CHAPTER I

Introduction and Design of The Study
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INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

Success follows success in the life of everyone who sincerely carries out every activity with a constructive plan. It is the desire of the people to own property in order to lead a long life happily. But mankind is exposed to many risks such as property losses from fire and storm and personal losses from disability and premature death. Though it is impossible to completely prevent such unfavorable occurrences, it is quite possible to guard against their financial reverses. It is the function of insurance to safeguard policyholders and their dependents from financial misfortunes.

Life Insurance is a contract providing for the payment of a pre-determined sum of money to the policyholder, or on his untimely demise, to the nominee who is entitled to receive it. After the death of the policyholder no further premium is required to be paid towards the policy. A family is generally dependent for its food, clothing and shelter on the income brought in at regular intervals by the breadwinner of the family. So long as the breadwinner lives and the income is received steadily, that family is secured; but should death suddenly overtake the family may be left in very difficult circumstances and sometimes in stark poverty. The unpredictability of death is inherent in human life. It is this uncertainty that is risk, which gives rise to the need for some form of protection against the financial loss arising from death.

Under a contract of insurance, loss of these unfortunates are compensated by the contribution of a large number of policyholders who are also exposed to the same
type of risk. In fact, the essence of insurance is the sharing of losses, and the substitution of certainty in the place of uncertainty. When the risk under consideration is premature death, the possible financial hardships of the dependents of a deceased policyholder is indemnified through life insurance.

The early history of life insurance lies obscure in the pages of antiquity. The earliest available reference to some form of insurance is found in the quotes of Manu namely Manu Dharmashastra. Manu, the ancient scholar and law-giver enjoyed that a special charge be made on goods carried from one place to another to ensure their safe carriage until, it was finally handed over to the consignee at the destination. Risk premium rates were worked out by men skilled in sea-voyages. Man, in his quest for security against uncertainties, was striving constantly and insurance emerged out of his constant quest for security.

It was the British who formed the first insurance company in India. It was called Oriental Life Insurance Company. Several other European Companies were formed in India but many failed either due to ineffective and bad management or because they were reluctant to extend the cover of insurance to Indians. The first event which heralded the dawn of the Indian proposition, promotion and management of Life Insurance in India was the starting of the Bombay Mutual Life Insurance Company which offered insurance Indian lives on par with European lives.

“So long as the maintenance of a family depends on the earning power of the bread winner; So long as earning power can be destroyed by death, old age or

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disability, just so long will life insurance continue to be the keystone of the individual and those who are dependent upon him³.

Every breadwinner is worried about old age or securing of his kith and kin, if he dies early. One of the best solutions for those worries is life insurance, which alone provides guarantee under all circumstances, provided the policy is kept in full force by paying premia in time.

**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 etc., besides providing a cover against risk of death.

Today, life insurance is indisputably recognized as a truly remarkable and beneficial piece of property because it combines in one package called insurance policy, an immediate estate with security, retirement fund, a guaranteed payment for the family members and tax savings on all fronts-income tax, wealth and gift tax⁴.

Life Insurance helps to provide security against the threats of unemployment, disability, death and old age. The high cost of living and high taxes made life insurance the only medium available to obtain a measure of security for the vast majority of people⁵.

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⁴ M.D.Mukhi, Insure First, Invest Later, Yogakshema, June 1987, p.4.
The individual is not, as a whole, very insurance conscious. He is aware of the few covers of insurance available, but probably may not have a complete knowledge about variety of covers available. He may appreciate the idea of insurance, but still remains to be a reluctant purchaser. The main reason is that there is no immediate benefit from the life policy. The only thing provided is the piece of paper, the insurance policy, written in legal terms. The agreement is an odd one because not only a very long time elapses before there is an opportunity to test the promise that has been given, but also that opportunity will usually arise only in unpleasant circumstance, which the insured would rather not think about.

Life Insurance provides life cover besides inculcating saving habits. Generally, people desire to leave behind enough for their family in the event of their retirement, incapacity or death, each of which means a sudden cessation of income.

The public should be shown that life insurance, besides protecting against misfortune, is also a powerful force in the production of wealth, and that premium payment should not be regarded merely as an expense to be grudgingly borne.

INSURANCE AS INVESTMENT

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, for the simple reason that in the

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case of insurance, a certain portion of the premia paid has to be set apart to meet payments in respect of claims. And, 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 the following types of persons viz., regular savers, tax payers, persons with fluctuating income, weaker sections, persons in the hazardous occupation-relating to physical, occupational and moral, persons below the subsistence level, key-man, people with hobbies like mountain climbing, retired persons and self-employed.

Short-term investments react immediately to changes in rates 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 periods exceeding seven to ten 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 at 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.

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 investments. Insurance makes it possible to attain the ultimate amount that is aimed for.

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

INSURANCE IS A SERVICE

Insurance service is a service hired for consideration. Legally the contract of insurance policy is complete on payment of premium and from the date, the premium is paid. In the absence of acceptance of proposal of insurance, merely because payment of premium has been made, a duly completed contract does not come into

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existence. Every arrangement of hiring service would invariably involve creation of a contractual relationship between the hirer and the person offering and rendering service. It is, therefore, plain that to qualify as a “consumer”, a person must enter into a contract of hiring. Any claim for compensation put forward by the hirer on the ground that there was deficiency in service rendered by the opposite party would always be one arising out of the breach of original contract.

SAFETY AND SECURITY

Most owners of life insurance, prospective buyers, and indeed life underwriters will acknowledge the value of life insurance as a 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.

MARKETABILITY

One of the important questions that arise in an individual’s mind before embarking on an investment venture is about the disposable value of the investments, because predetermined amount is not guaranteed by any investment other than life insurance. No one knows, what future financial reverses may cause the value of a stock or a bond to slump and cause the owner a serious loss when forced to liquidate it.

Deflation provides adverse effect on one’s financial security. People trying to sell their securities may find that there are no purchasers except at a greatly depressed

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9 The Insurance Times, October 1999, p.20.
price. Frequently they may be unable to borrow money even with tangible assets as collateral. Or when they can, the amount they obtain is infinitesimal compared with the original value of the collateral.

More of life insurance owners know how much their policies are worth at any given date. They know because every policy states in black and white exactly, how much money is guaranteed to the owner if the owner should live to retirement and during the intervening years as well or to the heirs, if the owner does not survive. Neither buyers of life insurance nor their heirs are confronted with the typical, costly and frequently impossible task of liquidating a "frozen asset".

VALUE AS COLLATERAL

Life Insurance policy can be utilized as collateral security to avail loan facility from various 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 need never be repaid until maturity of the policy. Thus, its collateral value enhances its advantages as an investment.

LIFE INSURANCE AS A WAY OF LIFE

A survey conducted by a manufacturing firm in a mid-western city among the employees shows that the greatest hope in life was the hope for security and the greatest fear is insecurity. Life insurance offers people the most efficient method of achieving economic security.
The sense of security provides dignity. Life insurance sells dignity and insures not only a life, but a way of life. This makes them possible to have security, dignity and freedom as well. A life insurance sale guarantees economic security for the nation. A country composed of secured homes, healthy, educated and happy citizens, is strong.

STATEMENT OF THE PROBLEM

India has the highest number of life insurance policies in-force and the total investible funds with the Life Insurance Corporation of India (LIC) are almost eight percent of GDP. The LIC has more than one lakh of employees who in turn supervise through 2048 branch offices and more than five lakh agents. Yet life insurance business in India is spread very thinly and shallowly and the role of LIC as a mobiliser of long-term savings is insignificant. Savings through life insurance contract guarantee protection against monetary risk caused by the death of the insured. In life insurance contracts generally the lumpsum assured is payable with bonus, whereas in other forms of savings the amount saved is repayable with interest. Life insurance facilitates long-term savings through easy installments. Now-a-days housing loans and other types of loans for meeting urgent financial commitments are being easily granted. Policyholders are also desirous of keeping their savings to meet the current needs and to provide for their old age requirements. In a large number of cases, policyholders take life insurance policies with the LIC for the purpose of tax planning.

Even though policyholders take up life insurance policies for the purpose of covering their risk, many policyholders have a strong feeling that life policies act a
cushion for long-term investment. In these competitive days, the LIC offers a variety of life insurance policies such as Whole-Life Policy, Endowment Policy, Money-Back Policy, Joint Life Policies, Jeevan Mitra Policy, Jeevan Akshay Policy, Jeevan Balya Policy, Jeevan Suganya and many other plans. As a matter of fact, new life insurance plans are introduced to meet the demands of the changing social, cultural and economic environment. By introducing a variety of new schemes the LIC mops up the savings from the public for providing the money for welfare schemes.

The aim of the study is to analyse the Business and Financial performance of LIC in Chennai city. Till the year 1992-93, the LIC worked as a single division called Madras Division. But in the year 1993-94, this Division was bifurcated into two Divisions namely, Division I and Division II for administrative convenience.

Amid this background, this study presents a comprehensive study of life insurance in Chennai city and also makes an attempt to analyse the strengths and weaknesses of the LIC and evaluates the performance of life insurance business in Chennai.

OBJECTIVES OF THE STUDY

The specific objectives of the study are as follows;

(i) To give an overview of the performance of the LIC in India and examine the nature and benefits of various life insurance plans;

(ii) To review the progress of LIC in Chennai city from the year 1988-89 to the year 1999-2000;
(iii) To review the claims-settlement operations by the LIC in Chennai city during the study period;

(iv) To study the trends in total premium income earned by the LIC during the period of study;

(v) To evaluate the management expenses of LIC during the study period;

(vi) To probe the problems faced by the policy holders; and

(vii) To suggest measures to overcome such problems.

HYPOTHESES OF THE STUDY

In accordance with the objectives of the study, the following hypotheses have been formulated to test their validity.

(i) There is no significance difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of the number of individual insurance policies issued (H₀₁);

(ii) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of the number of individual insurance policies issued (H₀₂);

(iii) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods with regard to the sum assured under individual insurance scheme (H₀₃);
(iv) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC with regard to the sum assured under individual insurance scheme (H04);

(v) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of the sum assured under medical scheme (H05);

(vi) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of the sum assured under medical scheme (H06);

(vii) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of the sum assured under non-medical scheme (H07);

(viii) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of the sum assured under non-medical scheme (H08);

(ix) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of the sum assured under salary savings scheme (H09);

(x) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of the sum assured under salary savings scheme (H010);
(xi) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of life insurance fund accumulation ($H_011$);

(xii) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of life insurance fund accumulation ($H_012$);

(xiii) There is no significant difference in the performance of the LIC during the pre-bifurcation and post-bifurcation periods in terms of amount of outstanding policy loans as at the end of the year ($H_013$);

(xiv) There is no significant difference in the performance of the divisions I and II after the bifurcation of LIC in terms of amount of outstanding policy loans as at the end of the year ($H_014$);

(xv) There is no significant association in the performance of the LIC with regard to the total premium income and management expenses of the LIC in Chennai city during the study period ($H_015$);

(xvi) There is no significant association between the purpose of the investment ($y$) – Dependent variable and the Independent variables such as Age ($x_1$), Sex ($x_2$), Occupation ($x_4$), Educational Qualification ($x_5$) and Monthly Income ($x_6$) of the sample policyholders in the city ($H_016$);
SIGNIFICANCE OF THE STUDY

Death is certain but the time of death of an individual is uncertain. So, there is uncertainty of the time when the sufferings and financial stringencies may befall on the family. Moreover, every person is responsible to provide for the family. It would be a more pathetic sight in the world to see the wife and children of a man looking for some one more considerate and benevolent than the husband or the father, who left them unprovided. Therefore, the provision for children up to their reaching caring period and for widow up to long life should be made. Any other provision except life insurance will not adequately meet this financial requirement of the family. Whole life policies are the better means of meeting such requirements.

The provision for old age is required where the person is surviving more than his earning period. The reduction of income in old age is serious to the person and his family. The life insurance provides old age funds along with the protection of the family by issuing various policies. For the economic growth of the country, insurance provides strong hand and mind, protection against loss of property and adequate capital to produce more wealth.

Life Insurance Corporation plays a crucial role in providing life insurance to the public. It is needless to reiterate that such a vital and public related service organisation should function efficiently without giving any room for complaints from the policyholders. Hence, the present analytical research study has been carried out to evaluate the performance of LIC in Chennai city.
SCOPE OF THE STUDY

The main theme of the study is to highlight the performance of LIC in Chennai city before and after its divisions into two. The present study is focused on the LIC policies issued, sum assured, income and expenses, claims-settlement operations, etc. This study also analyses the various grievances of the policyholders.

The reference period is twelve years, namely, from the year 1988-89 to the 1999-2000.

REVIEW OF LITERATURE

This study is the first of its category in the way it attempts to state the performance evaluation of LIC and attitude of the policyholders towards functioning of LIC. But there are certain other studies to review the functioning of LIC and life insurance service as could be seen from the following.

The working of the Life Insurance Corporation of India has been the subject of review from time to time by a number of parliamentary and other committees. The Estimates Committee of Parliament (1960-61) was the first to examine its working. It submitted its report (134th Report of the Second Lok Sabha) in April 1969. The committee suggested a federal structure with semi-autonomous zonal units to avoid duplication of organisation. An element of competition between the different semi-autonomous zonal units could thus be introduced. The figure of new business management expenses, overall and renewal expense ratio, profit and loss etc., could be worked out for each zone and published separately in the Annual Report of these units to enable their efficiency to be judged.
The Estimates Committee was followed by another parliamentary committee, namely, The Committee on Public undertakings (1964-65). This committee submitted its report in March, 1965 (4th Report of the Third Lok Sabha). This committee was convinced that the tardy growth of the business, deterioration of service to the policyholders were ascribable to the size and centralized organisation of the corporation. To improve the standard of efficiency in the corporation, with better services to policyholders, the corporation had to expand its business in a massive scale, its zones must be constituted into completely independent corporations. Based on the recommendations, LIC was reorganized on the model of the State Bank of India with Zonal Boards constituted by Government with clear and well defined powers.

Another committee under the Chairmanship of Shri. R.R. Morarka with an objective to investigate into the causes of the high level of expenses of the corporation as indicated by its renewal expenses rate and to recommend measures, administrative or otherwise to bring it down to reasonable level so as to sub-serve the maximum interests of the policyholders. This committee submitted its report in April, 1969.

Three other committees followed. All of them were appointed by the LIC and were concerned with the implementation of Government’s decision to abolish or prune its zonal offices.

Another committee was appointed in the year 1979, under the chairmanship of Shri Era Chezheyian, Member, Rajya Sabha. This committee observed that the cost of providing life insurance through individual life assurance policies was high and beyond the means of a large section of the population both in rural and urban areas.
Only about 10% of the insurable males living in the country had been provided cover against death. Even among these, the concentration was on the salary earning classes and persons in the higher income groups, who took life insurance mainly because of the tax relief available. The committee noted that the LIC paid interest at the rate of 6% for delay in settlement of claims, where the delay was attributable to the LIC only. Though the procedure laid down for dealing with complaints were generally satisfactory, in actual practice they were not providing effective service.

In furtherance of the initiatives in the area of financial reforms covering the banking system and the capital markets aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy and recognizing insurance as an important part of the overall financial system, the Government of India appointed a committee on reforms in the Insurance sector in April, 1993, to examine the structure of the insurance industry, and to make specific suggestions regarding LIC to improve its functioning in the changing economic scenario.

The next to examine the working of the LIC was the Working Group on Life Insurance Administration constituted by the Administrative Reforms Commission in August, 1967. This Commission submitted its report in October, 1968.

In the opinion of this group the deficiencies in the corporation's working were not due to its monopolistic or monopolistic nature, its size, but were due to unimaginative development and administrative policies and lack of appreciation of the objectives of nationalisation. It made the recommendation to introduce competitive
spirit among the branches and divisions in different service to policyholders and reduction in expense ratio.

Ram Mohan Roy in his thesis entitled “Life Insurance in India” has highlighted the significance of life insurance service. This study deals with some of the problems faced by the policyholders and throws light on the several scientific measures to expand the life insurance business\(^{10}\).

Mohamed Talha in his study entitled “An Appraisal of Investment Policies of LIC” has mentioned various investment policies followed by LIC, growth of life insurance business in India and suggestions for increasing it\(^{11}\).

Amit Bajaj in his study entitled “Management of Earnings of LIC” has highlighted prospects of rural insurance business, business in other areas and suggestions for improving the same\(^{12}\).

Patki in his book “Sega of Security, Story of Indian Life Insurance 1870-1970” has dealt with the origin and growth of life insurance business in India. Insurance business before nationalisation and after nationalisation has been dealt with clearly in his book\(^{13}\).

Era Chezheyyan in his book “Role of Life Insurance in National Economy” has dealt with the benefit of life insurance for the individuals and for the country, the

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\(^{10}\) R.M. Roy, Life Insurance In India, Its History, Law, Practice and Problems, Bombay Allied Publishers, 1941.


objectives and performances of nationalized insurance in India and the attitude of the
Government and suggestions for improvement\textsuperscript{14}.

M.C.Ishwar Dayal in his report has made valuable suggestions for the
reduction of administrative costs and for increasing the operating efficiency of the
LIC. He has advocated a greater concern for the development of staff and managers
and for provision of opportunities for self-development accompanied by the
development of a strong agency network\textsuperscript{15}.

R.Srinivasamurthy in his research study titled "Improvement in Productivity
of Administrative Personnel in the field of Insurance" has highlighted the major issues
relating to the productivity of administrative personnel in the LIC. The impact of
major issues on productivity have been analysed in his study\textsuperscript{16}.

K.Meena in her dissertation titled 'Utilisation of Life Insurance Corporation
by Policyholders of Madurai City' has studied the utilisation of the LIC by
policyholders and analysed the various factors, which influence the level of
utilisation. She has concluded that unless the corporation makes its schemes
attractive and effective, with good returning capacity and high bonus to the
policyholders, it is bound to fail in its operations. She has also suggested that heavy
expenditure has to be curtailed so that the corporation can pay better returns\textsuperscript{17}.

\textsuperscript{14} Era Chezheyyan, Role of Life Insurance in National Economy, A.D.Shroff Memorial Trust, Bombay, 1985.
\textsuperscript{15} M.C.Ishwar Dayal, Report on Reorganisation of the LIC, Bombay, 1982.
\textsuperscript{16} R.Srinivasamurthy, Improvement in Productivity, Hyderabad, Federation of Insurance Institutes, 1982.
\textsuperscript{17} K.Meena, Utilisation of Life Insurance Corporation by Policyholders of Madurai City-An Empirical
M. Muthupandi in his thesis entitled "A Study of Utilisation of Life Insurance Corporation of India by Policyholders in Madurai Division" has studied the utilisation of the L.I.C. by policyholders and analyses the various factors which influence the level of utilisation. He concluded that the corporation faces stiff competition from many financial institutions like the Peerless General Investments Company, the Snegapriya General Investments Company, Commercial Banks and Co-operative Banks. In the case of the banking sector, now-a-days deposits linked with insurance benefit are also provided. He has also suggested that this existing competition can be tackled with prudent planning by reducing the rates of premium, increasing bonus rates and increasing the quality of service to policyholders.

The paper on 'Development of Insurance Business', by R. Jayaraman has outlined the methods for developing the life insurance business in rural areas. He has suggested that the organisational infrastructure in the rural areas needs to be enlarged so as to bag the growing insurance potential there.

H.D. Patel in his paper 'An Aid to Management', has suggested to keep the quality of the management information so that it can be 'decision supportive', as it has a dual role in management namely information for decision-making and information for control. "Information for Decision-Making, in its essence, influences future policy and therefore needs to have a futuristic character. In order to effectively play a helpful role, the managers in the LIC should equip themselves with better understanding of systems, procedures and control".

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19 R. Jayaraman, Development of Rural Insurance, Insurance Institute, Bangalore, 1980.
20 H.D. Patel, Yogakshema, Bombay, August 1989, p. 43.
Ralph Roseman has concluded in his report that the general climate for insurance in South Africa is unfavourable mainly caused by inflation. Life assurance products must compete with those of other financial institutions and increased taxation will put the life insurance industry at a disadvantage\(^{21}\).

Williams has opined that major problems in the insurance industry include the need to contain expenses within the allowed margins, the need to maximise returns, particularly to support expense over returns on the usually closed block of traditional in-force policies and the ‘no wise situation’ in medical insurance, in which profit margins are there in good years and losses sizable in bad years\(^{22}\).

S.Revathy has concluded in her dissertation that a good insurance company is one that is financially strong that provides fair and prompt claims settlement and provides good service before and after a loss. A good insurance policy satisfies all the insurance needs, without providing for unnecessary coverage. The proper amount of insurance is closely related to a consumer’s needs, quick, efficient, delightful service to everyone should be the goal, towards which the LIC had to tread fast to keep the image of the corporation\(^{23}\).

On review of the existing literature it is understood that no attempt has been so far made to conduct an in-depth and analytical study of performance of LIC in any particular zone or division. Hence, the researcher has taken up this study. The present


study “Performance Evaluation of LIC in Chennai City” makes a humble attempt to examine the business and financial performance during the study period.

RESEARCH METHODOLOGY

1. RESEARCH DESIGN

The Research Design used is Exploratory and Analytical. This study is exploratory because the views and opinions of the policyholders belong to diverse fields have been ascertained to identify the problems faced by them and the benefits derived by them. This study is also analytical because it throws light on the operational performance of the LIC in Chennai city having two divisions each of which having 21 branch offices.

2. SOURCES OF DATA

(a) Primary Data

First hand data were collected from the field through the Questionnaire filled up by the sample policyholders. Several rounds of discussions were held with the knowledgeable persons in the field of life insurance such as Assistant Branch Manager, Development Officers and Personnel & Industrial Relations Manager.

(b) Secondary Data

The secondary data were collected from published records such as performance Highlights of LIC, Annual Reports and Records that are maintained by the Divisional offices. The Researcher also perused many books, reports and insurance journals containing useful information for collecting secondary data.
3. **QUESTIONNAIRE**

A Questionnaire was prepared to collect primary data from each sample policyholder. Details of Socio-Economic Profile/Demographic Characters (Part I), Policy and Premium Profile of the policyholders (Part II) and Problems faced by the Policyholders (Part III) were collected by the researcher using this structured questionnaire.

4. **PILOT-STUDY & PRE-TESTING**

A Pilot study was conducted during the month of July 1999. For the pilot study, Division I and Division II Head Offices in the Chennai city and fifty policyholders of LIC were selected. On the basis of the results of the pilot study hypotheses were formulated and the study was redesigned.

5. **SAMPLE SIZE**

The Researcher has followed Simple Random Sampling Method to select the respondents. There are two divisions in the city namely Division I and Division II each of which having not less than twenty branch offices. The Researcher approached the branch manager belonging to the two divisions to get the list of policyholders. From the list supplied by the branch managers, 400 policyholders (Division I-200 and Division II-200) were selected by applying random numbers.

The Researcher met the policyholders to get the questionnaire filled up. The selected sample policyholders belong to diverse fields and hence the study covers a cross-section of people including teachers, lawyers, doctors, engineers, office-goers,
businessmen and farmers in the areas of operation of the two divisions of the LIC in Chennai city.

6. FRAMEWORK OF ANALYSIS

After the collection, the data were clearly scrutinised and transcripted before the actual commencement of the tabulation form. Simple and direct tables were constructed wherever necessary. Not only the tables, but graphs and diagrams were also used to present the data collected. Student’s ‘t’-tests were applied to test the various formulated hypotheses in this research study. Correlation Analysis was used to test the relationship between maturity and death claims settled. To test the relationship between the total premium income and management expenses of the LIC in Chennai city, the Simple Regression Analysis was applied. Weighted Arithmetic Mean was applied to find out the rank of influence on the policy holders to prefer a policy in LIC. Multiple Regression Analysis was used to study the relationship between purpose of Investment (y) – Dependent variable and the Independent variables such as Age (x₁), Sex (x₂), Occupation (x₄), Educational Qualification (x₅) and Monthly Income (x₆) of the sample policyholders.

DATA COLLECTION AND FIELD-FORCE

Field-work was undertaken by the Researcher during the period from September, 1999 to November, 2000. The primary data were collected from policyholders who took life insurance policies in the city. For the purpose of collecting the primary data, a Questionnaire for policyholders was developed by the Researcher. All the respondents could not understand the English version; the Questionnaire was translated into Tamil, the regional language. Policyholders were
met in their officers and at homes either with the help of their Agents or Development officers to get the Questionnaire filled-up.

The secondary data were collected from the Annual Reports and Records which are maintained by the Divisions I & II of LIC to elicit information about the business and financial performance of LIC in Chennai city.

LIMITATIONS OF THE STUDY

Every research study suffers from errors and limitations. Some of these are inherent in the research design while some others become part of the study during various stages of operation. The present study is subject to the following constraints and limitations.

(i) The study is related only to the business and financial performances of the Divisional Offices I and II in Chennai city.

(ii) The study is restricted for a time period of twelve years only.

(iii) The study excludes from its purview the LIC Housing Finance Ltd, and LIC Mutual Funds which are sister organisations of Life Insurance Corporation of India.

CHAPTER FRAME

The study consists of seven chapters.

The first chapter titled "Introduction and Design of the Study" spells out the introduction, statement of the problem, objectives of the study, review of literature, research methodology, limitations and plan of the study.
The second chapter entitled "Life Insurance - Concept and Significance" portrays the concept and significance of life insurance, various plans offered by the LIC and its benefits.

The third chapter captioned "Profile of the Life Insurance Corporation of India" is devoted to review the performance of LIC with regard to the number of policies issued, sum assured, life insurance fund, premium income and settlement of claims including the investment process of the corporation.

The business performance with regard to the number of policies issued and sum assured under the individual insurance scheme, number of development officers, and number of in-force policies of the LIC before and after bifurcation in Chennai city have been evaluated in the fourth chapter titled "Business Performance of LIC.

The fifth chapter under the heading "Financial Performance of LIC deals with the amount of outstanding policy loans as at the end of the year, accumulation of life insurance fund, claims-settlement operations, total premium income and management expenses and the liquidity analysis of the LIC in Chennai city.

The sixth chapter christened "Attitude of Policyholders Towards the Functioning of LIC focuses on the attitude of the sample policyholders towards the functioning of LIC and their problems.

The last seventh chapter titled "Summary of Findings, Suggestions and Conclusion" recapitulates the key findings of the study and contains suggestions for overall improvement of the performance of LIC in Chennai city and to suggest measures to overcome such problems faced by the sample policyholders.