CHAPTER I

INTRODUCTION
1.1 Introduction
1.2 Concept of Life Insurance
1.3 Significance of Life Insurance
1.4 How Insurance Works?
1.5 History of Life Insurance
1.6 Phases & Changes in Life Insurance
1.7 Present Status of Life Insurance in India
1.8 Marketing of Life Insurance
1.9 Products of Life Insurance
1.10 Conclusion
1.1 INTRODUCTION:

Human life is uncertain. Exactly this creates fear in human mind and it starts worrying and thinking over what could be the possibilities, uncertainties in life that can cause loss, damage to life and what best can be done to prevent such uncertainties and overcome the loss, damage in case if one has to face such unfortunate events.

Human beings give top priority to security, comfort, peace of mind and after making necessary arrangements for all these, then human mind thinks of opportunity. The concept of Insurance is exactly based on these perceptions and possibilities thought by human. It is said that, the wise thought and action is to “Think for the worst and prepare for the best”.

There are certain limits to human efforts. Some things are always beyond human control and can not be avoided, prevented or altered or delayed. As a human being, based on our experience, and incidences happening everyday around us, we can only anticipate risks, losses, damages etc. but we can not stop it. At the most we can avoid, minimize human errors, but natural calamities can not be avoided. Nobody could win the death till today.

But one can certainly make adequate arrangements well in advance for himself and for other dependants, in case, anticipating unfortunate event with him or with any of his family members. It is said that insurance offers protection, rather it would be more appropriate to mention that insurance offers financial help to overcome the damage or losses occurred. Insurance can never offer protection from incidences, unfortunate events, calamities that may happen. Insurance can only provide vital help after the happening of unfortunate events and not before.

It would always be a wise decision to make necessary arrangements well in advance anticipating the risks and losses in future. Insurance is the only concept which can give multiple returns in case of untimely, unfortunate event if it happens in someone’s life. Other sources of income may not provide such a great help to the ill fated persons. Some of advertisements of life insurance companies have very nicely picked up the exact theme of insurance and have expressed it in their respective wonderful advertisements. To list a few of them are the advertisement from Life Insurance Corporation of India giving the
message "Zindagi ke sath bhi, Zindagi ke bad bhi" also another advertisement from Met Life Insurance stating “Peace of Mind guaranteed”.

If one think wisely and look at insurance concept from a different angle it has now become one of the smart and safe way of developing habit of saving and earnings also. It is absolutely not necessary that to take benefits of insurance one must die. Now insurance companies have been upgrading their products with very innovative ideas by launching products/plans considering health needs, educational needs, after retiring from the job/work, savings required for completing important tasks of life such as marriage of children, education of children, purchasing or building a house etc. In future insurance concept will keep on penetrating in rural areas also and in more number of intelligent human minds so, there are chances of birth of many more new innovative products and concepts in future. As of today to smaller extent insurance companies have been offering insurance on expected food grain yield, crop insurance etc.

Life Insurance is not a perfect substitute to living person of the family, but certainly Life Insurance provides needful help to the dependant family members, even when the earning person of the family unfortunately passes away untimely.

"Insurance" is purely a concept which, one has to imagine and understand. Nobody can feel it, smell it, taste it, or physically handle it.

Life Insurance companies have very rightly encashed these points and have been in continuous process of educating people and creating awareness about understanding need and importance of insurance. But till today the efforts are not adequate, because when insurance sector is reviewed, the figures from various reports state that till today only nineteen percent of India’s population is having insurance cover and only 24 Life Insurance Companies are working untiringly day and night to offer needful insurance cover to maximum people. This equation proves that there is lot of scope for insurance companies to encash the unutilized potential.

Insurance offers the main benefit of offering the promised amount immediately on completion of prescribed procedure after providing relevant and valid documents and complying necessary investigations. If the insured has taken a plan of 20 years term and Rs. 25,00,000 lakh as sum assured (amount promised to be paid in case of unfortunate event or on maturity of the plan), even if the insured person dies in an unfortunate event
just after one year from the date of commencement of the insurance policy, before completion of the decided term of 20 years, and if the death claim is submitted and all required procedures and investigations are completed to the utmost satisfaction of the insurer, then the insurer is bound to pay the promised sum assured to the insured. Such benefits are not available with other financial products available in the financial market. For such exclusive proven facts and supported by results of the past, insurance is respected as a totally different concept, which has no substitute.

1.2 CONCEPT OF LIFE INSURANCE:

Insurance is defined as -

1. "Insurance is a contract between the insurance company (insurer) and the policy holder (insured). In return for a consideration (the premium), the insurance company promises to pay a specified amount to the insured on the happening of a specific event"\(^1\)"

2. Insurance is a business of sharing the risks and providing financial help by all like minded people prone to various risks and losses in case of unfortunate untimely event\(^2\)

The mechanism of insurance is very simple. People who are exposed to same risks come together and agree that, if any one of them suffers loss, then others will share the loss and make good to the person who suffered the loss.

There are certain principles which make it possible for insurance to remain a preferred and fair arrangement. The first is that, it is difficult for any one individual to bear the consequences of the risks that he/she is exposed to. It will become bearable when the community shares the burden. The second point is that the peril should occur in an accidental manner. Nobody should be in a position to make the risk happen. In other words, none in the group should set fire to his assets and ask others to share the loss. This would be taking unfair advantage of an arrangement put into place to protect people from the accidental risks they are exposed to. The occurrence has to be random, accidental, and not the deliberate creation of the insured person.

The manner in which the loss is to be shared can be determined before hand. It can be equal among all. It can also be proportional to the risk that each person is exposed to. Current practice is to make the sharing proportional to the exposure to the risk. The share
could be collected from the members after the loss has occurred or the likely shares may be collected in advance, at the time of admission to the group. Insurance companies collect amount in advance and create a fund from which the losses are paid.

The collection of amount to be made from each person in advance is on the basis of assumptions. While it may not be possible to tell beforehand which person will suffer, it may be possible to tell, on the basis of past experience, how many persons, on an average, may suffer losses.

The foundation of life insurance is recognition of value of human life and possibility of indemnification for the loss of that value. In other words insurance is also defined as it is a business of transferring the risks. The insured transfers his risks to the insurer and gets compensation in case of any unfortunate event before the completion of the decided term or on completion of the decided term.

During the development of insurance many technical terms were developed and are globally accepted. The definition and explanation of those terms is mentioned in the special table drawn in the thesis in glossary section.

Definition of Insurance is made in two different forms

Insurance is a financial arrangement, which redistributes the costs of unexpected losses among the members of the pool. The pool is a collection of people facing common risks. All members contribute a fixed amount towards a pool called premium. In exchange for the premium payment, the person gets an assurance that a certain sum of money is to be paid to him on the happening of the event insured against. The assurance is that his loss will be made good. Thus, insurance involves the transfer of loss exposures to an insurance pool and the redistribution of losses among the members of the pool.

Insurance can be defined as a contract between two parties by which one party undertakes to make good or indemnify any financial loss suffered by other party, in consideration of a sum of money, on the happening of a specified event e.g. fire, accident or death. The party agreeing to pay for the losses is termed as insurer. The party who suffers the loss is termed as insured. The payment insured pays to the insurer is termed as premium. The insurance contract is termed as insurance policy. In the end it can be defined that insurance is a transfer of risk from the individual to the group and there is a
sharing (pooling) of losses on some equitable basis such that fortuitous losses can be indemnified (paid).

1.3 SIGNIFICANCE OF LIFE INSURANCE:

Human being can not predict the occurrence of calamities, or any unfortunate events in his or her life causing loss, damage, or death. Each human being carries lot of risks during daily routine life. Human beings are perishable and process of perishing continues as human beings grow old day by day.

The body mechanism is made such that, the resistance power of human beings goes down day by day as they grow old. This causes attack of many diseases and temporary or permanent disabilities, unfit health to perform the work and continue to earn money.

Human beings have to make movement from one place to other for various reasons. During such movements there is every chance of some accident happening with everybody causing loss, damage or death also. So the human life is at great risk daily if thought in this direction.

It is not necessary that every time the loss is due to human errors. Sometimes it can be natural calamities like, flood, fire, drought, earth quake, lightening, etc, which are beyond control of human beings and can not be predicted, delayed, avoided or stopped, or fought over.

Today everybody is struggling for achieving financial status in the society for peaceful existence. The income level differs from person to person. The intelligence level, capacity to plan, predict, judge, understand, face and over come the situations also differs from person to person. All persons need not necessarily be smart enough to predict the future and plan well in advance financial measures to over come the financial crisis that may one has to face in future. So human beings are prone to all types of financial risks.

Insurance is based exactly on the concept of predicting, understanding, judging, and planning the solution well in advance to overcome all situations which may arise in someone’s life due to various risks as mentioned above.
1. **Insurance as an Investment Option:**

   Insurance is an excellent investment option where the policyholder not only gets the advantage of insurance cover, but also a return on their investments based on their risk appetite.

2. **Insurance as Protection of Financial Security:**

   Insurance companies provide compensation in case something happens to the assets of the individual insured, as per the terms and conditions of the policy. Life insurance protects the family against the loss of the income provider, helping to provide for the family’s needs and the children’s education and marriage. Hence the effect of loss is considerably reduced for an individual.

3. **Insurance for Tax Benefits:**

   Insurance offers considerable tax benefits under the Income Tax Act 1961. Premium paid up to Rs. 1,00,000 qualifies for deduction from taxable income under section 80 “C” of the Act, subject to certain terms and conditions. The death benefit or maturity benefit amount received by the nominee or the policyholder is tax-free under Section 10 (10 D) of the Act, as per prevailing laws, before premium paid up to Rs. 1,00,000.

4. **Insurance – The best Tool for Planning Life Stage Needs:**

   Today insurance products are designed in such a way that the needs of individuals in different age groups can be fulfilled at an appropriate time.

5. **Insurance for Developing Saving Habit:**

   An individual learns to save a certain amount of money from their income in order to pay their insurance premium. This encourages the habit of saving among the individual.

6. **Insurance – for Raising Loan When Needed:**

   Individuals can also get loan against their insurance policies, without affecting policy benefits, subject to certain terms and conditions laid by the insurer.

7. **Insurance to Release Capital and Management:**

   When the management of the company knows that many of the risks faced by the company are covered by insurance, they no longer need to set funds aside to cover the impact of those risks taking place. They are also free to concentrate on developing and
growing their business. This makes company more effective, which in turn helps to improve the overall economy of the country.

**Professionalism in Insurance Marketing:**

"Need-based selling" in marketing language can be defined that a professional market is that which provides what customers are looking for rather than what the company wishes to sell them. For this to be operated, the company must have to understand what the actual needs of the customers are. When the customers get their needs satisfied, then only they will come for repurchase and may do the mouth to mouth advertising of the particular company, it's products and brands.

"Disclosures" by insurance companies bring in transparencies in the business, so that the customer do not carry message of being got cheated and may not spread the wrong message in the society.

Other arrangements such as establishing central controlling authority, Insurance Regulatory & Development Authority of India [IRDA] for justifying and caring needs and problems of the customer, appointment of ombudsman for settling the disputes fast, maintaining clarity in notifying the provisions and exemptions in paying tax, etc. have brought in lot of professionalism in the business of life insurance companies. This professionalism has been proved to be helpful to insurance companies as the customers have started developing faith in insurance companies.

As more and more number of people get insured day by day, by doing this actually they are reducing the risks of the whole society and the losses and also generating the money for the economy of the country to be made strong enough.

Life insurance companies in order for spreading the insurance business, are opening their company offices and branches all across the country and appointing people to generate the insurance business and offering insurance cover to maximum people. This has given rise to employment generation to a very good extent.

### 1.4 HOW INSURANCE WORKS?

As Insurance has been defined as a contract between the insured [The Insurance Policy holder or the person whose life is being insured] and the insurer [The Life Insurance Company, the contract is signed because a business deal has taken place between the two or more parties for purchase and sales of Life Insurance Policy.
Life Insurance Business involves different type of functions to be performed while purchasing and selling the life insurance policy to the person or persons interested to get their life insured, as the same risks for their life are covered during this deal.

The entire sequence in which the deal is to be completed can be narrated as follows.

1. Either the sales person of concerned life insurance company approaches the probable customer interested to purchase life insurance or vice-versa.

2. The insurer will provide a prescribed printed form called as “proposal form” in which the customer will have to provide the information about him. The information required will be regarding customer’s Name, Address, Family history, Health status – (current and history). Health status history of parents, food habits and other habits such as frequent traveling, mode of traveling, work, profession carried out by him and risks involved in it, his annual income, and his tax paying details and weather having life insurance from same or some other life insurance company.

3. After filling up the proposal form with required information the customer will have to support it with relevant valid documents such as proof of resident, citizenship, passport copy if have, PAN card, Election card, Income proof such as salary, Income Tax returns filed, a photograph of his own etc.

This proposal form contains one paragraph of declaration by the customer stating that the information provided in this form is true and he is bound for it’s truthness in any times and if found and proved as false information or proved to be manipulation in the provided information, then the insurer is authorized to reject and refuse to settle the claim by customer for benefits and settlements to be received in this deal.

The customer has to read, understand, agree and accept these types of other terms and conditions mentioned by the insurer and the customer has to sign such declaration along with one witness person who knows him closely and personally.

4. **Medical Underwriting:**

Then this proposal form will be scrutinized by the insurer on various parameters and to confirm the facts disclosed by the customer. Depending on the plan chosen
by customer, as per IRDA regulation, the customer may have to produce, the fresh
documents proving his current health status certified by the concerned Doctor on
the panel of Insurer Company. This process is termed as "Medical Underwriting".

5. **Financial Underwriting:**

   Similarly for confirming customer's financial status, the insurer company asks the
   customers to provide their last two years income details and income tax returns
certified by a registered organization, chartered accountant. This is defined as
   "Financial underwriting".

   If any discrepancies are noticed by the insurer, then the customer will have
to provide satisfactory explanation in writing and valid proofs supporting his
explanations. Still if the insurer is not satisfied with the things, then the proposal
will be forwarded to higher authorities of Insurer Company (called as "Actuaries"
who have final authority to accept and approve or reject and refuse the proposal.

6. Once the insurer authorities approves the proposal form submitted by the customer,
then customer will have to pay the premium amount to the insurer for which a
receipt called First Premium Receipt [FPR] will be issued by the insurer to the
customer.

7. The customer must receive the prescribed Life Insurance Policy Document from
the insurer company within thirty days from the date of payment of the premium. If
any unfortunate event happens with this customer who has obtained first premium
receipt and dies before receiving the final Life Insurance Policy document, and the
claim is made by the family members of the customer, then the insurer will have to
carry out necessary investigations in the matter and if no ambiguity, doubtful
reasons, points found in the investigations, then the insurer company must have to
pay the total sum assured as promised to the relatives /nominee of the customer
who have filed the claim. This first premium receipt is a valid document for
claiming the benefits and compensation.

8. Then it is the prime responsibility of the customer to ensure by paying premiums
regularly as promised to keep his/her life insurance policy in force and alive. In
case if the customer fails to pay the premiums in the scheduled period, then this
policy gets lapsed. In such case of lapsed policy, the insurer has to allow the
customer to revive his life insurance policy by paying due premiums along with interest amount charged by the insurer and also with relevant documents such as fresh medical check up details from the Doctor authorized by the insurer. Most of the insurance companies offer grace period of one month (thirty days) from actual due date of payment of due premium. Insurer can not charge interest amount for the grace period of thirty days. Insurer can charge interest only after lapse of grace period of premium payment.

9. Life Insurance customers have full authority to discontinue the life insurance policy purchased by him, or mortgage the Policy document for loan purpose with valid financial organization, change the nominee, to appoint the appointee, to appoint power of attorney, or make partial withdrawal of some amount from the total amount accumulated on his name till date of application.

10. In case any unfortunate event happens with the customers and if the customer dies the claimant relatives or nominee of the customer must have to file the claim and support investigations by the insurer company and provide the needful documents such as death certificate, Original Policy Document, etc as demanded by the insurer company. Then if everything is found true and to the utmost satisfactory level by the insurer, the claim is settled. Death claim by the customer’s relatives, nominees must be investigated and settled by the insurer in thirty days from the date of claim submitted. This is IRDA Regulation

11. In case of any disputes regarding, lapsation of policy, non-settlement of claims, Partial withdrawals, revival of policies, if both insured and insurer could not come to certain amicable solution for a long period, then both of them are authorized to approach for justice and settlement by an authority called as “Ombudsman” appointed by IRDA for that particular region. The decision given by Ombudsman is final and both insured and insurer life insurance Company have to respect, accept and implement it as directed.

12. Life insurance policies, documents, deals and decisions given by ombudsman can be challenged in competent court also if the decision given by ombudsman is not acceptable to either of the parties.
1.5 HISTORY OF INSURANCE:

According to records Insurance Regulatory & Development Authority of India [IRDA] Insurance has history of very ancient days. As per IRDAS's record it is mentioned in the writings of Manu (Manusmruthi), Yagnavalkya (Dharmasastra), and Kautilya (Arthasastra). The writings found mean that there was pooling of resources and helps for the common people in order to face calamities such as fire, floods, epidemics and famine in those days.

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.

In the year 1818 first Insurance Company by name “Oriental Life Insurance Company” was established in Calcutta. But this company could not do much remarkable in market and ultimately failed in the year 1834. Another Life Insurance Company “Madras Equitable” had started in the year 1829 for transacting insurance business in Madras presidency. In the year 1870 British Insurance Act was enacted. In the last three decades of nineteenth century other three insurance companies Bombay Mutual (1871), Oriental (1874), and Empire of India (1897) were established.

This period was particularly dominated by foreign insurance companies particularly by Life Assurance, Royal Insurance, Liverpool and London and London Globe Insurance.

In 1914 Government of India started publishing returns of Insurance companies in India. The Indian Life Assurance Companies Act 1912 was the first statutory measure to regulate life insurance Business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principle Agencies. But as there were many life insurance companies operating during this period but there was no proper
coordination and implementation of principles of insurance business and lot of ambiguity resulted in Government of India to take decision of nationalization of Insurance Business.

An ordinance was passed on 19 Th January 1956, nationalizing Life Insurance sector and Life Insurance Corporation of India came into existence in the same year. Life Insurance Corporation if India absorbed 154 Indian, 16 non-Indian insurers, as also 75 provident societies, 245 Indian and foreign insurers to emerge one of the biggest Insurance organization of India.


1.6 PHASES AND CHANGES IN INDIAN LIFE INSURANCE SECTOR:

In the year 1999 resolution was passed to invite foreign direct investment in insurance sector. This move by Government of India obtained quick response across the globe and many foreign companies started launching their Life Insurance Business in India along with joint ventures with Indian subsidiaries. The criterion for foreign direct investment in insurance sector was 26% of capital investment by foreign company and 74% of capital investment by Indian subsidiary group for starting the insurance business. In order to bring in vital reforms in insurance sector, Government of India formed a committee under the chairmanship of Shri. R.N. Malhotra, former Governor of Reserve bank of India

This committee submitted its report in the year 1994, with following recommendations.

1) Raising the capital base of LIC and GIC up to Rs. 200 crores, half retained by the Government and rest sold to the public at large with suitable reservations for its employees.

2) Private sector is granted to enter insurance industry with a minimum paid up capital of Rs. 100 crores.

3) Foreign insurance be allowed to enter by floating an Indian company preferably a joint venture with Indian partners.

4) Steps to be taken to initiate to set up a strong and effective insurance regulatory in the form of a statutory autonomous board on the lines of SEBI.
5) Limited number of private companies to be allowed in the sector. But no firm is to be allowed in the sector. But no same firm to be allowed to operate in both lines of insurance (life or non-life).

6) Tariff Advisory Committee (TAC) is delinked form GIC to function as separate statutory body under necessary supervision by the insurance regulatory authority.

7) All insurance companies be treated on equal footing and governed by the provisions of Insurance Act. No special dispensation is given to government companies.

8) Setting up of a strong and effective regulatory body with independent source for financing before allowing private companies into sector.

According to recommendations by R.N. Malhotra committee, a central Insurance Regulating Organization owned by Government of India was formed by name Insurance Regulatory and Development Authority of India [IRDA] in the year 1999. The authority has the power to frame regulations under the Section 114 A of the Insurance Act 1938. The IRDA was incorporated as a statutory body in the year 2000 onwards framed various regulations ranging registration of companies for carrying on insurance business to protection of policyholder’s interests.

The duties, powers and functions of IRDA are laid down in section 14 of IRDA Act, 1999

1. Subject to the provisions of this Act and any other law for the time being in force, the

2. Authority shall have the duty to regulate, promote and ensure orderly growth of the insurance business and re-insurance business.

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

   i. Issue to the applicant a certificate of registration, renew, modify, withdraw, suspend or cancel such registration;

   ii. 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;

   14
iii. Specifying requisite qualifications, code of conduct and practical training for intermediary or insurance intermediaries and agents

iv. Specifying the code of conduct for surveyors and loss assessors;

v. Promoting efficiency in the conduct of insurance business;

vi. Promoting and regulating professional organizations connected with the insurance and re-insurance business;

vii. Levying fees and other charges for carrying out the purposes of this Act;

viii. 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;

ix. 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);

tax. 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;

xi. Regulating investment of funds by insurance companies;

xii. Regulating maintenance of margin of solvency;

xiii. Adjudication of disputes between insurers and intermediaries or insurance intermediaries;

xiv. Supervising the functioning of the Tariff Advisory Committee;

xv. Specifying the percentage of premium income of the insurer to finance schemes for promoting and regulating professional organizations referred to in clause (2.6);

xvi. Specifying the percentage of life insurance business and general insurance business to be undertaken by the insurer in the rural or social sector; and

xvii. Exercising such other powers as may be prescribed
1.7 PRESENT STATUS OF LIFE INSURANCE SECTOR IN INDIA:

As per recommendations of R.N. Malhotra Committee, Insurance Regulatory and Development Authority of India [IRDA] was established in the year 1999. IRDA further started implementing the recommendations from the then Government of India and opened the Indian market for foreign insurance companies for business purpose. The need was felt by Indian Government to upgrade India in global competition and accept challenges of Liberalization, Privatization and Globalization.

In response to appeal by Indian Government, foreign insurance companies encashed this as a good opportunity and till date following Life Insurance companies are operating in India. The details of those Life Insurance Companies are as follows.

Table 1.1
The list of Life Insurance Companies operating in India

<table>
<thead>
<tr>
<th>S. No</th>
<th>Name of Insurance Company</th>
<th>Foreign Partner</th>
<th>Reg. No.</th>
<th>Date of Registration</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Life Insurance Corporation of India [LIC]</td>
<td>—</td>
<td>512</td>
<td>01 – 09 - 1956</td>
</tr>
<tr>
<td>5</td>
<td>Kotak Mahindra</td>
<td>Old Mutual South Africa</td>
<td>107</td>
<td>10 – 01 - 2001</td>
</tr>
<tr>
<td>6</td>
<td>Birla Sun Life</td>
<td>Sun Life, Canada</td>
<td>109</td>
<td>31 – 01 - 2001</td>
</tr>
<tr>
<td>7</td>
<td>TATA AIG</td>
<td>American International Assurance Co. U.S.A.</td>
<td>110</td>
<td>12 – 02 - 2001</td>
</tr>
<tr>
<td>8</td>
<td>SBI Life</td>
<td>BNP Paribas SA, France</td>
<td>109</td>
<td>31 – 01 - 2001</td>
</tr>
<tr>
<td>9</td>
<td>ING Vysya</td>
<td>ING Insurance International B.V., Netherlands</td>
<td>108</td>
<td>02 – 08 - 2001</td>
</tr>
<tr>
<td>S. No</td>
<td>Name of Insurance Company</td>
<td>Foreign Partner</td>
<td>Reg. No.</td>
<td>Date of Registration</td>
</tr>
<tr>
<td>-------</td>
<td>--------------------------</td>
<td>-----------------</td>
<td>---------</td>
<td>---------------------</td>
</tr>
<tr>
<td>10</td>
<td>Bajaj Allianz</td>
<td>Allianz, Germany</td>
<td>116</td>
<td>03 - 08 - 2001</td>
</tr>
<tr>
<td>12</td>
<td>Reliance</td>
<td>--</td>
<td>121</td>
<td>03 - 01 - 2002</td>
</tr>
<tr>
<td>14</td>
<td>Sahara</td>
<td>--</td>
<td>127</td>
<td>06 - 02 - 2004</td>
</tr>
<tr>
<td>15</td>
<td>Shri Ram</td>
<td>Sanlam, south Africa</td>
<td>128</td>
<td>17 - 11 - 2005</td>
</tr>
<tr>
<td>16</td>
<td>Bharti AXA</td>
<td>AXA Holdings, France</td>
<td>130</td>
<td>14 - 07 - 2006</td>
</tr>
<tr>
<td>17</td>
<td>Future Generali</td>
<td>Generali, Italy</td>
<td>133</td>
<td>04 - 09 - 2007</td>
</tr>
<tr>
<td>18</td>
<td>IDBI Federal Life</td>
<td>Ageas, Europe</td>
<td>135</td>
<td>19 - 12 - 2007</td>
</tr>
<tr>
<td>19</td>
<td>Canara HSBC OBC</td>
<td>HSBC, U.K.</td>
<td>136</td>
<td>08 - 05 - 2008</td>
</tr>
<tr>
<td>20</td>
<td>Aegon Religare</td>
<td>Aegon, Netherlands</td>
<td>138</td>
<td>27 - 06 - 2008</td>
</tr>
<tr>
<td>21</td>
<td>DLF Pramerica</td>
<td>Prudential of America</td>
<td>140</td>
<td>27 - 06 - 2008</td>
</tr>
<tr>
<td>22</td>
<td>Star Union Dai-ichi</td>
<td>Dai-ichi Mutual Life Insurance, Japan</td>
<td>142</td>
<td>26 - 12 - 2008</td>
</tr>
<tr>
<td>23</td>
<td>India First Life Insurance</td>
<td>Legal and General Middle East Limited, U.K.</td>
<td>143</td>
<td>15 - 11 - 2009</td>
</tr>
<tr>
<td>24</td>
<td>Edelweiss Tokio</td>
<td>Tokio Marine Holdings Inc., Japan</td>
<td>147</td>
<td>12 - 05 - 2011</td>
</tr>
</tbody>
</table>

Source: www.irda.gov.in
In line with expectations, new business volumes in the individual new business segment remained strong, growing 36% year on year and 23% month on month, in August 2010.

In the individual new business segment, while LIC, ICICI, and HDFC improved [worth net received premium] industry market share (Years Total Deposit) by 3.8 percentage points, 1.5 percentage points, and 0.7 percentage points, respectively. Bajaj Allianz (1.8 percentage points), Birla (1.25 percentage points), SBI (1.26 percentage points) and Reliance (0.31 percentage points) lost significantly. At 5 months ended financial year 2011 end, private insurers’ market share stood at 50%.

Here is how Various Life Insurers stack up against each in the Industry as a whole. The following Data suggests that LIC of India is still the market leader followed by ICICI Prudential, HDFC Standard Life, SBI, Reliance, Bajaj, Birla Sun Life, Max New York etc.

Graph 1.1

Latest Market Shares of Life Insurance Companies for the Financial Year 2011

Source: www.FreePress.in

18
Latest Market Shares of Life Insurance Companies for the Financial Year 2012

Source: www.FreePress.in
Till the year 1999 Life Insurance Corporation of India has monopoly in Life Insurance Sector in India. But, after liberalization of insurance sector, LIC has lost its market share from (99% in the Year 1999) to (64.63% in the year 2009-10).

The private Life Insurance Companies which started their life insurance business in India from the year 2000 are comparatively proving better then LIC of India in the areas of customer service, after-sales-service, product innovation and flexibility, communication etc.

Some of the positive effects of liberalization of insurance sector are availability of wide range of insurance products, increase in insurance awareness, and increase in insurance penetration.6

The Indian life insurance industry has its own origin and history, since its inception. It has passed through many obstacles, hindrances to attain the present status. The income earning capacity of an individual citizen of a nation, the eagerness and awareness of the general public are the two key determinants of the growth of any insurance industry.7

For that they should provide wider and mass-employment opportunities and sound educational system. Moreover, the general public must be inculcated with more knowledge, awareness and importance about life insurance, and these steps help to boost the growth of insurance industries. In the Indian context, the insurance habit among the general public during the independence decade was quite rare and in the following decades, it slowly increased. There was markable improvement in the Indian insurance industry soon after the acceptance and adaptation of Liberalization, Privatization, and Globalization (LPG) in the year 1991.

After 1991 the Indian life insurance industry has geared up in all respects, as well as it is being forced to face a lot of healthy competition from many national as well as international private insurance players. The fall in the savings rate and increased competition in the primary market and particularly the aggressive mobilization by the Mutual Fund posed serious challenges to LIC.

Annual growth of Indian Insurance Industry is 15 - 20 %. The value of Insurance Market (Year 2004 -05) is estimated at Rs. 450 billion (US$10 billion). According to
Government sources the Insurance and banking services contribution to the country’s gross domestic product (GDP) is 7%. The funds available with the state-owned Life Insurance Corporation of India (LIC of India) for investments are 8% of GDP.

Till date only 20% if the total insurable population of India is covered under various life Insurance schemes, which is far below the international level. This clearly indicates the availability of huge untapped potential for insurance business opportunity.

After opening up of the insurance sector in 1999, for foreign direct investment of Rs. 8.7 billion have poured into the Indian insurance market and 21 private life Insurance companies have been granted licenses for operating insurance business in India.

After entry of private life insurance companies in the life insurance sector LIC’s market share has came down from 87.04% (2003 -04) to 78.07% (2004-05). 14 private life insurance companies increased their market share from 13% to 22% for the same period.

Income earning capacity, eagerness, and awareness of the general public are the key determinants of the growth of any insurance industry. After independence a great change was found in the Indian insurance industry, especially after the year 1991 when reforms in the sector were done by regulating government. This was necessary looking into the competition in the sector from national as well as international private insurance players.

There is increasing trend toward the investment in stock market by LIC from 60% to 93% from 1980 to 2009 due to the effective regulation of Securities Exchange Board of India (SEBI) and increasing transparency of stock market.

The author has also mentioned in brief about history of insurance industry in India in pre and post independence era. In brief is also discussed about the reforms brought by Government of India forming Malhotra committee in 1993 and formation of IRDA on 19th April – 2000 to protect the interest of insurance policy holder and to regulate, promote and ensure orderly growth of the insurance industry. Recommendations of Malhotra committee have also been mentioned by the author.

It is concluded that performance of LIC of India improved after LPG. Total investment of LIC rose from Rs. 4587.7 crores in 1979 to Rs. 76289.1 crores in 2009. Proportion of premium collected by LIC out of total premium collected by life insurance
industry is declined from 97 % in 2001-02 to 74 % in 2007-08. It indicates competition from private sector.

The principle obstacle in bringing reforms in the insurance sector is that there is a bill pending in India Parliament. The bill regarding increasing FDI in insurance sector from present 26 % to 50 % was tabled in the year 2008, but could not be passed due to lack of majority in favour of the bill. Some of the experts from the finance and insurance sector have also registered the opinion that increase in FDI is not an obstacle for improvements and reforms in insurance sector10.

IRDA may in future change invest norms for the insurance companies. Presently a firm can invest 50 % of its fund in government securities, 15 % in infrastructure bonds, and 35 % in corporate paper and equities. The finance ministry has been negotiating in this regard with IRDA for increasing investment limits particularly in infrastructure.

IRDA has been very alertly watchful on the activities of insurance companies and has become more customers caring. Because of customer caring steps taken and implemented by IRDA by ordering insurance companies to follow these new changed regulations, sales of ULIPs have dropped from 70 % (Measured in terms of new business premium) in 2008-09 to 15 % in 2011-12. Similarly for pension products IRDA has asked insurance companies to give a guarantee. Insurance company owners and experts have expressed that IRDA has made thins better for the consumers, but at the cost of the industry. The result is that many of the ULIPs have been withdrawn by the insurance companies.

Experts on the basis of authentic reports from various sources such as insurance company’s statement and IRDA data, have mentioned that India’s life insurance market has grown at more than 40 % annually (measured in terms of new business premium) in the past six years. But the ratio of insurance premium to GDP is round 4 % only. In developed markets, this figure typically ranges from 6 % to 9 %. Penetration is very low, particularly zero in unbanked segment. In addition to new customers, there will be a move by existing policyholders to increase coverage. For the industry, premium income is likely to go up sharply. This spells opportunity.

Will the new guidelines for IPOs (Initial Purchase Orders) result in a rush to market? A point was discussed in the committee meeting formed by IRDA to look in the
IPO regulations. The IRDA norms note that the company must have turned a profit for consecutive three years. That leaves very few firms in the running, except some public sector companies.

Formation of Malhotra committee in the year 1991 has resulted in bringing lot of positive reforms in insurance sector in India. Further Liberalization, Privatization and Globalization has also given boost to insurance sector and many resulted in 24 private life insurance companies are operating life insurance business in India today. Insurance sector in India is one of the booming sectors of the economy and presently growing at the rate of 35 – 40 % per cent annually with a total insurable population of less than forty percent^{11}.

Today life insurance sector in India comprises of

1. More than Rs. 33, 633 crores of deployed capital
2. Over Rs. 16, 18, 544 crores of managed assets
3. Investments in infrastructure exceeding Rs. 2, 20, 866 crores
4. More than 23.45 lakh agents, 2.48 lakh direct employees and growing significantly
5. Over 34 crores Policies are in force.

Privatization of insurance sector in India has benefited in many ways as follows.

1. Monopoly life Insurance Business of LIC of India came to an end. Fair ant tough competition started.
2. Entry of private life insurance companies has increase the speed of spread of insurance in India.
3. Wide network of Banks and their active involvement in doing insurance business has helped in mobilizing funds from rural areas.
4. New range of products from private life insurance companies has helped to offer wide coverage of various risks. It also resulted in better customer services and help improve the variety and price of insurance products.
5. It has generated more employment opportunities.
6. Market share of LIC of India has come down from 99.0 % to 69.34 % compared to last year (2011-12)
Following comparative figures gives clear picture about the changes that have taken place in Indian insurance sector.

1. Real growth in premium in the year 2011-12 at world level was -2.7% where as it was -8.5 for India specifically.

2. Market share of LIC of India for the year 2011-12 was 70.68% where as private life insurance companies had market share of 29.32%.

3. Number of branch offices of LIC of India were 3455 and private life insurance companies all put together had 7712 branch offices all across the country.

Opening insurance sector to private players, has helped speedy penetration and given rise to competitive environment. As of today all the private life insurance companies have formed tie-up with various banks for insurance business through banks. Insurance companies are getting the advantage of huge customer base of banks and their wide spread network all across the country.

The bancassurance business in India is operated in two different categories. 1) Distribution alliances by way of referral arrangements and corporate agency relationships and 2) Joint venture agreements.

Pure arrangement helps both banks and insurance companies with additional sales potential with minimum investment. The referral form of distribution is an optimistic approach, through which banks effectively control access to the client base, passes on business leads to career agents of the insurance company with which it has tied up. The insurance company allows the respective insurance agents to sit in bank premises and forward business lead to them, for which banks receive commission from insurance companies. In some cases the banks are assigning responsibility to their own staff to sale the insurance and award them with additional incentives apart from their regular remuneration.

Before the insurance sector was liberalized for foreign players in India, India’s position in global ranking in insurance sector was 20th position and now in the year 2010, it tanks on 11th position.

Life insurance penetration in India is defined as the ratio of premium underwritten to the GDP was 4.6% last year. Availability of huge young population and current low
rate of life insurance penetration and high rate of personal savings are some the favourable points for bright future of life insurance industry in India. Indian household save more than those in other emerging markets such as china and Brazil.

Fairly good performance of ULIPs in the year 2010 (22 % growth) as compared (90% down) in the year 2008-09 the severe recession period, has increasingly encouraged customers to keep on investing in ULIPs.

ULIPs have generated total business of Rs 115 billion, about 45 % of the total insurance business generated by all the insurance companies of India. It is to be noted that private life insurers have generated 90 % of their insurance business from ULIPs.

There are almost three million insurance agents generating business all across India. Bancassurance is another successful distribution channel which has contributed 20 % of new insurance business in the year 2009-10. Distribution efficiency is the main key for India, which is witnessing the emergence of new channels such as bancassurance.

1.8 MARKETING OF INSURANCE:

Marketing of insurance is also based on the similar principles of marketing as for the marketing of other commodities, and materials. Insurance marketing is a concept selling process and it comes under services marketing industry. The only difference here is that the organization do not require huge and expensive machinery for manufacturing the products, and space for stocking and storing the products and also do not need expensive transportation cost. As the insurance products are not actually manufactured, they don’t need any kind of laboratory testing and experiments, trials on human beings and animals as in case of products of medicine, food, etc. are to be tested and need to obtain necessary license for the respective department of Government of the country. Insurance products don’t need any huge capital investment in stocking the raw material and refining and processing it.

The major factors involved in insurance marketing are discussed as follows.

1.8.1 Creating Need:

The general tendency of people is that, they won’t focus or become serious unless they develop a feeling of fear, inferiority, scarcity, chances of losing something because of not having something etc. Usually human being doesn’t have importance of the things
when they have it, but they realize its importance only when they lose it. Another aspect of human nature is envying nature. When others have it and we don’t have it, then also when such things are brought into the notice of the people, suddenly need gets created in the mind of the people. 

Life Insurance Companies exactly use the same technique of making people aware of their dark future if they fail to take initiative to do needful arrangements and provisions well in advance. These Life Insurance Companies also make people aware that how best the life insurance companies can help them to beautifully plan their future and protect their dependent family members. Unless people become desperate for it, people won’t purchase anything.

1.8.2 Source of completion of Need:

Once people become aware to fulfill their requirements and needs, they will start searching the right source which can help them. From this point onwards the other factors of marketing start playing their respective role.

The marketing fundamentals

a) Product b) Price c) Place d) Promotion e) Process f) Physical evidence

g) Personnel, will always be applicable to insurance sector also.

It is very rightly said as far as marketing is concerned that, “If one can not sell himself to himself, then he can not sell anything to anybody in the world”

Insurance marketing is a conceptual marketing. The biggest problem in marketing of insurance is that the sales person does not have anything with him in the form of physical evidence to show it to the customer so that the customer can see the product, handle the product, and test the product.

Then how the marketing of concept can be done is the major question that comes to mind. People’s psychology is a very delicate aspect and people take utmost care and efforts to safeguard their psychological concepts. Fears, Threat, Bad luck, Bad patches in life, wrong decisions, damage, loss, dreams etc. are some of the concepts which definitely create fear and hope in the mind. Human beings always give top priority to security and health. Insurance products are designed considering all these factors.

26
a) **Product:**

Customers expect the exact product which they have imagined. This imagination process goes on changing as customers come across many other factors, such as competitive brands, benefits of the product, price of the product, quality of the product, brand image of the product, status and image of the supplier and manufacturer, market trend, promotional strategy etc. The consumer behavior is a very vast subject, which is directly responsible for bringing out lot of continuous changes in the product. Insurance sector can not be an exception to this phenomenon.

b) **Price:**

Every business organization on this earth is struggling for earning profit. In the process of earning profit, organizations can’t afford to neglect price factor. Price of the product is another very delicate aspect which certainly needs a practical feedback from the market and consumer response to make relevant changes in price and come to a balanced decision in order to maintain 1) Healthy ratio of not losing the existing customer 2) Addition of New Customers 3) No compromise in the profit margin income 4) Not losing image of the product due to price rise or compromising the quality of the product or dilution in designing and implementing the promotion strategy.

c) **Promotion:**

Promotion of the product/concept can be considered as the main blood stream which keeps the organization alive by reaching to maximum number of customers.

Different sectors use different promotion techniques. Since Life Insurance is a concept and comes in service industry, it also uses the promotional tools of advertisements through different media such as print, audio, audio-video, sales campaign, offering special schemes and discounts, felicitating achievers and motivating under performers, advertisement through appointing Brand Ambassador, etc.
d) **Process:**

Service Industry also has defined a definite process. Various stages involved in process of selling Life Insurance, in short can be described as follows.

1) Designing the product after thorough study of: Consumer behavior, Needs of the consumer, Affordability of the consumer, Fulfillment of social and cultural needs by the product, Price of the product, Competition, Place of promotion of the product, Promotion Cost of the Product Production/ Manufacturing Cost of the product, Storage Cost for the product, Transportation Cost, Profit for the producer, distributor, and for others involved in chain of sales process. 2) Designing the profitable promotion strategy
3) Searching the right customer 4) Convincing the customer 5) Generating more demand of the product in the market 6) Performing actual sales process 7) Offering after sales service to the customer 8) Retaining the existing customers. 9) Adding new customers 10) Continuous Up gradation of entire process in all the aspects.

e) **Place:**

In which area, the products are promoted is certainly responsible for the growth or de-growth of the product. Though in marketing, emphasis is given on skill of demand generation, sometimes considering place, as secondary factor, but there are limitations to it. Some places have their own typical social and cultural trends and concepts and people of that particular area may not easily get convinced for any change in their socio, cultural concepts respected by them for years together.

Apart from this, the economic background of the people and the average affordability of people living in that particular area, the income sources available for people in that area, also needs to be given due consideration while designing the product. Place should be convenient for the customer for easy approach and for availing other required services from the Company.

Place and the environment existing at that particular place certainly matters a lot to build faith in customer. Customers form the opinion after visiting the place where the actual products/concepts, are generated and stored, sold and after experiencing the kind of service rendered to the customer and observing the over all environment experienced by the customer at that place.
f) Physical Evidence:

It is very natural phenomena that when customer pays for something and expects that thing in his possession for using it or consuming it. The customer is also cautious to calculate input-output ratio and ensures that he should not be at loss in the deal. When customer is able to physically handle, feel, and study the product for quality, price, durability, multiple benefits, other features of the product etc, then only customer develops the trust in the product. For developing this trust customer always demands physical evidence that he has invested in the right thing of his benefit.

In case of Life Insurance, as it is purely a concept, and customers don’t have any chance to have physical evidence to enjoy the feeling of having something in their possession, it makes the sales process of selling life insurance more difficult. Here in the process of sales of Life Insurance, the customers are orally convinced by way of discussion and through print media, or audio, audio-video medium. At the end of the process the customers get only some paper documents and receipts as physical evidence and written assurance of their life is being insured now for some amount subject to some terms and conditions.

g) Personnel:

To carry out any activity, man power is required. If proper trained persons are appointed offering responsibilities of their expertise area, the work can be completed with great efficiency by saving time and other costs also.

In Life Insurance business care is taken by two main departments, as follows

1) Sales, Marketing staff:

The Marketing staff is involved in designing the product and various marketing strategies required for selling the product etc. Sales staff is involved basically in sales process only and generating the demand and rendering other needful services to the customer.

2) Administration Staff:

Persons from this administration department are involved in processing the documents deposited by their sales, marketing staff and by the customers and preparing
the final documents expected by the customer. Administration staff plays a key role in rendering after sales services to the customer.

1.9 PRODUCTS OF LIFE INSURANCE:

The products of Life Insurance are basically categorized in four different categories based on their functioning pattern.

1. Protection offering products
2. Investment Products
3. Pension products
4. Savings Products.

"Participating Products" are those in which the policyholders are entitled to participate in the profits earned by insurance company by making investment in financial sector from the amount paid by the policyholder in the form of premiums. The risk in such investments is totally held by insurer and not by the insured. Such Products are also called as “Conventional Products” or “Traditional Products”.

"Non-participating products" are those in which the policyholders are not entitled to participate in any kind of profit earned by the insurer by investing the amount paid by the policyholder in the form of premiums.

1. Term Insurance Plan:

Under this plan the nominee/beneficiary of the insured gets the death benefit amount (Sum Assured) only if the insured dies during the decided term in the life insurance contract and not on the survival of the insured.

2. Pure Endowment Plan:

Under this plan the benefit amount (Survival Benefit amount) is paid only if the insured survives during the term of insurance contract and not on death of the insured during the insurance contract. This plan is exactly opposite to Term Insurance Plan.

3. Return of Premium Plan:

Some of the life insurance companies do pay the death benefit as well as survival benefit to the insured even if the insured dies or survives during the term of the insurance
contract. Some part of premium amount paid by the insured is refunded to the insured or nominee or beneficiary of the insured.

4. **Endowment Insurance Plan:**

   Basically this is combination of a pure term insurance plan and pure endowment plan. It means the insured or the nominee or the beneficiary gets the sum assured on the survival or death of the insured respectively.

5. **Whole Life Insurance Plan:**

   Under this plan the insured is offered insurance cover for his/her entire life. The nominee/beneficiary of the insured gets the death benefit after the death of the insured. Under such plans the insurance company deposits some bonus amount in the account of the insured. Under such plans, the insured is allowed to make partial withdrawals also from the premiums paid by him/her.

6. **Convertible Insurance Plans:**

   The title is self-explanatory. It means one type of insurance plan can be converted into different type of insurance plan. For example a pure term insurance plan can be converted into a pure endowment plan.

7. **Joint Life Policies:**

   This type of plan can be taken for two different lives. The death benefit is paid to the living partner if the other partner dies during the term of insurance contract.

   On death of the second partner also, the death benefit is further paid to nominees or beneficiaries of the insured persons. In some of the joint life policies, on the death of either of the partner, the further premiums need not be paid by the surviving partner.

8. **Annuities:**

   An annuity is a series of regular payments from an annuity provider (Insurance Company) to an individual (Called annuitant) in return for a lump sum (Purchase price) or installment premiums for a specified number of years.

9. **Group insurance plans:**

   A group insurance plan is provided to a group of persons brought together for a common objective. The group of people can be employees of the company, customers of a
bank, members of trade union, and members of a professional body like an association of accountants.

Under group insurance plan the insurance company issues only one master insurance policy offering insurance cover to the entire group.

10. **Micro insurance plans:**

The plans are specifically for low income group. IRDA has specified that the life cover provided under micro-insurance products should be minimum of Rs. 5,000 and maximum of Rs. 50,000 only.

11. **Children Plans:**

These plans are specifically designed taking into consideration the future needs of the children. Needs such as, education, marriage, health requirements, business career of the children. These plans offer dual benefits such as insurance and savings.

The child is the beneficiary who is entitled to receive the benefits on the maturity of the policy.

In these plans, risk on the life of the insured child will begin only when the child reaches a specified age as stated in the policy. The time gap between the policy start date and the date of commencement of the risk is called as deferment period. The date on which the risk will commence at the end of the deferment period is known as the deferred date. The deferred date will be policy anniversary. There is no insurance cover offered during the deferment period.

When the child reaches the age of majority (18 Year old) the title of the policy will be automatically passed on to the insured child. This process is known as “vesting”. The date on which the policy title passes to the child is known as the “Vesting Date”. After vesting the policy becomes a insurance contract between the insurer and the insured person (the grown up child now of 18 year old)

12. **Money Back Plan:**

Under this plan the policyholder receives back the twenty percent of the amount paid by him towards premiums. The policyholder may receive the survival benefits in fixed proportions or variable proportions during the policy term as per the terms and conditions decided in the insurance contract. Bonus is paid by the insurer under this plan.
13. **Salary Savings Plan:**

Under this plan, the premium is deducted directly from the monthly salary of the insured. All other benefits remain same for this plan also.

14. **Unit-linked plans:**

Under these plans the part of the premium amount paid by the insured is invested by the insurer in private money market through various funds. Some amount is also invested in Government funds and securities and equities also. The risk of investment, profit, or loss is to be totally beard by the insured and not by the insurer. Such understanding is obtained in writing from the insured by the insurer before making the investment. Under such plans the risk and profit or loss ratio is always uncertain depending on the fluctuations in the money market of the country and economy of the country.

All investments made under any of the insurance plan mentioned above are entitled for exemption from income tax under section 80 (c) of the income tax act. The amount received by the insured towards maturity amount, death amount, death benefit, survival benefit, surrender benefit, partial withdrawal, etc. for the investments made in any of the above mentioned insurance plans is entitled for exemption in income tax under section 1 (10) (d) of the Income Tax Act.

From the amount received from customers towards purchase of life insurance through Unit-linked products, Life Insurance Companies make investment in various funds such as,

1) **Liquid fund II** - This is known for carrying extremely low capital risk and is very stable in maintaining the financial position in the money market. The organizations involved in this fund investment are majoritily Banks where hundred percent investments is made by insurers if requested by the customer. As it carries low risk, it offers returns also low.

2) **Stable Managed Fund II** – It carries low risk and organizations where the customer’s money invested under this fund are majoritily banks only. The only difference is that for specific period specific percent of amount is invested by the insurer. It also offers low but guaranteed returns.
3) **Secure Managed Fund II** – It offers more capital stability than equity funds, and offers higher potential returns than liquid fund but here the risk and returns are in the range of low to moderate. the amount is majoritily invested in money market, bank deposits, Government securities, and equity.

4) **Defensive Managed Fund II** – Here the risk and returns are moderate and the investment is made under above mentioned four types of financial organizations and instruments.

5) **Balance Managed Funds II** – Here the risk and returns are high and returns are very high and investment is made in all the above mentioned financial organizations.

6) **Equity Managed Fund II** - Here the risk and returns are very high and returns are very high and investment is made in all the above mentioned financial organizations.

7) **Growth Fund II** - Here the risk and returns are very high and returns are very high and investment is made in all the above mentioned financial organizations.

As the risk is increasing, it clearly indicates the more percentage of amounts is being invested in more risky and fluctuating financial organizations and their financial products and that is why the returns are also in proportion to the risk taken.

1.8.4 **Unit-linked Plans – An Indian Perspective:**

ULIPs have been considered as “Hybrid financial products” that offer life insurance as well as an investment component like a mutual fund. Life Insurance companies earn almost 85 percent of their business through sale of ULIPs. In the year 2008-09 ULIPs accounted for 86.74 per cent of private firm’s life insurance business. It is mentioned that currently ULIPs come under the EEE (Exempt, Exempt, Exempt) regime\[^{15}\].

This means that 1) The money invested in ULIPs is tax exempted 2) The amount received during the tenure of the ULIPs is tax exempted and 3) The amount received at maturity is also tax exempted. But as per the recent guidelines issued by IRDA, (year-2010) no, the amount received on maturity will be taxable in case of ULIPs only.

As ULIPs started gaining much popularity, as an investment and more returns offering products, Securities Exchange Board of India (SEBI), has raised strong objection for functioning of ULIPs as it was containing investment part heavily and which was ultimately badly affecting business of mutual funds. SEBI has banned 14 major private life
insurance companies (on 9 Th April 2010) which were rated aggressive in selling ULIPs. to guard those life private life insurance companies IRDA moved to finance ministry of India, which further guided both SEBI and IRDA to go to competent court.

The fight was resolved by Central Government by issuing an ordinance stating that IRDA will regulate ULIPs.

Such ordinance was promulgated by the President of India by amending the 1) RBI Act 2) The Insurance Act 3) SEBI Act 4) Securities Regulation Act to bring out clarity on regulation of ULIPs. Further IRDA issued new guide line on ULIPs and its functioning.

The changes directed are

1) Increase in lock-in period from 3 years to 5 years
2) Linked product including Pension/Annuity products must have insurance coverage
3) No loan shall be granted under Unit-linked Insurance Products
4) All Top-up premiums made during the currency of contracts must have insurance cover.
5) Partial withdrawal is allowed only after fifth policy anniversary for all ULIPs except pension annuity products.
6) In case of Unit Linked Pension/annuity products, no partial withdrawal shall be allowed and the insurer shall convert the accumulated fund value into an annuity at maturity. However the Insured will have the option to commute up to one-third of the accumulated value as lump sum at the time of maturity.
7) In case of surrender, only up to a maximum of one-third of the surrender value could be availed in lump sum and remaining amount must be used to Purchase annuity.
8) Customers will no longer have to pay agent commission of up to 40 % in the first year of the policy. Such commissions were brought to 18 % only.

Some of the private Life Insurance companies have now come out with guaranteed NAV returns irrespective of market situation affecting fund value of investments made under...
ULIPs. SEBI do not allow any such criteria of guaranteed returns on investments in mutual funds. So once again, there is possibility of fresh Fight between IRDA & SEBI on this issue.

The findings of the study show that customer perception is influenced by seven major factors. Which are Proficiency, Physical and Ethical Excellence, Functionality, Media and Presentations, Service delivery process, and purpose, Security and dynamic operations, and credibility.16

Among these, factors, Proficiency, Physical and ethical excellence and Functionality have significant impact on the overall service quality of LIC of India. Liberalization, Privatization and Globalization has become one of the most important factor for increasing customers awareness, expectations, and demands. This has compelled insurance companies to ensure customer satisfaction on all fronts on continuous basis in proportion to the speed of changes and improvements taking place in the sector. Insurance companies are updating their marketing strategies to stay ahead in the increasing competition.17

To have effective marketing strategy insurance companies follow a vibrant model based on six dimensions, assurance, personalized financial planning, competence, corporate image, tangibles and technology. Insurance companies in India are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality. It has become compulsory for insurance companies to develop and implement customer centric approach for their future survival and growth.

The most important point to be studied is that service providers lack an in-depth insight into customer satisfaction preferences. This is often found in insurance sector because of intangibility element associated with it. This gap shows that there is ample rook for service quality improvement in life insurance industry in India. All the six dimensions mentioned above have their own important role in improving over service quality in insurance sector.

Assurance is the most important determinant if service quality. Life insurance companies must comprehend assurance in customer's terms and deliver the same. Competence stands on second number while providing quality service. Customers expect that the agents of the insurance companies should be well trained in all the aspects such as
knowledge, information and procedures of finance and insurance sector, legal fulfillments to be completed, benefits, comparative study of various financial products etc.

Personalized financial planning is also an important factor that needs to be taken into consideration while offering financial solution to the customers, because the financial income and expectations, needs, wants, saving habits, income and expenses ratio, priorities in life differs from customer to customer.

Corporate image is as good as character of the insurance company. Every customer will prefer to stay in association with an organization having clean, healthy, and transparent character values.

Regarding tangibles the customers expect that the service providers should have their maximum number of branches for providing diversified investment opportunities and convenience to the customers.

Technology is changing on day to day basis and customers are sharp enough to adapt these changes and expect companies also to stay in tune with these speedy changes. Changes, improvements in technology are bringing quickness, sharpness, increase in awareness, and increase in demands and expectations of customers.

‘Product Quality and Brand Image’ has got the highest importance from customer’s point of view. Brand loyalty has been rated lowest among customers while selecting and purchasing insurance product which signifies the healthy competition in the insurance sector18.

The study revealed that male respondents give more preference to ‘Product Quality and Brand Image’ and to ‘Commitment’. On the other hand female respondents are giving more preference to ‘customer friendliness’.

Ratings for factor ‘Commitment’ was highest across the income group of respondents above Rs. 50,000 per month. Mean rating of ‘Product Quality and Brand Image’ rated highest among all income groups jointly. ‘Brand Loyalty’ was rated highest only by undergraduates and post graduates and not by graduates.

Increased competition in finance and insurance sector has compelled insurance companies to form tie-up with banks. IRDA has opened the doors for better and speedy penetration and coverage of huge population of Indian population for life insurance by
giving permission to private life insurance companies to make such tie-ups with various banks.

This sales of insurance products by banks defined as bancassurance has emerged as productive and profitable new channel of distribution and benefited insurance penetration and market share of private life insurance companies in Indian market. This type of insurance sales has accelerated the growth of life insurance business, reduced cost, and increased awareness among customers.

Insurance sales by banks (Bancassurance) stated in India in the year 2000 when the Government of India issued a notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It got further healthy stimulation when IRDA passed notification in October 2002 on ‘Corporate Agency’ regulations. Bancassurance contributes a share of almost 35 to 40 % of the premium income amongst the private players in life insurance in India.

Major reasons for adapting bancassurance strategy for distribution of insurance are

1. Wide network of banks in India.
2. Huge ready made customers for quick approach.
3. Cross selling of products of banks and that of insurance companies at a time to same customer.
4. Fee based service.
5. Rural penetration.

Short SWOT analysis of bancassurance business is mentioned below.

**Strengths:**

1. Huge untapped potential can be utilized wisely and speedily.
2. Large group of middle class households trust on banks.
3. Economic mode of distribution channel.
4. Easy access due to wide spread network of banks.
Weaknesses:

1. Poor customer awareness
2. Inflexibility of products
3. Heavy premium due to extra service charges charged by banks.
4. Customers consider it as investment option only and not as protection tool.

Opportunities:

1. Still more than 70% population is uninsured.
2. Customers trust on banks
3. Rising demand for products like health plans and ULIPs.
4. Introduction of new technology and speedy customer services
5. Along with insurance companies, banking sector also grows.

Threats:

1. Bank employees are not thoroughly trained to sell insurance products hence it becomes difficult for them.
2. Not suitable for complex products
3. Increased work pressure on bank employees with not extra benefits.
4. Availability of multiple investment options.
5. Pressurizing customers for purchasing insurance may cause losing existing customers of the banks.

Increased competition, increased customer awareness, adapting new technology and new products, has made it compelling for insurance companies to upgrade their marketing strategies on regular basis.²⁰

Customer servicing has become a prime and sensitive issue in insurance industry. Insurance companies have to focus now seriously on pre and post sales service in order to retain customers and for mouth to mouth healthy and positive advertisement by customers.

Service sector in India has contributed 60% of real GDP in last five years (RBI, 201; IMF, 2010)
In insurance sales insurer has to analyse the nature of the customer’s needs and plan their products and services in such a way that they can give satisfaction to the customers and face the competitors. Planning needs analysis of the insurance market to take decision, prediction, and forecasting as to future needs of customers. This involves fundamental 7 Ps of marketing, (Product, Price, Place, Promotion, People, Process, and Physical evidence).

Contemporary issues and challenges faced by insurance companies can be listed as,

1. Pension products- people from unorganized sector like business and agriculture do not have pension option as regular income facility in their post retirement life. Insurance companies face lot of problems in convincing customers from such unorganized sectors while selling pension plan to them.

2. Alternative channels – Customers are not fully aware about these channels like bancassurance, brokers, corporate agencies etc., and their operating systems. Majority of insurance business is still done through traditional channels. Further all intermediaries can’t sell all lines of business profitably in all markets. There should be clear demarcation in the marketing strategies of the insurance companies from this point of view.

3. Product positioning – Majority of customers look at life insurance as a tax saving product and not as protection offering product. Therefore it is very difficult for insurance companies to position their products in the market.

4. Customer education – Till today majority of customers from varied class are not found serious enough to spare time and effort to understand insurance and its importance and benefits for them. Reasons for this scenario vary from person to person and category to category.

5. Product line – Insurance companies do not have products for economically poor (Below poverty line ) people, who actually are at great risks compared to upper class people when their profession, work, working conditions, food habits etc. are considered. There is found ongoing differences between SEBI and IRDA, insurance companies, and Government of India regarding insurance regulation and ULIPs sold by insurance companies.
6. Information Technology – It has become most contributing factor to operating system of insurance companies in order to provide fast, punctual, and efficient services to customers. Unfortunately it has not reached to rural areas and customers are deprived of it for none of their fault.

7. Rural Marketing – Except LIC of India very few private life insurance companies have their branches in rural areas. All the private life insurance companies are focusing and pressurizing customers from urban areas only for the reasons best known to them. IN fact, huge untapped potential is available in rural areas if handled smartly. Now IRDA has regulated special regulations for caring rural areas. The limits for offering life insurance in rural areas have been fixed by IRDA under the separate regulation named as ‘Microinsurance’.

Swiss Re (Sigma No. 4/2000) has identified major factors for insurance globalization markets are21

1. Push Factors: Insurance companies move to emerging markets due to increasing global trade, Growing Direct Investment, Potential future growth, saturation in industrialized countries and strong growth in emerging countries and expected efficiency gains through diversification, economics of scale etc.

2. Pull factors: these factors can be studied in two different categories

   a) Market driven factors – Wide range of insurance products offering enough flexibility to customers, wide spread network of insurance companies offices for easy access to customers, agents, brokers, bancassurance as extra channel for insurance business, huge untapped potential.

   b) Regulation driven factors – IRDA has formulated new regulating policy in favour of customers and insurance companies also such as, increase in lock in period from 3 years to 5 years, ULIPs must offer minimum 15 Rs. as Net Asset Value to customers on only maturity or in death claim cases. Insurance customers had received lot of losses in ULIPs in last 10 years. Looking into this trend this change has been made.
Opportunities of growth in insurance sector

1. Untapped potential can be utilized and it is estimated that insured population may rise from present 20% to 46% in 2012.

2. Chances of increase in foreign direct investment (FDI) in insurance sector from present 26% to 49%, as the bill is awaiting to be passed in the parliament of India. If this takes place, there are chances of more foreign companies approaching India for opening insurance business in joint ventures with Indian subsidiaries.

Challenges before the insurance industry –

There are four main challenges faced by insurance industry, they are, product innovation, distribution, customer service and investments.

Better service quality offered by private life insurance companies have already started shifting customers of LIC of India to these Private Life Insurance Companies.

Increasing awareness of customers may cause increase problems in fulfilling customer expectations, new situations.

Employees of LIC of India may prefer to join private life insurance companies due to higher packages offered by these companies.

Major critical issues of Life Insurance Industry are listed as follows

1. Need to raise foreign direct investment in insurance sector
2. High expense ratio/operating cost
3. Need to strengthen core product proposition
4. Delayed break even for private insurance companies
5. Lack of professional agency channel
6. Promotion of bancassurance
7. Other global insurance issues
1.10 CONCLUSION:

After reviewing the old and newly updated literature, articles, research papers, books, journals and other useful sources such as internet and personal one to one discussion with the persons actually working in the insurance sector and customers of insurance companies some of the conclusions formed are as under.

The penetration of insurance is poor in India as compared to other developing countries in the world. India ranks on 7th position in the growth of insurance sector. Though Life Insurance Corporation of India [LIC] had enjoyed monopoly business in insurance sector from the year 1956 till the year 2000, but for reasons best known to it, could not penetrate insurance speedily in rural India. Even Government of India also could not encash big mileage from insurance sector, except doing nationalization of insurance business in India by forming Life Insurance Corporation of India by merging many small insurance companies and other financial organizations and mutual funds operating in the country before the year 1956. None of the “Five Year Plans” of India could give special thought and implementation through specially designed schemes for developing insurance sector in India.

Only the year 1998 could see the light of liberalization, privatization, and globalization [LPG] bringing some radical changes in the form of inviting foreign direct investment in insurance sector with a condition of 26% of capital investment by foreign group and 74% capital investment by Indian subsidiary group. This resulted to launch of twenty four private life insurance companies are now operating life insurance business in India. This also has brought some innovation in business methodology, change in concept of products, benefits, rules and regulations, etc,

It is observed that after entry of private life insurance companies in the insurance sector, Life Insurance Corporation of India has geared up and now receiving the after shocks of losing monopoly business. Still it is proven that though LIC ranks on number one even though it has lost market share to other private life insurance companies.

Compared to other private life insurance companies, LIC of India has slow speed in launching new products with diversified benefits. LIC is blessed and trusted and respected having benefit of Government owned life insurance organization, and one of the
old life insurance company. But this much capital won’t prove in long run in tough completion ahead in the insurance sector.

Regulation of insurance business in India by IRDA certainly deserves welcome and appreciation. This has been nicely controlling the unfair practices in the sector, and helping building trust in life insurance companies. Huge untapped potential for new life insurance business is available in India, as figures from the data and studies reviewed that till today only 20% of Indian population have life insurance cover.

Experts and Authorities in the insurance sector and Policy makers in Government of India should make a concrete effort and design plan for speedy penetration, awareness, and spread of life insurance cover to maximum population of India.

REFERENCES:
1) Oviatt F.C.: Economic place of insurance and its relationship to the society
Source: Wikipedia, the free encyclopedia
2) “Building Professionalism” (2011), Study Text, IRDA
3) Ms. Satvinder Kaur, Unit – VI, Life Insurance, Internet PDF File.
5) Editor, Market Share of all Life Insurance Companies India, October 4, 2010
Source: www.freepress.in
7) Rajendran R. & Natarajan (2009), The impact of LPG on life insurance Corporation of India (LIC), Innovative Marketing, Volume 5, Issue 2,

10) Knowledge@Wharton, India’s Insurance Sector Positions Itself as the Next Arena for Reform: India,


14) Garg M.C. (February – 2010), An Empirical Analysis of Marketing Mix in the Life Insurance Industry in India, IUP Journal of Management Research, Vol. 9, Nbr, 2,

15) “Unit Linked Plans: An Indian perspective”, http://vlex.in/vid/empirical-analysis-marketing-industry-india


