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2.1 INTRODUCTION
The insurance sector can play a critical role in financial and economic development. By introducing risk pooling and reducing the impact of large losses, the sector reduces the amount of capital that would be needed to cover these losses, encouraging additional investment, output, innovation, and competition. By introducing risk-based pricing for insurance protection, the sector can change the behavior of economic agents, contributing to the prevention of accidents, improved health outcomes, and higher efficiency gains.\(^1\) As financial intermediaries with long investment horizons, insurance companies can contribute to the provision of long-term finance and effective risk management. Finally, the sector can also improve the efficiency of other segments of the financial system, such as banking and bond markets, by enhancing the value of collateral through property insurance and reducing losses at default through credit guarantees. Research shows that the insurance sector contributes to long-run growth.\(^2\) The following are the excerpts of various research studies conducted in the field of life insurance.

2.2 LIFE INSURANCE

Seth Schnitman L (1933) in their research work “How safe is Life Insurance” state that Insurance is defined as the equitable transfer of the risk of loss, from one entity to another, in exchange for payment.

Dublin L.I and Lotka A.J (1930) in their research paper “The Money Value of a Man” state that “Insurance is a form of risk management which is used primarily to hedge against the risk of a contingent, uncertain loss”.

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Edward Berman (1936) in their paper “Life Insurance, A Critical Examination” explain that Insurance is essentially an arrangement where the losses experienced by a few are extended among many who are exposed to similar risks. It is a protection against financial loss that may occur due to an unexpected event.

2.3 LIFE INSURANCE BUSINESS IN INDIA

THABVALA (1943) in their study “Organisation and management of life assurance business in India” listed the following life insurance products available in India in 1943:

a. Whole Life Assurance
b. Whole Life Limited Payment Assurance
c. Endowment Assurance
d. Term Assurance
e. Convertible Term Assurance
f. Decreasing Term Assurance
g. Double Endowment Assurance
h. Joint Life Assurance (Whole Life Endowment, Last Survivor, Whole Life and Last Survivor Endowment)
i. Pure Endowment Assurance
j. Children’s Plans, Endowment Educational Endowment, Deferred Assurance with various options allowed after the period of deferment.
k. Family Protection or Safeguarding Policies
l. Annuities

The following were their findings

The successful working of life assurance business depends upon actual experience being within the limits assumed in the calculations of premiums as
regards the three basic factors of mortality, interest and expenses. It may be said broadly that the mortality experience in India is favourable as compared with the basis assumed. The net rates of interest earned by Indian Life Assurance Companies from 1913 onwards; the following characteristics are noticed in their variation. The rate of interest rose from 4.23% in 1913 to 6.26% in 1923. Thesis suggests that it is not possible for Life Assurance Companies to reduce their expenses without state intervention in the matter.

N.J. SHROFF (1948) in their study “Life Insurance Principles & Practise” brought out the following observations and conclusions

1. Entire population of the country in which the company transacts business forms the field for insurance.

2. Out of the total population of 38,98,97,000 in 1941 about 8 crores are worthy of insurance being the bread winners.

3. Predicts that insurance business would increase twenty fold from the total capacity of 4000 crore.

4. Very large majority of policy holders in 1941 come from 1% of population whose income exceeds 1000 p.a. Life insurance has touched very minor section of the population a middle class, upper middle class, upper class or rich class only. Lower strata have been unaffected.

5. At the end of the year 1946, Life insurance of Rs. 5,14,49,99,000 assured by 25, 69,180 policies were in force.

6. Agriculturists, workers and women constitute the new fields in which Life Insurance can take phenomenal strides.
7. If state provides for maintenance of poor, treatment of the sick, providing work for the unemployed, bringing up the children, pension in old age, life insurance will cease to exist.

2.4 LIFE INSURANCE COMPANIES

Gronroos, (1984) in his research article “You Pay and You Pay” state that Life insurance providers offer services that are credence products with very few cues to signal quality. It has been suggested that consumers usually rely on extrinsic cues like brand image to ascertain and perceive service quality.

BRIAN BENFIELD (2005) in his book Life Insurance Company Management aims to provide an understanding of the operation, management and development of a life insurance company as a whole. According to him, the historical significance and economic importance of the world wide life insurance industry; the spontaneity with which the insurance industry has evolved over time as a result of the dynamic yet ageless needs of humankind, commerce and industry; the manner in which government intervention prevented the development of the life insurance industry in Europe between the 17th and 19th centuries, whilst it blossomed elsewhere; the fact that whilst the advent of modern statistical methods contributed to its growth, the life insurance technique was discovered, developed and successfully practiced centuries before these tools became available.

2.5 INSURABLE INTEREST

Gollier C (2003) in his research paper “To Insure or Not to Insure? An Insurance Puzzle, says The advantage for the policy owner is "peace of mind", in knowing that the death of the insured person will not result in financial hardship for loved ones.

Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the
contract to limit the liability of the insurance company. The insured entities are therefore protected from risk for a fee, with the fee being dependent upon the frequency and severity of the event occurring. In order to be insurable, the risk insured against must meet certain characteristics. Insurance is a commercial enterprise and a major part of the financial services industry, but individual entities can also self-insure through saving money for possible future losses.

Kevin Oldani (2009) in his research paper “You Bet your Life: Insurable Interest in Life Insurance” suggests that “Insurability can mean either whether a particular type of loss (risk) can be insured in theory, or whether a particular client is insurable for by a particular company because of particular circumstance and the quality assigned by an insurance provider pertaining to the risk that a given client would have. An individual with very low insurability may be said to be uninsurable, and an insurance company will refuse to issue a policy to such an applicant. For example, an individual with a terminal illness and a life expectancy of 6 months would be uninsurable for term life insurance. This is because the probability is so high for the individual to die within the term of the insurance, that he/she would present much too high a liability for the insurance company. Specifically, insurable interest is an interest based upon a reasonable expectation of pecuniary advantage through the continued life, health and bodily safety of another person, and, consequently, loss by reason of their death or disability; or a substantial interest engendered by love and affection if closely related by blood or by law. Insurance contracts must be supported by an insurable interest to prevent gambling, to reduce moral hazard and to measure the amount of the insured’s loss in property insurance.
2.6 CUSTOMER RELATIONSHIP MANAGEMENT

Kekre P, (2010) says, the insurance sector in India has been a slow adopter of IT so far, but it seems to be catching up fast. She also highlights that LIC has been an exception in adopting IT applications frequently. ICICI Prudential is also among the most mature IT adopters.

Akhtar Pasha (2013) says “While it has a robust CRM in place for a few years, it has also recently implemented lots of BI tools and has invested in a HRMS which has automated almost 99% of its people, systems and processes. After telecom and banking, it’s the turn of insurance companies to deploy customer relationship management (CRM) solutions. As competition intensifies, insurers are trying every trick in the book to retain existing customers, with a wide range of services driving the market for CRM applications in the process”.

2.7 GROWTH AND PENETRATION OF LIFE INSURANCE WORLDWIDE

A study on the Life insurance business in Peru says “An assessment of the insurance industry’s role shows that in the presence of major market failures (lack of competition, large incidence of poverty and weakness of the institutional framework to respond to economic and social needs of the majority of the population) a system of social risk management that is based on private and for-profit managers and insurers will limit coverage to the “better-off” segment of the population. Economic growth has slugged and the expected “trickle down” effect has not taken place. Thus, vulnerability to social risks –that were partially covered in the past by social security—for a large proportion of the population remains unchanged or worse, may be increasing. The traditionally excluded working population in rural areas, in the informal sector, and disadvantaged groups such as the elderly, poor women, children, ethnic minorities and people with disabilities remain uncovered and it is
apparent that funding of their coverage will not be market-based. The country case study for Peru suggests that the emerging social protection pattern characterized by reliance on market forces in the provision of social services is inadequate in protecting the assets and the integrity of a large majority. There are other options available.

Life insurance has indeed dominated insurance penetration in emerging markets and in Latin America in particular. It is generally the case that domestic insurance industries are fairly oligopolised and dominated by a few foreign insurance companies. Although vigorously expanding, the size of the regional insurance market remains on average very small. The issue of social security reform both in the region and in Peru respectively were dealt with. Two main ideas are considered: inadequate coverage and excessive transaction costs of private schemes.

2.8 PERFORMANCE AND PROFITABILITY OF LIFE INSURANCE COMPANIES

(2012) A new study from Swiss Re “Understanding profitability in life insurance presents an overview of profitability trends in the global life insurance industry, based on an examination of accounting data. The report begins with a discussion of the changing role of life insurance. Once focused mainly on death protection, life insurers today offer a variety of products, including long term care coverage and financial market risk protection. An understanding of how to gauge the profitability of these various products is of key importance to insurance company managers, as well to investors, policy holders and regulators, all of whom have a stake in how the industry performs. The study tracks the growth of life insurance premiums in the United States, the United Kingdom, Germany, and Japan from 1990 to 2010. Another set of charts details profitability indicators, including life insurance statutory operating margins, in those countries from 2000 to 2010.
Dr. Sumninder Kaur Bawa, Navjee Kaur (2006) in their article “Performance measurement using the frontier efficiency methodology: A study of Indian general insurance sector suggest the following model to study performance.

Model Variables: The model of this article includes two inputs and one output of General Insurance Companies. On the basis of the literature the inputs and outputs have been taken. These inputs and outputs have been described and expressed as:

**THE INPUTS**
- Net Premium Income (X1): They have taken net premium income as the first indicator of input.
- Investment Income (X2): The second input taken has been the investment income as the second indicator of input.

**THE OUTPUT**
Claim incurred is one of the important financial indicators of any insurance company which directly affects the profitability position of the particular company. The efficiency of the insurance company lies in the fact as how well it is able to manage the claims out of its two major sources of earnings: investment income and the net premium income. Finally, they selected two indicators of input as net premium income and investment income; and one indicator of output as claims incurred, which is also in accordance with the assumption of DEA, that the number of Decisions Making Units should be three time of number of inputs and outputs. The main concern of the approach has been to produce the same level of output using the lesser inputs i.e. to reduce the wastages of the inputs if any.

**2.9 CUSTOMER PREFERENCES IN LIFE INSURANCE**
Ernst & Young's new global insurance survey 2012 examines insurance consumer attitudes toward buying insurance in 23 countries across seven global regions. It found that U.S. insurance consumers want their insurers to offer more personalized service and reward customer loyalty. The survey also found that consumers of life/annuity and property/casualty policies are willing to buy multiple products from
the same carrier if they are tailored to meet their individual needs. Sixty-five percent of U.S. respondents said they were either “not at all likely” or “not very likely” to change insurers in the next five years. More than half of U.S. respondents (52 percent) are interested in buying more than one product from the same provider, although just 11 percent said they have actually done so. While price is still an important factor, consumers younger than 34 said they are willing to pay more for a brand they trust, with almost half of “Millennials” (43 percent in property/casualty and 48 percent in life insurance) saying they consider the financial stability of the insurance provider as the most important factor influencing their decision to buy insurance.

**Conning Research and Consulting**, (2012) in their article “Consumer Trends in Personal Lines Insurance: Preparing for Tomorrow’s Market” say that “Personal lines insurers are evolving their business models in response to consumer led pressures, according to a new study by Conning Research & Consulting. “Changes in consumer preferences and behaviors have accelerated in recent years, and likely will for the foreseeable future, thanks in large part to demographic, economic and technology impacts,” said Alan Dobbins, analyst at Conning Research & Consulting. “Information flow has increased significantly, and consumers are willingly trading privacy for empowerment. Consumers now have the ability to shop price or opt for usage based coverage to reduce their costs, and carriers have much more behavioral information available to set rates appropriately and compete for new business.”

**Gregory A. Kuhlemeyer and Garth H. Allen** (2009) explained the benchmarks for customer satisfaction in their article “Consumer Satisfaction With Life Insurance: A Benchmarking Survey”. This research explores consumer satisfaction relevant to the
purchase of life insurance products and compares satisfaction in a broker or agent assisted transaction with satisfaction when no broker or agent is used, direct placement. Benchmarks are identified for consumer satisfaction with the life insurance product, the agent, and the institution. The research shows that trust, competence, and product appropriateness play an integral part in consumer satisfaction. Practicing financial planners can apply the implications of this study in their own practices, and/or future researchers can determine whether consumer satisfaction increases or decreases as distribution and marketing methods evolve. They hypothesize that consumer satisfaction with the life insurance purchase is primarily a function of the trust the consumer has in the agent and/or the insurance company, the consumer’s perception of the agent’s competence, the product selected by the consumer, the consumer’s analysis or feeling regarding financial safety, and consumer goals. They collected data regarding a series of questions related to the consumer’s satisfaction with their own selection of life insurance coverage. This information, combined with basic demographic data, allows them to benchmark consumer satisfaction and factors influencing customer satisfaction. Virtually all of the research in this area has focused on the sales process, the agent, or the company as means of improving the welfare of the insurance company and/or the insurance agent. The overall satisfaction with life insurance was higher than expected and resulted in an above average satisfaction benchmark in almost all areas. The main benefit of this research is the future value of the benchmarks. As variables change, future researchers will be able to compare consumer satisfaction with the benchmarks established herein. Moreover, researchers can compare future consumer satisfaction to present benchmarks and attempt to determine which variables cause changes in consumer satisfaction.