Chapter - I

Introduction and Design of the Study
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Introduction

Security has been a universal desire right from the earliest civilizations. This quest for security has led to the concept of insurance. Insurance is a contract between two parties whereby one party called insurer undertakes, in exchange for a fixed sum called premium to pay the other party an assured sum of money on the occurrence of a certain event. Life insurance protects against the economic loss in the event of death. A family is generally dependent for its food, clothing and shelter on the income brought by the bread earner of the family. So long as he lives, that family is secure but the death of the person may put the family in a very difficult situation. Uncertainty of death is inherent in human life. It is this uncertainty that gives rise to the necessity for some form of protection against the financial loss arising from death. Life insurance substitutes this uncertainty by certainty.

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.¹

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 suggest that a form of “community insurance” was prevalent around 1000 BC and practiced by the Aryans. The word “Yogakshema” used by Vedic riches 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.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of people who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty or a financial loss. It should not be confused with the chance of loss which is the probable number of losses out of a given number of exposures. It should not be confused with peril which is defined as cause of loss or with hazard which is a condition that may increase the chance of loss. Every risk involves the loss of one or other kind. The function of insurance is to spread the loss over a large number of persons who are agreed to co-operate with each other at the time of loss. The risk cannot be averted but loss occurred due to a certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because the chances of loss (i.e.,) the time, amount to a person are not known. Any of them may suffer loss to a given risk. The larger the number of such persons, the

easier will be the process of distribution of loss. In fact, the loss is shared by them only by the payment of premium which is calculated on the probability of loss.

In older time, the contribution made by the persons was made at time of loss. The insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person insured against the risk.²

Insurance can be classified into three categories namely,

1. Life insurance
2. General insurance
3. Social insurance

Life Insurance in India – A View

Life Insurance is a contract between a person and an insurance company for a number of years covering either the life time period or a fixed number of years. In India, Life is protected by monolithic institution called the LIC. Life insurance is called an investment because of a number of reasons:

a) It provides protection against risk of early death

b) It can be used as collateral for taking loans from banks.

c) Life of key men in an association can be protected.

d) It provides Tax advantages.

e) It is a measure of protection at the time of death because it gives provision for estate duty.

f) It is a sum of money received at the end of particular number of years.

Life Insurance is, therefore, called an investment with an element of protection and an element of investment. Life insurance in its present form came to India from the United Kingdom (UK) with the establishment of a British firm. In 1818 the Oriental life Insurance Company came into existence in Calcutta followed by Bombay Life insurance Company which was set up in 1823. In 1829, the Madras Equitable Life insurance society and Oriental Government Security were established. Life Insurance Company came into force during the year 1956. Prior to 1871, Indian lives were treated as sub-standard and charged an extra premium of 15% to 20%. Bombay Mutual Life Assurance Society, an Indian Insurer which came into existence in 1871, was the First to cover Indian lives at normal rates. The Indian Life Assurance Companies Act 1912 was the first statutory measure to regulate life insurance business. Later in 1928, the Indian Insurance Companies act was enacted, interalia, to enable the Government to collect statistical information about both life and non-life insurance business transacted in India by Indian and foreign insurers including provident fund societies.

The Insurance Act of 1938 was a well thought out legislation passed to perform and control the activities of the companies carrying on various businesses relating to Life, Marine, Fire and Accident. It contained various provisions of the 1938 Act relating to deposit, investment, premium, role and power of insurance companies that did not apply to Life Insurance business. Efforts in this direction continued progressively and the act was amended in 1950. It was in January 1956 that the management of 245 Indian and Foreign Insurance companies and Provident Society operating in the life insurance business were taken over by the Union Government and Nationalized them on September 1, 1956. The Life Insurance
Corporation was formed with a capital contribution of Rs.5 Crores. The Life Insurance Corporation business has increased from 5 million policies at the time of nationalization to over 56 million policies during the year 2004.

The Life Insurance Corporation has been described as a singular organization, which curtails risk and substitutes certainty for uncertainty in human life. It reduces 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 as 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 element of insecurity for the investors and to safeguard against embezzlement or misuse of funds of the insurers. The state ownership of the corporations 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.3

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 centers’ and 35 sale training centers’. Its high quality training centers’ 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 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.

Today, LIC is one of the multidimensional insurance organizations, 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 in order to make their entry at domestic as well as at global level, consequent on passing of the Insurance Regulatory and Development Authority (IRDA) Act 1999. The entry of global players has to be in the form of joint ventures and come under licensing regime. The Insurance Regulatory and Development Authority are 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.

Insurance sector plays a very important role in the development of economy also, as it provides long term funds for infrastructure development and at the same time strengthens the risk taking activity. Therefore, a well developed and challenging insurance sector is needed for economic development. It is estimated that over the next ten years India would require investments to the tune of one trillion US dollars. The insurance sector to some extent can enable investment in infrastructure development to sustain economic growth of the country. In fact, insurance companies are the source of generation of long term funds for all round development of the economy.
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

- An investment
- As a risk cover and
- As tax planning.4

Objectives of LIC

1. Spreading 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 all insurance persons in the country and providing the adequate financial cover against death at a reasonable cost.

2. Maximizing mobilization of people’s savings by making insurance like savings adequately attractive.

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3. Bearing in mind in the investment of funds. The primary obligation to its policyholders (consumers). Whose money it holds in trust, without losing sight of the interest of the community as a whole the funds to be developed to the best advantages of the investors as well as the community as whole keeping in view national priorities and obligation of attractive return.

4. Conducting business with almost economy and with the full satisfaction that the money belongs to the policyholders (consumers).

5. Acting as trustees of the insured public in their individual and collection capabilities.

6. Meeting the various life insurance needs of the community that would arise in the changing social economic environments.

7. Involving the people working in the corporation to the best of their capabilities in furthering the interest of the public by providing efficient service with courtesy.

8. Promoting amongst all agents and employer of the corporation a sense of participation, of pride and Job satisfaction through discharge of their duties with dedication towards achievement of corporate objectives.\(^5\)

**Life Insurance Policies - LIC**

Life Insurance Polices are of various types and are classified on how the premium is invested and sum assured returned back.

- Term Assurance Policy
- Endowment Policy
- Whole Life Policy

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Unit Linked Policy

Pension Policy

Endowment Life policy runs for a period as specified in the policy document. The sum assured, along with the bonuses, are payable either on the date of maturity of the policy, or on the death of the assured, whichever occurs earlier; this policy offers the advantage of both protection & investment. This is a popular policy issued by the LIC of India. The basic objective is that the policy for the sum assured becomes matured on the policy holder’s death or on his attaining a particular age whichever is earlier. The period for which the policy is taken is called as Endowment period. The premium, under this policy is a little higher as compared with term assurance. This policy is useful to a Family in case of sudden death of the policy holder. In this policy, maximum age at entry 70 years & minimum age at entry is 18 years. It is providing policy servicing for policyholders such as housing Loans, Revival, and Surrender of policy. The maximum amounts are not restricted and the minimum amount is 30,000.

The Essential things for Endowment policy

- An Endowment policy is a combination of insurance and investment. The life of the individual taking the policy is insured for a certain amount (Sum Assured). A certain part of the premium gets allocated towards sum assured. Some portion is allocated towards administrative expenses of the insurance company and the remaining portion of the premium gets invested.

- An endowment policy may declare a bonus every year. The money that is invested generates a certain return every year. This return may be declared as a bonus.
➢ The bonus declared is not payable immediately. It is payable only when the policy matures or in case the policy holder dies.

➢ The bonus declared does not compound it, only accumulates.

➢ Since the bonus declared does not compound, returns are low. Chances of an insurance company declaring an average bonus of more than 5% over a period of twenty years are very less. This is because endowment policies are largely invested in government securities and after taking into account the admin expenses of the Insurance companies.6

**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 seventeen private sectors 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. In the above context, LIC, the 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.

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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 significant variable. As insurance premium is an important form of savings that significantly contributes 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 constitutes the factor. These factors are 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 the range of services provided, if they are to compete with the new players in the market.

**Operations Undertaken by LIC**

An insurance company operates through the process of creating a product, making it available to customers 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) **Actuarial:** 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 is 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 mandatory, 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 behavior, 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 System**: This area is responsible to provide services to the various departments of the company. The employees maintain the computer system and help to develop and test new systems, develop internal producers 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 analyze 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 analyze 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.\(^7\)

**Insurance Regulatory and Development Authority Act, 1999 (IRDA)**

The Insurance Act, 1938 had provided for setting up of the Controller of Insurance to act as a strong and powerful supervisory and regulatory authority for insurance. Post nationalization, the role of Controller of Insurance diminished considerably insignificant since the insurance companies were owned by the Government. With the opening up of the Insurance industry to the private sector, the need for a strong, independent and autonomous Insurance Regulatory Authority was felt. As the enacting of legislation would have taken time, then the Government constituted through a Government resolution an Interim Insurance Regulatory Authority pending the enactment of a comprehensive legislation.

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\(^7\) Report of Committee on Reforms on the Insurance Sector, Malhotra Report, Ministry of Finance, Government of India, New Delhi, 1996.
The Insurance Regulatory and Development Authority Act, 1999 is an Act to provide for the establishment of an Authority to protect the interests of holders of insurance policies, to regulate, promote and ensure orderly growth of the insurance industry and for matters connected therewith or incidental thereto and further to amend the Insurance Act, 1938, the Life Insurance Corporation Act, 1956 and the General insurance Business (Nationalization) Act, 1972 to end the monopoly of the Life Insurance Corporation of India (for life insurance business) and General Insurance Corporation and its subsidiaries (for general insurance business). The act extends to the whole of India and will come into force on such date as the Central Government may, by notification in the Official Gazette.

At present there are a total of 23 companies in the life insurance business in India and only LIC is in the public sector and rest all 22 companies are in the private sector. “The goals of the IRDA are to safeguard the interests of insurance policyholders (consumers), as well as to initiate different policy measures to help sustain growth in the Indian insurance sector”.

**Statement of the Problem**

Life is full of uncertainties; attempts have been made in the past and are being made in our days to eliminate as many uncertainties of Life as possible. But the people are not free from the anxieties as to what may happen in their life or property in the next moment. Every one is exposed to one type of risk or the other. But it is impossible to say in advance as to on whose shoulders, the heavy burden of such loss is going to fall. Whenever there is uncertainty there is insecurity. It is to provide against these risks the concepts of insurance came into being.

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Life insurance is universally acknowledged to be an Institution which eliminates risk. It plays a pivotal role for the development of the national economy as well as provides security to the life of the human being. According to the modern LIC marketing concept, the consumer is the King. To stand in the market, customers are to be satisfied. The basic mechanism in the insurance sector is to understand the behaviour of the consumers and providing people satisfaction necessary to establish measurable benchmarks for finding out their development. Due to growth in market share of LIC, insurance players are not very much interested in the areas of realistic pricing, product promotion and reaching the particular areas. Hence, LIC Policy makers will be keenly interested in understanding the behaviour of the Consumers. In view of the above, the Researcher has conducted the present study.

The study also attempts to assess the awareness of the Individual Investors in relation to Endowment Policy in Perambalur district. Customers are now looking at insurance as complete financial solution offering stable returns coupled with total protection. LIC will need to constantly innovate in terms of product development to meet ever changing consumer needs.

The study of consumer behaviour examines how individuals make decision in spending the available resources, viz. time and money and effort on various aspects such as whom to buy from, where to buy, how often they buy and how often to use it. The Researcher has taken her study in Perambalur district covering three Taluks in order to understand the behaviour of the consumers and their awareness level towards Endowment policy in LIC. Knowing this, LIC can improve their products and can use various distribution channels to tap the market in a better way.
Scope of the Study

The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. The insurance principle comes to be more and more used and useful in modern affairs. The life insurance is greatly influenced by changes in the social structure, social thinking and social values, which in turn influences the needs of the individual. Understanding the customer better will enable insurance companies to design products, determining price correctly and increase profitability.

Nowadays, Insurance companies being service oriented, requires more knowledge about consumers and the crucial factors pertaining to policyholders (consumers) expectations and preference. According to this principle, the study aims to provide the major factors influencing the consumer behaviour and the awareness level towards the products and quality of services provided in Endowment policy of Life insurance services in Perambalur district. Out of 14 Endowment Policies, the Researcher has selected top seven policies, which is found very familiar among the Consumers. The total population (Endowment policyholders) from 2006-2007 to 2010-2011 is 32,899. A sample of 980 Endowment policyholders is taken on the basis of Stratified Simple Random sampling (disproportionate) method. It helps the Corporation to identify the present potential of the company’s products and aims at best-set promotional activity to retain more number of consumers, in turn improve the productivity.
Objectives of the Study

1. To examine the Demographic profile and the awareness of the Endowment Policyholders in Perambalur district.
2. To analyze the major factors influencing the policyholders in the choice of policy in relation to selected Endowment Plans.
3. To assess the factors underlying consumers perception towards policy lapse and revival of policy in selected Endowment plans.
4. To evaluate the policyholders’ behavioural relationship existing between the various dimensions such as Product services, Product attributes, Product information, Risk coverage aspects by using Structural Equation Model (SEM).
5. To determine the order of significance in connection with the physical facilities existing in LIC.
6. To identify the reasons to switch over from LIC to other Private Insurance Companies.
7. To offer findings, suggestions and conclusion.

Methodology

The universe for the study is comprised of the Endowment policyholders (consumers) of LIC in Perambalur district. With the use of Stratified Simple Random sampling (disproportionate) method, 980 respondents are selected. The required data has been collected from primary and secondary sources. The primary data has been collected from sample respondents through structured questionnaire and the secondary data has been collected from journals, magazines, annual reports and general discussions with company people. Data has been analyzed using Chi square
test, ANOVA, Factor analysis, Henry Garrett’s Ranking Method and Structural Equation Modeling and interpreted for meaning inferences. The policyholders (consumers) whose policy is in survival alone are taken for the study and their opinion is also asked in general relating to the study. A detailed methodology process is dealt in Chapter V.

**Limitations of the Study**

- The population of the study confines only to the Endowment Insurance Policyholders in Perambalur district.
- Due to time and cost constraints, Perambalur district alone is taken for the study.
- There are various policies in LIC, but the study confines only to the Endowment policy. The Top Seven Endowment plans alone are taken for the study based on the familiarity of the Endowment policy during the past five years in Perambalur district.
- The findings of the study are purely based on the responses given by the respondents.
- The process of collection of data is a real challenge as it consumed considerable time to collect information from the respondents. However, adequate care has been taken to collect the unbiased data.
- The Researcher finds it very difficult to collect the Endowment Policyholders (consumers) List, as it is purely based on the secondary data information maintained in the company. However, with the help of an Assistant Administrative officer in LIC, the data has been collected for the intensive study.
- The study is confined only to policyholder’s behaviour of LIC and other related issues are beyond the purview of present study.
Chapter Scheme

- The First chapter is an Introduction and Design to the study. It explains in general about Insurance, Life Insurance policies and its operations. It also gives a brief outline about the Statement of the problem, Scope, Objectives and Limitations pertaining to the study.
- The Second chapter focuses on Profile of LIC, Indian Insurance Industry – An Outlook and Area Profile.
- The Third chapter deals with Life Insurance and Consumer Behaviour Conceptual Framework.
- The Fourth chapter is Review of Related Literature on Life Insurance.
- The Fifth chapter describes the Methodology adopted for the research and includes aspects such as tools used for data collection, Sampling method, and reference period.
- The Sixth chapter is an Analysis of Consumer (Policyholders) Behaviour towards Endowment Policy of LIC. The various hypothesis are analyzed and interpreted based on the results obtained from the statistical analysis.
- The Seventh chapter contains the major findings, suggestions and conclusion for further research.