CHAPTER 2

INDUSTRY PROFILE

This chapter provides insight into the service sector, importance of the service sector for India, life Insurance sector of India-its stages, life insurance structure, training need and structure of training in public and private life insurance sector in India.

2.1 INTRODUCTION: INDIAN ECONOMY AND SERVICE SECTOR

The service sector plays a very important role in the development of the country as a whole. Studies have proved that the employment elasticity (to GDP Growth) in the services sector is found higher than that which is in both the agriculture and manufacturing sectors, and therefore, the growth of service sectors helps in generating opportunities for employment in the country. The service sector provides services which are balancing industry and agriculture and hence acts as a mechanism in the growth of the entire economy. (Pattnaik and Chhatoi, 2006).

Gronroos, (1990), has described services as ‘it is an activity or series of activities which are generally intangible in nature that in general, take place in interactions between the client and service employees and/ or physical resources or goods and/ or systems of the service provider, which are provided as a solution to customer problems.

As per the definition of Kotler, (2003), “A service is an activity or benefit that one party can offer to another which is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a Physical Product”.

Among the developing countries, India is idiosyncratic for the role of the service sector. India’s gross domestic product advanced 7.1 percent per year in the second quarter of 2016, coming down from a 7.9 percent expansion in the previous period and losing the market expectation of 7.5 percent growth rate. This was the lowest
reading since the fourth quarter of 2014, as private consumption, prolonged at a lower price while fixed investment decreased further. In India, the average growth rate of GDP averaged 6.08 in 1951 and reached the highest 11.40 percent in the first quarter of 2000. The annual growth rate of GDP in India is reported by the Ministry of Statistics and Program Implementation (MOSPI).

2.2 BACKGROUND OF LIFE INSURANCE IN INDIA

Life insurance guidelines the greatest popularity and importance in the world of insurance because the most important property of the society or any individual is a life or an individual. (Dakar and Phougat, 2011). ‘The basic premise of insurance is to protect the few against the heavy financial impact of anticipated misfortune by spreading the loss among the many who are exposed to the risk of a similar nature’ (Ayyar, V., 2003). The subject matter of any life insurance is the lifespan of a human being. Insurance is an effective financial instrument wherein the customers pay a smaller amount to the insurer in the form of premium for meeting a larger uncertain loss that would exist if they have not taken insurance. Insurance has neither prevented losses nor reduced the costs of losses. But, the principle of insurance states the loss of a few is shared by many.

Insurance is the act of securing the sum of a money, which will be paid in the event of loss or smash up of property, life, etc. by payment of a premium or premiums. The term insurance may also be defined as ‘a social device providing financial compensation for the consequences of adversities, the payments being made from the accumulated contributions of all parties participating in the arrangement. The essence of insurance thus is the collective bearing of risks as it involves the pooling of risk’ (Sethi and Bhatia, 2007). It is also a social instrument in which economic security and social protection are provided to people and also to corporate. Insurance is a mix of promise and service. It is a promise to be made to the insured to fulfill a stated obligation in future as per the conditions laid down in the insurance policy. Hence, the survival of life insurance industry depends mostly on the utmost good faith of the insured.
Insurance is generally categorized into two groups i.e., life and non-life insurance. Life insurance provides financial protection to the insured against the risk of uncertain and unpleasant things that occur. Non-life insurance provides protection to the insured against accidents, property damage, burglary and other liabilities. Insurance is made available to the public through insurance contracts or policies. There is no possibility of partial loss in the life insurance policies. Hence, all policies are purely full cash payment policies. If an unfortunate event occurs, the insurer has to pay the sum assured of the policy.

Insurable interest is necessary to be needed for the validity of an insurance contract. If it is found that there is no insurable interest, the contract immediately becomes void and unenforceable. If the insurable interest is available at the time of issuance of the policy, the validity of life insurance contract will not be ceased the insurable interest might be ceased afterward. (Joshi and Rai, 2006).

Previously, life insurance was considered purely a tax saving device and compensating the inauspicious event. But, at present, it is elevated to the position of a product of a combination of both investment and risk cover.

2.3 ORIGIN

The origin of the life insurance scenario is as old as the history of human civilization. There was no direct reference to insurance. But, many indirect references were found. In India, Life insurance can be traced back to the Vedas. Community insurance is one form which was prevalent around 1000 BC and was practiced by the Aryans. During the Buddhist period, some societies were founded to help families in building houses, protect widows and children’ (Bhalla and Kaur, 2007). It was also found in the writings of Manusmrithi, Dharmasastra, and Arthasastra.

The concept of insurance was also born at ‘Lloyd’s Cafeteria’ in England where most of the sailors and ship owners refreshed themselves. For compensating the losses incurred to the ships in the high seas, a coalition was formed amongst ship
owners and they pulled up larger sums of money. Later, this idea initiated the development of the large-scale business of personal, property and liability insurance.

The two great economic waves in human history were the Renaissance and the Industrial Revolution. The insurance mechanism in India had not been able to match the waves in equal measures as compared with the other developed nations of the world.

2.4 INDIAN LIFE INSURANCE SYSTEM

The system of life insurance in India has been progressively evolved through a number of phases in its nearly 200 years of history. The institutions providing life insurance services had been an integral part of the Indian insurance system. The evolutionary development of the life insurance industry in India went through many different phases moving from private markets to nationalization and from nationalization to liberalization.

2.4.1 Early Period and Pre-Independence

The first insurance company was started in 1818 in Calcutta. Soon after, the Bombay Mutual Life Insurance Society was also commenced its business in 1870. Some other European life insurers came to India to cover the European lives. They also covered the Indian lives of a higher income group, that too, at a higher level of premium. This exercise of the foreign insurers greatly humiliated Indians and as such patriotic Indians felt the need for Indian insurance companies serve the Indian Public.

The starting of regulation over the insurance business was taken place only with the enactment of Indian Life Assurance Companies Act, 1912 with the Provident Fund Act, 1912. In 1914, the Government started to publish returns of insurance companies in India. Later, a latest Indian Insurance Companies Act was enacted in 1928. But, the Insurance Act of 1938 was the first comprehensive enactment. It has provided strict state control over insurance business. The Insurance Act of 1938
which came into force from 1st July 1939 was a landmark to the conduct of insurance business in the country. After nationalization of the Insurance sector, monopolistic players followed the same even after liberalization.

The importance of the Act was that the whole business was brought under a unified system of control and regulations. By 1938, there were 176 insurance companies operating in the country. Under the provisions of the Insurance Act, 1938, the Government had established the Institution of Controller of Insurance along with a separate department to supervise and regulate the insurance business in the country. By 1947, 50 percent of premiums in the life insurance sector was controlled by the domestic industrial sector. It was developed in competition with the foreign insurance sector, which was predominantly represented by British Insurance Companies. Their contribution to the development of insurance expertise in Indian-sub continent markets has to be duly recognized.

2.4.2 Post-Independence and Nationalization

The Insurance Amendment Act, 1950 abolished principal agencies. The level of competition was high as there was a large number of insurance companies were available in the market. There were also allegations that many companies resorted to unfair trade practices. Life insurance business during this period was slow and restricted mostly to urban areas and upper-class population. The insurance needs of the population in rural areas and low net worth individuals were completely neglected. Insurance was considered only an unfulfilled dream for many and the concept of nationalization was fought off by the Government.

A policy framework created by Industrial Policy Resolution, 1956 to extend State control over minimum seventeen sectors of the economy which included life insurance. Nationalization of the life insurance business in India was a result of the same. On the eve of the nationalization of life insurance in India, the then Prime Minister, Pandit Jawaharlal Nehru advocated that the nationalization of life insurance is an important step in our stride towards a socialist society.
Then India's Finance Minister Shri C.D. Deshmukh asserted that the nationalization of the life insurance sector was taken into consideration only as an economic priority. The majority of the small and medium-sized life insurance companies which have been developed in the Indian market during the British regime were ultimately proved weak and likely to be collapsed in time to come. Therefore, it was necessary to consolidate the entire life insurance business under the control of a public sector i.e. Life Insurance Corporation of India.

To this effect, an ordinance was promulgated by the Central Government on 19th January 1956. Later, a Bill was introduced in Parliament and was passed into an Act in 1956. It received the assent of the president on 1st July 1956. Life insurance business was nationalized in 1956. It was the merger of 245 private life insurance companies, i.e. 154 Indian, 16 non-Indian and 75 provident societies. All the 245 companies lost their identity and were merged into the LIC from 1st September 1956. And ultimately on the same day, the Life Insurance Corporation of India came into being. The LIC took over the assets of all these companies. The Corporation began its operations with 5 Zonal offices, 33 Divisional offices, and 212 Branch offices.

After nationalization of the insurance organizations, the Controller of Insurance moved from Simla to New Delhi and became a part of the Union Ministry of Finance. As a result, the ownership role of the Government on the insurance front came to the forefront rather than the previous regulatory role. In the political and economic development of India, another historical event took place in 1971. One key decision of turning India's mixed economy into the Socialist Republic of India was taken by the then Prime Minister Mrs. Indira Gandhi’s Government. The major historical events on the Indian life insurance system which created a base to the present well-structured and well-organized life insurance industry.

Despite, the Corporation in its long career as a monopoly has passed through several phases of development. The success of the organization was benchmarked with the growth of other segments of the financial services industry. A cursory glance at
Table 1.2 may provide a view of the overall business of life insurance in India during the last ten-year period of pre-liberalization.

2.5 ECONOMIC LIBERALIZATION AND FINANCIAL SECTOR REFORMS

‘The process of financial globalization and liberalization is going on in full swing throughout the world. Even the hard-core Communist Countries and States are opting for the liberalization process, leaving aside their socialist principles as day-by-day, its continuation was becoming a burden to their exchequers’ Sastry, (1996)

Financial sector reforms were known as the backbone of economic reforms. The then Finance Minister, Shri Manmohan Singh, set up Committees to look at what was right and wrong with different parts of the sector and suggest roadmaps to reforms.

The financial sector in India was in the process of change with the purpose of the overall growth of the economy. The insurance sector constitutes a very important and essential financial intermediary for the expansion of an economy. The negotiations for Financial Services in the background of the ‘General Agreement on Trade in Services’ (GATS) was concluded in December 1997. The prime component of the services sector as included in the financial sector was insurance Soning, H.O, (2001)

This brought in new opportunities and challenges for the Indian insurance business due to the structural changes in the financial market and also technological and economic changes. New entrants into the life insurance market made the insurance service highly competitive and innovative.

2.5.1 Insurance Sector Reforms

For recommending insurance reforms and reviewing the working of the insurance industry, a Committee on Insurance Sector Reforms (CIRS) headed by R.N.
Malhotra who was the former Finance Secretary and Governor, Reserve Bank of India, was constituted by the Union Government in 1993. The Committee submitted its report in 1994 suggested the opening up of the insurance sector to private entrepreneurs. The Committee had also highlighted the issues of marketing of insurance products like huge unused potential, low insurance awareness among the general public, excessive lapse ratio of policies and poor marketing, inefficient and untrained field force and high turnover of advisors. It made necessary recommendations wherever necessary.

Accordingly, the IRA Bill, 1998 was introduced in the Lok Sabha on 15th December 1998. The IRDA Bill, 1999 was passed in the Lok Sabha and Rajya Sabha on 30th October 1999 and on 5th November 1999 respectively. The Bill received president's assent on 25th December 1999. The insurance sector reforms are not static. These have to undergo change over a period of time to suit the changing requirements of the insurance sector.

Table 2.1 gives a bird's eye view of some of the important events of the Insurance sector reforms that took place in our country for opening up the Insurance sector to private players.

<table>
<thead>
<tr>
<th>Month and Year</th>
<th>Some Important Events</th>
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<tbody>
<tr>
<td>April, 1993</td>
<td>A Committee on Insurance Sector Reforms headed by Sri R. N. Malhotra was set-up by the Government</td>
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<tr>
<td>January, 1994</td>
<td>Malhotra Committee submitted its Report to the Finance Minister</td>
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<tr>
<td>September, 1996</td>
<td>Interim Regulatory Authority (IRA) was established.</td>
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<tr>
<td>December, 1996</td>
<td>IRA Bill was introduced in Parliament and referred to the Standing Committee.</td>
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<tr>
<td>May, 1997</td>
<td>The Standing Committee submitted its Report.</td>
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<tr>
<td>August, 1997</td>
<td>IRA Bill was withdrawn following opposition to foreign participation.</td>
</tr>
<tr>
<td>June, 1998</td>
<td>Union Budget announced the opening up of the insurance sector</td>
</tr>
<tr>
<td>January, 1999</td>
<td>The IRA Bill was referred to Standing Committee on Finance for examination and report</td>
</tr>
<tr>
<td>March, 1999</td>
<td>Standing Committee submitted its Report with some amendments to the Bill and those were circulated.</td>
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October, 1999  The newly drafted IRDA Bill with FDI cap of 26 percent was introduced in the Parliament and the Bill was passed by Lok Sabha.

November, 1999  The Bill was passed by Rajya Sabha.

December, 1999  The Bill received Presidential ascent and became an Act.

April, 2000  IRDA was given statutory recognition

July, 2000  The Advisory Committee was constituted and in consultation with the Committee, IRDA notified 11 regulations

October, 2000  Private insurance companies came back.

Source: I. Yojana 2001;  II. Annual Reports of LIC and IRDA

2.6 INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY (IRDA)

The birth of IRDA was memorable in the history of the Indian life insurance industry. The IRDA was established on 29th December, 1999 with an objective to protect the interests of the insurance policyholders and to ensure an orderly growth of the insurance industry in the post-reform period.

The Life Insurance Council is presently performing the role of a self-regulatory organization of insurers, to some extent, by setting up market conduct standards based on ethical and moral values for insurers.

2.7 INSURANCE LIBERALIZATION

As a concept ‘Liberalism’ is meant for maximizing individual liberty, freedom of thought, expression and action. Liberty is inseparable from the competition. Competition is a powerful motivator. Liberalism is not possible without the abandonment of all or most of the restrictive rules. Competition means the absence of the monopolist so that a few can now influence the prices determined by the free play of the market forces as revealed in the marketplace Gupta., (1997). ‘One of the key objectives of insurance liberalization is to intensify the insurance markets by getting more and more customers under its fold and improve on the product delivery and customer servicing aspects of the business to bring it on par with international standards’ Naren N Joshi, (2003).
The Indian life insurance industry entered a new phase of transition following liberalization. The liberalization gave an opportunity to the entry of transnational competitive insurance companies into the insurance market. The biggest representatives from each of the matured insurance markets joined the life insurance sector of our country. Till the year 2000, the insurance industry was a government monopoly. But it is now experiencing severe competition because a number of players have entered into the Indian insurance market in the form of joint venture with Indian private sector partners.

The Insurance industry in India is undergoing a paradigm shift. It is significantly influenced by the dynamics in the external environment which comprises a new regulatory framework, a range of new products, new marketing and distribution channels, new approaches to underwriting and claims processing and increasing use of latest technology. The insurance liberalization makes the acquisition of insurance business in India an important place and role to play in the financial sector of Indian economy and also globally. Privatization experiences dynamic and versatile changes in the insurance industry. The private insurers have to take measures in expanding their reach to the small and medium urban centers and also a good number of villages as a way to expand their insurance market.

2.8 COMPETITION ENVIRONMENT

Liberalization introduced competition in the industry with the arrival of private sector companies promoted by Indian and foreign business groups. Globalization has augured well for the industry and the consumers. In a competitive environment, the prime objective of all insurers is to attract a maximum number of customers to undermine the competitive strength of other rival firms. To achieve the objective by one way or the other, the insurers may ignore the standards and best practices set by the industry. Therefore, to administer the business activities of the insurers and to guide them in the appropriate perspective, the place of a regulator assumes dire importance.
In the age of extensive competition, the insurance companies are required to work hard to have a competitive edge over others. To acquire more business and capture a higher market share the basic requirement is to grab field force that is more knowledgeable and professional too. At the same time for the available field force, it is necessary to make them sharper to lead in this competitive era. For this objective the only solution is TRAINING. Life insurance selling is conceptual selling; the degree to which the learned knowledge transfers in the market is a major issue.

2.9 THE NEED FOR TRAINING

In the present scenario of globalization and liberalization, the strength of competition is increasing day by day in all spheres of business and the life insurance sector is no exception. One of the most critical elements in the organization is the advisors (advisors). They are responsible not only for driving sales but spreading the awareness and need for life insurance among the masses.

The following is the need for training that has been identified.
1. To increase productivity.
2. To improve quality.
3. To help a company fulfill its future personnel need.
4. To improve the organizational climate.

2.9.1 Objective of Training

To conduct the advisors’ training as per the regulatory norm. To monitor the development of advisors who shall consistently deliver customized solutions to the clients. Constant upgradation of the advisors must be the focus and training should be an ongoing activity with the organization.

2.9.2 Training chuck at Life Insurance Corporation of India (LIC)

In LIC, different professional training programs help advisors to stay up to date and knowledgeable about the products of the company in the market. There is a further
focal point on soft skills such as communication, administering long-term relationships along with selling skills, which are very much relevant in an industry which is service-driven like life insurance. Agency advisors imparted training with special artistic infrastructure, training amenities with an outstanding faculty and assured exceptional learning surroundings.

The majority of the advisors and employees feel that training is necessary and they eagerly participate in Training programs. The training program adopted in LIC is very good. The top-level management plays an influential role in implementing training programs. After undergoing these training programs their performance is enhanced. These training programs give a better opportunity for growth as well as promotion. There is an appropriate structure of facilities for conducting training programs in LIC. In LIC, advisors are continuously given rewards for their performances. Various competitions during the year promote healthy competition among advisors and recognize them for their achievements. Depending on the volume of business the advisor achieves in a year, he or she can become a member of various clubs such as the Corporate Club, the Chairman’s club, etc. Each one of these clubs has definite performance conditions for qualifying for club membership. The agency advisors awarded to club members are entitled to attend seminars held at foreign international and domestic locations each year. Agency advisors can also qualify for the well-known MDRT (Million Dollar Round Table), an exclusive international insurance advisors club.

2.9.3 Training at Bajaj Allianz Life Insurance Company Ltd.

The advisors have a unique opportunity to be associated with the one of the best private life insurance company, to work for, buy from and invest in. The curriculum would not only provide the financial consultants with in-depth knowledge into insurance but would equip them with the sales edge required in an ever demanding and dynamic market. The product knowledge training forms a major part of the training program. Moreover, sales skills and motivational training to boost up the agency advisors are also provided. To be professional in this cut-throat competition in the main challenge. To meet this challenge, there are training sessions which
provide not only professional knowledge, but at the same time improve their skills and approach is also organized.

At Bajaj Allianz Life, the company values the advisors, who are the brand ambassadors and therefore continuously train them to sharpen their skills. The training programs ensure that the advisors maintain the cutting edge above the competition. The training schedules are such that it will help them to grasp the relevant areas in a faster and easier manner.

The training modules include education and training in Life Insurance, training in selling skills, help, and guidance in meeting customer needs, etc. There are numerous financial opportunities for the advisors to earn commissions, Bonus, renewal Commissions, awards, and travel. There is professional recognition as a recognized professional financial planner. The advisors are able to help the clients to achieve their financial objectives through the products. The advisors can earn an industry organized, internationally recognized or company sponsored rewards.

2.9.4 Training in HDFC Life Insurance

Training in HDFC Life is a practice to learn; it looks for a rather permanent change in an advisor that will improve his capability to perform on the job. It involves changing skills, attitude, and knowledge. Training and Development in HDFC Life are more future-oriented and more concerned with education than with training. Management Development activities try to inspire sound reasoning processes to improve one’s capability to know and understand knowledge. It focuses on the personal growth and on analytical, conceptual and human skills. The role of advisors is to meet more & more people, understand their needs and dreams, do financial planning and give customized solutions.

The benefits of training in HDFC Life are that it increases job skills and specific skills so that the advisors become job centered. The role of a trainer is very important that helps to shape attitudes and overall growth from a long-term perspective.
2.9.5 Training at Bharti-AXA Life Insurance Company Ltd.

The Role as Life Advisor is to provide need-based financial solutions to customers through Prospecting, Financial review and Need analysis, suggesting solutions, closing a sale, getting further referrals, ongoing service to customers, following company guidelines & processes.

The Acers Club has four levels of membership, namely Bronze, Silver, Gold, and Platinum and is an exclusive advisors’ relationship program for advisors who are keen to build a successful and rewarding career selling Bharti AXA Life’s insurance products.

The Acers Club is an exclusive advisor relationship program for advisors who are keen to build a successful and rewarding career selling Bharti AXA Life’s insurance products. There is specialized training for skill building, additional marketing support, ease of doing business initiatives, personal and family benefits and mentoring and coaching. Bharti-AXA Life expects all its advisors to attend all training programs, follow the sales processes, attend all meetings, maintain customer records, achieve sales targets, enhance the company image and render customer service.

Chapter Summary

This chapter has provided the introduction of the service sector and the significance of the service sector in India. It has explained the different phases of Insurance and life insurance in India along with its structure in India and the issues and challenges of the Sector. The next chapter of this study will provide a theoretical background.