CHAPTER II

REVIEW OF LITERATURE
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Research on distribution strategies of recent (Singh and Jain, 2010; Thakur and Shilpa, 2010; Kiran and Chaudhary, 2011; Kulkarni and Sagar, 2011; Singh Pratap and Chakraborty, 2011; Kumar and Priyan, 2012; Dickinsonn Gerry, 2012; Manocha and Chitkara, 2012; Tiwari and Yadav, 2012; Mohamed and Murthy, 2012; Vidhya, 2012) has taken a centre stage with the aim of understanding the introduction and impact of distribution strategies on behavioral response of customers. This chapter deals with review of empirical studies related to perceptions towards distribution channels. This review has been undertaken to observe the areas of distribution channels which has been explored and which need further investigation in order to formulate objectives and undertake productive research. This review also has been undertaken to unveil the problem areas related to perceptions towards distribution channels as well as to study current status of life insurers and challenges faced by them. Besides, studies would provide an insight into the various efforts directed towards better understanding of the complexities of framing distribution strategies of life insurance companies.

Gupta (1977) analyzed in his study titled “Investment Policy of Life Insurance Corporation of India” that how LIC is working with its policies, can it provide quality and variety of products to its customers and lastly, is there any scope for private participation in coming few years. It was found that presently, the only captain of ship insurance is Life Insurance Corporation of India but scenario will change when the doors will be opened for private sector. No doubt, LIC is working well with its policies but still it will have to be ready for entry of private sector.

Mishra (1986) in his study titled “Analysis of working of Life Insurance Corporation of India” has worked on objective to study the effect of working of LIC, how this affects the financial aspect and the impact of LIC’s working on the customer satisfaction. It was concluded that being the only company providing best services to the customers by satisfying their needs, is running successfully by earning sufficient revenues and by providing extended services to the customers. The study examined that
LIC is managing its customer base basically with agency channel. With the wide spread work force of LIC in every part of the country, the customers are provided with variety of life insurance products at their door steps according to their requirements.

Chaudhary (2000) in the study entitled “Indian Insurance Industry and Privatization” made an attempt on the roles which private companies can play. The objectives of the paper were to find out whether private insurance companies can serve as one stop shop covering all insurance needs, to know whether private companies can offer value added services beyond premium collection and claim settlement or not. It was concluded that for the first time in the history of Indian Insurance, the concept of intermediary is being upgraded on a full scale. The reach of intermediaries will become deeper and their impact on the conduct of insurance business will be wider than before. The insurance companies can become one stop shop for providing all insurance products and services to the customers.

Basu and Hollway (2002) in their study titled “Distribution of Insurance” indicated the background of new entrants, their business strategies and various developments that are likely to influence the market. After the opening of insurance sector in India, many insurance companies have entered the market with new distribution strategies. These companies are offering different saving plans, term benefits, riders and a wider range of products. From the study, it is evident that private life insurers will have to concentrate on their distribution strategies in order to capture the untapped insurance market.

Dumm and Hoyt (2002) discussed in their research titled “Insurance distribution channels: Markets in transitions” that after privatization how life insurers are changing their distribution network. They described some of the factors that are impacting the adoption of different distribution channels. They provided an overview of the literature on different channels adoption and the near term future for distribution of life insurance products. It was concluded in the study that insurers are continuing to experiment with different distribution channels. Different life insurers are utilizing multiple distribution channels as they continue to balance the needs of different groups of consumers against the cost of distributing their products and services because when it comes to insurance distribution channels, one size does not fit for all.

Kundo (2003) in his article titled “What’s next in India’s insurance market” discussed the changes in various issues of insurance industry after the entry of private
players. Despite of having huge population, India still has a low insurance penetration today, people are increasingly looking not just at products but at integrated financial solutions that can offer stability of returns along with total protection. The study concluded that the role of technology cannot be ignored as technology will play an important role in aiding design, administration of products and to build long term customer relationships.

Rao Venkatesware (2004) in his study titled “Alternative distribution channels in India” presented the objective that insurance industry must review customer needs in a holistic manner, considering the market as a whole. The industry must target overall financial management of the population. The another objective was to review the structuring of consumer education and dealing with consumer. It was concluded in the study that customers still rely on agency channel. It is apparent that multiple channels have given competitive edge to the Insurers. It is examined that these distribution channels will help an insurance company to offer a range of products to the customer, thereby increasing the chances of success. The individual agent explains all options to sell the policies of the company, he is representing. Brokers are in major cities and the concept is yet to take a place. With these channels the costs may not come down but the customer coverage may go up. Along with these distribution channels come various challenges. Effective management of channel conflict and curtailing the costs of distribution will be of utmost importance. The importance not only remains on how many channels a company currently has, but on how those channels work and interact with each other in a cost effective manner giving a single view of the Organization and Unified experience to the customer.

Krishnamurthy (2005) in the study “Bancassurance is the most cost effective channel to make insurance products available to masses” that how the development of bancassurance has taken place in India. The study examined the current training programme for bank employees. He further indicated that four years ago, bancassurance in India was a concept but today it is a reality. Indian Life insurance players including LIC, have a specialized marketing team for this channel and premiums income collected represents 25% to 70% of gross total premium income. The study revealed that in SBI Life, bancassurance business represents about 70% of total business and more than 2 million bank customers took insurance through this channel,
bancassurance is believed to be the most cost effective channel to make insurance products available to masses through widespread bank branches network. 

**Krishnamurthy and Jhaveri (2005)** in the paper titled “*Insurance industry in India- Structure, Performance and future challenges*” has clearly explained the status and growth of Indian insurance industry after liberalization and also presents future challenges and opportunities linked with the insurance. Insurance is the backbone of country’s risk management system and influence growth of an economy in several ways. Penetration of insurance largely depends on availability of insurance products, insurance awareness and quality of services. The future growth of this sector will depend on how effectively the insurers are meeting the expectations of their customers and able to change the perceptions of the Indian consumers and make them aware of the insurable risks. The study indicated that on demand side, the rise in income will trigger the growth of insurance. The process of reforms has enhanced competition, provided a choice to the customers and improved the efficiency level of the industry. LIC continues to remain strong in rural areas while in urban areas and metros, the private life insurers have made their presence.

**Aggarwal (2005)** in his study “*Distributing Insurance in India*” has explained his research experience about location and channels used to supply services to target customers. Place and environment in which service is delivered also plays an important role. Traditionally, insurance service providers have been going to the customer through their direct selling agents. In India, the selling model is basically dependent upon agency sales force. Even in U.S, most of the insurance policies are sold through direct contact, as insurance is a complicated product and it needs personal guidance, suggestions and options to analyze before making investment in life insurance policies.

**Subramaniam (2005)** examined in his study titled “*Bancassurance model has a potential to mobilize*” that the average collection of insurance companies would rise by 50% in 5 years from now, if the companies take up to bancassurance model. Even in US, the largest life market in the world is opening up the bancassurance. Success of bancassurance model in other parts of the world has shown us that banks and insurance companies have taken focused steps in developing this model. There is an established marketing and distribution network and a huge data base which both can harness for their benefits. Although bancassurance was slow in picking up pace, it has finally taken off as a successful distribution channel.
Bansal (2005) in his article, “Is Insurance Sector privatization on the right track” discussed the recommendations for changes in the structure of the industry and policy framework. The study was conducted to examine the improvement in the functioning of LIC and to examine the role of intermediaries in strengthening the position of life insurance industry. Since 1991 Indian economy has been going through financial reforms. The study further revealed that consequent to the important landmark reforms in the financial sector, the insurance sector in India is going to witness a sea change. It was concluded that liberalization entails on modernizing industrial system by removing unproductive controls, encouraging private and foreign investment and integrating Indian economy with the global economy.

Xharbrahimi (2006) in his study titled “Technology and Life Insurance Distribution” discussed the effect of technology on life insurance distribution, whether life insurers and insured are aggressively seeking to make use of internet or not. Technology in the insurance industry has evolved from providing enhanced operation processing to facilitating corporate strategy. More recently, technology is becoming an important part of corporate life insurance strategy and is increasingly employed in achieving a competition edge. This article examines some of the opportunities that technology solutions offer to life insurance. Thus, it may be safely assumed that the most significant innovations in product distribution by far will be the direct result of the extent to which technology is embraced. Insurers with well conceived technology solutions, will get competitive advantage. It is evidenced from the study that those who try to resist the flow of internet technologies will be no more successful.

Karunagaran (2006), discussed in the paper titled, “Bancassurance- A Feasible Strategy for Banks in India”, the objective to explore the scope for bancassurance models as feasible source of sustainable income to banking sector by exploiting the synergy in context of India having the largest banking network on one hand and lower insurance penetration and density on the other hand. It was concluded in the study that going by the present pace, bancassurance would turn out to be a common phenomena rather than an exception in future in India. It would be a ‘win-win situation’ for all the parties involved i.e. the customer, the insurance companies and the banks.

Lakhmikutty and Baskar (2006), discussed in the paper titled, “Insurance distribution in India-A perspective.” It is examined in the study, the perspective of the
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socio-cultural ethos of the market and how these channels fit into it, along with where
the various companies face challenges and bottlenecks. However, the authors believe
that the basic existing problems faced by the channels in this market needs to be looked
into first and then the question of technology, tools, training and learning is to be taken
up. It was concluded in the study that the current state of insurance distribution in India
is still in flux. On one hand insurers are awaiting regulations to be approved for
brokerages and bancassurance to be truly launched. On the other hand they are trying
the corporate model of intermediaries in addition to the traditional models in the
market.

The success of marketing insurance depends on understanding the social and
cultural needs of the target population, and matching the market segment with the
suitable intermediary segment. In addition a major segment of the Indian population
has low disposable income, meaning that every penny won will be obtained after a lot
of persuasion and the expected value for money is high. All intermediaries can’t sell all
lines of business profitably in all markets. There should be clear demarcation in the
marketing strategies of the company from this perspective. Clients should also receive
price differentials for using different channels.

Aggarwal (2007) discussed in his paper titled “Distribution of life insurance
products in India” focused on the change in the existing distribution channels and to
study whether they are technology oriented or not. The study pointed out the objective
to analyze whether there is a potential for new companies or not after privatization. The
companies are giving an opportunity to direct selling agents to market their polices
while many are adopting bancassurance channel for distribution. The other channel
which is already established is agency. Bancassurance is able to penetrate the market
more successfully because banking and insurance industry shares a common target of
providing financial services to the customers. In conclusion of the study, Aggarwal
emphasized that private life insurers are exploring new techniques of distribution. The
study further pointed out that technology advancement is resulting in more awareness
and sophistication. On the other hand, web is exclusively used for getting information
and offline mode is followed while taking the policy.

Chawla (2007) in her study titled “Privatization of life insurance-A study of
customer satisfaction in northern India.” examined the level of customer satisfaction
after privatization of life insurance industry. The study was carried out with the
objective to analyze the progress and trends in life insurance industry in India after privatization, to compare the plans and policies of different life insurance companies and to seek opinions of customers regarding amount of annual premium paid by them. The study concluded that there was a shift in insurance industry in year 2000 with privatization of life insurance sector as private players made entry with variety of products, quality services and increased efficiency than public sector insurer. LIC being the dominant market player, it’s not so easy for private life insurance players to threaten the position of LIC. The customers have faith in policies of LIC. Their satisfaction level is more in case of public sector insurer LIC than private life insurance companies.

Tripathi, S (2009) in his dissertation titled “A comparative analysis of LIC and private life insurance companies” reported the objective to compare the performance of LIC and private life insurance companies. Comparison between LIC and private life insurers has been done on the basis of size, growth, productivity and grievances handling mechanism. Private companies are giving direct competition to LIC. LIC is a dominating player even after privatization and at present there is an abundance scope of insurance expansion in the Indian market. LIC is having a huge customer base being an old giant findings of this study. He concluded that LIC is a most popular and leading brand but with aggressive marketing approach. It was also examined in the study that private companies are giving direct competition to LIC.

Singh & Jain (2010), in their study titled “Acceptability of Life Insurance by Indian Customers” evaluated the objective of determination of role of insurance services in the process of growth of insurance industry. The ongoing developments in the insurance industry after the opening up of the sector to private companies have also been studied. The study has been undertaken to identify the association between demographics of individual investors, their investment behavior and analyzing the acceptance of insurance by them. It was concluded in the study that financial security consists of saving factor, investment factor, income protection and tax benefit. It was evaluated in the study that:

- Mishappenings include protection from illness and unforeseen circumstances.
- Demographic factors highly influence the preference of investment options.
- Majority of people go for annual investments.
The most important purpose for which insurance is taken are family security, financial security and uncontrollable factors. There is less awareness about insurance needs and plans offered by various companies among the people, so efforts should be made to increase the awareness among the general masses.

**Thakur (2010)** in the study titled “*Competition in life insurance sector in India*” examined the present scenario of life insurance sector in India and issues relating to competition in this sector. As it is a growing sector, it is important that life insurers get a level playing field to encourage competition in market. Through this study she concluded that LIC as a State owned enterprise enjoys a dominant position in two market. The life insurance sector is highly lucrative and as a result increasing FDI cap would be a step to enhance competition in this sector, Exclusive networking, sovereign guarantee and entry barriers like limited FDI creates an anti-competitive environment in market.

**Singh and Chakraborty (2011)** in the study titled “*Contemporary Issues in marketing of life insurance services in India*” worked on the objective to analyze the important aspects of life insurance marketing activity from a services’ perspective and highlights the contemporary issues and challenges faced by life insurance companies in product marketing. The study also exhibits a direct positive correlation on the growth path of insurance companies. The study concluded that all these players are actively introducing innovative products to meet the specific needs of the prospective customers. However, life insurance companies, particularly private sector players give more attention to selling unit linked plans. On the other hand, among various distribution channels, agency is still dominating and successful one. Exploring more distribution channels of micro-insurance for untapped rural market is extremely important. Lastly, the study revealed that life insurance companies should concentrate equally on pre-sale services and post-sale services.

**Kulkarni and Sagar (2011)** discussed in their study titled “*Recent trends in marketing strategy of Life Insurance Corporation of India*” that the adoption of marketing strategies affected the working of LIC. The study analyzed the objective to know the market share LIC in insurance industry and the new marketing strategies adopted by it to increase business volume. It was concluded in the study that at present, it is needful to take review of the demands of customers. It should be for the benefit of policyholder i.e. common man not only rich class segment. The insurance company
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should not only be a race winner in the competitive environment but it should aim at diverting public saving towards socio-welfare and infrastructural development. LIC aims to fulfill dual objectives i.e. protection of policyholders trust and contribution in economic development. It was concluded in the study that public sector insurer LIC has framed its strategies keeping in view IRDA regulations as well as keeping in view the demands of customers to fulfill its socio-economic objective effectively. It is evident from the study that LIC has proved to be highly obligatory towards these objectives.

Ghosh (2011) in his study titled “Impact of reforms on Indian life insurance” analyzed the relationship between life insurance sector reforms in India and the growth of life business in post reform period. The study was carried out with the objective of examining the impact of reforms on Indian life insurance sector. It was concluded in the study that life insurance sector reforms improved the overall development in the life insurance sector in India. This may be due huge potentiality of life insurance market which is still under-served. It was indicated in the study that untapped market itself works as a catalyst in improving the performance of the sector.

Chaudhary and Kiran (2011) in their study entitled “Life insurance industry in India- Current scenario” tried to make an attempt to study the recent life insurance scenario in the light of the changes mentioned above. For this purpose, various indicators like growth in total number of offices of life insurers, growth in number of individual agents working in life insurance industry, number of products and riders, growth of life insurance business and premium income, lapse /forfeiture ratio and settlement of death claims in Indian life insurance industry have been analyzed. From the above discussion it is evident that life insurance industry has expanded tremendously from year 2000 onwards in terms of number of offices, number of agents, new business policies, premium income etc. Further, many new products (like ULIPs, pension plans etc.) and riders were provided by the life insurers to suit the requirements of various customers. However, the new business of such companies was more skewed in favor of selected states and union territories. Private life insurers used the new business channels of marketing to a great extent when compared with LIC. Investment pattern of LIC and private insurers also showed some differences. Lapsation ratio of private insurers was higher than LIC and servicing of death claim was better in case of LIC as compared to private life insurers.
Manocha and Chitkara (2012) in their study titled “The choice of customers towards distribution channels of life insurance industry“ evaluated the factors affecting the choice of customers. The objective was to study the concept of insurance, distribution channels of life insurance and know the preferences of customers towards the choice of distribution channels like advisors, bancassurance, brokers and corporate agents etc. for buying insurance plans. It was concluded in the study that Indian insurance industry relies heavily on the traditional agency distribution channel, there is need to develop alternative distribution channels of independent intermediaries, bancassurance, direct marketing and Tele-Marketing etc.

Dickinson Gerry (2012), discussed in his paper titled, “Encouraging a dynamic life insurance industry- Its economic benefits and policy issues” that life insurance has been an important tool through which individuals with relatively low incomes have been able to save and invest effectively for the longer term. By designing relatively simple life insurance and saving contracts, which can be purchased in small amounts on regular basis, insurance companies have been able to accumulate large amounts of funds from large proportion of population. It was concluded in the study that the efforts of insurance companies in creating effective sales and marketing techniques have played a key role in the growth of the life insurance business and hence indirectly stimulated the level of long term savings within the economy as a whole. Finally, the government can stimulate the growth of the life insurance sector by encouraging better understanding of personal saving and financial planning through education. The local life insurance industry itself will have to convince the government that it can deliver the best according to the needs of the customers.

Kumar and Priyan (2012) state the objective to compare the performance of public and private life insurance companies in their study titled “A Comparative Study of public and private life insurance companies in India“. It was further examined in the paper that insurance sector along with the other elements of marketing influenced the process of liberalization and globalization in India. It was concluded in the study that life insurance has today become a main story of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. Though privatization of the insurance sector is feared to affect the prospects of Life Insurance Corporation of India, the study shows that LIC continues to dominate the sector.
Private sector insurance companies are also trying to increase their market share with their unending efforts, variety in products and sound distribution network.

Tiwari and Yadav (2012) in their paper titled “Analytical study on Indian life insurance industry in post liberalization” pointed out that private insurance companies are expanding their business and giving tough competition to LIC. The study found that in the post liberalization period, the life insurance industry of India witnessed a tremendous growth in terms of total premium income, market share and number of policies. The study was undertaken with different objectives to examine the need of liberalization in Indian life insurance industry, to analyze the condition of life insurance business in post liberalization period, to analyze the impact of liberalization and to compare the performance of LIC and private life insurers. It was clearly pointed out that life insurance is completely a customer oriented business. Therefore it is important to create trust among policy holders, understand their needs, sell appropriate products and provide complete information to the customers so that they can make a suitable choice. The survey revealed that to achieve great insurance penetration, healthier competition has to be intensified by both the sectors and they should come up with innovative products to offer great choice to the customers and also make improvements in the quality of services. The overall study revealed that business of life insurance has been significantly increased after privatization but still a huge Indian population is uninsured. Although LIC is a giant player in life insurance industry but private insurance companies are moving at a fast pace. Though the income, size and penetration of private insurance companies is less as compared to LIC but the pace at which they are increasing their market share is tremendous. The above discussion supports that liberalization has an overall positive impact on the growth and performance of life insurance industry in India.

Mohamed and Murthy (2012) provided an overview of marketing strategies of life insurance players in India in their study titled “Life assurance industry in India-A study on marketing strategies of Indian insurance companies.” The objectives undertaken in the study were to understand the various strategies adopted by life assurance industry in India and to find out the market share of life insurance companies in India and suggest suitable measures to meet competition. The study has illustrated that market strategies adopted by life insurance companies are undergoing changes. private players have started to pull up the market share from LIC and it is evident from
IRDA annual report 2011-12 that market share of LIC has come down from 81.92% to 69.78%. It was recommended in the study that the marketing strategy should have to be adopted cautiously after studying various parameters such as customer expectations, perceptions and affordability of company.

Vidhya (2012) identified and discussed the need for life insurance differs according to age and family size and other related requirements. The study was conducted on the topic “Life insurance policy holdings-A study on motivating factors of LIC.” The objectives of the study were to ascertain the factors which influenced the policyholders to select a policy, to measure the satisfaction of policyholders concerning LIC services and to offer valuable suggestions to improve the performance of LIC. Lastly, it was concluded that the study was of great help to the policyholders, as it was aimed at finding the awareness and satisfaction towards the services of LIC policyholders. Hence the prospective customers, who propose to buy the insurance products and avail the services of an insurance company for the first time, can get benefited if they select the best service provider that can provide all these factors in the most comprehensive way.

The result of all these studies appears to be similar though approaches were different due to the use of different statistical tools and techniques. The empirical evidence from the studies conducted in India have yielded to findings on the perception towards distribution channels. From the findings of literature review, it was noticed that most of the studies were conducted on privatization of life insurance industry whereas the performance of distribution channels has been analyzed comparatively to a small extent. This indicated that additional studies need to be conducted to shed more light on, particularly the issue of distribution strategies, distribution of life insurance products and role of technology. Any study was hardly found which empirically tests the perception of intermediaries.