CHAPTER - I

INTRODUCTION
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Insurance is basically a sharing device. It is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of as a guaranteed and known small expense to prevent a large, possibly devastating loss. An insurer is a company selling the insurance; an insured or policyholder is the person or entity buying the insurance. The insurance rate is a factor used to determine the amount to be charged for a certain amount of insurance coverage, called the premium.

Insurance is mainly of two types, Life Insurance and General Insurance. Life Insurance is one of life’s necessities and probably the least understood financial products. Insurance reimburses people for covered losses in the event of an unfortunate occurrence such as an illness, accident or death. At the same time, it can encourage prevention and safety measures, provide investment capital, lend money, and help to reduce anxiety for society at large.

General Insurance includes Fire, Marine and Miscellaneous Insurance which includes insurance against burglary or theft, fidelity guarantee, insurance for employer’s liability, and insurance of motor vehicles, livestock and crops.

It is natural to think of insurance of physical assets such as motor car insurance or fire insurance but often we forget that the creator of all these assets is the human being whose efforts have gone a long way in building up the assets. In that sense, human life is a unique income generating asset. Unlike the physical assets, which decrease in value with passage of time, the individual becomes more experienced and more matured as he advances in age. This raises his earning
capacity. The purpose of life insurance is to protect the income of the individual and provide financial security to his family, which is dependent on his income in the event of his premature death. The individual himself also needs financial security during his old age or on his becoming permanently disabled when his income will stop. Insurance also has an element of savings in certain plans.

Insurance in India has a history dating back to about 200 years, and Life Insurance Corporation of India was formed in 1956 as a result of the nationalisation of the insurance industry. The market was reopened to private competition in the year 2000. As on March 31 2009, there are 22 players and even more are looking for joint venture partners to make a foray.

A Swiss Re survey, puts India as the 11th largest Life insurance market in the world. The life insurance industry alone grew to Rs.5,60,000 crore in size in the year 2008-09 which is a 31% increase over the previous year. Life Insurance today still figures as one of the most popular investments options in India.

In the middle of a slow down, insurance companies that posted growth of 60% to 70% in the recent past have seen this slip to the 20% to 30% levels. But India is still a grossly under penetrated market with insurance contribution at 4% of GDP, and demand for insurance is bound to rise considering the emerging demographic profile.

A thriving insurance sector is of vital importance to every modern economy, as it encourages the savings habit, serves as a risk mitigation device, provides a safety net to rural/urban enterprises and channelises society's resources to productive purposes. Most importantly it generates long-term investible funds for infrastructure building, which is essential for a developing nation like India.

Taking into account the intense competition due to the entry of private players which has spurred many innovations in various aspects of product design and service
delivery, it was considered imperative to take up a research work on the emerging competitive dynamics in the insurance industry.

1.1 Review of Literature

Competition is heating up in the insurance market in the post-privatisation era and competitive strategies of companies have been focused on innovation in design and delivery of products and services. Changes have been driven by products introduced to address market gaps. The real parameters that will mark the development of the industry would be market linked and pension products (Gupta Aarti, 2002). The period after the year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place in the sector especially in terms of competition, products and distribution channels. The mobilisation by insurance companies has gone up many times compared to the situation prior to 1999 and the market share of private sector has also increased sharply signalling the intense competitive pressure in the industry (Gupta P.K, 2009).

Disinvestment of insurance sector has led to customer satisfaction and customers are the beneficiaries since costs have reduced while the quality of services has improved. In the post liberalised era, the sector faces the challenge from customer expectations as they are more price sensitive and are looking for better value and services. The outcome of the privatisation process over a period of five years has been positive and is the beginning of a new era with many heights to achieve (Bansal Anand, 2005, Sandeep A, 2007, Kaminsky, Graciela and Schmukler, Sergio, 2002, Patil BP, 2005). The marketing function of insurance is of unique importance because the insurance company can succeed only if it sells a large number of policies and spread its risks among the insured. To accomplish this it must rely on its marketing organisation. No matter how efficiently an insurer manages all of its functions, its
sales force is the key to the company’s success. It is a challenge for any insurance business to attract qualified and capable persons to join and work with them to sell insurance in the competitive environment. It requires capable people who could analyse the financial status and generate confidence among potential customers to accept the advice. With the onset of competition, the role of the ubiquitous insurance agent is evolving, expanding and in some cases witnessing a complete turnaround. With new products from insurance companies hitting the market every other day, the new age agent is armed with knowledge not just about his own products but also about products of other firms. Knowledge about matching products to suit customer requirements over the entire life cycle is a key differentiator and would be a source of competitive advantage (Dagar S, Shalim, 2008, Maheswari Sunil, 2005, Mazumdar, A. 2009, Peppers Don et al., 2008) Wiley Stepehen, 2005).

Insurance plays an important role in the developmental process of an economy and its role is more pronounced in developing economies with their deficient social security mechanisms. The savings part of insurance can be channeled into long term investments and would play an important role in funding infrastructure projects with long gestation periods. The availability of insurance can mitigate the impact of risks by providing products which help organisations and individuals to minimise the consequence of risks and has a positive effect on industry growth as entrepreneurs are able to cover their risks. The insurance industry is also an integral part of the financial system. For efficient functioning of the financial system, it is important that the markets are efficient by ensuring liquidity and transparency in price discovery. The role of the insurance companies as financial intermediaries is also considered significant in making these markets efficient by providing liquidity and credit. (Hess Thomas, 2002, Bhat Ramesh, 2005). Selling insurance in India is an attractive
opportunity because of the untapped potential but is fraught with challenges such as language and cultural barriers and low purchasing power (Tony Singh Anuroop, 2004). India’s fast changing economic climate will continue to provoke innovative responses in terms of new products and service offerings (Reet Chauduri, Manish Mohnot and Narayan Seshadri, 2003).

Customer awareness and recall has grown phenomenally over the past few years and companies are ready to invest a fortune to attract and retain customers. No other sector has witnessed such intense rivalry as displayed by the insurance sector in the past couple of years. The clutter has forced insurance companies to think out of the box and innovate. Insurers have begun to focus on cost rationalisation in order to realise higher embedded value and generate value from future business. The key to success would be leadership and vision with regard to emerging opportunities complemented by speed of response (Dopte Tripti, 2006, Sovani Ashwini, 2008).

The success of marketing insurance is dependent on understanding the social and cultural needs of the target population and tailoring products and services according to target market requirements. To achieve both growth and superior returns on invested capital, companies should target existing segments with new offerings and target new segments with existing or new offerings (Mark L. Frigo, 2004). In a service like insurance which promises in return for payment upfront, redemption of commitments has to be perfect at all times (Mony, S.V, 2003).

No insurance company can survive in the market without investing heavily in information technology. Information technology can cut costs and blur functional distinctions in the insurance industry (Stewart, 1998). The internet creates many opportunities as well as poses challenges to insurers (Graven, 2000), With the rising internet penetration, E-business insurance is expected to grow significantly in the
future and companies need to fine tune their competitive strategies to suit the digital stage (Bansal Anand, 2003).

Since 1999, India’s insurance industry has benefited from FDI and since many of the companies need to invest huge amount of funds to increase their reach of distribution, increasing of the FDI cap to 49 per cent would further benefit the industry (Mishra K.K, 2004). Foreign insurer participation has resulted in improvement in customer service, design of products tailored to customer needs, aided transfer of technical and managerial know-how and enabled flow of foreign capital.

Raman N and Gayathri (2004) stated that the premium rates are the key parameter to select a particular insurance company for investing and for majority of the respondents, friends and relatives have been the major source of awareness about new insurance companies.

Consumer education is the key to the growth of the insurance industry in India (Naren Joshi, 2004). Success of the insurance industry will primarily depend upon meeting the rising expectations of the consumers who will be the real king in the liberalised era. Capital adequacy standards of the insurance industry should be brought in line with the best international practices. Consolidation of the insurance industry needs to be promoted to ensure sounder competition and greater safety. Competition policy should ban the practice of tied sales whereby customers of large companies are forced to buy several services from the same group (Krishnaveni, 2008). To constantly differentiate themselves, insurers have to constantly raise the bar of customer service, shedding inefficient practices and establishing new paradigms is their urgent task for sustainability and prosperity (Mishra KK and et. al, 2005).
Bancassurance can be sure a fire way to reach a wide customer base, (Viswanadhan, 2005). Bancassurance would have a positive impact on insurance products distribution if banks and insurance companies understand each other’s businesses and seize the opportunities presented. Insurers have slowed down their expansion drives in terms of opening of more distribution outlets and have shifted their focus to improving channel productivity (Sridharan and et. al, 2009). Multi-channel distribution and marketing of new insurance products have been the strategy of new players in the Indian insurance market and this trend would continue in the future. (Jhampala Rajesh, 2005).

Insurers need to attempt to promote customer acquisition and retention, cross sell products and obtain channel efficiency in their bid to increase market share. To survive and have an upper hand over competitors, insurers need to adopt and implement CRM (Chandok Anil, 2006). More than three-fourths of India’s insurable population have not been covered under life insurance, pension and post-retirement protection. The focus is on selling more products to existing customers to improve profitability. Therefore customer focused strategies require an effective CRM ensuring that insurance firms monitor the ebb and flow of customer behaviour. More and more organisations in the insurance industry are tapping into the information that is hidden in reams of data that they have been accumulating in their data bases and application files, regarding all kinds of interactions with customers, suppliers and other external parties. The move towards effective utilisation of data through creation of Data marts and Data warehouses is bound to gain further strength. Organisations will become more skilled with extracting information (Data Mining) out of the reams of data that gets accumulated in the operational databases and in Data Warehouses (Rajesham and Rajendar, 2006, Kapoor Tarun, 2004).
While the urban markets continue to be a major contributor to growth, insurance companies would need to reach out to rural audiences with specialised products and services since the next phase of growth is expected to be driven by the rural consumers (Gupta Aarti, 2007, Khan MY, 2005, Manu Kaushik 2008, Sadhu Ramakrishnan & Pradip Sinha 2006). Most of the insurers including the LIC have been able to just fulfill their rural obligations. There is no significant growth in rural market shares and penetration, rather in the case of LIC, the proportion of rural business to total business declined sharply after privatisation. It is only after the definition of the rural sector was amended in 2004, the contribution to rural sector has improved. The reason for the lesser inclination of private sector towards rural insurance is the competition leading to losses in the initial years of operation. This leads the companies to rush towards urban customers so that the costs can be recovered at the earliest (Gupta P.K, 2005).

Many of the insurance companies have adopted behavioural segmentation based on occasions in order to widen their reach. They have linked their insurance products to the education or marriage of children of the person investing in their insurance plans. (Shortriya Vikas 2009). Different insurance companies have adopted different promotional strategies to market the wide variety of products they offer. The first step to touch the hearts of people is to adopt a creative strategy in advertising. Insurance companies have adopted creative strategies to educate and train people to help them understand the concept behind their products better (Rana Jyoti, 2008). Branding is highly relevant in the financial service sphere and especially in insurance. Those organisations that have branded their products at the right time and implemented the same in the right way have been successful. Whatever the organisation adds to the base product, its survival is entirely dependent on the brand
and its strength. Successful firms are able to sustain their competitive advantage only by upgrading their brand offerings (Vasumathy 2007). Advertisements of life insurance companies should not only be informative but also persuasive and motivational. The slogans should be as short as possible and slogans with rhymes would be impressive and easy to remember for the customers (Pareek and Renu 2007). To deliver sustained superior performance in the market place, players need to create and employ differentiated strategies in sales, distribution and marketing. Companies need to design and manage their sales force in a manner that yields both high performance and customer retention (Prasad Nikhil, 2002).

1.2 Need for the Study

Increase in the variety and complexity of risks is a reality of the modern world. The break up of the joint family system, vast majority of the population not having any form of social security, rising incidence of diseases coupled with growing costs of health care, increase in the longevity etc are factors which point out to the growing need for insurance.

Human life is a mixture of both certainty and uncertainty. To avoid uncertainty people insure their lives. Insurance has many benefits in store for customers. It saves their families from misery, chaos, and destitution. Insurance lays the foundation on which the economic structure of life can be gradually and safely built up and sustained to the end. Uncertainties to the individual are made certainties for the group.

Insurance has transformed over time and re-invented to become an all pervasive financial instrument that can cater to different investment and protection needs at different stages of life. The Indian insurance industry has come a full circle, from being an industry with many players to an industry which was closed to private
competition and again to a liberalised industry. Though India has the largest number of life insurance policies in the entire world, insurance happens to be a mega opportunity in India. It is a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs.450 billion. Together with banking services, it adds about 7 per cent of the country’s GDP. Gross premium collection is nearly 4.2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP.

The liberalisation of the Indian insurance industry has led to radical shifts. Concomitant with the dramatic transformation in various parameters of the insurance sector, there has been a virtual explosion in terms of the number of products, types of products, benefits offered, segments targeted etc., New distribution channels have emerged and companies have come out with products with varied price points to suit the requirements of different market segments.

The insurance sector in India is a veritable competitive cauldron with 22 players competing for the customers’ attention and trust. Many new players are waiting in the wings enticed by the tremendous opportunities for sustained growth that the sector offers. The World Insurance Report of 2009 describes the penetration of life insurance in India as ‘still woefully low’. India had 16 per cent of the world population, but only 1.68 per cent of the world life insurance market in 2008. A mere 20 per cent of the insurable population aged 20 to 60 years is currently covered by life insurance. The average number of policies held by an Indian consumer is just 1.33 as against 5.2 policies per consumer in mature markets. As we can see from the numbers, the potential for expansion of the market is huge especially with rising per capita income and a growing middle class that is expected to constitute 32 per cent of the total population in 2012. The insurance penetration levels as a percentage of GDP
is expected to grow to 6 per cent by 2012 from the current 4.8 per cent which would translate to a CAGR of 13 per cent for the industry in the next five years.

Though there have been studies conducted on the growth plans of the players in the industry, the innovations in products, pricing, distribution, promotions etc., there have been very few studies on the emerging competitive dynamics of the insurance industry and the satisfaction level of customers with regard to various attributes of products and services offered by companies operating in the insurance sector. Therefore this study was undertaken to study the competitive strategies unleashed by the leading players operating in this sector and the impact it is likely to have on the competitive dynamics of the industry. The study also aims to know about the customer satisfaction level of the products and services offered by select private life insurance companies.

1.3 Objectives of the Study:

1) To assess the scenario prevailing in the Indian insurance sector.

2) To identify the factors that influenced customer to take insurance from a particular life insurance company.

3) To evaluate the satisfaction level of the customers with regard to the various attributes of the insurance policy and also to evaluate the satisfaction level in comparison to other companies.

4) To assess the strategies adopted by the insurance companies to develop competitive advantage over their rivals.

5) To suggest measures for further improvement in the management of insurance companies.
1.4 Research Methodology

This unit portrays the various steps that are generally adopted by the researcher in studying the research problem along with the logic behind them.

The aim of the study is to explore the emerging competitive dynamics in the insurance sector and also to throw light on customer satisfaction levels with regard to products and services offered by select life insurance companies operating in India with special reference to Chennai.

In this study, exploratory research has been applied and the convenience sampling method has been adopted. Both primary and secondary data have been used in this study. The primary data was collected through a structured undisguised questionnaire distributed to 100 customers of each of the five life insurance companies selected for the study. Case study approach has been used to analyse the competitive strategies adopted by the sample companies and a cross case analysis was done to identify the emerging competitive dynamics.

The target population for the survey research was the customers of the selected sample companies. The secondary data included audited records, journals, magazines, published and unpublished records of select life insurance companies, research studies conducted by different organisations and individuals in the field, the profiles and annual reports of the insurance companies. Relevant information was also accessed from the websites of the companies. The researcher has adopted statistical tools such as Chi-square analysis, Percentage method, Analysis of Variance followed by Duncan’s Multiple Regression Test (DMRT), t Test. Paired t Test and Correlation for the purpose of analysis.
1.5 Applied Significance of Findings:

The research findings might be of great help to the corporate planners, policy makers, regulatory authorities, managers and administrators of the insurance industry. It would also be useful to the executives of service industries in general and financial services industry in particular. Last but not the least, it would be beneficial to the individuals and corporates who plan to enter into the insurance sector.

1.6 Organisation of Chapters:

The entire research work comprises of six chapters.

The first chapter is Introduction. It contains the brief review of literature and objectives of the study. It also describes the methodology of the research work and its applied significance.

The second chapter discusses about the Dynamics of Competitive Strategy – A Conceptual Perspective. Here the researcher has incorporated the various background studies of competitive strategies and also the pertinent strategies adopted by insurance companies to build competitive advantage.

The third chapter portrays the scenario of insurance industry in India. The country has liberalised the insurance sector and many new players have entered the business. Hence there is a paradigm shift in the competitive landscape of the insurance business.

In the fourth chapter the competitive strategies adopted by insurance companies have been incorporated in the form of Case Studies. Cross Case Analysis has been done taking into account key parameters for evaluating the emerging competitive dynamics.

The fifth chapter deals with the findings of the survey research and statistical analysis. Appropriate statistical tools such as chi square test, ANOVA followed by
Duncan's Multiple Range Test, t-Test, Paired t-Test and Correlation have been used wherever it is found suitable.

The sixth chapter is the concluding chapter. It contains the concluding remarks, suggestions, limitations of the study and also the future research scope.

References (Chapter - I):


