CHAPTER I

NATURE AND DESIGN OF THE STUDY

1.1. Introduction

The business of insurance is related to the protection of the economic value of assets. It is a means of providing protection against financial loss in a great variety of situations. It is a co-operation method for spreading over the loss caused by one or more, caused by a particular risk, over a number of persons who are exposed to it and who agree to insure themselves against that risk. The essence of insurance is to share losses and substitute certainty by uncertainty.

Insurance plays a vital role in the modern society. Life insurance assures to replace income lost to a family if the policy holder met with an untoward incident. Health insurance like medi-claim reimburses the medical expenses which are met by the policy holder. Fire insurance pays all or part of the loss if the insured properly is destroyed by fire. Motor vehicle insurance compensates the cost of damages resulting from accident. Now-a-days, people can also avail themselves of insurance to cover unusual types of financial losses. Dancers have insured their legs against injury. Motion picture producers
have even insured the lives of animals starring in their films. The desire for security is sought to be safe by taking all the precautions possible to avoid or prevent the consequence of risk. Insurance is a mechanism that helps to reduce such adverse consequences.

1.2. Purpose and Need of Insurance

Assets are insured because they are likely to be destroyed through an accidental occurrence. Such possible occurrences will create financial loss to the owner. To compensate the loss insurance protection is needed. The accidental occurrences are called perils. Fire, floods, breakdowns, lightning; earthquakes are some examples of perils. The damage that these perils may cause to the asset, is the risk that the asset is exposed to.

Insurance does not protect the asset. It does not prevent its loss due to the peril. Only economic and financial losses can be compensated.

1.3. General Insurance in India - A Review

The first General Insurance Company namely Triton Insurance Company Limited was established in Calcutta in 1850. Mainly the British held almost all its shares. The first
insurance company to be set up by Indians for transacting all classes of general insurance business was Indian Mercantile Insurance Company Limited in 1907. The British and other foreign insurers had a good share of insurance business, about 40 per cent at the time of independence. This share declined progressively thereafter.

In 1957, the General Insurance Council, a wing of the Insurance Association of India, framed a code of conduct for ensuring fair conduct and sound business practices in general insurance industry. Further, in order to increase the changes of retention of general insurance business in India, the insurers started a reinsurance company namely, India Reinsurance Corporation Limited in 1956, to which they all voluntarily ceded 10 per cent of their gross direct business.

In 1968, the Insurance Act was amended again to provide for extension of social control over insurers transaction of general insurance business. There were far-reaching changes leading towards a modern piece of legislation, which came into force on 1st June 1969. However, before, they could be effectively implemented, management of non-life insurers was taken over by the Central Government in 1971 as a prelude to
nationalization. The General Insurance Corporation and its four subsidiaries thus came into being from 1\textsuperscript{st} January, 1973.

During this period, an office of the Controller of Insurance was set up, through its various phases, as an attached office firstly of the Ministry of Finance of the Government of India. The controller is a statutory authority whose duties, powers and responsibility as regards supervision and regulation of insurance business were defined in the insurance Act.

The nationalization of life insurance business and creation of LIC in 1956 was followed by the nationalisation of general insurance business and formation of GIC and its subsidiaries in 1973. Adopting of the Insurance Act 1938 was greatly modified by the nationalizing enactment’s and Government notifications issued there under. Most of the regulatory functions were taken away from the controller and vested in LIC and GIC themselves.

By Law, the Controller of Insurance is still the supervisory and regulatory authority for the insurance industry. The nationalization of general insurance industry, however, seems to have changed the position. The Controller’s Office and an Assistant Controller were made a part of the Insurance Division
of the Ministry of Finance and were made to perform a few residual functions under the law which in practice is not much of importance.

The Insurance Act did seek to create a strong and powerful supervisory and regulatory authority in the controller of Insurance. His role and responsibilities are set out in several sections for this Act. It empowers him to direct, advise, caution, prohibit, investigate, prosecute, search, seize, fine, amalgamate, authorize, register and liquidate insurance companies. As already stated, the powers and position of the controller of insurance have undergone drastic curtailment after nationalization of the industry. This presumably might have taken place with the belief that the nationalized industry did not require any supervision and that its accountability to Government through the insurance division of the Finance Ministry would be adequate. There are, however, operations which require professional regulation even in the nationalized insurance sector, particularly in the areas relating to expenses, customer service, claims settlements, resolution of disputes, reasonableness of tariff and prevention of restrictive trade practices.
The Committee on Reforms in the insurance sector has suggested that the office of the Controller of Insurance should have its full statutory powers restored and segregated from the Ministry of Finance and in due course, the Insurance Regulatory Authority as a multi-member statutory body should be set up. This would require amendments to the current laws. The Government has since established an Insurance Regulatory Authority with its Chairman having the rights and responsibility of the Controller of Insurance vested in him. The Government is now contemplating to vest this Authority with statutory powers through legislation to regulate the functioning of the insurance industry after it is opened up.

The Insurance Sector was opened up to new players in August 2000. The last three years have witnessed the Indian Insurance Industry playing to catch-up with international developments overall the regulator. Insurance Regulatory and Development Authority (IRDA) has been able to script a smooth opening up process.

Profitability in insurance depends on the underwriting and claims process, the level of expenses including acquisition, administrative and claims handling costs, and finally investment
income. A major issue in the business is the role of tariff. In most of the major lines of business, the premium rates are governed by tariff fixed by the Tariff Advisory Committee. The experts have agreed that competition and tariff do not go together. However, tariffs have helped the general insurance companies to cross subsidies certain lines of business. The fire business has been profitable while motor business has faced substantial losses. The new entrants are also subject to tariffs, but they are more adept at keeping their exposure low in loss making businesses.

1.4. Review of Literature

The General Insurance has attracted the attention of many researchers these days due to its recognized importance. This has created greater interest among the public as well as the government after the Industrial Revolution. The legislation and regulation of general insurance by the government have formed the subject matter of many research projects. It is essential to review the research work so far done in the field of general insurance.

A study on “Role of New India Assurance Company Limited in providing Rural Insurance Schemes” by T. Margaret Radha
Rani reveals that the insurance company was not in a position to show effectively and efficiently in providing rural insurance schemes in Tirunelveli District.¹

Roy, R.M. (1941) in his thesis entitled “Life Insurance in India Its History, Law, Practice and Problems”, has highlighted the significance of life insurance service. This study deals with some of the problems faced by policyholders and throws light on the several scientific measures to expand the life insurance business. ²

Malcolm.P. and MC.Nair (1968), in the book entitled “Marketing and the Social Challenge of our Times”, amidst this atmosphere the attempt to nationalize insurance was insisted repeatedly and the President of India promulgated an ordinance for nationalization of insurance business on 19th January, 1956. By that Life Insurance (Emergency Provision) ordinance the management and control of life assurance business in India including the foreign business of Indian insurers and Indian business of foreign insurers are vested in the central government.

and there by the Life Insurance of India came into existence. The Life Insurance business thus passed from the private sector to the public sector. The essence of Marketing is the exchange of process. This is a process by which two or more parties give something of value to one another to satisfy the needs. Although marketing has always been present in business, its importance has varied greatly. Marketing activities are those most directly concerned with the demand stimulating and demand fulfilling efforts of a firm. These activities interact with one another as components of the total system by which a company develops and make its products available in the market. Many scholars considered this definition as too narrow. Malcolm Mc.Nair suggested a broad definition of marketing as it is the creation and delivery of a standard of living.³

N.R.Nagarajan, (1990), in his dissertation titled “An Investigation of the Marketing of Fire Insurance Service in Kamaraj District” has analysed the marketing of fire insurance policies in General Insurance Company⁴.

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A.K.Raj, (1992), in his dissertation titled, “Insurance Selling” has highlighted the importance of Salesmanship and Pre-requisites of a successful salesman in General Insurance Company.\(^5\)

C.Muthunayagam (1998), in his dissertation titled, Selling “Cattle Insurance in India” has elucidated the marketing concept adopted by the General Insurance Agents.\(^6\)

“The Hindu” (2003), has published an article entitled “Insurance of Sure” and it specifically says that many private sector players typically in association with foreign insurers have jumped into the fray sensing a huge opportunity in the market. But it is, in early stage, as the private insurers have been in operation for just about a year now.\(^7\)

C.Narasimha Rao (2000), in his dissertation titled “Performance of Public Sector an Overview of Insurance Industry” has analysed in detail and the study revealed that

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liberalization and privatization cannot solve the basic problems of a developing country like India.\(^8\)

A. Malathi (2004), in her dissertation titled “A study on the Utilization of Urban Insurance Schemes of National Insurance Company–Kovilpatti Branch” has studied the extent of utilization of urban schemes by the policyholders and the opinion of policyholder about the urban insurance schemes.\(^9\)

Antony Jacob (2004), in his report “General Insurance: Focus on Distribution” stated that the Indian insurance industry has witnessed a sea-change since opening up to private players in 1999. The liberalization has transformed the industry’s outlook towards the vast Indian market. The sports in the number of players has led to innovation in product development and distribution channels, thus treating the Indian customer to a whole new range of insurance products-each suited to match unique requirements of different societal segments.\(^{10}\)


\(^{10}\) GENERAL INSURANCE: Focus on distribution, Antony Jacob, Deputy Managing Director, Royal Sundaram Alliance Insurance Co. Ltd., The Hindu Survey of Indian Industry-2004.
Sujatha Rao (2004), in her paper “Health Insurance Concepts, Issues and Challenges” has made an attempt to explore whether this system can be made to generate better health outcomes, enable participation of civil society, widen choice of provider and provider accountability, optimize utilization of existing capacities and promote more need-based deployment of resources.11

Urvashi Makkar and Sathish Kumar (2004), in their article “Changing Scenario of Insurance Sector in the wake of Privatization and its Impact on Indian Economy” stated that in the insurance sector itself there will be demand for marketing specialists, finance experts, human resource professionals, engineers from diverse streams like the petrochemical and power sector, systems professionals statisticians even medical professional the demand for underwriters claims management and actuaries will continue to remain high.12

G.Dhananjayan (2005), in his article “Services Marketing: Integrating People, Technology and Strategy” stated that servicing customers is different from manufacturing and distributing products. Service to customers is “intangible” and cannot be seen, while

manufacturing is “tangible” and can be seen and felt by the customers. Service is “experienced” by the customers, and it touches their lives every day, and in many cases every moment, e.g., telecom, power, water, transport, banking, financial services, insurance, etc. On the contrary, manufacturing is at best a once-in-a-day experience, when the product is used. A manufacturer rarely sees a customer while service providers are in constant touch with their customers, and need to develop their service operations with the customer’s physical visit and interaction in mind.  

Prof.Ramesh Bhat (2006) in his article “Health Insurance: Huge untapped Market” reported that in India where the need for health care is large, high levels of private health expenditure pose a serious challenge. Private expenditure on health has grown over the years. The analysis of health financing data suggests that income elasticity of private health expenditure is 1.95 indicating that for every one per cent increase in per capital income private health expenditure has gone up by 1.95 per cent; private health expenditure was 2.4 percent of GDP in 1960 and had risen to 5.8 percent in 2003.  

Shibashish Chakraborty (2006) in his article “Factors Affecting Consumer Choice of Insurance Products” observed that the Indian insurance industry has transformed into a buyer’s market. It is

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important for insurance companies to have a customer-centric orientation. Companies must ensure that their marketing mix is formulated on the basis of customer preferences. This article describes the pertinent factors that affect the consumer choice while selecting insurance products.\textsuperscript{15}

Ajoke Gupta (2007), in his report “Health Insurance: Wide coverage gains urgency” stated that health insurance has not been a profitable business segment for the general insurers. As a result, its dramatic growth has almost entirely been demand driven.\textsuperscript{16}

Anil Chandhok (2007), in his article “Rural Insurance in India Opportunities and Threats” reported that there is huge potential for insurance business in the Indian rural market; the only need is to convince and persuade the target population by designing insurance policies as per the need and requirement of the customer. Efforts are required to make insurance policies more customized and personalized in order to win new customers and to retain the old ones. The days are not so far-off when insurance in the Indian rural market will be bought and not sold by the insurance players.\textsuperscript{17}

\textsuperscript{15} Factors Affecting Consumer Choice of Insurance Products. Shibashish Chakraborty, Faculty Member, The ICFAI Business School, Kolkata. The ICFAI University press. December 2006.
\textsuperscript{17} Rural Insurance in India Opportunities and Threats, Anil Chandhok, Professor & HOD-MBA Department, Shri Atmanand Jain Institute of Management & Technology, Ambala. ICFAI university press. 2007.
G.V.Rao (2007), in his report on “Non-Life Insurance: Spinoffs of detariffing” stated that the non-life insurance industry in India is in an cuphone mood, with premium growth for the first half of 2006-07 at 23 per cent. The premium revenue of the four public sector players and eight private sector players for the whole year expected to touch Rs.25,000 crores. The private sector players, in the six years since non-life insurance market was liberalized, have gained a market share of over 35 per cent. They are competing with the public sector players in almost every portfolio segment of the insurance business.18

Sandeep Bakhshi (2007), in his article “General Insurance-set for a big leap” stated that in India after liberalization there has begun a shift in mindset from insurance being a mandatory and tax saving instrument to one that is a mechanism for transferring risk. The General insurance industry was opened up for private sector participation in 2000 and the experience of the post-liberalisation period has been positive. The industry has achieved an overall growth that compares favourably with that of many other emerging markets and is in line with global benchmarks of two to three times the growth in GDP.19

J.Xavier, Professor, Academy for Management Excellence, Chennai in his study on “Marketing in the New Millennium” has identified 36 trends that are likely to change the course of marketing in the new millennium.\textsuperscript{20}

K.Rajadurai, Manonmaniam Sundaranar University, in his dissertation titled, “Performance Evaluation of the L I C schemes in Sankarankovil Taluk” has analysed the various schemes in detail. The outcome of his research work is that the various schemes have become popular only through the agents.\textsuperscript{21}

P.Raj Madurai Kamaraj University, in his dissertation titled “Role of LIC in Industrial Development – A Pre and Post-Liberalisation Review”, has analysed in detail the assistance sanctioned and disbursed to corporate sector by LIC and the scheme-wise assistance sanctioned by LIC and industry-wise assistance sanctioned by LIC.\textsuperscript{22}


\textsuperscript{22} P.Raj, “Role of LIC in Industrial Development”, Unpublished M.Phil Dissertation submitted to Madurai Kamaraj University.
P.V.Nisanth in his report, “Structuure and World Insurance” has analysed in detail, the developing country’s share in world insurance business and the growth of General Insurance in Pondichery region.23

So far there is no special study made on the satisfaction of employees and policyholders on the functioning of United India Insurance Company. By and large the study is aimed at providing empirical evidence on a few issues relating to the satisfaction of employees and customers in United India Insurance Company which in deed will be of much use to the decision makers, for effective changes in the bank.

1.5. Statement of the Problem

The main object of general insurance is to protect the economic value of assets. Every asset has a value. The asset would have been created through the continuous efforts of the owner, in the expectation that, either through the income generated therefore or some other output, some of his basic financial needs would be met. There is a normal economic expected life time for the asset. If the asset gets lost earlier, being destroyed or made non-functional, through an accident or

other unfortunate event, the owner and those deriving benefits and income therefrom suffer. The insurance plays a vital role to overcome these difficulties and protect the economic value of assets. This venture of insurance can be achieved by a well-organized sector like United India Insurance.

The development of this sector does not merely depend upon by simply introducing the various types of products in the market but also depends upon the well-organised marketing system. There are many issues, facing this sector, which are considered relevant for better marketing and organization. There is also a general feeling that the services of general insurance are not up to the expectation and satisfaction of policyholders and public. Therefore, an attempt is made to study the organizational structure, to evaluate the operational efficiency, performance of General Insurance and to identify the factors influencing satisfaction of employees and policyholders.

1.6. Scope of the Study

Insurance is greatly influenced by changes in the social structure, social thinking and social values, which in turn influences the needs of individuals. General Insurance Companies have been continuously taking innovative steps to
live up to the ever-changing expectations of the insuring public. In future the perception of the insuring populace will change but will be organized as a multidimensional protection instrument.

India ranks as one of the most important industrial at countries in any part of the world, where excellence is driven by competition. The entry into India by foreign insurers, as minority partners in domestic joint ventures, has brought the hope that market will reach a new level. Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability selection of right type of distribution channel mix and bring out an effective CRM system, which would eventually create a sustainable competitive advantage and build a long-lasting, in semi-urban and rural areas where it offers a huge potential. Due to inducement of competition in the business environment, insurance industry has started moving out of a state of monopoly. A desirable state for the future should be oligopoly where a few strong players may be offering large number of schemes.

Indeed, the General Insurance companies being a public sector organization are keen to show that they are no less
efficient than private players. General Insurance companies may be aware that its supremacy could get eroded by new comers unless adequate attempts are made to retain their customers. There will be an upsurge in awareness of policyholders, satisfaction of employees and policyholders and an increase in expectations that hopes and aspirations be delivered by the insurance industry. This will put an immense pressure on the insurance industry where in the industry will have to respond to it.

The scope of the present study is restricted to general insurance business which is offered by United India Insurance Company Ltd, in Dindigul. It covers the evaluation of operational efficiency in terms of working results and identifies factors influencing the satisfaction of employees and policyholders as regards the working condition of the United India Insurance Company Ltd, in Dindigul.

1.7. Objectives of the Study

The main objective of the study is to evaluate operational efficiency of the United India Insurance Co., Ltd. in Dindigul. Under this objective, the following specific objectives are taken up for the study.
1. To study the organizational structure of the United India Insurance Company Ltd.

2. To enumerate the various insurance products offered by the United India Insurance and assess the adequacy of the coverage.

3. To evaluate the operating results of the United India Insurance Company Ltd.

4. To identify the factors influencing employees’ satisfaction on the working conditions of the United India Insurance Company Ltd.

5. To identify the factors influencing customers’ satisfaction on the services of the United India Insurance Company Ltd.

6. To offer suggestions based on the findings of the study for the wider functional coverage and improvement in operational efficiency of the United India Insurance Company Ltd.

1.8. Hypotheses:

The following hypotheses have been set up to indicate the direction in which the research study should proceed. In tune with the fourth objective of the above, the following hypotheses have been framed.
- Age influences the level of employees’ satisfaction
- Education influences the level of employees’ satisfaction
- Marital Status influences the level of employees’ satisfaction
- Community influences the level of employees’ satisfaction
- Experience influences the level of employees’ satisfaction
- Size of the family affects the level of employees’ satisfaction
- Income influences the level of employees’ satisfaction
- Membership in trade union influences the level of employees’ satisfaction

In tune with the fifth objective of the above, the following hypotheses have been framed.

- Utilisation influences the level of customers satisfaction
- Education influences the level of customers satisfaction
- Marital status influences the level of customers satisfaction
- Nature of Policy influences the level of customers satisfaction
- Age influences the level of customers satisfaction
- Income influences the level of customers satisfaction
- Occupation influences the level of customers satisfaction
- Size of the family affects the level of customers satisfaction
- Term of the policy affects the level of customers satisfaction
- Social status influences the level of customers satisfaction
- Period of experience influences the level of customers satisfaction
- Awareness influences the level of customers satisfaction

1.9. Operational Definition

**Premium:**

It is the amount, which is paid by the insured to the insurer. It is the consideration for which the insurer gives protection to the insured. It is the price charged by the insurer to cover the insurance.

**Policy:**

It is the stamped document which contains the terms and conditions of the insurance contract. Usually it is issued by the insurer (Insurance Company). This is an acknowledgement of the liability.

**Proposal:**

It is an application for insurance. The person submitting the application is called the proposer and when it is accepted, he is called the insured.

**Peril:**

It is an event that causes a personal or property loss. Fire, Floods, Breakdowns, Lightning, Earthquakes, etc., are perils.
**Risk:**

Risk is uncertainty of future financial losses. One cannot be sure of the occurrence of a loss. The loss may be death or injury of a person or damage or theft of an asset. Risk may be an insurable risk or uninsurable risk.

**Fire Insurance:**

Fire Insurance is a device to compensate for the loss consequent upon destruction by fire. Thus the fire insurer shifts the burden of fire losses from the actual victims over to all the members of the society. It is a co-operative device to share the loss. It relieves the insured from the burden of the losses to which he is exposed.

**Marine Insurance:**

A contract of marine insurance is an agreement whereby the insurer undertakes to indemnify the assured in the manner and to extent thereby agreed against marine losses that is to say the losses incidental to marine adventure. It may cover loss of damage to vessels, cargo or freight.

**Miscellaneous Insurance**

The industrial revolution gave birth to certain miscellaneous insurance like accident insurance, liability insurance, theft and burglary insurance, and the like. The latest forms of insurance to come under miscellaneous insurance are
the cattle insurance, crop insurance and consequential loss insurance. The scope of General Insurance is increasing with the advancement of the society.

1.10. Sampling Design

The Dindigul Divisional Office of the United India Insurance Company Limited has five branch offices. Out of these, one branch office is located in Dindigul Divisional Office itself and the rest of four branch offices are located in different parts of the district. As the study covers Dindigul, all the five branch offices are included in the present study.

It is decided to collect information from 250 policyholders of the United India Insurance Company Limited in Dindigul. The list of policyholders was collected from the branch offices of the United India Insurance Company Limited. The information was collected from 50 policyholders by following convenient sampling from each of the branch offices of the United India Insurance Company Limited in Dindigul.

A selection of 75 employees was made on a simple random basis at the rate of 12 each from the five branch offices and 15 from Dindigul Divisional Office of the United India Insurance Company Limited in Dindigul.
1.11. Sources of Data

The present study is based on both the primary data and secondary data. The main source of primary data has been employees and policyholders. To elicit information from the employees a schedule was designed and administered. The schedule (See Appendix-I) was pre-tested and suitable modifications were carried out. The schedule has been used for collecting information relating to the personal data of the employees and their level of satisfaction. To elicit information from the policyholders a schedule was designed and administered. The schedule (See Appendix-II) was pre-tested and suitable modifications were carried out. The schedule has been used for collecting information relating to the personal data of the policyholders and also contains questions relating to the scale of policyholders satisfaction on the services offered by the United India Insurance.

The secondary data are collected from the books, journals, records of Insurance Regulatory and Development Authority, Office of the Divisional Managers and the Branch Managers of the United India Insurance Company Limited, Dindigul.
1.12. Framework of Analysis

The general plan of analysis ranges from simple descriptive statistics to multiple regression models. The extent and variation of satisfaction derived by the employees and policyholders from the United India General Insurance are measured through the scales and constructed on the basis of the scores of components.

The factor-wise analysis was made. The dependent variable satisfaction was related to independent factors influencing the same. The respondents were grouped according to these factors and accordingly their mean and range of satisfaction scores for each factor group were calculated. In order to find out the significance of the differences between the averages, analysis of variance and ‘F’ tests have been applied. In addition to this, the inter-relationship of each group was also studied for finding out the critical difference. For quantitative factors co-efficient of correlation and partial regression analysis have also been worked out.

1.13. Period of study:

The period covered for the study in 10 years from 1998-1999 to 2007-2008 for the offices of the United India Insurance Company Limited in Dindigul. As the respondents had to furnish
information out of their experiences, the period for the study for them is confined on the basis of their experience.

1.14 Geographical coverage

The geographical area of coverage of the study is Dindigul District.

1.15 Chapter Scheme

The first chapter after giving a brief introduction to the subject deals with the design and execution of the study.

The second chapter concerns with the organization of United India of Insurance Company Limited in Dindigul. It also describes principle of insurance and functions of general Insurance Corporation.

The third chapter enumerates the various products of the United India Insurance Company Limited and assesses the adequacy of the coverage.

The fourth Chapter deals with the performance evaluation of the United India of Insurance Company Limited in Dindigul.

In the fifth chapter, the factors influencing employees satisfaction on the working condition of the united India Insurance has been measured with the scale called employees satisfaction scale.
In the sixth chapter, the factors influencing customers satisfaction on the various services provided by the United India Insurance has been measured with the scale called satisfaction scale.

The seventh chapter contains summary, suggestions and conclusion arrived at by the researcher in the course of this study.