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1.1 INTRODUCTION

The business of insurance is related to the protection of the economic values of assets. Every asset has a value. In the context of life insurance, a human being is an income generating asset. The value of this asset can be measured by considering the income that is generated by the person concerned.\(^1\) Insurance has been known to exist in some form or other since 3000 BC. The Chinese traders, travelling treacherous river rapids would distribute their goods among several vessels, so that the loss from any one vessel being lost would be partial and shared, and not total.\(^2\) 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This Company however failed in 1834.

In 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.\(^2\) In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by

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\(^1\) S Balachandran, Life Insurance– Insurance Institute of India Publication, pp 1\,2\& 7)

\(^2\) IRDA REPORT 2007, online journal
Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act, 1938 with comprehensive provisions for effective control over the activities of insurers.

The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and the level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business. An Ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came into existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies—245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when the Insurance sector was reopened to the private sector. The year 1999 saw a revolution in the Indian insurance sector, as major structural changes took place with the ending of government monopoly and the passage of the Insurance Regulatory and Development Authority (IRDA) Bill, lifting all entry restrictions for private players and allowing foreign players to enter the market with some limits on direct foreign ownership. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies.³

LIFE INSURANCE

The insurance functions of life insurance companies deal with human life values. The risk in life insurance is measured in terms of monetary value of the life. Man, within himself, represents great worth that creates all utility in tangible property. After

³Dr. Vijay Pithadia, Article on Overview of Insurance sector in India, Business Line April 2010
nature, everything we have in this universe springs from man. Life value, therefore, is the basic value. There is so much financial value on the human life. Ideas and energy make money in our life and both come from man himself. Man is endowed with highly intellectual ability and he makes untiring efforts for the betterment and advancement of his life, which gives him the highest happiness and comfort, also benefiting in that process all those who depend on him for economic security. Insurance is an effective device which promotes stability, prosperity and happiness to the individual and the society at large.\(^4\) The money paid by the insured public by way of premium does not remain idle in the coffer. World over, it is used for promoting industries, business, commerce and developmental programs, particularly in developing countries like India. Indirectly, the insured community contributes for a noble cause – nation building activity.

It can, therefore, be said that insurance is a multi faceted tool in the hands of mankind for a number of purposes. The people of the developed countries like the US, the UK, and Japan have long back accepted the concept of insurance wholeheartedly. 90% to 95% of insurable people of these countries are insured (in India it is not more than 30% even on a liberal estimation). About 10% of the GDP of these developed countries comes from insurance premium (in India it is a little over 4%). Insurance as a business activity is a driver of economic development. Insurance is an effective device which promotes stability, prosperity and happiness to the individual and the society at large. Development and insurance are also complementary to each other. Prudent men will realize the importance of insurance and will accept it as an integral part of the way of financial planning in life.\(^5\)

\(^{4}\) Dr. G. Gopalkrishna. *Article on Financial planning in life, Times of India* 14\(^{th}\) January 2011

\(^{5}\) IRDA Journal July 2013
1.2 STATEMENT OF THE PROBLEM

The Life Insurance market in India was an under developed market that was only tapped by the state owned LIC till the entry of private insurers. Insurance industry, as on 1.4.2000, comprised mainly two players: the state insurers – Life Insurance Corporation of India and General Insurers, the General Insurance Corporation of India. In India, insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits. Indian people are prone to investing in properties and gold followed by bank deposits. They selectively invest in shares also, but the percentage is very small.6 Even to this day, Life Insurance Corporation of India dominates Indian insurance sector. The penetration of life insurance products was 19 percent of the total 400 million of the insurable population. The state owned LIC sold insurance as a tax instrument, not as a product giving protection. Most customers were under insured with no flexibility or transparency in the products. With the entry of the private insurers the rules of the game have changed.

Private sector players backed by foreign expertise have made the Indian insurance market more vibrant. The growing popularity of the private insurers shows in other ways. Twenty three private Life Insurance Companies have been registered since the year 2000 till now. They are coining money in new niches that they have introduced. The state owned companies still dominate segments like endowments and money back policies. But in the annuity or pension products business, the private insurers have already wrested over 33 per cent of the market. And in the popular unit-linked insurance schemes they have a virtual monopoly, with over 90 percent of the customers.

With an annual growth rate of 15-20% and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. Total value of the Indian insurance market (2004-05) was estimated at Rs. 450 billion (US$10 billion). According to government sources, the insurance and banking services' contribution to the country's gross domestic product (GDP) is 7% out of which the gross premium collection forms a significant part. The funds available with the state-owned Life Insurance Corporation (LIC) for investments are 8% of GDP. The following table shows the total growth in the Insurance Premium collected in the years from 2001-02 to 2008-09

**Table 1.1** Table showing growth in Insurance premium

(Rs. In Crores)

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<tbody>
<tr>
<td>2008-09</td>
<td>221791.26</td>
<td>201351.41</td>
<td>156075.84</td>
<td>105875.76</td>
<td>82,854.80</td>
<td>66653.75</td>
<td>55747.55</td>
<td>50094.46</td>
</tr>
</tbody>
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Source: IRDA Journal 2008 July

This study is an endeavour to analyze the tremendous impact made by private sector insurance companies in achieving this phenomenal growth in the life insurance sector. The intention of this study is to inform various insurers regarding the range and complexity of insurance awareness issues. The report will equip insurance companies with a ready reference to the fundamental aspects of business. The aim of this study is to reach those with limited knowledge of insurance and to provide a comprehensive picture of the awareness scenario across the country. This study mainly attempts to compare the performance of the top six private sector life insurance companies and evaluate their profitability and efficiency in the marketing of financial services in the country. It also attempts to compare the training methods practiced by public sector Life Insurance Corporation and ten of the top private
companies. An evaluation on effectiveness of training programmes is done to analyse the costs and benefits of training in Insurance companies.

Finally this study attempts to study the shift in customer perception towards private Life Insurance Companies. It also pin points the various causes for failure on the part of public sector insurance companies to sufficiently penetrate the market for insurance in India.

1.3 NEED FOR THE STUDY
A human being is an income generating asset. One’s income generating ability depends on one’s skills, (manual, professional, problem solving, entrepreneurial, etc.) These are the assets the value of which can be measured by considering the income that is generated by the person concerned. The concept of human life values provided by insurance enables the determination of the asset value of the human life and therefore, the amount of life insurance required. Life insurance emphasizes the preservation of the economic value of the human asset in the event that these assets may be lost through unexpectedly early death or through sickness and disabilities caused by accidents.7

Insurance as a social security tool – The United Nations Declaration of Human Rights 1948 provides that “Everyone has a right to a standard of living adequate for the health and wellbeing of himself and his family, including food, clothing, housing and medical care and necessary social services and the right to security in the event of unemployment, sickness, disability, widowhood or other lack of livelihood in circumstances beyond his control”. When the bread winner dies, to that extent, the family’s income dies. The economic condition of the family is affected, unless other

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arrangements come into being to restore the situation. Life insurance provides such an alternate arrangement. Under a socialist system, the responsibility of full security would be placed upon the State to find resources for providing social security. In the capitalistic society, provisions of security are largely left to the individuals. The society provides instruments which can be used in securing this aim. In India, social security finds a place in our Constitution. As per the law and the directions of the regulatory authorities, insurance companies in India are obliged to extend insurance benefits to economically weaker sections of the society in the unorganized sector.  

This research aims at finding out the impressions of the public about the basic need for life insurance. An attempt has been made to establish a relationship between person’s realization for the need for life insurance and the time when he actually purchases the policy. It is of absolute importance for an individual who is a bread winner to realize that the value his life holds in terms of the economic gain that it brings to his family can be protected only through life insurance. If this does not happen, his family would be pushed into the lower strata of society. The lower strata create a cost on society since the poor bring additional cost to the nation by way of subsidies. Life insurance business helps to reduce such costs. In this sense, the life insurance business is complimentary to the State’s efforts in social management.

1.4 OBJECTIVES OF THE STUDY

1. To examine the Indian Insurance market and make a comparative study of the operations and claim settlement procedures of Public Sector and Private Sector Life Insurance Companies.

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8Teale John, Insurance and Risk Management, John Wiley & Sons Australia, 2008
2. To study the different mechanisms of risk calculations, underwriting procedures, premium and bonuses offered and claim settlement procedures in public sector and private sector Life Insurance Companies.

3. To assess the performance of Public sector vis a vis Private Sector Life Insurance Companies.

4. To analyse the shift in customer perceptions and preference towards Private Sector Life Insurance Companies and to investigate the causes there to.

5. To offer suggestions to customers about the long term financial benefits and security offered by insurance and be a catalyst to change the perceptions of customers so as to make them aware of the need for insurance.

6. To examine the role of IRDA as the sole regulatory body for all insurance companies in India and study the changes in the regulation in Insurance sector since 2000.

7. To evaluate the various Customer Relationship Management programmes and Marketing strategies adopted by Public Sector and Private Sector Life Insurance Companies.

8. To have an in depth understanding of the problems faced by public sector and private sector Life Insurance Companies and suggest suitable remedies.

1.5 SCOPE OF THE STUDY

This thesis aims at making an in depth study of Life Insurance Companies only, both in the Public Sector and Private Sector. It deals with products offered by Life Insurance Companies consisting of Endowment Assurance (Participating), and Money Back (Participating) and Unit Linked Insurance Policies. An elaborate study is undertaken covering a period of ten years since the inception of the IRDA and the resultant entry of private players in the Insurance segment. The survey was
conducted on customers of the public Sector Life Insurance Corporation of India and ten top Private Sector Companies started between the year 2000 and 2013. An analysis of performance was done by evaluating the performance of top six private sector life insurance companies with Life Insurance Corporation of India.

A survey of insurance clients and also people who have no insurance coverage was made covering the major cities in India.

1.6 METHODOLOGY

1. This study is based on both primary and secondary data. Data required for the survey was collected from various publications, articles, journals, related texts and the IRDA website.

2. Three primary data surveys were conducted through well structured interview schedule prepared by the researcher in consultation with the experts in the field. The primary data survey was conducted in three phases – Firstly a survey on 140 respondents was conducted to study customer awareness and preference for life insurance as an investment alternative and the results analyzed.

In the second phase an exhaustive survey was conducted by a Structured Questionnaire administered to two groups of samples representing the population of Policy Holders and of both public sector and ten private life insurance companies. Thirdly a survey of employees and agents of public sector LIC and ten private sector Life insurance companies were conducted.

3. The performance analysis of private sector and public sector was done by obtaining Secondary data collected from various books, journals, IRDA reports and websites. An analysis of financial statements of LIC and six top private insurance companies was done and their performance was evaluated.
An in depth analysis was made on all the investment plans offered by public sector and private sector insurance companies.

1.7 CHOICE OF STUDY AREA
This study was conducted in major cities of India including Tirunelveli, Chennai, Trivandrum, Coimbatore, Mangalore, Mumbai, Bangalore and Goa.

This study was based on choice of insurance companies and thus the population included the whole of life insurance policy holders in the country. The above cities constituted a fair representation of the national population of the insured. Hence the study was conducted in the above mentioned cities.

1.8 SAMPLING PROCEDURE
This study consists of three surveys conducted on policy holders of Life Insurance Corporation and ten top Private Insurance Companies. A proportionate convenient random sampling method was adopted. The first phase of the study was conducted on a sample of 140 respondents who were all policy holders and non policy holders at random. The second part of the study was conducted among 78 employees and agents of public sector LIC and private sector life insurance companies.

The third phase of the survey was conducted on 722 policy holders of both public sector and private sector life insurance companies. The top ten Private Insurance companies were selected on the basis of the number of years of existence in the Indian insurance segment and the maximum amount of business generated by them during the years 2000 to 2013.

1.9 HYPOTHESES
1. The one and only Public Sector insurance company, viz, the Life Insurance Corporation of India has been ineffective in meeting insurance needs of the
huge Indian population. The vast majority of Indian population is still unaware
of the need of financial security offered by life insurance.

2. The introduction of private insurance companies have brought in a vibrant
competition in the insurance segment, so as to enhance customer satisfaction
through increased consumer choice and lower premiums, while ensuring the
financial security of the insurance market.

3. There is a shift in customer preference towards private insurance companies.

4. The quality of services offered by Private life insurance companies and their
efficiency in claim settlements have enhanced customer loyalty towards
private life insurance companies when compared to Life Insurance
Corporation of India.

5. The performance of private companies have paved the way for a future when
private companies show a higher profitability than public sector LIC.

1.10 TOOLS USED FOR ANALYSIS

I Correlation Analysis

II Sum of Square Method

III Arithmetic Mean

IV Coefficient of Variation.

V Hypotheses testing through Chi Square analysis.

1.11 LIMITATIONS OF THE STUDY

1. This study is restricted to the urban population only.

2. Insurance Companies, both private and public were unwilling to disclose any
information apart from those available on the websites. It was very difficult to
get information regarding details of policies and financial statements of public sector LIC before the year 2000.

3. Due to high migration of employees of private sector Life Insurance Companies from one company to the other they are reluctant to divulge details of company’s policies and programmes.

4. Though an attempt was made to study the performance of top ten private sector life insurance companies, it was possible to get the financial information relating to top six only since the remaining were insignificant as they were of recent origin.

1.12 CHAPTER FRAMEWORK

I The first Chapter on Introduction & Research Design deals with the introduction to the topic of study and the research design.

II The second Chapter Review of Research Literature includes the various literature collected from previous research thesis and studies from India and abroad on the aspects of Life insurance business in India, Life insurance companies, Customer Relationship management and performance analysis of life insurance companies.

III The third chapter highlights the Global Insurance Industry covering the Origin and Growth, A Global Perspective of Insurance, Types of Insurance Products and Regulations and Legislations.

IV The fourth chapter elucidates the Profile of Indian Insurance Sector bringing out the History and growth of Life Insurance in India, Recent Developments in insurance, Legislations and IRDA Guidelines and Challenges faced by the industry.

V The fifth chapter is divided into two parts elaborating the Corporate Profile of Leading Insurance Companies.
Part A deals at length with the profile of Public Sector Life Insurance Corporation of India covering its History & Growth, Products offered, Present position, and Claim Settlement Procedures.


VI The Sixth chapter includes an Evaluation of Customer Relationship Management in Insurance Segment covering Advertising & Marketing Strategies, Client Relationship Programmes, Claim Settlement Procedures, Complaint Redressal and implementation of CRM in insurance companies.

VII The seventh chapter includes the Analysis of findings of the Survey. This study first covers the Comparative Analysis of Performance of Private Sector life insurance companies with public sector LIC followed by the Evaluation of Training effectiveness in public sector LIC and private sector Life Insurance companies. The other main part of the study is covered next in an Analysis of Customer preference for Life Insurance as an investment tool followed by an Analysis of shift of customer preference from Public sector LIC to private Life Insurance companies.

VIII The eighth and final chapter includes the summary of findings, Conclusions and Suggestions and also areas for further research.