CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 Introduction

Insurance in any economy is regarded as a pillar of growth and works as a catalyst in the overall development of the economy. The industry always remains a source of long-term funds, which are vital for the development of the basic infrastructure of a country. The insurance industry helps in giving depth to the debt and capital market and also vitalizes the market for government bonds. Well run insurance companies are of the best recyclers of a country’s money in the interest of the country’s overall development, particularly because these companies match their liabilities with local assets.

Insurance is basically defined as a financial agreement that redistributes the cost of unexpected losses. Today, it stands both as a service and industry in its own right.

Insurance as a Device for Business Finance
All the labour of the sole proprietor may have been in vain if the business offers nothing to the owner’s survivors. The owner’s spouse or children may not have the ability to carry on the business. Life Insurance on the owner’s life will guarantee that the heirs receive the fruit of the owner’s labour. In any organization, there are certain key personnel whose loss in the event of death will lead to definite financial loss, either in the form of decreased efficiency or decreased sales. Life insurance on the lives of these individuals try to cushion the shock produced by their deaths. Life insurance is essential in the continuation of many business just as it is in the preservation of homes.

1.2 Importance of Insurance

The purpose of insurance is to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. The insurance principle has become more useful in modern affairs. The importance of insurance may be discussed under three heads:

a) Uses to an individual

b) Uses to special group of individuals – business, industry

c) Uses to the society
a) Uses to an Individual

**Life Insurance provides security and safety:** In case of life insurance payment is made when death occurs or the term of insurance has expired. In other types insurance also security is provided against the loss of a given contingency.

**Life Insurance affords peace of mind:** A sense of security removes all tensions and fears. The person who insures his life against a fixed sum feels assured that in the event of his untimely death his nominees are atleast compensated financially.

**Life Insurance protects mortgaged property:** The insurance provides adequate amount to the dependants in the event of the early death of the property owner.

**Life Insurance eliminates dependency:** In the event of death of the bread winner of the family or destruction of property, the family suffers a
Lot. The insurance assists the family and provides adequate amount at the time of need.

**Life Insurance encourages saving:** Systematic saving is possible because regular premiums are required to be compulsorily paid. Unlike bank deposits the deposited insurance premiums cannot be withdrawn. Life insurance is the best media of saving.

**Life Insurance provides profitable investment:** The elements of investment that is regular saving capital formation and return of the capital are observed in life insurance. In India the insurance policies carry a special exemption from income tax and estate duty also.

**Life Insurance fulfils the need of a person:** The need of a person may be divided into

(i) Family needs
(ii) Old age needs
(iii) Re-adjustment needs
(iv) Special needs including need for education, marriage settlement of children etc and
(v) Clean up funds for rituals, ceremonies and payment of taxes etc.
(b) Uses to Special Group of Individuals – Business, Industry

Insurance has been useful for the business society in more than one way.

**It reduces uncertainty of business losses:** Many business and industries have to face great risks in day to day functioning. The owners of the companies foresee contingencies that would bring great loss. A good insurance policy is proof against such sudden setbacks.

**Business efficiency is increased with insurance:** A businessman is free from unnecessary botherations in that case and can devote more care and energy to maximize his profits.

**Keyman indemnification:** Persons having expertise, experience and ability to control the business are most important for the employers. Death of such persons proves a serious loss. The compensation to the dependants of such employees requires adequate provision which can be met by purchasing life policies in their names.

**Enhancement of credit:** Loans can be obtained by pledging the policy as collateral for the loan.
**Business continuation:** Partnership business may be discontinued at the death of any partner. The insurance policies provide adequate funds at the time of death.

**Welfare of employees:** Provision for the welfare of employees can be made by life insurance.

C) Uses to the Society

**Wealth of the society is protected:** Life Insurance provides loss of human wealth. Loss of damage of property can also be indemnified by the property insurance.

**Economic growth of the country:** For economic growth of the country insurance provides protection against loss of property and capital to produce more wealth. It provides protection against losses of cattle, machines, tools and crops.

**Accelerate the production cycle:** Adequate capital from insurance accelerates the production cycle in the country. Economic growth of the
country is not only assured but the process of growth is accelerated which is more essential in a country like India where the population is fast increasing.

**Reduction in inflation:** Insurance reduces the pressure of inflation by contracting money supply. It provides sufficient funds for production and narrows down the inflationary gap.

1.2.1 Insurance and Economic Growth

There is a close relationship between insurance and economic growth. As economy grows, the living standards of people improve. As a consequence demand for life insurance increases. As the assets of people and those of business enterprises increase in growth process, there is lucrative business for life insurance companies. In fact, with the widening of the economy, the new types of insurances are introduced. Insurance now extends not only to product market but also to service industries including finance. It is equally true that growth itself is facilitated by insurance. A well-developed insurance industry promotes economic growth by encouraging risk-taking. Risk is endemic in many economic activities. Without some kind of cover against risk, some of these activities cannot be
carried out at all. Thus the firm is free to concentrate on its main or core activity, leaving to the protection of insurance any loses from fire or theft. At this point it is important to note that not all activities can be insured. Professor Frank Knight in his celebrated book “Risk, Uncertainty and Profit” emphasized that profit is a consequence of uncertainty. He made a distinction between quantifiable risk and non-quantifiable risk that leads to profit. He wrote “It is a world of change in which we live, and a world of uncertainty. We live only by knowing something about the future, while the problems of life or of conduct at least, arise from the fact that we know so little. This is as true of business as of other spheres of activity”. The real management challenges are uninsurable risks. In the case of insurable risks the risk is avoided at a cost.

General Insurance that includes all types of insurance other than life has also been growing even in India consistent with the rise in income and the diversification of the economy. General Insurance in India has basically three lines of business namely motor vehicles, marine and cargo and fire, although there are more than 140 different products. Health insurance marketed as mediclaim is a relatively recent addition. The insurance sector has a vast potential not only because incomes are increasing and assets are
expending but also because volatility in the system is increasing. In a sense people are living in a more risky world. Trade is becoming increasingly global. Technologies are changing and getting replaced at a faster rate. Malfunctioning of technologies particularly Information Technology can cause serious damage both financial and personal. In this more uncertain world, insurance will have an important role to play in reducing the risk burden that individuals and businesses have to bear.

1.2.2 Insurance as Life Cover

The actual value of Life Insurance Policy is determined not by the amount invested but by the cost of risk cover included in the premium payment. Life insurance provides many other advantages like security of capital, liquidity, tax benefits and the like, besides providing cover against risk of death.

Today, Life Insurance is indisputably recognized as truly remarkable and a beneficial piece of property because it combines in one package called an insurance policy, an immediate estate with security and savings on all fronts of taxes like income tax, wealth and gift tax\(^1\).

\(^1\)Mukhil M.D., Insurance First Invest Later, *Yogakshema*, June 1987, p.4.
Life Insurance helps to provide security against the threats of unemployment, disability, death and old age. The high cost of living and high taxes have made life insurance the only medium available to obtain a measure of security for the vast majority of people\(^2\).

1.2.3 Insurance as Investment

In the past people had only limited alternatives to invest. In the present changing scenario the needs for liquid assets become lesser and the individuals have started looking for opportunities for growth of their surplus in many ways. In many countries, financial institutions have started introducing products and services that catered to the changing profile of the individual investors. Individual savings have always constituted an element in the financial sector. Insurance companies always encourage dispensers of door-to-door services. Now, what really matters is, what is actually required by policyholders to suit their best interests.

\(^2\)LIAMA, Research in Perspectives, Life Insurance Agency Management Association, Hortford.
Now, individuals are in a better position to hold their surplus and to have a better return on their investment. There is also tremendous change in the availability of information. Because of this change, the individuals are exposed to more information and are in a position to weigh the alternatives for channelling their savings. In a situation like this, individual investor might be looking for a better system, which would place before him a wide range of alternatives under a single shop firm which he can choose.

There is an inherent risk, if any of the needs of the individuals are not catered to by the organization and it will provide an opening for rival institutions to move in and eventually take away the policyholders from its fold. The only solution is to provide as many schemes and services as possible.

In the order of priority, first importance is given to life insurance, followed by saving bonds, government bonds, company debentures and company shares.

There is a general opinion that the life insurance products earn lower rate of returns than investment in the primary and secondary capital markets, mutual funds, bank deposit, and the like and similar position prevails even
when a liquidity facility for premature encashment which is much greater than life insurance policies. Willy-nilly such comparisons tantamount to create a belief that life insurance as a medium of savings is inferior to other means of savings. This eventually raises a question mark on the relevance of the life insurance product for the fulfillment of a need and as a medium of savings. No one can calculate the rate of return on investment in a life insurance policy in the case of a death claim. If calculated, it may sometimes come up to thousand percent depending upon the period of payment of premium. No other instruments can offer such a high rate of return. It is also not affected by the booms in the capital market. It tries to satisfy a different kind of need.

A Life Insurance Policy is distinct from other financial instruments because of the risk cover provided. From a purely savings point of view, one can never expect a Life Insurance Policy to provide a better yield than an investment in a bank under a recurring deposit scheme or units of mutual fund. In the case of insurance, a certain portion of the premia paid has to be set apart to meet payments in respect of claims. Procuring life insurance is a long-term activity which requires persuasive skills and considerable expenditure of time and money. This is true all over the world.
Further, life insurance is considered as an appropriate investment for the households with following type of persons namely regular savers, taxpayers, persons with fluctuating income, weaker sections, persons in the hazardous occupations relating to physical, occupational and moral persons below the subsistence level, key-men, people with hobbies like mountain climbing, retired persons and self-employed.

Short-term investments react immediately to changes in rate of interest, but a long-term contract like insurance does not do so, since no financial institution can afford to assure high rates of interest for period exceeding 7 to 10 years. So, in order to make LIC products more competitive in the market, the stress should be more on the risk cover and less on the savings element.

Recent trend is the increasing preference for money-back plans as the policyholders would like to get back the sum assured early in instalments. Another noticeable trend is the increasing preference for short-term policies.

The expense of living in retirement can never be escaped. If an individual does not provide for his old age he has to depend on his labour in
his old age. Then, the money will become the hardest earned after a lifetime of experience. It is heart rending to accept charity in the old age. With adequate life insurance as a base, an individual is free to invest any extra money in other investments.

The policyholders avoid the frailties of human nature that would interfere with their voluntarily saved money regularly. They eliminate the hazard of not living enough to create the desired estate, they completely avoid the possibility of capital losses through bad original investments or unwise reinvestments. They are assured of a guaranteed rate of return on their money and most important of all they probably could not create a sizable estate without life insurance\textsuperscript{3}.

People earning higher income find it difficult to avoid income taxes. Higher the income higher becomes their tax, so that, the amount of savings might never be sufficient. Besides, their return on investment is also subjected to top rates, and thus, it is their problem that compounds not their

\textsuperscript{3} LIMRA’s Agent Dev Library, \textbf{LIC Agency Association}, Hortfort, USA 1966, p.15.
investment. Insurance makes it possible to attain the ultimate amount that is aimed for.

No other investment has a feature comparable to the settlement option of a life insurance contract, whereby the principal and interest are scientifically blended and made to last for the lifetime of the beneficiary and how long that life may be. Life Insurance tries to preserve a standard of living for survivors on behalf of persons of modest means\(^4\).

1.2.4 Safety and Security

Most owners of life insurance, most prospective buyers and indeed most life underwriters will acknowledge the value of life insurance as desire for protection against untimely death. Safety of principal is a factor of prime importance in appraising an investment programme. It is vitally important that when the money is required, it should be promptly available without delay or risk of depreciation.

1.2.5 Value as Collateral

\(^4\) Ibid., p.13.
Life Insurance Policy can be utilized as collateral security to avail of loaning facility from banks. The LIC lends on the policy at the rate of interest specified in the contract without any question and no right to demand repayment or foreclosure. Repayment of principal can be made at the convenience of the policyholders. If he so desires, the loan will never be repaid until maturity of the policy. Thus its collateral value enhances its advantage as an investment.

1.2.6 Tax Aspect

Life Insurance Policy continues to receive favourable position from tax standpoint. No tax is levied on the yearly increase in the cash value of life insurance policies. Another type of tax advantage can be availed of by making it payable to the beneficiaries, other than the insured.

1.3 Significance of the Investment in LIC

A major portion of domestic savings originates in the household sector where the preference for direct savings in the form of tangible assets still dominated over savings in financial forms over the years; however, the
share of the financial savings has gone up a trend that has benefited several financial institutions including LIC.

Any further growth in life insurance can arise from an increased volume of savings in the household sector and transfer of savings to insurance from other competing claimants. To assess the potential of the LIC, one should know at least the extent of savings in the household sector and its destination. Besides, the decision making process has also to be understood so as to be able to devise suitable policies. Several factors like income, its growth and distribution, social custom and traditions, parental aspirations, and regional affinities and sectoral bonds influence the decision making process.

Among those who prefer financial assets over physical assets, a range of preference may exist for different forms of financial claims. The contractual nature of some saving instruments like life insurance, provident fund or chit fund, may have special appeal for some categories of households.

In the Indian background the sale of life insurance on the basis of the principle of human life values only, may not work well due to many
misconceptions, superstitions orthodoxy the allugy to the idea of premature death. Hence, it is better to combine the concept of need based and human life values for L.I.C in India in semi-urban and rural clientele in particular. At the time of selling life insurance on the principle of human life values, family needs such as children’s marriage, education, care of the destitute and family provision and the like are to be taken into consideration.

Insurance is vitally linked to the daily lives of the people and its features are virtually limitless. The actual value of Life Insurance Policy is determined not by the amount invested, but the cost of risk cover included in the premium payments. Life insurance provides many advantages like security of capital, liquidity, tax benefits and so on besides providing cover against risk of death.

Life Insurance is unique in one aspect. As an instrument of economic security, it is incomparable. No other mode of savings can provide, what is provided by life insurance product. It also takes care of tomorrow’s bread, clothing and shelter. Death is certain, but it is the time of death, that is most

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uncertain. Life Insurance Policies seek to offer certainty of that uncertainty\(^6\). Risk cover is the primary benefit offered by the insurance contract besides providing supplementary benefits like bonus, income tax rebates, housing loan facility and so on.

Life Insurance is the only method to be used as a hedge against possibilities of the savings period being cut-short. A policy of insurance from its beginning guarantees the full value as against other forms of savings. While comparing the returns from insurance cover with other forms of savings, one should take into account the cost of providing insurance cover as well.

**LIC’s products** are designed not only to cover the risk but also to offer avenues of savings and investments, with added tax concession built into it. Therefore, LIC has to face competition from a number of institutions such as banks, Unit Trust of India (UTI), post offices, mutual funds, shares, debentures and so on. All these institutions compete for legitimate share in the household savings. LIC should see to it that its share is not only maintained but also improved upon.

\(^6\) “Think of Tomorrow, Insurance Today”, *Editorial Yogakshema LIC*, June 1993, p.3.
LIC policies are not bought but only sold because only a concept is sold, that too, involving fairly long period as compared with other modes of savings. Unlike other instruments, agents of LIC have to perform various services functions such as nomination, assignment, loans and the like. The service begins with the sale and continues till the object of Insurance is fulfilled.

It is easy to borrow against a Life Insurance Policy as it does not require any collateral other than the policy and no time limit is set on repayment. But, by borrowing the original purpose of taking the policy is defeated as very few loans are repaid before the date of maturity of the policy.

Even though, LIC offers risk cover along with saving element and added tax benefit with liquidity facility, people do not come forward to invest in it. Some of the reasons for their least preference for LIC are as follows.

Insurance in India is mostly an investment rather than a cover for risks. Many of the policyholders view their policy values from an investment
angle though life insurance is a combination of risk and saving element. There are two things that insurance companies invariably fail to mention when discussing life insurance as a means of investment. One is the low rate of return. It is lower than savings in banks. High inflation that affects the value of insurance, discourages the public from insuring their lives.

Even though LIC offers a dual objective of risk protection and saving, it is losing its importance because of the widening gap between what policyholder gets on his salary invested in life insurance and what he can earn in other forms of savings. The general public has no idea of the real returns on their polices. A survey on customer satisfaction on LIC policies has shown that they are not satisfied with the mode and terms of bonus payment.

Surplus to LIC arises mainly because of lower mortality, higher interest, and lesser expenses. The non-participating policies also contribute to each one of these factors as do the participating ones. The constant and continuous erosion in the value of money acts as a disincentive for the people to enter into long-term savings like insurance. If the LIC promises to give not only the face value but something more than that to this class of
policyholders in the form of its contribution to surplus that will go a long way in increasing the sales of life insurance⁷.

LIC does not raise its premium rate frequently even though life expectancy has steadily increased. LIC does not offer reduced rates to non-smokers. There is general perception that the premium rates are high in India as disclosed by Era Sezhiyan Committee (1980)⁸.

The bonus rate offered by LIC is not attractive as compared to the interest rates in money market. The account holders can also withdraw their amount if required. But, this is not permitted in LIC. Here, they can withdraw only to the maximum of the surrender value of the policies. So, to mobilize more resources and to withstand in the present economy LIC has to provide a qualitative service to its policyholders.

“Prevalence Rebates” creates a doubt in the minds of the public and LIC officials are also not in a position to prevent it because of quantum of business secured by the agents helps them to achieve the fixed target. People

⁷Ibid, P.23.

invest voluntarily in Bank Deposits, National Savings Certificates (NSC) or even UTI. On the other hand the policies of LIC are sold and not bought.

Endowment Insurance is poor investment which is not clearly brought to the attention of a potential policyholder. Even with profits, the return from an LIC policy is poor. There is a tendency among the agents to recommend a policy which gets them maximum commission. Endowment policies provide maximum commission to the agents. As a result, they are sold as a return on investment rather than as a risk cover.

Policyholders and agents of the LIC are up in arms against the monopoly organization for having reduced the surrender value of its policies, thus minimizing the already low returns given to the public on its investment\(^9\). Besides, LIC still uses the prospective method for calculating the surrender value of the policy, when many companies in the world have switched over to the retrospective method. The new tables along with the antiquated prospective method give Indian policyholders around half of what other people get abroad. Even when policies are nearing maturity, the surrender values are far away from the amount of the sum assured when

\(^9\)The Times of India, 12 August 1993.
mathematically it should not be so. This is generally inequitable. With the favourable conditions prevailing in India today, there is considerable scope for raising the surrender values of the policies. Previously, the policies could acquire paid-up value after two annual premiums were paid. At present, policies could acquire paid up value after three annual premiums were paid.

Policyholders are eligible to avail of loan facility after the expiry of five years, which is longer than what was permitted by LIC in its early years of existence. Most loaners find that the existing procedure for obtaining loans from LIC against life policies is cumbersome\(^\text{10}\).

The passive investment policy followed by the LIC is also detrimental to the best interests of policyholders. The LIC does not seem to be actually conscious of its responsibility to act in the spirit of a trustee for the policyholders and has failed to show the same degree of concern and solicitude for the interest of policyholders in the management of their funds, as a trustee should normally do. To canalize the savings into life insurances policies, it is necessary that the rate of return is made attractive to the policyholders-investors.

The following are some other reasons why the general public is reluctant to invest in life insurance.

1. It requires a long-term sacrifice for the enjoyment in the old age. Otherwise he hopes to provide for the family on his death which he normally expects to take place only in the distant future.

2. The event insured against seems remote as he does not realize that it can also happen in the near future.

Therefore, LIC has to face severe competition from other similar investment schemes offered by the public and private institutions.

1.4 Statement of the Problem

Life Insurance facilitates long-term savings through easy instalments, new housing loans and ordinary loans for meeting urgent financial commitments. Policyholders are also desirous of keeping their savings to meet the current needs and to provide for their old age requirements. The life insurance corporation also offers pension-linked life insurance policies to persons nearing retirement from employment. In a large number of cases, the policyholders take life insurance policies for the benefit of the dependants
and some people adopt life insurance for the purpose of tax planning. Every person takes up life insurance policies providing adequate insurance cover for dependants.

Many policyholders take up life insurance policies for the purpose of giving economic protection to their children when they attain majority. The lump sum available on maturity of the policy may be utilized for education, marriage, self-employment and other useful purposes.

Even though policyholders take-up life insurance for the purpose of covering the risk, many policyholders have a strong feeling that life policies act as long-term investments. In these competitive days the LIC offers a variety of life insurance policies. At the same time, LIC has introduced new life insurance plans to meet the demands of the changing social and economic environments.

For 43 years, L.I.C. of India enjoyed monopolistic status. The large funds could be raised for nation building activities and lakhs and millions could enjoy the benefits of life insurance. A vast majority of the population of insurable lives in India remained uncovered and untapped.
The Government of India decided to open up the markets and the economy of our country for private and foreign entrepreneurs. In 1999, the Insurance Regulatory and Development Authority (IRDA) Act was passed in the parliament and the IRDA was set-up to monitor, regulate and control the affairs of the various life and general insurance companies in India.\(^1\)

At present there are 14 private insurance companies (including Indian private insurance companies and Indian private insurance companies with foreign partners) in India. These companies are competing with the Life Insurance Corporation of India to tap the immense insurance market potential of India. The new entrants with the most modern technologies and sophisticated and efficient management capabilities pose a great threat to the monopolistic Life Insurance Corporation of India.

Hence the study analyses the benefits derived by the policyholders from the LIC and the attitude of the policyholder towards LIC.

In order to find out the facts it is imperative to take-up an in-depth study involving the LIC and its policyholders.

\(^1\)www.irdaindia.com.
1.5 Objective of the Study

The main objectives of the present study are as follows:

1. To examine the utilization of Life Insurance Corporation (LIC) by policyholders.
2. To study the attitude of policyholders to the services of the LIC.
3. To identify the factors influencing the attitude of policyholders.
4. To identify the factors which the consumers take into consideration before selecting a life insurance product.
5. To determine the extent to which these factors are taken into consideration for choosing life insurance products.
6. To offer suitable suggestions to improve the services of LIC based on the views of policyholders.

1.6 Hypotheses
To give a specific focus to the objectives, a few hypotheses have been formed to be tested by using appropriate statistical tools. They are,

1) The level of attitude of policyholders is independent of age, sex, education, marital status, family size and occupation.

2) The number of earning members and income of the policyholders do not influence the attitude of the policyholders.

3) The awareness and patronage mentality is independent of the level of attitude.

1.7 Methodology

The primary data were collected from policyholders who took Life Insurance Policies in Ramanathapuram District. For the purpose of collecting the primary data an interview schedule has been used by the researcher.

The secondary data had to be collected from the LIC documents. The researcher also read carefully many books, reports and journals containing useful information for collecting secondary data.
1.7.1 Sampling Design

The total number of respondents in Ramnathapuram district as on June 2006 stood at 10012. The Ramnathapuram District is stratified into 6 revenue taluks. A sample of 300 respondents has been selected for the study. The researcher has adopted proportionate stratified random sampling method for selecting the respondents. Under this technique the sample size stood at 3 per cent. The researcher selected a sample of 3 per cent at random from each stratum. The following table shows the distribution of sample size.

**TABLE 1.1**

**DISTRIBUTION OF SAMPLE SIZE**

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Stratum (Revenue Taluks)</th>
<th>Total Respondents</th>
<th>Sample Size 3 per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Ramnathapuram</td>
<td>2,082</td>
<td>62</td>
</tr>
<tr>
<td>2.</td>
<td>Tiruvadanai</td>
<td>2,417</td>
<td>72</td>
</tr>
<tr>
<td>3.</td>
<td>Rameswaram</td>
<td>860</td>
<td>26</td>
</tr>
<tr>
<td>4.</td>
<td>Paramakudi</td>
<td>2,256</td>
<td>68</td>
</tr>
</tbody>
</table>
### 1.7.2 Data Processing

After collecting the primary data with the help of interview schedule, a thorough verification of data was made. Then editing work was undertaken. Further in order to process the responses of policyholders, a master table was prepared and given a code to indicate each of the information to be used for analysis. After preparing the master table, the information was transcribed into tally sheet and with the help of these tally sheets, classification tables were prepared for further analysis.

### 1.7.3 Period of the Study

The present study aims at measuring the attitude of policyholders who have taken policy in the LIC. The primary data were collected from the respondents through interview schedule in June 2006.

### 1.7.4 Tools of Analysis

<table>
<thead>
<tr>
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<th>Mudhukulathur</th>
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<tbody>
<tr>
<td>5</td>
<td></td>
<td>1,324</td>
<td>40</td>
</tr>
<tr>
<td>6</td>
<td>Kamuthi</td>
<td>1,073</td>
<td>32</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>10,012</td>
<td>300</td>
<td></td>
</tr>
</tbody>
</table>

In order to identify the factors that are vital, factor analysis has been used.

To analyse the relationship between the utilisation of policyholders and socio-economic factors, chi-square test was applied.

In order to measure the attitude scale, Likert type five points scaling technique was adopted. To classify into three groups namely high, medium and low level attitude, arithmetic mean, standard deviation of the score was used.

To identify the factors influencing the selection of L.I.C. products factor analysis was used.

1.8 Operational Definition of Concepts

1.8.1 Attitude of the Policyholders

Attitude of policyholder means the real estimate of the policyholders of the services of the Life Insurance Corporation. In simple, it is the opinion of policyholders.

1.8.2 Awareness of Policyholders
It means the knowledge possessed by policyholders about the policy taken and the corporation. It includes possession of information about the procedures for various activities after the policy has been taken.

1.8.3 Utilization

Utilization in this study means the benefit derived by a respondent from the L.I.C. It denotes the monetary benefits offered by the L.I.C to the respondents. The corporation renders many services to the policyholders. Larger the services availed of by the policyholders, higher is the level of utilization and vice-versa.

1.8.4 Policyholder

A “Policyholder” is a man or woman who has taken at least one Life Insurance Policy form the L.I.C through any branch which comes under the area of operation of the Ramanathapuram District.

1.8.5 Corporation

In this study the term “Corporation” is used to denote the Life Insurance Corporation of India, which consists of a central office, zonal
offices, divisional offices and a large number of branch offices functioning in India.

1.8.6 Insurance Policy Plan

An insurance policy plan means the scheme of insurance offered to the public by the L.I.C. This term includes both individual insurance policies and group insurance polices.

1.8.7 Risk Coverage

Risk coverage means the sum of money assured to be payable by the L.I.C in the event of the untimely death of a policyholder before the maturity date of the policy. This sum is payable to the dependants of the deceased policyholder. The risk of monetary loss owing to the stoppage of income of the deceased policyholder is also covered and thus dependants get the full sum assured.

1.8.8 Administration of Policy

Administration of policy means the collective activities involved in the execution of a life insurance policy. It includes the functions like getting proposals, approving the requirements like age, medical fitness and
nomination, forwarding the policy proposals and finally issuing the policy document to the policyholder.

1.9 Profile of the Study Area

In this section, the details of the study area regarding location, climate, rainfall, soil type, land use pattern, size of land holdings, sources of irrigation, area under principal crops, working population, demographic characteristics and infrastructural facilities about the Ramanathapuram district are discussed.

1.9.1 Ramanathapuram District

(a) Location

The Ramanathapuram District which covers an area of 4089.59 Sq.kms in the South Eastern portion of Tamil Nadu is triangular in shape. It lies $9^0.05'$ and $9^0.50'$ of northern latitude and $78^0.10'$ and $79^0.27'$ of eastern longitude.

In 1910, Ramanathapuram was formed by clubbing portions from Madurai and Tirunelveli districts. This district was named Ramanathapuram. During the British period this District was called "Ramanad". The name
continued after independence. Later the district was renamed as Ramanathapuram to be in conformity with the Tamil name for this region.

The district comprises Ramanathapuram and Paramakudi revenue divisions, 6 taluks, 11 blocks and 424 revenue villages.\(^{12}\)

\(^{12}\)District Statistical Hand Book, District Collectorate, Ramanathapuram District, 2005.
(b) Climate

The district has a hot tropical climate, temperature ranging from 22.3°C minimum to 37.8 °C maximum and relative humidity is high at 79 per cent on an average and it ranges between 80 per cent to 90 per cent in coastal areas.

(c) Rainfall

The details of rainfall during various seasons are furnished in Table 1.2.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Season</th>
<th>Normal</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>South-west monsoon (June – September)</td>
<td>68.21</td>
<td>110.50</td>
</tr>
<tr>
<td>2.</td>
<td>North-east monsoon (October – December)</td>
<td>371.30</td>
<td>284.11</td>
</tr>
<tr>
<td>3.</td>
<td>Winter (January - February)</td>
<td>53.15</td>
<td>63.21</td>
</tr>
<tr>
<td>4.</td>
<td>Summer (March – May)</td>
<td>98.11</td>
<td>16.61</td>
</tr>
</tbody>
</table>
Table 1.2 shows that the highest rainfall was recorded during the North-East monsoon period (371.30 mm) for 21 days in 2004-05. In the summer, the region experienced rain up to 98.11 mm for 13 days. In winter and South-west monsoon periods, the rains were the lowest at 53.15 and 68.21 mm respectively. The rainfall was below normal and the district received 474.43 mm which was lower than the normal receipts quantified at 590.77 mm.

(d) Soil Type

The soil type condition of the district may be grouped into three main varieties namely clay, sandy loam and coastal alluvial. Sandy loam soil is of higher value compared to clay and coastal alluvial soils.

(e) Land Use Pattern

Table 1.3 gives the distribution of land use pattern in Ramanathapuram District.
Table 1.3

LAND UTILIZATION PATTERN
IN RAMANATHAPURAM DISTRICT

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Area (in Hectares)</th>
<th>Percentage to Total Geographical Area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Net area sown</td>
<td>103164</td>
<td>18.06</td>
</tr>
<tr>
<td>2.</td>
<td>Area under forest</td>
<td>99215</td>
<td>17.37</td>
</tr>
<tr>
<td>3.</td>
<td>Area not available for cultivation</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Land put to non-agricultural use</td>
<td>83241</td>
<td>14.57</td>
</tr>
<tr>
<td></td>
<td>(ii) Barren and uncultivable lands</td>
<td>20121</td>
<td>3.52</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>103362</td>
<td>18.09</td>
</tr>
<tr>
<td>4.</td>
<td>Other cultivated land excluding fallow land</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Terminate passives and other grazing not included in net sown area</td>
<td>7516</td>
<td>1.32</td>
</tr>
<tr>
<td></td>
<td>(ii) Miscellaneous tree crops and groves not included in net sown area</td>
<td>7015</td>
<td>1.28</td>
</tr>
<tr>
<td></td>
<td>(iii) Cultivable lands</td>
<td>74211</td>
<td>12.93</td>
</tr>
<tr>
<td>5.</td>
<td>Fallow lands</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(i) Current</td>
<td>24411</td>
<td>4.27</td>
</tr>
<tr>
<td></td>
<td>(ii) Fallow lands other than current fallow</td>
<td>152400</td>
<td>26.68</td>
</tr>
<tr>
<td>6.</td>
<td>Total geographical area</td>
<td>571294</td>
<td>100.00</td>
</tr>
<tr>
<td>7.</td>
<td>Area sown more than once</td>
<td>30163</td>
<td>1.50</td>
</tr>
<tr>
<td>8.</td>
<td>Total area cultivated</td>
<td>166822</td>
<td>23.74</td>
</tr>
</tbody>
</table>
It is observed from Table 1.3 that the total cultivated area constitutes 23.74 per cent to the total land. The forest area in the district constitutes a minimum of 17.37 per cent of the total area. The cultivable land is a minimum of Rs.12.93 per cent to the total area. The net area sown constitutes 18.06 per cent to the total area. Out of the total fallow lands, 26.68 per cent constitutes land other than current fallow.

(f) Size of Land Holdings

The distribution of land holdings in Ramanathapuram District for the year 2004-2005 is presented in Table 1.4.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Size of Holding (in Hectares)</th>
<th>Number of Operational Holdings</th>
<th>Percentage to Total Holdings</th>
<th>Total Area Owned (in Hectares)</th>
<th>Percentage to Total Area Owned</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>0 – 0.5</td>
<td>157124</td>
<td>60.08</td>
<td>47921</td>
<td>16.39</td>
</tr>
<tr>
<td>2.</td>
<td>0.5 – 1.0</td>
<td>49241</td>
<td>18.83</td>
<td>38519</td>
<td>13.17</td>
</tr>
<tr>
<td>3.</td>
<td>1.0 – 2.0</td>
<td>30241</td>
<td>11.56</td>
<td>54216</td>
<td>18.54</td>
</tr>
<tr>
<td>4.</td>
<td>2.0 – 3.0</td>
<td>10110</td>
<td>3.87</td>
<td>33290</td>
<td>11.39</td>
</tr>
<tr>
<td>5.</td>
<td>3.0 – 4.0</td>
<td>5311</td>
<td>2.03</td>
<td>21921</td>
<td>7.50</td>
</tr>
<tr>
<td></td>
<td>Size of Holdings</td>
<td>Number of Holdings</td>
<td>% of Total</td>
<td>Total Area</td>
<td>% of Total</td>
</tr>
<tr>
<td>---</td>
<td>------------------</td>
<td>--------------------</td>
<td>------------</td>
<td>-----------</td>
<td>------------</td>
</tr>
<tr>
<td>6.</td>
<td>4.0 – 5.0</td>
<td>3016</td>
<td>1.17</td>
<td>14921</td>
<td>5.10</td>
</tr>
<tr>
<td>7.</td>
<td>5.0 – 7.5</td>
<td>3064</td>
<td>1.16</td>
<td>24541</td>
<td>8.39</td>
</tr>
<tr>
<td>8.</td>
<td>7.5 – 10.0</td>
<td>1516</td>
<td>0.58</td>
<td>14091</td>
<td>4.82</td>
</tr>
<tr>
<td>9.</td>
<td>10.0 – 20.0</td>
<td>1566</td>
<td>0.60</td>
<td>20411</td>
<td>6.98</td>
</tr>
<tr>
<td>10.</td>
<td>20.0 and above</td>
<td>320</td>
<td>0.12</td>
<td>22540</td>
<td>7.72</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>261509</td>
<td>100.00</td>
<td>292371</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: District Statistical Office, Ramanathapuram.

It is found from Table 1.4 that the total number of operational land holdings in Ramanathapuram district was 261509 hectares in 2004-2005. Out of the total of 292371 hectares, the distribution of land according to the size of the holdings suggests that 90.47 per cent of the holdings is the size of 0 to 2 hectares and 7.07 per cent of the holdings is between 2 and 5 hectares. Holdings above 5 and below 10 hectares form 1.74 per cent and holding above 10 hectares form 0.72 per cent. Hence, it is inferred that the majority of the holdings in the district lies between 0 and 2 hectares. The percentage to total area is also found to be higher for small holdings than for large holdings.

**(g) Sources of Irrigation**
The different sources of irrigation prevailing in the district are river, canal, tank and well. The sources of irrigation for Ramanathapuram District during 2004-2005 are given in Table 1.5.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Particulars</th>
<th>Area (in Hectares)</th>
<th>Percentage to Total Area Irrigated</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total Cropped Area</td>
<td>122410</td>
<td>-</td>
</tr>
<tr>
<td>1.</td>
<td>Net Area Irrigated</td>
<td>30241</td>
<td>-</td>
</tr>
<tr>
<td>2.</td>
<td>Irrigation by</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Well</td>
<td></td>
<td>15725</td>
<td>48.61</td>
</tr>
<tr>
<td>(ii) Tank</td>
<td></td>
<td>14211</td>
<td>43.93</td>
</tr>
</tbody>
</table>

**TABLE 1.5**

**AREA IRRIGATED BY DIFFERENT SOURCES**
in Ramanathapuram district 2004-2005
Table 1.5 shows that, in Ramanathapuram district 122410 hectares of land were cultivated during 2004-2005. Of them, as much as 32347 hectares were irrigated by well, tank and canal sources. Well and tank were the primary sources of water covering 48.61 per cent and 43.93 per cent respectively. Canal irrigation was about 7.46 per cent. The gross area irrigated is 122410 hectares and net area irrigated is 32347 hectares.

(h) Area under Principal Crops

In Ramanathapuram District, paddy is the predominant crop cultivated in 82402 acres with a percentage to net area sown of 80.66 per cent. The details of area and percentage to net area sown are given in Table 1.6.

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Crops</th>
<th>Area (hectares)</th>
<th>Percentage to Net Area Sown</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(iii) Canal</td>
<td>2411</td>
<td>7.46</td>
</tr>
<tr>
<td>3.</td>
<td>Total Area Irrigated</td>
<td>32347</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: District Statistical Office, Ramanathapuram.
It is clearly understood from the above Table 1.6 that among the principal crops, paddy occupies 80.86 per cent of the net area sown in the district, followed by banana, sugarcane and cotton. The net areas sown are 6.32 per cent, 6.02 per cent and 5.11 per cent for banana, sugarcane and cotton respectively.

(i) Working Population

The distribution of population, category-wise in Ramanathapuram District is presented in Table 1.7.

<table>
<thead>
<tr>
<th>Rank</th>
<th>Crop</th>
<th>Area (ha)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Paddy</td>
<td>83402</td>
<td>80.86</td>
</tr>
<tr>
<td>2</td>
<td>Sugarcane</td>
<td>6215</td>
<td>6.02</td>
</tr>
<tr>
<td>3</td>
<td>Gingely</td>
<td>1200</td>
<td>1.16</td>
</tr>
<tr>
<td>4</td>
<td>Cotton</td>
<td>5271</td>
<td>5.11</td>
</tr>
<tr>
<td>5</td>
<td>Blackgram</td>
<td>291</td>
<td>0.28</td>
</tr>
<tr>
<td>6</td>
<td>Greengram</td>
<td>261</td>
<td>0.25</td>
</tr>
<tr>
<td>7</td>
<td>Banana</td>
<td>6524</td>
<td>6.32</td>
</tr>
<tr>
<td></td>
<td>Net Area Sown</td>
<td>103164</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: District Statistical Office, Ramanathapuram.
It is found from Table 1.7 that there were 572411 households in the district during 2004-2005. The 2001 Census recorded the total population to be 1183321 persons (582068 male and 601253 female). The average size of the family in the district was four. Of the total working force, 179562 were cultivators and 124483 were agricultural labourers.

(j) Demographic Characteristics

The demographic characteristics of population in Ramanathapuram District are given in Table 1.8.
Table 1.8

DEMOGRAPHIC CHARACTERISTICS OF RAMANATHAPURAM DISTRICT

<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Area in sq.kms.</td>
<td>4089.57</td>
</tr>
<tr>
<td>2.</td>
<td>Population 2001 census</td>
<td>1183321</td>
</tr>
<tr>
<td>3.</td>
<td>Density of population per sq. km.</td>
<td>287</td>
</tr>
<tr>
<td>4.</td>
<td>Literacy rate in percentage</td>
<td>760819 (64.24)</td>
</tr>
<tr>
<td>5.</td>
<td>Total workers</td>
<td>1082121</td>
</tr>
<tr>
<td>6.</td>
<td>Marginal workers</td>
<td>70365</td>
</tr>
</tbody>
</table>

Source: District Statistical Office, Ramanathapuram.

Table 1.8 shows that according to the 2001 census, the total population of Ramanathapuram District was 1183321 persons. Further, it shows the demographic characteristics of population in Ramanathapuram District. According to the Census 2001, the density of population per square km is 287 and the literacy rate is 64.24 per cent.

(k) Infrastructural Facilities

Ramanathapuram District has sound banking and infrastructural facilities.
(i) Transport

The district has a well built transportation network. There are surfaced roads covering 469185 kms and unsurfaced roads covering 89.196 kms. About 299 kms are covered by railways. The length of roads per 1000 sq.km is 833.19 kms and length of surfaced road per 1000 sq.km of area is 693.24 km.

(ii) Financial Institutions

The district has a well built banking structure catering to the needs of the farming population in the district. The district is well served by 80 nationalised bank branches, 40 Pandian Grama Bank branches, 70 private bank branches and 501 old chit companies. Both the public and private sector banks play an active role in extending finance to agriculture in line with national objectives.

(iii) Marketing

Thriuvadanai, Kamuthi, Paramakudi and Mudukulathur are the major marketing centres of Ramanathapuram District. Paddy, cholam, cumbu, ragi, black gram, green gram, bengal gram, coconut oil, gingely oil and groundnut
oil are marketed daily through these centres. The total storage capacity of district is 35596 tonnes. The district is served by food corporation of India and there are government operated and regulated markets to protect the farmers from possible malpractices in trading.

(iv) Industries

Among the industries in the district, paper, pens, clips, matches and engineering industries need mention. The important village industries of the district include handlooms, poultry farming, bricklaying, jaggery production, mat-weaving and beedi-making. There are 45 trade unions, 6 large scale industries and 540 small scale industries in the district.

1.10 Limitations of the Study

This study is about the attitude of the sample policyholders. At the same time this study focuses the factors which determine the attitude, various policies and effective operations of the LIC. This study investigates the attitude of the policyholders of Ramanathanpuram District only.
1.11 Scheme of the Work

The present study “Attitude of the Policyholders Towards Life Insurance Corporation of India - A Study With Special Reference to Ramanathapuram District” is presented in seven chapters.

The first chapter deals with the Introduction and Design of the Study. It includes importance of insurance, insurance and economic growth, significance of the investment in LIC, statement of the problem, objectives of the study, methodology, operational definition of concepts, profile of the study area, limitations of the study and scheme of the work.

The Second chapter deals with Review of Literature and it covers the past studies relating to policyholders of Life Insurance Corporation.

The third chapter gives an Overview of the Life Insurance Corporation of India, its origin, growth and development.

The fourth chapter examines the Utilization of Life Insurance Corporation of India by Policyholders.