Hence, the present work in some aspects is a follow-up work and also claims improvement over the other studies.

CHAPTER III
LIFE INSURANCE CORPORATION OF INDIA – AN OVERVIEW

3.1 Introduction

Life Insurance\textsuperscript{49} is universally acknowledged to be an institution which eliminates ‘risk’ substituting certainty for uncertainty and comes to the timely aid of the family in unfortunate event of the death of the breadwinner. By and large, life insurance is civilization’s partial solution to financial uncertainties caused by untimely death.

\begin{footnotesize}
\end{footnotesize}
It is in short concerned with two hazards that stand across the life path of every person: that of dying prematurely leaving a dependant family to fend for itself and that of growing too old without visible means of support.

In this chapter an attempt has been made to discuss the formation, features and objectives of LIC, social responsibilities, insurance products and strategies, marketing of insurance in India, impact of liberalization of LIC and the role of Insurance Regulatory and Development Authority (IRDA).

3.2 Life Insurance Corporation – its Formations

Food clothing and shelter\textsuperscript{50} are basic requirements of mankind. After these needs are fulfilled, a higher order is needed. Its features are security and safety of life. Generally, people want to lead a secure life particularly those exposed to risks who want to protect their lives from various types of risks. In the day-to-day life, a human being has to face numerous risks and uncertainties. Risks arise due to uncertainties with regard to cost, loss or damage. The loss or damage may be related to either financial or non-

financial loss in a dynamic and free economy. And in life such risks are inevitable.

Life Insurance is an important service rendered to protect people against the risk of loss due to accident, fire, death, sickness, unemployment and so on.

Life Insurance may be defined as a contract of insurance in which the insurer, in consideration of premium, undertakes to pay a certain sum of money either on the death of the insured person or at the end of a fixed period.

It is widely believed that one of the most difficult products to sell is “life Insurance”, and a person who sells life insurance can sell anything else under the sun, so goes the saying. There is no gainsaying the fact that selling life insurance is a difficult proposition, primarily because what is sought to be marketed is an assurance, a belief and a faith.

Life Insurance, in its present form, came to our country in 1818 from the United Kingdom (UK) with the establishment of a British firm. In 1823, the Oriental Life Insurance Company was set up. In 1829, the Madras
Equitable Life Insurance Society and the Oriental Government Security were established. The Bombay Mutual Life Assurance Society, the first Indian insurer, came into existence in 1871 to provide insurance cover to Indians. Soon, many foreign and indigenous insurance companies were established in our country. As on January 1956, there were 245 Indian foreign insurance companies and provident societies providing life insurance. On September 1 of 1956, all those companies were nationalized by the Union Government.

3.2.1 Life Insurance Corporation of India

A corporation was established by the insurance Act 1956 passed by Parliament. According to the provisions of the Act, the corporation called the Life Insurance Corporation of India (LIC) began to function as an autonomous body running on sound business principles. The initial paid-up capital of Rs.5crores was wholly contributed by the central government.

To perform the functions of the LIC, a board of directors consisting of 15 members was appointed by the Union Government. One of the members was appointed as its chairman. The organizational structure of the LIC has four Tiers. These are: Central Office (one), Zonal Offices (seven), Divisional
Offices (100) and Branch Offices (2048). Committees were appointed by Union Government from time to time to review the working of the LIC.

3.3 Features and Objectives of LIC

3.3.1 Features

Life Insurance with the following features is superior to other forms of savings.

(i) Protection

Savings through life insurance guarantee financial protection against risk of death of policyholder. In life insurance on death, the full sum assured is payable (with bonuses wherever applicable), whereas in other savings schemes only the amount saved (with interest) is payable.

(ii) Aid to Thrift

Life Insurance encourages ‘thrift’. Long-term savings can be made in a relatively ‘painless’ manner because of the ‘easy instalment’ facility (premiums can be paid through monthly, quarterly, half-yearly or yearly
instalments). The Salary Saving Scheme (SSS) provides a convenient method of paying premium each month through deduction from one’s salary. The employer remits the deducted premium to LIC. SSS can be introduced in an institution or establishment subject to specified terms and conditions.

(iii) Liquidity

Loans can be raised on the sole security of a policy which has acquired a paid-up value. Besides, a life insurance policy is also generally accepted as security for even a commercial loan/housing loan.

(iv) Tax relief

Tax relief in income tax is available for amounts paid by way of premium for life insurance subject to the income-tax rules in force. Assesseees can avail themselves of provisions in the law for tax relief. In such cases the assured in effect pays a lower premium for his insurance than be would have to pay otherwise.

(v) Money when you need it

A suitable insurance plan or a combination of different plans can be taken to meet specific needs that are likely to arise in future, such as
children’s education, start-in-life or marriage provision or even periodical needs for cash over a predetermined stretch of time. Alternatively, policy moneys can be so arranged to be made available at the time of one’s retirement from service to be used for any specific purpose, such as purchase of a house or for other investments. Subject to certain conditions, loans are granted to policyholders for house building or for purchase of flats.

3.3.2 Objectives of LIC

- Spread life insurance much more widely, in particular to rural areas and to socially and economically backward classes, with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

- Maximize mobilization of people’s savings by making insurance-linked savings adequately attractive.

- Bear in mind, the investment of funds is the primary obligation to the policyholders whose money it holds in trust. Without losing sight of the interest of the community as a whole – the funds to be deployed to the best advantage of the investors as well as the community as a
whole, keeping in view national priorities and obligations of attractive return.

- Conduct business with utmost economy and with the full realization that the money belongs to the policyholders.
- Act as a trustee of the insured public in their individual and collective capacities.
- Meet the various life insurance needs to the community that would arise in the changing social and economic environment.
- Involve all people working in the corporation to the best of their ability in furthering the interests of the insured public by providing efficient service with courtesy.

LIC, a pioneer financial institution helps boost industrial growth. It helps small and medium-scale industries by granting loans for setting up co-operative industrial estates, and an amount of Rs.45crores has so far been advanced to co-operative industrial estates and industrial development corporations. The corporation also makes investments in the corporate sector in the form of long, medium and short-term loans to companies/corporations.
LIC’s insurance products are very popular. At present, there are 52 fast moving plans which are available to suit the needs of different sectors of the society. The corporation has overseas offices in the UK, Fiji and Mauritius. Life Insurance Corporation (internationals) E.C. Bahrain, an offshore joint venture company was incorporated on a July 23, 1989. All LIC offices – 2,048 branches, 100 division, seven zonal offices and the central office have already been computerized.

3.4 LIC and its Social Responsibilities

One of the most important aims of the LIC is the effective utilization of its resources (i.e., savings of policyholders) in different forms of investment for national and economic development.

Strategic planning through environmental and corporate appraisals provides answers to what an organization might and can do. Personal values justify what an organization wants to do. Social responsibility along with business ethics tells what an organization ought to do. The matter of responsibilities of business towards society merits consideration in all phases of strategic management, but to make it explicit and meaningful, it should be stated during the strategy implementation.
According to economists like Adam Smith and Milton Friedman, the only responsibility of business is to perform its economic activities efficiently and provide goods and service to members of society and earn maximum profits. By doing so, it is felt that the market forces would ensure the business to perform economic functions, leaving social functions to other institutions such as the government.

The opposite view says it is imperative for the business to be socially responsible. This is based on the argument that business organizations are a part of society and have to serve primarily societal interests, rather than narrow economic objectives such as profit-generation. In doing so, they have to deal with social concerns and issues, and have to allocate their resources for solving social problems.

A basic feature of financial liberalization and many innovations is the trend towards social orientation. The LIC took up socially oriented schemes in a big way in 1978. This reduced its activities in the capital market. The rationale behind this change was to go in for development work.
Schemes like “Own-Your-House” (OYH) have been given priority. Apart from these, loans for handling sewerage, roads, and transport development. Besides electricity generation were given priority in the recent years.

**3.4.1 Investment**

The LIC helps to boost the industrial growth of the country. It helps small-scale and medium-scale industries by granting them loans for setting up co-operative industrial estates. It also makes investments in the co-operative industrial estates. Thus, its investments have been directed towards socially oriented securities like electricity, housing, water supply and sewerage (municipality and zilla Parishad), state road transport corporations, plus loans to industrial estates, co-operative sugar factories, development authorities, roadways, ports, railways, power-generation (private sector) and municipalities.

All this makes a distinct contribution towards more industrialization and generation of skilled and unskilled employment opportunities in the country.
Table 3.1 given below shows some highlights – LIC’s socially oriented investments.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Type of Investment</th>
<th>Investments upto</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>1999</td>
</tr>
<tr>
<td>1.</td>
<td>Central Government Service</td>
<td>37330</td>
</tr>
<tr>
<td>2.</td>
<td>State Government &amp; Other Government Guaranteed</td>
<td>8906</td>
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<tr>
<td>-----------------------------------</td>
<td>----------------------</td>
<td>------------</td>
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<td>19944</td>
</tr>
<tr>
<td></td>
<td>14805</td>
<td>20694</td>
</tr>
</tbody>
</table>


Thus the amount of investment in Central Government securities increased from Rs.37,330 crores (1999) to Rs.1,66,939 crores (2006). It indicates that the allocation of LIC funds in Central Government securities is more than 4 times.

The distribution of LIC’s investments to state Governments and other Government guaranteed marketable securities significantly rose from Rs.8,906 crores (1999) to Rs.37,402 crores (2006) by more than 4 times.
Investments in electricity were considerably high from Rs.8,214 crores (1999) to Rs.14,805 crores (2006) by more than 25 times. The allocation to housing also increased from Rs.10,967 crores (1999) to Rs.20,694 crores (2006) by more than 2 times. Similarly, the share of investments in water supply and sewerage sectors rose from Rs.2028 crores (1999) to Rs.7,111 crores (2006) by more than 3 times.

The amount invested in state road transport corporations rose from Rs.540 crores (1999) to Rs.1,373 crores (2006) – by nearly eight times. On the other hand, investments in industrial estate, loans to co-operatives and development authorities rose slightly between 1999 and 2006. The distribution of investments in the power-generation sector (private) also rose from Rs.276 crores (2000) to Rs.6,412 crores (2006) – by more than 23 times.

With assets of over Rs.4,40,000 crores during the financial year of 2005-06, the LIC’s investments in Central and State Government bonds was up to 65 per cent. So far, it invested about Rs.2,00,000 crores in Government securities which are safe and steady but not high profit – yielding and Rs.48,000 crores in State Government bonds.
All these make a distinct contribution towards more industrialization and generation of skilled and unskilled employment opportunities in the country.

3.4.2 Golden Jubilee year

September 1 of 2005 was the Golden Jubilee year of the LIC, as it completed 50 years services since it was formed in 1956. It has grown to be one of the largest public sector undertakings in the world with an assured sum of Rs.13,21,010 crores.

The total of LIC income during the financial year 2005-06 was Rs.107969 crores, including the total premium income of Rs.70857.98 crores and the income from investment portfolio of Rs.33652 crores.

As of now, the LIC, has grown into a $100 billion corporation with an asset value of Rs.4,40,043 crores and the Total Life Fund (as on March 2005) is Rs.3,85,000 crores.

Union Finance Minister, P. Chidambaram announced special bonus of Rs.16.82 crores to LIC policyholders on the occasion of its Golden Jubilee
celebrations. The LIC spent an additional Rs.2,100 crores in payment of the Golden Jubilee bonus to its policy holders.

To earn more through higher returns, the LIC opted to increase exposure to the stock market. The insurance major has decided to raise its trading in equities to 10 per cent of its assets from the current eight per cent, and thereby invest up to Rs.9,000 crores more in the bourses in the current fiscal, during the financial year 2005-06. LIC invested Rs.33,000 crores in stocks and shares, said its Chairman Mr. A.K. Shukla.

3.4.3 More Schemes

Having set an ambitious target of 50 per cent growth in business in its Golden Jubilee year, the LIC introduced some schemes, including a unit–linked whole life insurance plan “Jeevan Plus”. As only six per cent of Indians are insured right now there is a great scope for all the players to do business.

Alongside, the LIC has embarked on a major technology drive.
The LIC’s allocation of its resources to various sectors demonstrates its commitment and dedication to take up new challenges. Its administrative personnel have displayed competence in all fields and steered it into a position of strength, bestowing on it the peerless status of an institution the country can be proud of.

3.5 Life Insurance Products and Strategies

In a broad sense life insurance policies are viewed in India mainly as investments. Here the premium amount represents the sacrifice and the sum assured is the benefit amount to be availed of under the different types of policies prevalent in India.

Life Insurance Policies are also preferred as financial assets (non-marketable). The basic customer needs met by life insurance policies are protection and savings. Policies that provide protection benefits are designed to protect the policy holders (or his/her dependents) from the financial consequences of devastating blows such as sudden death or prolonged sickness or disableity. Policies that are designed as savings contracts allow the policyholder to build up funds to meet specific investment objectives.
such as income in retirement or repayment of a loan. Most of the Life Policies basically provide a mixture of savings and protection benefits.

3.5.1 Common Life Insurance Policies in India

The common types of Life Insurance Polices existing in our country are mainly the following:

1. The Endowment Assurance
2. Money Back Plan
3. Whole Life Assurance
4. Term Assurance
5. Immediate Annuity
6. Deferred Annuity

There are basically two variants in the endowment assurance polices:

a) Non-participating (Without Profit) Endowment Assurance
b) Participating (With Profit) Endowment Assurance

Non-participating policy offers a guaranteed amount of money, i.e. the sum assured at the maturity date of the policy in exchange for a single premium at the start of the policy or a series of regular premiums throughout the term of the policy. If the policyholder dies before the maturity date then
usually the same sum assured is paid on death which is different from the amount paid at maturity. Here, the policyholder may be allowed to surrender the policy before maturity and receive a lump sum (which is called the surrender value or cash value) at that time, on guaranteed or non-guaranteed terms. If the policyholder wishes to keep the policy in force but without paying further premiums a reduced sum assured (paid-up value or paid up sum assured) is granted. There is usually a provision to take a loan to 90 per cent of the surrender value in the policy provision.

In case of participating endowment assurance policy the structure is similar to that of the non-participative policy except that the initial sum assured under the policy is expected to enhance by payment of bonuses (distribution of the profits made by the insurer to the policyholder). In the Indian context, bonuses usually take the form of additions to the initial sum assured and become payable in the event of the occurrence of the insured event/peril, i.e. survival benefit, up to the maturity date or death whichever is earlier. However some life insurance companies provide bonuses (dividend) as regular cash payment. In this case, the policyholder may have the option of using the cash bonus to offset the future premiums payable.
Money back plan is a popular savings cum protection policy which provides lump sum at periodic intervals. For example, given an initial sum insured of Rs.1000/- or multiples of Rs.1000/- and a term of 20 years, the policy may provide for part payment of the sum assured as follows:

- 20 per cent at the end of five years
- 20 per cent at the end of ten years
- 20 per cent end of fifteen years
- 40 per cent at the end of twenty years.

Sometimes there may be guaranteed addition to the initial sum assured every year. Continuing with the above example, if the guaranteed annual addition assured plus guaranteed addition of Rs.2000 [Rs.100/- (or multiple of Rs.100/- as the case may be) X 20] at the end of the twenty years term. In the event of the death of the policyholder within the specified policy term, the entire (initial) sum assured plus the accrued guaranteed additions (accrued up to that particular point of time of death) become payable. The above example is a non-participating policy but the policy can also be offered in the participating format in which case the guaranteed additions will be replaced by ‘bonuses’. Even a surrender value of guaranteed or non-
guaranteed terms may be paid if the policyholder chooses to withdraw from policy. Alternatively the policyholder may have the option of converting the policy into a paid-up policy. Usually there is no loan facility attached to this type of policy.

Whole Life Assurance provides a benefit on the death of the policyholder whenever that may occur during the currency of the policy. Basically it provides a long-term financial protection to the dependants. It is particularly useful as a means of protecting some of the expected wealth transfer that a parent would be aiming to make to his/her children when he/she dies. Without this policy, the wealth transfer is likely to be very small if the parent died young. Such policies can also be a tax efficient way of transferring wealth at any age depending on legislation (often reducing the liability to inheritance tax). There may be both participating & non-participating versions of this policy. Non-participating policies offer a guaranteed sum assured on death. Under participating policies, the initial guaranteed sum assured may be increased by bonuses or cash refunds may be given. Where the initial guaranteed sum assured is increased by bonuses, the sum assured together with the accrued bonuses becomes payable on the death of the policyholder. Paid up value or paid up sum assured option may
also be granted for the early death of the policyholder. Here also like endowment policies, the option of taking loan up to, say, 90 per cent of the surrender value is allowed.

3.5.2 Strategies for Marketing in Urban and Rural Areas

For popularizing the life polices our strategies for successful marketing of life insurance in urban and rural area may consider the following:

i) Common Strategies

1. Research and development work to develop new tailor made schemes according to the requirement of the people in those areas- particularly for the people of backward classes/belonging to below poverty line.
2. Educate people about the schemes through organizing seminars, through trade fairs, through visual media, film shows through mobile publicity vans.
3. Mortality table to be reviewed as per the latest data available and premium to be revised and profit to be shared.
4. The most powerful tool now-a-days is relationship marketing and the same needs to be adopted widely along with consideration of appointment of professional agents from the various Non-Government Organisation working in urban and rural areas.

5. Conducting of community development programmes towards meeting the customer grievances.

6. Recognition of outstanding/meritorious students in various facilitation programmes.

7. Honouring of outstanding public servants of their excellent service to the community.

8. Final payment should be made without calling for so many formalities as existing/done at present.

9. Direct payment of hospital bills for the eligible amount in the case of critical illness rider.

ii) Specific Strategies for Urban Area

1. Direct mailing/ E-mail to policyholders.

2. Publicity on Internet about the schemes.

4. Introduction of more group insurance schemes for companies / firms / trade unions etc.

5. Job protection policies to be introduced to protect against risk of loss of job in various spheres of our society.

6. Custom made schemes for specific groups as per their various direct needs.

7. Appointment of brokers to deal with various SHGs / NGOs.

8. Access through mobile phones about new schemes introduced and for describing different procedures for payment of premium.

9. Greetings to the newly born child taking the information from hospitals.

10. Smart cards may be considered for being issued for availing of loans against the life policies to avoid the hassles of assigning the policy with bank and the like.

iii) Special Strategies for Rural Area

1. Group insurance for village folk through Village Gram Panchayat.
2. Term assurance schemes to be offered with minimum premium along with rider against natural calamities.

3. Self Help Groups and Non-Government Organizations to be appointed as agents and facilitators mainly for rural areas.

4. Creditor life policies against total loan liabilities.

5. Old age pension plan for village people.

6. Adoption of village for overall development under community services.

7. Payment of policy amount should be made in cash to those policyholders do not have bank accounts.

3.6 Penetration of Insurance in India

Insurance is a Rs.400 billion business in India and together with banking services adds about 7 per cent to India’s Gross Domestic Product (GDP). Gross premium collection is about 2 per cent of GDP and is growing between 15 and 20 per cent per annum. India also has the highest number of life insurance policies in force in the world. Yet more than three fourths of
India’s insurance population has no life insurance cover. The penetration of insurance is very low in India\textsuperscript{51}.

While per capita insurance premium in developed countries is very high, it is quite low in India. Per capita insurance premium in India in 1999 was only $8 while it was $4800 for Japan, $1000 for republic of Korea, $887 for Singapore, $8223 for Hong Kong and $144 Malaysia. The insurance premium as a percentage of GDP was 14 per cent for Japan, 13 per cent for South Africa, 12 per cent for Korea, 9 per cent for UK and less than 2 per cent in India in 1999. Similarly the insurance premium as a percentage of Gross Domestic Saving (GDS) was 52 per cent for U.K. 35 per cent for other European and American countries, it was only 9 per cent India in 1999. The share of India in the world market in terms of gross insurance premium is again very less. For instance, while Japan has 31 per cent European union 25 per cent, South Africa 2.3 per cent, Canada 1.7 per cent share of the global insurance premium, it is only 0.3 per cent for India.

3.7 Indian Insurance Modern Marketing Approach

3.7.1 Current Scenario

Global integration of financial markets resulted from de-regulating measures, technological information explosion and financial innovations. Liberalization and globalization have allowed the entry of foreign players in the insurance sector. With the entry of private and foreign players in the insurance business, people have got a lot of options to choose from. Radical changes are taking place in customer profile due to the changing lifestyle and social perception resulting in erosion of brand loyalty. To survive, the focus of the modern insures shifted to a customer centric relationship.\footnote{Vinayagamoorthy, A., “Indian Insurance: Modern Marketing Approach”, \textit{Southern Economist}, Vol.45, No.12, October 15, 2006, pp.17-19.}

3.7.2 Liberalization and Privatization

India’s economic development made it a most lucrative insurance market in the world. Before the year 1999, there was monopoly for LIC in transacting life business and the general insurance corporation of India with its four subsidiaries transacting the rest. In the wake of reform-processed passing Insurance Regulatory and Development Authority (IRDA) Act
through Indian parliament in 1999, Indian insurance was thrown open for private companies.

Liberalization on the insurance sectors has allowed the foreign players to enter the market, with their Indian partners. Most of the foreign insurers have joined the local market. India offers immense possibilities to foreign insurers since it is the world’s most populous country, having over a billion people.

Insurance industry had ten and six entrants in life and non-life sectors respectively in the year 2001-2002. The industry again saw two and three entrants in the life and non-life business respectively in the year 2002-2003. One additional entrant was made both in the life and in non-life business in 2005 and 2006 respectively. At present there are fourteen companies each in life and general insurance. The funds earlier generated by the state owned insurers have been diversified with other new insurers. We should wait and see how the new players are going to boost up our economy.

3.7.3 Competition

Private and foreign entrants in the insurance industry made others difficult to retain their market. Higher customer aspirations lead to new
expectations and forced him or her to move towards the insurer who provides him the best service in time. It becomes less viable for them even to maintain the functional networks or competitive standards and services. To survive in the industry they analyze the emerging requirements of the policyholders/insurers and they are in the forefront in providing essential services and introducing novel products. Thereby they become niche specialists, who provide the right service to the right person in the right time.

In August 2006, the private players in the life insurance business increased their market share to 23.93 per cent. Among them ICICI prudential is ranked first in capturing the market followed by Bajaj Allianz and HDFC standard. In the General insurance sector the private players have captured 26.10 per cent. Among them ICICI Lombard is ranked first, followed by Bajaj Allianz and IFFCO Tokio.

The healthy competition in the sector enabled the state owned insurers of our mother country maintain its market share to 76.07 per cent and 73.90 per cent in life and non-life business respectively. Moreover, private insurers have planned to increase their market share in the next five years. The public
insurers have to modify their strategies in order to preserve at least the status quo.

### 3.7.4 Information Technology

Insurers are the earlier adopters of technology. Because of the information revolution customers are free to choose from a wide range of new and innovative products. The insurance companies are utilizing the information technology applications of better customer service, cost reduction, new product design and development and many more.

New technology gives the policyholders insured, better, wider and faster access to products and services. The impact of information technology in insurance business is being felt at an accelerating pace. In the initial years Information Technology was used more to execute back office functions like maintenance of accounts, reconciling broker accounts, and client processing and so on. With the advent of ‘database concepts’, these functions are better integrated in an administrative efficiency.

The real evolution has however emerged out of internet boom. The internet has provided brand new distribution channels to the insurers. The
technology has enabled the insurer to innovate new products, provide better customer service and deeper and wider insurance coverage to them. At present, insurance companies are giving customers a distinct claim to track claims online, entertaining online enrollment, eligibility review, financial reporting, billing and electronic fund transfer to the benefit of customers.

3.7.5 Product Innovations

Insurers are continuously innovating new products based on forward-looking models. They have developed new products addressing the new challenges in society and tackling the hazards form new environmental issues. Companies will need to constantly innovate in terms of product development to meet ever-changing consumer needs. Understanding the customer better will enable insurance companies to design appropriate products, determine price correctly and increase profitability. Since a single policy cannot meet all the insurance objectives, one should have a portfolio of policies covering all the needs.

Product development is made possible by integrating actuarial, rating, claims and illustration systems. At present, the life insurers are concentrating on the pension schemes and the non-life insurers on many innovative
schemes of various realms and thereby enriching their market share. Moreover, with increased commoditization of insurance products, brand building is going to play a vital role.

3.7.6 Distribution Network

While companies have been successful in product innovation, most of them are still grappling with the right mix of distribution channels for capturing maximum market share to build brand equity, building strong and effective customer relationships and cost effective customer service. While the traditional channel of tied up advisors or agents would be the chief distribution channel, insurer should innovate and find new methods of delivering the products to customers. Corporate agency, brokerage, bancassurance, e-insurance, cooperative societies and panchayats are some of the channels which can be tapped by the insurers to reach the appropriate market segments. Now-a-days, the urban masses are tapped with the new techniques provided by information technology through Internet. Rural masses are attracted by the consultative approach adopted by the insurers. Moreover, they attract the customers through telephone and mobile also.

3.7.7 Customer Education and Services
Insurance is a unique service industry. The key industry drivers are related to lifestyle issues in terms of perceiving insurance as a savings instrument rather than a means of risk cover, need based selling, quality of service and customer awareness. In the present competitive scenario, a key differentiator is the professional customer service in terms of quality of advice on product choice along with policy servicing. Servicing focuses on enhancing the customer’s experience and maximizing his convenience. This calls the effective CRM system, which eventually creates sustainable competitive advantages and enables to build long lasting relationship.

3.7.8 Modern Marketing Approach

Marketing strategies for insurance in the emerging scenario could be understood in terms of the following steps:

\[ R \rightarrow \text{STP} \rightarrow \text{MM} \rightarrow \text{I} \rightarrow \text{C} \]

Here,

- \( R \) = Market Research
- \( \text{STP} \) = Segmentation, Targeting, Positioning
- \( \text{MM} \) = Marketing Mix
- \( \text{I} \) = Implementation
- \( \text{C} \) = Control
Having done market research and finalizing on segmentation, targeting and positioning the strategy would focus on the marketing mix namely, product, price, place and promotion. While determining the implementation methodology, the four characteristics namely intangibility, inseparability, perishability and variability give rise to certain unique requirements that deserve careful attention for insurance. After implementation, the insurers should concentrate on the effective control that would enhance their business.

In India insurance is sold and not bought. The agents/advisors by using various strategies sell the product by conditioning the customers. Moreover, they push policies with the highest premium to pocket a higher commission. The consultative approach to selling is the modern approach, which helps customers and prospects to buy. A consultant makes calls and sells just like any other sales person. The difference is in their attitude, their approach and their commitment. Here, the customer is seen as a person to be served and not a person to be sold. It helps the purchaser to make an intelligent decision. The four-step process includes:

1) Need discovery, 2) Selection of the product, 3) Need satisfaction presentation and 4) Serving the sale.
This approach to selling their products requires understanding of concepts and principles borrowed from the fields of psychology, communications, and sociology and needs a lot of personal commitments and self-discipline for the seller.

### TABLE 3.2

**MARKET SHARE (PER CENT) AUGUST 2006**

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<thead>
<tr>
<th>LIFE INSURANCE</th>
<th>NON-LIFE INSURANCE</th>
</tr>
</thead>
<tbody>
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<td>ICICI Prudential</td>
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<td>HDFC Standard</td>
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<td>Birla Sunlife</td>
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<td>1.66</td>
</tr>
<tr>
<td>SBI Life</td>
<td>1.46</td>
</tr>
<tr>
<td>Max New York</td>
<td>1.28</td>
</tr>
<tr>
<td>Aviva</td>
<td>1.08</td>
</tr>
<tr>
<td>Kotak Mahindra Old Mutual</td>
<td>0.71</td>
</tr>
<tr>
<td>ING Vysya</td>
<td>0.54</td>
</tr>
<tr>
<td>AMP Sanmar</td>
<td>0.46</td>
</tr>
<tr>
<td>Met Life</td>
<td>0.37</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Sahara Life</td>
<td>0.03</td>
</tr>
<tr>
<td>Private Total</td>
<td>23.93</td>
</tr>
<tr>
<td>Public Total</td>
<td>76.07</td>
</tr>
<tr>
<td>Grand Total</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: www.irdaindia.org.

The commitments referred to the finding and understanding of the needs of the customers, partnering with the customers and helping the customers to achieve business and other objectives by the purchase of the product or service. It also means believing that your products/services are a great fit with your customer’s needs and believing in yourself and your ability to help the customer in solving their problems.

A consultant is willing to forgo short-term gains to achieve greater long-term benefit to him and to the customers he serves. He builds relationships on a foundation of trust, respect and performance. Moreover, consultants do not say that sell they are specialists who make recommendations to help the clients to buy. They act as professional and offer real world solutions that make sense to the customer. Today, the
insurers adopt this technique and thereby go on increasing their market share.

3.8 Impact of Liberalization on LIC

Since 1956, LIC\textsuperscript{53} has worked resolutely towards spreading life insurance and in the process has built a wide network across the length and breadth of the country consisting of 2,048 branches, 100 divisional offices, 7 zonal offices and a corporate office. The number of new policies sold each year grew from 14.62 lakhs in 1961 to 1.48 crores in 1999; of which 54.70 per cent is rural. The rural share in 1961 was 36.53 per cent. Similarly, the annual premium incomes rose from Rs.88.65 crores in 1957 to Rs.22,805.80 crores in 1999. The life fund of the corporation also grew from Rs.410 crores to Rs.2,89,895.52 crores in 2006.

3.8.1 Impact of Liberalization

The insurance industry in India has gone through a sea change since its liberalization in 1999. Close to the forces of competition for over 40 years, private participation has ushered in a breath of fresh air into what was

considered a dull industry. Undoubtedly, the erstwhile monopoly, the life Insurance Corporation of India, which spanned the length and breadth of the country has done a commendable job in the industry. But, as the government rightly identified the task of making an essential financial product available to the masses, it left scope for several more companies to participate.

3.8.2 Private Sector Entry

As mentioned earlier, the insurance sector was opened for private players when the government enacted the Insurance Regulatory and Development Authority Act, 1999 leading to the establishment of IRDA. The first private life insurance company was registered with the IRDA in October 2000 and started operations shortly thereafter, thereby ending 44 years of public sector monopoly. Since then, many more private companies have been registered bringing the number to a dozen, all of which are joint ventures between major business houses or banks in India and renowned international giants.

3.8.3 LIC’s Falling Share
The private players have taken numerous new initiatives to tap the rich market potential. For instance ICICI Prudential has fulfilled its mission to be a scale player in the mass market by introducing complete range of products to meet the individual work of the customer. (Other insurers have taken focused approach by introducing select products that hold potential and fill market gaps). The new players have also improved the service quality. In this way, each life insurer has attracted the consumers with fresh perspective. In other words, competition has been highly intensified in the industry. For instance, new contracts have increased their share of the new business premium income from 2 per cent in 2001-02 to 17.60 per cent in 2005-06. Among the new players, ICICI Prudential has captured nearly 5.63 per cent of the new business followed by Birla Sun Life with 2.56 per cent and Bajaj Allianz with 2.03 per cent. Table 3.3 presents the market shares of major players in the life insurance sector.

**TABLE 3.3**

**MARKET SHARE OF MAJOR PLAYERS IN THE LIFE INSURANCE SECTOR AS ON 31.03.2006**

<table>
<thead>
<tr>
<th>Name of the Player</th>
<th>Market Share (per cent)</th>
</tr>
</thead>
<tbody>
<tr>
<td>LIC</td>
<td>82.30</td>
</tr>
<tr>
<td>ICICI Prudential</td>
<td>5.63</td>
</tr>
<tr>
<td>Company</td>
<td>Ratio</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------</td>
</tr>
<tr>
<td>Birla Sun Life</td>
<td>2.56</td>
</tr>
<tr>
<td>Bajaj Allianz</td>
<td>2.03</td>
</tr>
<tr>
<td>SBI Life</td>
<td>1.80</td>
</tr>
<tr>
<td>HDFC Standard</td>
<td>1.36</td>
</tr>
<tr>
<td>TATA AIG</td>
<td>1.29</td>
</tr>
<tr>
<td>Max New York</td>
<td>0.90</td>
</tr>
<tr>
<td>Aviva</td>
<td>0.79</td>
</tr>
<tr>
<td>OM Kotak Mahindra</td>
<td>0.51</td>
</tr>
<tr>
<td>ING Vysya</td>
<td>0.37</td>
</tr>
<tr>
<td>AMP Sanmar</td>
<td>0.26</td>
</tr>
<tr>
<td>Metlife</td>
<td>0.21</td>
</tr>
</tbody>
</table>

Source: Business Standard, October / November 2006.

### 3.9 Insurance Regulatory and Development Authority (Protection of Policyholder’s Interest) Regulations 2001-2002

In accordance with the recommendations of the Malhotra Committee and by suitable amendment of the relevant provisions of the insurance Act, the Insurance Regulatory and Development Authority\(^{54}\) Act 1999 was passed and the institution of IRDA came into existence, which was the starting point for liberalization of insurance market and reforms in insurance sector in our country. As per the mission statement of IRDA, protection of the insurance policyholder’s interest is one of its fundamental

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objectives/duties and to effectively reinforce the same these regulations were enacted in 2001, in exercise of the powers conferred by clause (zc) of section 114 A of the insurance Act (4 to 1983) and sections 14 and 26 of the IRDA Act 1999 (41 of 1999).

These regulations not only brought about phenomenal value addition to the rights and privileges of the insurance consumers but also created strong legal base to the policyholders so as to enforce their legitimate entitlement for relief and/or damages (compensation), in case they are aggrieved arising out of any loss or harm caused to their rights owing to defects in the ‘goods’ or ‘deficiency’ in service received by them. All the above regulations have profound significance to the consumers and their rightful due. The following are some of the major issues framed in the consumer insurance contracts which candidly speak effectively in favour of both life and general insurance policyholders.

- Supply of copies of proposal and medical reports (in Life and Personnel Accident Policies).
- Notice to be given on the lapsing of the policy (in Life policies).
• Policy not to be called in question on the ground of misstatement or suppression of material facts, after three years of commencement of the policy (in life policies, as per Section 45 of life Insurance Act).

• A prospectus or brochure of any (insurance) product has to clearly state the scope of the cover, warranties, conditions and exceptions of the cover and the riders or additional covers if any, and in case of life insurance product it should also specify whether covered benefits are with profits or without profits.

• Insurers or their agents or other intermediaries shall have to provide complete and correct information about the product and recommend suitable cover in the best interest of the prospective consumer.

• During the process of sale, the insurer and/or their intermediaries should act according to the best standards and in conformity with the applicable code of conduct and good practices, as prescribed/notified by the government or the regulator, from time to time.

• The insurer or his intermediaries have to ensure that the proposal form is properly filled in by the proposer.
In case, the proposer is illiterate or not able to fill in the proposal form for any reason, the insurer’s representative or intermediary may fill in the form on behalf of the proposer but in such cases the proposal form should have a declaration to the effect that the contents were read out to the prospect and was clearly understood by him.

- In case of Life and Personal Accident and Health Insurance Policies, a note should be prefixed in the proposal to the question of medical condition of the proposer asking the proposer to compulsorily furnish full and truthful information about his health condition and habits, which are within his knowledge at the time of filling in the proposal form.

- In classes of insurance (like marine cargo insurance) where the insurers traditionally do not use the proposal forms, the insurers or their intermediaries should record all the information obtained orally or in writing confirm the same to the proposer and incorporate the same in the cover note or policy.

- In respect of life insurance policies, the insurers should state and incorporate all the essential information such as name and
plan/scheme of the policy; whether with profits or without profits; the benefits payable and the exigencies under which they are payable and all other terms and conditions of the contract; details of riders and endorsement to the main policy; dates of commencement, maturity and also due dates for payment of premium instalments and their periodicity besides the stipulated dates on which the benefits under the policy are payable to the policyholders or the nominee/legal heir, as the case may be. Insurers should essentially and clearly indicate all the terms, conditions, warranties to which the policy is subjected to; provisions and procedure for nomination, assignment, and loans against pledging the policy and also about lodging claims under the policy along with complete information on the availability of grievance redressal mechanism including the system of access to ombudsman and other forums and finally the duty of the insurers to draw the attention of the insured about the 15 days time available to the insured to read/study the policy document and return it to insurers (if he has objection for the terms of the contract) and seek refund of premium paid-out of pro rata premium and stamp charges and the like.
• In case of general insurance policy, the insurers are legally obliged to clearly and completely indicate and incorporate in the policy all the relevant information such as scope of cover, full description of the nature and value of property insured, name and address of the prosper and also the banker, if any, including their respective insurable interest in the subject matter of insurance, sum insured, period of insurance, terms, conditions and warranties to which the contract is subjected to, perils covered, perils excluded any excess/franchise or deductible if applicable, clear guidelines on his duties and obligations to act as if uninsured prudent owner of the property and take steps to avoid any loss/damage and prevent aggravation of loss, if it occurs and his duty to notify the insurers promptly in case of any loss/damage arising out of an insured peril- and provide all the proof to substantiate the loss and his claim under the policy. The insurers are also required to indicate in the policy availability of machinery for redressal of grievances/claims along with the detailed guidelines on the subject.

• Every insurer (both life and non- life) shall set up proper grievance redressal machinery at its Divisional/Regional/Zonal/Corporate Head
Office headed by a senior officer who is not having any direct responsibility for underwriting or settlement of claims.

The above regulations have also enumerated the contractual duties and legal obligations of the insurers so as to be responsive and sensitive to all communications that may be received from the insured before and after concluding the policy contract and towards extending prompt and courteous service on any matter/issue such as effecting change of address, nomination, assignment, issue of duplicate policy or insurance certificate, renewal or cancellation of the policy and the like.

By virtue of the above legal provisions and regulations expressly incorporated in the insurance consumer contracts (progressively introduced though various Statues/ Acts and amendments thereon) and owing to the series of consumer-friendly acts, reforms and measures, aimed at protecting the interests of the policyholder enforced by the IRDA in the last five years, the awareness of insurance holders has increased remarkably, thereby making the insurance market in our country a highly congenial and lucrative place for more and more foreign companies to venture their capital and open