CHAPTER– 1

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“The Business of Insurance is related to the protection of the economic values of the assets”. Every human being has the tendency to save to protect him from risks or events of future. Insurance is one form of savings where in people try to assure themselves against risks or uncertainties of future. It is assurance against risks or events or losses. People can save their earnings either in the form gold, fixed assets like property or in banking and insurances. All the savings of people of a country account for gross domestic savings. In India, although savings rate is high but people prefer to invest either in gold or fixed assets so that they can make money out of it. Hence insurance sector is still untapped in India

CONCEPT OF INSURANCE

Life has always been an uncertain thing. To be secure against unpleasant possibilities, always requires the utmost resourcefulness and foresight on the part of man. To pray or to pay for protection is the spirit of the humanity. Man has been accustomed to pray God for protection and security from time immemorial. In modern days Insurance Companies want him to pay for protection and security. The insurance man says "God helps those who help themselves"; probably he is correct.

Too many people in this country are not in employment; and work for too many no longer guarantees income security. Several millions are part-time, self employed and low-earning workers living under pitiable circumstances where there is no security cover against risk. Further the inherent changing employment risks, the prospect of continual change in the work place with its attendant threats of unemployment and low pay especially after the adoption of New Economic Policy and the imminent lifecycle risks - a new source of insecurity which includes the changing demands of family life, separation, divorce and elderly dependents are tormenting the society. Risk has become central to one's life. It is within this background life insurance policy has been introduced by the insurance companies covering risks at various levels. Life insurance coverage is against disablement or in the event of death of the insured, economic support for the dependents. It is a measure of social security to livelihood for the insured or
dependents. This is to make the right to life meaningful, worth living and right to livelihood a means for sustenance. Therefore, it goes without saying that an appropriate life insurance policy within the paying capacity and means of the insured to pay premium is one of the social security measures envisaged under the Indian Constitution. Hence, right to social security, protection of the family, economic empowerment to the poor and disadvantaged are integral part of the right to life and dignity of the person guaranteed in the constitution.

Man finds his security in income (money) which enables him to buy food, clothing, shelter and other necessities of life. A person has to earn income not only for himself but also for his dependents, viz., wife and children. He has to provide legally for his family needs, and so he has to keep aside something regularly for a rainy day and for his old age. This fundamental need for security for self and dependents proved to be the mother of invention of the institution of life insurance.

OVERVIEW OF CURRENT INSURANCE INDUSTRY

WHAT IS INSURANCE?

Insurance is a tool by which fatalities of a small number are compensated out of funds (premium payment) collected from plenteous. Insurance is a safeguard against uncertain events that may occur in the future. It is an arrangement where the losses experienced by a few are extended over several who are exposed to similar risks. It is a protection against financial loss arising on the happening of an unexpected event. Insurance companies collect premium to provide security for the purpose. Loss is paid out of the premium collected from people and the insurance companies act as trustees to the amount so collected. These companies have proposal forms which are filled to give details of insurance required. Depending upon the answers in the proposal from insurance companies assess the risk and decide on the premium. Insurance companies are risk bearers. They underwrite the risk in return for an insurance premium. the function of insurance is to provide protection, prevent losses, capital formation etc. hence
insurance can be defined as a tool in which a sum of money as a premium is paid by the insured in consideration of the insurer’s bearing the risk of paying a large sum. It may also be defined as a contract wherein one party (insurer) agrees to pay the other party (insured) or his beneficiary, a certain sum upon a given contingency against which insurance is required. Insurance industry commands massive funds through sales of insurance products to large number of clients. Insurers also create liabilities and commit themselves to compensate for losses occurring to the policyholders on future date. It also plays an important role in process of capital formation.

**NATURE OF INSURANCE**

a) **Risk sharing and risk transfer:**

Insurance is used to share the financial losses that might occur to an individual or his family on the happening of specified events. The loss arising from such events are shared by all the insured in the form of premium. Example: suppose in a village, there are 250 houses, each valued at Rs.200000. Every year one house gets burnt, resulting into a total loss of Rs 200000. If all the 250 owners come together and contribute Rs.800 each, the common fund would be Rs200000. This is enough to pay to the owner whose house gets burnt. Thus the risk of one owner is spread over 250 house owners of the village.

b) **Risk assessment in advance:**

Insurance companies are risk bearers. They assess the risk before insuring to charge the amount of premium.

c) **It’s not gambling or charity:**

The uncertainty is changed to certainty by insuring property and life because the insurer promises to pay a definite sum at damage or death. Insurance is antithesis of gambling. Failure of insurance amounts to gambling because the uncertainty of loss is always looming. Moreover
insurance is not possible without premium. So it is different from charity because charity is given without consideration.

d) Huge number of insured people:

It is essential to insure larger number of people or property to make cost of insurance less consequently premium would also be less.

e) Assists in capital formation:

Insurance provides capital to society. Accumulative funds are invested in productive channels.

ADVANTAGES OF LIFE INSURANCE

1. In the event of death, the settlement is easy. The heirs can collect the moneys quicker, because of the facility of nomination and assignment. The facility of nomination is now available for some bank accounts.
2. There is a certain amount of compulsion to go through the plan of savings. In other forms, if one changes the original plan of savings, there is no loss. In insurance, there is a loss.
3. Certain cannot claim the life insurance moneys. They can be protected against attachments by courts.
4. There are tax benefits, both in income tax and in capital gains.
5. Marketability and liquidity are better. A life insurance policy is property and can be transferred or mortgaged. Loans can be raised against the policy. The following tenets help agents to believe in the benefits of life insurance. Such faith will enhance their determination to sell and their perseverance.
6. Life insurance is not only the best possible way for family protection. There is no other way.
7. Insurance is the only way to safeguard against the unpredictable risks of the future. It is unavoidable.
8. The terms of life are hard. The terms of insurance are easy.
9. The value of human life is far greater than the value of property. Only insurance can preserve it.
10. Life insurance is not surpassed by many other savings or investment instrument, in terms of security, marketability, stability of value or liquidity.
11. Insurance, including life insurance, is essential for the conservation of many businesses, just as it is in the preservation of homes.
12. Life insurance enhances the existing standards of living.
13. Life insurance helps people live financially solvent lives.
14. Life insurance perpetuates life, liberty and the pursuit of happiness.
15. Life insurance is a way of life.

SEMANTICS
1. **Risk**: It is defined as an uncertainty of a financial loss. It is the unintentional decline in or disappearance of value arising from contingency.
2. **Policy**: It is the document which embodies the insurance contract.
3. **Whole life policy**: It is the policy under which the amount of policy will be paid only on death of the insured. Premiums may be payable throughout the life or for a limited period.
4. **Endowment policy**: Endowment policies entitle the insured to receive the amount of the policy on his reaching a certain age and premiums also stops. If death occurs earlier, amount of the policy will be paid at that time and payment of premium will also stop at that time.
5. **Claim**: It is the amount which an insurer has to pay against a policy.
6. **Reinsurance**: It refers to placing a part of the risk by an insurer with another insurer. The object is to reduce the possible loss to be borne by the original insurer, who pays premiums at the ordinary rates to the reinsurer. Reinsurer must pay commission to the original insurer.
7. **Premium**: A periodic payment made on an insurance policy.
8. **Insurance penetration**: It is defined as insurance premium as a share of gross domestic product.
9. **Insurance density**: Insurance density is defined as per capita expenditure on insurance premium i.e. premium per capita.
10. **Actuary**: The actuary is a specialist who combines an understanding of risks and mathematical technique to develop financial products to manage these risks, price these products. He helps in designing insurance plans and then evaluates the financial risk of the company which it takes while selling an insurance policy.
TYPES OF INSURANCE

Insurance is broadly divided in two segments, based on the nature of insurance, those are:

1. Life Insurance &
2. Non-Life Insurance or General Insurance.

It can be again subdivided into the following categories:

- Fire Insurance.
- Marine Insurance.
- Social Insurance
- Miscellaneous Insurance. (Health insurance, Liability Insurance etc….)

HISTORY OF INSURANCE

For now we know the meaning of insurance, different types of insurance. Now let us know the history and reasons for and behind different types of insurance.

Insurance has existed for thousands of years. The first ever type of insurance was Property Insurance. It became popular about 3000 BC in China. It all started when Chinese merchants, as well as their investors, wanted to ensure that they would see a profit from their goods that they shipped overseas. In the event that a ship was lost at sea, an insuring partner would reimburse the owners of the ship and goods. To pay for the loss the merchant would be sold into slavery to the insurer until the debt was repaid. This was so because, a merchant could not afford to pay for the lost goods or even to buy a ship unless someone invested.

Property insurance was also seen in Babylon as well. In Babylon, merchants and investors entered into a contract, in which the supplier of money for a trade agreed to cancel the loan if the trader was robbed of his goods. The trader who borrowed the money paid an extra amount for this protection in addition to the usual interest. As for the lender, collecting these premiums from many traders made it possible for him to absorb the losses of the few. Later this contract was extended to include provisions for a family's home and even the death of the insured, where life
insurance came into existence. Slowly this concept started to spread across other places like Greek, Roman.

Since ancient times, communities have pooled some of their resources to help individuals who suffer loss. Like, about 3500 years ago, Moses instructed the nation of Israel to contribute a portion of their produce periodically for "the alien resident and the fatherless boy and the widow.

Later the origin of credit insurance, which was included in the Code of Hammurabi, a collection of Babylonian laws said to predate the Law of Moses. Credit insurance means, in ancient times the ship owners obtained loans from investors to finance their trading expeditions. In case, if a ship was lost, the owners were not responsible to pay back the loans to the investors. The risk to the lenders was covered by the interest paid by numerous ship owners, since many ships returned safely.

By the middle of the 14th century, marine insurance was one of the most popular types of insurance among nations of Europe. Things changed dramatically in the 17th century in Europe. In 1666, the Great Fire of London bought the need for fire insurance. The Great Fire of London burned for four days and nights. It destroyed 436 acres, 13,200 houses, 89 churches (including Saint Paul's Cathedral), the Custom House, the Royal Exchange and dozens of other public buildings. Only six people were victims in the flames, but hundreds died from shock and exposure.

By 1688, Edward Lloyd was running a coffeehouse in London. Where, London merchants and bankers met informally to do business. There financiers who offered insurance contracts to seafarers wrote their names under the specific amount of risk that they would accept in exchange for a certain payment, called premium. These insurers came to be known as underwriters.
Finally, in 1769, Lloyd's became a formal group of underwriters that in time grew as an insurance company.

The concept of insurance developed at a fast pace with the growth of British commerce in the 17th and 18th century. The first stock companies to engage in insurance were chartered in England in the year 1720.

In 1735, the first insurance company in the American colonies was founded at Charleston. Later in the year 1787, fire insurance corporations were formed in New York. Then later in the year 1759, the life insurance corporation was started in Philadelphia, America.

The New York fire which occurred in the year 1835 was the main reason to draw attention to create reserves to meet unexpected losses. In the year 1837, Massachusetts was the first state to require companies by law to maintain such reserves. After 1840, life insurance entered a boom period.

The Workmen's Compensation Act of 1897 in Britain required employers to insure their employees against industrial accidents. Public liability insurance, fostered by legislation, made its appearance in the 1880s. It attained major importance with the advent of the automobile.

Until the 1950s, most insurance companies in the United States were restricted to provide only one type of insurance, but then legislation was passed to permit fire and casualty companies to underwrite several classes of insurance. Many firms have since expanded and also were responsible for many mergers.

From this brief accounting of history we can see how insurance came into existence. Fortunately for us we no longer have to sell ourselves into slavery if our car is stolen nor we have to be scared of losses due to absence of reserves. However we can be confident that we will be
compensated for our loss. Without people wanting to secure their investments and great tragedies throughout history we may not have insurance as we know it today resulting in peace of mind.

HISTORY OF INSURANCE INDUSTRY IN INDIA

The insurance industry in India over the past century has gone through big changes. In India this industry reveals the 360 degree turn. 360 degree turn means that it started in India from being an open competitive market to nationalization and back to a liberalized market again.

Insurance industry in India started as a fully private system with no restriction on foreign participation in the Nineteenth Century. Before independence, a few British insurance companies dominated the Market. Life insurance was first set up in India through a British company called the Oriental Life Insurance Company in 1818, followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. All of these companies operated in India but did not insure the lives of Indians. They were there insuring the lives of Europeans living in India. Some of the companies that started later did provide insurance for Indians. But, they were treated as "substandard" and therefore had to pay an extra premium of 20% or more. The first company that had policies that could be bought by Indians with "fair value" was the Bombay Mutual Life Assurance Society starting in 1871. The first general insurance company, Triton Insurance Company Ltd., was established in 1850. It was owned and operated by the British. The first general insurance company was the Indian Mercantile Insurance Company Limited set up in Bombay in 1907. By 1938; the insurance market in India had nearly 176 companies (both life and non-life)

After the independence, the industry went to the other extreme. It became a state-owned monopoly. The industry started to witness a problem like fraud. Hence many regulations were put in place to reduce and control the problems in the industry. After which Insurance was
nationalized. In 1956, the then finance minister S. D. Deshmukh announced nationalization of the life insurance business and then the general insurance business was nationalized in 1972. Only in 1999 private insurance companies have been allowed back into the business of insurance with a maximum of 26% of foreign holding.

<table>
<thead>
<tr>
<th>INDIAN LIFE INSURANCE INDUSTRY</th>
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<tbody>
<tr>
<td>First year premium income: April to November</td>
</tr>
<tr>
<td><strong>2011 (INRbn)</strong></td>
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<tr>
<td>Aegon Religare</td>
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<td>Aviva</td>
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<td>Bajaj Allianz</td>
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<td>DLF Pramerica</td>
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<td>Edelweiss Tokio</td>
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<tr>
<td>HDFC Standard</td>
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<td>ICICI Pru</td>
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<td>SBI Life</td>
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<td>Shriram</td>
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<tr>
<td>Star Union Dai-ichi Life</td>
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<td>Tata AIG</td>
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<tr>
<td><strong>Total private insurers</strong></td>
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<tr>
<td>Life Insurance Corporation</td>
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<td><strong>Total industry</strong></td>
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Source: Insurance Regulatory and Development Authority
## ASIAN LIFE INSURANCE MARKETS

**Premium income: real growth rates (%)**

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<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011*</th>
<th>2012*</th>
<th>2013*</th>
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<td><strong>DEVELOPING MARKETS</strong></td>
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<tr>
<td>China</td>
<td>40.9</td>
<td>12.8</td>
<td>25.7</td>
<td>-6</td>
<td>11</td>
<td>8</td>
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<tr>
<td>India</td>
<td>1.7</td>
<td>7.9</td>
<td>4.2</td>
<td>2.5</td>
<td>7.5</td>
<td>11</td>
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<td>Indonesia</td>
<td>-0.5</td>
<td>15.8</td>
<td>16.7</td>
<td>11.9</td>
<td>8.2</td>
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<td>Malaysia</td>
<td>-2.6</td>
<td>7</td>
<td>8.5</td>
<td>6.3</td>
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<td>12.9</td>
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<td>9.8</td>
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<td>15.3</td>
<td>-2.1</td>
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<td><strong>11.1</strong></td>
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<td><strong>1.7</strong></td>
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<td><strong>DEVELOPED MARKETS</strong></td>
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<td>4.7</td>
<td>4.6</td>
<td>3</td>
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<tr>
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<td>1.8</td>
<td>4.5</td>
<td>-1.5</td>
<td>3.8</td>
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<tr>
<td>Singapore</td>
<td>-9.1</td>
<td>-14.3</td>
<td>4.1</td>
<td>-1.5</td>
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<td>Taiwan</td>
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<td><strong>-1.4</strong></td>
<td><strong>3.1</strong></td>
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*Estimated.

Source: Swiss Re
LIFE INSURANCE

After the entry of new players and increase in the penetration levels, could see the insurance sector cross the Rs 2,00,000-core mark in business by 2010. The current size of the sector is estimated to be at Rs 50,000 crore, which has seen a compound annual growth rate (CAGR) of around 175 percent in the last few years.

The insurance sector, both life and non-life, is likely to grow by over 200 percent, and private insurers are expected to achieve a growth rate of 140 percent as a result of aggressive marketing technique. It added that state owned insurance companies are likely to be 35-40 percent.

On account of intense marketing strategies adopted by the private insurance players, the market share of state-owned insurance companies like GIC, LIC and others has come down to 70 percent in last 4-5 years from over 97 percent. Despite regulation, the private players are offering 35 percent rate of return to is policy holders against 20 percent by public-sector insurers.

The industry body also noted that India’s life insurance premium is 1.8 percent as a percentage of GDP whereas it is 5.2 percent in the US, 6.5 percent in the South Korea.

The services sector offers immense opportunities for expansion opportunities for expansion opportunities and the rural market, also, offers tremendous growthopportunities for insurance companies.
GENERAL INSURANCE

General insurance in India has been expecting growth except in some portfolios like motor insurance, fire and engineering. These portfolios are still under tariff- this means that premium depends on a fixed predetermined rate structure.

In India, GDS as a proportion of GDP at current prices increased from 26.1% in 2002-03 to 28.1% in 2003-04. House hold sector continued to be the major contributor to GDS at 24.3% in 2003-04. This can be attributed to soft interest rates prevailing in housing sector. General Insurance has low market penetration. It is 1.95% and ranks 51st. However in collection of premium it is ranked 23rd. The ratio of the premium collected to that of GDP is 0.58. The main reason for the general insurance industry to perform very poorly was because of the slow settlement of claims. Moreover the rates of claim in India were highest in the world. It was 70 percent compared to 40 percent internationally. This meant that out of 100 people who had insured their commodities 70 claimed for a loss or damage. The main reason for the lack of demand for general insurance is that people consider it as an unnecessary expenditure. However it must be noted that the general insurance has been earning consistent profits and has an efficient dividend paying record accompanied by a steady growth in its financial resources. The industry is recognized as one of the largest financial Institutions in the country.

CONTRIBUTION OF THE INSURANCE SECTOR TO INDIAN ECONOMY

Some surveys have predicted that India and China will play a very vital role in the years to come. Indian economy can be termed as an emerging economy as it is doubling its GDP in 3 to 5 years and moreover it is not dependent on any particular sector for its GDP.

If we look at the GDP of the Indian economy very closely over the years, we can easily come to know the changing structure of the economy. We can also come to know the changing contribution of the various sectors like agriculture, manufacturing and the service sector. In the financial year 1993-94, agricultural sector contributed to 31%, manufacturing accounted to 26.3% and the service sector contributed to 42.7% of the total GDP of the country. Thus over the years as India became an emerging economy in 2003-04 manufacturing sector contributed for 21.7 %, manufacturing contributed for 26.8 whereas service sector contributed for 51.4% of the total GDP.
There has been 7.5% growth in the total GDP of the country and is estimated to grow at 8.0% in 2006-07. The Indian economy has shown signs of strong performance despite a rise in oil prices, high inflation rate and abnormal rains in many parts of the country. The overall growth of the Indian economy has been equally supported by all the three sectors of the economy, i.e. the agriculture, manufacturing and the service sector. Insurance, together with the banking sector, contributes to about 7.3% of the total GDP of India, and the gross premium collected contributes to about 2% of the total GDP of the country.

The insurance sector in India has completed a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost 200 years.

**PROGRESS IN INSURANCE BUSINESS**

The growth of Life Insurance in concrete terms could be said to being during the first two decades of twentieth century when most of the major companies were founded. They grew in terms of rise in the number of companies, in terms of number of policies and sum assured as well as total life fund. Indian Insurance Year Book, published for the first time in 1914, gives the figure of the total business-in-force as 22.44 crore which grew to Rs. 298 crore in 1938. In 1914, there were only 44 companies transacting insurance business in India, and during the next 25 years their number rose to 176. The total progress on all the primary heads, viz. life fund (Rs. 50.50 crore), premium income (Rs. 10.50 crore) and new business (Rs. 43.30 crore) indicate that Indian Insurance Business had been making a definite headway during this years. The inter-war-years thus saw rapid growth life insurance in India. The promotion of new life insurance companies continued to be almost a craze and insurance companies mushroomed. In this period, 176 insurance companies were formed and many of them failed. Thus unhealthy growth was harmful to the interest of the policy holders and insurance business in India. Feeling concerned about it, the All India Life Assurance Offices 'Association urged upon the Government in 1932 to undertake the insurance legislation to

- Compulsorily register all Life Insurance companies.
- Secure a deposit of Rs.2 lakh from all Life Insurance companies.
- Compel foreign companies doing business in India to keep sufficient funds in India securities to meet their liabilities under all policies issued in India.
NATIONALIZATION

THE LIFE INSURANCE CORPORATION OF INDIA: 1956

This was the first step taken towards the nationalization of life insurance business in India. On 20th January, 1956 all life insurance companies were taken over by 43 nominated custodians. The custodians were experienced senior executives of private insurance companies, reporting directly to the Finance Ministry. From the word go, the complex task of running the industry on a permanent basis and continuing the services to policy holders without interruption were their major concerns. The actual work of integration had to await legislation. The custodians managed the insurance companies till 1-09-1956, when Life Insurance Corporation was established under the general direction and control of the Ministry of Finance. The Ordinance provided for the transfer of the control of 154 Indian insurers, 16 non Indian insurers and 75 provident societies. These arrangements were designed to ensure that no inconvenience whatsoever was caused to the policy holders. With the Government take over the management aimed towards the evolution of a common uniform premium rate, policy conditions and service and working procedures and above all to help promote team spirit. The corporation, a body corporate shall consist of not more than 15 members appointed by the Central Government, one of them being appointed by the government as chairman. The capital of the corporation was at Rs 5 crore provided by the central government.

INSURANCE SECTOR REFORMS

In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N.Malhotra was formed to evaluate the Indian Insurance industry and recommended its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at "creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms...". In 1994, the committee submitted the report and some of the key recommendations included:

(1) STRUCTURE

- Government stake in the Insurance Companies to be brought down to 50%.
• Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations.

• All the insurance companies should be given greater freedom to operate

(2) COMPETITION

• Private Companies with minimum paid up capital of Rs.1 bn should be allowed to enter the industry.

• No Company should deal in both Life and General Insurance through a single entry.

• Foreign Companies may be allowed to enter the industry in collaboration with the domestic companies.

• Postal Life Insurance should be allowed to operate in the rural market.

• Only one State Level Life Insurance Company should be allowed to operate in each state.

(3) REGULATORY BODY

• The Insurance Act should be changed

• An Insurance Regulatory Body should be set up.

• Controller of Insurance (Currently a part from the Finance Ministry) should be made independent

(4) INVESTMENTS

• Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%.

• GIC and its subsidiaries are not to hold more than 5% in any company (There current holdings to be brought down to this level over a period of time).

(5) CUSTOMER SERVICE

• LIC should pay interest on delays on payments beyond 30 days.

• Insurance Companies must be encouraged to set up unit linked pension plans

• Computerization of operations and updating of technology to be carried out in the insurance industry.
The committee emphasized that in order to improve the customer service and increase the coverage of insurance industry should opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry.

Hence, it was decided to allow competition in a limited way by stipulating the minimum capital requirement of Rs. 100 crores. The committee felt the need to provide greater autonomy to insurance companies in order to improve their performance and enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body.

LIBERALIZATION
OPENING UP OF INSURANCE SECTOR – 1999 THE INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies.

The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA's online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products, which are expected to be introduced by early next year. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. In the private sector 14 life insurance companies have been registered.

ENTRY OF PRIVATE COMPANIES

Under the IRDA Act, private companies can now operate in India's insurance industry. However, they must obtain a license from the IRDA before being permitted to write business. To have its license application considered, a domestic private company must be registered in accordance with the Companies Act of 1956 and have approximately US$ 20 million of investment capital.
The specific licensing requirements that Private Indian Companies must fulfill are set forth in the Registration on Indian Insurance Companies Regulations, published by the IRDA 2000.

**INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA) 1999**

Reforms in the insurance sector were initiated with the passage of the IRDA bill in December 1999. It was set up as an independent body and it has been able to frame globally compatible legislations.

The IRDA was set up to protect the interests of holders of insurance policies, to regulate, promote and insure orderly growth of the insurance industry and for matters connected therewith or incidental there to.

This act extends to whole of India. With the establishment of this act, government amended Insurance act 1938, Life Insurance Act 1956 and General Insurance Act 1972. IRDA was formed on the recommendations of Malhotra Committee. In 1999 government of India has set up Malhotra Committee to examine the structure of insurance industry and recommend changes, under R.N Malhotra – former governor of RBI.

**INDIAN INSURANCE INDUSTRY: NEW AVENUES FOR GROWTH 2012:**

Description: With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. Total value of the Indian insurance market (2004-05) was estimated at Rs. 450 billion (US$10 billion). According to government sources, the insurance and banking services contribution to the country's gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC) for investments are 8% of GDP. Till date, only 20% of the total insurable population of India is covered under various life insurance schemes, the penetration rates of health and other non-life insurances in India is also well below the international level. These facts indicate the of immense growth potential of the insurance sector.

The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. Though, the
existing rule says that a foreign partner can hold 26% equity in an insurance company, a proposal to increase this limit to 49% is pending with the government. Since opening up of the insurance sector in 1999, foreign investments of Rs. 8.7 billion have poured into the Indian market and 21 private companies have been granted licenses.

Innovative products, smart marketing, and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer.

The life insurance industry in India grew by an impressive 36%, with premium income from new business at Rs. 253.43 billion during the fiscal year 2004-2005, braving stiff competition from private insurers. This report, Indian Insurance Industry: New Avenues for Growth 2012, finds that the market share of the state behemoth, LIC, has clocked 21.87% growth in business at Rs.197.86 billion by selling 2.4 billion new policies in 2004-05. But this was still not enough to arrest the fall in its market share, as private players grew by 129% to mop up Rs. 55.57 billion in 2004-05 from Rs. 24.29 billion in 2003-04. Though the total volume of LIC's business increased in the last fiscal year (2004-2005) compared to the previous one, its market share came down from 87.04 to 78.07%. The 14 private insurers increased their market share from about 13% to about 22% in a year's time. The figures for the first two months of the fiscal year 2005-06 also speak of the growing share of the private insurers. The share of LIC for this period has further come down to 75 percent, while the private players have grabbed over 24 percent. There are presently 12 general insurance companies with four public sector companies and eight private insurers. According to estimates, private insurance companies collectively have a 10% share of the non-life insurance market. Though the focus of this market research report is on the potential growth on the Indian Insurance Sector, it also talks about the market size, market segmentation, and key developments in the market after 1999.
INTRODUCTION TO LIC

Life Insurance Corporation of India (LIC) (Hindi: भारतीय जीवन बीमा निगम) is the largest state-owned insurance group in India, and also the country's largest investor. It is fully owned by the Government of India. It also funds close to 24.6% of the Indian Government's expenses. It has assets estimated of ₹13.25 trillion (US$264.34 billion). It was founded in 1956 with the merger of 243 insurance companies and provident societies.

Headquartered in Mumbai, financial and commercial capital of India, the Life Insurance Corporation of India currently has 8 zonal offices and 113 divisional offices located in different parts of India, around 3500 servicing offices including 2048 branches, 54 Customer Zones, 25 Metro Area Service Hubs and a number of Satellite Offices located in different cities and towns of India and has a network of 13,37,064 individual agents, 242 Corporate Agents, 79 Referral Agents, 98 Brokers and 42 Banks (as on 31.3.2011) for soliciting life insurance business from the public.

The slogan of LIC is "Yogakshemam Vahamyaham" - Your welfare is our responsibility.

In 1955, parliamentarian Amol Barate raised the matter of insurance fraud by owners of private insurance companies. In the ensuing investigations, one of India's wealthiest businessmen, Ram Kishan Dalmia, owner of the Times of India newspaper, was sent to prison for two years.

Eventually, the Parliament of India passed the Life Insurance of India Act on 1956-06-19, and the Life Insurance Corporation of India was created on 1956-09-01, by consolidating the life insurance business of 245 private life insurers and other entities offering life insurance services.

Nationalization of the life insurance business in India was a result of the Industrial Policy Resolution of 1956, which had created a policy framework for extending state control over at least seventeen sectors of the economy, including the life insurance.

Over its existence of around 50 years, Life Insurance Corporation of India, which commanded a monopoly of soliciting and selling life insurance in India, created huge surpluses, and contributed around 7% of India's GDP in 2006.

The Corporation, which started its business with around 300 offices, 5.7 million policies and a corpus of INR 459 million (US$ 92 million as per the 1959 exchange rate of roughly Rs. 5 for a US $), has grown to 25000 servicing around 350 million policies and a corpus of over ₹8 trillion (US$159.6 billion).
HISTORY

The Oriental Life Insurance Company, the first corporate entity in India offering life insurance coverage, was established in Calcutta in 1818 by Bipin Behari Dasgupta and others. Europeans in India were its primary target market, and it charged Indians heftier premiums. The Bombay Mutual Life Assurance Society, formed in 1870, was the first native insurance provider. Other insurance companies established in the pre-independence era included

- Bharat Insurance Company (1896)
- United India (1906)
- National Indian (1906)
- National Insurance (1906)
- Co-operative Assurance (1906)
- Hindustan Co-operatives (1907)
- Indian Mercantile
- General Assurance
- Swadeshi Life (later Bombay Life)

The first 150 years were marked mostly by turbulent economic conditions. It witnessed, India's First War of Independence, adverse effects of the World War I and World War II on the economy of India, and in between them the period of world wide economic crises triggered by the Great depression. The first half of the 20th century also saw a heightened struggle for India's independence. The aggregate effect of these events led to a high rate of bankruptcies and liquidation of life insurance companies in India. This had adversely affected the faith of the general public in the utility of obtaining life cover.

OBJECTIVES OF LIC

- Spread Life Insurance widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.
- Maximize mobilization of people's savings by making insurance-linked savings adequately attractive.
- Bear in mind, in the investment of funds, the primary obligation to its policyholders, whose money it holds in trust, without losing sight of the interest of the community as a whole; the
funds to be deployed to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return.

- Conduct business with utmost economy and with the full realization that the moneys belong to the policyholders.
- Act as trustees of the insured public in their individual and collective capacities.
- Meet the various life insurance needs of the community that would arise in the changing social and economic environment.
- Involve all people working in the Corporation to the best of their capability in furthering the interests of the insured public by providing efficient service with courtesy.

Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through discharge of their duties with dedication towards achievement of Corporate Objective.

MISSION/VISION

Mission
"Explore and enhance the quality of life of people through financial security by providing products and services of aspired attributes with competitive returns, and by rendering resources for economic development."

Vision
"A trans-nationally competitive financial conglomerate of significance to societies and Pride of India."

OPERATIONS
NATIONALIZATION

In 1955, parliamentarian Amol Barate raised the matter of insurance fraud by owners of private insurance companies. In the ensuing investigations, one of India's wealthiest businessmen, Ram Kishan Dalmia, owner of the Times of India newspaper, was sent to prison for two years. Eventually, the Parliament of India passed the Life Insurance of India Act on 1956-06-19, and the Life Insurance Corporation of India was created on 1956-09-01, by consolidating the life insurance business of 245 private life insurers and other entities offering life insurance services. Nationalization of the life insurance business in India was a result of the Industrial Policy Resolution of 1956, which had created a policy framework for extending state control over at least seventeen sectors of the economy, including the life insurance.

CURRENT STATUS

Over its existence of around 50 years, Life Insurance Corporation of India, which commanded a monopoly of soliciting and selling life insurance in India, created huge surpluses, and contributed around 7% of India's GDP in 2006. The Corporation, which started its business with around 300 offices, 5.7 million policies and a corpus of INR 459 million (US$ 92 million as per the 1959 exchange rate of roughly Rs. 5 for a US $[6], has grown to 25000 servicing around 350 million policies and a corpus of over ₹8 trillion (US$159.6 billion). The Economic Times Brand Equity Survey 2010 rated LIC as the No. 4 Service Brand of the Country. Though in the year 2010 is ranked at 4, the organization is consistently among the top rated service company of the India. From the year 2006, LIC is continuously winning the Readers' Digest Trusted brand award[8]. According to The Brand Trust Report[9] 2011, LIC is the 8th most trusted brand of India.

AWARDS AND RECOGNITION

The Economic Times Brand Equity Survey 2010 rated LIC as the No. 4 Service Brand of the Country. Though in the year 2010 is ranked at 4, the organization is consistently among the top rated service company of the India. From the year 2006, LIC is continuously winning the Readers' Digest Trusted brand award. According to The Brand Trust Report 2011, LIC is the 8th most trusted brand of India.
PRODUCTS OFFERED BY LIC

As individuals it is inherent to differ. Each individual's insurance needs and requirements are different from that of the others. LIC's Insurance Plans are policies that talk to you individually and give you the most suitable options that can fit your requirement.

**Jeevan Arogya Plan**
- Jeevan Arogya

**Bima Account Plans**
- Bima Account 1
- Bima Account 2

**Endowment Plus**
- Endowment Plus

**Children Plans**
- CDA Endowment Vesting At 18
- Jeevan Kishore
- Child Career Plan
- Jeevan Ankur
- Komal Jeevan
- Marriage Endowment Or Educational Annuity Plan
- Jeevan Chhaya
- Child Future Plan
- Jeevan Anurag
- CDA Endowment Vesting At 21

**Plans for Handicapped Dependents**
- Jeevan Aadhar
- Jeevan Vishwas

**Endowment Assurance Plan**
- The Endowment Assurance Policy
- The Endowment Assurance Policy-Limited Payment
- Jeevan Mitra(Double Cover Endowment Plan)
- Jeevan Mitra(Triple Cover Endowment Plan)
- Jeevan Anand
- New Janaraksha Plan
- Jeevan Amrit
- Jeevan Vriddhi

**Money Back Plans**
- The Money Back Policy-20 Years
- The Money Back Policy-25 Years
- Jeevan Surabhi-15 Years
- Jeevan Surabhi-20 Years
- Jeevan Surabhi-25 Years
- Bima Bachat

**Whole Life Plans**
- The Whole Life Policy
- The Whole Life Policy- Limited Payment
- The Whole Life Policy- Single Premium
- Jeevan Anand
- Jeevan Tarang

**Term Assurance Plan**
- Two Year Temporary Assurance Policy
- The Convertible Term Assurance Policy
- Anmol Jeevan-I, Amulya Jeevan-I
SWOT ANALYSIS OF LIC OF INDIA

It involves an in depth study of the strength and weakness of the provided organization and it also provides information to the promoter, consultant, other agencies and helps in long term viability of the project.

Strength:

1. It is the oldest and most well experienced player having a Pan India presence.
2. LIC has a strong and very well developed distribution network.
3. It is having a huge consumer base and is evolved as one of the most powerful brands of the country.
4. It has a large product portfolio and claim settlement is easier to get.
5. It has the advantage of government guarantee is accompanied with it.
6. Largest insurance Company in the world in Customer Base (23 crore customers)
7. No.1 insurance company in the world in terms of agency (about 1.1 Million agents)
8. LIC is No.1 insurer in the world in Volume & Sold around 3.75 Cr. Policies in 2007-2008.
9. 2nd Biggest Real Estate Owner next to Indian Railways.
10. LIC is one of the Highest income tax playing Organization. For Financial Year 2007-08, LIC has paid advance Tax Rs.2627.14 Cr. & Service Tax Rs.1292.15 Cr.
11. Has Highest insurance Professionals (Club Member agents)
12. Only 4 countries in the world have more population that LIC’s policy holders.
13. No.1 insurance Company in the world in terms of claims paid.
14. LIC Settles 2.21 claims per second, LIC settled 139 lakhs claims during the year 2007-2008.
15. Prompt settlement of claims (97% maturity claim settled on or before due date)
16. One of the Lowest outstanding Claim Ratio in the world (Maturity + S B Claim-0.07%)

Advanced Technology-For better Customer Service

1. Computerized and networked 2048 branch offices and 159 satellite offices throughout the country.
2. Use of High Tech-WAN, LAN, IVRS & EDMS
3. LIC is second largest PC user in the country.
4. EDMS to make LIC a paperless office - Enabling Policy servicing and payments through all branches in the country

5. Premium Payment Facility extended through networked 2048 branches, ECS, ATM's through internet, online portals, collecting bank (Axis Bank), AP online, through SMS, through selected agents, Now LIC Premium can also be paid through.

6. "Suvidha info Serve KIOSKS" all over India.

7. Policy Holder's Portal allow on line access to policy status and other details.

8. Info centre set up in 12 cities for customers to interact easily. Dial-1251 for details.

9. 45 interactive Voice Response System (IVRS) centers all over the country to provide information on policy servicing. Facility is available 24 7, Facility can be availed on following phone Nos. 1251 OR 020-25514248.

Social Strength

- LIC - an institution builder promoting many financial and insurance institutes like NSE, NCDEX, LIC Mutual Fund, Stock Holding Corporation of India, National insurance Academy, insurance institute of India etc.
- LIC has foreign operations in Mauritius, Fiji and London and has joint venture operating in Sri lanka, Nepal, Bahrain & Saudi Arabia. New offices will be shortly opened in Australia, USA & Canada.
- LIC is known as "Pension Provider" of the country. 1st Pension company in India is floated by LIC as "LIC Pension Fund Ltd" on 21st Nov 2007.
- First to create waves in micro insurance sector by insuring people below the poverty line. In year 2007-2008, 8.54 lac policies sold through "Jeevan Madhur" Plan.
- Widest range of plans (about 48) for every need of the customer of 0 to 79 years of age.
- Biggest Portfolio of Group insurance schemes available.
- "Jeevan Saral" one of the product of LIC got "Best innovation product " award fromI.R.D.A.
- LIC has covered lick Risk of 1.13 crore citizens through "AAM ADMI BIMAYOJANA" & "JANASHREE BIMA YOJANA".
- Very Unique Salary saving Portfolio.
- Highest Number of Corporate Clients in Group insurance Scheme.
• Expanding Distribution Channel through Banc assurances, Corporate Agencies, Broker ship & Chief Life insurance Advisor (CLIA).

• New East - Central Zonal Office opened at patina to cater to the needs of states of Bihar, Jharkhand and Orissa. 5 new Divisional offices were also opened in 2007-08. Pune D. O. was split in 2 divisions, viz Pune Division (i) and Pune Division (ii).

• "Golden Jubilee Foundations" established for undertaking charitable activities like education, health, relief of poverty etc.

**People's Money for People's Welfare**

- LIC invested more than 11,630 crores, in infrastructure sector is Rs.56,691 crores
- In socially oriented sector like water, drainage & housing etc, LIC has invested Rs.5,635 crores during 2007-08 & total investment in this sector is Rs.32,321 crores Total investment in Social Sector Rs.89,000 Crs.
- Different incentive schemes for villages, Schools and Banks under Bima Gram, Bima School and Bima Banks.
- Total investment in Nation Building Activities is 5,76,000 Crs.

**Weakness:**

- Its employees and other staff are lethargic and least motivated to render prompt and sincere customer service.
- After sales customer grievance redressal mechanism is inefficient.
- Agents not taking into account the needs of people and promote policies having high commissions only.
- Very slow decision making process and internal problems between top management and lower cadre staff.
- The top management or bosses are mediocre and there is large scale corruption in main office.
- The development officers and agents who are the foundation pillars of LIC are not provided with extra funds and powers to promote its products aggressively.
Opportunity:

- Emergence of a huge middle income consumer market in the country.
- People becoming more aware and demanding so there is scope for a whole lot of innovative products.
- Pension markets, health insurance and large real estate portfolio. Today’s human life becomes full uncertain, so they prefer protection against the risk. Therefore they prefer life insurance. This is the opportunity for the life insurance sector.
- Easy accesses to development in the more advance market provide further opportunity to upgrade their working. Technological, financial or specific area based avenues of absorbing improved system are also now more easily available. So, that insurance companies working efficiently and fast service.
- Increased economic activities: increase in the economic activity has become the opportunity for the life insurance sector. The activity such as development in the automobile industry, development in the shipping industry. The growth in the GDP shows the opportunity for this industry. The growth rate expected this year 7-7.5%. So this is also one of the opportunities for the life insurance sector.
- Uncovered market: The Indian insurance market is the one of the least markets in the world. India has a population 1044.15 million out of which only 77.7 million have a life insurance policy. Almost 300 million people in the country can afford to buy life insurance but of this only 20% have an insurance cover. Thus there lies a big opportunity for the life insurance industry. No doubt lots of marketing and promotional efforts have to be done for trapping the uncovered portion of the huge market. India’s insurance has long way to catch up with the rest of the world. According to the institute of charted financial analyst of India. India is the 23rd largest insurance market in the world India accounts for just 0.4% of the global insurance market which is very low. theratio’s of premium to GDP for India stands at only 3% against 5.2% in US, 6.5% in UK.
- To enter into rural market where customer awareness about insurance is low by effective and efficient marketing strategies.
- To sell insurance products through electronic Medias.
- Natural calamities: natural calamities taking place now days have created a concern for life insurance among the public. Because of natural calamities like earthquake, flood, and
cyclone people have become conscious about benefits and need of insurance. Thus through a calamity it has become a considerably big opportunity for the industry.

- Growing population: the growth in the population (approximately 1.7%) is very high. It is said that one Australia is added in our country every year. Thus potential customers for the life insurance industry. It has become an opportunity for the life insurance industry.

- The lack of comprehensive social security system combined with a willingness to save means that Indian people demand for pension products will be large. Thus, it has become an opportunity for the life insurance industry.

- India has traditionally been a highly savings oriented country. Needless to say, if the insurance market is properly tapped, it is possible to raise life insurance premium as a percentage of GDP from its existing level. Thus, it has become an opportunity for the life insurance industry.

- To use Internet and e-commerce technologies to dramatically cut the costs and/or to pursue new sales-growth opportunities. With the help of technology it has become easy for the companies to reach the customer quickly, easily, efficiently and in a better way. Also the companies can cut down the cost of operation up to considerable level. Thus technology has thrown lots of opportunity for the company.

- Liberalized government policy toward insurance sector: the government has liberalized the government policy in the life insurance sector. Now a day role of government has changed. Due to liberalized policy of government the country is benefited in earning foreign inflows: the domestic company can also collaborate with foreign country and can create synergy. Thus there is great opportunity for those who can trap it. Exist the option of joint venture& alliance etc. for companies to create Synergy, value as well as competitive capabilities for the firms.

**Threats:**

- Private entrants are naturally targeting the profitable and more lucrative segments, by providing better service, new products and flexibility. They are targeting the bigger corporate the other clients in the well established metropolitan center. These new entrants succeeded in eating share of the existing entities. This creates threat among rival firms itself.
• Interest rate of P.F and bank saving create threat to insurance sector. All other saving is obviously the threat for life insurance sector.

• Increasing intensity of competition among industry rivals—may cause squeeze(fall) on profit margins. Consumer’s education—consumers are more and more confused because the market players are offering large number of product range. As at present the awareness level is not much, it is only because the education level is only 62% (in which only 10% are well educated).

• Fraud in insurance sector: the major problem fraud, which affects the life insurance sector.

• The flight of talent to new entrants is already in evidence, and could be on the rise for some time to come. Retaining qualified and competent executives will be considerable challenges for existing companies.

• One very serious danger that the government on units is likely to face is that even if at some point of time, the government does decide to disinvest a portion of its equity; they may not be fully free from government interference. They could face a peculiar problem that although paper and in terms of legal definition they would not be public sector units. In effects, their working could be no different from what it was before their ownership pattern change. This could be genuine threats since they would be competing with units which are free from such artificial and unnecessary restrictions.

• The new units, equipped with state of arts equipment and innovative procedure would have an in-built edge over the erstwhile public sector units, which until recently had no such opportunity and incentives. Due to possible negative impact on employment, there were no serious efforts at updating technology and equipment. The resultant inadequate investment in infrastructure could lead to their lagging behind in the race.
MARKET SHARE OF ALL COMPANIES

FY-2012

Market Share of All Life Insurance Companies in India
End of March 2012

www.FreePress.in
HYPOTHESIS

• NULL HYPOTHESIS
  
  Customer of LIC of India of Dehradun district have negative perception towards the products offered by the L.I.C.

• ALTERNATE HYPOTHESIS
  
  Customer of LIC of India of Dehradun district have positive perception towards the products offered by the L.I.C.
OBJECTIVES OF THE STUDIES

- To study the perception of customer towards products offered by LIC of India.
- To find out the important criteria that people think about before investing in a life insurance policy.
- To find out whether gender bias involved in investing life insurance or not.
- To find out the awareness of Life insurance Corporation among the people
SCOPE OF THE STUDY

- The result of this research would help the company to have a better understanding about the consumer’s perception towards life insurance products offered by LIC of India.
- The study helps the LIC of India to focus the consumer’s preferences and expectations on the product which they offer.
LIMITATIONS OF THE STUDY

The following limitations can be pointed out from the research:

- The sample size chosen for the questionnaire was only 200 and that may not represent the true picture of the consumer perception about the Life Insurance sector.
- The research got confined to the city of Dehradun district only. The respondent belonged only to Dehradun and not others who were out of Dehradun.
- The selection of people for the questionnaire will be done on the basis of convenient random sampling, so, there were certain cases in which the people selected did not have any life insurance policy, so they could not give any positive feedback regarding the important criteria to be considered before taking a life insurance policy.
- The product offered by different companies had different options and names in them, so at the time of comparison it will become very difficult. The parameters for comparison will also different in the selected companies.
- Resource Constraint
- Time Constraint