CHAPTER 1
RESEARCH DESIGN AND REVIEW OF LITERATURE

1.1 Introduction

The concept of insurance is not new to the society. Its origin can be traced 5000 years back in ancient regime, where the people whose property vulnerable to the losses come together and created social fund by way of contribution. Such social fund was used to compensate the person who actually bears the loss. With increase in trade commerce and industry, the concept of insurance became more popular and with Industrial Revolution, the institution for insurance sprang up in me economy. The concept of making of provision for old age, provision for education and marriage of children, making provision to get regular income after retirement, provision for becoming disable due to accident, provision for medical aid and making provision for family members if death is caused earlier, these are new concepts that have come with the passage of time. Now insurance is an unseparable part of the society.

Investment refers to the acquisition of assets there are a large number of investment avenues for savers in India. Some of them are marketable and liquid while others are riskier. Risk and return are a major characteristic which investors has face and handle. Some of the options of investments are equity, securities, fixed deposits, commodities unit linked schemes, real estate etc. investment is the employment of funds on assets with aim of earning income or capital appreciations me risk is under taken with a view to reap some return from the investments.
1.2 **Definition of insurance:**

1. **Justice lowrence** defines "Insurance is contract by which the one party, in consideration of price paid to him adequate to the risk, becomes security to the other that he shall not suffers loss, damage or prejudice by the happening of the perils specified to certain things which may be exposed to them.

2. **Riegel and miller** defines "Insurance is social device whereby uncertain risks of individuals may be combined in group and thus made more certain, small periodic contribution by the individual providing a fund out of which those who suffer loss may be reimbursed.

Why should invest:

1. Earn return on your ideal resources.
2. Generate a specific sum of money for a specific goal in life.
4. To meet cost of inflation

   Hence now a days there is a greater need to study investment sector.

1.3 **Types of Insurance**

1. **Life Insurance:**

   Insurance guaranteeing a specific sum of money to designated beneficiary upon the death of the insured or to the insured if he or she lives beyond a certain age.

2. **Health insurance:**

   Insurance against expenses incurred through illness of the insured.

3. **Liability Insurance:**

   This insures property such as automobiles, property and professionals/business Functions of insurance:

   Functions of insurance are classified into three categories
1.4 Functions of Insurance

1. Primary functions of insurance
   • Providing protection
   • Collective risk bearing
   • Evaluating risk
   • Providing certainty

2. Secondary functions of insurance
   • Prevent losses
   • Covering larger risks with small capital
   • Helps in the development of larger industries

3. Other functions of insurance
   • Saving and investment tool
   • Medium of earning foreign exchange.
   • Risk free trade

1.5 History of Indian Insurance Market
   (Life and Non-life)

   Insurance in India goes back to the time of British. The first life insurance company to operate in India 'the oriental life insurance Company' was established in 1818 in Calcutta. It was however a British company. The first Indian insurance company the Bombay Mutual life Assurance society started operation in 1871. In 1956 the Indian insurance industry was made up of 154 domestic insurers, 16 foreign life insurers and 75 provident funds, and was still governed by the insurance act of 1938. In 1956 all life insurance companies were nationalized, the story of non-life insurance in India is no different. In 1907 the first Indian general insurer, the Indian Mercantile insurance company started operations. The New India Assurance ltd. Company was incorporated in 1919. In 1972,
the non life insurance business in the country was nationalized and the GIC (General insurance Corporation of India) was formed with four subsidiaries: the national insurance, oriental insurance, united India Insurance and the New India Assurance company ltd. Since then Insurance in India had a protective wall built around it, to keep it a local players market.

1.6 Top insurance companies in India:

Following are some of the top insurance companies in India.

- **Life insurance corporation of India LIC:**

  The Life Insurance Corporation of India (LIC) is undoubtedly India's largest life insurance company. Fully owned by government, LIC is also the largest investor of the country. LIC has an estimated asset of Rs. 8 Trillion. It also funds almost 24.6% of the expenses of Government of India.

  Established in 1956 and headquartered in Mumbai, Life Insurance Corporation of India has 8 zonal offices, 100 divisional offices, 2,048 branch offices and a vast network of 10,02,149 agents spread across the country.

- **SBI Life Insurance:**

  SBI, a leading figure in banking sector, entered the insurance industry as SBI Life Insurance which is a joint venture between State Bank of India and BNP Paribas assurance-a French company ranked the 5th largest banking company worldwide. In the year 2005-2006, SBI Life Insurance became the first insurer to make profit.

  SBI Life offers a variety of products designed for various segments of society. These include individual plans, group plans and health plans. All these products cater to various requirements of its end users. In 2007-
2008, SBI was placed with the global top 5 life insurance companies with largest number of MDRT members.

- **Aviva life insurance:**
  
  AVIVA Life Insurance, one of the popular insurance companies in India, is a joint venture between the renowned business group, Dabur and the largest insurance group in the UK, Aviva plc. AVIVA Life Insurance has an extensive network of 208 branches and about 40 Bancassurance partnerships, spread across 3,000 cities and towns across the country. There are more than 30,000 Financial Planning Advisers (FPAs) working for AVIVA Life Insurance. It offers various plans like Child, Retirement, Health, Savings, Protection and Rural.

- **ICICI Prudential Life Insurance:**
  
  ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank, India's foremost financial services companies, and Prudential plc, a leading international financial services group headquartered in the United Kingdom. While ICICI retains 74% stake in the joint venture, Prudential plc has the remaining 26% stake. ICICI Prudential began its operations in December 2000.

- **ING Vysya Life insurance:**
  
  ING Vysya Life Insurance entered into the Indian insurance industry in September 2001. A joint venture between ING Group, Ambuja Cements, Exide Industries and Enam Group, ING Vysya Life Insurance uses its two channels, viz. the Alternate Channel and the Tied Agency Force to distribute its products. The first channel has branches in 234 cities across the country and has got 366 sales teams. On the other hand, the later one has more than 60,000 advisors. Currently, ING Vysya Life Insurance has tie ups with more than 200 cooperative banks.
• **Birla Sun Life Insurance**

Birla Sun Life Insurance Co. Ltd. (BSLI) is a joint venture between Aditya Birla Group, an Indian multinational corporation, and Sun Life Financial Inc, a leading global insurance company. Established in 2000, BSLI has contributed to the significant growth and development of the life insurance industry in India and currently ranks amongst the top 5 private life insurance companies in the country. Birla Sun Life Insurance is distinguished as the first financial solutions company to introduce 'Business Continuity Plan', the 'Free Look Period' and 'Unit Linked Life Insurance Plans' in the Indian insurance.

• **MAX New York Life Insurance**

Max New York Life Insurance Company Ltd. is one of the top insurance companies in India, A joint venture between Max India Limited and New York Life International (a part of the Fortune 100 company - New York Life), Max New York Life Insurance Company Ltd. started its operation in April 2001. It currently has around 715 offices located in 389 cities across the country. It also has around 75,832 agent advisors. Max New York Life offers 39 products, which cover both, life and health insurance.

• **Bajaj Allianz**

Bajaj Allianz is a joint venture between Bajaj Finserv Limited and Allianz SE, where Bajaj Finserv Limited holds 74% of the stake, whereas Allianz SE holds the rest 26% stake. Bajaj Allianz has been rated I AAA by ICRA for its ability to pay claims. The company also achieved a growth of 11% with a premium income of Rs. 2866 crore as on March 31, 2009.
• **Bharati AXA Life Insurance**

Bharti AXA Life Insurance, one of the top insurance companies in India, is a joint venture between Bharti group and world leader AXA. Bharti holds 74% stakes, whereas AXA holds the rest of 26%. Bharti AXA has its branches located in 12 states across the country. It offers a range of individual, group and health plans for its customers. Currently more than 8000 employees work for Bharti AXA Life Insurance.

• **Reliance life insurance:**

Reliance Life Insurance Company Limited comes under the Anil Dhirubhai Ambani Group (ADAG) which ranks among the top 3 private sector financial services and banking companies of India. Reliance ventured into the life insurance business in October 2005 by acquiring AMP Sanmar and in 2009-2010, it became the largest private insurer of India with largest number of policy count.

1.7 **Scope of the Study:**

The present study is conducted in Kolhapur district, data is collected from the various insurance companies, residing in the different areas of Kolhapur district. Nine top insurance companies, returns are compared to the life insurance company from 2000 to 2010. The study beneficial to understand the comparative rate of return of insurance companies further it is important from insurance companies point of view. What are the difficulties and limitations faced by them, it also helps to understand the role performed by the advisor to achieve the desired goal through planned strategy.
1.8 Statement of the Problem:

The present study is related to the returns from the various schemes from the different insurance companies. The investor's everyday facing number of problems regarding the insurance company and their investment plans. The investors confused that which company gives more returns from various insurance schemes. Lot of insurance companies coming into the market but we have to know their policy strategies required to safeguard the investors and the returns on the investments. So that researcher interested to know which company gives maximum returns on various investments from different insurance companies hence this topic is selected, the exact title of the study is "Investment Management with Special Reference to Life Insurance Scheme: A Customer Point of View"

1.9 Objectives of the study.

In view of the above introductory remarks, the following have been laid down as the specific objectives of the study.

1. To study the various schemes of the insurance
2. To study the investments made by customers in the form of different policies and its returns
3. To study the investors attitude towards returns from these insurance companies.
4. To study the quality of services rendered by LIC and private insurance companies,
5. To give meaningful suggestion.
1.10 **Statement of hypothesis:**

In order to test the above objectives the following hypothesis are formulated

- **H₀**  
  There is no significant difference between the variability perception of customers with respect to returns in the LIC and the private insurance companies.

- **H₀**  
  There is no significant difference between the satisfaction level of customers about the services in LIC and private insurance companies.

1.11 **Sample Size:**

The sample size of the study is LIC and nine reputed private insurance companies in Kolhapur district with 10 customers (Investors) of each company likewise the total size of 100 customers which will be selected randomly and questionnaire will be prepared.

1.12 **Research Methodology:**

This is an exploratory study of Life Insurance Corporation and nine private insurance companies in India. There are twenty two private insurance companies in India. Out of this one LIC and nine Private insurance companies are selected for the study purpose. From each insurance company ten as convenience samples of ten customers from each company. The questionnaire is framed and circulated to each of these customers in order to know the performance of the company.

In order to produce the present information tool the methodology is divided in to two parts:

1) **Primary data**

Primary data is collected through discussion with the officers and other staffs of the particular insurance companies and circulating the questionnaire among the customers.
2) **Secondary data**

Secondary data is collected through the various investments schemes brochures (scheme sheets, pamphlets) news papers, periodicals, government publications, annual reports of companies and from websites of insurance companies.

1.13 **Data analysis:**

The various statistical tools and techniques are applied for drawing conclusions. Different tables viz. frequency table, percentage table, and average tables are used for presentation of the data. The data is also presented in the form of pie diagram and multiple bar diagram etc. In order to calculate the rate of returns the ratio analysis is also used for analysis of data.

1.14 **Chapter scheme:**

The study is divided into the following chapters

**Chapter I   Research Design and Review of literature**

This chapter highlights the research methodology and design and review of literature of the study.

**Chapter II   Profile of the organizations**

This chapter contains history growth and the framework of the LIC and ten selected private insurance companies.

**Chapter III   Theoretical framework of the study.**

This chapter focuses the theoretical background of the insurance returns and the insurance companies.

**Chapter IV   Data analysis and interpretation**

The collected data analyzed and interpreted by applying various statistical tools and techniques.
Chapter V  Conclusion and suggestions

This chapter involves the conclusions and suggestions based on data analysis and interpretation.

1.15 REVIEW OF LITERATURE

Before proceeding further for fulfilling the various objectives set out for this study, it is pertinent to review the available literature on the related aspects of the present study however, in this chapter an attempt is being made to undertake the review of available literature published.

While reviewing, care has been taken to tap all possible sources such as books, Journals, Magazines, Newspaper items, Doctoral Thesis and Dissertation, Souvenirs of Conferences/ Seminars/Workshops and websites.

According to the Life Insurance Council Secretary General S.B. Mathur¹, the Indian Life Insurance Industry is expected to grow by about 155% in the current financial year to touch a total premium income of Rs. 2, 55,000 crores in 2009-10. He is optimistic about the future of Insurance business in India and expected the Industry to grow approximately at 15%.

Mr. G.V. Nageshwara Rao², CEO and Managing Director, IDBI Fortis Life Insurance, views that Insurance in India is expected to grow at about 205 in the next few years, lower than the 25% annual growth of the last five years. He further added, with Insurance penetration in the country at about 4% of GDP (20070, which is close to the world average of 4.4 %, Industry growth is now expected to slow down.

He said, key drivers, however are expected to be the semi-urban areas as most major cities already have a high penetration. As per his
opinion, India is at par with the Asian markets, but far behind the developed markets of Europe and America. The growth, however, would stabilize as the market grows.

In order to reach out to the potential customers and strengthen its distribution channels, ICICI Prudential Life Insurance company has tied up with India post to distribute Insurance products through the cast networks of Post offices in West Bengal. The company has already entered into similar agreements with the India Post in Gujarat, Karnataka, Andhra Pradesh, Jharkhand and Madhya Pradesh.

In the referral agreement, the postal employees would refer their customers’ to ICICI Prudential’s banc assurance officers for selling Insurance policies.

The authors M C Garg and Anju Verma are of the opinion that the Insurance market is likely to see changes in the spheres of Marketing Mix. They feel that the customer-driven market would result in many flexibilities and innovations in Product, Pricing, distribution channels and Communication mechanism. The authors have attempted to study the nature, process and pattern of Marketing Mix in Life Insurance companies in India.

As per their findings, the marketing departments of Life Insurance companies always review the Mix. They are also of the opinion that the marketing departments of Life Insurance companies sometimes attempt at analyzing their competitors’ mix.

However, the researcher strongly feels that since the study is based on service marketing, the authors have taken into consideration only the 4 P’s of Marketing Mix and have ignored the very important remaining 3 P’s i.e. People, Process and Physical evidence.
Riding on the initial success of micro Insurance scheme (LIC has launched the first micro insurance plan, “Jeevan Madhur” as an endowment assurance plan), the state run LIC is aiming to nearly triple its business by selling over 40 lakh policies in 2010, with the launch of its second micro insurance plan “Jeevan Mangal”. According to Mr. Vinay Kumar Sinha, LIC aims to sell about 42 lakhs policies to the financially weaker section of the society during the current fiscal against 15.4 lakhs sold in the last year. With the establishment of a technology platform and tie-up with NGO’s, micro finance institutions and the Self Help Groups, the penetration of such products are growing. Micro insurance products of LIC are customized offerings to cater to the distinct needs of the most vulnerable low income sections of Indian population.

The IRDA has expressed concern over the rise in ‘orphan’ policies. The regulator has, in its 2007-08 annual report said “the fact that as many as 86 lakh non-linked policies have lapsed during 2006-07 holds mirror to the seriousness of the matter. The report further added “Termination of agency, which is quite rampant in the industry, has rendered million of policies ‘orphan’.

Orphan policies are prone to neglect due to lack of follow-up/servicing support and are known to lapse in large numbers. The report pointed out that in an era of multi-channel distribution, insurers need to monitor channel-wise levels of lapsation and plug when not adequately supported by the servicing infrastructure.

Mr. Mohan Kumar, MD, Link-Insurance Broker Company (P) Ltd., strongly feels that the high rate of attrition among Life Insurance agents is resulting in large number of policies remaining under services.

As said by Swati Gupta Insurance sector reforms are a part of government’s priorities. A package of reforms is very much in the offing.
There is an immediate need of a regulatory framework to open up the insurance industry.

The author T Sri Jyothi\textsuperscript{8} opines, even after taking so many measures to educate the rural people about the benefits of Insurance, still the penetration in rural areas has not improved much. This is because the lack of awareness, motivation of rural customers and failure of timely settlements of claims by insurers. In some cases, the claim settlement process took years and has become a demotivating factor for the development of rural insurance. If tapped properly, this segment is poised to become one of the most profitable segments for Insurance.

It offers tremendous growth opportunities to the Insurance companies but its success depends on the development of viable and cost effective distribution channels, building customer awareness and confidence levels among the people in order to achieve a higher market share. Therefore, there will be no looking back for the companies, if they try their own innovative methods and devise new policies to attract rural masses.

In her article, author Sabera\textsuperscript{9} says that the Insurance Industry in India is undergoing a major change. As the private players entered into the market, the competition has risen for the public sector companies. The competition has also increased among the private players and the main competition lies in a variety of products provided to customers, in the pricing of the products and the service they are providing.

Nowadays, the customer is not only looking into the products, they are also looking at price, service of the company, the returns they are offering and the total protection. Several players are expected to enter India’s rapidly growing insurance market in the next few years especially, if the foreign direct investment limit is raised to 49%.
Already, the insurance sector is recording a growth much more than what was expected. Every life or non-life insurance company is looking for ways to expand their operations in India. Insurance companies are spending a huge amount to identify the needs of the customers and are providing a variety of products to attract them. The top most public sector insurance players are also identifying new ways to satisfy the needs and will be competing with the private players in the near future. As more new players enter the fray there will be ample scope for growth and the industry will become highly competitive.

With liberalization in India, the Insurance Industry is slowly becoming cluttered with numerous private joint ventures trying to entice the Indian consumers with well designed products and benefits.

The authors Fulbaug Singh and Sonia Chawla\(^\text{10}\) have made an attempt to identifying the key factors responsible for customer preference for Life Insurance products in India.

They concluded that the variable ‘premium amount’ is given the maximum important by the respondents who purchased before as well as after liberalization. According to them variables ‘corporate image/Brand name’ and ‘transparent and fair dealings’ are considered the most important by the respondents who purchased policy after liberalization.

They further added variables ‘liquidity/surrender value’, ‘extra coverage bonus payout’, ‘rate of return’, ‘tax benefit’, ‘maturity amount’, ‘assured return’ and risk coverage/protection for family’ were given more weightage by the respondents who purchased policy after liberalization as compared to respondents who purchased policy before liberalization.

Ramesh Lal and Neelima Dhonda\(^\text{11}\) have highlighted the extent of Insurance penetration in selected countries which represented 63 percent of world population and 74 per cent of Global GDP. The countries were
selected from different continents. Insurance penetration along with Insurance density for Life Insurance, general Insurance and overall Insurance has been calculated for the selected countries for a period of 5 years i.e. from 1999-2003.

As per their studies Life Insurance penetration ranges from 0.13 per cent and 14.41 per cent while Non life insurance penetration varied for the selected countries during the same period 0.59 per cent to 4.68 per cent.

Non-life insurance penetration is much less as compared to Life Insurance. United States of America could enjoy Non life insurance penetration above 4 per cent. The density of No Life insurance is much less as compared to density for Life insurance business. Life Insurance density has been the lowest for Nigeria and highest for Japan.

Population does not have much impact on Life Insurance coverage. But income level of the economy affects the insurance coverage.

D. Chennappa\textsuperscript{12}, believes that Liberalization of Insurance sector is an important step by government of India to streamline Insurance business in the country. The author has attempted to evaluate the progress of Insurance business, identifies the problems hampering its growth, outlines the efforts made for liberalizing India’s Insurance and suggests the measures for efficient operation of Insurance business in the country.

The author opines that as the country moves up the technology scale and the economy becomes increasingly sophisticated, the insurance Industry must have the imagination, innovativeness, expertise, technology as well as the whiplash of competition to respond constructively, promptly and fairly to the changing and complex demands of its clientele and create employment opportunities in India.
The settlement of claims is a very important aspect of service to the policyholders. The image and efficiency of any Insurance company depends upon the satisfaction of their policyholders in getting their claims processed and settled in time. Claims settlement therefore occupies an important place in the total operations of an Insurance company. The author has examined in view of the changing scenario of the Insurance Industry.

In the opinion of P. Vishwadham\textsuperscript{13}, the corporation (LIC) should strive to deal with the claimants in an open and transparent manner by inclusion of corporate governance norms in the grievance redressal procedures to create highest trust in the minds of policy holders towards corporation.

The authors, K. Saywa and G. Sardar\textsuperscript{14}, suggest that, though on the whole, the situation with respect to customer satisfaction is satisfactory, now after the entry of multinational companies into Insurance business will definitely change the perception of policyholders. It is in the interests of the policyholders; LIC should take necessary steps to maintain customer relationship by adding innovative features and transfer the benefits to the customers.

The study of consumer’s perception and expectations is of paramount importance for the success of any company. Creating a brand in the minds of the consumers the winning \textit{mantra} in today’s competitive scenario.

K. Chadha and Deepa Kappor\textsuperscript{15} made an attempt to know as to how consumers associate selected Life Insurance companies with the different attributes. The result showed that the selected Life Insurance companies do not differ significantly with regards to the attributes.
However, the companies differ significantly on the basis of advertisement and promotional campaigns.

The consumer’s Insurance buying decision is influenced by Customer Relationship Management and reputation of the company. They concluded that, in a competitive market, each of the players should create its niche domain. Branding Life Insurance is thus important as the companies have to realize the inevitability of creating an impression in the minds of the customers, which would help them in facing the competition.

How do Highest NAV Guarantee Plans work?

Of Late, we are seeing a new “Innovative” product in the market. They’re called Highest NAV Guaranteed Plans. These products have come in, after the recent crash in the market, and companies are taking advantage of the fact that Investors are looking for some kind of a safe investment equity product. Hence, they’ve launched these Highest NAV Return ULIP’s which confuse investors and make them (the investors), believe that they are going to get the highest return from the Stock market in long run – generally the tenure is 7 yrs, for these plans.

Manish Chauhan, has brought insights into how Highest NAV Guarantee ULIP’s work, and you will understand, how any Guarantee product can be created by simple methods. The simple catch, here is that these schemes, are structured in such a manner, that the collected funds can be invested either in equities, debt instruments or in money-market instruments in proportions varying from zero to 100.

How Highest NAV Guarantee Policy Works?

These plans use strategies like Dynamic Hedging and CPPI (Constant proportion portfolio insurance), which are advanced strategies
used in Derivatives world. But, let me explain a simplified version of the whole process.

Supposing a policy starts today and is guaranteed to give highest NAV in next 7 yrs and we can control how money moves to debt and equity, it’s pretty simple.

In the beginning, let’s assume a NAV of Rs 10, and the Asset allocation is 100% in equity and 0% in debt. Now suppose, the market moves up and NAV goes up to Rs 15 by the end of the first year, at this point, try to understand what Insurance company has to provide – they have to make sure, that they provide at least Rs 15 as the return after 6 yrs. Now in order to achieve this, all they have to do is keep X amount in debt instruments which will mature in next 6 years and provide Rs 15 at the end of 6 yrs, so assuming the debt return at 7%, they need to put around Rs 10 in Bonds, so that the maturity of the bond is Rs 15 at the end of 6 yrs. = 10 * (1.07) 6 = 15.007

They can now invest the rest Rs 5 in Equity as Rs 10 is allocated to Debt. So, now they’ve made sure that whatever happens to the market, they get Rs 15 for sure at the end of 6 yrs. Now, there are two possibilities

Case 1 : Market goes down : If market goes down, the NAV will go down correspondingly, but as per the strategy, the maturity value will be at least Rs 15.

Case 2 : Market goes up again : If market goes up at this point and the NAV rises above 15, for example say to Rs. 18, now again they will pull out money from Equity and allocate such an amount to debt, that the maturity at the end of total 7 yrs would be Rs 18 and so on…

Note :
• These highest guaranteed schemes do not provide wide range of product categories, such as equity-oriented growth funds, balance funds and debt funds.

• Guarantee on highest NAV is available only if you survive the term. If you die during the term, your nominees will get the prevailing value of the fund. This is inferior to even a regular debt product because of the high cost structure involved.

G.T. Sangale has conducted a study on “Marketing of services of LIC of India with special reference to Satara Division” during the period 1984-85 to 1991-92. He has explained various promotional measures for increasing sales of policies. Further, he has pointed out various means to improve service quality of the corporation.

M.N. Mishra in his study on “life Insurance corporation of India” highlighted the basic issues relating to marketing, income, expenses and personnel of LIC. Further, he suggested the various measures to spread insurance business faster to improve service quality and to reduce lapses.

Radha Sharan Arora and Raghibir Singh in their study “Growth and Performance of Life Insurance of India – A study of Jalandhar division” have examined the performance of Insurance in rural India i.e. Jalandhar division. The authors have presented the growth performance of LIC in terms of expansion of its branches, total business in force, new business and group insurance business. They have focused on growth of Insurance in agricultural state like Punjab.

Further they have analyzed the changing trends in slab of sum assured. They have pointed out that, there is decrease in policies of low slab whereas there is increase in higher slab due to agents tendency to cover high income strata with a view to earn more commission.
Chandnanai L.R\textsuperscript{20} in his study “Insurance services in developed countries” brings the changed scenario of Insurance in developed countries. He has explained various new techniques of selling insurance like Banc assurance captive insurance etc. in these countries. In developed countries premiums are collected through Banks. Further, he has explained the various methods of settlement of claims.

M.N. Mishra\textsuperscript{21} in his article “Challenging role of LIC agents in the changing economic scenario” has explained the role of agents which is becoming challenging and complex to meet expectations of customers. He has suggested various forms and fields to meet the challenges.

N.N. Mujamdar\textsuperscript{22} in his article entitled “Tell and Sell – Life Insurance” laments over the picture of Insurance, which is in the minds of the public. Insurance is a major security of today and savings of tomorrow but people do not buy it and look at it from the savings point of view, tat is a major setback for Insurance. Hence, author as suggested to train the agents and make publicity of insurance especially in rural areas through a rural orientation.

Nirjhar Majumdar\textsuperscript{23} in his article “Marketing of Life Insurance” has given the progress of marketing of Insurance in India and has suggested some solutions. In the beginning he has given the brief history of marketing before 1956 and the challenges LIC faced and efforts that LIC took in the initial stage. He has given suggestions for present marketing policy and thinks that LIC should make use of opportunities coming out of present situation.

R. Mallinga\textsuperscript{24} conducted a study on “Marketing of LIC policies – A study on agents of Tirunelveli Division”. She has pointed out how agents are indeed the ambassadors and backbone of LIC with the help of study from Tirunelveli Division. He thinks that there is a relationship between
marketing strategies of the agents and the performance in terms of the number of policies. He has developed association between the socio-economic status and the performance of the agents. He has made some suggestions to LIC to consider the sociological, psychological and economical factors, while selecting the agents.

M.N. Mishra\(^2\) in his article titled “Against privatization of Insurance Industry” presented his views against privatization of LIC. He thinks that Insurance is not purely commercial Industry; it is social Institution too, He further thinks that Government should provide social security, safely and welfare to people of India which can be possible through a Institution f national character only.

T.R. Gurumoorthy\(^2\) in his article “People’s money goes to people’s welfare” has beautifully analysed the meaning and objective of LIC. He has shown how LIC is linked with saving and how it is utilized in the national building. LIC supports the Government in implementing the social welfare programme both public and private sector.

V. Sesha Aiyyar\(^2\) in her research paper “Marketing strategy for Life Insurance Business” has focused on the improvement in the quality of marketing for Insurance business. He thinks that marketing is to understand the client and satisfying the need of the consumer. He thinks the skill is in identifying the target consumer and their behavior. He further suggests that LIC should work for rural population.

The research paper “Customer friendly vision” authored by Jagnedra Kumar\(^2\) advises the agents to develop the customer friendly vision. He thinks it is a challenge to get new customers. To understand the customer, the agent should put himself in the shoes of the customer. The customer is a goose laying golden eggs and one man advertising agency. So, the agent should create confidence in his customers.
Anabil Bhattacharya\textsuperscript{29} in his study “Indian Banks entry into Insurance sector” has discussed the entry of Indian Banks into the Insurance sector and criteria to be followed to make it beneficial to the nation. After bringing together banks and Insurance he makes it Bancassurance. Banks being penetrated into rural India will definitely support Insurance. This is his form opinion.

P.C. Shejwalkar\textsuperscript{30} in his research paper “Education in Marketing” highlights the importance of education of the agents. He thinks that if they fail in getting well equipped, their condition will be like the hero in “The death of a salesman”. Rigorous training, use of internet and quantitative training are quite essential for successful functioning of LIC.

Mahesh Chandra Ghag\textsuperscript{31} in his research paper “A new paradigm in Indian Insurance” has presented his thoughts on privatization and prosperity of Indian Insurance Industry. He considers insurance a big business in India which has not reached the common man. He stresses the responsibility of private companies to develop LIC to the level of Insurance in developed countries. He has given the hurdles in the growth of LIC. He has presented potential fields for LIC. He separates banks and Insurance but recommends postal network for bumper success of LIC. In his opinion use of Information Technology is equally important in developing LIC”

P.C. Shejwalkar\textsuperscript{32} in his article “Professional Life Insurance Marketing” appeals for professional approach for Insurance marketing. He suggests conducting a study on educated and talented young boys and girls with sophisticated marketing techniques. He considers the agent should be selected through competitive examination having aesthetic and ethical sense with skills of communication. Finally, he thinks that the education orientation, motivation can create a positive environment.
Mr. S.B. Mathur in his interview replied to one of the questions on whether 26% limit of foreign partners is limiting growth of Life Insurance companies, he said except for one or two players, the growth is not limiting in anyway. The Industry has brought in over Rs 27000 crores as capital over the past nine years and it was time for companies like Reliance, HDFC and Birla’s to go public.

Opining on the challenges forced by the Insurance Industry he said, cost management is becoming a critical issue. Secondly, he said, the Insurance companies will have to change their business models and look at leveraging the strengths of their local partners.

Answering to the question on improvement of penetration of Insurance products in rural sector, he said, the regulators have mandated that 18 per cent of Business should come from rural markets. However, he said, the penetration has been low. Insurance Regulatory Development Authority has penalized companies that have not been able to meet their social obligations.

He believed that setting up branches in rural areas pushes up cost and also requires closer supervision. He was also of the opinion that the agents commission which is at present 1 per cent of the policy on an average, should be rationalized and will have to be brought down substantially.

When asked regarding whether the solvency margin should be reduced, he said, solvency margins was not an issue. Insurance Regulatory Development Authority had reduces margins. However, he showed concerns over the growth of guaranteed products being introduced. Such products do require a higher margin.

Recently SEBI had issued a show cause notice to few Insurance service providers for not seeking SEBI’s permission before launching
products that were partially linked to the capital markets. SEBI wanted to know why its permission was sought on a product, especially when a portion of the product came directly within the ambit of the capital market regulator.

Even if SEBI had an issue, the proper way to settle the issue was to have an interface with its counterpart – Insurance Regulatory Development Authority, which has been set up to regulate, promote and ensure the orderly growth of the Insurance industry. Insurance Regulatory and Development Authority has specifically cleared the sale of ULIP products of Life Insurance companies.

The real cause for issuing the notice was probably different, which revolved on the commission paid to the distributors of Insurance products, which gave them as unfair advantage over distributor handling ULIP products of Mutual Funds.

The investor is unable to differentiate between a ULIP product marketed by a Mutual Fund and another by Life Insurance Company. Even he is able to do so, he chooses to ignore the same and may voluntarily opt to go for a product which is perceived as offering something more - a life Insurance cover from Life insurance Company which is thrown as a freebie with a very small amount of the investment being used to provide some basic life cover.

Though Insurance by its very nature is a long term product, many of the Insurance companies have started short term ULIP products of 3 – 5 year. More often than not, these are mis-sold through distributors, where 2-0-25 per cent return is often promised verbally.

It’s been a year of consolidation for most players in the Life Insurance Industry. There is a sense of optimism in the Industry as the insurance market continues to grow. A fast growing economy, a sector
dominated by nationalized companies, the country’s burgeoning middle class, rising per capita income, favorable demographics and higher education levels etc., have aided growth.

An Enam research report estimates the Insurance sector to be a $70 billion by approx. 2020. Another report by HSBC places India on the 4th largest emerging Insurance market in terms of total premium in Asia, after South Korea, China and Taiwan.

A survey by Price Water House Cooper indicates that managing sales and distribution networks and agent quality is seen as a bigger challenge to Insurance companies. Complicated products are difficult to sell and companies are investing to train distributors and strengthening processes. Some companies even penalize agents whenever the customer is able to prove that the agent mis-sold the policy.

In the view of N Rangachary, Chairman, Insurance Regulatory Authority of India, the various sectors in the financial market have independent roles play and there should not be an intermingling of their activities. He strongly felt that Banks should be kept away from Insurance, Insurance companies should not be allowed to get into banking and market operations in the Capital market; Mutual funds, Asset Management Companies should be kept out of Banking and Insurance. He said “We are trying to raise firewalls between various sectors”.

According to H. Ansari, member, IRDA, for a majority of Indian consumers, product choices hinges on affordability. IRDA’s approach shall be to find out what the consumer can pay a then tailor the supply chain to offer the product/service within that price. He further added, “Increasing consumption, expanding infrastructure to reach new geographies and developing cost-effective business systems will maximize the potential of the Insurance market in India.
T.K. Banerjee, Zonal Manager, LIC (South Zone); says, post liberalization; out of the thirty companies that were likely to apply for license to enter insurance, 2/3 are estimated to be in the field of Life Insurance. There was a general expectation of a great potential. Once LIC itself estimated the insurable population at 30 crore, but so far had insured only 8 crore, leaving a gap of 22 crores. Everyone, therefore thinks that an immense opportunity exists. But, unfortunately, the potential had not been rightly quantified.

According to H.O. Sonig, member life, IRDA, Provident Fund and Pension funds were contributing to about 20% and Insurance to 11.44% of saving. So, new entrants have evinced a keen interest in developing this market. He envisaged that in addition to the Life Insurance market, the pension market is bound to grow very fast. He felt that a good thing that was happening during 2000 was the Voluntary Retirement Scheme (VRS), which lend for investments into pension funds.

He further added that we have not even touched 1.5 of the potential of the pension market whereas we have tapped 23-25 percent of Life Insurance potential. Thus, the pension market in India has even larger potential than the Life Insurance business.

R. Thyagarajan, Chairman, Shriram Group, feels liberalisation as creation of our competition in the market place. Today’s economic wisdom says that in any sector of the economy, if you create pure competition, the volume of business will grow. The consumers will be the main beneficiary.

He further added, regulators would design the regulations keeping in view the development angle of the IRDA’s name than the Regulatory angle. He strongly felt that, if a regulation is not going to lead to
development, that regulation should be abandoned ruthlessly. He opined that the potential in the Insurance sector was immense. It was up to the Regulatory authority to concentrate on development rather than regulation and provides opportunities for new players to provide the momentum to develop the market.

D. S. Narain\textsuperscript{41}, suggests that with an expected growth of Indian economy at the level of 7 to 8 per cent of GDP, it can be assumed that the entry of new Insurance players would act as a catalyst for the growth of Insurance business. Therefore, there was need for a good class of agents since the nature of Insurance products was long term, needing repeat contact, repeat sale of the same product, new products, continued service and the ability to retain the policyholders to the fold.

In challenging times, the crucial link between the Insurer and the company would be the agent.

He further added, the \textit{mantras} to make Insurance business grow by leaps and bounds was to recruit an agent with care, train him well, nurture him, reorganize him, be in constant touch with him, update his knowledge, give him scientific and technical tools, be available to answer his queries, difficulties, stand by him and be generous and kind.

Naren Joshi\textsuperscript{42}, Advisor, ING Insurance, believes that with the opening up of the sector, a lot of stress will be laid on capability and competence building. There will be innovation, more sophisticated products in specific market segments. This would call for new risk assessment systems and new underwriting skills.

Claims settlement systems would have to be more customers friendly and hassle free than they have been so far. With the developments in accounting system, legal expertise and management of funds, the author strongly feels that training would be a clear cut response
of the Industry, so that agents would have the capacity to know every need of the clients. He said, if training would focus on people, research would focus on systems. He also felt that education is relevant for Insurers, consumers, regulators and the government. The regulator could only play the role of a facilitator. The real role had to be played by the Industry.

Ultimately, he said, the Regulator, the Industry and the academia should get together to ensure a strong and vibrant Insurance education and training system in the country at par with global standards.

Dr. K.K. Mishra\(^43\), Director National Insurance Academy, strongly recommends that Insurance companies have to come to the classrooms. They have to bring variety to the training. Training should be flexible for constant review and this should be both in content and purpose. He added, Training should be around the business development, process, around corporate governance, around New Product Development, Customer delivery and Service systems.

He commented that IRDA has stipulated that the agents should pass an examination but the flaw is that mere passing of an examination doesn’t render one professional. He advised, they should be in constant touch with the system.

Jha \(^44\)(1999) comments that improvement in Life span and advancement in medical science has changed customer needs for insurance products worldwide. The focus of insurance in matured markets of the next has shifted to pension, health care and protection products.

P. Nandagopal \(^45\), Managing Director and CEO, India First Life Insurance Company, foresees that the ULIP’s will bloom, but one needs to give them some time. He further said, if one is careful enough to choose the right product at the right price, ULIP’s offer a better deal in
terms of asset diversification and gives a fair risk adjusted returns. He is of the opinion that the so called “tight costs” of ULIP’s disappeared if one thinks long term and if one keeps them over 10 years, they are as fairly priced as Mutual Funds. And that exactly is the purpose of financial planning.

According to estimates, over nine million policies lapsed in 2009 and almost half the conventional policies that lapsed in the industry during the period were sold by LIC. In absolute terms, nearly 7.3 million traditional policies sold by LIC worth Rs. 52,926 crores had lapsed.

One of the senior officials of LIC said “We found that a large number of policies were lapsing due to the inability of holders to pay the due premium in a lump sum. The installment scheme and special revival scheme launched last month are aimed at such policy holders”. The researcher feels that this is one of the positive steps taken by LIC in the interest of policyholders.

Debjoy Sengupta, says, Customer care centres of the 14 life insurers ordered by SEBI to stop selling ULIPs have been inundated with calls from anxious policyholders.

However, companies said the fear of a large-scale run has been alleviated to some extent, thanks to the finance minister’s directive to maintain status quo. Call centres are being inundated with questions like ‘Do I pay renewal premiums or surrender my policy? Is my money safe? Do I get the promised/indicated returns? Are the orders applicable only to new policies or are they applicable to old policies too?’

“There has been some returns on policies today which were within the free-look period. However, at this time, it is difficult to distinguish if it’s due to the present turmoil. But we fear there could be some returns as a result of this issue,” said a marketing chief of one of these companies.
“The concern on everyone’s mind is that since SEBI’s has barred companies from selling ULIP’s, there is something wrong with the product,” said the CEO of a life insurance company. He added that concerns that policies may be returned under the free-look period is still there because many companies have a 30-day free look period and the bulk of their policies have been sold in March.

Insurance officials said while there was anxiety over SEBI’s order, policyholders were unaware of IRDA’s directive, asking companies to continue selling ULIP’s. “Some of our agents were unsure on Monday morning as to whether they should go out and sell or not. We had to explain the whole position to them,” said another official from a medium-sized insurance company.

“The current situation is creating confusion and the investors are worried. It would have been more appropriate if these inter-regulatory issues could have been resolved through discussions and dialogues instead of the same reaching this state,” said Sudip Bandyopadhyay, group president of Spice Finance. All this was despite the fact that the IRDA chairman went on record saying money invested by policyholders in s are safe and secure. Additionally, the insurance regulator issued an order asking insurers to continue business as usual with respect to renewal of policies and acceptance of new premiums.

One of the larger affected insurers on condition of anonymity said: “The sale of ULIP’s will definitely fall until there is a final order on the issue, now that the finance ministry has asked both the regulators to sort out the differences in the court of law although status quo will be maintained till such time a ruling is made by a court.” A couple of insurers agreed that the sale of unit-linked policies will fall till such time.
Insurers may have been assuring their consumers that the money invested is safe but all of them are busy taking legal opinions. About 5-6 insurers said their legal officers were in constant touch with who’s who of the legal fraternity to clarify their positions. Life Insurance Council’s secretary, a representative body of all life insurers, said: “It is an issue about settling the jurisdiction of ULIP’s between two regulators. Common policy holders will not be affected in any way and their investment will remain safe with the insurers.”

“Nevertheless, following the finance ministry’s stand, both regulators will now sort it out at an appropriate court. The council, insurers as well as policy-holders are not likely to be affected even by the decision or the ruling of this court, since the legal proceedings is only to find out the jurisdiction of the regulators over ULIPs,” Mr. Mathur added.

The government clarified in the Parliament on Tuesday 15th April 2010 that Life Insurance companies can do business in equity and bond linked insurance policies (ULIP’s) as per rules laid out by the IRDA.

In a written reply to Rajyasabha minister of state for Finance Namo Narain Meena said that the IRDA regulation 2000 can transact Life Insurance business which included unit linked business.

The statement will put the controversy between SEBI and IRDA on the issue of which agency would regulate the unit linked products of Insurance companies at rest.

Unit-linked insurance plans (ULIPs) have never quite managed to win over the true blue-blooded financial advisors. No wonder, these advisors are firmly on the side of SEBI in its tug-of-war with the insurance regulator (IRDA) to reign in ULIPs. According to them, the outcome of the tussle - most likely a long-drawn affair - may actually
make ULIPs a better product, as, in their current avatar, ULIPs fall short on cost-effectiveness, transparency and flexibility.

ULIPs are insurance plans with disparate investment options and have captured the buyers’ imagination in the last few years. They also hold the dubious distinction of being one of the most grossly mis-sold financial products in the country.

Amar Pandit, certified financial planner, My Financial Planner, says ULIPs fail on transparency, too. “The portfolio disclosure could be more frequent,” he says. Also, experts believe ULIPs don’t offer much of an exit choice to investors. “Once you buy them, you can’t get out of them even if the scheme performs badly. You are stuck with it as it also has an insurance component,” says Pandit.

Life insurance players on Monday heaved a sigh of relief following a truce affected by the finance ministry between the two regulators--SEBI and IRDA on the ULIPs issue.

Both the capital market regulator (SEBI) and the insurance sector regulator (IRDA) will now jointly seek a binding legal mandate from an appropriate Court, according to an announcement made by the finance minister Pranab Mukherjee.

Welcoming the development, Life Insurance Council's secretary-general, SB Mathur, said "It is a transparent method of resolving the imbroglio and removing the ambiguities that have arisen. It will also create a road-map to resolve issues involving multiple regulators in the future as well."

Several life insurers also welcomed the move. "We welcome this step as it will create confidence among the consumers," a Max New York Life spokesperson said.
According to a law firm official, SEBI will now have to come out with a fresh order suspending the ban which was imposed on the 14 life insurance companies.

It, therefore, wanted life insurers dealing in ULIPs to obtain its approval before launching these products. Since none of these companies had done so, SEBI banned 14 life insurers from selling ULIPs on April 9.

As reported by Mayur Shetty and Debjoy Sengupta, ET Bureau, LIFE Insurance Corporation is likely to gain market share if the dispute between SEBI and IRDA over ULIP regulation is not resolved.

Given the uncertainty, buyers may be more comfortable with conventional products where LIC is on a strong footing. The state-owned corporation has the largest array of traditional products which are outside the realm of the dispute between SEBI and IRDA. Another advantage for LIC is that it has a large section of its million strong agency force focused solely on traditional plans. Although ULIPs account for over 60% of the premium generated by LIC, in terms of number, traditional plans still outnumber ULIPs. Given the circumstances, LIC is best placed in the industry to fill in the vacuum created by the uncertainty over ULIPs.

A senior official from LIC said: “Our mix of ULIP and traditional products is about 65:35. We had taken a conscious decision to bring in a balance between traditional and unit-linked policies in the last number of months. However, our agents have been doing a need-based selling all these years. Nevertheless, selling only ULIPs is not sustainable for them since the commissions for them is very low compared to traditional products. Hence, they go for a mix of both traditional, where the commissions are high and ULIPs, which a number of their clients ask for.” He added that the corporation has about 35-40 traditional policies in force while the number of ULIPS are about 10-12.
Another factor that supports LIC’s traditional business is that the corporation has a mature life fund, which has been consistently generating a large surplus for distribution in the form of bonus. In case of many new private insurance companies, the policyholder’s funds are yet to generate surplus as most of the expenses are charged to the life fund. Some private companies have been declaring bonuses under their traditional plans by transferring shareholders’ funds to policyholders’ account to make sure that there is a bonus every year. However, these transfers may get affected as IRDA has said while insurers can transfer shareholders’ funds to the policyholders’ account; shareholders cannot take back their money once the life fund gets into a surplus position.

While earlier studies on life insurance sector mainly focused upon LIC, it was only after reforms in this sector that certain studies covering private players have taken place. Among early studies, Arora (2002)\textsuperscript{52} highlighted that LIC was likely to face tough competition from private insurers having large established network and their trained intermediaries throughout India. Verma (2003)\textsuperscript{53} analyzed the various type of products offered by public sector giant and the new global players in the private sector. Kumar and Taneja (2004)\textsuperscript{54} highlighted the opportunities and challenges before the insurance industry in India due to liberalization, globalization and privatization. Bhattacharya (2005)\textsuperscript{55} advocated that bancassurance provided the best opportunities to tap the large potential in rural and semi urban areas as banks have a strong network of more than 40000 branches in these areas. He suggested that the insurers should focus on Single Premium policies, Unit Linked Insurance, Pension Market and Health Insurance. Kumar (2005)\textsuperscript{56} highlighted that private insurance players introduced a wider range of insurance products and set up brand promotion as part of their new strategy. These new covers had
flexibility and added benefits to suit the needs of customers who were unsatisfied with the traditional and rigid plans. Kulshrestha and Kulshrestha (2006) highlighted that demand for life insurance in rural India was expanding at the annual rate of 18 per cent as compared to 3.9 per cent in urban areas which provided good opportunity for life insurers to perform.

Ts. Ramakrishna (2000) reviewed that 1999-2000 was a landmark year in the history of Indian insurance industry. The year 2007 was going to be another watershed for the industry. Detariffication from 1st January 2007 will totally change the complexion of the non life industry. Financial inclusion being emphasized in various fora the insurance industry will have to play a vital role by providing health insurance and products for the poor.

A.K. Jain (2004) revealed that waves of liberalization have done wonders to proper the insurance occupation to the status of a career with bright future. The average mindset, Asia pacific journal of finance and Banking research Vol. 3 No. 3.2009 R. Rajendra and B. Natranjan 44 particularly of younger generation in India is very amenable to these changes in insurance as an avenue where exhilarating opportunities are opened up in changed environment.

C.S. Rao (2007) reported that "Insurance is a vital economic activity and there is an excellent scope for its growth in the emerging markets. The opening up of the insurance sector has raised high hopes among people both in India and abroad. The recent desertification on the non life domain has provided a great deal of operational freedom to the players.

C.S Tyagi and Madhu Tyagi reviewed In their book ' insurance laws and practice ' that insurance is the modern sence originated in the
Mediterranean during 13\textsuperscript{th} or 14\textsuperscript{th} century, through Greeks or Romans may have used it even earlier. Marine insurance, writes, Mayarson A.L. in "Introduction to insurance ' is the oldest known type of insurance recorded in 1347. This was followed by life insurance some 300 years later. In 1400 merchant Florence wrote a book an insurance of goods sent by sea from Italy marine insurance spread to Europe and England by Lombard insurance.

Suryal, pal singh (1974) reviewed in his article 'investment pattern of life insurance corporation of India' that prior to the passing of the Indian insurance act 1938 there was no restriction on investment of the life funds but as is clear from table 21 their assets in the form of government.

1.16 Conclusion:

The reviews undertaken denote the studies, opinions of various authors from different angles. These studies are piecemeal attempts in tackling the problem. However, the present study is a holistic attempt made by the researcher to study various aspects of public and private insurance companies.
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