CHAPTER- 1

1.1 INTRODUCTION:

The most important aspect of human life is its uncertainty. In the modern industrialized era, human life and property are inevitably exposed to different kinds and varying degrees of risks and uncertainties. Human life is subject to various risks-bolts from the blue can happen any time. Humans are also subject to diseases, the treatment of which may very costly. On the other hand, property possessed by man is subject to various calamities, natural and man-made. When human life is lost or a person becomes disabled permanently or temporarily, there is a loss of income to the household. The family has to face hand to mouth Situations. Sometimes survival itself is at stake for the dependants. When it comes to loss, it results in either whole or partial loss in income to the person or entity. Risk has the ambiguous aspect. Death/disability or loss/damage could occur at anytime. Losses can be mitigated through insurance. Insurance proves as an olive branch against various contingencies. Human beings, to protect themselves and their property from total disaster, resort intelligently to protection coverage extended by the insurance companies which act as a trustee to the amount collected through premiums and provide certainty in the place of uncertainty. Insurance is a co-operative device which safeguards financially both longevity of human life or premature mishaps when man, out of genuine concern for his dependants, insures his life taking into account the various unforeseeable risk factors that are prevalent everywhere. The maturity amount takes care of not only the dependants of the insured, but also of self, when he is neglected or forsaken by his family members. Middle income groups certainly resort to insurance companies for their future financial needs and commitments. The salaried group depends upon insurance for saving for the future as well as for tax purposes. All these aspects highlight the importance of insurance companies in the modern economic scenario and they are an integral part of our investment portfolio, not only for the salaried class but also for anyone who can pay a minimum premium in his own capacity for his future security. Even the families from the marginalized class now invest in life insurance policies to protect themselves from unwanted mental stress and financial risks. Life insurance facilitates disciplined savings, protects against untimely demise, guarantees asset protection, steady growth of investment and planning for retirement. Life insurance is civilization’s partial solution to the problems caused by death (Neera Banzal, 2004).
The insurance companies have come to the doorstep of every family today, especially after the financial sector reforms. With the advent of private sector players in the field, there is great competition in the mode of operation and each company employs its own unique marketing strategy for the best results. As indicated in the report, the insurance companies have started focusing on the rural markets, as competition has become acute in the urban markets. (Thompson report, 2007). There is a felt need to concentrate on the security as well as the health aspect of the policy holders. Moreover, the insurance companies have been concentrating on all sections of society including the marginalized and the destitute irrespective of their status. (NCAER, 2004). The captivating captions of advertisements that promise the fulfillment of various dream visions from rags to riches, illustrate the companies varied marketing strategies. The elements of marketing strategy adopted by the insurance companies vary considerably and it is worth examining the marketing mix adopted by the insurance companies both in the private and public sectors to analyze and gauge their effectiveness and suggest further modifications needed, for the best results. In addition to product, price, physical distribution and promotion, there are a few more elements such as customer-care and location advantages that comprise the marketing mix. These factors constitute the agents of success for these companies and hence the present study.

In India, Insurance Sector has not only been playing a leading role within the financial system but also performs a significant socio-economic function, making inroads into the interiors of the economy. It has also been facilitating economic development with an objective to build an efficient, effective and a stable insurance business in India as well as a strong base to cater to the needs of both the real economy and socio-economic objectives of the country.

The insurance industry also provides crucial financial intermediation services, transferring funds from the insured to capital investment, which is crucial for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. Development of the insurance sector is, thus, necessary to support the structural changes in the economy.

1.2 HISTORICAL BACKGROUND OF INSURANCE:

The story of insurance is probably as old as the story of mankind. The same instinct that prompts modern businessmen today to secure themselves against
loss and disaster existed in primitive men also. They too sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era its beginning dates back almost 6000 years.

Babylonia, traders were encouraged to assume the risks of the caravan trade through loans that were repaid with interest only after the goods had arrived safely. In Europe, with the growth of towns and trade, the medieval guilds undertook to protect their members from loss by fire and shipwreck, and to provide decent burial and support in sickness and poverty. By the middle of the 14th century, as evidenced by the earliest known insurance contract, marine insurance was practically universal among the maritime nations of Europe.

In London, Lloyd’s Coffee House (1688) was a place where merchants, ship owners and underwriters met to transact business. By the end of the 18th century, Lloyd’s had progressed into one of the first modern insurance companies. In 1693, the astronomer Edmond Halley constructed the first mortality table, based on the statistical laws of mortality and compound interest. The table which was corrected in the year 1756 by Joseph Dodson made it possible to scale the premium rate to age; previously the rate had been same for all ages.

Insurance business was developed rapidly with the growth of British Commerce in the 17th and 18th Century. Prior to the formation of corporations which devoted solely to the business of writing insurance, policies were signed by a number of individuals. Each of these individuals wrote his name and the amount of risk he was assuming underneath the insurance proposal, and thus the term underwriter became popular. The first joint stock company to engage in insurance was chartered in England in 1720. After 1840, with the decline of religious prejudice against the practice, life insurance entered a boom period. In the 1830s the practice of classifying risks began. In 1835 New York called attention to the need for adequate reserves to meet unexpected large losses; Massachusetts was the first state to require companies by law (1837) to maintain such reserves. The Great Chicago Fire (1871) emphasized the costly nature of fires in structurally dense modern cities. Reinsurance, whereby losses are distributed among many companies, was devised to meet such situations and is now common in other lines of insurance.
The Workmen’ Compensation Act of 1897 in Britain required employers to insure their employees against industrial accidents. Public liability insurance fostered by legislation, made its appearance in the 1880s, which attained major importance with the advent of automobiles. Thus, based upon the nature of risk coverage, insurance business can be classified into long-term i.e., Life and General or non-life insurance. While the General insurance firms in India are main providers of risk financing for manmade disasters and natural catastrophes, the life insurers support economic growth and also facilitate economic development, by mobilizing long-term savings and offering insurance cover to a large segment of people.

1.3 HISTORY OF LIFE INSURANCE IN INDIA:

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be redistributed in times of calamities such as fire, floods, epidemics and famine. This was probably a precursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers’ contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

Life insurance in the modern form was first set up in India through a British company called the Oriental Life Insurance Company in 1818 followed by the Bombay Assurance Company in 1823 and the Madras Equitable Life Insurance Society in 1829. All these companies operated in India but did not insure the lives of Indians. They insured the lives of Europeans living in India. Some of the companies that started later did provide insurance for Indians, as they were treated as “substandard”. Substandard in insurance parlance refers to lives with physical disability. Pioneering efforts of reformers and social workers like Raja Rammohun Ray, Dwarakanath Tagore, Ramatam Lahiri, Rustomji Cowasji and others led to entry of Indians in insurance business. The first Indian insurance company under the name „Bombay Life Insurance Society” started its operation in 1870, and started covering Indian lives at standard rates. Later Oriental Government Security Life Insurance Company”, was established in 1874, with Sir Phirozshah Mehta as one of its founder directors. Insurance in India can be traced back to the Vedas. For instance, yogakshema, the name of Life Insurance Corporation of India's corporate
headquarters, is derived from the Rig Veda. The term suggests that a form of “community insurance” was prevalent around 1000 BC and practiced by the Aryans.

Insurance business was conducted in India without any specific regulation for the insurance business. They were subject to Indian Companies Act 1866. After the start of the Be Indian Buy Indian Movement” (called Swadeshi Movement) in 1905, indigenous enterprises sprang up in many industries. It was during the swadeshi movement in the early 20th century that insurance witnessed a big boom in India with several more companies being set up. Not surprisingly, the Movement also touched the insurance industry leading to the formation of dozens of life insurance companies along with provident fund companies (provident fund companies are pension funds). In 1912, two sets of legislation were passed: the Indian Life Assurance Companies Act and the Provident Insurance Societies Act. There are several striking features of these legislations. They were the first legislations in India that particularly targeted the insurance sector. They did not include general insurance business. The government did not feel the necessity to regulate general insurance. They restricted activities of the Indian insurers. As these companies grew, the government began to exercise control on them. The Insurance Act was passed in 1912, followed by a detailed and amended Insurance Act of 1938 that looked into investments, expenditure and management of these companies' funds.

In 1914 there were only 44 companies; by 1940 this number grew to 195. Business in force during this period grew from Rs.22.44 crores to Rs.304.03 crores (1628381 polices). Life fund steadily grew from Rs.6.36 crores to Rs.62.41 crores. In 1938, the insurance business was heavily regulated by enactment of insurance Act 1938 (based on draft bill presented by Sir N.N.Sarcar in Legislative Assembly in January 1937). From here onwards the growth of life insurance was quite steady except for a setback in 1947-48 due to aftermath of partition of India. In 1948, there were 209 insurances, with 712.76 crores business in force under 3,016, 000 policies. The life fund by then grew to 150.39 crores.

By the mid-1950s, there were around 170 insurance companies and 80 provident fund societies in the country's life insurance scene. However, in the absence of regulatory systems, scams and irregularities were almost a way of life in most of these companies. Despite the mushroom growth of many insurance companies, the per capita insurance in Indian was merely Rs.8.00 in 1944 (against Rs.2,000 in US and Rs.600 in UK), besides some companies were indulging in malpractices, and a
number of companies went into liquidation. Big industry houses were controlling the insurance and banking business resulting in interlocking of funds between banks and insurance companies. This shook the faith of the insuring public in insurance companies who were seen as custodians of their savings and security. The nation under the leadership of Pandit Jawaharlal Nehru was moving towards socialistic pattern of society with the main aim of spreading life insurance to rural areas and to channelize huge funds accumulated by life insurance companies to nation building activities. The Government of India nationalized the life insurance industry in January 1956 by merging about 245 life insurance companies and forming Life Insurance Corporation of India (LIC), which started functioning from 01.09.1956. After completing the arduous task of integration of about 245 life insurance companies, LIC of India gave an exemplary performance in achieving various objectives of nationalization. The non-life insurance business continued to thrive with the private sector till 1972. Their operations were restricted to organized trade and industry in large cities. The general insurance industry was nationalized in 1972. With this, nearly 107 insurers were amalgamated and grouped into four companies- National Insurance Company, New India Assurance Company, Oriental Insurance Company and United India Insurance Company. These were subsidiaries of the General Insurance Company (GIC). For years thereafter, insurance remained a monopoly of the public sector. It was only after seven years of deliberation and debate that R. N. Malhotra Committee report of 1994 became the first serious document calling for the re-opening up of the insurance sector to private players. The sector was finally opened up to private players in 2001. The Insurance Regulatory and Development Authority, an autonomous insurance regulator set up in 2000, has extensive powers to oversee the insurance business and regulate in a manner that will safeguard the interests of the insured. Insurance is a federal subject in India. There are two legislations that govern the sector- The Insurance Act- 1938 and the IRDA Act- 1999. The insurance sector in India has come a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost two centuries.

Later, after four decades the insurance sector was liberalized in the year 2000. The private insurers commenced their business in Indian soil again as it was in the pre-nationalisation period.
### 1.3.1 Important Milestones in Life Insurance Regulations in India

#### Table: 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Significant Regulatory Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1818</td>
<td>Establishment of the Oriental Life Insurance Company in Kolkata</td>
</tr>
<tr>
<td>1912</td>
<td>The Indian Life Insurance Companies Act enacted as the first statute to regulate the life insurance business.</td>
</tr>
<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.</td>
</tr>
<tr>
<td>1938</td>
<td>Earlier legislation consolidated and amended by the Insurance Act with the objective of protecting the interests of the insuring public.</td>
</tr>
<tr>
<td>1956</td>
<td>245 Indian and foreign insurers and provident societies taken over by the Central government and nationalized. LIC formed by an Act of Parliament, viz. LIC Act,1956, with a capital contribution of Rs. 5 crore from the Government of India.</td>
</tr>
<tr>
<td>1972</td>
<td>Nationalization of general insurance business in India</td>
</tr>
<tr>
<td>1993</td>
<td>Setting up of Malhotra Committee</td>
</tr>
<tr>
<td>1994</td>
<td>Recommendations of Malhotra Committee</td>
</tr>
<tr>
<td>1995</td>
<td>Setting up of Mukherjee Committee</td>
</tr>
<tr>
<td>1996</td>
<td>Setting up of (interim) Insurance Regulatory Authority and Recommendations of the IRA</td>
</tr>
<tr>
<td>1997</td>
<td>Mukherjee Committee Report submitted but not made public</td>
</tr>
<tr>
<td>1997</td>
<td>The Government gives greater autonomy to LIC, GIC and its subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the infrastructure sector</td>
</tr>
<tr>
<td>1998</td>
<td>The cabinet decides to allow 40% foreign equity in private insurance companies-26% to foreign companies and 14% to NRI’s, OCB’s and FII’s.</td>
</tr>
<tr>
<td>1999</td>
<td>The Standing Committee headed by Murali Deora decides that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed the Insurance Regulatory and Development Authority (IRDA) Bill 1999. Cabinet clears IRDA Bill.</td>
</tr>
<tr>
<td>2000</td>
<td>President gives Assent to the IRDA Bill and Monopoly of Public Sector Insurance company marks an end and Private companies make inroad.</td>
</tr>
</tbody>
</table>
1.3.2 Malhotra Committee’s Report on Indian Insurance Industry:

In 1993, Malhotra Committee- headed by former Finance Secretary and RBI Governor R.N. Malhotra- was formed to evaluate the Indian insurance industry and recommend its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms. In 1994, the committee submitted the report and some of the key recommendations included:

(i) Structure
Government stake in the insurance Companies to be brought down to 50%. Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate.

(ii) Competition
Private Companies with a minimum paid up capital of Rs.1bn should be allowed to enter the sector. No Company should deal in both Life and General Insurance through a single entity. Foreign companies may be allowed to enter the industry in collaboration with the domestic companies. Postal Life Insurance should be allowed to operate in the rural market. Only one State Level Life Insurance Company should be allowed to operate in each state.

(iii) Regulatory Body
The Insurance Act should be changed. An Insurance Regulatory body should be set up. Controller of Insurance- a part of the Finance Ministry- should be made independent.

(iv) Investment
Mandatory Investments of LIC Life Fund in government securities to be reduced from 75% to 50%. GIC and its subsidiaries are not to hold more than 5% in any company (their current holdings to be brought down to this level over a period of time)

(v) Customer service
LIC of India should pay interest on delays in payments beyond 30 days. Insurance companies must be encouraged to set up unit linked pension plans. Computerisation of operations and updating of technology to be carried out in the insurance industry. The committee emphasised that in order to improve the customer services and increase the coverage of insurance policies, industry should be opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry. For this purpose, it had proposed setting up an independent regulatory body- The Insurance Regulatory and Development Authority.

1.3.3 The Insurance Regulatory and Development Authority (IRDA)

Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since being set up as an independent statutory body the IRDA has put in a framework of globally compatible regulations. The other decision taken simultaneously to provide the supporting systems to the insurance sector and in particular the life insurance companies was the launch of the IRDA online service for issue and renewal of licenses to agents. The approval of institutions for imparting training to agents has also ensured that the insurance companies would have a trained workforce of insurance agents in place to sell their products.

Duties, Powers and Functions of IRDA

Section 14 of IRDA Act, 1999 lays down the duties, powers and functions of IRDA:

(1) Subject to the provisions of this Act and any other law for the time being in force, the Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

(2) Without prejudice to the generality of the provisions contained in sub-section (1), the powers and functions of the Authority shall include:

- Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;
- Protection of the interests of the policy holders in matters concerning assigning of policy, nomination by policy holders, insurable interest,
settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance;

- (c) Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents;
- (d) Specifying the code of conduct for surveyors and loss assessors;
- (e) Promoting efficiency in the conduct of insurance business;
- (f) Promoting and regulating professional organizations connected with the insurance and re-insurance business;
- (g) Levying fees and other charges for carrying out the purposes of this Act;
- (h) Calling for information from, undertaking inspection of, conducting enquiries and investigations including audit of the insurers, intermediaries, insurance intermediaries and other organizations connected with the insurance business; Control and regulation of the rates, advantages, terms and conditions that may be offered by insurers in respect of general insurance business not so controlled and regulated by the Tariff Advisory Committee under section 64U of the Insurance Act, 1938 (4 of 1938);
- (j) Specifying the form and manner in which books of account shall be maintained and statement of accounts shall be rendered by insurers and other insurance intermediaries;
- (k) Regulating investment of funds by insurance companies;
- (l) Regulating maintenance of margin of solvency;
- (m) Adjudication of disputes between insurers and intermediaries or insurance intermediaries;
- (n) Supervising the functioning of the Tariff Advisory Committee;
- (o) Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (f);
- (p) Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and (q) Exercising such other powers as may be prescribed.

1.3.4 The key players of the Indian Life Insurance Industry:

Following the passage of the IRDA Act, private players were allowed into the insurance business in 2000. At present, the life insurance business in India is carried on by 24
companies – one public sector company – Life Insurance Corporation of India and 23 private players as listed below:

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Date of Reg.</th>
<th>Private Sector Insurance Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>23.10.2000</td>
<td>HDFC Standard Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>2</td>
<td>15.11.2000</td>
<td>Max New York Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>3</td>
<td>24.11.2000</td>
<td>ICICI Prudential Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>4</td>
<td>10.01.2001</td>
<td>Kotak Mahindra Old Mutual Life Insurance Limited</td>
</tr>
<tr>
<td>5</td>
<td>31.01.2001</td>
<td>Birla Sun Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>6</td>
<td>12.02.2001</td>
<td>Tata AIG Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>7</td>
<td>30.03.2001</td>
<td>SBI Life Insurance Company Limited .</td>
</tr>
<tr>
<td>8</td>
<td>02.08.2001</td>
<td>ING Vysya Life Insurance Company Private Limited</td>
</tr>
<tr>
<td>9</td>
<td>03.08.2001</td>
<td>Bajaj Allianz Life Insurance Company Limited</td>
</tr>
<tr>
<td>10</td>
<td>06.08.2001</td>
<td>Metlife India Insurance Company Ltd.</td>
</tr>
<tr>
<td>11</td>
<td>03.01.2002</td>
<td>Reliance Life Insurance Company Limited.</td>
</tr>
<tr>
<td>12</td>
<td>14.05.2002</td>
<td>Aviva Life Insurance Co. India Pvt. Ltd.</td>
</tr>
<tr>
<td>13</td>
<td>06.02.2004</td>
<td>Sahara India Insurance Company Ltd.</td>
</tr>
<tr>
<td>14</td>
<td>17.11.2005</td>
<td>Shriram Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>15</td>
<td>14.07.2006</td>
<td>Bharti AXA Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>16</td>
<td>04.09.2007</td>
<td>Future Generali India Life Insurance Company Limited</td>
</tr>
<tr>
<td>17</td>
<td>25.09.2007</td>
<td>Star Union Dai-ichi Life Insurance</td>
</tr>
<tr>
<td>18</td>
<td>19.12.2007</td>
<td>IDBI Fortis Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>19</td>
<td>08.05.2008</td>
<td>Canara HSBC OBC Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>20</td>
<td>27.06.2008</td>
<td>Aegon Religare Life Insurance Company Ltd.</td>
</tr>
<tr>
<td>21</td>
<td>27.06.2008</td>
<td>DLF Pramerica Life Insurance Co. Ltd.</td>
</tr>
<tr>
<td>22</td>
<td>26.12.2008</td>
<td>Star Union Dai-ichi Life</td>
</tr>
<tr>
<td>23</td>
<td>March - 2010</td>
<td>India First Life Insurance Company Limited (Bank of Baroda &amp; AndhraBank)</td>
</tr>
</tbody>
</table>
1.3.5 Major Life Insurance Players of Kachchh District

Selected private and public sector life insurance companies in India from 2001 to 2011 were selected for the study. This Study will focus on the Kachchh District in Gujarat state. Life Insurance Corporation which is the only public sector life insurer and 9 public sector companies out of twenty two private sector life insurers, most of them joint ventures between Indian groups and global insurance giants, were taken for the study.

➢ PUBLIC SECTOR :

• Life Insurance Corporation of India :

Life Insurance Corporation of India (LIC) is an autonomous body authorized to run the life insurance business in India with its Head Office at Mumbai. About 154 Indian insurance companies, 16 non-Indian companies and 75 provident fund societies were operating in India at the time of nationalization. Nationalization was accomplished in two stages; initially the management of the companies was taken over by means of an Ordinance, and later, the ownership by means of a comprehensive bill. The Parliament of India passed the Life Insurance Corporation Act on the 19th of June 1956, and the Life Insurance Corporation of India was created on 1st September, 1956, with the objective of spreading life insurance much more widely and in particular to the rural areas with a view to reach all insurable persons in the country, providing them adequate financial cover at a reasonable cost.

Following are the objectives of Life Insurance Corporation of India:

• “Spreading life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes, with a view to reach all insurable persons in the country and provide them adequate financial coverage against death at a reasonable cost,

• (ii) Maximizing mobilization of people savings by making insurance linked savings adequately attractive

• (iii) Investing funds to the best advantage of the investors as well as the community as a whole, keeping in view national priorities and obligations of attractive return and

• (iv) Meeting the various life insurance needs of the community that would arise in the changing social and economic environment through its Family Schemes and Group Insurance Schemes.
At the industry level, along with the Government and the General Insurance Corporation, it has helped establish the National Insurance Academy. It presently transacts individual life insurance businesses, group insurance businesses, social security schemes and pensions, grants housing loans through its subsidiary, markets savings and investment products through its mutual fund. It has a very wide range of business strategy all over India and abroad. LIC of India has been one of the pioneering organizations in India who introduced the leverage of Information Technology in servicing and in their business.

LIC of India had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Since life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services, a need was felt in the later years to expand the operations and place a branch office at each district headquarter. Re-organization of LIC of India took place and large numbers of new branch offices were opened. As a result of re-organisation servicing functions were transferred to the branches, and branches were made accounting units. It worked wonders with the performance of the corporation.

Today LIC of India functions with 3250 fully computerized branch offices, 100 divisional offices, 7 zonal offices and the corporate office. LIC’s Wide Area Network covers 100 divisional offices and connects all the branches through a Metro Area Network. LIC of India has tied up with some Banks and Service providers to offer on-line premium collection facility in selected cities. LIC’s ECS and ATM premium payment facility is an addition to customer convenience. Apart from on-line Kiosks and IVRS, Info Centres have been commissioned at Mumbai, Ahmedabad, Bangalore, Chennai, Hyderabad, Kolkata, New Delhi, Pune and many other cities. With a vision of providing easy access to its policyholders, LIC of India has launched its Satellite Sampark offices. The satellite offices are smaller, leaner and closer to the customer.

➢ PRIVATE SECTOR:

The Government having tried various models for the insurance industry such as privatization with negligible regulation (pre 1956) and nationalization (1956-2000) and having observed sub optimal performance of the sector, resorted to adopting a hybrid model of both these, resulting in privatization of the sector with an efficient regulatory mechanism (post 2000). This was initiated with the aim of making the
industry competitive so that there are more players offering a greater variety of products over a large section of the population. The following companies are entitled to do insurance business in India.

**Table : 1.3**

PRIVATE LIFE INSURANCE COMPANIES AND THEIR PROMOTER

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Reg. No.</th>
<th>Date of Registration</th>
<th>Name of the Insurer</th>
<th>Indian Promoter</th>
<th>Foreign Promoter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>101</td>
<td>23.10.2000</td>
<td>HDFC Standard Life Insurance Co. Ltd.</td>
<td>HDFC Ltd.</td>
<td>Standard Life Assurance, UK</td>
</tr>
<tr>
<td>2</td>
<td>104</td>
<td>15.11.2000</td>
<td>Max New York Life Insurance Co. Ltd.</td>
<td>MAX India</td>
<td>New York life, USA</td>
</tr>
<tr>
<td>3</td>
<td>105</td>
<td>24.11.2000</td>
<td>ICICI Prudential Life Insurance Co. Ltd.</td>
<td>ICICI Bank</td>
<td>Prudential, UK</td>
</tr>
<tr>
<td>4</td>
<td>107</td>
<td>10.01.2001</td>
<td>Kotak Mahindra old mutual Life Insurance Co. Ltd.</td>
<td>Kotak Mahindra Bank</td>
<td>Old mutual, South Africa</td>
</tr>
<tr>
<td>5</td>
<td>109</td>
<td>31.01.2001</td>
<td>Birla Sun Life Insurance Co. Ltd.</td>
<td>Birla Group</td>
<td>Sun Life, Canada</td>
</tr>
<tr>
<td>6</td>
<td>110</td>
<td>12.02.2001</td>
<td>TATA AIG Life Insurance Co. Ltd.</td>
<td>TATA Group</td>
<td>American International Assurance Co., USA</td>
</tr>
<tr>
<td>7</td>
<td>111</td>
<td>30.03.2001</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>State Bank of India</td>
<td>BNP Paribas Assurance, France</td>
</tr>
<tr>
<td>8</td>
<td>116</td>
<td>03.08.2001</td>
<td>Bajaj allianz Li Bajaj Allianz Life Insurance Co. Ltd.</td>
<td>Bajaj Auto</td>
<td>Allianz, Germany</td>
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<td>121</td>
<td>03.01.2002</td>
<td>Reliance Life Insurance Co. Ltd</td>
<td>Reliance Capital</td>
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Table: 1.4
Insurer wise Life Insurance Offices

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<td>HDFC Standard Life Insurance Co.Ltd.</td>
<td>4</td>
<td>18</td>
<td>26</td>
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<td>Max New York Life Insurance Co.Ltd.</td>
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<td>583</td>
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<td>Kotak Mahindra old mutual Life Insurance Co.Ltd.</td>
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<td>Birla Sun Life Insurance Co.Ltd.</td>
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<td>29</td>
<td>41</td>
<td>53</td>
<td>97</td>
<td>148</td>
<td>538</td>
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<td>TATA AIG Life insurance Co. Ltd</td>
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<td>Reliance ife Insurance Co. Ltd.</td>
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<td>157</td>
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<td>745</td>
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The no. of offices in case of both Life Insurance Corporation of India and private life insurance companies have increased during the period 2001 to 2010. This indicates that life insurance business has been expanding in India.
HDFC Standard Life Insurance Co.Ltd.

HDFC Standard Life Insurance Company Ltd. is one of India's leading private insurance companies, which offers a range of individual and group insurance solutions. HDFC Standard Life Insurance Co. Ltd. is a joint venture between HDFC Ltd., India's largest housing finance institution and Standard Life Assurance Company, Europe's largest mutual life company. It was the first life insurance company to be granted a certificate of registration by the IRDA on the 23rd of October, 2000. HDFC holds about 72.43% of the equity, Standard Life holds 26% while the rest is held by others.

Standard Life, UK was founded in 1825 and has an experience of over 185 years. The company is rated as "very strong" by Standard & Poor's (AA) and "excellent" by Moody's (Aa2). Headquartered in Edinburgh, Standard Life has around 9,000 employees across the UK, Canada, Ireland, Germany, Austria, India, USA, Hong Kong and mainland China. The Standard Life group includes savings and investments businesses, which operate across its UK, Canadian and European markets; corporate pensions and benefits businesses in the UK and Canada; Standard Life Investments is a global investment manager.

HDFC Limited, India's premier housing finance institution has assisted more than 3.8 million families to own a home, since its inception in 1977 across 2400 cities and towns through its network of over 289 offices. It has international offices in Dubai, London and Singapore with service associates in Saudi Arabia, Qatar, Kuwait and Oman to assist NRI's and PIO's to own a home back in India. HDFC has set benchmarks for the Indian housing finance industry. Recognition for the service to the sector has come from several national and international entities including the World Bank that has lauded HDFC as a model housing finance company for the developing countries.

4.2.2 ICICI Prudential Life Insurance co. Ltd.

ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank, a premier financial powerhouse and prudential plc, a leading international financial services group headquartered in the United Kingdom.
ICICI was established in 1955 to lend money for industrial development. Today, it has diversified into retail banking and is the largest private bank in the country. Prudential plc was established in 1848 and is presently the largest life insurance company. Total capital infusion stands at Rs. 33.62 billion, with ICICI Bank holding a stake of 74% and Prudential plc holding 26%.

They began their operations in 24th November, 2000 after receiving approval from Insurance Regulatory Development Authority (IRDA). Today, their nation-wide team comprises of over 1,000 offices, over 263,000 advisors; and 22 bancassurance partners. ICICI Prudential was the first life insurer in India to receive a National Insurer Financial Strength rating of AAA from Fitch ratings. For three years in a row, ICICI Prudential has been voted as India's Most Trusted Private Life Insurer, by The Economic Times - AC Nielsen ORG Marg survey of 'Most Trusted Brands'.

- **Kotak Mahindra Old Mutual Life Insurance Co. Ltd.**

Kotak Mahindra Old Mutual Life Insurance Ltd. is a joint venture between Kotak Mahindra Bank Ltd. (KMBL), and Old Mutual plc. Kotak Mahindra is one of India's leading financial institutions and offers a range of financial services such as commercial banking, stock broking, mutual funds, life insurance, and investment banking. Kotak Mahindra Old Mutual Life Insurance Ltd. started its operations in India on 10th January, 2000.

Old Mutual, a company with 160 years experience in life insurance was established more than 150 years ago and offers a diverse range of financial services in South Africa, the United States and the United Kingdom. The company is listed on the London Stock Exchange with a market capitalization and has its head quarters in London.

Kotak Mahindra Old Mutual Life Insurance is a 74:26 joint venture between Kotak Mahindra Bank Ltd. and Old Mutual plc. Kotak Mahindra Old Mutual Life Insurance is one of the fastest growing insurance companies in India and has shown remarkable growth since its inception in 2001.

- **Birla Sun Life Insurance Co.Ltd.**
Established in 2001, Birla Sun Life Insurance Company Limited (BSLI) is a joint venture between the Aditya Birla Group, a well known and trusted name globally amongst Indian conglomerates and Sun Life Financial of Canada. Aditya Birla Group is an Indian multinational conglomerate with presence in India, Thailand, Indonesia, Malaysia, Philippines, Egypt, Canada, Australia and China.

Sun Life Assurance, Sun Life Financial's primary insurance business, is one of the leading insurance companies of the world and ranks amongst the largest international financial services organizations in the world. With an experience of over 10 years, BSLI has contributed significantly to the growth and development of the life insurance industry in India and currently ranks amongst the top ten private life insurance companies in the country.

Known for its innovation and creating industry benchmarks, BSLI has several first to its credit. It was the first Indian Insurance Company to introduce "Free Look Period" and the same was made mandatory by IRDA for all other life insurance companies. Additionally, BSLI pioneered the launch of Unit Linked Life Insurance plans amongst the private players in India. To establish credibility and further transparency, BSLI also enjoys the prestige to be the originator of practice to disclose portfolio on monthly basis. These category development initiatives have helped BSLI be closer to its policy holders' expectations, which gets further accentuated by the complete bouquet of insurance products (viz. pure term plan, life stage products, health plan and retirement plan) that the company offers.

It has an extensive reach through its network of 600 branches and 1, 47,900 empanelled advisors. This impressive combination of domain expertise, product range, reach and ears on ground, helped BSLI cover more than 2.4 million lives since it commenced operations and establish a customer base spread across more than 1500 towns and cities in India. BSLI has ensured that it has lowest outstanding claims ratio of 0.00% for FY 2010-11. The Company has web-enabled IT systems for better customer services and a strong distribution channel. It has professional knowledge and global expertise of Aditya Birla Group.

➢ TATA AIG Life Insurance Co.Ltd.
Tata AIG Life Insurance Company Limited is a joint venture between Tata Group and American International Group, Inc. (AIG). Tata Group is one of the oldest and leading business groups of India. Tata Group has had a long association with India's insurance sector having been the largest insurance company in India prior to the nationalization of insurance. The Late Sir Dorab Tata was the founder Chairman of New India Assurance Co. Ltd., a group company incorporated way back in 1919.

American International Group, Inc is the leading U.S. based international insurance and financial services organization and the largest underwriter of commercial and industrial insurance in the United States. AIG has one of the most extensive life insurance networks in the world.

Tata AIG Life combines the Tata Group’s pre-eminent leadership position in India and AIG’s global presence as the world’s leading international insurance and financial services organization. The Tata Group holds 74 per cent stake in the insurance venture with AIG holding the balance 26 percent. Tata AIG Life provides insurance solutions to individuals and corporates. Tata AIG Life Insurance Company was licensed to operate in India on February 12, 2001 and started operations on April 1, 2001.

➢ SBI Life Insurance Co.Ltd.

SBI Life Insurance is a joint venture between the State Bank of India and Cardif of France. State Bank of India is the largest banking franchise in India. Along with its 7 Associate Banks, SBI Group has a network of over 14,500 branches across the country, the largest in the world.

Cardif is a wholly owned subsidiary of BNP Paribas, which is The Euro Zone's leading Bank. BNP is one of the oldest foreign banks with a presence in India dating back to 1860. SBI Life Insurance is registered with an authorized capital of Rs 1000 crore and a paid up capital of Rs 500 crores. SBI owns 74% of the total capital and Cardif the remaining 26%. Cardif is ranked 2nd worldwide in creditor’s insurance offering protection to over 35 million policyholders and net income in excess of Euro
1 billion. Cardif has also been a pioneer in the art of selling insurance products through commercial banks in France and in 35 more countries.

SBI Life has a unique multi-distribution model encompassing Bancassurance, Agency and Group Corporates. SBI Life extensively leverages the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. SBI’s access to over 100 million accounts across the country provides a vibrant base for insurance penetration across every region and economic strata in the country ensuring true financial inclusion.

➤ Bajaj Allianz Life Insurance Co.Ltd.

Bajaj Allianz is a joint venture between Allianz AG one of the world's largest insurance companies, and Bajaj Auto, one of the biggest two and three wheeler manufacturer in the world. Bajaj Allianz is into both life insurance and general insurance.

Allianz Group is one of the world's leading insurers and financial services providers. Founded in 1890 in Berlin, Allianz is now present in over 70 countries with almost 174,000 employees. Allianz is a leading insurance conglomerate globally and one of the largest asset managers in the world, managing assets worth over a Trillion Euros (Over Rs. 55,00,000 crores). Allianz SE has over 115 years of financial experience in over 70 countries.

Today, Bajaj Allianz is one of India's leading and fastest growing insurance companies. Currently, it has presence in more than 550 locations with over 60,000 Insurance Consultants.

➤ Bajaj Allianz Life Insurance Co.Ltd.

AMP Sanmar Life Insurance was a joint venture between AMP, Australia and the Sanmar Group. Headquartered in Chennai, AMP Sanmar had over 90 offices across the country, 9000 agents, and more than 900 employees. Consequent to the acquisition of the entire equity capital of AMP, Australia and Sanmar Group in AMP

Reliance Life Insurance Company Limited is a part of Reliance Capital Ltd. of the Reliance - Anil Dhirubhai Ambani Group. The company acquired 100 per cent shareholding in AMP Sanmar Life Insurance Company in August 2005. RLIC has a huge network of around 1145 branches covering a wide geographical area. It is one of the ISO 9001:2000 certified life insurance companies of India.

Reliance Capital has interests in asset management and mutual funds, stock broking, life and general insurance, proprietary investments, private equity and other activities in financial services. Reliance Group also has presence in Communications, Energy, Natural Resources, Media, Entertainment, Healthcare and Infrastructure.

- **Max New York Life Insurance Co.Ltd.**

Max New York Life Insurance Company Limited is a joint venture between Max India Limited, a multi-business corporate, and New York Life International, a global expert in life insurance.

New York Life is a Fortune 100 company that has over 160 years of experience in the life insurance business. Max India Limited is a multi-business corporate dealing in Clinical Research, IT and Telecom Services, and Specialty plastic product businesses. Max New York Life Insurance started its operations in India on 15th November, 2000. It is the first life insurance company in India to be awarded the ISO 9001:2000 certifications. Max New York offers customized products tailored to suit individual's needs. With its various Products and Riders, they offer more than 400 product combinations. Today, Max New York Life Insurance has a network of 705 offices spread over 37 cities all over India.

Max New York Life has identified individual agents as its primary channel of distribution. The Company places a lot of emphasis on its selection process, which comprises four stages - screening, psychometric test, career seminar and final interview. The agent advisors are trained in-house to ensure optimal control on quality
of training. Max New York Life invests significantly in its training programmer and each agent is trained for 152 hours as opposed to the mandatory 100 hours stipulated by the IRDA before beginning to sell in the marketplace. Training is a continuous process for agents at Max New York Life and ensures development of skills and knowledge through a structured programmed spread over 500 hours in two years. This focus on continuous quality training has resulted in the company having amongst the highest agent pass rate in IRDA examinations and the agents have the highest productivity among private life insurers.

Having set a best in class agency distribution model in place, the company is spearheading a major thrust into additional distribution channels to further grow its business. The company is using a five-pronged strategy to pursue alternative channels of distribution. These include the franchisee model, rural business, direct sales force involving group insurance and telemarketing opportunities, banc assurance and corporate alliances.

1.4 MEANING AND CONCEPT OF INSURANCE:

Life is a roller coaster ride and is full of twists and turns. Insurance policies are a safeguard against the uncertainties of life. As in all insurance, the insured transfers a risk to the insurer, receiving a policy and paying a premium in exchange. The risk assumed by the insurer is the risk of death of the insured in case of life insurance.

Insurance policies cover the risk of life as well as other assets and valuables such as home, automobiles, jewelry etc. On the basis of the risk they cover, insurance policies can be classified into two categories:

(a) Life Insurance   (b) General Insurance

Life insurance products cover risk for the insurer against eventualities like death or disability. Non-life insurance products cover risks against natural calamities, burglary, etc.

Insurance is system by which the losses suffered by a few are spread over many, exposed to similar risks. With the help of Insurance, large numbers of people exposed to a similar risk make contributions to a common fund out of which
the losses suffered by the unfortunate few, due to accidental events, are made good. Insurance is a protection against financial loss arising on the happening of an unexpected event. Insurance policy helps in not only mitigating risks but also provides a financial cushion against adverse financial burdens suffered.

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. Insurance is also defined as a social device to accumulate funds to meet the uncertain losses arising through a certain risk to a person injured against the risk. Insurance provides financial protection against a loss arising out of happening of an uncertain event. A person can avail this protection by paying premium to an insurance company. A pool is created through contributions made by persons seeking to protect themselves from common risk. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. Life insurance has come a long way from the earlier days when it was originally conceived as a risk-covering medium for short periods of time, covering temporary risk situations, such as sea voyages. As life insurance became more established, it was realized what a useful tool it was for a number of situations that includes temporary needs, threats, savings, investment, retirement etc. Insurance is a contract between two parties whereby one party agrees to undertake the risk of another in exchange for consideration known as premium and promises to pay a fixed sum of money to the other party on happening of an uncertain event (death) or after the expiry of a certain period in case of life insurance or to indemnify the other party on happening of an uncertain event in case of general insurance. The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

According to the U.S. Life Office Management Inc., “Life Insurance provides a sum of money if the person who is insured dies whilst the policy is in effect.” The definition of insurance can be seen from two view points:

(a) Functional Definition
(b) Contractual Definition

(a) Functional Definition:

Insurance is a co-operative device of distributing losses, falling on an individual or his family over large number of persons each bearing a nominal expenditure and feeling secure against heavy loss.
(b) Contractual Definition:

Insurance may be defined as a contract consisting of one party (the insurer) who agrees to pay to other party (the insured) or his beneficiary, a certain sum upon a given contingency against which insurance is sought.

1.5 PRINCIPALES OF INSURANCE:

Insurance is based upon:

(a) Principles of Co-operation
(b) Principles of Probability

(a) Principles of Co-operation

Insurance is a co-operative device. If one person is providing for his own losses, it cannot be strictly insurance because in insurance the loss is shared by a group of persons who are willing to co-operate.

(b) Principles of Probability

The loss in the form of premium can be distributed only on the basis of theory of probability. The chances of loss are estimated in advance to affix the amount of premium. Since the degree of loss depends upon various factors, the affecting factors are analyzed before determining the amount of loss. With the help of this principle, the uncertainty of loss is converted into certainty. The insurer will not have to suffer loss as well as gain windfall. Therefore, the insurer has to charge only so much of amount which is adequate to meet the losses.

The insurance, on the basis of past experience, present conditions and future prospects, fixes the amount of premium. Without premium, no co-operation is possible and the premium cannot be calculated without the help of theory of probability, and consequently no insurance is possible.

1.6 FUNCTIONS OF INSURANCE:

The functions of Insurance can be bifurcated into three parts:

(a) Primary Functions
(b) Secondary Functions

(a) Primary Functions

The primary functions of insurance include the following:

➢ Provide Protection

The primary function of insurance is to provide protection against future risk, accidents and uncertainty. Insurance cannot check the happening of the risk, but can certainly provide for losses of risk. Insurance is actually a protection against economic loss, by sharing the risk with others.
- **Assessment of risk**
  Insurance determines the probable volume of risk by evaluating various factors that give rise to risk. Risk is the basis for determining the premium rate also.

- **Collective bearing of risk**
  Insurance is a device to share the financial loss of few among many others. Insurance is a mean by which few losses are shared among larger number of people. All the insured contribute premiums towards a fund, out of which the persons exposed to a particular risk are paid.

- **Savings and investment**
  Insurance serves as a tool for savings and investment, insurance is a compulsory way of savings and it restricts the unnecessary expenses by the insured. For the purpose of availing income-tax exemptions, people invest in insurance also.

**(b) Secondary Functions**

The secondary functions of insurance include the following:

- **Prevention of Losses**
  Insurance cautions individuals and businessmen to adopt suitable device to prevent unfortunate consequences of risk by observing safety instructions; installation of automatic sparkler or alarm systems, etc. Reduced rate of premiums stimulate more business and better protection to the insured.

- **Small capital to cover large risks**
  Insurance relieves the businessmen from security investments, by paying small amount of premium against larger risks and uncertainty.

- **Contributes towards the development of large industries**
  Insurance provides development opportunity to large industries having more risks. Even the financial institutions may be prepared to give credit to sick industrial units which have insured their assets including plant and machinery.

- **Source of Earning Foreign Exchange**
  Insurance is an international business. The country can earn foreign exchange by way of issue of insurance policies.

- **Risk Free Trade**
  Insurance promotes exports insurance, which makes the foreign trade risk free with the help of different types of policies under marine insurance cover.
1.7 IMPORTANCE OF INSURANCE:

The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency. Insurance not only serve the ends of individuals, or of special groups of individuals, it tends to pervade and transform our modern social order, too. The role and importance of insurance, here, has been discussed from an individual, business and society’s view:

(A) Individual

- **Insurance provides security and safety**
  Insurance provides safety and security against the loss on a particular event. In case of life insurance, payment is made when death occurs or the term of insurance expires. The loss to the family at a premature death and payment in old age are adequately provided by insurance. In other words security against premature death and old age sufferings are provided by life insurance. In other insurance, too, this security is provided against the loss at a given contingency for eg. Property of insured is secured against loss due to fire in fire insurance.

- **Insurance affords peace of mind**
  Insurance provide security which is the prime motivating factor. It tends to stimulate an individual do more work.

- **Insurance protects mortgaged property**
  At the death of the owner of the mortgaged property, the property is taken over by the lender of money and the family is deprived of the use of the property. On the other hand, the mortgagee wishes to get the property insured because at the damage or destruction of the property he may lose his right. Insurance provides adequate amount to the dependents at the early death and the property-owner to pay off the unpaid loans. Similarly, the mortgagee gets adequate amount at the loss of the property.

- **Insurance eliminates dependency**
  At the death of the husband or father or earning mother, the loss to the family needs no elaboration. Similarly, at destruction of property and goods, the family would suffer a lot. The economic independence of the family is reduced or, sometimes, lost totally. Insurance tries to eliminate dependency.

- **Life Insurance encourages saving**
The elements of protection and investment are present only in case of life insurance. In property insurance, only protection element exists. In most of the life policies elements of saving predominates. Systematic saving is possible because regular premiums are required to be compulsorily paid. In insurance the deposited premium cannot be withdrawn easily before the expiry of the term of the policy. The compulsion to pay premium in insurance is so high that if the policy-holder fails to pay premiums within the days of grace, he subjects his policy to lapsation and may get back only a very nominal portion of the total premiums paid on the policy. For the preservation of the policy, he has to try his level best to pay the premium.

- **Life Insurance provides profitable investment**
  Individuals unwilling or unable to handle their own funds are pleased to find an outlet for their investment in life insurance policies. The elements of investment i.e. regular saving, capital formation, and return of capital along with certain additional return are perfectly observed in life insurance. Life insurance fulfils all these requirements at a low cost.

(B) Business

- **Business efficiency is increased with insurance**
  When the owner of a business is free from the botheration of losses, he will certainly devote much time to the business. The carefree owner can work better for the maximization of the profit. The new as well as old businessmen are guaranteed payment of certain amount with the insurance policies at the death of the person; at the damage, destruction or disappearance of the property or goods. The uncertainty of loss may affect the mind of the businessman adversely. Insurance removes the uncertainty and stimulates the businessmen to work hard.

- **Enhancement of Credit**
  Business can obtain loan by pledging the policy as collateral for the loan. And persons can get more loans due to certainty of payment at their deaths. The insurance properties are the best collateral and adequate loans are granted by the lenders.

- **Business continuation**
  In partnership, business may discontinue at the death of any partner although the surviving partners can re-start the businesses, but in both the cases the business and the partners will suffer economically. Insurance policies provide adequate fund at the time of death. Each partner may be insured for the amount of his interest in the partnership and his dependents may get that amount at the death of partner. With the
help of property insurance, the property of the business is protected against disasters and the chance of disclosure of the business is reduced.

- **Welfare of Employee**

  The welfare of employees is the responsibility of the employer. The former work for the latter. Therefore, the latter has to look after the welfare of the former which can be provision for early death, provision for disability and provision for old age. These requirements are easily met by the life insurance, accident and sickness benefit and pensions which are generally provided by group insurance. The premium for group insurance is generally paid by the employer. This plan is the cheapest form of insurance for employers to fulfill their responsibilities. The employees will devote their maximum capacities to complete their jobs when they are assured of the above benefits. The struggle and strife between employees and employer can be minimized easily with the help of such schemes.

(C) Society

- **Wealth of the society is protected**

  The loss of a particular wealth can be protected with insurance. Life insurance provides for loss of human wealth. The human force, if it is strong, educated and care-free, will generate more income. Similarly, the loss of damage of property at fire, accident etc., can well indemnified by property insurance, cattle, crop, profit and machines are also protected against their accidental and economical losses. With the advancement of the society, the wealth or the property of the society attracts more hazard and so new types of insurance are also invented to protect them against possible losses. Through the prevention of economic losses, insurance protects the society against degradation. Through stabilization and expansion of business and industry, the economic security is maximized. The present, future and potential human and the property resources are well protected.

- **Economic Growth of the country**

  For the economic growth of the country, insurance provides protection against loss of property and adequate capital to produce more wealth. Welfare of employees creates a conducive atmosphere to work. Adequate capital from insurers accelerates production cycle. Similarly in business, too, the property and human materials are protected against certain losses, capital and credit are expanded with the help of insurance. Thus, the insurance meets all the requirements for the economic growth of a country.
1.8 Types of Life Insurance Policies:

A life insurance policy could offer pure protection (insurance), another variant could offer protection as well as investment while some others could offer only investment. In India, life insurance has been used more for investment purposes than for protection in one’s overall financial planning. Followings are the types of life insurance policy:

➢ **Term Life Insurance Policy**

As its name implies, term life insurance policy is for a specified period. It depends on the length of time. It has one of the lowest premiums among insurance plans and also carries an added advantage of fixed payments that do not increase during the term of the policy. In case of the policy holder's untimely demise, the benefit amount specified in the insurance agreement goes to the nominees.

➢ **Whole Life Insurance Policy**

Whole life insurance policies do not have any fixed term or end date and is only payable to the designated beneficiary after the death of the policy holder. The policy owner does not get any monetary benefits out of this policy. Because this type of insurance involves fixed known annual premiums, it's a good option to ensure guaranteed financial benefits for surviving family members.

➢ **Money Back Plan**

With a money back plan, policyholder receives periodic payments, which are a percentage of the entire amount insured, during the lifetime of policy. It's a plan that offers insurance coverage along with savings. These policies provide for periodic payments of partial survival benefits during the term of the policy itself. A unique feature associated with this type of policies is that in the event of death of the insured during the policy term, the designated beneficiary will get the full sum assured without deducting any of the survival benefit amounts, which have already been paid as money-back components. Moreover, the bonus on such policies is also calculated on the full sum assured.

➢ **Pension Plan**

Pension plans are different from other types of life insurance because they do not provide any life insurance cover, but ensure a guaranteed income, either for life or for a certain period. The Policyholder makes the investment for a pension plan either with
a single lump sum payment or through installments paid over a certain number of years. In return, he gets a specific sum every year, every half-year or every month, either for life or for a fixed number of years. In case of the death of the insured, or after the fixed annuity period expires for annuity payments, the invested annuity fund is refunded, usually with some additional amounts as per the terms of the policy.

➤ **Endowment Policy**

It is the most popular life insurance plan. This policy combines risk cover with objective of savings and investment. If the policy holder dies during the policy period, he will get the assured amount. Even if he survives he will receive the assured amount. The advantage of this policy is if the policy holder survives after the completion of policy tenure, he receives assured amount plus additional benefits like bonus from the insurance company. Designed primarily to provide a living benefit, along with life insurance protection, the endowment policy makes a good investment if policyholder wants coverage, as well as some extra money. There are two types of Endowment policy:

(a) Without-profit endowment plan
(b) With-profit endowment plan

(a) **Without profit endowment plan**

These plans do not participate in the profits the insurance company makes each year. Apart from the sum assured, the policyholder could possibly get a loyalty bonus, which is a one time payout.

(b) **With-profit endowment plan**

These plans share the profits the insurance company makes each year with the policyholder. So they offer more returns than without-profit endowment plans and are more expensive i.e. the premiums will be higher than without-profit endowment plans.

➤ **Unit-linked insurance plan (ULIP)**

Unit-linked insurance plans gives a policyholder greater control on where premium can be invested. The annual premium is invested in various types of funds that invest in debt and equity in a proportion that suits all types of investors. A policyholder can switch from one fund plan to another freely and can also monitor the performance of his plan easily. ULIP is suitable for those who understand the stock market well.
1.9 FEATURES OF LIFE INSURANCE Contract:

Human life is an income generating asset. This asset can be lost through unexpected death or made non functional through sickness or disability caused by an accident. On the other hand there is a certainty that death will happen, but its timing is uncertain. Life insurance protects against loss. Life insurance contract may be defined as the contract, whereby the insurer in consideration of a premium undertakes to pay a certain sum of money either on the death of the insured or on the expiry of a fixed period. The definition of the life insurance contract is enlarged by Section 2(ii) of the Insurance Act 1938 by including annuity business. Since, the life insurance contract is not an indemnity contract; the undertaking on the part of the insurer is an absolute one to pay a definite sum on maturity of policy at the death or an amount in installment for a fixed period or during the life.

Features of Life Insurance Contract:

Followings are the features of life insurance contract:

i. Nature of General Contract
ii. Insurable Interest
iii. Utmost Good Faith
iv. Warranties
v. Proximate Cause
vi. Assignment and Nomination

In life insurance contract the first three features are very important while the rest of them are of complementary nature.

(i) Nature of General Contract

Since the life insurance contract is a sort of contract it is approved by the Indian Contract Act. According to Section 2(H) and Section 10 of Indian Contract Act, a valid contract must have the following essentialities:

(a) Agreement (offer and acceptance)
(b) Competency of the parties
(c) Free consent of the parties
(d) Legal consideration
(e) Legal objective

(a) Agreement (offer and acceptance)
An offer or proposal is intimation to another of one’s intention to do or to abstain from doing anything with a view to obtaining the assent of that other person to such an act or abstinence. When the person to whom the proposal or offer is made signifies his assent to it, the offer is said to be accepted. The offer and acceptance in life insurance is of typical nature. The Agents’ canvassing or publication of prospectus and of uses of insurance constitutes invitation to offer because the public in general and individual in particular are invited to make proposal for insurance. Submission of proposal along with the premium is an offer and the dispatch of acceptance-letter is the acceptance. The risk will commence as soon as the acceptance letter is dispatched by the insurer. When the proposal is not accompanied with the first premium, it would be an invitation to offer by the prospect and the letter of insurer (generally acceptance letter with modification is sent) asking the proposal to pay the first premium without any alteration is an offer and the payment of first premium by the prospect is acceptance. As soon as premium is dispatched, acceptance is made provided there was no alteration in the terms and conditions.

Another case may be when the insurer desires to accept the proposal only on certain modifications. The letter (generally the acceptance letter) sent to the prospect about the desire of change in terms and conditions are an offer if the first premium was not sent along with the proposal. But if the first premium was sent along with the proposal, it would be a counter-offer. If the premium was not already sent, it would be an acceptance. Thus the acceptance letter sent by the insurer is not always acceptance. It would be acceptance only when the first premium was accompanied with the proposal and the proposal is acceptable on normal rates and terms. In other cases it would be an offer or counter-offer.

(b) Competency of the Parties

The essential element of a valid Contract is that the parties to it must be legally competent to contract. Every person is competent to contract who is of the age of majority according to the law, who is of sound mind, and who is not disqualified from contracting by any law. The insurer will be competent to contract if he has got the license to carry on insurance business. Majority is attained when a person completes age of 18 years. A minor is not competent to contract. A contract by a minor is void excepting contracts for necessaries. The minor can repudiate the contract at any time during his minority. If the life insurance policy is issued to a minor, the insurer cannot repudiate it but the minor can repudiate it during his minority. At the attainment of
majority, he has to exercise the option, within a reasonable time, whether he would continue to carry on the policy or not. Generally, insurer accepts the proposal forms completed by the guardians of the minors. So, the incompetence of contract does not arise. Persons of sound mind can enter into a contract. A person is said to be of sound mind for the purpose of making a contract if at the time when he makes it, he is capable of understanding it and of forming a rational judgment as to its effect upon his interests. A person who is usually of unsound mind, but occasionally of sound mind may make a contract when he is of sound mind. A person usually of sound mind, but occasionally of unsound mind, may not make a contract when he is of unsound mind. So, an intoxicated person cannot enter into a contract. The contract may be avoidable at his option, but in order to be avoided, it must be repudiated by the insured within a reasonable time of his becoming sober. Similarly, when an originally valid contract has been entered into, it will not be affected by one of the parties becoming lunatic afterwards. A contract with an alien enemy is void. An alien enemy is disqualified from, and is incapable of entering into contract or enforcing it. When an alien with whom an insurance contract has been entered into becomes an enemy afterwards, the contract is either suspended or terminated as from the declaration of war.

(c) Free Consent of the Parties
In life insurance, both parties must know the exact nature of the risk to be underwritten. If the consent is not free, the contract is generally avoidable at the option of the party whose consent was not freely given.

(d) Legal Consideration
The presence of a lawful consideration is essential for a legal contract. The insurer must have some consideration in return of his promise to pay a fixed sum at maturity or death whichever may be the case. The consideration need not be money only. It should be anything valuable or to which value may be assigned. It may be interest, right, dividend, etc. The first premium is consideration and subsequent premiums are merely conditions to contract.

(e) Legal Objective
The contract would be legal only when the object is legal. The object of a legal life insurance contract is to protect oneself or one’s family against financial losses at the death of the insured. The contract is, sometimes, to provide for financial emergencies that may occur in old age. In brief the contract will be lawful only when the objective
is legal. The objective will be legal only when there is insurable interest. Without having this interest, the object of the contract would not be legal. It would be wager contract and against public policy.

(ii) Insurable Interest

Insurable interest is the pecuniary interest. The insured must have insurable interest in the life to be insured for a valid contract. Insurable interest arises out of the pecuniary relationship that exists between the policy-holder and the life assured so that the former stands to lose by the death of the latter and/or continues to gain by his survival. If such relationship exists, then the former has insurable interest in the life of the latter. The loss should be monetary or financial. Mere emotion and expectation do not constitute insurable interest in the life of his friend or father merely because he gets valuable advices from them.

Insurable interest in life insurance may be divided into two categories.
(a) Insurable interest in own life and
(b) Insurable interest in other’s life.

The latter can be sub-divided into two classes:
(a) Where proof is not required and
(b) Where proof is required

Again this insurable interest where proof is required can be divided into two classes:
(i) Insurable interest arising due to business relationship, and
(ii) Insurable interest in family relationship

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<th>Insurable interest</th>
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(A) Insurable interest in own’s Life

An individual always has an insurable interest in his own life. Its presence is not required to be proved. Bunyon says, “every man is presumed to possess an insurable interest in his estate for the loss of his future gains or savings which might be the result of his premature death”. The insurable interest in own life is unlimited because the loss to the insured or his dependents cannot be measured in terms of money and, therefore, no limit can be placed to the amount of insurance that one may take on
one’s own life. Thus, theoretically, a person can take a policy of any unlimited amount on his own life but in practice no insurer will issue a policy for an amount larger than amount seems suitable to the circumstances and means of the applicant.

(B) Insurable interest in other’s life

Life insurance can be affected on the lives of third parties provided the proposed has insurable interest in the third party. There are two types of insurable interest in other’s life. First where proof is not required and second, where proof is required.

(a) Proof is not required

There are only two such cases where the presence of insurable interest is legally presumed and therefore need not be proved.

- Wife has insurable interest in the life of her husband
  It is presumed and decided by Reed vs. Royal Exchange (1795) that wife has an insurable interest in the life of her husband because husband is legally bound to support his wife. The wife will suffer financially if the husband is dead and will continue to gain if the husband is surviving. Since, the extent of loss or gain cannot be measured in this case; the wife has insurable interest in the husband’s life up to an unlimited extent.

- Husband has insurable interest in the life of his wife
  It was decided in Griffith vs. Fleming (1909) that the husband has insurable interest in his wife’s life because of domestic services performed, by the wife. If the wife is dead, husband has to employ other person to render the domestic services and other financial expenditures will involve at her death which are not calculable. The husband is benefited at the survival of his wife, so it is self-proved that husband has insurable interest in his wife’s life. Since the monetary loss at her death or monetary gain at his survival cannot be measured, there is unlimited insurable interest in the life of wife.

(b) Proof is required

Insurable interest has to be proved in the following cases:

- Business Relationship
  The policyholder may have insurable interest in the life of assured due to business or contractual relationship. In this case, the amount of insurance depends on the amount of risk involved. Example, a creditor may lose money if the debtor dies before the loan is repaid. The continuance of debtor’s life is financially meaningful to the creditor because the latter will get all his money repaid at the former’s survival. The maximum amount of loss to a creditor may be the amount of outstanding loan plus
interest thereon and the amount of premium paid. So, the maximum amount of
insurable interest is limited to the outstanding loan, plus interest and amount of
premium expected to be paid. The interest is calculated on the estimation of duration
debt to be paid. The full amount of policy is payable irrespective of the payment of
loan and interest. Since it is life insurance, the full policy amount is paid. A trustee
has insurable interest in respect of the interest of which he is trustee because at the
survival of the other person, the trustee is benefited and at his death he will suffer. A
surety has insurable interest in the life of his principal. If the principal (the debtor) is
dead, the surety is responsible for payment of outstanding loan, or obligated amount.
At the survival of principal, he will not suffer this loss. Insurable interest is limited, up
to the amount of outstanding loan, interest and premium paid. A partner has insurable
interest in the life of each partner. At the death of a partner, the partnership will be
dissolved and the surviving partner will lose financially. Even if the firm continues at
the death of the partner, the firm has to pay deceased partner’s share to his
dependents. This will involve a huge financial loss to the partnership. Therefore, the
firm collectively can purchase insurance policies in the life of each partner of the
firm. Similarly all the partners have insurable interest in life of each partner because
they will financially suffer at the death of partners.

- **Family Relationship**

The insurable interest may arise due to family relationship if pecuniary interest exists
between the policyholders and life assured because mere relationship or ties of blood
and of affection does not constitute insurable interest. The proposer must have a
reasonable expectation of financial benefit from the continuance of the life of the
person to be insured or of financial loss from his death. The interest must be based on
value and not on mere sentiments. Similarly, mere moral obligation is not sufficient to
warrant existence of insurable interest although legal obligation to get support will
form insurable interest of the person who is supported in life of the person. Thus a son
can insure his father’s life only when he is dependent on him and the father can take
insurance policy on his son’s life only when he is dependent on his son.

**General Rules of Insurable Interest in Life Insurance:**

- **Time of Insurable Interest**

Insurable interest must exist at the time of proposal. Policy, without insurable interest,
will be wager. It is not essential that the insurable interest must be present at the time
of claim.
- **Services**

Except the services of wife, services of other relatives will not essentially form insurable interest. There must be financial relationship between the proposer and the life-assured. In other words, the services performed by the son without dependence of his father, will not constitute insurable interest of the father in the life of his son. Vice-versa is not essential for forming insurable interest.

- **Insurable Interest must be valuable**

In business relationship the value or extent of the insurable must be determined to avoid wager contract of additional insurance. Insurance is limited only up to the amount of insurable interest.

- **Insurable interest should be valid**

Insurable interest should not be against public policy and it should be recognized by law. Therefore, the consent of life assured is very essential before the policy can be issued.

- **Legal responsibility may be basis of insurable interest**

Since the person will suffer financially up to the extent of responsibility, the proposal has insurable interest to that extent.

- **Insurable Interest must be definite**

Insurable interest must be present definitely at the time of proposal. Mere expectation of gain or support will not constitute insurable interest.

- **Legal Consequence**

Insurable interest must be there to form legal and valid insurance contract. Without insurable interest, it would be null and void.

(iii) **Utmost Good Faith**

Life insurance requires that the principle of utmost good, faith should be preserved by both the parties. The principle of utmost good faith says that the parties, proposer (insured) and insurer must be of the same mind at the time of contract because only then the risk may be correctly ascertained. They must make full and true disclosure of the facts material to the risk.

- **Material facts**

In life insurance material facts are age, income, occupation, health, habits, residence, family history and plan of insurance. Material facts are determined not on the basis of opinion, therefore, the proposer should disclose not only those matters which the proposer may feel are material but all facts which are material.
➤ **Duty of both parties**

It is not only the proposer but the insurer also who is responsible to disclose all the material facts which are going to influence the decision of the proposer. Since the decision is taken mostly on the basis of subject-matter, the life to be insured in life insurance, and the material facts relating to the subject-matter are known or is expected to be known by the proposer; it is much more responsibility of the proposer to disclose the material facts.

➤ **Full and True Disclosure**

Utmost good faith says that there should be full and true disclosure of all the material facts. Full and true means that there should be no concealment, misrepresentation, half disclosure and fraud of the subject matter to be insured.

➤ **Legal Consequence**

In the absence of utmost good faith the contract will be avoidable at the option of the person who suffered loss due to non-disclosure. The intentional non-disclosure amounts to fraud and the unintentional non-disclosure is voidable at the option of the party not at fault. Once the voidable contract has been validated by the party not at fault, the contract cannot be avoided by him later on. For instance, if the insurer has continued to accept the premium when, certain non-disclosure, say miss-statement of age, has been disclosed the insurer cannot invalid the contract and cannot refute to pay the amount of claim. If the party not at fault does not exercise its option, the contract will remain valid.

➤ **Indisputability of Policy**

The doctrine of utmost good faith works as a great hardship for a long period on the plea of miss-statement at the time of proposal. In such cases, it would be very difficult to prove or disprove whether a particular statement made, at the time of policy was true. Therefore, to remove this hardship, certain sections in the concerned Act are provided. In India, Section 45 of the Insurance, Act 1938 deals with such dispute. (iv)

**Warranties**

Warranties are an integral part of the contract, i.e., these are the basis of the contract between the proposer and insurer and if any statement, whether material or non-material, is untrue, the contract shall be null and void and the premium paid by him may be forfeited by the insurer. The policy issued will contain that the proposal and personal statement shall form part of the Policy and be the basis of the contract.
Warranties may be informative and promissory. In life insurance the informative warranties are more important.

- **Breach of Warranty**
  
  If there is breach of warranty, the insurer is not bound to perform his part of the contract unless he chooses to ignore the breach. The effect of a breach of warranty is to render the contract voidable at the option of the other party provided there is no element of fraud. In case of fraudulent representation or promise, the contract will be Void ab initio.

- **(v) Proximate Cause**
  
  The efficient or effective cause which causes the loss is called proximate cause. It is the real and actual cause of loss. If the cause of loss (peril) is insured, the insurer will pay; otherwise the insurer will not compensate. In life insurance the doctrine of Causa Proxima (Proximate Cause) is not applicable because the insurer is bound to pay the amount of insurance whatever may be the reason of death. It may be natural or unnatural. So, this principle is not of much practical importance in connection with life assurance, but in the following cases the proximate causes are observed in the life insurance, too.

- **War-risk**
  
  Where Policy is issued on exclusion of war and aviation risks, the proximate cause of death is important because the Insurer waives its liability if death occurred, in this case, while the insured was in field or is engaged in operation of war and aviation. Only premium paid or surrender value whichever is higher is payable and the total Policy amount is not payable.

- **Suicide**
  
  If suicide occurs within one year of the policy, or there was intention to commit suicide, the payment of policy would be restricted, only up to the interest of the third party in the policy provided, the interest was expressed at least one month before the suicide.

- **Accident Benefit**
  
  A problem arises when an insured under an accident Policy is killed or suffers an injury which has an immediate cause and also a remote cause. In accident benefit policy, double of the Policy amount is paid. So, the cause of death in this Policy is of paramount importance.

- **(vi) Assignment and Nomination**
The Policy in life insurance can be assigned freely for a legal consideration or love and affection. The assignment shall be complete and effectual only on the execution of such endorsement either on the Policy itself or by a separate deed. Notice for this purpose must be given to the insurer who will acknowledge the assignment. Once the assignment is completed, it cannot be revoked by the assignor because he ceases to be the owner of the Policy unless reassignment is made by the assignee in favour of the assignor. An assignee may be the owner of the policy both on survival of the life assured, or on his death according to the terms of transfer. The life policies are the only Policies which can be assigned whether the assignee has an insurable interest or not.

1.10 Insurance and Indian Economy:

India’s macro-economic performance in the year 2007-08 in terms of GDP growth was high at 9 percent. While GDP growth originating from agriculture sector was 4.5 percent and from industry sector was 8.1 percent the services sector continues to grow at double digit level i.e.10.7 percent in 2007-08. Of all the services, the share of Financing, Insurance, Real estate and Business services sector, in real GDP remained a high 14.7 percent in the year 2007-08.

Latest estimates on GDP in this sector shows that the banking and insurance sub sector alone recorded a growth of 19.71 percent in 2006-07. In this sub sector, while banking showed a growth of 17 percent, insurance recorded a growth of 34.5 per cent 2006-07 over 2005-06.

Preliminary estimates of household financial savings released by RBI also revealed a change in the pattern of the household savings in 2007-08 from that of 2006-07. The share of insurance funds in households savings increased from 14.9 percent in 2006-07 to 17.5 percent in 2007-08 reflecting household’s desire for insurance and availability of innovative and customized products. Thus, though insurance primarily is a risk cover instrument, it gains the status of the second best savings mode following bank savings in India. (Source: Annual report of IRDA 2007-08 pg5)

The postal insurance and state insurance have only marginal share and growth in the insurance funds. But the main contributor to the insurance funds is the life insurance sector. This savings in the form of life insurance funds increased to 16.9 per cent in 2007-08 from 14.4 percent in 2006-07. Thus the life insurance sector remains one of the important accelerator of the growth of our economy.
1.11 Changing needs of Insured:

Life Insurance penetration is the ratio between life insurance premiums to the GDP. This ratio is 4% in India while the world average is 4.40 percent and the Asian average is 4.60 for the year 2007. But countries like South Korea, Japan, Taiwan, Hong Kong, Israel, Singapore, South Africa, and Trinidad and Tobago outshine India in this aspect with better penetration ratios. Similarly, even in the insurance density counts i.e., premium to the total population, India has a meager score of 40.4, while the world’s average score is 358.1 and the Asian average is 156. Even the Latin African countries like Trinidad, Chile, Jamaica, Panama, Argentina, Brazil, and Mexico have better density figures. So, there is still a wide scope of improving the penetration and density which was one of the main motives of privatizing the insurance sector in India. If the customer gets satisfied the penetration of the business will be easier and the insurance density also could be enhanced.

Customers of today are better educated, better informed, more selective, and highly individualistic. In respect of life insurance, potential buyers are driven to buy a policy for one or more times for three major reasons; covering the risk, saving for one or more specific purposes, and availing tax benefits. The challenge of the insurance companies is to address the motivating factors imaginatively and come up with genuine solutions.

The opening up of the market has certainly ensured that the competitive nature of business has improved the efficiency levels in customer service. But it has not reached a stage at comfort. The large number of customer complaints and grievances is a silent testimony to this fact. There is an immediate need for taking on these problems and analyzing the deep rooted reasons for the same.