CHAPTER- 1

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1.1 Setting Up Of the Problem

With largest number of life insurance policies in force in the world, Insurance happens to be a big opportunity in India. It’s a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country’s GDP. Total premium collection is nearly 2 per cent of GDP and funds available with Life insurance Corporation for investments are 8 per cent of GDP.

Yet, nearly 80 % of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This fact is itself a signal of tremendous potential growth in the insurance sector.

A well-developed and healthy insurance sector is needed for economic development as it provides long term funds for overall development of the nation specially infrastructure development and at the same time enhance the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion USD. The Insurance sector, to some extent, can enable investments in infrastructure development to boost, retain and stabilize the economic growth of the country.

Insurance is a federal subject in India, and is governed by two legislations that govern the sector- The Insurance Act- 1938 and the IRDA Act- 1999. The insurance sector in India has evolved into something which was unprecedented from being an open competitive market to nationalisation and back to a liberalised market again. Covering the developments in the
Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.

Now in such a well-developed and evolved insurance sector the most trusted, old and reliable means of sales is and has always been considered is an insurance agent. An insurance agent is a primary source for procurement of insurance business and as such his role is the cornerstone for building a solid edifice of any life insurance organization, he has always been a dominating factor beside other factors responsible for the sales of insurance products. Such a robust and healthy growth of insurance industry is possible only because of our very old and conventional mode of insurance sales i.e. insurance agents who nowadays known as FPAs (financial planning advisors) a more sophisticated and globalised term used by the MNCs in insurance industry.

The counselling and the advice of these FPAs play a very vital role in helping the investor to get zeroed on a particular plan. It is the very duty and responsibility of an FPA to advice the investor in the most honest manner and disclose all the required information of a particular insurance plan, and suggest the most appropriate plan which can synchronise with needs and wants of the investors, because an FPA is supposed to possess all the required knowledge regarding a particular insurance plan which he is suggesting and selling and over all general awareness of insurance as he is been through all the prerequisite trainings that are required for becoming an FPA or insurance agent. But with the addition of new ULIPs every now and then in the insurance portfolio things are becoming more complex to understand both for the investors and insurance agents.

ULIP is an abbreviation for Unit Linked Insurance Policy. A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. For selling an ULIP not only
the in-depth knowledge of the product is required but also the scanning and keen observation of capital market is also required which is troublesome matter on both fronts i.e. on the front of an FPA and on the front of an investor in most of the time. As we know that no doubt an FPA goes through the prerequisite training by IRDA for selling insurance, but there also he is only taught about the basic features of ULIPs and how they are different from traditional insurance plans, but they are not given a very detailed knowledge of capital market where the units of an ULIP has to be allocated and how the dynamics of capital market has a direct impact on the different funds that are offered in an ULIP. Even the FPAs themselves are not aware that in which market scenario what fund should be suggested to the investor keeping in view his needs and wants.

Now let’s see the investor’s profile, the majority of the Indian investors are still unaware of the basic motive and objective of the ULIPs and they take them as sort of mutual fund which is offering insurance cover also and they are been told and this is the way they think that investing in an ULIP will create a sort of miracle and increase their wealth accumulation in no time and they have to wait only for completion of paid-up period. So this has become the tendency of the investor because most of them are insane when comes the matter of understanding the technicalities of an ULIP and volatilities of stock market, so they totally rely on their FPAs when opting for a specific fund and they just start expecting the returns that they have been promised. So most of them didn’t complete their maturity period and withdraw their policies just after the completion of paid-up period as told by the FPA and found themselves cheated against the promises they were made.