Chapter -II
REVIEW OF LITERATURE

As it is aptly insisted in Life Insurance Council’s Code of Best Practice for Indian Life Insurers, as a trustee of policy-owners’ savings, a life insurance company has the responsibility to safeguard customers’ interest at all times and ensure their continued confidence in the integrity and professional conduct of life insurers. The policy-owner’s trust placed on the managers of life insurance companies casts a heavy responsibility to ensure that their institutions are professionally managed at all levels and they do, and are seen to, conduct their business with the highest level of integrity. If the insurers understand all the expectations of the insurers and do their best to meet them, customers are said to be satisfied.

Thousands of consumers are dissatisfied with the way their claims are served despite spending money on insurance policies and premium. A nationwide study of four insurance sectors life, health, home and motor insurance was conducted by Voluntary Organization in Interest Consumer Education (VOICE), India’s leading consumer organization. Surveying 3600 consumers in 8 metros, the study included 12 Life Insurance and 11 Non life Insurance companies. Interestingly, this study revealed that none of the company has a satisfied customer base.(Source: India’s First ever Customer Satisfaction on Insurance Sector)

Public sector Insurance companies despite their long standing presence in insurance sector are losing out the customer base as consumers lose confidence in their service. The life insurance study found that, though LIC still have lions
share with 80% of the market, is no longer the only option that customer is considering. Now product differentiation is at its peak in the Life Insurance sector with private players allowing maximal grace period for payment of premium, prompt service.

The studies relating to customer satisfaction of Life Insurance women policy holders are very few. The available studies are in the form of research articles, various committee’s reports and surveys conducted by LIC. No comprehensive study has been taken up so far on women customer satisfaction in life insurance. An attempt has been made here to briefly review the previous studies made in the area of women customer satisfaction of life insurance and arranged in the order of reviews dealing with life insurance, which was followed by reviews on LIC, insured women, and customer satisfaction.

a. Reviews on Life insurance:

Shejwalker (1989) in his article “Training in Life Insurance Marketing” discussed the importance of trained agents’ force to develop the life insurance business. He stressed that present selection pattern of the agent should be changed. He expressed his opinion that private or independent institute should be invited to impart training to the agents.

Shesha Ayyer.V. (1999) in his article entitled, New Insurance products in the next century”, forecasted the importance of insurance cover at old age.

He forecasted that because of the advancement of medical facilities and the possibility of aged living, pension scheme would become popular though at a slow pace.

Vijayavani.J., (1999) in her prize winning technical paper entitled “Cost effective distribution channels of life insurance products” suggested that to tap policy holders, insurance tie-ups with banks, mutual funds and benefit consultants and brokerage and benefit consultants, company and fund managers can be introduced.

Holsboer Jan H (1999), investigated the link between insurance sector development and economic growth in context with the recent changes in the external environment for insurance companies in Europe. He developed a model based on the interest rate \( r \), growth of the working population \( n \), the economic growth rate \( g \). The benefits of the pay pension system of the funded pension system were analysed in this model.

Prof. Mike Adams (1999) and others examined the dynamic historical relation between banking, insurance and economic growth in Sweden using time-series data from 1830 to 1998. They examined long-run historical trends in the data using econometric tests for co integration. The results arrived indicate that


the development of domestic banking, but not insurance, preceded economic growth in Sweden during the nineteenth century. They also found that the development of bank lending in the nineteenth century increased the demand for insurance as well as promoting economic growth. In contrast, the insurance market appears to be driven more by the pace of growth in the economy rather than leading economic development.

Vijay Srinivas (2000), found that lack of understanding among the public, lack of availability of new schemes, low income yielding are the main reasons for low priority for insurance in India and he suggested return linked insurance, for the more successful penetration.

Michael G. Faure Metro (2000) examined the condition for compulsory insurance. He also made distinction between first-party insurance and third-party insurance. The major argument in favor of compulsory liability insurance was insolvency of the potential injurer. His insolvency may lead to under deterrence. This can be cured through making the purchase of insurance compulsory. He also accepts the fact that there are few limits and warnings with respect to the introduction of compulsory insurance. If the moral hazard problem cannot be cured or if insurance was not sufficiently available, making insurance compulsory may create more problems than it cures. He also argued that a major disadvantage of compulsory insurance is that it might make governments too dependent on the insurance market. The economists also have warned against the increasing use of liability insurance linked with strict liability regimes and have

Vijay Srinivas K.B., “How returns linked insurance products can be popularized?”, The Insurance Institute of India, journal of July-Dec, 2000, p.67

often pointed out the advantages of first party insurance schemes. In a first-party insurance scheme, the victim insures himself directly with an insurer or a third party takes insurance directly to the benefit of the victim.

Indeed, there was often a small line between first-party accident insurance or health insurance and social security systems. But the information deficiency argument should be clearly distinguished from the argument that insurance was beneficial since it generally removes risks from risk-averse persons and thus increases their utility. There is always a danger that the information asymmetry is assumed to quickly justify a regulatory intervention. In the absence of a proof of information deficiency, a generalized duty to insure would amount to mere paternalism and could create inefficiencies, since also persons who have no demand for insurance might be forced to take out insurance coverage. He concludes that compelling all citizens to purchase mandatory accident insurance may thus lead to a negative redistribution.

Mittal R.K. (2002) in his article “Privatisation of life insurance sector in India -impact and perspective” stated that 10 percent of agents procured ninety percent of business and remaining ninety percent of agents procured ten percent of the business. Most of the agents did this as a part time job. As a vast population remains untapped these inactive agents should be encouraged, he suggested.

Prof. Stefan Dercon (2004) explained that how villagers with few links to any formal kind of insurance market have established membership based indigenous insurance associations to protect themselves against unexpected expenditures, mainly for funerals and hospitalisation. Many of these institutions

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tend to co-exist within the same community and are based on well-defined rules and regulations, often offering premium-based insurance for funeral expenses, as well as, in many cases other forms of insurance and credit to help address members. They were locally initiated and have been continually developing through the actions of their own members, without involvement from the government or donors.

Historical analysis from some survey areas in Ethiopia and Tanzania has shown that these groups were not “traditional” whereas they are often relatively new creations and have certainly been evolving and changing. Analysis from a survey of these associations, matched with household data on the members and the population at large has shown that these groups manage to insure a sizeable part of the expenditures attached to at least some shocks.

When different groups offer different products this leads to the emergence of a localized insurance market and introduces an element of choice for the households. Unfortunately, despite these attractive characteristics, people are still found to be severely affected by different manifestations of risk. He further concluded as the Ethiopian funeral associations are likely to come under increasing pressure in the next few years if HIV/AIDS makes increased premiums necessary.

Ortiz and Kishore Ramchandani (2004), dealt the Component-based Business Modeling (CBM) in their article, “Staying competitive on the life and pensions turf”. They explained it as a combination of business transformation connected with IT strategy and sourcing. Industry leaders are using CBM to

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Prof. Stefan Dercon, Oxford University, Prof. Joachim De Weerdt “Membership Based Indigenous Insurance Associations in Ethiopia and Tanzania” Initiatives Report by Tanzania Tessa Bold and Alula ankhurst Addis Ababa University, Ethiopia, 2004.
break down traditional business silos. With CBM, they are able to map business strategy to components and identify key areas of competitive differentiation and understand opportunities to maximize the efficiency of non-strategic components.

The CBM projects involve three phases. The first phase of CBM is ‘Insight’, which develop a component map for the enterprise by which the building blocks of the firm are defined, and areas of opportunity are identified. The second phase is to ‘Reengineer’ and ‘Rethink’ where the business is assessed and gaps are analyzed. Implementation was the third phase of CBM where the opportunities are prioritized and a transformation plan is developed. The authors bring out the fact that some insurance companies follow certain high-cost process which is often repeated and makes a huge shortfall in funds which are needed for new investments. They suggest improvements in three critical areas such as efficiency, strategic planning and flexibility, so that the companies can achieve significant business flexibility along with tremendous operational savings which in turn achieve the target.

H.Sadhak (2006) in his article ‘Life Insurance and the Macro economy: Indian Experience’, has observed that there is a very significant relationship between the demand for life insurance and various macroeconomic variables. High growth of GDP induces an economic effect through higher per capita and disposable income and savings, which in turn create a favourable market demand for life insurance. On the other hand, life insurance also provides support to the

capital market and savings data pertaining to Indian life insurance and macroeconomic variables broadly indicate a close relationship and interdependence between macroeconomic variables and life insurance demand.

However, it has also been observed that in India, while the economy in general and disposable income and savings in particular, has registered a significant growth, life insurance demand has not picked up or alternatively the life insurance industry could not capitalize on the growth of income and savings. Therefore, in order to capitalize the growth potential particularly in the post liberalized economy, concerted efforts need to be made to create awareness about personal financial risk management.

A. K. Shukla(2006), in his article stressed the need for insurance companies to have structured systems in place of gathering and monitoring information on the customer. According to him, the major challenge is to set the correct standards of product and service. Experience shows that most companies possess product and service standards and measures that are company defined which are established to reach internal company goals for productivity, efficiency, cost and technical quality, but which cannot lead to market orientation.

The real standards set by the company must be based on customer requirements and expectations which were visible and measured by the customer. These standards were deliberately chosen to match customer expectations and to be calibrated the way the customer views and expresses them. The rules of engagement between the company and the customer are changing dramatically. Traditionally, customers were viewed as passive demand targets. But migration
of customers from company, centric supply chains to the new frontier of customer, centric experience network through sustainable value, and creation of chains was the greatest marketing challenge before the Indian insurance industry. The author concludes by expressing the need for deep understanding of the customer, trends identification, assess customer desires and preferences.

Parimal and Joshi (2006) in their research on “Insurance sector in India: A SWOT analysis”, observed that in India, out of 80 million insurable individuals, only 20 million have purchased life insurance, which implies that merely 10 percent of the household families have access to Insurance. India’s Insurance market offers immense growth opportunities considering rising disposable income levels of the middle class. Insurance penetration has doubled to 3.6 percent during 2003-06. According to the authors, insurance has been seen in India as a savings and tax minimization instrument rather than as a financial protection tool. The Malhotra committee suggested that structural changes as a key recommendation to initiate reforms in the insurance sector of India.

Prof. Prashanta Athama and Prof. Ravikumar (2007) in their study identified the factors which the consumers take into consideration before selecting the life insurance products. They classified those factors into product attributes and non-product attributes. They found that urban policy holders and


product attributes like product features, risk coverage, product flexibility, surrender of policy, loan against policy, revival of lapsed policy, grace period, and maturity period, are positively associated. So they suggested that insurer should concentrate on improving the product attributes to have more penetration in urban areas. On the other hand, they found that rural policy holders and non-product attributes like agents and company are positively associated. So they suggested that insurer should concentrate on improving the non-product attributes to have more penetration in rural areas.

Dr.K.C.Mishra(2007) in his article, “Indian Life Insurance Industry – Challenges and Opportunities”, explained in essence that insurance will have issue and solution around five risk dimensions like d1 for death risk which is certain but time is uncertain, d2 for disease risk which has a high correlation with timing of death, d3 for dependency risks which will lead to annuity and pension products, d4 for duty risks which centres around education of children, marriage, funeral, acquiring a shelter etc. and d5 for disasters collateral to life like accidents and mass co-variances arising out of failure of coping arrangements in traditional society. He suggested many measures to foster the growth of insurance industry.

Sandeep Ray and Joy Chakraborty (2008) focused their research on the ins and outs of the strategies adopted by the private life insurers to overcome the product-selling challenges in the Indian life insurance market. Low consumer


response, lack of knowledge about insurance benefits, lack of trust in private life insurance companies, target oriented business environment, competition from alternative channels of investment, ineffective distribution channels, lack of skilled agents, lack of penetration in rural areas, inadequacy in pay structure of the agents and trade barriers are the problems faced by the private insurance players in India.

The authors suggested some strategies like innovative products, user friendly technology, innovative and integrated marketing strategy, and incentives to the high performing agents and alternative distribution channels, to overcome these challenges. The authors concluded the reason for Indian insurance market still struggling at a nascent stage is the low penetration in the rural and semi-urban regions and suggested that both LIC and private life insurers should do the needful to start penetrating more into the remote areas of the country through attractive product offerings.

b. Reviews on LIC:

In 1987, the planning wing of the LIC Divisional office of Thanjavur conducted a survey on “customer satisfaction”. The objectives of the study were to find the level of consumer satisfaction regarding the services of LIC, particularly on the aspects such as timely dispatch of discharge forms, reminders, the cooperation given by the agents and development officers, courtesy and sympathy of LIC officials, receipt of the policy amount within the due date etc.

Customer satisfaction, Special study No.1, 1987, Planning department, Divisional office, LIC, Thanjavur Division.
The results of the study revealed that discharge forms were received before the due date by seventy nine percent of the policy holders. Eleven percent of the policy holders approached the agent or development officer for help in the submission of the requirement and they were happy with the services rendered by them. Twenty percent of the policy holders submitted the requirements after receiving a reminder from the branch office. Two percent of the policy holders revealed that they had to visit the branch office for the cheque as there was delay.

Mishra, M. N. (1987) made a study to appraise the marketing strategies of LIC of India. While reviewing, the author expressed the view that, before 1980 LIC did not give much attention to the objective of customer satisfaction: but from 1980 onwards it has taken several remedial measures to provide better customer services and improve the customer satisfaction. However the author expressed the weaknesses of LIC as existence of more number of dormant agents and lack of training and motivation among officials.

The Insurance Institute of India (1987) prepared a project report on performance of life insurance. This project was undertaken to examine the awareness attitudes and beliefs of people on life insurance and LIC. The important conclusions arrived at from the study are life insurance agents do not maintain regular contacts with the policy holders. But most of them are available whenever they are called and most of the policy holders have brought security to the family and one seventh of the insured policy holders are not sure of the benefits under the life insurance.

The National Council of Applied Economic Research (NCAER) conducted two surveys in 1988 and 1989 on “Appraisal of quality service in service organizations” and “Quality services in LIC” respectively. They found that reliability; response, capability, politeness, communication skills, safety, trustworthiness and understanding are the factors that constitute quality of service of employees by the consumers. The second study reveals the fact that customers who received premium notices in time and good services at cash counter are of the view that quality of services as excellent and few policy holders rated the service as poor because of delay in claim settlement and heavy confusion in transfer of policies.

C. Reviews on Insured Women:

Dr. Rernat Vera Meister (2001) explained that a lot of feministic studies were concerned with recovering the tremendous inequalities and the shocking lack of equity between the genders in the history and at the present. Research shows that there is a gender inequality in terms of income, respect and leisure time, a distinct greater likelihood for women to be poor, discriminated and marginalised.

As a lot of problems are very deeply rooted in ideology, religion, social norms and customs, it is an extremely complex process to achieve any progress. Nevertheless, even if we claim economical equality we thoroughly have to avoid the temptation to walk into the trap of determinism, i.e. to look at economy as a

kind of static distribution of resources. So the task of shaping the future have undoubtedly to be based on the analysis of present and past. But we must immediately go beyond it and grasp the future as a dynamic process with risks and uncertainties which causes threats.

Dr. Rudrasaibaba (2002) has conducted an enquiry on “Perception and attitude of women towards life insurance policies”. The study revealed that seventy percent of respondents interviewed are satisfied with the services offered by LIC. An attempt was also made to know the reasons for dissatisfaction. The study revealed that intensive advertisement is not given by LIC about new policies with the result the respondents are not in a position to know which policy highly suits their requirement. Many of the respondents opined that agents are not concentrating on the customer’s service. With the result, they are facing some inconvenience regarding the payment of premiums on due date and could not avail other benefits from LIC like policy loan, housing loan, etc. Hence, there is a need to improve customer’s relations by LIC for the increased satisfaction of the consumers.

David R. Weir & Robert J. Willis (2003) in their study evaluated the risk of un-insurance for divorced and widowed women, who form an important and vulnerable population. Population of women potentially vulnerable to loss of coverage in the event of divorce or a husband’s death. The incomplete coverage


of both men and women in the fifty to sixty-four age groups implies that, for some couples, the illness and medical expenditures that precede death can have a substantial negative impact on the financial security of a widow. Distinguishing between absence of coverage while married and inability to continue coverage after widowhood is important for two reasons. First, it separates the negative impact of husband’s death into effects associated with the husband’s medical care and effects associated with subsequent needs by the widow. The researchers found that, the un-insurance rates for widows are nearly double than that of married women. Divorced and never-married women are more likely to be uninsured than married, but less so than widows. Non-married women are much less likely to have employer-based coverage and more likely to have public insurance, Medicare. Marital status is clearly associated with health insurance coverage.

The authors also explained that, while married women who become divorced have very similar initial coverage rates as women who remain married those who become widowed have substantially lower rates while still married. A likely explanation is that husbands with higher mortality risk are less likely to provide coverage for their spouse. They also stated that, newly divorced women are actually less likely to lose insurance than women who stay married. New widows are more likely to lose insurance than women who stay married and also compared with women who have already been widowed. Widowhood thus seems a more important cause of uninsurance than divorce, perhaps because women who divorce are better prepared to be alone.

d. Reviews on Customer satisfaction;

Lawler Edward (1995) explained that companies are successful which possess quality service in the top of their vision list. Protective Life Insurance Company depended on Loma’s FOCUS Customer Service Survey to get feedback from customers on how they were being served. They measured customer satisfaction differently and determined the most common causes for customer dissatisfaction and to eliminate them. The Insurance companies basically have similar products, similar services, and similar technology. In fact, everything the company does was tied to its core values which inurn tied with its employee’s performance. Employees agree with this continuous improvement process. They conclude as people never like to buy insurance, so service provider must make it as easy and pleasant as possible and that was one focus of continuous improvement in service provided for the benefit of the customer.

Gregory A. Kuhlemeyer (1999) conducted a research on consumer satisfaction relevant to the purchase of life insurance products and compares satisfaction in a agent assisted transaction with satisfaction when no agent is used. Benchmarks, identified for consumer satisfaction, are the life insurance product, the agent, and the institution. The hypothesis of the study was that, consumer satisfaction with the life insurance purchase is primarily a function of


the trust of a policy holder on his agent or on the insurance company, agent's competence, the product selected by the consumer, the financial safety, and fulfillment of consumer goals.

The agent assisted versus direct placement of individual life insurance was compared and found that consumers are highly satisfied with their agents, when they believed that their agent is trustworthy, knowledgeable, selling only the appropriate products. On the other hand, academic background, professional designations, a long business history, age, gender, or marital status of the agents do not influence consumer satisfaction. In the same way, consumers are highly satisfied with their firm, only when they perceive that their life insurance firm provides a portfolio of products that will meet their financial needs, employing competent representatives, and creates a trusting relationship. Purchasers who use the agent alone are more satisfied with their insurance company than purchasers who use both an agent and the direct purchase approach. In the same way, the direct sales method scored the highest level of satisfaction because purchasers trust their life insurance company very highly. They also found that, single premium policies secured the lowest level of consumer satisfaction and term insurance, universal life, and whole life insurance give the higher level of consumer satisfaction, in that order.

Duncan I.Simester (1999) described two related quasi-experiments, one in the United States and one in Spain, in which a sophisticated, high-technology firm designed and implemented customer-satisfaction improvement programs. Although the interventions implemented in the two countries are differed in some respects, both interventions were targeted at five targeted customer needs and the same type of business-to-business customers are selected. In each country, the programs were implemented in ‘treatment’ regions, but not in ‘control’ regions and the firm collected pre-test and post-test satisfaction measures for targeted
and non-targeted needs. The intervention had a significant impact on satisfaction with the targeted needs in both countries. The data collected reveals the fact that the interventions were able to effect significant, enduring improvements in satisfaction with the targeted needs. Several natural assumptions found failed. For example, the firm believed ex-ante that the interventions were similar, seemingly inconsequential differences in empowerment between the Spanish and U.S. interventions appear ex-post to be important. Despite the use of state-of-the-art methods to identify customer needs, overall satisfaction responded significantly to effects that were not captured by the measured needs. There were unobserved ecological impacts on satisfaction which could only be accounted for, with a nonequivalent-dependent-variables design. Such designs are rare in industry. The absence of such controls in typical industry studies explains the growing concern among industry commentators that quality interventions do not yield their anticipated outcomes.

In U.S. the results were qualitatively similar, perhaps because there was no competitor because unobserved ecological changes in all customers needs. However, in Spain, where there was likely significant, but unobserved, competitive activity, the results change dramatically. There was still a significant impact on overall satisfaction and residual satisfaction, but there was no significant effect on the targeted needs and on the ancillary needs. Without the nonequivalent-dependent-variable controls, the analysis rejected the ability of the customer-satisfaction intervention to affect the targeted needs. It is also possible that industry would consider an even simpler model, which does not account for

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the reliability of the measures. One such model might simply examine the differences in the means between the pre-test and post-test measures. When the authors examined such model and estimate a significant increase in the targeted needs in the U.S. and a non-significant decrease in the targeted needs in Spain.

Tom Moormann (1999) explored how the life insurance industry is addressing the issue of measuring customer satisfaction, as satisfied customers are vitally important to life insurance companies, where retention plays a large role in determining a company’s revenue stream, and ultimately its profitability. The LOMA conducted a survey of its member companies. A total of 129 responses were received from 709 companies and the survey itself was divided into three general topics such as company measuring overall customer satisfaction, company measuring satisfaction with specific transactions, and evaluation of customer satisfaction information. Ninety percent of individual life products and seventy percent of disability products of respondent companies measured the customer satisfaction. Companies measure satisfaction with those products which were marketed to individual consumers. Roughly half of the companies measured customer satisfaction in an irregular basis, and substantial number of companies do not measure customer satisfaction at all.

The general types of information collected in customer satisfaction surveys are data on overall satisfaction (80% of respondents), satisfaction with product features and benefits (61%), and satisfaction with different aspects of the purchase process (58%). They conclude that customer satisfaction, though an important metric for evaluating business performance, was paid only an insufficient attention by the companies.

Stephen Diacon and Chris O’Brien (2002) conducted a study to determine the nature of systematic differences in persistency according to company size, efficiency, and ownership structure. Good persistency was also of vital importance to the financial performance of life insurance companies. Early withdrawal often means that product providers are unable to recoup their business acquisition expenses.

They use multivariate techniques to measure the relationship between withdrawal rates and those aspects of service quality that are correlated with variables such as size, growth of new business, the expense ratio, and the mutual/stock distinction. They, therefore, suggest that mutual insurers have a better persistency record than stock insurers, and the offices with lower expense ratios tend to demonstrate significantly higher persistency rates, and persistency seems to be negatively related to insurer size.

The results confirm the findings of previous research of Parasuraman (1985) that customer satisfaction with a company’s services is determined to a large degree by the quality of service the customer receives. Another important finding was that overall levels of persistency remain low, particularly for pensions business and policies sold by company representatives. It was also clear that poor sales quality leads to low customer satisfaction which again lead to low persistency. The essential idea was that persistency is an indicator of customer satisfaction.

Many policyholders have withdrawn from long-term commitments before their contract has expired, and the high initial withdrawal rates associated with

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these long-term savings contract provides tangible evidence of widespread customer dissatisfaction, and raises questions about the service quality. But the authors were unable to explain why persistency seems to be negatively related to insurer size. They concluded that as the causes of poor persistency tend to be complex and pervade many aspects of an insurer’s back-office operations and not just the sales process.

Dr Abdel Moniem Ahmed and Professor Mohamed Zairi (2002), conducted an analysis on ‘Customer Satisfaction’. Customer satisfaction is fundamental to the well being of individual consumers, to the profits of firms supported through purchasing and patronization, and to the stability of Economic and political structures. The authors introduced a methodology on how to carry out self-assessment in seven levels. The important finding is that, there are three groups of customers which are often neglected in the existing customer satisfaction programmes which are internal customers, channel members in consumer markets, and buying center members in business-to-business markets. They stated that an effective customer satisfaction programme must include management commitment and support, employees involvement and training, information gathering from stakeholders, customer contact and personnel data, warranty cards and service records, face-to-face evaluation, responses sorting, wants formulating and satisfaction and action plans. They found that, many companies seeking business excellence are assessing themselves against these nine criteria of the model and thus they first understand fully their today’s

Dr Abdel Moniem Ahmed, Bradford University, & Prof. Mohamed Zairi, Bradford University School of Management, “Customer Satisfaction: The Driving Force for Winning Business Excellence Award” Bradford University, Working Paper No.02/06. (March 2002)
position and use this benchmark to pursue continuous improvement. Thus, self-assessment in a regular, comprehensive and systematic way therefore reviews the organisation’s activities and gives the best results.

Prof. Edward C. Malthouse (2003) examined the relationship of overall satisfaction of a service with satisfaction of the service for organizations having multiple units. The customers explain their satisfaction with a product or service in terms of specific aspects such as the product attributes, price, customer service, or a combination of these various features.

This study explained how specific types of customer satisfaction affect overall satisfaction, with the help of slopes from regression analysis. Different subunits within an organization show different relationship between specific aspects of satisfaction and overall satisfaction. But, such variation could be important for marketing decisions and the organization need different strategies for different subunits. Moreover, these results indicate the need for theoretical hypotheses with more variables. Hierarchical Linear Models (HLM) were used to evaluate how strongly each specific type of satisfaction is related to overall satisfaction and whether the strength of these relationships varies across subunits.

Since the subunits were selected randomly, and the inferences from the HLMs can be extended to the population from which the subunits were sampled. The empirical results of this study shows that some specific type of satisfaction may be a strong predictor of overall satisfaction and for same specific type of satisfaction have no relationship to overall satisfaction.

Prof. Edward C. Malthouse, Prof.James L. Oakley& Bobby J. Calder Dawn Iacobucci, “Customer Satisfaction Across Organizational Units ”, from Northwestern University, Kellogg School of Management, Northwestern University July 2003
Prof. Stephanie Hussels (2003) analyse the determinants of insurance demand and how it affects general economic development. From an economic viewpoint, traditional neoclassical growth theory suggests that without technological development, economies can only grow at a fixed rate. But Endogenous growth theory states how investment and growth in one sector of an economy can provide positive externalities for other areas of the economy. Prof. Outreville (1990) Prof.Ward and Prof.Zurbruegg (2000) provide empirical evidence for the fact that insurance market development, promotes economic development.

As the insurance industry forms a major component of the economy by virtue of the amount of premiums it collects, the increasing contribution it makes to GDP, and the scale of its investments. The literature has confirmed that a sound national insurance market is an essential characteristic of economic growth. As the insurance industry forms a major and essential social and economic role, by covering personal and business risks. Three categories of insurance determinants have been identified such as economic, legal plus political, and social factors.

The empirical findings proved that a strong, well functioning legal system and a stable political environment seem to be most crucial for fostering insurance demand. They also emphasized the need to promote sound insurance growth which in turn acts as a tool to aid financial development and thereby also foster economic growth.

Prof. Stephanie Hussels , Prof. Damian Ward, (Bradford University School of Management) Prof. Ralf Zurbruegg, University of Adelaide, “How Do You Stimulate Demand For Insurance, Australia, October 2003.
Stephen M. Avila, Scott A. Inks and Ramon A. Avila (2003) made an intensive study on the relational sales process which develop a long term customer relationship based on trust and value added service. Within the insurance industry, claims representatives and underwriters come in contact with the customers and prospects and are able to incorporate the relational sales process into their interactions with customers so as to strengthen the existing relationships and potentially initiate new ones.

SERVQUAL has been the first and the most popular tool which was proposed by Parasuraman, Zeithaml, and Berry to measure the service quality. It consists of three sections. The first two sections consist of two sets of twenty two statements which determine customer’s expectation to service, and the customer’s perception to the firm performance. The customer is asked to rate their expectations and perceptions of the company’s service performance on a seven-point Likert scale. The gap between expectations and performance perceptions is measured by the difference between the two scores. Positive scores imply that the performance is better than what the customer expects, while negative scores show that the services are of poor quality. The third section measures the level of importance of the five dimensions to the customer namely tangibles, reliability, responsiveness, assurance and empathy. They conclude that, customer’s expectations are influenced by several other factors such as informal and formal recommendations, personal need, past experience and lastly the external communications sent out by service providers.

Dr. Daleep Pandita (2003) stated the fact that the customer today was demanding quality and then becomes violent in case the expectations were not met. It is found that 68 percent of customers quit because of indifferent attitude, 14 percent were due to product dissatisfaction. 9 per cent for competitive reasons, 5 per cent from friendships and obligations, only 3 percent move away as a margin of chance and one per cent of customers die away. He suggests that for better customer satisfaction the organizations should develop customer needed policies, products and procedures and give customer the most wanted pre and post-sale personalized service.

Hong Wu, (2003) studied how individuals in a mutual society design mutual contracts in order to share their risks. There was a general consistency between the mutual and insurance contracts. The same risk premium is required against the same risk and the high-risks are required to pay higher risk premiums than the low-risks. The study also explains the fact that there are situations where the mutual contract requires only an assessment of the relative value of the probabilities of losses, which shows an advantage of the mutual contract over the insurance contract because the insurance contract generally requires an assessment of the actual value of the probabilities. In addition to that, the way in which an individual’s degree of risk aversion affects a contract in the mutual case appears differently from the way in the insurance case. General expected-utility
approach was used to examine optimal insurance coverage in presence of both additive and multiplicative risks. There are cross-effects of other risks on insurance decision against a considered risk. The total effect of both additive and multiplicative risks is not simply the sum of their individual effects. Thus, taking both additive and multiplicative risks into account simultaneously is important. The effect of derivative securities on an individual’s insurance decision was analysed. In the framework of a mean-variance utility, it was concluded that derivative securities have an impact on an individual’s insurance decision because a farmer using hedging instruments against the price risk, may not buy the full insurance even if the premium is fair. And there was no monotonic relationship between the farmers’s degree of risk aversion and his insurance purchase or his hedging ratio. Thus, the effect of a farmer’s degree of risk aversion appears differently when the crop insurance and the derivative securities are concerned separately and when they were concerned simultaneously. She concludes that the concept of the variable participation contract, was found to have advantages over a usual insurance contract.

Prof. Peter P. Wakker, Prof. Danielle R.M. Timmermans and Prof. Irma Machielse (2004) examined the effects of statistical information about risk attitudes. A descriptive purpose was to obtain new insights into risk and ambiguity attitudes of the general public. 476 clients of a Dutch health insurance company were given various forms of statistical information about health expenses. Own past-costs information differentiated between individuals,

Prof. Peter P. Wakker, Prof. Danielle R.M. Timmermans, and Prof. Irma Machielse , “The Effects of Statistical Information on Risk Attitudes and Rational Insurance Decisions”, documented by Medical Decision Making Unit, Netherlands & Zekerheid Health Insurance Company Leiden, June, 2004
increasing the willingness to take insurance for high-cost and risk averse clients but not for others. The drawback of adverse selection must be weighed against a desirable interaction with risk attitude, increased customer satisfaction, and increased cost awareness. Descriptively, ambiguity preference was found rather than aversion, and no risk aversion was found for loss outcomes. Both findings, obtained in a natural decision context, deviate from traditional views in risk theory but agree with prospect theory.

Subjective evaluations of the information, the clients were asked four subjective evaluation questions, about clarity, comprehensibility, general usefulness, and usefulness in decisions, each on a seven-point scale. The clients were also asked at which level of aggregation they would most like to receive information in the future. The risk attitude and their willingness to take insurance both before and after the receipt of statistical information as about their health expenses were thus measured. The observed risk attitudes were between the predictions of prospect theory and expected value maximization. In particular, no risk aversion was found for loss outcomes, in agreement with prospect theory but against the classical economic predictions. The risk information, which entails a reduction in ambiguity, seems to decrease rather than increase the value of uncertain options. The findings of the study from the marketing perspective was maximizing the number of insurances sold, information about average population costs was optimal. From the individual perspective of the client, individual-cost information seems to be most desirable because it enhances insurance taking for risk averse clients and for clients with high expenses. Whereas from the societal perspective, adverse selection was probably too serious to be compensated by the advantages of favorable interaction with risk attitude, increased customer satisfaction, and increased cost awareness.
Prof. Robert B. Friedland, and Prof. Stephanie E. Lewis (2004) explained the sources of information used in making decisions about whether and what type of long-term care insurance to purchase. They assessed the three main sources of consumer information as written consumer guides, insurance agents, and the activities of State Health Insurance Assistance Programs (SHIPs).

Consumer guides tend to be too general to be effective at helping consumers make a specific set of choices about long-term care insurance. However, while some agents are experts on long-term care, most long-term care insurance was not sold by an agent. SHIPs are also variable in terms of their own efforts to educate the volunteer insurance counselors about long-term care.

The consumers need additional tool for comparing and contrasting policies and making informed decisions about the trade-offs of alternative options available within a policy. Since consumers depend on sales agents for information, it is imperative that sales agents have a solid base of knowledge about long-term care as well as the role of different insurance features to help insure risk and finance care.

Among people who had purchased a long-term care insurance policy, for the 40 percent of the respondents most important influence was their spouse and 27 percent said it was their insurance agents and also examined reasons for not purchasing long-term care insurance. There are some respondents who considered buying a policy after meeting an insurance agent, but subsequently

decided not to purchase a policy. For this group, price, benefit design, and product confusion were the three most significant reasons mentioned for not making the purchase. Product confusion mean that potential consumers were not sure of their own needs, the nature of the product, the trustworthiness of the agent, and or the reliability of the insurers.

In the case of long-term care insurance, the likelihood of purchasing a policy was increased by trust in the agent and how the agent presents the risks and benefits of long-term care insurance for the potential client and their spouse. This study also focused on the training and education of insurance agents, since they are named, after spouses, as the most important source of information on long-term care policies. They suggest that SHIPs already provide some, but could provide more information and independent assistance to consumers of all ages to choose the long-term care insurance.

J. Dhaene, Leuven and M.J. GoovaertsE(2004) explained several types of dependencies between the different risks of a life insurance portfolio. Each policy was assumed to have a positive face amount during a certain reference period.

The amount was due if the policy holder dies during the reference period. A husband and his wife may both have a policy in the same portfolio, it was clear that there must be a dependency between their mortality. Both were more or less exposed to the same risks. Moreover there may be certain selection mechanisms in the matching of couples. It was known that the mortality rate increases by the mortality of one’s spouse i.e., the “broken heart” syndrome.

A pension fund covers the pensions of persons that work for the same company, so their mortality will be dependent to a certain extent. If the density of insured people in a certain area or organisation was high enough then catastrophe such as storms, explosions, earthquakes, epidemics and so on can cause an accumulation of claims for the insurer. As pointed out by actuarial practitioners were well aware of these phenomena but for convenience usually assume that their influence on the resulting stop-loss premiums was small enough to be negligible. The fact that dependencies may have disastrous effects on stop-loss premiums was illustrated numerically.

Prof. David F. Babbel Craig (2004) in his research explained the issues related to managing risk at the firm level as well as ways to improve productivity and performance. He focused primarily on the economic valuation of insurance liabilities and also discussed the criteria for a good economic valuation model which was followed by taxonomy of valuation models.

He divides uncertainty into three categories such as the actuarial risk, market risk, and non-market systematic risks. Actuarial risk includes casualty, liability, morbidity, and mortality risks. Market risks include fluctuating interest rates, inflation rates, and exchange rates. Non-market systematic risks include changes in the legal environment, tax laws, or regulatory requirements.

In a competitive environment, the insurance companies that delay in adopting the economic focus will, in the end lead to incur the greater costs due to mis-pricing of policies and asset / liability imbalances. The first decision that needs to be made is whether an equilibrium approach will be used, or an arbitrage-free pricing approach.

The equilibrium approach begins with some assumptions and observations about the general economy, and from them derives implications for the behavior of the term structure of interest rates.

An arbitrage-free approach is more suitable for daily trading. Such an approach is less likely to produce helpful future economic scenarios for solvency testing, because the evolution of the term structure of interest over time under this kind of model often does not reflect certain stable economic relationships that are observed in practice. He concluded that the open architecture would be useful in a valuation model. New asset and liability instruments are continually being introduced, and no valuation program without an open architecture would be useful for very long in today’s dynamic economic environment.

Sathya Swaroop Debasish (2004) has devoted his research to the Customer preference for Life Insurance in India. Using the technique of factor analysis, his study identified the five major factors which are responsible for customer preferences which are stated as risk-return factor, promotional factor, service quality factor, consumer expectation factor and core product factor. The sample covered six hundred policy holders, across five states in North India. The opinion of the customers on twenty reasons for preference of life insurance were measured on a five-point scale (Likert Scale) ranging from least important (1) to most important (5) depending on the importance attached to each reason. The data has been collected through structured questionnaire based on non-probability, convenient sampling held during the period of July 2002 to

March 2003. He found that more and more customers are now identifying the newer dimension attached to life insurance, to match their life-cycle needs. The buying intent of a life insurance product by a small investor can be due to multiple reasons depending upon customers risk return trade off. Another important fact was that, due to the reduction in the bank interest rates and high degree of volatility in Indian stock market, investors are looking for an alternate for their short term as well as long term investment which will provide them a higher return and also safety to their investment. Thus, life insurance offers the best alternative to small investors in India. He also suggests that prudent product design, by adding the feature expected by investors, will make the new life insurance product more attractive for investors.

Prof Tapan K Panda (2004), explained the concept of customer life time value as one which helps the marketer to analyze the cost of acquiring serving and retaining a certain set of customers in the market. The concept of product life cycle is giving way to the concept of customer life cycle focusing on the development of products and services that anticipate the future need of the existing customers and creating additional services that extend existing customer relationships beyond transactions. The customer life cycle paradigm looks at lengthening the life span of the customer with the organization rather than the endurance of a particular product or brand. Implementing the integration of systems, processes, service providers, business technology and infrastructure in addition to the creation of measurement system to monitor the progress augments the customer value model. This integrated approach can help in calculating

customer life time value (CLV) by calculating and analyzing all relevant costs of customer acquisition and retention and corresponding revenues generated from each customer categories.

The CLV creation consists of a process of ad-hoc segmentation and data analysis for data base marketing, a process of automation of decisions against customer requests, targeted retention activities and decisions to ensure retention effort is aligned to CLV, identification of customer categories for cross-selling and up-selling of financial services, development of service and product portfolios aligned to the concept of customer life time value, alignment of customers to appropriate channels by CLV. The fight has begun for getting a larger share of the customer pie with the lowest possible cost to serve the customers. Since profits are drying up in the face of increased competition and customers are moving very fast from one firm to another on service and complete solution provision dimension, it becomes important to have an integrated customer relationship management strategy across the whole organization for generating higher CLV. Without this awareness and constant attention to varying customer needs a financial service provider cannot be competitive in today’s world. Integration of process, people, technology and information will offer a greater value to the customers.

Dr.JosM.C.Schijns (2004) carried out market research for the management of a Dutch health insurance company. The primary data were collected by computer assisted telephone interviewing. He distinguished loyalty into two types as attitudinal loyalty and behavioral loyalty. Attitudinal loyalty represents a long-term, commitment of a customer to the organization and it indicates the likelihood of future usage. Whereas behavioral loyalty refers to customer’s repeat purchases from an organization, his willingness to recommend the
organization, and less price sensitivity and this was ‘value of the customer to the brand’.

The users of a physical service encounter were more likely to have a higher level of service encounter satisfaction than users of a remote service encounter. Customers also prefer to use different contact channels during their life time cycle as the ‘dinkies’ (double income, no kids) prefer remote channels, whereas the ‘empty nesters’ and retired people prefer personal contact. The authors also confirmed the fact that human contact facilitates the development of customer relationships between businesses and their customers more than contact through remote means. Much of what is communicated in face-to-face situations was communicated through nonverbal communication and the technologies that filter out nonverbal information decrease social context cues and therefore limit communication, and hinder building customer loyalty. Therefore, the health insurance company has to offer all the preferred channels, that is, multi-channel service secures the customer relationship according to what every customer wants, not what management decide that every customer ‘needs’.

Dr. Srinivas Durvasula (2005) conducted a study to probe the impact of relationship quality on behavioral intentions and to compare its predictive power relative to service quality. Data were collected in the life insurance industry in which an insurance agent plays an important relational role with the customer. The results of the analysis demonstrate that neither service quality nor relationship quality is singularly the best predictor of behavioral outcomes. Instead, using both variables together offers the best explanatory power. The results clearly revealed that both service quality and relationship quality operate in tandem to drive the behavioral outcomes. These findings have enormous implications for industries that have high customer contact such as the life
insurance industry. They also found that the relational dynamics between the client and the agent are essential in fostering satisfaction, value, favorable word of mouth and repurchases.

Nina L Reynolds (2005) discussed several types of equivalence that need to be considered to assess the comparability of the construct of Customer Satisfaction / Dissatisfaction (CS/D) cross nationally. If CS/D equivalence was not rigorously established, using CS/D as a culture - free input variable may result in international marketing strategies that were sub-optimal. In order to establish CS/D equivalence, the analysis conducted at three levels namely the antecedent factors, CS/D formation process and the behavioral outcomes. They concluded that the axiomatic assumption of higher the level of customers satisfaction, higher the brand loyalty and the customer retention rates and which may not be culturally free. The author found that this assumption holds true in international markets and it will allow marketing managers to perform successfully.

Prof. O’ Reilly Philip and Dunne Sean (2005) examined how Irish Life and Permanent, a leading financial services organisation evaluate their Customer Relationship Management (CRM) initiative performance. The group formed from the merger of Irish Life and Irish Permamnet two market leaders in the life,

pensions and residential mortgage businesses in 1999. They developed a set of measures for evaluating the performance of their CRM initiative. The quality was reflected by the fact that Irish Life was awarded a top third place in the ‘Information Management Awards 2002’ in the category of CRM for their project. The author believed that the perspectives and measures used by Irish Life and Permanent to evaluate CRM performance may be of value to other organisations also implementing CRM initiatives.

Association of British Insurers (2005) conducted one of the most extensive surveys ever on customers’ perceptions in late 2005. This survey consists of nearly 9,000 customers of 13 insurance companies. The Customer Impact Index has been constructed to measure the issues that matter most to customers. This includes customers’ views on the quality of products, the image of the insurer, the effectiveness of processes and the quality of service. The Index is far more than a simple measure of customer satisfaction and an authoritative guide to how well the companies serve their customers. The Customer Impact Index scores indicate the solid performance against challenging customer expectations.

The Customer Impact Survey measure how well companies were delivering on each of those Commitments. They found that companies also need to provide excellent service after the point of sale, working with advisers


appropriately. In addition, customers tend to regard their own company more highly than the industry as a whole. This survey concludes at customers are less positive about the return they get on their investment than they are about service.

Dr.B.M.Ghodeswar(2006) in his article, explained the customer sensitivity as the customers were sensitive to many factors which affect their choice of buying an insurance product from a company. Those aspects were studied by the author in terms of demographic background, innovativeness, product service offering, price perception, and the level of customer satisfaction in their past experience.

According to the author, customer sensitivity can be analysed over a period of time and as family grows, the assets, liabilities, and demographics of the customers change. The various criteria to analyse customers and segment them in meaningful, profitable target segments for life insurance products are their lifestyles, demographic profile, credit information, purchasing behaviour, product preference, spending habits, response to promotional campaign, etc. Innovativeness is the degree to which an individual adopts an innovation and the tendency on the part of such customers to learn and adopt innovations. Innovators challenge rules and procedures and less inhibited about breaking the established rules and methods and advocate novel perspectives and solutions. Higher income people have the ability to take risk of trying new products. Customer sensitivity is also influenced by the services made available online and offline by the agents. He also states that customers look for a trade-off.

between product quality and service to gain maximum benefit out of the product service offering of the company. Price perception is the process by which people select, organize and interpret information.

Consumer attitudes and price perceptions have an impact on the adoption of products and services. The pricing category also includes the price rates, fees, charges, surcharges, service charges, penalties, etc. and the range of acceptable prices was relatively narrow for price conscious individuals. He also found that customers were quite sensitive to the level of satisfaction delivered by the company in the past. He concludes that improving service quality in the eyes of customers creates higher customer satisfaction.

Jagannath and Santhosh Singh Bais (2006) analysed that customer satisfaction is of paramount importance to all the insurance companies in general and life insurance companies in particular. The authors have identified and discussed the issues and challenges such as the regulatory framework, simplification and rationalization of insurance laws. They concluded that the success would depend on the LIC of India’s ability to understand the customer needs and offer the services at the lowest prices with best quality.

Dr Jack West and Dr. John Ryan (2006) explained satisfaction with quality as a cumulative experience rather than a most-recent transaction experience. Companies that have more effective quality management systems

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improve the quality of their goods and services faster than those that do not. The differences between service quality and product quality are explained as most of the products are produced by machines with highly defined and controlled processes. On the other hand, most services are the result of an interaction between two persons. Since people are inherently more variable than machines there are more opportunities for defects to occur in the delivery of a service. Because of this variability, many service providers operate in a response mode where the conditions change constantly as the service transaction progresses. As a result, it was difficult to predict and script in advance.

The American Customer Satisfaction Index (ACSI) uses two primary criteria such as customization, the degree to which service fulfills the customer’s key requirements and the reliability, how requirements are delivered. Data derived from the interviews with the customers were used as inputs to the ACSI’s econometric model, which combines numerous proxy measures to arrive at an index number on a 0 to 100 scale. They explained that, determination of quality is a complex and subjective calculus which involve the simultaneous processing of many factors inside the mind of the consumer but can be quantified. The proven ACSI finding was that the stock of companies with higher customer satisfaction scores outperforms the stock of companies in the same industry, with lower customer satisfaction scores.

Prof. Michel Denuit(2006) and others expressed a risk measure as a mapping from a class of random variables to the real line. Economically, a risk measure should capture the preferences of the decision

maker. One of the major needs for risk measures was related to pricing in incomplete markets. In incomplete financial markets, hedging and arbitrage-free pricing were two sides of the same problem. The problem of market incompleteness was particularly relevant in insurance. This is due to several reasons such as the stochastic nature of insurance processes, the fact that many insurance risks were not actively traded in the financial market and the fact that securitized insurance risks often have an underlying index rather than an underlying traded asset.

They found that the outcome of risk aversion associated with the idea that the marginal utility of wealth was declining and this was the standard notion of risk aversion from the EU theory defined by concavity of the utility function. Another finding was that there were attitudes specific to probability preferences. Risk aversion in probability weighting corresponds to pessimism. The decision-maker adopts a set of decision-weights that yields an expected value for a transformed risky prospect lower than the mathematical expectation.

Prof. Amita Fatterpekar (2007), in her article explained the three behavioral measures of loyalty as, customer’s recent purchase, frequency of customer’s purchases of different plan over a specified time interval and customer’s lifetime volume of purchases. Three attitudinal measures of loyalty measure are likelihood of continuing to do business, of repurchasing, willingness to recommend or serve as a reference. Unlike data-mining of RFM (Recency, Frequency, Monetary value), this analysis was based on a complex nonlinear mathematical model of a company’s customers.

Prof. Amita Fatterpekar, “Measuring Customer Loyalty - A New Marketing Research Tool, Yogakshema, August 2007, p.41.
Technically, the loyalty customer model was a finite state machine in which a customer’s current state and predicated future behavior were based on the customer’s total history with the company expressed by recency (the time since the last purchase), retention (the duration of the relationship), and all purchases by the customer (what, when, quantity and amount). The other factors were customer demographic data, inputs from the company (telemarketing, catalogs).

About Customers recommendation of LIC to their friends, colleagues or relatives gave the insight and their answer was rated on a 0-10 Scale. Then the author categorizes the responses into three different categories. The score 9-10 indicates that those customers were promoters as idea merchants, the score 7-8 secured customers were passively satisfied customers, and 0-6 scored customers were the detractors fairly unsatisfied. So the author reveals that customers are to be first identified, and understood in terms of distinct groups based on their scores, and provide them efficient services and to achieve the highest satisfaction of customers.

**Economic Theories of Insurance:**

Individuals occupy their time in activities that produce income or in those which do not. For the sake of simplicity, economists label these two states of nature as work and leisure. One’s investment in self i.e., human capital, one’s preferences, time, wealth, income and a host of other factors influence how a given individual will divide his or her work and leisure time. Work gives rise to income which in turn seeks to explain consumer consumption and saving behavior over one’s lifetime.
The Human Life Value (HLV) concept therefore, provides a normative economic approach to life and health insurance planning. It suggests how one ought to behave. It provides an economic rationale for life and health insurance purchase from a cost perspective. The HLV concept provides an economic rationale for the purchase of life insurance, but not an explanation for its purchase. Insurance purchases reduce current consumption by virtue of the premium payment to protect the later consumption ability of individuals or their dependents.

Every consumption theory begins with the assumptions that rational consumers seek to maximize their lifetime utility. Utility is a measure of consumer satisfaction derived from economic goods. The maximization of lifetime utility therefore involves attempts by consumers allocate their lifetime incomes in such a way as to achieve an optimum lifetime pattern of consumption. This means planning for the future and not living only for today. The concept is rational but on what basis would we expect individuals to make allocations between present and the future or stated differently between present consumption and consumption for the future. The economic literature has four hypothesis: The absolute income hypothesis, The relative income hypothesis, The life cycle hypothesis, The permanent income hypothesis.

The Absolute Income Hypothesis:

Theories of consumption date from the era of the noted economist John Maynard Keynes in 1935, absolute income hypothesis larger a person’s income the smaller the proportions devoted to consumption and the larger the proportion devoted to saving.

The Relative Income Hypothesis:

A variation of the Keynesian view by Dusenberry known as relative income hypothesis argues that consumption depends on the households income relative to the income of household with which it identifies rather than the absolute level of income. Thus, if a household income were to rise but its relative income position remained unchanged its division between consumption and saving would remain unchanged. An interesting recent extension of Dusenberry work argues that certain consumption items typically cannot be readily observed by others. The amount spent on insurance and that consumption expenditure, thereby varies depending on the observability of goods and services.

Life Cycle Hypothesis:

According to Ando-modigliani theory of consumption, an individual’s income will be low in the beginning and end stages of life and high during the middle of life. In spite of these life cycle changes in income, however the individual can be expected to maintain constant or modestly increasing levels of consumption.
Permanent Income Hypothesis:

Friedman’s permanent income hypothesis for consumption assumes that individuals wish to smooth their level of lifetime consumption but do so through an assessment of their permanent level of income. It is an annualized measure of the consumer’s expected future income variations of actual from permanent income. The transitory income are due to chance or accidents and do not affect consumption- at least not unless they cease to be chance fluctuations.

Menahem Yarri(1965) examined the role of insurance within the context of life cycle model by including the risk of dying. He showed conceptually that an individual increases expected lifetime utility by purchasing fair life insurance and fair annuities.

C.A. Pissardies extended Yaaris work, by examining the joint motivation of saving for retirement and for bequests via life insurance. He proved that life insurance was theoretically capable of absorbing all fluctuations in lifetime income and thereby, could enable consumption and bequests to be independent of the timing of income. As a result, the same effective consumption pattern could be achieved through the appropriate use of life insurance as could be achieved if the time of death were known with certainty.

Pissarides introduces the concept of perfect life insurance by which he means that insurance is actuarially fair and is instantaneously adjustable to meet changing consumer desires and the transferability of budget constraint. Without life insurance the lifetime consumption pattern would be different and involve less utility.
Lewis (1989) included the preferences of those who depend on the breadwinners income also. His empirical estimates which are based on U.S households were encouraging. He found that, life insurance ownership was positively related to household income and to the number of dependent children. An important conclusion was that social security was substituted by privately purchased life insurance

Research has established that highly risk averse individuals will guard against a failure to have sufficient income later in life so they will save more than individuals who are less risk averse and they would be expected to purchase more insurance. The degree of Individual risk aversion is an important determinant of individual consumption and saving pattern of individual as well as of the nation. Interest in mortality risk aversion has increased because some empirical research suggests that elderly do not seem to dissave as the lifecycle hypothesis would predict. (Danziger 1982). Such findings have led to further interest in the nature of bequests. So the demand for life insurance is positively related to motives for bequests.

Bequests are consistent with life cycle hypothesis, with the uncertainty about the date of death the individuals could die without having exhausted their assets, this providing their heirs with accidental bequests. Researchers like


suggested that the magnitude of inherited wealth is too large to be explained solely by accidental bequests (L. Kotlikoff and L. Summers).

**Daniel Bernoulli’ concept of choice under Risk:**

Daniel Bernoulli’, An Economist & evolutionary biologist. He measured risk with the geometric mean and recommended minimizing risk by spreading it. He also defined the situations in which one should avoid risk, from which it is a short step to recognizing those in which one should choose risk.

The properties of the geometric mean have been thoroughly investigated in economics by him. Bernoulli also illustrated the geometric mean with an example: Suppose Caius, a Petersburg merchant, has purchased commodities in Amsterdam which he could sell for ten thousand Rubles if he had them in Petersburg. He therefore orders them to be shipped there by sea, but is in doubt whether to or not to insure them. He is well aware of the fact that at this time of year of one hundred ships which sail from Amsterdam to Petersburg, five are usually lost. However, there is no insurance available below a price of eight hundred rubles for a cargo, and amount which he considers outrageously high. The question is, therefore, how much wealth must Caius possess apart from the goods under consideration in order that it be sensible for him to abstain from insuring them? If x represents his fortune, then this together with the value of the expectation of the safe arrival of his goods is given by ((x + 10000)95x5)1/100 in case he abstains.

With insurance he will have a certain fortune of \( x + 9200 \). Equating these two, we get \((x + 10000)19x = (x + 9200)20\) or, approximately, 5043. If, therefore, Caius, apart from the expectation of receiving his commodities, possesses an amount greater than 5043 rubles he will be right in not buying insurance. If, on the contrary, his wealth is less than this amount he should insure his cargo. “Bet-hedging: don’t put your eggs in one basket” – Bernoulli, wrote: “Another rule which may prove useful can be derived from our theory. This is the rule that it is advisable to divide goods which are exposed to some danger into several portions rather than to risk them all together” (Ajay Shah 1997).

This strategy of spreading risk was formalized in economics by Markowitz (1952). It has often been applied in evolutionary biology and is what is meant by bet-hedging. The environment does not need to be heterogeneous for selection of favour- bet-hedging; it simply needs to create risk at all places and times. Utility theory and the concave-up/down distinction have become pervasive in economics. When the relationship of trait to fitness is concave up and risk-prone, increasing the variance of the trait increases fitness; when it is concave-down and risk-averse, increasing the variance of the trait decreases fitness. Markowitz, stated that investors should seek to minimize variance in return by diversifying their investments while maximizing mean return. He defined the efficient set of portfolios as those with the maximum mean return for a given variance and those with minimum variance for a given mean.

Markowitz saw that there was a mean-variance trade-off, and he suggested the concept of mean-variance isoclines of equal growth rate. The portfolio with

maximum expected return is not necessarily the one with minimum variance. There is a rate at which the investor can gain expected return by taking on variance, or reduce variance by giving up expected return. In economics, thus, he forms the foundation of portfolio and insurance theory.

The work of Prof. Black, Merton and Scholes in Portfolio insurance:

The work of Black, Merton and Scholes in Portfolio insurance explained the evolution of the four major financial markets of the economy namely equity, foreign exchange, debt, and commodities. In the case of equity, direct government interventions have been absent in almost all countries. In case of foreign exchange, the first phase of elimination of price controls took place in OECD countries in the early seventies, though market interventions continued. From the early nineties onwards, there has been a sense that government intervention in many currencies is infeasible even when it is thought desirable. In the area of interest rates, there has been a significant shift in monetary policy away from targeting nominal interest rates. In the area of commodities, the breakdown of cartels like OPEC, and the steady reduction of controls upon agricultural commodities, has led to an increasing emphasis upon markets in determining commodity prices.

The deregulation of these four financial markets has had many consequences for productivity and economic growth. It has also generated an upsurge of price volatility. In the language of modern economics, risk is defined as volatility, where unexpected changes are viewed symmetrically. Volatility in major financial markets of the world rose sharply in the early seventies.

Economic agents are uncomfortable when exposed to risk. Risk can inhibit the use of efficient production processes, and hence productivity, in the economy.
Hence the management of risk has become important. There are three major 'technologies' through which economic agents can reduce the risk namely diversification, insurance and hedging.

Diversification is obtained when economic agents spread their exposure over many imperfectly correlated risks; insurance is obtained by paying a fixed cost (premium) and eliminating certain kinds of risk. Hedging is obtained by an economic agent who offsets his natural economic exposure by the opposite position on a financial market.

The “insurance” is not sold by any insurance company in the world. The financial contract, however, is appropriately viewed as a kind of insurance, where a fixed payment is exchanged for the elimination of certain kinds of risks. The third alternative is obtained on forward markets, where agents strike up contracts to trade at a future date at a stated price.

It should be emphasized that through these methods, risk is not destroyed. It is only transferred from one economic agent to another. The buyer of an option reduces his risk, but that risk is transferred to the seller of the option. The inverse nature of the risks faced by importers and exporters is a natural situation where the agents can enter into contracts which are mutually beneficial. The institution of modern derivatives exchanges reduces the search costs of economic agents who wish to discover and enter into such mutually beneficial contractual relationships.

The financial markets which enable this repackaging and transfer of risk are called financial derivatives markets. Financial derivatives are the modern functional replacement for the 'price stabilisation programs' which governments used once. However, financial derivatives do not eliminate risk or price volatility
in the economy; instead, they give individual economic agents the means through which their risk can be transferred to others.

In contrast, options are analytically complex. The profits to the owner of the option can potentially be infinitely large. Options can be American or European, and they can be call options or put options. An option which gives the holder the right to buy something is called a call option. An option which gives the holder the right to sell something is called a put option. An option which can be exercised only on the expiration date is called a European option. An option which can be exercised anytime up to the expiration date is called an American option.

Many contractual arrangements are binding on both parties. Option contracts are unique in so far as one side (the buyer) has a non binding option of going through with a defined transaction, while the other party has no such flexibility. This flexibility is valuable; the owner of the option is richer by an option value”.

Insurance contracts are remarkably like options. The buyer of health insurance pays a insurance premium like the option price and then faces no downside risk. Firms often obtain rights to a technology as an option whereby they can commercialise the technology if desired, but they do not have to. While insurance and options are functionally similar, insurance differs from exchange traded options in many essential ways. Insurance is typically sold by a small set of firms, with high entry barriers, whereas anyone can sell options on the options market. Insurance companies typically focus on stable and predictable kinds of risk, such as life and health, while options markets generally deal with price risk.

A simple arbitrage argument rely on a single transaction, which buys what is cheap and sells what is costly, and accomplishes riskless profits no such arbitrage can be found with options. The first major insight was the idea that a dynamic arbitrage can be set between the underlying and the call option. The
dynamic arbitrage was once considered a mathematical artifact, which was useful in deriving the Black Scholes formula but not present the real world. By the middle of the 1980s, a trading strategy called “portfolio insurance" became widely used, where put options on a portfolio were often created by actually calculating and adopting the appropriate position on the market. The values associated with these options were recalculated from time to time and trading activities undertaken to preserve the less risk character of the position. These put options are ‘synthetically’ created in the sense that the trading strategy creates the option and there is no seller of the option. This was a remarkable situation where the strategy for deriving an equation ten years later turned out to be useful, as an operational trading strategy. The combination of an active options market coupled with the Black Scholes formula reveals new information to the economy.

The Black Scholes formula relies on several unrealistic assumptions, say zero transactions costs. But in reality, the trading involved in maintaining the riskless position in continuous time would involve significant transactions costs. Yet, option prices in the real world are remarkably close to those predicted by the Black Scholes formula. One possibility is that a sufficiently large mass of traders use the Black Scholes formula as a working approximation, then the formula becomes true. In this sense, it may be the case that the modern economy has been steered in a certain direction because the Black Scholes formula was discovered in 1973.

Prof. Pierre Picard contribution on “Introduction to Insurance Economics defines Insurance as the science of pooling risks. Insurance demand results from the willingness of individuals to be protected from exposure to risk. If a large number of people individuals or firms pay some money as premium into a pool, money can be drawn from the pool to compensate those who might suffer losses.
Insurers write insurance policies and manage the money said by the policyholders so that they are able to pay out claims at all time. Risk pooling is the essence of insurance, but insurance also involves risk spreading through reinsurance and capital markets. Insurance is only one of the mechanisms to mitigate economic risks. There are many types of insurance policies where individuals may subscribe for like life insurance, accident insurance, health insurance, personal liability insurance, motor car insurance, homeowner’s insurance, credit insurance, travel insurance and others.

Arrow’s view:

Arrow (1971) has shown that the optimal indemnity schedule is a straight deductible when the loading factor was constant i.e. independent from the size of the losses and it maximizes the insured’s expected utility when the accident losses are random. However, moral hazard reasons may justify co-payments or upper limit on coverage.

Sometimes individuals prefer full coverage to partial coverage even if there is a positive loading factor. Because, a possible reason is that the existence of an uninsurable background risk, positively correlated with the insurable risk. Though health insurance is taken, if illness prevents one working, the income reduction cannot be insured. Like fire insurance for a firm, where the costs due to business interruption cannot be fully insured. By purchasing a more complete health insurance, implicitly cover the correlated income risk. Likewise, fire insurance contributes to smooth the business interruption costs.

**Equilibrium of the Insurance Market under Asymmetric Information**

For various reasons, there may be asymmetric information between insurers and insured. They are hidden information on risk and adverse selection, and claims made are fraud. These asymmetries affect the insurance contracts offered by insurers as well as the features of the competitive equilibrium on the
insurance markets. Suppose that insurers cannot observe the accident probability of a customer.

According to Rothschild - Stiglitz, Insurers cannot observe the risk type due to asymmetry of information. A perfect competitive market with free entry and having the game theory framework, the Rothschild - Stiglitz equilibrium is a perfect equilibrium. At first stage, Insurers offer contracts and at the next stage individuals choose one of the contracts. Without loss of generality, there are two types of risk, high risk and low risk. When high risk individuals and low risk individuals choose the same contract, the equilibrium is pooling. When high risk individuals and low risk individuals choose different contracts, the equilibrium is separating. The equilibrium is separating as the low risk individuals take less insurance because of adverse selection. Asymmetric information entails a welfare loss. This may justify the doctorine of good faith in the law of insurance contracts. If, once a loss has occurred, an insurer can prove that the insured has deliberately misrepresented his risks, and the insurer can void the contract.

A small percentage reduction in price would help to increase the demand for life insurance. Among the other factors, life expectancy at birth plays an important role in influencing the growth and demand for life insurance in a country. A higher life expectancy at birth plays an important positive role in influencing the demand for life insurance. A higher life expectancy is positively related to the life insurance demand. The factors mentioned above as determinants of life insurance growth are the fundamental macroeconomic factors and form the linkages between the economy and the life insurance market. Life insurance is an important intermediary in the financial market, and also plays a very important role in the economy by mobilizing savings and supplying long-term capital for economic growth and as an asset allocator.
Life insurance as a financial intermediary contributes significantly to promoting the capital market. The pattern of asset allocation of any life insurance company among the financial instruments provides a significant insight into its support to various segments of the market. Further, in a competitive insurance market, competition among the insurers increases productive efficiency, provides investors with diversified portfolio choice, enhances liquidity and induces better monitoring and corporate governance. They also facilitate risk sharing by reducing transaction cost and diversification of investment portfolios. A strong life insurance industry promotes a developed contractual savings sector which contributes to a more resilient economy, one that would be less vulnerable to interest rate and demand shocks, while creating a more stable business environment, including macroeconomic stability. The result will be a lower country risk premium, hence equilibrium interest rates which increase investment and ultimately accelerate growth.

**Definition of Concepts:**

Following are the some of the definitions of the concepts used in the study.

**Accident Benefit Rider:**
An event or occurrence causing damage/injury to an entity, and is unforeseen and unintended is accident. Accident Benefit Rider (ABR) provides for payment of an additional benefit equal to the sum assured in installments on permanent total disability and waiver of subsequent premiums payable under the policy.
Agent:
An insurance company representative licensed by the IRDA who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder.

Annuity Plans:
Annuity Plans provide for a "pension" or a mix of a lumpsum amount and a pension to be paid to the policy holder or his spouse. In the event of death of both of them during the policy period, a lumpsum amount is provided for the next of kin.

Application Form:
It is supplied by the insurance company, usually filled in by the agent and medical examiner if applicable, on the basis of information received from the applicant. It is signed by the applicant and is part of the insurance policy if it is issued.

Assignment:
Assignment means legal transference. It is a method by which the policy holder can transfer his interest to another person. An assignment can be made by an endorsement on the policy document or as a separate deed.

Convertible Whole Life Policy:
A mix of "whole life policy" and "endowment policy", it provides for very low insurance premiums with maximum risk cover while the life assured is just beginning his working career, and the possibility of converting the policy to an "endowment" policy after five years of commencement.

Days of Grace:
Policy holders are expected to pay premium on due dates. But, a period of 15-30 days is allowed as grace to make payment of premium; such period is days of grace.
Deferment Period:
Deferment Period is the period between the date of subscription to an insurance-cum-pension policy and the time at which the first installment of pension is received.

Endowment Policy:
This is an endowment policy in which the assured has to pay an annual premium which is determined on the basis of the assured's age at entry and the term of the policy. The insured amount is payable either at the end of specified number of years or upon the death of the insured person, whichever is earlier.

Group Life Insurance:
It is a one form of life insurance usually without medical examination, on a group of people under a master policy. It is typically issued to an employer for the benefit of employees or to members of an association, for example a professional membership group. The individual members of the group hold certificates as evidence of their insurance

Insurable Interest:
It is a condition in which the person applying for insurance and the person who is to receive the policy benefit will suffer an emotional or financial loss, if any untouched event occurs. Without insurable interest, an insurance contract is invalid.

Insurance:
It is a policy which primarily provides coverage of benefits to a business as contrasted to an individual. It is issued to indemnify a business for the loss of services of a key employee or a partner who becomes disabled. It is also defined as a social device for minimizing risk of uncertainty regarding loss by spreading the risk over a large enough number of similar exposures to predict the individual chance of loss.
Insured:
Insured is the person whose life is covered by a policy of insurance. The scope of protection provided under a contract of insurance; any of several risks covered by a policy is called insurance coverage.

Lapsed Policy:
Lapsed policy is a policy which has terminated and is no longer in force due to non-payment of the premium due.

Limited Payment Life Policy:
Premiums need to be paid only for a certain number of years or until death if it occurs within this period. Proceeds of the policy are granted to the beneficiaries whenever death of the policy holder occurs. This policy can be of the "with profits" or "without profits" type.

Loyalty Additions:
The loyalty addition is given upon the maturity of the policy, and not before. It's a small percentage of the sum assured. Broadly speaking, loyalty addition is the difference between the performance, of the insurance company and the guaranteed additions. It is LIC’s effort to further share its surplus after valuation with the policy holders, as LIC is a non-profit organization.

Maturity:
The date upon which the face amount of a life insurance policy, if not previously invoked due to the contingency covered (death), is paid to the policyholder is called maturity. The Payment to the policy holder at the end of the stipulated term of the policy is called maturity claim.

Money Back Policy:
Unlike endowment plans, in money back policies, the policy holder gets periodic "survival payments" during the term of the policy and a lump sum amount on surviving its term. In the event of death during the term of the policy, the
beneficiary gets the full sum assured, without any deductions for the amounts paid till date, and no further premiums are required to be paid.

**Moral Hazard:**
Moral hazard is the risk factors that affect the decision of the insurance company to accept the risk. Risk depends on the need for insurance, state of health, personal habits, standard of living, and income of insured person.

**Nomination:**
Nomination is an act by which the policy holders authorize another person to receive the policy moneys. The person so authorized is called Nominee.

**Premium:**
Premium is the payment, or one of the regular periodic payments, that a policy holder makes to an insurer in exchange for the insurer's obligation to pay benefits upon the occurrence of the contractually-specified contingency (e.g., death).

**Uncertainty:**
Uncertainty is the obligation assumed by the insurer when it issues a policy.

**Salary Saving Scheme:**
This scheme provides for payment of premiums by money deduction from the salary of the employees by one employer.

**Surrender Value:**
Surrender value is the value payable to the policy holder in the event of his deciding to terminate the policy before the maturity of the policy.

**Whole Life Policy:**
Whole life policy is the policy in which premiums are paid throughout the life time of life assured. This can be with profits or without profits. A ‘with profit’ policy is eligible for various bonuses declared by LIC every year, while a ‘without profits’ policy does not have this privilege.