CHAPTER – I

INTRODUCTION

In India, Insurance Sector has not only been playing a leading role within the financial system but also performs a significant socio-economic function, making inroads into the interiors of the economy. It has also been facilitating economic development with an objective to build an efficient, effective and a stable insurance business in India as well as a strong base to cater to the needs of both the real economy and socio-economic objectives of the country.

The insurance industry also provides crucial financial intermediation services, transferring funds from the insured to capital investment, which is crucial for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. Development of the insurance sector is, thus, necessary to support the structural changes in the economy.

Historical Background of Insurance:

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era its beginning date back almost 6000 years.
In Babylonia, traders were encouraged to assume the risks of the caravan trade through loans that were repaid with interest only after the goods had arrived safely. In Europe, with the growth of towns and trade, the medieval guilds undertook to protect their members from loss by fire and shipwreck, and to provide decent burial and support in sickness and poverty. By the middle of the 14th century, as evidenced by the earliest known insurance contract, marine insurance was practically universal among the maritime nations of Europe.

In London, Lloyd’s Coffee House (1688) was a place where merchants, ship owners and underwriters met to transact business. By the end of the 18th century, Lloyd’s had progressed into one of the first modern insurance companies. In 1693, the astronomer Edmond Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest. The table which was corrected in the year 1756 by Joseph Dodson, made it possible to scale the premium rate to age; previously the rate had been same for all ages.

Insurance business was developed rapidly with the growth of British Commerce in the 17th and 18th Century. Prior to the formation of corporations which devoted solely to the business of writing insurance, policies were signed by a number of individuals. Each of these individuals wrote his name and the amount of risk he was assuming underneath the insurance proposal, and thus the term underwriter become popular. The first joint stock company to engage in insurance was chartered in England in 1720. After 1840, with the decline of religious prejudice against the practice, life insurance entered a boom period. In the 1830s the practice of classifying risks began. In 1835 New York called attention to the need for adequate reserves to meet unexpected large losses;
Massachusetts was the first state to require companies by law (1837) to maintain such reserves. The Great Chicago Fire (1871) emphasized the costly nature of fires in structurally dense modern cities. Reinsurance, whereby losses are distributed among many companies, was devised to meet such situations and is now common in other lines of insurance.

The Workmen’ 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, which attained major importance with the advent of automobiles. Thus, based upon the nature of risk coverage, insurance business can be classified into long-term i.e., Life and General or non-life insurance. While the General insurance firms in India are main providers of risk financing for man made disasters and natural catastrophes, the life insurers support economic growth and also facilitate economic development, by mobilizing long-term savings and offering insurance cover to a large segment of people.

**History of Life Insurance in India:**

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them.
Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period.

Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But this Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

The first two decades of the twentieth century saw lot of growth in insurance business. From 44 companies with total business-in-force as Rs.22.44 crore, it rose to 176 companies with total business-in-force as Rs.298 crore in 1938. During the mushrooming of insurance companies many financially unsound concerns were also floated which failed miserably. The Insurance Act 1938 was the first legislation governing not only life insurance but also non-life
insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938 was introduced in the Legislative Assembly. However, it was much later on the 19th of January, 1956, that life insurance in India was nationalized and the Life Insurance Corporation (LIC) has been established by an Act of parliament.

Later, after four decades the insurance sector was liberalized in the year 2000. The private insurers commenced their business in Indian soil again as it was in the pre-nationalisation period. Started with 4 private life insurers namely HDFC - Standard Life, Birla Sun Life Insurance, ICICI - Prudential, Max New York. In 2000-01, the number of private insurers increased to 17 in the year 2007-08.


**Insurance and Indian Economy:**

India’s macro-economic performance in the year 2007-08 in terms of GDP growth was high at 9 percent. While GDP growth originating from agriculture sector was 4.5 percent and from industry sector was 8.1 percent the services sector continues to grow at double digit level i.e. 10.7 percent in 2007-08. Of all the services, the share of Financing, Insurance, Real estate and Business services sector, in real GDP remained a high 14.7 percent in the year 2007-08.

Latest estimates on GDP in this sector shows that the banking and insurance sub sector alone recorded a growth of 19.71 percent in 2006-07. In this sub sector, while banking showed a growth of 17 percent, insurance recorded a growth of 34.5 per cent 2006-07 over 2005-06.

Preliminary estimates of household financial savings released by RBI also revealed a change in the pattern of the household savings in 2007-08 from that of 2006-07. The share of insurance funds in households savings increased from 14.9 percent in 2006-07 to 17.5 percent in 2007-08 reflecting household’s desire for insurance and availability of innovative and customized products. Thus, though insurance primarily is a risk cover instrument, it gains the status of the second best savings mode following bank savings in India. (Source: Annual report of IRDA 2007-08 pg5)

The postal insurance and state insurance have only marginal share and growth in the insurance funds. But the main contributor to the insurance funds is
the life insurance sector. This savings in the form of life insurance funds increased to 16.9 per cent in 2007-08 from 14.4 percent in 2006-07. Thus the life insurance sector remains one of the important accelerator of the growth of our economy.

**Changing needs of Insured:**

Life Insurance penetration is the ratio between life insurance premiums to the GDP. This ratio is 4 % in India while the world average is 4.40 percent and the Asian average is 4.60 for the year 2007. But countries like South Korea, Japan, Taiwan, Hong Kong, Israel, Singapore, South Africa, and Trinidad and Tobago outshine India in this aspect with better penetration ratios. Similarly, even in the insurance density counts i.e., premium to the total population, India has a meager score of 40.4, while the world’s average score is 358.1 and the Asian average is 156. Even the Latin African countries like Trinidad, Chile, Jamaica, Panama, Argentina, Brazil, and Mexico have better density figures. So, there is still a wide scope of improving the penetration and density which was one of the main motives of privatizing the insurance sector in India. If the customer gets satisfied the penetration of the business will be easier and the insurance density also could be enhanced.

Customers of today are better educated, better informed, more selective, and highly individualistic. In respect of life insurance, potential buyers are driven to buy a policy for one or more times for three major reasons; covering the risk, saving for one or more specific purposes, and availing tax benefits. The challenge of the insurance companies is to address the motivating factors imaginatively and come up with genuine solutions.
The opening up of the market has certainly ensured that the competitive nature of business has improved the efficiency levels in customer service. But it has not reached a stage at comfort. The large number of customer complaints and grievances is a silent testimony to this fact. There is an immediate need for taking on these problems and analyzing the deep rooted reasons for the same.

**Insurance Need for Women:**

Vashinshtha Dharmasutra (5/1, 2/1, 3, 44, 45) coveys that it’s the father’s duty to protect a girl during her childhood, the husband’s when she is young and the son’s when she is old. In a country where the religions being practiced pronounce it to be a man’s duty to protect and ensure a women’s welfare, culturally it is assumed that life insurance is always bought for women.

Traditionally most life insurance companies used to look for a certain type of customer-healthy, young or middle – aged, non smoking, males. Insurance companies target men obviously since they are apparently the breadwinners in families. So even when it comes to life insurance, women have been deprived of equality. But in reality women live longer than men. Many life insurers operating in western countries charge a lesser premium to women as compared to men of same age, simply because statistics reveal that women live longer than men and they carry lesser risk of dying early on their lives.

Life insurance business that talks the language of Human life Value, across the globe has been gender – selective in its approach to a certain extent. The human life value of today’s women, who are visibly playing an increasing economic role in society remains to be suitably recognized through life
insurance. Officially, 22.3 percent of women were reported to be working in India as per the last census. However, the unofficial figures show that in rural areas, 86 percent of women are engaged in agriculture. (Source: Veena Khan, Life Insurance for Women of Women, by Women, Yogashema, 2002)

In the secondary sector they work in agro based and ancillary industries such as beedi manufacture, cashew processing, coir products etc. Apart from this, women spend most of their time on tasks which are statistically less visible, non-monetized and are beyond the realm of ‘economic activity’. Women account for 60 percent of the unpaid family workers, and 98 percent of those engaged in domestic work.

Women engaged in these tasks are reported as ‘not working’ for the census data and are not considered as contributors to National Income in any country. Despite the direct or indirect economic contribution to families and society, women are greatly underinsured or worse, in most cases, carry no life insurance coverage at all.

Today an increasing percentage of married women bring home a pay cheque. Husbands and wives are economic partners and today’s two – income families depend on both the pay cheques to make ends meet. But when it comes to buying insurance, women shy away and she does not realise the need for insurance. Most of the women believe that their passing away may not make a big financial difference to the family because the husband’s income will still take care of the family’s needs.
The earlier generation was the ‘save now – buy later’ type. The current generation is ‘buy now – pay later’. In most cases the wife is either a co-loanee or a guarantor. In such a case, the extent of financial hardship a husband would go through if the wife passes away without any insurance coverage doesn’t need to be spelt. In single income households, the surviving partner takes up a job and one income keeps coming as earlier. But in double income households, demise of one partner reduces the family income considerably, a loss that can be taken care of by life insurance.

The women who stay home to take care of domestic responsibilities and raising children also need life insurance. Domestic services, while in many respects are beyond values, are worth tens of thousands of rupees a year. Anyone who has a ‘Human Life Value’ and ‘Insurable Interest’ needs insurance. A ‘stay-at-home mother’, is thus important.

While salaried women are treated at par with men for allowing insurance, there are some restrictions that are applicable to women falling in other categories. These restrictions are imposed on them considering the extent of moral hazard involved in insuring their lives and to take care of the well-being of women. In the case of women insurance applicants the element of moral hazard assumes greater significance. Wherever there is no need for insurance protection, or insurance sought appears to be speculative, such risks are not entertained. In the matter of risk appraisal of female lives particular attention is paid to i) socio economic status of the applicant ii) need for Insurance iii) physical hazards peculiar to female, and iv) moral hazards involved.
Scope of the study:

The life insurance industry in India services the largest number of life insurance policies in the world. Till the privatization of insurance sector in the year 2000, Life Insurance Corporation was the only life insurer in India enjoying 44 years of monopoly. By the end of March 2008 there were 18 life insurance companies operating in India. Apart from these 3 new life insurers were given certificate of Registration by the IRDA.

Of these 18 life insurance companies, the Life Insurance Corporation of India (LIC), the only public sector life insurance company, still remains at the top in all the key aspects. In 2007-08 its market share in terms of total premium was 74.39 per cent, in terms of renewal premium 83.42 per cent in terms of single premium 86.99 per cent and in terms of first year premium 64.02 per cent And only the balance is shared by all the other 17 private insurance companies.

LIC is the largest Financial Institutional Investor in the country with the investment of Rs. 6,74,475 crore in 2007-08. To the tenth five year plan, the contribution of LIC to resource mobilization was to the tune of 1, 80,000 crore. Its new business gets doubled every three years. LIC’s bonus rate increased by 140 per cent in the last decade. Its claim ratios were better than those of several foreign companies. Even in competitive scenario, LIC has registered the world’s highest growth rate, as it was in the year 2001-02, creating history in the insurance sector.

LIC bifurcated its business into 7 Zones, of which the South Zone consists of 12 divisions in 2 States, namely, Tamilnadu and Kerala. Kerala has 4 divisions namely Ernakulam, Kottayam, Kozhikode and Trivandrum. Tamilnadu has 8
divisions namely Chennai I, Chennai II, Coimbatore, Madurai, Salem, Thanjavur, Thirunelveli and Vellore. Of all the divisions in Tamilnadu, next to Vellore, Thanjavur Division occupies the second place in the absolute volume of policies underwritten for all the four years from 2004-05 to 2007-08.

The Thanjavur division of LIC, serves 10 districts of Tamil Nadu and Pondichery namely Karur, Trichirappalli, Pudukottai, Ariyalur, Perambalur, Thanjavur, Thiruvarur, Nagapattinam & Karaikal. Of all the 27 branches situated in 10 districts a higher number of six branches are situated in Thanjavur District alone. Thus Thanjavur district is one of the valuable contributory to the successful performance of Thanjavur Division and in turn to that of the entire south zone.

In Thanjavur district, the female population as per 2001 census was 1113818 outnumbering the male population of 1091557. But the new business communication reports of Thanjavur Division reveal that only 35.55 percent of the number of policies 31.65 percent of the sum assured, and 33.44 percent of the premium were from female life. The latest census of the country, further, reveals the fact that the life expectancy is higher at 63.53 years for women which are 62.22 for women and because of the higher longevity the female lives are less risky to insure.

Similarly, the sex ratio also improved to 933 from 927 which were prevalent in the previous decade and because of this better sex ratio coupled with improved literacy and employment, the female lives constitute a higher potential segment of insurance hitherto untapped. But, on the other hand, the insured women constitute only a less than 20 percent of country’s total insured women. Against this background of newly liberalized life insurance sector with customer centricity, the highly untapped but potential market in female segment
needs to be given importance. So, this study aims to analyze the expectations, perception and existing level of satisfaction among the women policyholders.

**OBJECTIVES:**

1. To examine the nature and extent of life insurance coverage opted by insured women in organized and unorganized category.
2. To analyze the determinants of life insurance demand.
3. To study the criteria followed by women policy holders while selecting an Insurance agent and their level of perception on and the satisfaction about the performance of agents.
4. To estimate the level of perception of insured women on the performance of LIC with the private insurer over various aspects.
5. To measure the extent to which women policy holder’s expectations are satisfied.

**HYPOTHESES:**

1. The life insurance premium amount is higher in case of insured women in the organized category than those in unorganized category.
2. Demand for life insurance is positively related with the level of income and education.
3. The women policy holders select the agent upon the suggestions of friends and relatives than other criteria.
4. Though the women policy holders are welcoming the private insurance companies, they are not willing to take policies in the private companies.
5. Expectations of the women policy holders are not fully satisfied.
Methodology:

Area of Study:

This study is restricted to the Thanjavur District which comes under the Thanjavur Division of Tamilnadu, which is considered as one of the top divisions of Southern Zone of LIC of India. The respondents are selected only from Thanjavur district and only those women policyholders who have Life insurance policies of Life Insurance Corporation of India alone were interviewed.

Period of Study:

As Indian insurance industry got liberalised in the year 2000-01, the performance of Life Insurance Corporation of India at country level for all the seven years from 2000-01 to 2007-08, in comparison with all the private players were investigated. The Primary data were collected in the year 2005-06 and 2006-07.

Sample Design:

The LIC entertains proposals for female lives under three categories. Category I women with earned income and Professional income, category II women with unearned income and category III with self employed and others. From the informal discussions with Divisional Manager of LIC and with LIC Agents, it is learned that category II women are very rare in Thanjavur and Category I and III women policy holders are equal in number. So, Non-probability quota sampling method was adopted and a total of 100 samples from each of the two categories I and III was selected. For the purpose of this research through a specially designed schedule, data were collected from all the 200 respondents.
Apart from the primary data, secondary data were collected from the office reports of LIC Thanjavur Divisional Office, print and e-publications of IRDA and LIC. The Published research works of insurance economists all around the globe, websites, insurance journals and pamphlets are also used.

**Tools for Analysis:**

The collected data are processed and presented in the form of tables and the statistical measures like Karlpearson’s coefficient of correlation, normal distribution test, chi-square test, Kolmogorov-Smirnov test, factor analysis, satisfaction Index, weighted averages and percentages are used.

**Scheme of thesis:**

**CHAPTER I: Introduction** - 1.1 A general introduction on the topic - 1.2 Importance of the problem- 1.3 objectives, hypotheses, methodology and limitations is given in this chapter.

**CHAPTER II: Review of Literature** – 2.1 A brief review - 2.2 Theoretical background - 2.3 Relevant concepts are given in this chapter.

**CHAPTER III: Profile of the Study Area** - 3.1 Area Profile – A profile of Thanjavur District - 3.2 Industrial Profile – International comparison in terms of Insurance penetration and density - Insurance in Indian Economy – 3.3 Product Profile - Summary of Products of LIC – 3.4 Process Profile - Practice of LIC in underwriting female life.
CHAPTER IV - Analysis and Interpretation: A detailed analysis of the women policy holders’ perception and satisfaction about various features of the policy, agent and the services provided by LIC are detailed in this chapter.

CHAPTER V: Findings of the Study and Recommendations – 5.1 Important findings of the present study are given -5.2 The measures to be taken for improving level of satisfaction of women policy holders - 5.3 Scope for further research are also suggested in this final chapter.

Limitations:

1. The study aims to analyze only individual life insurance policies and not the group insurance policies, health insurance policies, postal life insurances and Employees State Insurance, taken by the women policy holders.
2. The study does not deal with other diversified activities of LIC like mutual funds, and housing finance.
3. Primary data cannot be considered as cent percent accurate because of the respondent’s inability to remember certain facts premium amount, year of purchase, even name of the policy and the general tendency to over estimate the expenditure and under estimate the income. But effort has been taken to reduce bias and inaccuracy to the minimum.
4. The study deals with the satisfaction level of the women policy holders of LIC alone. Though a few of them have the policy of private insurers also, their satisfaction towards the private insurers is not taken into account.