises, many individuals increasingly find themselves adapting to some form of life insurance policy, either in an attempt to mitigate the effects of these risks, or to prepare from them in a robust manner. Knowledge about these risks and their mitigation is valuable not only to the stakeholders, but to the Insurance Policy Company as well. Thus, insurance companies not only find themselves in the unique position of handling the risks of others, while being exposed to various kinds of Investment, Insurance, and Operational risks themselves. Thus, in the domain of life insurance, risk management by identifying the potential risks to an investment, and their mitigation or complete elimination is vital.*

Keywords: Risk, Risk Management, Insurance Companies

## Introduction

Human life and property has constantly been exposed to risks of various degrees, ranging from economic risks caused by phenomenon such as inflation, to loss of property and earnings, to health and natural calamity induced risks. The consequences of these risks are largely dependent on the investors socio-economic situations, and can have varying effects. Short term tragedies such as illness of a dependant (such as a child) may not have long lasting financial impacts, but are risks that still require mitigation. However, death of an income earner, or loss of life and property due to natural calamities may have disastrous effects. Risks may also manifest due to economic fluctuations. Rapidly increasing or decreasing interest rates, economic inflations and recessions, losses of assets due to junk bonds or misused policies may add on to financial risks that may cause terrorist or suicidal life threats that stakeholders potentially insure themselves from. These potential risks have devastating consequences, and it is unsurprising that insurers find themselves preparing for risks in a more robust manner. This has led to an increasing number of individuals investing in some form of life insurance policy (Babbel & Santomero, 1999, pp. 279-326).

Thus, it is not only necessary for stakeholders to understand the range and impact of the risks they are exposed to, but to also devise precautionary actions to avoid and mitigate such risks.

Risk management is formally defined as the practice of identifying and analysing potential risks in advance and taking precautionary steps to reduce the risk ("What is Risk Management? Definition of Risk Management, Risk Management

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Meaning", n.d.). In life insurance, risk management has thus is a two-step process. We must first determine the nature of the risks that may exist in an investment. These risks must then be reduced or completely eliminated in a way that is best suited to the investment objectives of the stakeholder and the insurance provider.

The importance of risk management can be understood by understanding the risks faced by life insurance companies. These risks fall into three broad categories (Bernier, 2008). The first is the Insurance Risk, which covers the product and design risk, as well as the risk of underwriting, adjusting, or reclaiming insurance. The second category is the Investment Risk, which is associated with the credit risk of an insurer, as well as the market risk that is caused by liquidity, stock market downturns, etc. Lastly, there is the Operational Risk for the company, which is the risk associated with the execution of policies as well as the legal and compliance constraints. Because of the large range of risks in both type and effect, it becomes vital for a Life Insurance Company to integrate incident management and risk management. While most companies have methods for tracking customer complaints and claims, they may not have methods to prioritise and assess incidents across teams. Risk management helps to centralise these activities.

Thus, risk management not only ensures that the company identifies the risks to which it is exposed, but guarantees that it formulates and implements risk management policies that can be used both prevent financial losses, but to reduce the impact on the stakeholders if such a loss occurs.

Knowledge and anticipation of existing risks, and methods to avert them, are not only of interest to insurance stakeholders, but for the companies providing life insurance as well.

Bernier (2008) describes that the value of a life insurance company intuitively depends on its risk management plan in the following ways:

1. The risk management policies devised by companies affect the probability of financial distress that its stakeholders may be exposed to. Thus, the robustness of a company's risk management policy is a precursor to the premiums and investment amounts that customers may be willing to pay.
2. The asset risk of a life insurance company depends on its customers risk management policy. Asset risks describe the risks of assets having volatile prices, and for insurance company, investors may be described as an asset risk. The risk management policy is thus vital in determining an insurance company's loan portfolio.

Thus, the importance of risk management is multi-fold. Intuitively, a robust risk management policy helps insurance companies save time and resources. Reducing the number of insurance claims can help save assets, property, and human effort. It is vital in developing the public image of the insurance companies, as well as reducing its legal liabilities. A non-direct consequence of effective risk management is that it forces the company to implement a stable operation, as it may help to clearly define the insurance needs and coverage. A robust risk management policy thus directly translates into the validity and stability of a Life Insurance Company's operations.

This report explores the importance of risk management pertaining to Life Insurance Companies. It is organised as follows. The following section provides a

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literature survey of the research done in the field of assessing risk management. We then provide a case study highlighting the importance of risk management for life insurance companies and its analysis. We finally conclude our report by summarising our findings.

## Literature Review

Risk management in insurance companies is a bit sceptical. On one hand insurance companies are trying to mitigate risks but on the other hand insurance companies themselves are dealing with risks (Minsky, 2018).

There exist some misconceptions about insurance regarding risk management. Insurance protects a business from many scenarios but fails in some scenarios. Once in a while protection neglects to cover the centre competency of a business which incorporates giving client care to the individuals who need to submit guarantee. This can lead to serious customer satisfaction problems and they can harm the company's reputation by complaining on social media (Minsky, 2018).

The value of life insurance companies is highly dependent on the risk management policies. The risk management by insurance firms affects the probability of financial distress and the premiums the customers are willing to pay. The customers are more concerned whether the financial commitments are met or not. The asset risk in an insurance company's private placement loan portfolio depends on its customers' risk management policies (Bernier, 2008). Risk management in insurance companies ensures conformity (Minsky, 2018).

There are multiple reasons why an organization should have an effective risk management strategy("Risk Management in Insurance: Critical Area of Concern", 2018):

1) Nowadays people can sue easily. In order to defend against a claim, it's important to take steps to reduce injuries.
2) Injured claimants are often sympathized with and given the benefit of doubt by the courts.
3) There is more awareness among people about the quality of service to expect and what steps to take if they have been wronged.
4) Actions taken by each and every employee are considered for the whole organization.

Is risk management new to life insuran

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c e c o m p a n ie s ? L if e i n s u r a n c e c o m p a n ie s h a v e u ti li z e d

1) Risk reduction benefits of diversification on both side of the balance sheet.
2) Reinsurance to control financial implications of extreme observations from loss distributions (Bernier, 2008).

Life insurance companies have depended on various control techniques for risk management.

1) Standard and financial reports.
2) Underwriting authority and limits.
3) Investment guidelines and recommended positions.
4) Incentive Schemes making compensation risk-related.

Life insurance companies have been depending more on derivative products like options, futures, swaps, etc. for hedging their financial risk exposures (Bernier, 2008).

## Risk Management Principles

The major constraint of life insurance companies comes from their long term liabilities and the amount of options they give to their policyholder. The rate of return guaranteed to the policy- holders through contracts is one of the important factors of risk management; this rate which is contingent to the regulations of a specific country determines the exposure to the risk of fall of interest rates of life insurance companies. The placeholders increase their instalments when their contract's rate is higher than market rate. These institutions must then offer a higher rate of interest than the market which in turn reduces their profitability (Fleuriet & Lubochinsky, 2005, pp. 95-111).

Another risk which is detrimental to the life insurance companies is the increase in the rate of interest. Due to rising interest rates, policy-holders may terminate their contracts to invest in more attractive investment opportunities. Hence once again the contractual obligations play a decisive role in analysing the scale of the risk. However, this risk may not be that big in countries like Germany where the policy-holders are penalised for terminating their insurance contracts before their expiry

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(Fleuriet & Lubochinsky, 2005, pp. 95-111).

Equities have a high risk/return profile over a very long term than bonds. So, some insurance companies favour equity investments. Hence the regulations of a country are important factors for weight of equities. In UK, the bond segment is not as developed as the US which shows lower importance of bonds in the asset mix of insurance companies. To be exact, the bonds in UK companies are almost 3 times less than the US insurance companies. Whereas weight of equities in UK is 40% compared to mere 5% of US. The disadvantages of these strategies came to light in 2000 due to the internet. Those funds with highest amount of equities were hit the hardest. Moreover, these institutions also recorded a decrease in the interest rates. This effect resulted in underfunding or insolvency of many institutions (Fleuriet & Lubochinsky, 2005, pp. 95-111).

Generally, there are many ways in which risk management processes are carried out. One possible approach is the following:

1) Set up the risk management function

In bigger associations, it is entirely expected to frame a different hazard the board work staffed by a multi-disciplinary group. At least, the motivation behind this group is to give adequate challenge to the hazard the executives practices of the remainder of the association, yet much of the time the hazard the executives capacity's duties stretch out a long way past this. Crafted by this group is encouraged by assigned work force in every one of the different divisions, for example, Underwriting, Lawful/Compliance, Actuarial, Finance, Marketing and Sales, Policy Owner Servicing, Claims, MIS and so on. For littler back up plans, a free hazard the board capacity may not be down to earth what's more, the undertaking might be doled out to senior people with different duties. Be that as it may, thought ought to consistently be given to the potential threats in joining hazard the board what's more, hazard taking jobs (Kawatkar, Sanket, & Basu).

## 2) Identify Risk Areas

This is a significant advance and includes the assortment of information from different sources and broad conversations inside the group. Oftentimes, the dangers looked by a real existence

safety net provider are not separated and one hazard may trigger another hazard occasion. Every division needs to deliberately think about the hazard zones they are dependent upon and furthermore whether the zones recognized by different divisions would influence the smooth working of their own area of expertise. Care will be required to guarantee that dangers are neither missed nor twofold checked.

It is regularly advantageous to receive a poll-based way to deal with accumulate data from different levels inside a division. The key staff should then choose whether the issues recognized in the poll would truly frame a hazard and this procedure is frequently encouraged through a workshop. United hazard outlines from every office would then be talked about with the hazard the executives work. At this stage, copy or comparable dangers could be gathered and some extra dangers might be distinguished because of these conversations.
Elective ways to deal with distinguish dangers may incorporate utilizing standard layouts as of now accessible in some protection markets or for some other budgetary businesses (for example banking) and recognize dangers fitting into these layouts. Care will be required not to prohibit the hazard territories that

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may be one of a kind to the individual organization or market (if layouts from different markets are utilized) or the extra security industry (if formats from different businesses are utilized) (Kawatkar, Sanket, & Basu).

### 3) Classify Risks and Assign Responsibilities

There is no single commonly acknowledged arrangement of insurance agency dangers. In fact, the insurance agencies or the administrative gatherings around the globe embrace distinctive phrasing or then again sum up dangers in various manners. In certain nations, the administrative specialists have an incorporated hazard order framework for the protection and banking enterprises (Kawatkar, Sanket, & Basu).
In its November 2002 report, the IAA Working Party on Solvency recommended the following arrangement of general categorization of insurance risks:

a) Underwriting Risk

These are the dangers embraced by extra security organizations through the agreements they guarantee. The dangers inside this classification are related with the risks secured (for example demise, basic ailment) and with the particular procedures related with the direct of disaster protection business. They incorporate

• Underwriting process risk → e.g. budgetary misfortune identified with choice and endorsement of hazard to be protected
• Pricing risk → e.g. budgetary misfortune because of inadequate premium charged for a hazard embraced
• Product design risk → e.g. exposure to occasions not foreseen in the plan and valuing of the life insurance contracts
• Claims risk → e.g. more than anticipated number of cases increasing
• Economic environment risk → e.g. unfavorable effect on the organization because of change in socio-economic conditions
• Net retention risk → e.g. misfortunes because of calamitous or concentrated cases experience emerging because of higher maintenance of risk inside the organization
• Policyholder behavior risk → e.g. unforeseen practices of the policyholders unfavourably influencing the organization
• Reserving risk → e.g. lacking arrangement in company accounts for policy liabilities (Kawatkar, Sanket, & Basu).

### b) Credit Risk

These are the dangers emerging because of default by and change in FICO score of those to whom the organization has an introduction. They incorporate reinsurance organizations, organizations in which the guarantor has contributed its assets. These dangers additionally incorporate outer occasions influencing the reliability of these organizations. Examples are:

♦ Business credit risk → e.g. failure of a re-insurer
♦ Invested asset credit risk → e.g. non-performance of invested assets
♦ Political risk (influencing credit value of protections held by the safety net provider)
♦ Sovereign risk (influencing credit value of protections given by government or government substances) (Kawatkar, Sanket, & Basu).

### c) Market Risk

These are the dangers emerging because of developments in the degree of money related factors, for example, financing costs, share costs and so forth. Examples are:

♦ Interest rate risk → e.g. misfortunes emerging because of change in interest rates

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♦ Equity and property risk → e.g. misfortunes emerging because of decrease in equity prices

♦ Currency risk → e.g. misfortunes emerging because of unfavorable developments in exchange rates

♦ Basis risk → emerging in light of the fact that the yields on instruments of changing danger quality, liquidity and development don't move together; influencing the advantages and liabilities of the organization autonomously.

♦ Reinvestment risk

♦ Concentration risk

♦ ALM risk

♦ Off balance sheet risk → misfortunes emerging from resources or liabilities not appeared on the accounting report e.g. instalments required under fates concurrences with zero an incentive at the monetary record date (Kawatkar, Sanket, & Basu).

## d) Operational Risk

There are different definitions accessible for Operational Risk. The definition utilized by the English Bankers' Association and embraced under Basle II is as per the following: "Operational risk is the risk of direct or indirect loss resulting from inadequate or failed processes, people and systems or from external events."

Recently, it has been broadly acknowledged that Operational Risks are critical dangers furthermore, simultaneously are hard to recognize and gauge. They incorporate

- Human capital risk → e.g. inability to draw in and retain well-trained staff
- Management control risk à e.g. failed internal controls, disciplines etc.
- Systems risk → e.g. systems failures
- Strategic risk → e.g. failure in management of actualizing proper business strategy, decide, allot assets and adjust to changing condition (Kawatkar, Sanket, & Basu).

## e) Liquidity Risk

These are the dangers of misfortunes if deficient fluid resources are accessible to meet the income prerequisites of the policyholders' commitments when they are expected.

They include –

- Liquidation value risk → e.g. danger of acknowledging resources in unfavourable economic situations
- Affiliated company risk → e.g. danger of trouble in acknowledgment of interests in a partnered organization
- Capital market risk → e.g. danger of powerlessness to get subsidizing from outside the organization or gathering (Kawatkar, Sanket, & Basu).

The dangers distinguished will be allotted into the arrangement of hazard classes determined. In the event that the hazard class definitions contrast from those utilized by the controller at that point alert will be expected to guarantee that clients of the hazard classifications comprehend their actual importance and degree. At this stage, we may additionally need to dole out duties to key work force to supervise the executives of these dangers. This might be completed by setting out proper hazard strategies for each hazard class. Risk Management duties may incorporate (Kawatkar, Sanket, & Basu).

- Proposing approaches to decrease probability of these dangers emerging or diminishing their effect if they arise
- Identifying key risk indicators (KRIs)
- Observing the advancement of the risk exposures (e.g. dangers which are inconsequential under present situation may get generous at the appropriate time)
- Surveying and routinely detailing the key risk estimation factors in the foreordained formats to the senior management
- Getting ready and keeping up alternate courses of action and restorative measures, should the risk events occur
- Maintaining risk policies

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• Training staff on contingency plans.

## Case study

Case Study I - Fraud in the proposal stage.

The main factor of this fraud is life insurance is selling through an agent who sells the policy at uncountable and anyhow. A policy which is sold by an agent can lead to problem like top- level management doesn't have an idea whom the policy is selling which type of people they are and which policy is they are selling.

Many bank and insurance company assume that they are taking charge of policies from the issues through and claim of policy and renewal process this can be done by under inspection. Because their detail investigation shows that something is wrong at proposal stage. Agents are inspired by large commissions to sell insurance, and they are not interested in their concerns to detect the fraudulent purpose and even if agent recognize a prospective fraudster at the very beginning step or at the time of proposal and denied to insure policy they miss a deal and profit which they are making though deal an amount of commission which they are getting on selling policy. So, commission which they are getting on deal also one of income source of agent. Sometime agent also sold insurance as secondary package instead of standard package.

So there are many cases where fraud happened at the proposal stage one of the case studies is explained below which is shared by one of the insurance company names of the company and some details are kept hidden for privacy purpose but details show the clear idea of how the fraud happened at the proposal stage.

An insurance form was signed on 9-feb-2006 was presented at the office on 14-feb-2006. It transferred the underwriter's table on 16-feb-2006 and policy was issued on 20-feb-2006. The policy was forwarded to the buyer and was returned undelivered to Head office. So, it was resent to the office to be personally delivered over to the customer. The customer who bought the life insurance policy died on 24-feb-2006 after the fourth day. Entire medical reports and other document related to person identity was submitted to the company to claim policy amount. And result came out from medical report somewhat disbelief and its stressful fact. Customer who brought life insurance is under treatment since 27-dec-2004 and also medical report shows that she was Positive patient of HIV since 31-jan-2005.

So detail investigation revel that she was good friend of agent who sold his policy and in touch for last 7 year. When the policy is issued at that time agent asked for medical certificate and medical certificate issued by her shows height 159 cms and weight 65 kgs as mentioned in policy form and BMI is also standard So without checking personally keeping trust on customer agent issued policy. But the time of claims medical reports are showing somewhat different pictures. On 4-feb-2006 she had 37 kgs and when she signed policy on date 9-feb-2006 she had 36 kgs weight which is totally nonstandard BMI. And not only nonstandard BMI the day she signed policy she is under treatment in hospital

Being a clear case of misrepresentation and non-disclosure of real facts, the claim was refused, and as a goodwill indication fund amount was paid to the candidate. Studying from the case study was to make sure that careful inquiries are made about the proposer before a policy is issued, to assure a fair choice of lives. In this case, the advisor knew LA for seven years and she was under treatment on the day proposal form was approved. Whenever a countersign is done by SM, it is the responsibility of SM to reconfirm the facts narrating to health, age, and occupation directly with the consumer at least through a

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telephonic call. Not long ago, administrators believed that a trademark of the well-run company was its capacity to actively withdraw risk while continuing purposes devoid of risk.

## Case Study II - Fraud in the claim stage

Sometimes People who are holding a life insurance policy are malefactor to claiming insurance amount.

Between 2017 and 2019, nearly a hundred people died in a road accident from villages in Haryana. And what actually happened to them is no one can imagine.

One of a journalist of Hindustan times study on this topic and reveal fraud which is beyond imagination a fraud in insurance because of disease, poverty, desperation.

Arjit Singh wife Satwanti reported at the Hisar Sadar police station that he's husband died in road accident 8 kms from his village in Harayana's Rohtak district at 7 am on April 1,2018. His nephew Sachin explain How he came to know on telephone his uncle is hit by car. He died due to injuries from the accident and it's seems like hit and run case and request the police officer to find out that vehicle. And police officer who is in charge of police station registered FIR by Satwanti and charged Section 279 and section 304-A and report came out from post- mortem shows that Arjit Singh died due to injuries. And doctor also gave statement "injury to vital organs…sufficient to cause death in ordinary course of life"

Everything is clear as sight of police view thousands of people dies at their area due to road accident Arjit is one of them his wife and nephew are return their home no big change in their life except one Days before he was hit, Ajit had signed up for life insurance accident insurance policy with at least four companies, at an average premium of 5,000. An "accidental death" would authorize his nominee to at least 25 lakh from one. In July 2018, Satwanti sent a letter to the 'claims' agency of Bajaj Allianz. "I am informing you with deep regret that my husband Ajit has died in a road accident. I have attached all documents related to his death. Please initiate the process of compensation."

Insurance company which is operating in Haryana began to suspect to this accident. Bharti AXA General Insurance received a stream of Personal Accidental Claims from Haryana. They found some facts which is abnormal like bank account opened by nominee is just one or two month before buying policy. And farmer and that region never taken any personal accidental policies in history and all insurance is claimed by accident and all the medica report are shows that all departed have head injuries. Detail investigation team is formed from insurance agency side. And more facts came out like all the policy claimer opened account very short period of time before accident happened they applied for PAN card prior to this incident and all departed are died due to road accident Victim was riding pillion on a motorbike whose driver lost balance because of the sudden emergence of an animal in front of the vehicle: buffalos in two cases, a bull in one, and an antelope in another. The insurance firms were also noticing that the road accidents killing their clients were being reported at the same police stations in Sonepat, Jhajjar, Hisar and Panipat. Sometime in 2017, a private investigator (PI) in Haryana received "19 to 20" cases from "various insurance companies". So they reach out to doctor for more information but no one want to ready to talk about this and then finally they found that deaths weren't caused by road accidents.

Many agencies complain about something fraud in Harayana villages so The case was handed over to the Special Task Force (STF) of Haryana Police.

Everything about the scam seems

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amazingly unbelievable. The Haryana-based gang supposedly classified final cancer patients from rural, low-income backgrounds, got them to insure themselves with multiple companies by hiding their situation, waited for them to die, and then put their dead bodies into "accidents".

The gang kept a part of the insured sum, between □8 and □20 lakh in each case, and shared the rest among its partners in crime: family members, police officers, record keepers, doctors, insurance agents, and public prosecutors. At least 100 people have been involved of being complicit in the scam that allegedly brought on for two years, executed nearly 100 cases, and cheated more than 25 insurance companies of over □100 crores, according to STF

So this is how claimers are present accident is wrong way and got amount of policy there are many people are involved in this scam police officer, doctors and family member all are hide information.

**Case Study III - Fraud via Forgery Document**

Scenario I:

Policy No. : 47/98/00287

Policy Period : 31-march-98 to 30-march-2001 (3 yrs.)

Policy amount: 6 lakh

Collection receipt No. 16677 dated on issued date

This was life insurance claim by disported because of road accident. All the document are issued in favor like FIR, medical certificate, Post-Mortem report death certificate and also original receipt stamped was submitted through registered post. The claim is offered and an investigation team had invested all the facts and details checked all document properly FIR, death certificate, Post-Mortem and related all identity document nothing is suspected all is natural.

But Scam is detected as someone informed top level management about branch manager making some bogus receipt about policy and details investigation held by CBI and found that branch manager was corrupted and many document is missing in his branch. There are many insurance is claimed but their proper document is missing in his office no proper record branch manager is kept. And latter on proper investigation reveal that branch manager forgery formed insurance policy no 00287 and attached dummy stamp. He also created a bogus payment receipt confirming cash slip. He has been able to find a certain accident death case. He must have met the subordinate and inconnivance with him got the claim settled. On examination, it was found that the last policy number issued according to the collection register, agency commission register and policy stamp register was 00205. It was

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consequently proved beyond uncertainty that he had tampered with the system to make fraudulent policy and gathering receipts through FOC (Front Office Computerization) System. But for the fire claim, for which complaint was lodged, this claim would not have come to light. It had caught through the general audit without any explanations.

Scenario II

Frauds are of different kinds and they mostly take residence in rural and semi-urban localities where insurers do not have the proper base to investigate or for that matter the local authorities, who are assumed to certify events, are misleading.

Uttar Pradesh has been notorious for fake claims

A man who fake made his death certificate with the help of corrupted local authorities and claim life insurance once he got claim amount he searched for another agency for life insurance. This scam is detected in one employee of one insurance company who changed another company and saw a man who is claiming insurance amount and person is already dead. So, the employee told about this to their office and proper investigation came out with scam. (Chudgar, 2015) ("A multi-million insurance fraud that preyed on disease, poverty, desperation", 2019).

## Case Analysis

There is many survey and expert advice is conducted on how to prevent fraud in this life insurance. As per survey 32% of fraud due to risky profile , 28 % due to operation profile and remaining 20% due to liberty in audit and compliance.

1) This below supposition has to done to minimal fraud.

There are need of antifraud regulation organization which have power to investigate any crime which is happening in this field and is independent from life insurance company.

There are area where mainly major risk are happened Operational Risk, Insurance Risk, Legal and Reputational Risk, Financial Risk.

The risk of loss resulting from inadequate or missed internal rules, people and systems or from external cases is defined as Operational risk, Insurance risk refer to net cash flow amount which is company is getting from commissions, premiums, claims settlement and all the expenses after removing company net profit. Which should be not negative. Legal and Reputational risk refer to Legal and Reputational Risk refers generally to the risk rising from institution's collapse to formulate proper policies, methods, or controls to ensure it fits laws, regulations, contractual arrangements, and other lawfully necessary negotiations and conditions and Financial Risk refers generally to the risk resulting from having an imperfect description of accounting policies, element distortion, and payment defalcation. We wanted to check whether four key areas of risk expression and the areas that need more convincing anti-fraud administration are autonomous of each other.

2) Insurance Complaints

There are two main important types of life insurance fraud is One is internal which is held by Insurer side mainly people who is agent and employee (also Manager) come in this category. Second type of fraud is one is executed by policyholder So complaints can be received from both side either inside or outside.

3) Any life insurance company necessitates to have an efficient fraud control policy but what makes this so effective to prevent fraud.

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As per survey and expert advice showing that 23% respondents showed that supervision responsibility and awareness and training seminar will assist in performing an adequate fraud authority policy, 22 % respondents showed that if strict action is taken to fraud also help to perform control policy and allowing employee or agent to report life insurance fraud intimate 14% of fraud and 10% are showing that walk and talk also help and remaining 10% opinion is all the above parameter are required to build an efficient system to prevent life insurance fraud.

4) Perception of Customer

Customer survey is also conducted to know why the fraud is happening in life insurance and result is showing that there are four mainly factor which lead to fraud in life insurance

a) Company internal control is poor
b) Difficult economy
c) Attitude of Fraudster's (for example I can escape blame for this fraud)
d) Attitude of Consumer

It was observed that 55% people on survey believes that company internal control is responsible for making fraud ,61% people say that when economy is down side at that time there are more chances and it's happened that fraud happened due to difficult in economy, 55% respondent believe that attitude of fraudster's with get-away attitude is also one factor of fraud and 70% people believe that if the report and action took place on right time then fraud cannot be done.

Insurance fraud can be expose if this step taken while insuring policy

- To proactively recognize suspect claims or resignation that has a high probability of being false. By data analysis tool and developing effective fraud risk assessment tool also company have to give their employee tool for reporting on fraud
- Warning to fraud and also threatening them about punishment which is taken to fraud.
- Management involvement- if the internal management is not good enough to discourage the fraud activity nothing is going to change and it will be difficult for any company to find and prevent fraud
- Strict action should be taken when fraud identify – Most practical way to stopping fraud as perpetrators also get afraid and stop this activity.
- Training and Awareness regarding any activity that can happen and empowering employee to detect fraud and report.

**Conclusion**

Today, human life and property is exposed to an increasing range of risks with devastating results. As a consequence, we have seen a rise in the number of individuals adapting some form of insurance policy, in an attempt to mitigate and prepare for these risks. Intuitively, knowledge and anticipation of existing risks, and methods to avert them, are not only of interest to insurance stakeholders, but for the companies providing life insurance as well. With the rise of insurance company customers, various insurance companies have begun to adopt robust risk management policies.

Through this project, the conclusion can be drawn that risk management is even more appropriate in a business-like life insurance where the policyholders have moved their dangers to the players; and anticipate being repaid when the inevitability emerges. It is essential for

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life insurance companies to have effective risk management policies because of the dependence of their value on it. Indeed, even the smallest disappointment in such a situation would make a scratch in the notoriety of the players; and it is one's speculation with respect to what it would prompt, in a seriously competitive condition.
There exist many approaches to risk management processes that companies can adopt. One of the approaches has been discussed in this project. Risk management needs to take a healthy perspective on all the potential regions of risk exposure and rigging up to confront even the most pessimistic scenario situations. Thus, a robust risk management policy directly translates to the success and efficiency of an Insurance Company's operations, and is of extreme importance to both the company, as well as its stakeholders.

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