CHAPTER – I

INTRODUCTION
1. INSURANCE – A CONCEPTUAL FRAMEWORK

Insurance is a tool by which losses of a small number of persons are compensated out of funds collected from large number of persons. Insurance companies pay back for financial losses arising out of occurrence of insured events. Insurance in its legal form is defined as “A contract between two parties whereby one party called insurer undertakes in exchange for a fixed sum called premiums, to pay the other party called insured a fixed amount of money on the happening of a certain event.” e.g. death in life insurance policies, in fire policy the insured events are fire and other allied perils like riot and strike, explosion, in health insurance expenses of hospital & certain test is covered etc. Therefore, insurance is safeguard against uncertainties. It provides financial reimbursement for losses suffered due to incident of unanticipated events, insured within policy of insurance. But in Life insurance we can’t reimburse anybody’s life that’s why we call it “Life Assurance” means we assure an amount where a family can maintain the standard of living.

1.1 CONCEPT OF INSURANCE

It is a commonly acknowledged phenomenon that there are numerous risks in every sphere of life. For human life there are risks of death or disability; for property, there are fire risks; for shipment of goods, there are perils of sea and so on. The chances of occurrences of the events causing losses are quite uncertain because these may or may not take place. Therefore, with this view in mind, people facing common risks come together and make their small contributions to the common fund. While it may not be possible to tell in advance, which person will suffer the losses, it is possible to work
out how many persons on an average out of the group, may suffer losses. When risk occurs, the loss is made good out of the common fund. In this way, each and every one shares the risk. In fact, they share the loss by payment of premium, which is calculated on the likelihood of loss.

1.2 CONCEPT OF LIFE INSURANCE

Human life is subject to risks of death and disability due to natural and accidental causes. When human life is lost or a person is disabled permanently or temporarily, there is a loss of income to the household. The family is put to hardship. Sometimes, survival itself is at risk for the dependants. Risks are unpredictable. Death/disability may occur when one least expects it. An individual can protect himself or herself against such contingencies through life insurance. Life insurance is insurance on human beings. Though Human life cannot be valued, a monetary sum could be determined which is based on loss of income in future years. Hence in life insurance, the Sum Assured (or the amount guaranteed to be paid in the event of a loss) is by way of a ‘benefit’ in the case of life insurance. Life insurance products provide a definite amount of money to the dependants of the insured in case the life insured dies during his active income earning period or becomes disabled on account of an accident causing reduction/complete loss in his income earnings.

An individual can also protect his old age when he ceases to earn and has no other means of income – by purchasing an annuity product. There are a number of life insurance products which offer protection and also coupled with savings. A term insurance product provides a fixed amount of money on death during the period of contract. A whole life insurance product provides a fixed amount of money on death. An Endowment Assurance
product provided a fixed amount of money either on death during the period of contract or at the expiry of contract if life assured is alive. A money back assurance product provides not only fixed amounts which are payable on specified dates during the period of contract, but also the full amount of money assured on death during the period of contract. An annuity product provides a series of monthly payments on stipulated dates provided that the life assured is alive on the stipulated dates. A Unit linked product provides not only a fixed amount of money on death but also sums of money which are linked with the underlying value of assets on the desired dates.

1.3 NATURE OF INSURANCE
On the basis of the Concept of insurance discussed above, one can observe its following characteristics:

1.3.1 RISK SHARING AND RISK TRANSFER
Insurance is a mechanism adopted to share the financial losses that might occur to an individual or his family on the happening of a specified event. Risk transferred from one individual to a group. That’s why there must be a huge number of persons so they can share the losses happened to probable individuals. This concept is known as “Law of large number”.

1.3.2 CO-OPERATIVE DEVICE
Insurance is a cooperative device under which a group of persons who agree to share the financial loss may be brought together voluntarily or through publicity or through solicitations of the agents. An insurer would be unable to compensate all the losses from his own capital. So, by insuring a large number of persons, he is able to pay the amount of loss. To make the insurance cheaper, it is essential to insure large number of persons because
the lesser would be cost of insurance and so, the lower would be premium. In order to function successfully, the insurance should be joined by a large number of persons.

1.3.3 AMOUNT OF PAYMENT (SUM ASSURED) ASSESSMENT IN ADVANCE

Insurance companies assess the amount of compensation in advance on the basis of Human life value i.e. the earning capacity of an individual and contribution to the family for lifetime. The sum assured also depends upon other factor like insurable interest in insured life. In life insurance, the purpose is not to compensate the financial loss suffered. The insurer promises to pay a fixed sum on the happening of an event. It is immaterial in life insurance what was the amount of loss at the time of contingency. But in the property and general insurance, the amount of loss, as well as the happening of loss, is required to be proved.

1.3.4 CLAIM AT THE OCCURRENCE OF CONTINGENCY

The claim is paid at a certain contingency insured. If the contingency occurs, payment is made. Since the life insurance contract is a contract of certainty, because the contingency, the death or the expiry of term till the death or the expiry of term, will certainly occur, the payment is certain. Similarly, in certain of life policies, payment is not certain due to uncertainty of a particular contingency within a particular period. For example, in term insurance the payment is made only when death of the assured occurs within the specified term, may be one or two years, similarly in Pure Endowment payment is made only at the survival of the insured at the expiry of the period.
1.4 PRESENT SITUATION IN INDIA

The insurance sector was opened up for private participation on the ground that, in spite of huge contributions made by the public sector (LIC) to expand the coverage and spread awareness about life insurance, the interests of the consumers would be better served if there is competition among the life insurers. The reasons that prompted the government to bring in reform in the insurance sector are well known. While the Public Sector insurance companies made enormous contribution in the spread of awareness about insurance, and expanded the market, it was recognized that their reach was still limited, the range of products offered restricted and the service to the consumer inadequate. It was also felt that the rapid economic growth witnessed in the 90s cannot be sustained without a blooming insurance sector. Country has a vast potential waiting to be tapped and this can be done only when we have a large number of companies spreading their business across the country and offering a variety of products catering to the demands of different sections of the population. It was also felt that competition would generate a healthy attitude towards redressal of consumer grievances and improve the quality of service. The insurance sector was, therefore, opened up for private sector participation with provision for limited foreign equity exposure. We have now nine years of experience of public and private sector operating together and it is, perhaps, time to see whether the expectations are fulfilled or not. And there is need to reveal the untapped potential and focus on the prevailing problems related with operations & customer satisfaction.
1.4.1 GROWTH OF BUSINESS

A remarkable feature of the post liberalization landscape is the unprecedented growth in the premium. The growth is significant in life insurance. The first year premium collected by the life insurers in the year 2008-09 was Rs.87,110 Cr. compared to Rs.6560 Cr. in the year 1999-2000, the year prior to the opening up of the sector for private participation. This represents a compound annual growth rate of nearly 32% and an average annual growth rate of 123%. If we take a corresponding period of 7 years prior to the liberation the first year premium increased from Rs.2375 Cr. in 1992-93 to Rs.6560 Cr. in 1999-2000, a compound Annual growth rate of 16%.

In spite of impressive growth by the public sector insurer, the private sector companies have managed to gain a market share of 39% by the year 2008-09. That they have been able to make such a significant inroad into the market dominated by the LIC is a great testimony to the leadership of the captains of private industry. The happy feature, however, is that their market share had not been gained at the expense of LIC but has come out of the enlarged insurance market. The credit for the enlargement of the market should reasonably go to the private sector which had identified new markets that were tilled now unexplored by the LIC.

The significant increase in the insurance market in these 9 years has reinforced the arguments of the pro-reform group that there is a vast market waiting to be exploited and that a single, government driven entity will not, by itself, be able to cater to the requirements of that market. It also established in no uncertain terms that so far as life insurance market is concerned, the growth of the private sector need not be at the expense of the
public sector. The public and the private sector can together experience high growth rates for a long time to come.

The pension market has been developing in a big way which would benefit the large section of the people in the organized and unorganized sector. There is a thriving Unit Linked insurance market that has been generated exclusively by the private sector. The annuity market has started growing. There is a surplus of new and innovative products offered by the new players. Customers are offered unbundled products with a variety of benefits as riders from which they can choose. They can buy products and services that they need while till now they were purchasing products as they alone are available in the market. This choice has empowered the customers and this is a positive signal.

1.4.2 CURRENT SCENARIO

The life insurance industry might have turned in a poor show in financial year 2009 with almost flat growth, but with the rest of the world shrinking during this period India has for the first time moved up the ranking to be among the top 10 life insurance markets worldwide.

According to the latest sigma report on world insurance markets, India recorded an inflation adjusted growth of 0.2% in USD\(^2\) terms while the world market shrunk 3.5% in 2008, thanks to the global financial crisis. While 2008-09 was an exception on account of the crisis, the average growth of the Indian life industry post liberalization has been very impressive. India was at No 20 at the time of liberalization in 2000 but had moved up to No 17 two years back and was at number 11 position last year.
The economic Survey acknowledges this growth. The report for the year 2008-09 states that insurance sector penetration, both in life and non-life segments, has improved since the time the sector has been opened for private participation. But India’s performance is completely overshadowed by that of China which has overtaken Italy and South Korea to become the sixth largest life insurance market. The middle kingdom has also recorded the highest growth rate among reasonable sized markets. Indian insurers feel that India can take a position just behind China by growing faster than other Asian countries like Korea and Taiwan which are still ahead of India.

According to V Vaidyanathan, MD, ICICI Prudential\(^3\), 40% of the growth in life insurance will come from Asia. Within Asia India and China will contribute to 80% of the growth. The Indian industry will grow by 12-13% as against 5-6% global growth. India’s ranking will have to go up. He adds that industry growth in India is essential since no social security exists in India. “Factors like a stable 8 per cent annual growth rate of the economy make India one of the most promising amongst the emerging markets, with the potential to go beyond Korea and Taiwan” said Rajesh Relan, MD, MetLife Insurance India. He adds that with nearly 80% of its 1.2 billion populations without life insurance, even a marginal increase in penetration would result in a huge increase in volumes. The expected hike in Foreign Direct Investment (FDI) cap to 49% is also expected to boost industry growth.

According to a research, done by India brand equity foundation\(^4\), suggests the life insurance industry could witness a rise in insurance sector premiums to between 5.1 and 6.2 per cent of GDP in 2012 from 4.1 per cent. Demand for pension cover is also seen raising, with 113 million Indians expected to be over 60 by 2016, a figure seen swelling to 179 million by 2026.
Currently, there are 22 life insurance firms operating in India and as per industry estimates, the life category constitutes about 4.1 per cent of the total GDP in the country. LIC has a much wider rural foothold, with rural business accounting for nearly 40 per cent of the total, while the private life insurance companies have significantly increased their focus on rural business in the past two years. Sale of health insurance products in India registered around 30 per cent growth and garnered 67 Rs. billion in terms of new premium collection for the year ended March 2009 owing to growing awareness and rising healthcare costs, as per IRDA. However, there is still huge potential for growth in the segment as currently the penetration of health insurance is at around 2 per cent of India’s 1.1 billion-population.

1.4.3 INSURANCE DENSITY

In the area of insurance density, significant contribution has been made by the private sector. We had the problem of not only absence of risk protection through insurance but also a considerable amount of under insurance. During the pre-liberalization era, the nationalized companies were unable to target niche markets and were content to sell a large number of low ticket items spread over the whole country. The private sector has, on the contrary, started looking at the requirements of various segments of the population, and introduced need based selling through excellent counseling. It is not uncommon to see the CEOs of insurance companies personally making presentations to the heads of industrial and service sector companies and advising them on what products are best suited to their employees. The product development has also benefited through these interactions as the insurance chiefs could profitably use their feedback to evolve new
products. Through this process they were able to minimize at least to some extent, the problem of under insurance.

![Insurance Density Chart]

Figure 1: A Glance of Insurance Density at Global level

1.5 PROBLEMS OF LIFE INSURANCE

Life Insurance contracts are heavily dependent on reciprocal obligations and in an ideal situation, where both the parties have fully understood their rights and responsibilities, and acted accordingly; the situation of dispute never arise. It has often been said that there is a great deal of asymmetry of information in insurance contracts; and most of this asymmetry arises because the policyholder does not understand the degree of the contract either on account of the lack of awareness or owing to the fact that the insurer has not bothered to explain the terms of the contract in their
exhaustive detail. In any case, the controversy arises only when there is a repudiation of a claim, and by then it is too late.

There are two perspectives if we talk about the problems of life insurance, One Insurer’s (Insurance co.) point of view and second insured’s (policyholder) point of view. We will take both perceptions. First, we will discuss from insurer’s point of view.

1.5 INSURER’S POINT OF VIEW
There are several issues where insurance companies are facing problem due to business environment & customer’s inadequate behavior and response.

1.5.1 INSURANCE AWARENESS
The massive increases in the size of the economies, reduced government interventions and rapid globalization that were witnessed in the recent times have led to unprecedented changes in the way the economies function. In the same way the Insurance industry too has witnessed revolutionary changes with a creation of new classes of products, increasing complexity of the products and a growing preference among the institutions to pass on investment risk to the investors. Recent technological innovations have changed the way the financial sector operates. While it is indisputable that a good number of the above changes indicate progress and are therefore quite welcome, they have raised fresh demands on individuals. The new economic system creates a host of opportunities for those who are savvy enough to understand and operate it. At the same time those lacking in awareness could expose themselves to losses, exploitation and denial of opportunities. Thus the knowledge requirement is higher now than ever before, and selection is operating more on the economic/ financial basis than earlier.
In view of the increasing role of economy and finance in the society and their growing complexity, it is extremely important for an individual to make an effort to understand them. At the societal level, a population that is illiterate in these areas signifies backwardness in the society and impedes its progress. On the other hand literate populations tend to make right choices and show quicker progress. Concerted efforts therefore need to be made to rid the society of economic/financial illiteracy to enhance the well-being of its public.

Coming to the Indian context, studies indicate\(^6\) that the patterns of consumption in the Indian society are not balanced and do not reflect a holistic understanding of life’s needs in the order of priority. It is seen that important items such as nutrition, health, education and financial security are often bypassed for expenditure on entertainment and purchase of consumer durables. There is an underestimation of both future requirements as well as of amounts needed to be set aside from the income for the purpose. Studies have revealed that people have misplaced optimism about their financial future, which is based more on hope than on any sound calculations. The general awareness of the sustainability of expenditures and life styles is pretty low, resulting in over-indebtedness. Literacy levels are low in India and even among the most literate, awareness about the Insurance markets is abysmally low. Within the financial sector, insurance suffered considerable neglect. The reasons for this are not far to seek. Historically Life insurance has not been given its due; and it has always been treated as a tool that one would resort to if there is no escape. While the field of education has seen tremendous changes in alignment with the various developments taking place globally, insurance has never been put on the priorities of either
collegiate or university education. As a result, whatever insurance education was available was picked up on the job.

For a system to flourish, it is not just the professionals who are on the job that are required to be educated. The key to effective market growth and discipline lies in consumer education. Informed and educated consumers are often the most effective means of enabling sustained market growth. There has been a marked improvement in the field of insurance education in the post-liberalized scenario.

Currently, the insurance industry is working hard to improve awareness of the benefits of its products. Both the industry and the IRDA are looking to improve insurance literacy.

1.5.2 DELAY IN PAYMENT OF PREMIUM

An insurance policy is valid only as long as premiums are paid and only when it is kept in an “active” state. There are several instances where delay in premium payment may result in the policy being “lapsed” during which period the customer is not covered under the benefits of the policy. This is quite often a major reason due to which customers / claimants are unable to receive benefits which may have otherwise been available to them.

1.5.3 BREACH OF PRINCIPLE OF UTMOST GOOD FAITH

On a very different consideration, we must also talk about the principle of “Uberrima fides”, or the principle of utmost good faith, on which all insurance contracts are based. This dictates that while applying for an insurance policy the customer must disclose all facts known to him. The insurer would then decide the appropriate rates for the policy. Under breach of this principle (where the customer misrepresents / suppresses facts), the
insurer may be placed under an unfavorable position where appropriate rates may not be applied or a policy may be given where none was financially viable. In the financial interest of the insurer (and the interest of other policyholders) such claims may be repudiated and the policy may be considered “void”.

1.5.4 CLAIM FRAUD

All Insurers are in the business of paying claims to serve the purpose of insurance. Most claims would be from honest contracts and from persons having the first rights on the funds in the life insurance pool. Notwithstanding this, it does not imply that all claims would get paid. Only legitimate claims warrant settlement. Legitimacy of a claim is a contentious issue and the objective is to establish this by causing least possible inconvenience to the client. The sanctified legal principle is ‘Innocent until proven guilty’. Considering the promising stage of the private life insurance industry, where most of the target population has practically no knowledge of the industry, it would be extremely unproductive for claim analysts to consider all claimants being ‘Fraudulent until proven otherwise’. Premiums payable for buying an insurance cover is but only a small amount as compared to the amount receivable on settlement of a claim. This is likely to result in scenarios where insurance cover is taken not for the valid need of financial security but for in anticipation of gain if a claim is settled. The industry has already witnessed several concerted efforts by individuals, and groups of people, who have devised intriguing methods to claim for these amounts when none was payable. These range from the common, taking cover on people during terminal illness or providing altered documents to prove loss, to the more severe where people are ‘invented’ and their deaths
purported to claim for the proceeds. Often, these incidents come to fore at the time of claim processing and investigation. Multiple insurance companies operating within the same market clearly adds to the ease in which such operations may be carried out and not be discovered. Claim declinature alone is not going to be enough in such instances, unless we are able to take legal action against the individuals and groups involved. The challenge for the industry is to recognize the presence of such associations and ability of individual insurers to successfully work efficiently to uncover and to take action against them.

1.5.5 POSSIBILITY OF MORAL HAZARD

Although from the statements made in the proposal form, personal statement and medical report (where required) the insurer is in a position to gauge the risk involved because it can ascertain there from the age, sex, occupation, physique and present condition of health of the individual; the risk of death in the case of a particular proponent depends also on other factors such as his own personal habits, his standard of living, income etc. To this extent, the insurer is dependent upon the agent for a true and correct picture of the individual to be given in the Agent’s Confidential Report, which is required to be completed in all cases.

The income of a proposer plays a very important part in deciding the moral hazard involved in acceptance of the risk on his life. Moral Hazard would operate in cases where there is no genuine need for insurance. The need for insurance which is a financial transaction can be measured by the financial loss to the beneficiary resulting from the cessation of the income earned by the life assured due to his death. Income from investments or property does not give rise to a need for insurance as it does not cease on the death of the
holder. Policies of assurance are sometimes taken for securing rebate of income tax; such rebate is available in respect of premiums paid not only under standard tables of assurance but under Deferred Annuities as well, subject to certain conditions.

Where there is no genuine need for insurance, the object in taking out insurance would be speculative in a proportion of cases; and even after all reasonable precautions are taken by the insurer to control the operation of moral hazard, the mortality of a group of such assured lives would be higher than expected. In view of this, the insurer must be supplied with correct information as regards the means of livelihood and income of the prosper to enable it to judge whether the amount of assurance proposed is commensurate with the proposer’s income.

1.6 CUSTOMER’S POINT OF VIEW

1.6.1 CUSTOMER EXPECTATION

The perception of the product created in the mind of the policyholder at the point of sale, plays a crucial role in building his expectations at the time of claim. Hence from a consumer’s standpoint, it is extremely essential to be clear on several aspects of the product and post-sale service at the point of sale itself.

1.6.2 FORCE-SELLING

Life Insurance selling has become an aggressive business after private players entered the marketplace. While this was required to a great extent in the interest of increasing insurance penetration in the country, it has, on the flip slide, also resulted in instances of gross mis-selling by unscrupulous
salespersons. In the lure of ‘closing a deal’, critical elements of insurance
selling like explaining the coverage, exclusions, duties of insured in the
event of claims and the like are often not communicated to the insured.
These are the lapses that hurt the insured more than the salesperson in the
eventuality of a loss.

16.3 POLICY WORDINGS
In several countries campaigns towards making insurance policies in Plain
English have become a movement. In these countries apart from insurance
companies other companies like government departments, banks and local
councils have come to realize that clear communication is actually a good
idea. Instead of writing to impress or confuse, they are now writing to
inform and explain. They are using plain English to do this. In India, to a
large extent with IRDA’s intervention and the opening up of the industry,
several insurers have been working towards simplifying the policy wordings
to make them more reader friendly. Highlighting difficult/ technical words
and providing definitions for them has been one significant improvement in
rendering the policy more understandable. In spite of the above, even today,
if you ask the general public, they will still cite insurance policies as prime
examples of legalese. Why? Because insurance policies used to be written in
legalese, and people simply gave up trying to read the policies. There is a
strong case for all the industry players to devote more attention to
propagating Plain English in insurance policy wordings.

1.6.4 DEFICIENCY IN SERVICES
People purchase life insurance to cover contingencies. Over the last few
years, developments in the life insurance sector have resulted in a paradigm
shift in the way the business is conducted. In a free market scenario, the customer has a choice from whom to buy. He exercises this choice based on perceptions formed through his experiences. But even with the overwhelming choice of products and providers, consumer grievances continue to rise. It has been observed that many of the complaints are a result of insufficient services, wrong communication and administrative failures. Quite often, the point of sale is the root cause for most grievances as the consumer does not know or just doesn’t understand what he is buying. Sometimes it is in the nature of the product, but more often than not, it is an unsatisfactory level of services from the insurer’s side. When the insurer or his representative is talking to a prospective customer, disclosure about the product is a vital need. There is a generic complaint in this industry about the products as the consumer is neither told what he should know nor does he know what to ask. This may result in the consumer ending up with a product he does not really require. Another common complaint is that the agent promises the customers higher returns than possible and understates the charges especially in unit linked insurance products.

1.6.5 UNEXPECTED CHARGES & RETURNS

Due to emergence of equity market and more investment centric policies life insurance companies introduces the Unit linked insurance plans, where risk of return is attached with insured. The concerns arise on account of various other issues relating to the risks they bear; uncertainty in respect of categorization of charges; the charges levied; periodicity of charges; and disclosures on performance.
1.7 BUSINESS POTENTIAL IN THE MARKET

The insurance sector has a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we are living in a more risky world. Trade is becoming increasingly global. Technologies are changing and getting replaced at a faster rate. In this more uncertain world, for which enough evidence is available in the recent period, life insurance will have an important role to play in reducing the risk burden individuals and businesses have to bear. In the emerging scenario, the insurance industry must pay attention to (a) product innovation, (b) appropriate pricing, and (c) speedy settlement of claims. The approach to insurance must be in tune with the changing times.

The vast array of investment options available in the Indian market today is an indicator of the robust growth the market is experiencing. As the different financial categories jostle to win consumers’ confidence and trust, life insurance still reigns as the preferred investment instrument, latest findings from The Nielsen Company shows. According to the recently conducted Nielsen Life 2008 survey, Life Insurance has the highest penetration levels amongst investment options with 44 percent, followed by Bank Fixed Deposits which has 35 percent votes. Gold (33%) and Property (23%) are the other favorites among locals. The current financial turmoil makes it a tough case for equity markets.

Nielsen Life 2008 is a syndicated study to provide insurance players an understanding of the overall Indian insurance market. It measures awareness, perceptions, concerns, motivators/barriers, satisfaction levels and usage towards insurance among retail consumers.
1.7.1 FUTURE INTENTION TO INVEST

In the wake of the global financial meltdown, most investors are looking at options which help them safeguard their capital. Life insurance is seen to be one such avenue. The three key triggers for buying life insurance are Family Protection in case of untimely death, Retirement Corpus and Securing Child’s Future. Interestingly Insurance for Child emerged as a key trigger compared to the previous leg of the survey in 2004. Tax exemption as a trigger to purchase insurance has dropped significantly compared to 2004. Now we see a reduction in the number of people who bought insurance for tax saving with more people buying insurance for insurance sake.

1.7.2 MARKETING CHANNELS

We have seen lot of change in the life insurance marketing in recent years. Increase in the number of players, significant spikes in media spends, growing focus on instruments like Unit Linked Insurance Plans (ULIPs) and expanding channels such as Bancassurance have led to high noise levels and clutter in the market. Yet, the role of the agent or insurance advisor remains paramount while closing sales.

For most of the investors, Agents are the main source of information on insurance policies. Friends/ peer group emerge as a significant source of information. Media also plays an important role in spreading awareness about various insurance policies, which includes Television Advertisements (55%), Newspapers (35%), and Outdoor Hoardings (33%). The boost in media activities in the last four years has helped insurance companies create awareness about their products. Today there is ample information about the various financial products available in the market and people have more
clarity about them. Peer groups are also discussing more about finance today than they were doing a couple of years back. All this is acting as a major influence in the final decision-making of consumers.

1.7.3 PUBLIC VS PRIVATE PLAYERS

There appears to be a consumer divide between private and public players where insurance is considered. Most customers chose the government owned, LIC, for their first insurance policy. However there is a strong tendency to look at private players for subsequent policies. Private players are seen to provide additional investment options and are considered more transparent. The door step service provided by them is preferred by investors. On the flip side, the high charges and hidden costs of private insurance companies act as a deterrent for investors. Investors think that private players are new in business, thus this is often a barrier for a long term commitment. They also score low on providing better product portfolio and services.

The mission of the life insurance sector in India should be to extend the insurance coverage over a larger section of the population and a wider segment of activities without any problems. The three guiding principles of the industry must be to charge premium no higher than what is warranted by strict actuarial considerations, to invest the funds for obtaining maximum yield for the policy holders consistent with the safety of capital and to render efficient and prompt service to policy holders. With imaginative corporate planning and an abiding commitment to improved service, the mission of widening the spread of insurance can be achieved.
1.8 NEED AND RELEVANCE OF THE STUDY

The massive increases in the size of the economies, reduced and rapid globalization that were witnessed in the recent times have led to unprecedented changes in the way the economies function. In the same way after the liberalization the Insurance industry too has witnessed revolutionary changes with a creation of new classes of products, increasing complexity of the products and a growing preference among the institutions to pass on investment risk to the investors. At present as many life insurance companies are operating in India and each one is issuing policy formats with different variations. As there is no uniformity, it is difficult for the market as well as policyholders to comprehend and make reasonable comparisons of terms and conditions, privileges and benefits offered by different insurers. Although most of the earliest studies have predicted about the various problems & growth opportunities in the life insurance sector but most of them belongs to pre-liberalization period and that is not significant in this liberalized and competitive era where most of the companies are private other than LIC. Hence, it is worthwhile that a serious research should be done to find out the complexities of the life insurance market with a view on growth opportunity which provides much needed solution without compromising the competitive spirit of the market. As well as Life Insurance contracts are heavily dependent on reciprocal obligations and in an ideal situation, where both the parties have fully understood their rights and responsibilities, and acted accordingly; the situation of dispute never arise. We have observed the level of dissatisfaction is higher in private company’s customers because of fake promises made during selling process. It has often been said that there is a great deal of asymmetry of information in insurance contracts; and most of this asymmetry arises because the policyholder does
not understand the degree of the contract – either on account of the lack of awareness or owing to the fact that the insurer has not bothered to explain the terms of the contract in their exhaustive detail. The insurance sector has a vast potential not only because incomes are increasing and assets are expanding but also because the volatility in the system is increasing. In a sense, we are living in a more risky world. Life is becoming increasingly riskier. In this more uncertain world, for which enough evidence is available in the recent period, life insurance will have an important role to play in reducing the risk burden individuals and businesses have to bear. In the emerging scenario, the insurance industry must pay attention on emerging problems and find out the ways for grabbing the potential of the market. Therefore this much needed study focus on the current problems with a view to formulate the solutions and explore the new avenues of growth.

1.8.1 STATEMENT OF THE PROBLEM
As I have observed during my research that very few researchers has done significant study in the newly emerging field of life insurance. Based on the above problems & prospect in the life insurance market the issues that needs to be addressed is as to how to sustain the competitive advantage for a long period of time with effective service to the customers & company’s attempt at building up and maintaining advantage over competition for a long period.

The present study identifies the problems & prospects of the life insurance industry with a view to suggest suitable strategies for improving their performance and potential in the global market.

The derived problem statement is as follows:
To find out the various micro and macro aspects of life insurance where customers are facing problems in public & private life insurance companies and suggest the suitable policies to grab the existing business potential available in the market on the basis of comparative study between public & private life insurance companies.

The study is an attempt to see whether the Indian Life insurance companies are able to find out the problems of the customers and reap the benefits of liberalization after the abolishment of Monopoly of LIC, focusing on what are the customer’s characteristics or expectations and what strategies should be adopted to develop sustainable competitive advantage.

The investigation of the above-stated problem was executed through the exploration of the following sub-problems:

- What is the current market reach of life insurance and on what parameters customers are buying policies?
- How the customers are dealing with life insurance companies and what satisfaction level they are getting through their services?
- What is the expectation level of the customers regarding services and how much they are satisfied with current performance?
- What are the different parameters where companies can act and win the confidence of the customers?

These queries were answered by investigating the available resources and responses of the respondent. These sub-problems give rise to the primary and secondary research objectives that are expressed in the succeeding section below.
1.9 OBJECTIVES OF THE STUDY

This study is focusing to find out various problems areas because of customers are lacking confidence in Life insurance companies and how we can differentiate those problems in comparison to Public & Private companies. The analysis is useful in formulation of strategies for better service efficiency & products benefits.

The objectives of the study are:

1. To find out the preference level of the customer about the selection of the company and compare the parameters of selections.

2. To find out various purposes on which customers buy life insurance and reasons to choose the service provider accordingly & evaluate the relevance of the purposes & reasons.

3. To find out the preference of the intermediary while buying the life insurance and relevancy of the selection of the said intermediary.

4. To check the awareness level of life insurance among the population & critically evaluate the policies made by public & private life insurer to enhance the awareness level.

5. To find out overall satisfaction level of the policyholders of life insurance and examine the impact of existing strategies adopted by public & private life insurers to enhance customer satisfaction.

6. To suggest strategies for better service efficiency & products benefits.

Based on above objectives certain sub-objective formed and tested through collected data. Those sub- objectives are:
(i) To find out basic reasons for fewer life insurance ratio in the population and suggest the strategies to overcome the problem.

(ii) To find out current preferences of the type of the products among the policyholders and examine the popularity of products according to needs.

(iii) To find out the problems, with intermediaries and Life insurance companies faced by policyholders and recommend the way out.

(iv) To critically evaluate the service given by life insurance companies and suggest policies for improvement.

(v) To compare the life insurance policies with other existing instruments and suggest policies to enhance the competitiveness of the products.

1.10 CHAPTER OUTLINE

Chapter One is an introduction to the study. Critical issues such as the background and conceptual framework for the study, the statement of problem, objectives, research design and methodology are exhibited.

Chapter Two explore the review of existing literature. This chapter focuses on the problems & opportunities in various aspect of the life insurance. Each aspect has been reviewed to identify the gaps in services & challenges faced in the market and analysis of the internal and external competitive environment to asses its capabilities to achieve dynamism and sustainable growth in the future.

Chapter Three exhibits the overview of the growth of life insurance industry on the basis of pre and post liberalization scenario. It gives both historical & modern perspective. It discussed about the issues and process of nationalization & throws light on tremendous growth after liberalization.
Chapter Four review the contribution made by insurance industry in the growth of economy & the various sections of the society. Here we critically evaluated the steps taken by public & private sector companies for the welfare of weaker section of the society and growth opportunities for further developments and explore the existing legislation to regulate life insurance business. Each aspect has been reviewed to identify the gaps in the law where private companies are taking undue advantages and review of suggestion given by IRDA & other committee to reform the current system.

Chapter five deals with the research methodology of the study. Need and scope of the study have been mentioned. The objectives, hypothesis and the research design, and limitations of the study have been stated.

Chapter Six reports the analysis of data and interpretation of findings. Statistical analytical tools have been applied in order to gain insights and test the hypotheses.

Chapter Seven provides conclusion and interpretations regarding the application and testing of the framework in the life insurance industry and recommendations leading to suggesting strategies to develop new business, new tailor made products, stretch the market reach with innovative thoughts and find out optimum solutions for the existing gap of services & products benefits.

Conclusion: Looking at the scenario about Indian life insurance there is immense need for a proper research to find out existing gap in the services, Marketing, Product benefits and evaluate the policies made by public & private life insurer, whether they are according to international standard and current market & customer needs and suggest suitable strategies to develop sustainable competitive advantages.
References

8. ibid