CHAPTER VIII
SUMMARY AND SUGGESTIONS

SUMMARY

The insurance industry is a direct descendant of the economic order and its preservation and progression has a direct and proportionate relationship with the levels of growth and sustainability of the economy. A developing economy, low insurance penetration, increasing affordability, increasing urbanization and increasing awareness are some of the factors that would continue to improve the growth rate of the life insurance business in India. Management of life insurance system has always been very important for the efficient functioning of any country’s economy for a rapid growth and development. But, the focus of attention has been changing from time to time as per the needs of the customers, society and also economy.

Introduction

The evolutionary development of the Indian life insurance system has gone through different phases moving from private market to nationalization and from nationalization to liberalization. 245 private companies lost their identity when the LIC was established on 1st September, 1956. All these companies were merged into LIC.

The process of economic liberalization was initiated in India and a new Industrial Policy was implemented in 1991. By launching economic reforms, Indian economic structure was transformed from regulated economy to open market economy.

A Committee on Insurance Sector Reforms (Malhotra Committee) was constituted in 1993 and recommended the opening up of the insurance sector to private players. The IRDA Act was passed in 1999 and the IRDA, an insurance regulatory authority, was established. Private life insurance players
came back to India in October, 2000 as a result of insurance sector reforms and liberalization.

The impact of insurance sector reforms over a period of ten years has been positive and is considered to be the beginning of the new era of development. The market size has been expanded. New products are being innovated and the existing products are being developed. New distribution channels have cropped up and customer servicing has improved tremendously. A large portion of the untapped Indian insurance market promises the life insurance industry a significant growth. But, the global slowdown has impacted only to a little extent the growth of life insurance industry in India in spite of the entry of a number of private players.

Competition in the life insurance sector has brought benefit to the society as a whole. The private sector has been growing positively with proper orientation towards products, distribution and customers since there is adequate room for all the players in the Indian life insurance market. Insurance companies are found proactive in managing their business by taking into account the customers’ needs. Only these companies are proved successful in today’s competitive environment.

The number of life insurance players has increased from one to 23 and the number of life offices from 2,199 to 12,018. The insurance penetration as a per cent of GDP has also increased from 1.39 to 4.90. The insurance density as a premium to population has also increased from US$ 7.60 to 52.70 during the study period.

The household sector occupies a prominent place in the percentage of gross domestic savings since the Indian economy has got an unprecedented growth in the GDP. The insurance market penetration in metros has reached saturation and hence the next step to insurers is to enter the semi-urban and rural parts of the country.
**Objectives and Methodology**

Life insurance is a people’s business with a focus on long-term financial solutions. It may be right enough to draw some initial conclusions on the ten-year period of insurance sector reforms for which the detailed objectives of the present study are given. All these objectives are empirical in nature.

- to study the patterns of growth and development of life insurance industry;
- to identify, select and analyze the variables determining the growth and development of life insurance industry;
- to study the performance of public and private sector life insurance units;
- to find out the strengths and weaknesses of the life insurance players; and
- to suggest measures wherever necessary for improving performance.

The study is mainly based on secondary data collected from the records and reports of the IRDA, LIC, Life Insurance Council and all 22 private sector insurance companies. Information is also elicited from the officers of the life insurance industry through personal interviews. Some information is also collected from the books and periodicals of insurance importance. The data so collected from different sources have also been analyzed by using the relevant statistical techniques for arriving at accurate conclusions.

The study broadly covers a period of ten years, i.e. from 2000 to 2010. The private players entered the Indian life insurance sector in 2000-01. Hence, 2000-01 is taken as the starting year of the study. The year 2009-10 is considered the last year of the study.
Profile of Insurance Players

The insurance sector is a big one and is going at a rapid pace. Along with banking sector, insurance sector adds significantly to the country’s Gross Domestic Product. The first round of insurance company registrations were granted in the year 2000. Every insurer seeking to start insurance business has to disclose the particulars relating to the plan of meeting rural and social sector obligations enunciated by the IRDA.

There are 23 life insurance companies operating in the country. The competition among the insurance players provides the impetus for rapid growth. Life Insurance Corporation of India, the public sector giant, has been a pioneering life insurance organization in India and it has tremendous brand value amongst consumers. The private insurance players initially faced the strain of new business. But later, they are able to turnaround. Some private players have to wait for some more years to completely wipe off the losses accumulated cumulatively.

73 per cent of the total insurance market is captured by LIC alone. This indicates that the Corporation still has a dominant position in the life insurance market. The remaining market share is captured by the private players. It is observed from the study that the LIC is least affected by the economic crisis since majority of the customers has complete confidence over the Corporation. They think that their investment is safe and secure in LIC as it is a Government guaranteed corporation.

Some private insurers have completed one decade of experience in the insurance and many of them reached to the position of getting profits.

The Life Insurance Corporation of India, Sahara Life Insurance Company Limited and the Reliance Life Insurance Company Limited are solely the companies with only domestic capital and have no partnership with foreign companies.
The 20 private insurance companies working in our country have equity participation of the foreign insurance majors.


AMP Sanmar Life Insurance Company Limited was incorporated in 2001. Later, the company was acquired by the Reliance Life Insurance Company Limited in 2005.

Recession and the conditions of economic downturn bring both opportunities and threats to life insurance industry in our country. But, the life insurance industry is less affected by the slowdown in comparison to other financial and banking sectors.

**Product Innovation and Development**

The profile of the Indian insurance consumer is developing. Consumers have become increasingly more aware and looking at insurance not just as products, but also as integrated financial solutions that offer stability of returns besides total protection from risk. Underwriting is a major area in which the survival of life insurer depends. But, only a little importance is given to it in the industry.

Competition among life insurance companies is believed to be the mother of innovations. Innovation in the life insurance market is generally attributed mostly to the initiatives taken by private companies. There have been a large number of new and innovative products offered by the new players, developed mainly from the exposure of their international partners.

The first Unit Linked Product was approved by IRDA on 13th March, 2001. The trends in Insurance market have changed with the introduction of
unit linked plans. But, the introduction of ULIPs had created a conflict between the SEBI and the IRDA. After six months of uncertainty, the conflict was settled in favour of the IRDA. Further, new regulatory measures on ULIPs are effective from 1st September, 2010. The notable changes in the guidelines relate to surrender charges, five-year lock-in period, a cap on difference between growth yield to net yield for investments and a 4.5 per cent guaranteed return on pension products.

ULIPs are the wonderful insurance plans in the present day insurance society. They cover both debt and equity components. Many customers show interest to buy ULIPs as they can get good returns on these investments. It is observed that many who invested in ULIPs received about good returns, i.e. on an average ranging from 12 to 15 per cent, every year due to an increase in sensex. As many customers do not have adequate knowledge on share market, they are unable to invest directly in shares. They can invest their amounts only on ULIPs of the life insurance companies. This serves both their risk and investment propositions.

It is observed that there are different categories of ULIPs with varying levels of debt and equity constituents available to the consumers. Depending on their requirements, the agents can sell the needed categories of ULIPs. Though there is a reduction in the percentage of commission payable to an agent, he can get more amount of commission by increasing the total volume of ULIP sales.

The new insurance products are being governed by the file and use guidelines of the Regulator. The number of insurance products of the life insurers has increased from 20 to 325 during the study period. The riders’ number has also increased from 17 to 33 during the period. The recent trends in product innovation and development showed that the private sector has a higher market share in the number of products and also the riders cleared by
the Regulator. There is a balance in the product portfolio of the life insurers which has given some edge over the savings component. The introduction of ‘Combi-products’ is found a step to make use of the new initiative of the insurers.

For fulfilling the rural and social sector obligations as stipulated by the IRDA, the life insurers have expended lots of amount for setting up of the suitable infrastructure base. To reach out the social sector, the insurers have developed a wide range of products. In a group micro-insurance product, the ticket size is small but the volume is large. LIC is better placed in this regard as it operates from many urban and village centers and is doing a great job in providing low-cost group insurance cover to the social sector.

The Regulator has put out a regulation which requires that all insurers have to offer a ‘buy it or leave it’ clause, valid for 15 days immediately after the sale. The regulation states that in Unit-linked policies, the insurer should re-purchase the policy at current unit prices. This is a free-look period available to the customers.

As regards the performance of the industry, it issued a total of 5.32 crore new policies during 2009-10. LIC issued 3.89 crore polices and private players issued 1.43 crore policies. A significant decline in ULIP business and recession and economic melt down are primary reasons to the low growth in the insurance business of private players. During the post-liberalization period, the insurance industry registered a three-fold increase in the number of policies issued. As regards the market share, LIC’s share is 73.02 per cent and the private player’s market share is 26.98 per cent. It is observed that both the sectors of the life insurance industry maintain stability and consistency in the issue of new policies.

The life insurance business has grown from Rs.2 lakh crore in 2000-01 to Rs.13 lakh crore in 2009-10. This amount includes first year, single and
renewal premiums. The total first year premium of the life insurance industry has risen by around 10 times. The LIC’s market share is 65.08 per cent and private sector’s share is 34.92 per cent in 2009-10. As the first year premium is an indicator of new business, all the life insurers have recorded a satisfactory growth in business. But, LIC is maintaining stability over the private sector insurers in growth rate.

LIC and private sector players have collected only smaller amounts of single premium since the non-single premium policies have occupied a greater share in the total business. There is only a five-fold increase in the collection of single premiums. Both LIC and private sector insurers have got stability in the collection of single premium with regard to growth rate. But, with regard to market share, private sector insurers have got consistency. Though single premium policies are dominant in the U.S. life insurance market, our market has not reached to that stage and to some extent, found neglecting the segment.

The renewal premium is a function of new business underwritten in the earlier years. LIC registers a volatile growth rate. The private players’ annual growth rate is also oscillating and proved not satisfactory. LIC’s market share is 73.64 per cent and private player’s market share is 36.36 per cent. The private sector insurers have got more stability in the collection of renewal premium. During the ten-year period of insurance liberalization, the life insurance industry has registered a five-fold growth. This has created a vibrant and customer-friendly business environment by both the public and private sector units.

As regards the total premium collections of the life insurance industry, the market share of LIC is 70.10 per cent and the market share of the private players is 29.90 per cent. During the post-liberalization period, the total premium collections have increased by around eight times. This is a welcome
feature not only to the industry but also to an economy. LIC registers consistency in growth rate whereas private sector registers consistency in market share.

On the whole, there is a decline in the annual growth rates of premiums over the last few years. The decline is mainly seen from 2007-08 and reached its lowest in 2008-09. This is mainly due to a negative growth rate in the regular and single premiums. The stock market crash also has led to a major drop in new business premiums for the life insurers since the growth in sales was primarily driven by sales of unit-linked insurance products. Again during 2009-10, the growth in the premium payment has been positive and the trends in insurance business conditions are found more favourable.

Riders are blended for an additional cost according to the needs of the customers. Critical illness and accident benefit riders are found generally preferred by the customers during the study period. Term riders are also preferred with savings and pension plans.

An important development observed in the present study is a significant rise in the average amount of the sum assured per a policyholder. During post-liberalization, this rise has been significant. The private players have showed interest for higher sum assurers. But, this should be taken cautiously by the insurers as a higher sum assured involves higher risk and higher amount of claim.

Group insurance has remained largely not popular in the insurance market. Apart from the insurability factor, group insurance makes it economically viable for several individual who may not otherwise afford to buy insurance. It can be seen here that group insurance business has been growing steadily. But, it is still not anywhere near what it is in the more developed markets.
Many insurance companies are found offering pension plans on the lines of those proposed by the Regulator. These plans are tailored to the needs of the elderly people. After completing premium payments on the plans for a fixed period, the policyholder receives annuities. The amount of annuity depends on the kind of premiums that have been paid on the earlier policy and the returns they have been able to earn.

During the post-liberalization period, it is found that the LIC has taken many measures to attract insurance potentials through its well-established and well-structured network of agents and development officers. The private players are also able to attract many customers through product development, product flexibility and efficient customer service.

It is also found that the major factor responsible for reducing and severely affecting the performance of the life insurance industry is the low persistency of life insurance business. This is mainly due to the reason that there is no real motivation for the policyholder to continue the insurance policy. Moreover, the practice of paying rebate to the customer by an agent aggravates this situation as the policyholder thinks that he loses nothing when he discontinues the insurance policy.

Further, insurance policies have always been difficult to understand and read almost like legal documents. There is a strong case for all the insurers to devote more attention to propagate plain English in insurance policy wordings. This may result in the spread of insurance awareness significantly.

Investment Management

The study reveals that there is relatively a higher growth in the business of unit-linked plans during the post-liberalization period. With the huge success of unit-linked plans, the efficiency of the life insurers in the area of investments has also assumed great importance.
The investment management of the fund amounts by the insurers is found to require multi-faceted skills for assessing the characteristics of the liabilities, aspirations of the policyholders and other factors which have a bearing on the investment policy for identifying appropriate assets and devising necessary asset allocation strategies.

The total premium underwritten by life insurers is invested in funds like life fund, pension and general annuity fund and unit-linked fund. These funds differ primarily in the nature of their investments and also their risk profiles.

During the ten-year period of insurance liberalization, it is observed that LIC’s life fund investments have increased by 3.5 times. The share of life fund investment by LIC in the central and state government instruments has also increased. Its investment in other categories of instruments has decreased. This shows LIC’s greater preference to less risky and safe investments like government securities to other categories of investment. But, the private insurers are found following an investment policy which gives more importance to comparatively high return securities and that are within the regulatory framework of the IRDA. On the whole, LIC is proved consistent in maintaining steady growth rate in life fund investments over private sector.

Many insurance prospects realized the importance of their post-retirement life and taken measures to invest in different pension schemes of the insurance companies. As a result, there is a growth in the amount available for investment under the pension and general annuity fund. The market share of LIC in the fund is 92.88 per cent and the private sector is 7.12 per cent. LIC has invested significant amounts in central and state government securities. During 2008-10, its investment in approved securities also increased. The private sector insurers also invested more than 50 per cent of their amounts in approved securities. The investments in central and state government securities ranked second and third positions with regard to
private insurers. It is observed that both LIC and private sector insurers have stability and consistency in the investments of pension and general annuity fund.

The share of ULIP fund on the total funds under management of life insurers was 46.64 per cent by LIC and 53.36 per cent by private insurers. LIC contributed relatively a lower amount to the ULIP fund over the private players as the Corporation’s business is mostly centered on traditional policies and the private insurers on ULIPs. Out of the fund, LIC and private players invested larger amounts in approved securities. But, there is stability in the growth rate of the unit-linked fund investments of the private sector during the study period. The investment pattern of ULIP fund clearly shows the private players’ anxiety to break-even within a shorter period of time and also paying good return on the policies of the customers by getting good investment income.

Indian share market experiences a lot of fluctuations in the share prices every time due to the inflow and outflow of larger sums of money from the foreign institutional investors. The Foreign Institutional Investors (FIIs) influence significantly the share prices and also the resultant volatility.

But, due to liberalization of the insurance sector, many new players have entered the market. They are also doing insurance business efficiently along with the LIC. All insurers collect funds from the customers in the form of premiums. These funds are flown to the share market and in many instances, the volatility in share market is regulated. No other institution has infused funds to the share market to that extent. They contribute mostly to the growth of an economy by stabilizing the share market. They also invest amounts in infrastructure and social sectors which create a strong developmental base to an economy.
Solvent margin is a part of the prudential norms like capital adequacy ratio in banks. Some new life insurers have defaulted on the solvency margin requirement as the promoters could not infuse enough capital to support their growing business. Many insurers feel that a solvency margin at 110 or 115 per cent is reasonable but 150 per cent is very high.

The rationalization efforts of the insurers and a significant fall in ULIP business have brought down the ratio of operating expenses to premium underwritten. LIC’s ratio is reduced from 10.62 per cent to 6.58 per cent and the private players’ from 760.16 to 20.86. The implementation of the mandatory stipulations of the Regulator on the expense management is found reducing the amount of operating expenses and also its ratio to the premium underwritten.

The paid-up capital of life insurance industry has been increased from Rs.545 crores to 21,020 crores during the study period. It is about a 39 times increase over a decade time. LIC’s paid-up capital is only Rs.5 crores. There is no addition to the paid-up capital of LIC because for rising capital by the Corporation, it requires an amendment to the Insurance Act, 1938. As the LIC accumulates larger surpluses, the small paid-up capital of Rs.5 crores does not in any way affect either on its performance or on its fulfilling of promises made to the customers. The market share of the insurers shows that the private insurers register a 99.98 per cent and the LIC only 0.02 per cent.

As regards the accretion of capital, private players have deployed a total of Rs.21,015 crore additional capital in to the insurance sector up to 2009-10. This shows that the private insurers have contributed a significant and largest proportion to the total share capital of the industry. There is no accretion to equity capital by the LIC during the study period.

For underwriting good business, the private insurers need additional capital. The proposed increase in the limit of FDI from 26 per cent to 49 per
cent is found useful by the private insurers to raise additional capital and infuse the same in their expansion and diversification projects. The advocacy of many that the rise in the FDI limit gives an opportunity to the global players to dominate the Indian life insurance market is found completely not true since they are doing business in different countries including India and their impact in each of the countries is negligible and not dominating.

The growth rate of total income received by the life insurers shows that the private insurers have gained good income on their investments. Despite good income, they have spent exorbitant operating costs initially and the increased income can be used only for wiping out off the operating costs. LIC registers an annual growth rate of total income received by 37.64 per cent in 2009-10.

There is an increasing trend of financial imbalance amongst life insurers. Generally, a life insurance can break even in about 8 to 10 years. Only a few companies have broke even. The profitability position of private insurers has clearly showed that out of 22 private insurers in operation, only seven insurers have reported profits in 2009-10. These are ICICI prudential, Kotak Mahindra, SBI Life, MetLife, Bajaj Allianz, Sahara India and Aegon Religare.

As insurance business grows, the premiums collected on the insurance policies are also grown. These total premiums collected are not considered profit. Only after some time, if the premium amounts get accumulated and there are no early claim settlements by the insurers, then an element of profit emerges from these premiums.

The strenuous efforts of the private insurers to increase their insurance business in the initial years were found escalating their initial operating, administrative and policy management expenses. Their objective is only to penetrate into the market and not profit. As the business grows, the liability
also increases and some private players have to wait for break-even. As the public sector LIC has been in the insurance business for so many years and established a strong agency network, the company earns a lot of surplus. Out of this surplus, 5 per cent of the amount is transferred to Government and the remaining 95 per cent to policyholders.

LIC has been earning profits after tax for the last so many years. But, the percentage ratio of profit after tax to the premium underwritten has declined from 0.91 to 0.51 during the study period. With regard to private sector units, some insurers have earned profits. But, their profit after tax shows a negative figure because the tax amount paid by the insurers to the Government is significant.

The private sector insurance players are found facing a problem of lack of higher public confidence levels in them. There is no positive feeling among general public on the safety of their money in the hands of private players. They prefer to repose confidence on the public sector player because they expect government guarantee.

**Insurance Marketing and Distribution**

The liberalization of Indian life insurance sector has created many changes in the market place. This has resulted in the massive inflow of foreign brands and also a revolutionary change in the consumer behaviour. These changes have made the insurance sector move from production-driven marketing to professional marketing. The specific and very particular nature of insurance business makes marketing of insurance products and services a significant challenge to insurers.

The intermediaries in the insurance business are the strongest drivers of growth in the insurance sector. They provide advice to households wishing to avail insurance. They are found the first line representatives of the life
insurance company and a vital link in the policy life cycle. An individual agent is the key distributor in the present day insurance market.

A major challenge of insurance market is to identify which distribution method fits best and suitable to business. The decisions relating to distribution strategies are found mostly dependent upon what the other insurers are doing. Channel conflicts have arisen in many cases. These must be regulated to the best advantage of the customers and the insurer.

Insurance advertising affects significantly the insurance service distribution. The ICICI prudential is the first private insurance company to recognize and use the power of TV advertising with its ‘sindoor’ campaign in 2001. Life insurance products accounted for a significant per cent of overall insurance advertising expenditure with LIC of India topping the list of advertisers. It is observed that the new players have been advertising with vigour. Competition with the LIC has induced them to create new ways of attracting people to the proposition of life insurance. In many parts of our country, insurance is still not a priority for the people.

The life insurance offices are found instrumental in performing most of the administrative and development functions of the insurance business. The market share of life insurers in the total number of life insurance offices shows that the LIC’s share is 27.04 per cent and private insurers’ share is 72.96 per cent. Over the earlier years, the number of offices of private insurers is almost doubled. Their market share has increased from 0.59 per cent to 72.96 per cent. But, the LIC’s share has declined from 99.41 per cent to 27.04 per cent during the period. However, LIC is proved more stable and steady in the establishment of life insurance offices over the private sector.

The area-wise distribution of life insurance offices as on 31st March, 2010 shows that both public and private sector players spread only 27 per cent in metro and urban areas taken together. More than 72 per cent of the
branches are established by the insurers in semi-urban and rural areas as a way to tap insurance potential in these areas.

There are about 30 lakh individual agents registered with the life insurers. LIC has over 14 lakhs and the private companies have about 16 lakhs. This shows that the life insurance industry provides lucrative employment opportunities to the youth of the country. It is observed that there has been a shift away from the individual agency channel during the ten-year period. But, the share of individual agents in the new business premium of LIC is 97.75. It signifies that the role played by them in LIC is still dominating. It further states that LIC has more stability in the appointment of individual agents during the study period.

The MDRT qualification is the highest honour for insurance agents and the qualified agents can participate in the world conference to be held in the US in June every year. Though thousands of agents qualify for the MDRT membership, only a small number of agents attend the convention. This is because some were denied visas for several reasons and further the costs are also too high.

It is observed from the study that the Banks represent a symbol of faith and trust where the customer puts his hard earned money. The same customer obviously trusts the bank for buying life insurance. Amongst many distribution channels, bancassurance’s share in the new business premium of the total industry has increased to 10.60 per cent in 2009-10. The private insurers have given very good importance to bancassurance. The banks have increased their share in new business premium from 10.57 per cent to 24.88 per cent during the study period. The LIC has procured only a little amount of new business premium from banks. This channel is not given adequate importance by the Corporation.
The total number of brokers in the country has increased by over 7 times. The share of Andhra Pradesh in the total number is only 6 per cent. LIC could not procure more than one per cent business through this channel. Private players have procured over 3 per cent of the total new business premium. The business performance of the broker is proved not satisfactory and upto the mark.

The market share of corporate agents of private sector is 82.59 per cent in 2009-10. But, the LIC's share is only 17.41 per cent. The private insurers increased their business up to 10.28 per cent from 6.86 per cent during 2003-04 to 2009-10. LIC procured only less than 1 per cent of new business premium through this channel. The corporate agents are in the process of doing their business comfortably. LIC is relatively more consistent in the appointment of corporate agents.

LIC procured business only for two years during the study period from referral tie-ups. It is only 0.18 per cent in the new business premium. But, the share of referrals in the new business premium of the private insurers is significant. It is 7.95 per cent in 2009-10. The private sector units have given more importance to this channel.

The number of micro-insurance agents appointed by the insurers as on 31st March, 2010 was 8,676. Out of which, 7906 were for the LIC and 770 for the private sector insurance companies. It shows that LIC contributed to a greater extent to this increase. But the contribution of private insurers is marginal and meant only for fulfilling the regulatory requirements of the IRDA. The response with regard to the sale of micro insurance products by the private sector is found not satisfactory.

It is true that the number of internet using citizens and computer literacy levels in the country are on the increase in the present day society. The immense untapped potential for the life insurance market requires
innovative thinking based on advanced technology. The life insurance industry which believes in itself and also in information technology is found successful in its effort during the study period.

Direct marketing, an important alternate distribution channel, is employed by a majority of the new players. It has proved effective in customer creation and retention. LIC has not procured any business through this channel. It has yet to make in-roads. The total business procured by this channel belongs to completely private life insurers. This channel contributes to more than one-tenth of the new business premium of the private insurers.

Many new private insurers have entered the insurance arena with innovative insurance products and promises of better servicing of policyholders. But, the agents and advisors in their anxiety to earn more commission income do not reveal all the terms and conditions of the insurance policy. As a result, mis-selling takes place. It means selling something which is not required by the customer. The Regulator has taken serious steps to curb the practices of mis-selling by intermediaries. These include regulatory action against erring intermediaries and also insurers. Further, Consumer Affairs Department is also annexed to IRDA to monitor the customer complaints with regard to mis-selling.

The IRDA’s new regulations on ULIPs and its other regulatory measures have made the agency commission expenses decline and regulated. As a result, the ratio of commission expenses to premium underwritten by the life insurers has decreased from 9.09 per cent to 6.85 per cent during the study period.

The share of different channels in new business premium for LIC and private sector companies is also analyzed. It shows that the individual agents contributed about more than 50 per cent of the total insurance business in our country. The bancassurance channel has contributed to over one-tenth of the
insurance business. Other channels like corporate agents (others), direct selling, referrals and brokers have contributed to the rest of the total business during the period.

On the whole, it is observed that the new regulations on ULIPs have discouraged mostly the part-time agents who constituted almost 70 per cent of the industry’s agency force. They have stopped selling ULIPs. The corporate agents have also stopped selling ULIPs as this business was not remunerative. With these regulations, 40 to 50 per cent of the business is at risk and uncertain. But, the conditions may be gradually stabilized.

The insurance players in the life insurance industry are also found by employee attrition levels of over 40 per cent. An industry with high attrition levels has increased the number of new recruitees and also the consequent fresh recruitment and selection charges.

**Customer Relationship Management**

CRM is found the latest idea of managing and propagating insurance business more successfully. Many insurers are observed taking good number of initiatives to attract customers. The life insurers have observed that CRM is a technology and implementation of CRM includes collection of information of the customers through personal contacts, surveys and queries. It is proved to be an effective tool by one and all insurers in the quest for customer relationships for the insurance companies.

e-CRM is also considered by the insurers as an online customized approach to interact with prospects and existing customers and also reduces the costs of customer operations. But, some insurers are found not implementing e-CRM successfully because of the lack of suitable infrastructure and manpower requirements.

The Insurance Institute of India has prepared good reading books for insurance awareness of customers. The College of Insurance and also the
Associated Institutes have moved to a good position in insurance education at present. Some other institutes and also universities have introduced insurance topics in their curriculum of graduate and post-graduate courses of both regular and distance education programmes.

Customer service is proved and accepted by many insurers as the essence and heart of insurance business. Many researchers have also proved that retaining a customer is four times cheaper than acquiring a new customer.

LIC has issued credit cards to the policyholders. The policyholders can make payment of premium to the Corporation with the help of the credit card. Many insurers also make payments to policyholders through National Electronic Fund Transfer and Electronic clearing service. LIC has opened satellite offices across the country to link up the branch network with the Head Office. As a result, the Corporation has rendered improved customer services even to rural areas. All insurance customers can transfer insurance payments through any ATM terminal anywhere in the country.

Settlement of claims is found the most important service and also a function of an insurer. Careful management of claim settlement is of paramount importance to the success of an insurer. The efficiency of the service rendered by the insurers to the customers is mostly influenced by the way in which both the maturity and death claims are being settled.

It is observed that the LIC settled a total maturity claim amount of Rs.45,039 crores in 2009-10. During the ten year period, the settlement of maturity claims in terms of amount has increased by over seven times. It is observed that maturity claims settlement and the related amount are found linearly related and positively correlated. The performance of LIC with regard to maturity claim settlement is proved quite satisfactory. It has enhanced the reputation of the Corporation in the minds of the policyholders. The amount of
death claims settled during the study period in terms of amount has also increased by five times. It has created a positive sign to the customers to repose confidence on the Corporation. Sufficient expertise and relatively liberal attitude of the LIC of India make claim settlement ratio much increased over the private insurance companies.

It is understood from the study that the total number of claims repudiated or pending is less than 5 per cent in LIC and for the private sector, it is over 15 per cent. Most of the claims repudiated by the private insurers are mostly early claims. Private life insurers’ average claim settlement for the period stands at only 69.53 per cent and do not match upto LIC i.e. 88.95 per cent. One reason for the low claim ratios by relatively new players is that many of the claims they receive fall in the initial years of the insurance policy and hence, they require procedural enquiries which need time. Some have higher repudiation experience in the initial years because all the claims received are early claims. The long claim processing time has also pulled down the overall claim settlement ratio.

As there is a significant increase in the premiums underwritten by the life insurers, the benefits paid to the policyholders like surrenders and early withdrawals have also been increased automatically. A huge rise in the early withdrawals during 2009-10 is caused due to the frustrated surrenders of policyholders due to the impact of financial and equity meltdown on our economy.

As regards complaint management, the LIC’s market share in the total complaints received has decreased significantly from 91.33 per cent in 2003-04 to 27.24 per cent in 2009-10. But, the market share of the private insurers has increased from 8.67 per cent to 72.76 per cent during the period. It is found in the study that the private players take undue time for settling complaints. The complaint redressal machinery is also proved not working
properly and positively due to the paucity of efficient staff involved in the process of complaint management. But, LIC has got experienced and well-exposed staff to respond to complaints immediately.

The performance of the Insurance ombudsman is also proved quite satisfactory because 90.68 per cent of the total number of complaints received by the ombudsman during 2009-10 is settled. There is also an increase in the percentage of complaints disposed to total number of complaints from 74.32 to 90.68 during the ten-year period.

It is further observed that the insurance companies generally have many discrete data sources. It is a big challenge for them to bring the data together. IRDA has set up an independent body, namely the Insurance Information Bureau (IIB). The IIB has started functioning and has already made some good progress. The data that is disseminated is generic and the privacy and confidentiality issues are being addressed adequately.

Government policies with regard to taxation and fiscal incentives for insurance premiums and benefits primarily influence people taking life insurance policies. Further, the calculation of the service tax based on the composition of risk proposition of the aggregate risk could give rise to operational complications for the companies. The problem becomes compounded as companies come up with more complicated products to suit the profile of individual clients.

All insurance functions relating to a Branch Office are under the control of the Branch Manager in LIC of India. He knows each and every functional activity undertaken by the employees. If there is any complaint from the policyholder about an activity, the matter may be immediately responded to by the Branch Manager. Necessary steps are also taken for the early redressal of the grievances. But, in many private insurance companies, all functional activities are not under the control of a common head. Each function is
performed by the concerned staff at the branch level and they are accountable to the Head who is stationed at the Headquarters. Each function is controlled under a separate Head. Lack of co-ordination amongst staff looking after different functions at the branch level by a common superior may create lot of problems to the customers relating to claim settlement and redressal of grievances.

IRDA has permitted the portability of health insurance policies with effect from 1st July, 2011. These guidelines for portability have enabled the policyholders to shift their insurance policies from one company to another company.

It is found that smaller companies are struggling to sustain themselves in the market. A consolidation of the life insurance industry is an imminent need in the years to come. Mergers and acquisitions may be a tested growth strategy for the insurers. This is the way in which the life insurance industry has to move in future.

Testing of Hypotheses

Based on the above analysis and description, the first hypothesis (H01) which states that the liberalization of the Indian life insurance sector has increased the levels of insurance penetration and awareness and reached to larger segments of population is proved true. The percentage of insurance penetration has increased from 2.15 in 2000-01 to 4.90 in 2009-10. This is made possible due to intense competition and the entry of new insurance players into the market. It is obviously the outcome of the liberalization of life insurance sector in India.

The second hypothesis (H02) which states that there is a significant change in the structure of the life insurance industry and has created severe competition to LIC has also been proved true. This hypothesis is totally backed up by the data which show that almost more than 27 per cent of the
share of the LIC’s business is attracted by the private insurers after liberalization.

The third hypothesis (HO₃) is also true as the public and private sector insurers have been registering growth at a commendable rate in respect of customer service since their inception. People purchased insurance products from them due to their highly sophisticated professional approach and better customer service. The insurers gained popularity amongst consumers as they had the technology-edge and better business strategies. They were also able to attract more business because their products met their customers’ requirements and expectations. The statistical analysis also indicates that the average percentage growth rate of life insurance offices for LIC during 2001-10 is 4.70 and the Private Sector is 156.11. It shows that the average number of life offices of Private Sector is higher than LIC. Further, there are also about 30 lakh individual agents who are instrumental in rendering good service to the customers timely. The corporate agents are also found active in delivering efficient services to the customers during the study period.

The fourth hypothesis (HO₄) is also proved right as cost control and ability to serve larger number of customers is found more crucial in life insurance business after liberalization. Hence, the latest technology is to be adopted to handle both the services effectively. This is fully recognized by both public and private sector insurers during the study period. Adopting latest technologies in sales as well as in service delivery are observed predominant to remain cost effective by many life insurers. The use of internet, web-based sales, e-marketing and mobile SMS have made significant strides in reaching out to insurance customers. The correlation coefficients for premium underwritten and operating expenses of the LIC and the private sector are 0.964 and 0.992 respectively during the period. Since these coefficients are relatively close to 1, the variables are positively correlated and linearly related. Further, the correlation coefficients for premium underwritten and also
commission expenses of both LIC and private sectors are found close to 1. Hence, these variables are also positively related. This is made possible only due to the application of latest technology by the life insurers during the period.

**SUGGESTIONS**

Indian economy is growing at a rapid pace. The entry of several new players in the liberalized insurance sector has opened up new avenues and significant employment opportunities in the country. Insurance sector reforms represent a continuous process aimed at improving the strengths and opportunities of insurance companies and bringing them to reach to the level of international standards. The challenges facing the life insurance sector are massive but not insurmountable. Every challenge can be looked by the insurers as giving an opportunity to them.

The propensity to spend on insurance mostly depends on disposable income and savings. The insurance sector develops only when an economy performs well. Steps may be taken by the Government to develop different employment generating sectors of our economy as a way to increase the income levels of the insurance customers.

Insurance awareness is a must and a priority item at different levels of the society in our country. Each and every individual should know the importance and the consequent benefits of insurance. To achieve higher levels of penetration and spread of insurance among larger segments of population, the insurance companies should place the rural communities on their forefront rather than the urban and the higher strata of the society.

The customers of the present day insurance market have different priorities. They are price, quality, time and convenience consciousness. The insurers have to innovate and design the products in such a manner to suit the requirements of the different categories of the customers. Innovations in
designing the new products and also new distribution channels with good publicity and promotional campaign by the life insurers are very much needed for improving the delivery mechanism and bringing closer the insurance service to the last customer.

Consumer awareness ensures an effective market discipline as consumers take an informed decision. A majority of the new insurers are in the process of expanding their market and hence creating awareness should form part of their overall marketing strategy rather than selling insurance products. It is essential that all the stakeholders of the industry need to carry forward this task as a movement collectively.

The insurance policies are full of technical language which is beyond the comprehension and understanding of a layman. In many cases, this language can not be understood even by an educated man with an average educational qualification. Hence, use of simple language, wordings and clauses need to be reckoned within the policy for a better apprehension of the policyholders. A higher degree of transparency on policy terms will ensure that the customer understands the product and its benefits.

Underwriting is the lifeblood of insurance business. Knowledgeable underwriting is the key to a gainful future for an insurance company. The process of underwriting can be streamlined by mechanizing most of the decisions. The reduction of human intervention in the underwriting process will reduce subjectivity and also enhance the risk management practices of the insurance company.

Underwriters need to stress the importance of face-to-face interaction with the customers and get the desired rates at which insurers need to sell the policies. This should be done on the basis of detailed information. The best way to do is to make out a correct pricing decision out of the relationships developed by the insurers with the customers.
An actuary is the insurance company’s mathematician. He develops the prices for the various types of policies an insurer offers. His skills are needed to calculate the profits and dividend pay-outs of the company. He has to work independently and protect the interests of not only the company but also the policyholders. The actuary should be required to attend minimum number of seminars and professional development courses for financial control of the organization. Further, the actuary management needs to be developed as a management science like other physical and social sciences.

More frequent reviews of rates in all types of insurance policies are to be called for timely by the insurers in the light of changing experiences of various classes of risks. It would be advisable to the life insurers to set up Research and Development Departments and update statistical data and technology to support the new product pricing mechanisms acceptable to the customers.

Affordable insurance price is to be offered to rural people as their propensity to spend on insurance is very low. The delivery system of insurance in rural areas has to be more focused on the customer needs and also tied up with village panchayats, local volunteers and non-governmental organizations. Exhaustive survey of the rural insurance market, efficient advertising campaign, customer grievance cell and efficient pre and post-sale service are the measures needed for the improvement in marketing of rural insurance.

Further, simplifications and bundling of micro-insurance products are very much needed to make the products amenable to understand, use, sell and service easily. The premium payment plans are to be flexible to suit farmers’ needs. The insurers have to focus on volumes by targeting large groups. The micro-finance activities are to be integrated with micro-insurance. A micro-insurance revolution is a right step towards improving the well being
of the poor and helps improve the living conditions for those who do not have access to financial services.

For selling micro-insurance products, direct selling will be more suitable and viable than other selling methods. Self-Help Group, an NGO, an IRDA and a DRDA will be considered the correct distribution channels through which the insurers have to tie-up with them for selling the products.

The backbone of Indian economy is the rural population and the poor people in the unorganized sector. They are unable to pay insurance premium to get the benefits of insurance. Though IRDA takes some initiatives, the insurance industry has not made any remarkable step to tap this segment. The insurers have to look micro-insurance as an opportunity to tap the rural market while helping the rural community.

Small groups of the farmers and the villagers should be called for meetings at the melas, co-operative society’s meet and the farmers’ meet. They should be made aware of the new type of insurance products available and also about the existing products through lectures by the insurance consultants and experts.

Another important requirement is to encourage the growth of alternate distribution channels. The experience in several developing countries shows as the financial markets mature, multiple channels of financial services will serve customers more efficiently.

The methods of insurance distribution and also service delivery are adopting a different approach and this needs a fresh re-look at the type of personnel required to do the job. Identifying the optimal mix of distribution channel is critical to the success of the life insurance industry during long period. The insurer’s strategy should influence the choice of suitable distribution channels for selling insurance products efficiently. Besides a wider
distribution channel, low distribution costs would also play an equally important role in determining long-term viability of insurance business.

The distribution channels are required to be re-designed so that they can give preference to the insurance products coupled with both safety and protection along with better returns to the policyholders. Every constituent in the distribution channel needs fresh mind-set along with all required skills needed to manage and administer responsibilities in the present day insurance business environment.

The high costs of distribution are imminent because the agents have to travel to remote corners of the country, building awareness among rural masses, motivating them to insure their lives. It is undoubtedly a great financial constraint to many insurance companies. The life insurers are doing mostly retail business. Insurance marketing involves a high degree of involvement of the insurance agents. The insurance agents demand that the insurance companies support them through proper, timely and adequate insurance advertising. Distributors like individual agents and brokers can be encouraged to maintain their own offices to receive service requests, complains and suggestions from policyholders. LIC of India has already taken many measures on this. The private insurers have also to provide necessary facilities to respond to the customers regularly.

Insurance business is mostly technology driven. It has got the potential to save cost and money. It reduces the price of the insurance products. The insurers are required to use the available technology extensively in all aspects of insurance transactions to reach to the customers and to spread insurance to many areas.

Insurance companies are also to be competitive by cutting cost and serving the customers in a better way. Diverse and innovative products need
to be offered by the insurers to the insured. Better and prompt servicing of the customers has also to be necessitated.

Banking institutions lack knowledge on insurance products. They are unable to disseminate information about the products to the customers. Hence, there is an imperative need to motivate the bankers through both monetary and non-monetary incentives. Further, adequate training to the banks’ staff will also serve the purpose of making bancassurance a successful channel for insurance distribution.

The insurers have to persuade and convince younger prospects to start their insurance planning early because they have to pay smaller amounts of premium extendable for a longer period. There is a gap ranging from only 5 to 10 ten per cent between men and women insurance customers in U.S. But in India, this gap is much wider and life insurance for women is an untapped market. There is an increase in the number of women employees and many of them are buying life insurance policies. Private insurers are also planning to introduce new plans and riders to suit the requirements of women employees. But, the improvement of insurance business in this segment is not proved satisfactory and much has to be done in future by the insurers in this regard.

Child insurance is another area which needs focus by insurance companies. The insurance companies need to have awareness programmes in schools about child insurance. LIC and some private insurers have done some work in this regard. But, it is only a mere starting point. The insurers have to take steps for selling aggressively the insurance products designed specifically for physically handicapped persons, minors, non-resident Indians, keymen and business partners.

Longevity in terms of life expectancy of our population is increasing with medical advancements. It is imperative that people secure their own post-retirement future. As longevity of life is higher, old age pension products
should be given top priority by the insurers. The old age pension scheme can also be brought into the insurance stream. This not only helps the insurance sector but also the people to safeguard their future interests.

Pension market holds immense potential in India. Only about 0.25 per cent of the policies sold are pension policies while in USA, it is 49 per cent. The insurers need to work out efficient and suitable marketing strategies to tap the pension market. There is also an urgent need for working out pension schemes for the large number of wage earners in the unorganized and informal sectors by the insurers.

The main goal of financial management is to ensure that the financial viability of the operating insurance unit enforce financial discipline and monitor the financial budget. This goal needs to include administration of proper and adequate fund and investment management practices of the insurers. The investment should be made in such securities which give the highest return consistent with safety and security. The insurer can reduce his future premiums by earning higher interest and will be able to promote his insurance marketability. Therefore, the investment activity of the insurers has to maintain balance between safety and profitability.

The executives of the claims department are in close touch and monitoring with the activities of the other departments of an insurance company, especially the underwriters and actuaries so as to facilitate the process of buying risk and thus eliminating its adverse effects. It may be suggested that the companies need to provide suitable guidelines to make the decision making process of the claims department early and function efficiently.

Claims costs need to be regulated by applying improved and scientifically based loss control and risk management mechanisms. Concerted efforts should be made to comprehensively review and reduce
operating expenses. As death claim payments, especially in the earlier years of policy period, result in an erosion of the funds of an insurer, utmost care is to be taken to process the unauthorized and inadmissible claims.

Organizational restructuring is absolutely essential in order to face competition. Rationalization of the life insurance industry and strengthening it is the need of the day. Strategies of the life insurance companies should focus adequately on standardization, diversification and internationalization of the insurance services. With a much wider and strong agency network to distribute, LIC requires further customization of products. The Corporation needs to rebuild trust with the public and deliver more affordable and sustainable customized insurance products.

Insurance has become very important and it provides cover to oneself adequately in the case of any unfortunate event. It is important for the insured to know the right amount of insurance cover needed before insuring. The insurance cover of an individual should be in consonance with his earning position. This insurance cover required should provide necessary amount to the dependents. In this connection, it is suggested that the Regulator may render consultancy services in an impartial manner to the prospects for advising them to determine the insurance cover to be needed by them.

The higher lapsation ratio of insurance policies shows that the distributors have taken more efforts in procuring new life business. But, they have not taken adequate attention to retain the procured existing business. Hence, proper feedback mechanism should be strengthened and the reasons for higher lapsation ratio should be properly analyzed and corrective measures should be put in action. It may also be suggested that the insurers need to appoint retention managers to take suitable measures to revive lapsed policies. A suitable provision may be incorporated in the Act to allow
payment of renewal commission to an agent who services the policy in the absence of the original agent.

It is not possible to completely eradicate fraud as there is an involvement of human element in the functioning of the industry. But, the industry takes fraud seriously since it distorts its competitive and reputed position in the market. The cost of fraud can’t be passed on to all consumers. To aggressively and successfully fight fraud, insurers need a proper balance of trained professionals and technology. They also need organizational commitment to fight against fraud and cause benefit to the real beneficiaries. They should also ensure that there is an efficient mechanism to eliminate fraudulent practices.

There is a strong feeling in the insurance market that growth in insurance business is likely to be impaired by inadequate capital. The proposed move to a hike in foreign direct investment limit from 26 to 49 per cent may, to some extent, solve this problem. The guidelines of initial purchase offers are also to be materialized early.

The insurance industry has an enormous number of insurance agents. The insurance agents have to diversify their activities to meet the complex needs of the customers. Spreading of insurance education has made the job of an insurance agent more difficult and complex. The traditional methods of selling insurance products have become outdated. New marketing strategies are to be designed by the agents for capitalizing the available selling opportunities. Relationship marketing should be the prime selling strategy of the agents.

Appropriate training, rather than hour-based training is necessary particularly in the context of the way life insurance is sold in India. Necessary, refresher programmes need to be organized as and when required. There is always a need for a knowledgeable and reliable network of agency force to
sell the insurance products. The agents should believe that it is a good profession to carry out. What is more needed is to develop their inter-personal and marketing skills to sell more insurance products with efficiency. They have to consider it as a full-time profession and get themselves well acquainted with the features of different insurance products of the companies.

Insurers should take all steps to ensure that the incidence of claim repudiation is reduced to the barest minimum. If a claim is repudiated, they should explain the circumstances under which the claim is to be rejected to the policyholder. Efforts should be made to ensure that the age is admitted properly with a valid proof so that confrontation at the time of claim settlement is avoided. The importance of nomination should be explained to the prospect so that the process of claim settlement is made easier. In essence, insurers have to act in such a manner as to evidently demonstrate their anxiety and eagerness in protecting the policyholder’s interests. Insurers must attend claims with a positive orientation rather than adopting a path of confrontation.

Reserving and solvency are the two important factors for evaluating the financial efficacy of the insurance companies. The norms relating to solvency are being reviewed continuously to ensure that the businesses are being run on sound lines. The importance of solvency lies in the fact that it emphasizes on ensuring a level of confidence to the shareholders in general and policyholders in particular and assure that their contractual obligations would be met when they fall due. Further, in order to protect the interests of the policyholders and to ensure the stability of the financial markets, insurers are also required to possess certain amount of extra assets over and above the estimated liabilities.

The incidence of consumer complaints is certainly on the higher level since the insurance policies are not properly understood by the insured. Hence, insurers should take necessary steps to ensure that the policies are
made as simple and straightforward as possible. Further, the policies should be interpreted in the right spirit and if there is any doubt, it should be clarified in such a manner as to give benefit to the policyholders.

Insurance information is the greatest factor conducive for developing business. Hence, it is to be updated in such a way to improve the efficiency levels. When there is a need to share information among insurers, the necessary information needs to flow freely and without any distortion. This will be a more inviting feature to each and every insurer.

There is a need to reduce both the service tax and also the internal operating costs of the insurers to make insurance products more affordable to semi-urban and rural segments of the insurable population.

Government should take necessary steps to make life insurance mandatory for every individual. Initiatives have also been taken to foster international co-operation with regulatory bodies and this has helped to enhance market confidence in the local system besides understanding the impact of globalization of insurance.

As the banking system has a deposit insurance scheme for its depositors, there is also a need to have a similar scheme for the insurance customers also.

Efficient insurance business practices are to be adopted in life insurance industry not only with the norms of good corporate governance but also with effective internal control systems. This may identify the corporate risk exposures on the financial health of the insurer and also on his market behaviour.

There is a need to introduce a number of quality initiatives in the investment process of insurance companies. The traditional approach of passive investment management methods must be replaced by dynamic
approaches of measuring, monitoring and managing investments for optimizing the returns.

Self-regulation and discipline among various classes of stakeholders of the life insurance sector should be imbibed voluntarily through the formulation of suitable codes of conduct for market discipline and conducting business in a healthy and responsible way. Initiatives have also to be taken up by the regulatory bodies of professionals in the insurance sector like the actuaries, insurance surveyors, loss assessors and insurance brokers for self-regulation and discipline.

The insurance market generally needs to be controlled by a combination of regulation and self-discipline. Hence, balancing and coordinating the two will be more important and crucial. It is hoped that the IRDA may look into this aspect with concern and regard.

It is also relevant on the part of the insurers to concentrate on insurance advertising as the awareness level created by agents is not significant. Advertisement support is very much needed till the agents gain values. The insurers have also to plan for special advertisements which can make the rural people aware of the insurance policies. Advertisements should be more through television and should make the features attractive. The prime time of the news and commercial channels are considered the best time for telecasting advertisements on television.

The financial market has been undergoing tremendous changes during recent times due to the entry of new products and service delivery systems, particularly in the insurance sector. To survive, the insurance companies need to create an environment of understanding of the investing public by disseminating relevant information on insurance and educating them about the relative benefits of life insurance.
The institution of ombudsman is also to be reviewed for possible changes and expansion of jurisdiction. This will ensure that the grievances that are not resolved by insurers and get transferred to the Regulator are decided conclusively.

There are many gains of insurance sector reforms in India. But, there are many things which are yet to be taken care of and being achieved. A clear and practical road map for the development of life insurance industry in future is very much needed. The key to business success is the most effective utilization of the company’s resources. This involves the evaluation of the company’s strength and weaknesses in the light of the environmental threats and opportunities and taking appropriate measures to harness the opportunities or to combat the threats and formulation of strategies accordingly.

IRDA has to monitor the progress of the industry and make further changes wherever necessary. It will continue to consult all stakeholders in developing a congenial regulatory environment and formulating necessary plans for product development, distribution, investment management and customer servicing. Such partnership and dialogue will be very much needed for the growth of the industry. This will meet the desired vision of many making India a good, efficient and safe place for insurance business in the international insurance scenario.

It may be concluded with the advocacy of Sri C.K. Prahlad that the bottom line for any commercial activity, especially for life insurance, is producing profit. This can only be made possible when the parties to a transaction do not allow any fraud and act only on utmost sincerity and good faith.