CHAPTER I

RESEARCH DESIGN
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Introduction

Insurance is an age old concept and it has been associated with the welfare of mankind. The concept of life insurance in India can be traced back to the Vedas. The concept of Life Insurance Corporation of India has been derived from Rig Veda. The Sanskrit word “Yogakshema”, means well being of the lives on earth. The term suggests that a form of “community insurance” was prevalent around 1000 BC and practiced by the Aryans. The word “Yogaksheman”, used by Vedic rishis also supports the idea of welfare state, and has been regarded as the code of Manu, the ancient lawmaker of India. A few centuries after Manu, Koutilya in his “Arthashastra” had also laid down several rules and regulations of similar nature.¹

The Indian social system, guided by its benevolent principle, contained the feature of joint family system. The root concept of life insurance was fully followed by the joint family system, by taking care of the monetary needs of the family, incase of untimely death of the breadwinner and also by making provisions for the old age. The Hindu society rested on this principle for thousands of years. Progress of civilization disintegrated the joint family system and resulted in individualistic attitude. The responsibility of taking care of the family, ensuring the security of the family and property were shifted to

the shoulders of the individual himself. The instinct that prompts modern businessmen today to secure themselves against loss and disaster is inherent in mankind. They too seek to avert the evil consequences of fire and flood and loss of life and are willing to make some sort of sacrifice in order to achieve security.

Life insurance in the modern form 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 these companies operated in India but did not insure the lives of native Indians. They were 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 for Indians with "fair value" was the Bombay Mutual Life Assurance society starting in 1871.

During the Swadeshi movement in the early 20th century insurance witnessed a big boom in India with several more companies that were being set up. As these companies grew, the government began to exercise control on them. Insurance in India started without any regulation in the nineteenth century. It was a typical story of a colonial era, where a few British insurance

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2 Yogakshema: Opcit p.9.
companies dominating the market serving mostly large urban centers. Some Indian companies too were registered for the operation of life insurance business. In the wake of Swadeshi movement, a number of Indian insurers came into the field. The anger and anguish of the Indians at the invidious discrimination made by the British companies, culminated in the process of setting up an Indian insurance company. The Bombay Mutual Assurance society, resulted in the birth of “Bombay Mutual” in the year 1870.

Indian insurers survived in the tough competition with the foreign insurers because of the Swadeshi movement. But the progress was slow because of illiteracy, economic backwardness, lack of insurance consciousness, absence of trained sales force, foreign competition etc. During the Second World War, the progress was impressive but there was a setback in the post partition period. The government of India passed the Insurance Act of 1912 to regulate the working of insurance companies. With the increase of insurers and development in life insurance business, the government felt the need for exercising greater control over the management and investments of insurer. As a result, the insurance act of 1938 was enacted.

In order to promote the concept of life insurance among rural areas and to regulate the operation of life insurance sector, the nationalization of life insurance was justified mainly on three counts namely, it was perceived that private companies did not promote insurance in rural areas. Secondly, the
government would be in a better position to channelise the resources for the saving and investment by taking over the business of life insurance. Thirdly, bankruptcies of life insurance companies had become a big problem. On 19\textsuperscript{th} January 1956, Life Insurance Ordinance was promulgated by the central government of India after the amalgamation of 245 Indian and foreign insurance companies by an act of parliament. Life Insurance Corporation Act of 1956 was enacted under the statute and thereafter Life Insurance Corporation of India was established on 1\textsuperscript{st} September 1956.

The Life Insurance Corporation (LIC) has been described as a singular organization, which curtails risk and substitutes certainty for uncertainty in human life. It lessens the grief of a family by a continuous source of livelihood and by providing an umbrella of financial protection to the family in distress. Life insurance is a social necessity and it provides the much-needed security to the individual and the family against the hazards of life, which no other form of savings can provide. Hence, it becomes an essential service, which was the main reason that prompted the government of India to nationalize the life insurance. Other reason is, in the absence of regulations, the companies were functioning in their own style in which there was an amount of insecurity for the investors and to safeguard against embezzlement or misuse of funds of the insurers. The state ownership of the corporation was supposed to create a sense of confidence in the minds of the people regarding the safety of their funds, which they invest in insurance.
Today, LIC is a multidimensional organization, offering individual life insurance, group insurance, pension and gratuity schemes, housing loans and mutual fund schemes. It also operates in countries like Fiji, Mauritius, U.K, Nepal, Bahrain and Srilanka. In view of liberalization and globalization insurance sector in India has been opened up for private players (domestic and global) consequent on passing of the Insurance Regulatory and Development Authority (IRDA) Act 1999. The entry of global players have to be in the form of joint ventures and come under licensing regime. The Insurance Regulatory and Development Authority is given power to protect the consumers’ interest to ensure the financial soundness of the insurance industry and to enable healthy growth of the insurance market.

The LIC is the largest insurance company, fully owned by the Indian government and has almost half a century of experience in the Indian insurance sector. It has over 6,28,000 agents and 1,24,000 employees. It has a strong nationwide network of 100 divisions and over 2048 branches. LIC has established training facilities at all levels. At the apex, there is the Management Development Institute along with seven zonal training centres and 35 sales training centres. Its high quality training centres have ensured that the employees and agents are up to date with the latest products that the company has to offer to its customers. LIC has grown to approximately USD 25 billion from a mere USD 94 million in its inaugural year. LIC gets a return

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3 The Life Insurance Corporation of India, Annual Report, 2006, p-5-10
of 35% on employing 8.5% of its investments in the equities. It pays off about Rs.6 crores annually to 5.6 million policyholders\(^4\).

**Objectives of Life Insurance Corporation**

- Spread life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching higher to the unreached.

- Maximum mobilization of people’s savings by making insurance linked savings adequately attractive.

- Discharging its primary obligation to its policy holders, whose money it holds in trust, with community interest.

- Conduct business with utmost economy and with the full realization that the money 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.

\(^4\) ibid., p12
Involve all people working in the corporation to the best of their capacity in furthering the interest of the insured public by providing efficient and courteous service.

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

The Malhotra committee (1993) 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 the 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 were on structure, competition, regulatory body, investments and customer services.

The committee emphasized that in order to improve the customer services and increase the coverage of insurance, the industry should be opened to competition. But at the same time, the committee felt the need to exercise

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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 to enable them to act as independent companies with economic motives. For this purpose, it had proposed setting up an independent regulatory body which initiated the passage of the IRDA bill in parliament in December 1999. The Insurance Regulatory and Development Authority (IRDA), since its incorporation as a statutory body in April 2000, had fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies.

The IRDA has two roles to play- regulation and development. As the regulator it has to ensure a balance in the enactment of the regulations. Since it has been set up as an apex statutory body, it has put in a framework of globally compatible regulation and has extensive powers to oversee the insurance business and regulate in the manner that will safeguard the interest of the insured. It protects the interest of the policy holders, regulates, promotes and ensures orderly growth of the insurance industry, for matters connected therewith or incidental there to.
Insurance is a composite risk treatment – a risk transfer mechanism that reduces the adversity of the financial impact of hazards by (a) directly covering the loss (b) indirectly reducing vulnerability to disaster by reducing the susceptibility to poverty and (c) ensuring adherence to disaster preparedness and mitigation measures. Insurance has many benefits for the economy as a whole. The most appropriate method of insuring will depend on the needs of the country and its people.

The need for insurance arises due to the risk associated with life, trade and other commercial activities, of which the future is unknown. In order to protect oneself from the loss arising out of future uncertainties, one has to go in for insurance.

Thus, the life insurance acts as

(a) an investment
(b) as a risk cover and
(c) as tax planning

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**Challenges Before the LIC**

Primarily, LIC has managed to build trust in people, which may be a major obstacle for the new entrants. LIC’s premium payment has two components namely, one goes towards buying risk coverage and the other goes
towards savings. The binding together of risk coverage and saving is peculiar to life insurance, especially, in developing economies. In short, with the arrival of twelve private sector companies in India, the insurance industry has entered a new growth orbit. The new players have introduced a slew of new products, new distribution channels and new service standards with better technology.

The private players are leaving no stone unturned to have a difference from their public counterparts. Their marketing strategies also differ. In the above context, LIC, the then monopolist is having a tough time to compete with the private sectors. However, the success of the business again depends more on how the services are perceived by the customers irrespective of the changes that have taken place in view of the globalization.

The second important factor determining the choice of insurers, was the incentives offered to the customers. In this factor, tax deduction allowed in insurance premium emerged as important variable. As insurance premium is an important form of savings that significantly contribute towards the economic development and growth.

The third factor in customer expectation of insurers was the range of products and services. The ability of the insurer to provide a variety of services and experience in the business constituted the factor. These factors were considered less important, as both the traditional and modern players have the necessary experience in the insurance sector. However, traditional insurance
companies will have to enhance to range of services provided, if they are to compete with the new players in the market.

**Operations of Insurance Company**

An insurance company operates through the process of creating a product, making it available to consumers and ensuring customers’ satisfaction, which is an integral part of an insurance company. There are around 10 functional areas that are involved in the creation of a product. These are discussed hereunder.

(i). Actuaria: Actuaries are specialists who have received exclusive training in mathematics of life insurance and whose job is to ensure that the insurance product provided by the company are mathematically sound. While creating an insurance product, there must be a calculation of mortality rates, estimated expenses, and the rate of return that the company will earn on its investments.

(ii). Accounting: The accountants keep a record of the company’s income and expenses and analyze whether the company is being run profitably or not. A company’s income includes the income from premiums and investment, whereas the expenses include the expenses on office rents, agents commission, benefit payment etc. The preparation of various reports to communicate the company’s financial position is minatory, and most important
among them being the annual statement that communicates the company’s financial status to the policy owners, stockholders, and insurance regulators.

(iii). Marketing: The marketing executives study the consumer behaviour, needs and wants, and suggest ideas for new products to satisfy those needs. For this, they develop marketing plans, design promotional material and product illustrations, market the product to the customers and provide them services.

(iv). Agents, brokers, and sales representatives: These people are responsible for distributing the insurance product and make up the distribution system of the company.

(v). Information Systems: This area is responsible to provide services to the various departments of the company. The employees maintain the computer systems and help to develop and test new systems, develop internal procedures for them, install them and see that they operate effectively.

(vi). Investment: The employees in this area manage company’s assets and investments, study the financial market, and recommend ways to invest company’s funds. They also recommend the sources, where a company should invest the money collected from new products, to give goods returns.
(vii). Legal: Attorneys operate in this area and ensure that the company is operating in lines with the federal, state, or provincial laws and the insurance department regulations. They also develop the policy forms and the contracts for agents and managers. The lawyers advise the investment staff on taxes and contracts and defend the company’s position in any claim dispute.

(viii). Underwriting: The underwriters analyse the risks arising from the insurance applications and ensure that the company issues the maximum possible policies while keeping the risk of loss within acceptable limits. The applications that pose reasonable risks are accepted, those posing lower or higher than average risks are approved at a lower or higher than normal premium rates, and the ones posing unreasonable risks are declined.

(ix). Policy owner services: The employees in this field ensure customers satisfaction by maintaining policy records, processing customer requests, and informing policy owners about any material changes that affect their policies.

(x). Claim administration: The employees of this area analyse and settle claims. They study a claim and if they find it valid, they calculate the benefit amount for settlement of the claim, or else the claim is declined.
Statement of the Problem

Among the service organization, the insurance companies are playing an important role in the economic and social life of the people. To a customer, service assumes vital importance in marketing programmes, the very nature requires devoted attention in offering sufficient services to the customers. The best way of surviving and prospering in the competitive environment even for this business is through providing prompt, relevant and efficient customer services at reasonable cost. The factors which affect the insurance market today are changing customer behaviour, government intervention, competition, technology, distribution networks, automation, technological advancement, quality in client relationship etc. Changing life style, societal perception and brand loyalty are the radical changes that are taking place in customer profile.

Earlier, customer attitude towards insurance were largely indifferent, regarded as an inflexible and tax-saving product that offered low return, wherein insurance was assumed only as status of necessity in one’s life. Rarely was it recognized for the multi-dimensional protection instrument. Further, insurance in India is popular only as an investment opportunity not as a pure life insurance cover. Most of the insurance policies offered by the LIC focus on providing the customers with an opportunity for investment, and thereby guaranteeing a sum assured at the end of the period for which they have insured themselves, irrespective of the fact that the person is still alive.
With the entry of private insurance players, people have got a host of options to choose from. The impact of the coming-in of the next generation of life insurance companies on the monolith of LIC is so far minimal. The competition has brought in perceptible changes, trends and a slew of new products all favourable to customers. Because of the changes in the entire environment caused by globalization and liberalization, the LIC is facing the challenges like, shift of a large part of customer to private insurers. Next, it may face problems in surrender of policies and the needs arise to offer innovative products at lower prices etc. Finally, there is a need for redressal of customer grievances for deficiency in products and services. In this context, a study of this nature is felt relevant.

**Need and Scope of the Study**

The life insurance is greatly influenced by changes in the social structure, social thinking and social values, which in turn influences the needs of individuals. The LIC has been continuously taking innovative steps to live up the ever-changing expectations of the insuring public. In future, the perception of the insuring populace will change but will be recognized as a multi-dimensional protection instrument.

India assumes as one of the most important countries in the world, where excellence is driven by competition. The entry into India by foreign insurers, as minority partners in domestic joint ventures, has brought the hope
that market will reach a new level. Understanding the customer better will enable insurance companies to design appropriate products, determining price correctly and increase profitability. Selection of right type of distribution channel mix brings out an effective CRM system, which would eventually create a sustainable competitive advantage and build a long-lasting relationship. There should be an increase in customer-base in semi-urban and rural areas where it offers a huge potential. Due to inducement of competition in the business environment, insurance industry has started moving out of a state of monopoly. A desirable state for the future should be oligopoly where a few strong players may be offering a large number of schemes.

Indeed, the LIC of India, being a public sector organization is keen to show that it is no less efficient than private players. The LIC may be aware that its supremacy could get eroded by the new comers unless adequate attempts are made to retain their customers. At the end of the decade, there will be an upsurge in awareness of consumers, an increase in expectations that hopes and aspirations be delivered by the industry. This will put an immense pressure on the insurance industry where the industry will have to respond to it. The current study aims to provide valuable information to LIC to retain the existing customers and also to go for a required change because of the private parties entry into this business.
Objectives of the Study

i. To document the growth and development concept of insurance in relation to life insurance;

ii. to study the features of various insurance products of LIC;

iii. to analyse the role of agents as facilitators in marketing the LIC products;

iv. to identify the perceptions of policyholders in relation to the marketing practices followed by the LIC;

v. to find out the factors influencing the policy holders in the choice of policy in relation to various marketing strategies; and

vi. to offer suggestions to improve the effectiveness of marketing strategies in relation to insurance plans.

Hypotheses

Based on the extensive literature review, the researcher proposes the following hypotheses to validate in the current research.

1. Socio-economic characteristics such as occupation, educational qualification etc. do not significantly differ between the special and general agents.
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2. The marketing strategy and the type of services offered to the policyholders do not significantly differ between the special and general agents.

3. The factors influencing the selection of policy do not differ between urban and semi-urban policy holders.

4. The level of satisfaction derived by the policy holders in relation to agents service does not differ between urban and semi-urban policy holders.

Methodology

The study comprises of both primary and secondary data. Secondary data are collected from LIC through their publications, websites, libraries, educational institutions, agent training centres etc. Primary data are collected from agents and policyholders with the help of a well structured questionnaires.

First a pilot study was conducted with an initial questionnaire. For this purpose data from a sample of 20 officers and agents and 50 policyholders were collected. The suggestions and modifications given by the respondents of pilot study have been incorporated. The revised and restructured questionnaire

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6 The copies of questionnaire are given in Appendix I and II
was framed and final data collections administered to the sample respondents
and the demographic profile of the respondents were given elsewhere.

Study area is the branch officers in Chennai Divisional Office - I and
Chennai Divisional Office - II. There are 42 Branches in total – 21 branches in
Division I and 21 branches in Division II. The branches within the Chennai
corporation city limits are considered as urban centres and that of others are
considered as semi-urban centres.

There are 789 active special agents in those units who work for the
insurance organization alone. A sample of 150 is taken from special agents on
random sampling basis. There are 546 general agents in those units who work
for the insurance as well as for other financial institutions. A sample of 100 is
taken from general agents on random sampling basis.

In the urban branches there are 12542 policyholders and in semi-urban
branches there are 8792 policyholders who have taken insurance polices in the
sample semi-urban branches within a period of 3 years. Among the urban
policyholders, a sample of 300 and in the semi-urban policy holders a sample
of 200 are selected on convenient sampling method. Thus, the stratified
convenient sampling method is considered for the purpose of the study.
Tools for Analysis

The collected data have been processed both manually and with the help of computers. Suitable statistical tools have been used to draw inferences using Statistical Package for Social Sciences (SPSS).

The following tools are used in the study:

(i). Descriptive and summary statistics
(ii). Correlation analysis
(iii). Chi-square analysis
(iv). t-test
(v). Analysis of Variance Technique
(vi). Factor analysis

All these tests are carried out at 5 percent level of significance.

Limitations of the Study

The findings of the study depend purely on the responses given by the sample respondents. The process of collection of data was a real challenge as it consumed considerable time of respondents and the agents. However, adequate care has been taken to collect the unbiased data. The limitations of tools used in the study are applicable to the analysis also.
Chapter Scheme

Chapter I delineates research design which contains the importance of the study, statement of the problem, objectives of the study, hypotheses, methodology, scope of the study, tools used and limitations of the study.

Chapter II deals with the review of Literature.

Chapter III brings out the growth and development of LIC and its products.

Chapter IV evaluates the functions and marketing practices of agents.

Chapter V focuses on the socio-economic aspects of the policyholders, and the perception of policyholders about various insurance plans.

Chapter VI presents satisfaction and shift option.

Chapter VII deals with the summary of findings, conclusion and suggestions.