CHAPTER - III

CONCEPT OF INSURANCE AND ROLE OF AGENTS
CHAPTER III

CONCEPT OF INSURANCE AND ROLE OF AGENTS

3.1 Importance of Insurance

The term risk\(^1\) may be defined as the possibility of adverse results flowing from any occurrence. Risk arises therefore out of uncertainty. It can also represent the possibility of an outcome being different from the expected. The notion of an indeterminate outcome is implicit in the definition of risk, because the outcome must be in question. When risk is said to exist, there must always be at least two possible outcomes. If it is known for certain that a loss will occur, there is no risk. At least once of the possible outcome is undesirable. This may be a loss in the generally accepted sense in which something an individual possesses is lost, or it may be a gain smaller than the gain that was possible.

Risk is a condition where there is a possibility of an adverse deviation from a desired outcome that is expected or hoped for, there is no requirement that the possibility be unmeasurable, only that it must exist. When an event is stated to be possible, it has a probability between zero and one; it is neither impossible nor definite. The degree of risk may or may not be measurable. Since our purpose is to relate risk to insurance, focus will be on a risk which entails the possibility of financial loss. Financial loss may be defined as a decline in or disappearance of value due to a contingency. This means that if the loss of value is intended or if it is certain,
it is not a loss within the context of the above definition. For those who define risk an uncertainty, the greater the uncertainty, the greater is the risk. The expected value of loss in a given situation, or the mathematical value of a risk at any point of time, is the probability of the loss materializing multiplied by the amount of the potential or anticipated loss.

3.2 Static and dynamic risks

Dynamic risks are those resulting from changes in the economy. Changes in the price level, consumer tastes, income and output and technology may cause financial loss to the members of the economy. These dynamic risks normally benefit society over the long run, since they are the result of adjustments to disallocation of resources. Since these dynamic risks may affect a large number of individuals, they are generally considered less predictable than static risks, since they do not occur with any precise degree of regularity.

Static risks involve those losses that occur even if there were no changes in the economy. If we could hold consumer tastes, output and income and the level of technology constant, some individuals would still suffer financial loss. These losses arise from causes other than the changes in economy, such as perils of Nature and dishonesty of other individuals. Unlike dynamic risks, static risks are not a source of gain to society. Static losses involve either the destruction of an asset or a change in its possession as a result of dishonesty or human failure. Static losses tend to occur with a degree of regularity over time and as a result, are generally predictable.
Because they are predictable, static risks are more suited to treatment by insurance than the dynamic risks.

Particular risks involve losses that arise out of individual events and are felt by individuals rather than by the entire group. They may be static or dynamic. The burning of a house and the robbery of bank are particular risks.

Since fundamental risks are caused by conditions more or less beyond the control of individuals who suffer the losses and since they are not due to the fault if any one in particular, it is held that society rather than the individual has responsibility to deal with them - social insurance should be for fundamental risks - private insurance for particular risks though some fundamental risks like earthquakes are covered by private insurance.

3.3 Life Insurance Importance

Life insurance\(^2\) is defined as “the device of providing for life after death and financial independence for those retired, disabled or who live longer”. Man is exposed to risks and uncertainties. For instance, the time of death of a person is not certain and in the case of his premature death a man’s dependents may find themselves deprived of all means of existence. Every prudent man will carefully consider how best he can prevent such risk or minimize or provide against its effects. It is difficult for an individual to survive unless the arrangement for covering the risks is possible. This arrangement is made possible by insurance.

\(^2\) www.lifeinsurance.com
Life has always been an uncertain thing. To be secure against unpleasant possibilities always requires the utmost resourcefulness and foresight on the part of man. To pray or to pay for protection is the spirit of the humanity. Man has been accustomed to pray God for protection and security from time immemorial. In modern days Insurance Companies want him to pay for protection and security. The insurance man says "God helps those who help themselves"; probably he is correct. Self-help and thrift are the basis of modern civilization since all other features of modern life can be traced to these basic principles. In the twentieth century, Welfare State on the one hand and Socialist State on the other tried to take care of the individual from cradle to grave and look after him to enjoy a worthwhile life. But unfortunately both have failed or at best only partially successful since they proved either too costly or too difficult to administer and manage. Insurance has taken birth in those days when the entrepreneurial spirit of middle class was at its highest and people were inclined to take risks and accept challenges for a better future.

Insurance steps in to transfer such risk and dangers to the shoulders of the person who are willing to accept the burden for monetary considerations. Insurance is a device by which the loss likely to be callused by an uncertain event is spared over a number of persons who are exposed to it and who propose to insure themselves against such an event. The essence of insurance is elimination of risk and the substitution of certainty for uncertainty, insurance is thus a cooperative way of spreading risk.
In India, life insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits. Indian people are prone to investing in properties and gold followed by bank deposits. They selectively invest in shares also but the percentage is very small. Even to this day, Life Insurance Corporation of India dominates Indian insurance sector.

3.4 Why Policies Are Taken

Product is stretched to satisfy various needs of customers. The Life Insurance Corporation of India has developed the product under seven hierarchy needs\(^3\), i.e. family need, investment need, saving need, old-age need, readjustment needs, special needs, clean up needs and tax benefits.

a) Family Need

The earning member of the family has the responsibility to support the family. If death occurs, the dependents suffer. Since death is certain but time is not certain, no other product except life insurance can meet this need. Whole life assurance policy is the cheapest form of such protection. If the persons cannot pay the premium for long, they can purchase two years Temporary Assurance Policy where premium amount is the least. Many insurance companies in India after IRDA 1999 have started selling Term Insurance. The LIC has been a pioneer in whole life Assurance. But it is facing competition with other companies because of this policy which is least sold in the market. The private insurers have been gaining the market share with the use of term

\(^{3}\) The journal of Insurance Institute of India, June 2003.
assurance. The LIC has to be innovated its products of term insurance on the lines of Bima Kiran. There should be more attractive policies. Nav Prabhat introduced in 1999 has not been successful. Bima Kiran introduced in 1994-95 has been attractive as there was free term cover of additional 10 years after maturity. Such types of policies should be innovated where the accumulated premium after five years Term insurance may provide free cover for life certain period and return of certain amount at the maturity.

b) Investment Need

People need investment. Life insurance policy is not much inferior to any gilt edged securities or deposits in the postal saving bank. Income tax rebate is also permissible. Life policy does not depreciate at any time but it appreciates year after year by the additions of the bonus declared. Customers find an outlet for their investment in life insurance policies. Endowment policies, multi purpose policies, deferred annuities are certain form of investment. The elements of investment i.e. regular saving, capital formation and return are perfectly observed in life insurance. The life insurance policies carry a special exemption from income tax, wealth tax, gift tax and estate duty. The beneficiary of the policyholder can get a regular income from the life insurer, if the insured amount is left with him. The LIC has met the investment needs of the people by two types of policies (1) Traditional product and (2) New product. The traditional products are Money Back Policy and Endowment Policy. The modern products are Jeevan Shree, New Jeevan Shree, Samriddhi, Jeevan Saral etc. The progress of endowment policy has already been discussed in core
product. The sum assured of money back policy has been increasing but the number of policies has not been increasing so much. The sum assured of Jeevan Shree (a new product) has constantly been increasing from 7 thousand policies in 1994-95 to 1104 thousand policies in 2001-2002. Similarly, its sum assured has increased from Rs. 411.76 crore to Rs. 60212.66 crore in 2001-2002.

c) Saving Need

In most of the life policies, element of saving predominates. The life insurance saving has certain extra advantages. Systematic saving is possible because regular premiums are required to be compulsorily paid. The saving with a bank is voluntary and one can easily omit a month or two and then abandon the program entirely. In insurance, the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. The compulsion to premium in insurance is so high that if the policyholder fails to pay premiums within the days of grace, he may face lapsation. So, policyholders feel compulsion of saving.

d) Old Age Need

The provision for old age is required where the person lives beyond his earning period. The reduction of income in old age is a serious problem to the person and his family. If no other family member starts earning, they will be left with nothing and if there is no property, it would be more piteous state of problem. LIC provides old age funds for the protection of the family. It is an absolute necessity for those who do not retire with a pension. The old-age needs are met by LIC products such as Bima Nivesh, Endowment Assurance, Bhavishya Jeevan, Jeevan Sanchay and
so on. The old-age provision in broader terms includes endowment, Bima Nivesh, Bhavishya Jeevan, Jeevan Sanchay, as well as term assurance and whole life assurance. The sum assured of old age product has been at the highest of 34.65 per cent in 1991-92 and 21.80 per cent in 2001-2002. It is significant contribution of LIC for the old age provision of the people as more than one third of policies of the total policies of LIC have been for this purpose. The old age provision is a core product of LIC. Safety, security and investment are the three components of life insurance which are completely fulfilled by the LIC.

e) The Readjustment Need

The LIC provides adjustment in the standard of living if there is reduction in income whether by loss of employment, disability or death. If there is no such provision of life insurance, the family members have to be satisfied with meager income and have to settle down to lower income. Before coming down to the lower standard and to be satisfied with that, they require certain adjustment income so that the primary obstacles may be reduced to minimum. Endowment policy and triple benefit policies are good substitutes for meeting readjustment needs. Term Insurance has been useful for meeting adjustment need. It has been already discussed that term assurance has been major components of LIC product for meeting the old age adjustment and investment needs of the people.

f) Special Needs

There are certain special needs of the family which are fulfilled by the earning member of the family. The LIC by its special insurance products (policies) meets
such requirements. The special products for children’s benefits are Children’s Deferred traditional product and New Products. The traditional Children’s policies are Children’s Deferred, Children’s Anticipated Policy, New Children’s Deferred and Children’s Money Back. The new products for children are Jeevan Balya, Jeevan Kishore, Jeevan Chhaya, Jeevan Sukanya and Bal Vidya. The LIC has channelised its products for the benefits of children through Children’s Deferred Assurance, Children’s Anticipated Policy, Marriage/Educational Annuity, New Children’s Deferred Policy and Children’s Money Back policy. The number of policies under traditional product has increased from 141 thousand in 1990-91 to 1503 thousand in 2001-2002. It has constantly increased with respect to Sum Assured from Rs. 551.55 crore to Rs. 10650.50 crore. It is a significant development of LIC products for special needs.

**g) Clean Up Needs**

After death, ritual ceremonies, payment of wealth taxes and income taxes are certain requirements which decrease the amount of funds of the family members. The LIC has come to the rescue of such requirements. Multipurpose policies and capital redemption policies fulfill clean-up needs. These policies were not closed down in 1990-91. The mortgage redemption policy has been less than thousand. The sum assured has declined from Rs. 16.50 crore in 1990-91 to Rs. 2.02 crore in 1999-2000.

**h) Tax benefits**

Governments have sought to encourage citizens to go in for life insurance protection by providing relief in income tax, in a way thereby providing a subsidy
towards the premium. A two-fold objective of life insurance which the government will wish to encourage, is to make provision against untimely death of the wage-earner and also to effect saving for the future. In countries like the UK, such tax relief has been discontinued in recent times but it continues in India and some other countries.

3.5 Types of LIC Policies

There are various policies introduced time to time by Life Insurance Corporation of India. It is essential to study the types of policies at present available.

The following are the policies so far introduced by the LIC.

a) Whole life policy

It is usually low premium policy, provides high risk cover and financial security to family. Bonus declared is substantially high. Risk is covered throughout the life of policyholder. On attainment of age 80 or on completion of 40 years from the date of commencement of policy, whichever is later, sum assured plus bonus is payable as if the policy has been matured.

b) Endowment policy

Most popular plans are for fulfilling all long and short term financial needs. Premium is paid for the full policy term or till policyholder's death. On maturity, sum assured plus bonus is given. In addition, final additional bonus is also given, if premium paid is for 17 years or more.

---

www.licindia.com
c) **Limited payment endowment.**

Premium for this policy is to be paid for a fixed term. However, the life risk coverage continues till the end of the policy term. On survival, sum assured and bonus are given on maturity. On the death of the policyholder, sum assured and bonus are given to the nominee.

d) **Money Back Policy**

It is suitable for businessmen and professionals as money available at regular intervals. A portion of sum assured is paid as a percentage once in every five years. Life risk covers for the entire sum assured even after payment of survival benefit. On the maturity, bonus is given for the full sum assured amount.

e) **Jeevan Mitra**

It is best suited for people who are insurance oriented and also want to provide a big sum insurance protection to their family, in case of their unfortunate death. Most preferred by travelling persons like, sales representatives, marketing executives, medical representatives etc. On the maturity, basic sum assured and accrued bonus are given. On the death of the policyholder, two times of sum assured and bonus are given. In case of accidental death, three times of sum assured and bonus are given provided policy was covered for accident benefit.

f) **Jeevan Saathi**

It is very suitable for husband and wife who want joint life risk cover under a single policy. If both husband and wife are alive upto maturity, sum assured and bonus are given. On the death of either husband/wife, survivor gets sum assured
immediately and future premium is waived. If survivor survives till maturity, he/she gets sum assured again with full bonus. If survivor also dies before maturity, sum assured with bonus till that time, is paid to the nominee.

**g) Marriage Endowment / Education annuity**

It is specially designed for child’s education or marriage. It is very suitable for persons having children less than 10 years. On maturity, policyholder receives the sum assured with bonus. On the death of the policyholder before maturity, no amount will be paid by LIC to the nominee immediately, but future premiums are waived. Sum assured and bonus are paid to the nominee only on maturity.

**h) New Janaraksha Policy**

It is best for people with irregular income and whose job is not assured like farmers, milk vendors, petty businessmen etc.

**i) Bhavishya Jeevan**

This is a special endowment plan designed to meet the needs of persons having either short span of high earnings or for those salaried/ self employed who have adequate income in the beginning of their career.

**j) Jeevan Kishore**

This policy is given on the life of the child- male or female. Child’s age should be between 0 and 12 years. Accident benefit is allowed on payment of Re.1 extra per Rs.1000 sum assured with overall limit of 25 lakhs.

---

5 www.lic.org.in
**k) Jeevan Chhaya**

This is a right policy for a person who wants to provide fund for daughter’s marriage. This plan is open even to bachelors. On the death of policyholder sum assured is paid immediately to the nominee. Future premiums are waived. Further, 25% of sum assured every year during the last 4 years of term will also be paid. Apart from this, bonus for the full term along with final additional bonus if any, will be paid at the end of the term.

**l) Jeevan Surabhi**

It is suitable for businessmen and professional as money is available periodically. For a policy for 15 years, one has to pay premium for 12 years only, similarly for 20 years policy, one has to pay premium for 15 years only and for 25 years policy, one is required to pay premium for 18 years only.

**m) Asha Deep**

This is a health insurance policy. Policyholders can get immediate amount in case of any mentioned health problem. On maturity or death, 50% of sum assured with bonus till maturity or death whichever is earlier is paid.

**n) Jeevan Vishwas**

It is suitable for people who have handicapped dependent. That dependent should be a relative of the proposer. On the death of the policy holder sum assured, guaranteed addition with loyalty addition is paid to the handicapped dependent.
0) **Bima Plus**

Bima plus is a unique insurance plan with investment facility besides getting tax benefits. It offers life insurance cover, accident benefit cover, maturity bonus, returns and tax rebate. Sum assured is 10 times of annual premium or 20 times of half yearly premiums.

p) **Jeevan Anand**

This plan is a combination of whole life and endowment assurance plan. Even after the premium paying term is over, risk cover continues till the death of the policyholder. Accident benefit is available during the premium paying term and thereafter up to age 70.

q) **Jeevan Rekha**

This plan is a combination of whole life and money back plan. This plan is allowed to physically handicapped persons. 10% of the basic sum assured will be paid on survival after every five years from the date of commencement, till the policyholder is alive and the policy is kept in force.

r) **Jeevan Samridhi**

It is suitable for businessmen and professional as money is available at regular intervals. A portion of the sum assured is paid as a percentage periodically. On maturity guaranteed addition and loyalty addition are paid along with remaining sum assured.
s) **Komal Jeevan**

This a money back plan for children with guaranteed addition. If the policyholder dies after commencement of the risk but before maturity, full sum assured with guaranteed addition is given to the nominee without deducting earlier installments paid. If child dies before the policy risk commences, the policy gets cancelled and premiums paid till then are refunded.

1) **Jeevan Bharathi**

This is a money back plan with female critical illness and congenital disability benefit, exclusively meant for women, for encouraging them to save for Safety and security.

u) **Jeevan Shree**

This plan is like an endowment plan suitable for high earning people with convenient premium paying terms. This helps them to pay the premiums in their most productive years.

v) **Anmol Jeevan**

This is the cheapest pure life risk plan. On maturity no amount will be paid to the policyholder. On the death of the policyholder during policy term, sum assured will be paid to the nominee.

w) **Jeevan Saral**

This plan with features of conventional plans and flexibility of unit linked plans provides: higher cover, smooth return, liquidity and flexibility.
x) Bima Nivesh

This is an investment plan suitable for persons who do not have regular income and who can invest lump sum amount and expect a reasonable return.

3.6 Role of Agents

An agent in law is one who acts for another and insurance agent is one who works for an insurer. His job is to bring in customers for the insurance company and is remunerated in the form of commission expressed as a percentage of the premium payable on the business introduced. The rates of commission payable to an agent would normally depend on market competition and the volume and profitability of business procured by the agent concerned. In India, the rates of commission payable are stipulated under the insurance law and no commission is payable for insurance of firms having paid up capital in excess of the amount stipulated.

A critical element of insurance sector reforms is the development of resources having the right skills and expertise in each segment of the industry so as to provide quality intermediation to market participants. The number of agents with LIC as at 31st March 2007 was 11,03,047, while the private sectors had 8,90,152 agents. However, while the net increase in number of agents of LIC was 5 percent, the private sector numbers increased by 140 per cent in the year 2006-07. The agency network has spread over all the states; however, the number of agents per 1000 population has varied across the states. At the national level, only 2 agents serve 1000 people. Chandigarh has 20 as against the national average of 2. The density of agents

6 The journal of Insurance Institute of India, June 2006.
in states such as Goa, Kerala and Delhi is way ahead of the national average, while in
the north eastern states other than Assam it is far below the national average. The
presence of agents is well below the national average in the four populous states of
Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan. It is worthwhile to mention
here that the agency presence of private sector has overtaken that of LIC in states
such as Gujarat, Haryana, Jammu & Kashmir, Kerala, Orissa, Punjab, Chandigarh
and Delhi.

An agent is a primary source for procurement of insurance business and as
such his role is the corner stone for building a solid edifice of any life insurance
organization. To effect a good quality of life insurance sale, an agent must be
equipped with technical aspects of insurance knowledge, he must possess analytical
ability to analyze human needs, he must be abreast with up to date knowledge of
merits or demerits of other instruments of investment available in the financial
market, he must be endowed with a burning desire of social service and over and
above all this, he must possess and develop an undeterred determination to succeed as
a Life Insurance Salesman. In short he must be an agent with professional approach in
life insurance salesmanship. Such an agency force is expected to be helpful not only
in proper field underwriting but also after sales - servicing - concomittant and
essential elements for higher retention of business.
3.7 Contributions of Agents in Life Insurance Corporation

In Life Insurance Corporation, the year 2001-2002 recorded a phenomenal growth of 137% in first premium income. The Sum Assured under new policies sold registered a growth rate of 54% and the number of policies sold grew by 16%. The ratio of first insurance to total business completed for the year 2002-03 comes to 80.15% & 67.71% in respect of NOP and SA respectively. What is it that takes this performance forward? One reason no doubtedly is the large network of agents on rolls in LIC. The tremendous success is, of course, on account of constant and tireless efforts of LIC agents who bring new business to the corporation with increasing growth rate. This record will become the benchmark for future evolution of the efforts of agents. Despite the entry of the Regulator and restrictions imposed, the corporation has been able to improve the agency strength from 7.86 lacs (31.03.2002) to 9.88 lacs (31.03.2003). The number of active agents is 9.02 lacs as on 31.03.2003 compared to 7.44 lacs as on 31.03.2002. The average Sum Assured per active agent in 2002-03 is 19,51,767. Complementary to it is the consistent and continuous training to the agency force through ZTCs, STCs, DTCs and ATCs- that can help them to stand on their feet and become truly professionals in a field that is becoming increasingly competitive.

7 The journal of Insurance Institute of India, December 2004.
3.8 Role of Agents under IRDA Regulation

1. Full information must be provided to the proponent at the point of sale to enable him to decide on the best cover or plan to minimize instances of ‘cooling off’ by the proponents.

2. An agent should be well versed in all the plans, the selling points and also be equipped to assess the needs of the clients.

3. Adherence to the prescribed Code of Conduct for agents is of crucial importance. Agents must, therefore, familiarize themselves with provisions of the Code of Conduct.

4. Agents must provide the office with the accurate information about the prospect for a fair assessment of the risk involved. The agents’ confidential report must, therefore, be completed very carefully.

5. Agents must also possess adequate knowledge of policy servicing and claim settlement procedures so that the policyholders can be guided correctly.

6. Submission of proposal forms and proposal deposit to the branch office immediately to avoid delays and to enable the office to take timely decisions.

7. A leaflet or brochure containing relevant features of the plan that is being sold should be available with the agents.

In this chapter, an extensive analysis is done with reference to various practices in Life Insurance Corporation of India and the role of agents in life insurance business.