Chapter I

INTRODUCTION AND DESIGN OF THE STUDY
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1.1 INTRODUCTION

In the age of the Globalization and societal transformation, the composition of Gross Domestic Product (GDP) has witnessed shifting trends. Now-a-days, India is being posed as the most potential and growing economy of the world not only in terms of market size but also in terms of technology upgradation. Among fast growing developing countries, India is distinctive for the role of the service sector. Where earlier developers grew by exporting labor intensive manufactures, India has relied to a greater extent on services. Although there are other emerging markets where the share of services in GDP exceeds the share of manufacturing, India stands out for the dynamism of its service sector\(^1\).

The current situation in India is that the growth rate of services has overtaken both agriculture and industry and is now more than 50% of GDP. The services sector has the highest growth rate and is the least volatile sector. Growth is particularly marked in public services, IT and financial services. In some areas the growth rate of the services sector is 40-50% due to increased use of technologies\(^2\).

India has a services-oriented economy. It hasn’t followed traditional growth models (as in China) in that it has skipped the manufacturing stage and has jumped straight from the agricultural stage to services. Growth in the services sector will support growth in the agricultural and industrial sectors, although growth in manufacturing, which causes pollution, is not so desirable in terms of job creation and increased prosperity\(^3\). Services includes the five sub-sectors on trade, hotels and restaurant; transport, storage and communications; finance,


insurance, real estate and business services; public administration and defense and the other services part of the community, social and personal services\(^1\).

The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP. Services Sector Growth Rate in India GDP registered a significant growth over the past few years. The Indian Government must take steps in order to ensure that Services Sector Growth Rate in India GDP continues to rise\(^2\).

Every industry has its own characteristics and specificities. Two of the elements that set insurance apart from many other activities are its facilitating nature and its wide scope. Consequently, the economic importance of the insurance industry is partly reflected by the number of people it employs in a given country, its assets under management, or its contribution to the economy. It actually plays the fundamental role in the mechanisms of the modern society and enables some activities, for which its absence would render the financial risks too great for the relative benefits, to exist at all. As such, insurance is a key component of economic development and an important driver for growth. Modern economies need functioning market for transferring risks and as an extension for insurance\(^3\). Therefore the rules that govern the conduct and trade of insurance are hugely influential, not just on the business but on the wider economy also. This is why all the countries around the world keep a close eye on the industry and scrutinise and regulate insurance company carefully – right so. But, this importance in


economies and societies should not only mean a focus of attention solely on the regulation and supervision of insurance industries themselves, but also on the legislative, economic and legal environment in which they operate\textsuperscript{1}.

In the present scenario, risk in business is inevitable. Risk means probability or threat of damage, injury, liability, loss or any other negative occurrence that is caused by external or internal vulnerabilities and that may be avoided through preemptive action. Of course, all risks cannot be prevented. Some of them can be easily predicted. The risk cannot be averted but loss occurring due to certain risk can be distributed amongst the agreed persons.

Increase in individual’s vulnerability to economic insecurity as a result of increased industrialization, trade and decreasing cultural presence of financial support in the form of extended family over the past century has increased the risk of losses to individual – financial or otherwise. This had led to the emergence of ‘Insurance’- one of the ways to overcome risk. All risk is insurable if it can be analytically qualified in terms of statistics so that it can be measurable in terms of money.

Insurance is a way of reducing uncertainty of occurrence of an event. Insurance is an investment. Its basic purpose is to derive plans to counteract the financial consequences of unfavorable events. Insurance is a social device for eliminating or reducing the cost to society to certain types of risks. Insurance is essentially a co-operative endeavor. It is the function of the insurance to protect the few against the heavy financial impact of anticipated misfortunes by spreading losses among many who are exposed to risks of similar misfortune\textsuperscript{2}.

In general, insurance can be broadly classified as Life Insurance and Non-Life Insurance. Life insurance is a contract whereby the insurer in consideration of the premium paid either in lump sum or in periodical installments undertakes to pay an


annuity or certain sum of money, either on the death of the insured or on the expiry of a certain number of years, whichever is earlier. Other than Life Insurance, everything will come under Non – Life Insurance.

The opening up of the Indian Insurance Sector has been hailed as a ground – breaking move towards further liberalization of the Indian economy. The size of the existing insurance market is growing at a rate of ten per cent per year. But, Indian players have tapped only of the market remains untapped. The Indian Insurance market, with a population of over one billion, offers tremendous opportunities and can easily sustain 100 insurers. There appears to be agreement that the Indian insurance market has a huge potential. India is one of the least insured in terms of spread and penetration. Some of the factors that make the Indian insurance market really attractive are the changing demographic profile of the population, the upswing in the economy and the changing nature of risks in the wake of adoption of new technologies and like skills.

Insurance industry is of great importance to any country. The system of insurance provides numerous direct and indirect benefits to the individual and the business community as a whole. Insurance provides risk cover to the individual insured and security to the beneficiaries. Insurance provides assistance to a business enterprise by means of risk cover. Insurance provides financial stability to commerce, industry and the community. Insurance plays a vital role in the reduction of losses, i.e., minimization of economic waste. Insurance serves as a basis of credit. Insurance provides funds for investment (of special importance to developing countries like India). Insurance is an important growing part of the financial sector in virtually all the developed and developing countries.

In 2008, India with about 200 million classes household shows a huge untapped potential for players in the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for Global insurance majors.

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The insurance sector in India has come to a position of very high potential and competitiveness in the market. Consumers remain the most important centre of the insurance sector. This is an evolutionary change in the technology that has revolutionized the entire insurance sector. The insurance companies today must meet the need of the hour for more and more personalized approach for handling the customer.

Increase of penetration of insurance industry is important because it encourages the savings habit. It provides a safety net to rural and urban enterprises and productive individual’s. It generates long-term investible funds for infrastructure building. The nature of the insurance business is such that the cash inflow of insurance companies is constant while the payment is deferred and contingency related. This characteristic of their business makes insurance companies the biggest investors in long-gestation infrastructure projects in all developed and aspiring nations. This is the most compelling reason why more private sector companies, which will spread the insurance habit in the societal and consumer interest, are urgently required in this vital sector of the economy.

The insurance demand is affected by a lot of external factors. Some of the prominent factors include growth in population, change in the age profile, income wise distribution of the population, and level of insurance awareness, general price level, risk aversion, Government policies and economic climate.

Insurance promotes economic development through various channels. Insurance reduces the capital firms need to operate. Insurance fosters investment and innovation by creating an environment of greater certainty. Insurers are solid partners for the development of a workable supplementary system of social protection, in particular in the field of retirement and health provision. As institutional investors, insurers contribute to the modernization of financial markets and facilitate firms’ access to capital. Insurance promotes sensible risk-management measures through the price mechanism and other methods and contributes to responsible and sustainable economic development. Insurance fosters stable consumption throughout the consumer’s life\(^1\).

\(^1\) www.insuranceeurope.eu, retrieved on April 22, 2011.
Although marine insurance as practical today was introduced in Europe as easy as in the 15th century and fire insurance in the U.K in the 17th century, in India, insurance was established only at the beginning of the 19th century1. Marine insurance was followed by fire insurance introduced by foreign insurance offices, mainly British, through agency representation which actively operated in India in the field of import –export business. It was only in 1850 that an Indian insurance company, Triton insurance co, was formed to transact Non-Life Insurance and by 1885, nearly 50 foreign offices commenced insurance business through agency houses. The ensuring competition in the following decades led to the unhealthy practices of high rates of brokerage and commission. This led to the concentration of insurance business to primarily the urban areas and a general neglect of rural areas and poor investment in the social and rural infrastructure areas.

First attempt at regulation of the industry were made with the introduction of the Indian Life Assurance Companies Act 1912. A number of amendments to this Act have been made until the Insurance Act was drawn up in 1938. Noteworthy features in the Act were the power given to the Government to collect statistical information about the insured and the high level of protection the Act gave to the public through regulation and control. When the Act was changed in 1950, this meant for reaching changes in the industry.

In 1956, the market contained 154 Indian and Foreign Life Insurance companies. Business, until this period, was heavily concentrated in urban areas and targeted the higher echelons of society. “Unethical practices adopted by some of the players against the interest of the consumers” then led the Indian Government to nationalize the industry. In September 1956, nationalization was completed, merging all these companies into what is now know as Life Insurance Corporation (LIC)2.

A similar path was followed in the development of Non-Life Insurance industry. A number of private companies were in existence for years until, in 1971, the Indian Government decided that the public interest would be served by nationalizing the

1 www.irda.gov.in, retrieved on October 18, 2010.

industry, merging all the 107 companies into four companies, depending on the sort of business transacted (Marine, Fire and Miscellaneous). These were the National Insurance Company Limited, the Oriental Insurance Company Limited, the New Indian Assurance Company Limited, and the United India Insurance Company Limited, located in Kolkata, New Delhi, Mumbai and Chennai respectively.

Thereafter, the nationalized Indian insurance industry with its two main players, LIC and GIC, gradually became the subject of public scrutiny. It was felt that the companies were not market oriented, unresponsive to customer needs, lacking in product innovation and charged premium that were too high. “The Malhotra Committee on Reforms in the Insurance sector” was constituted to look into possible reforms of the industry. In 1994, the Committee recommended liberalization of the industry, hoping that the introduction of competition would solve the problems insurance industry was facing. A second goal of liberalization was the further penetration and development of the industry in terms of its contribution to GDP, which was very low in comparison with other developing countries in the region.

In 1999, Insurance Regulatory and Development Authority (IRDA) were constituted as an autonomous body to regulate and develop the insurance industry. The key objectives of IRDA were to promote competition so as to enhance customer satisfaction and protect the policyholders through increased consumer choice and lower premiums, while ensuring the financial security of the insurance market.

The IRDA regulation on granting license to insurance companies to operate in India states that the foreign equity in the company shall not exceed 26%, taking into account the equity holding that it may have through its subsidiaries\(^1\). The license is granted taking into account the capital structure, nature of products, expertise level, infrastructure available, obligation towards social sector etc. The license had to be renewed every year, which may be denied if performance requirements are not met.

\(^{1}\) www.irda.com, retrieved on February 13, 2010.
The first license to any private insurer was granted by IRDA in year 2000. Subsequent to that, Indian insurance industry has seen entry private players into life and non-life sectors.

The parallel liberalization of the banking sector has opened the doors into the insurance industry for bank also. Banks can now participate in insurance business as agents, marketing partners provided the risks of insurance are not borne by them and provide they satisfy certain requirements laid down by RBI. The participation of banks in marketing insurance products is called Bancassurance. A number of new entrants have adopted banks as local partners and such a development could see a significant Bancassurance market being established in India. Bancassurance is already prevalent in developed countries like US, UK where banks partner with insurance companies in marketing the insurance products to their customers.

Insurance is highly a regulated industry with strict regulation in certain aspects. The regulatory bodies in the context of insurance are IRDA, Tariff Advisory Committee (TAC) and Reserve Bank of India (RBI). These Regulatory Bodies control different aspects of the insurance industry. IRDA is the sole Regulating Authority with respect to the licensing and operations of insurers. TAC regulates the prices of insurance products, especially in the areas of motor insurance etc. Finally, RBI regulates the insurance activities of the banks (Bancassurance – setting prerequisites for entry of banks into marketing insurance products)\(^1\).

**CHALLENGES FACED IN INDIAN INSURANCE MARKET**

After the liberalization in 1991, the task before the policymakers was to create an entirely new system of incentives for risk and profit sharing opening up the insurance business was seen as a logical and inevitable way of doing. So, the insurance industry has been growing 20%, but it lags far behind its Global counterparts\(^2\).

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\(^1\) www.irda.gov.in, retrieved on February 27, 2011.

A cursory examination of the key issues, which have emerged over the last decade shows; the fundamental issues of risk is yet to be addressed satisfactorily in India. Such risks can arise from a host of directions, including, most importantly, demand projections the contract structure, legal and financial covenants and management. All needs to be analysed and mechanisms have to be found to tackle the problems, which inevitably arise.

Another big problem is the complacency in the insurance industry which is reflected among other things, in insufficient responsiveness to customer needs, high cost, and instability of marketing network, excessive lapse of the policies, overstaffing, and growth of the restrictive staff practices and serious lags in technology with the entry of private players the service levels are slowly going up. Penetration is very low, only about 100 million people have Life Insurance policies and 30 million are members of group insurance schemes. This is just around 10 per cent of the population. There is no blending between insurance and prudential savings.

Even in the non-life segment there is no urge amongst the players to tailor policies to specific customer needs. House protection and accident insurance have been neglected because it is easier to market high value Non-Life Insurance policies like fire or marine insurance to large firms. As a result, the traditional Non-Life Insurance products are fire, marine, and automobile insurance. Even health insurance is virtually non-existent. Only 2.5% of the population is covered by mediclaim (health insurance) policy and the premia are too high. Returns on investment are low because of the mandatory investment in Government securities. From the firms perspective inefficient asset management and low investment yield are also responsible for the high premia charged by Indian insurance companies.

The natural instinct of an insurance firm is to look for ways to not pay. This should not be confused mechanism is needed which cannot be taken for granted. Such a mechanism exists in Indian but that it doesn’t function, as it should. Current size of the market pie is too much skewed towards the bigger players. Life Insurance Corporation and the Non-Life Insurance Companies have an overwhelming presence in the market. They will continue to dominate the insurance market for years to come, if only because such large will depend on how rapidly new markets are created. There is an absence of meaningful statistical information of analysis for the future growth of the
market. The numbers are not reliable, either as a measure of the current reality or of what can be deduced from them about the future. This does not mean that the numbers which the Life Insurance Corporation and the Non-Life Insurance Companies put out are fake, it is just that they tell us nothing useful about anything and no inferences can be drawn from them. Even the internal costs measurements are flawed as they tend to be systematically biased upwards or downward.

There are other hurdles with regards to insurance outlook are as follows. Insurance lacks proper promotion. Innovative products are not significant still. Insurance covers are still expensive. Returns from insurance products are low. The consequences are there for all to see. Insurance penetration is low. Products are not designed to suit the needs of the market. Companies are not responsive enough to insurance buyers need. Marketing network is weak. Turnover of agents is very high. Training of agents is woefully inadequate.¹

Most agents and development offices are interested only in producing new business. Servicing existing customers satisfactorily has not been a priority for them. Reason: incentives are based on new business generation and not on satisfactory servicing of existing customers. Most companies therefore don’t have tied agents. Even existing agents are not buyer-friendly. They are always desperate to fulfill their quota of business and have little time to explain policy features to prospective customers more than 10% of life policies are surrendered or get lapsed every year. Last but not least, computerization is woefully inadequate. This is where the IT industry can make big inroads and boost the insurance business.

As seen above factors including Globalization, product commoditization, industry consolidation, regulatory changes, distribution channels, and shrinking margins have presented the insurance industry with a new reality-securing a new competitive advantage is more difficult than ever. Though there is a considerable increase in technology based investments and the of internet over past few years these still remains as major challenges because of existing applications are tightly coupled.

The effect of these losses on financial system is not only negative but may be
disastrous and catastrophic also. It results in substantial burden on the financial well
being of those affected. It may be micro or macro-level. Individual, corporate bodies and
entire communities may be affected.

Some examples to illustrate this concept are:

a) Traffic accidents in which passengers or pedestrians are injured or dead. This is in
addition to damage to vehicles involved and other properties.

b) Industrial accidents in factories, petrochemical plants, thermal power stations,
etc., one example are the Bhopal gas tragedy in the Union Carbide Plant in 1984.

c) Natural calamities which are termed as pure risks are also of contingent nature.
Recent Asian Tsunami, Floods and cyclone in Orissa, Andhra Pradesh and
Gujarat have caused extensive damage to life and property.

d) Earthquakes in Gujarat, Maharashtra and Uttar Pradesh have had similar effects.

e) Terrorists attack on World Trade Center (WTC) in New York is the most recent
examples of contingent risks that produced losses of different descriptions the
financial system of that part of USA.

Financial system may be defined as a set of institutions, instruments and markets
which foster savings and channels them to their most efficient use. The system consists of
individual’s (savers), intermediaries, markets and users of savings. Economic activity and
growth are greatly facilitated by the existence of a financial system developed in terms of
efficiency of the market in mobilizing the savings and allocating them among competing users.

Economy needs institutions that impartially enforce property rights and contracts.
Economics growth depends on the existence of a well-functioning financial market. It is
essential that the financial infrastructure is developed sufficiently so that the market
operations are efficient. Insurance as a part of the financial system provides valuable
services to those affected by various risks or contingencies.

Insurance Companies divided into two categories viz., Life Insurance and Non-Life
Insurance. Life insurance is a contract between an insured (insurance policyholder) and
an insurer, where the insurer promises to pay a designated beneficiary a sum of money
upon the death of the insured person. Depending on the contract, other events such
as terminal illness or critical illness may also trigger payment. The policy holder typically pays a premium, either regularly or as a lump sum. Other expenses (such as funeral expenses) are also sometimes included in the benefits.

Insurance other than ‘Life Insurance’ falls under the category of Non-Life Insurance. Non-Life Insurance comprises of Fire insurance, Burglary insurance, Accident insurance, Health insurance and Liability insurance$^1$.

It is important for proposers to read and understand the terms and conditions of a policy before they enter into an insurance contract. The proposal form needs to be filled in completely and correctly by a proposer to ensure that the cover is adequate and the right one. There are two types of policies in Non-Life Insurance. They are individual policy and corporate policy. Individual policy provides insurance cover for a single individual only. It is an agreement between an individual policyholder and the insurance company. Such an individual policy needs to be renewed before the expiry of the contract in order to enjoy continued benefits provided by the insurance company. An individual policy can be renewed by paying the premium as stated by insurance company based on various factors and parameters. Such an individual policy is not transferable.

**UNDERSTANDING NON-LIFE INSURANCE BUSINESS**

The purpose of any enterprise is to make money for its investors, while fulfilling the consumer needs more efficiently than the others, as its core purpose. Insurers, who are now operating, had the tariffs of rates on insurance covers available to them, till 2007 about 70% of the premium producing portfolios. Their sole objective was of improving premium volumes, at the rates given to them. They really were not that seriously concerned, as much as they are now, on how to manage the business procured to make money for their investors. The tariff rates provided the operating margins for them for a fairly longer period. But liberalization had to lead to rating freedom in the interests of the consumers. The insurers, therefore, are now required not only to procure business but to determine the extent of margins they would wish to aim for. From running their professional careers hitherto as mere marketers of pre-packaged and prepriced insurance

covers, the insurers are now called upon to show their management competencies and skills in pricing risks and marketing their wares on risk management principles. That is seen as a long shot beyond them to play unless they change.

In 1951, The Non-Life Insurance Business was Rs.24 crore. The industry was at Rs.130 crore at the time of nationalization in 1971 when 108 private Non-Life Insurance Companies were amalgamated into four public sector Non-Life Insurance companies viz., New India Assurance Company Limited with 19.33 per cent GDPI, United India Insurance Company Limited with 18.81 per cent GDPI, National Insurance Company Limited with 3.10 per cent GDPI and Oriental Insurance Company Limited with 19.30 per cent GDPI¹.

**A BRIEF PROFILE OF NEW INDIA ASSURANCE COMPANY LIMITED**

It is established by Sir Dorab Tata in 1919, New India is the first fully Indian owned. New India is a pioneer among the Indian companies on various fronts, right from insuring the first domestic airlines in 1946 to satellite insurance in 1980. The latest addition to the list of first is the insurance of the INSAT – 2E. With a wide range of policies, New India has become one of the largest Non-Life Insurance companies, not only in India but also in the Afro-Asian region.

NIAC is a leading Global insurance group, with officer and branches throughout India and various countries abroad. The company services the Indian subcontinent with a network of 1068 offices, comprising 26 Regional offices, 393 divisional offices and 648 branches. With approximately 21000 employees, New India has the largest number of specialist and technically qualified personnel at all levels of management, who are empowered to underwrite and settle claims of high magnitude.

New India has been rated “A” (Excellent) by A.M. Best Co., making it the only Indian Insurance company to have been rated by an international rating agency².

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¹ [www.irda.com](http://www.irda.com), retrieved on June 20, 2011.

² [www.niac.ac.in](http://www.niac.ac.in), retrieved on June 18, 2010.
The financial strength of the company is reflected in the Table 1.1.

**TABLE 1.1**

FINANCIAL STRENGTH OF NIAC

(Amount in Crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Gross Premium (in India)</th>
<th>Gross Premium (Outside India)</th>
<th>Net Premium (Global)</th>
<th>Net Profit (Global)</th>
<th>Total Assets (Global)</th>
<th>Net Worth (Global)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997-1998</td>
<td>2433.73</td>
<td>254.04</td>
<td>1945.00</td>
<td>470.94</td>
<td>6071.67</td>
<td>1462.52</td>
</tr>
<tr>
<td>1998-1999</td>
<td>2729.48</td>
<td>288.16</td>
<td>2186.92</td>
<td>375.00</td>
<td>6727.72</td>
<td>2524.23</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2979.53</td>
<td>327.00</td>
<td>2477.45</td>
<td>287.29</td>
<td>7664.71</td>
<td>2859.86</td>
</tr>
<tr>
<td>2000-2001</td>
<td>3041.17</td>
<td>451.88</td>
<td>2671.48</td>
<td>173.54</td>
<td>8292.00</td>
<td>3067.39</td>
</tr>
<tr>
<td>2001-2002</td>
<td>3512.33</td>
<td>685.73</td>
<td>3068.23</td>
<td>142.00</td>
<td>12273.02</td>
<td>3189.39</td>
</tr>
<tr>
<td>2002-2003</td>
<td>3921.24</td>
<td>891.55</td>
<td>3516.43</td>
<td>255.81</td>
<td>12984.75</td>
<td>3404.00</td>
</tr>
<tr>
<td>2003-2004</td>
<td>4045.68</td>
<td>875.79</td>
<td>3634.94</td>
<td>590.21</td>
<td>17510.44</td>
<td>3735.22</td>
</tr>
<tr>
<td>2004-2005</td>
<td>4210.81</td>
<td>892.35</td>
<td>3895.11</td>
<td>402.23</td>
<td>19827.19</td>
<td>4161.69</td>
</tr>
<tr>
<td>2005-2006</td>
<td>4791.49</td>
<td>884.05</td>
<td>4342.66</td>
<td>716.38</td>
<td>27025.58</td>
<td>4706.87</td>
</tr>
<tr>
<td>2006-2007</td>
<td>5017.20</td>
<td>919.58</td>
<td>4751.76</td>
<td>1459.95</td>
<td>27444.57</td>
<td>5972.55</td>
</tr>
<tr>
<td>2007-2008</td>
<td>5276.91</td>
<td>874.55</td>
<td>4914.28</td>
<td>1401.13</td>
<td>31944.14</td>
<td>6972.80</td>
</tr>
<tr>
<td>2008-2009</td>
<td>5508.82</td>
<td>946.96</td>
<td>5500.31</td>
<td>224.16</td>
<td>26931.58</td>
<td>7328</td>
</tr>
<tr>
<td>2009-2010</td>
<td>6042.51</td>
<td>1056.63</td>
<td>6002.66</td>
<td>404.69</td>
<td>36832.91</td>
<td>7430.21</td>
</tr>
<tr>
<td>2010-2011</td>
<td>7097.14</td>
<td>1128.37</td>
<td>7192.23</td>
<td>-421.56</td>
<td>39621.27</td>
<td>6890.47</td>
</tr>
<tr>
<td>2011-2012</td>
<td>8542.86</td>
<td>1531.01</td>
<td>8771.21</td>
<td>179.31</td>
<td>42162.74</td>
<td>7057.61</td>
</tr>
</tbody>
</table>

Source: www.niac.ac.in
TYPES OF POLICIES OFFERED BY NIAC

The following are the policies offered by NIAC:

Personal Insurance

- Mediclaim 2007 Policy
- Family Floater Mediclaim Policy
- Janata Mediclaim Policy
- Senior Citizen Mediclaim Policy
- Personal Accident Policy
- Overseas Mediclaim Policy
- Householder's Policy
- Motor Policy
- Money Insurance
- Rasta Apatti Kavach (Road Safety Insurance)
- Suhana Safar Policy
- TV/VCR/VCP Insurance
- Mobile/Cellular Phone Insurance
- Other Personal Insurance
- Group Mediclaim Policy

Commercial Insurance

- Jewellers Block Policy
- Bankers Indemnity Policy
- Shopkeeper's Policy
- Marine Cargo Policy
- Plate Glass Insurance
- Special Contingency Policy
- Neon Sign Insurance
- Multi Peril Policy for L.P.G. Dealers
- Fidelity Guarantee Insurance Policy
- Marine Hull Policy
- Aviation Insurance
**Industrial Insurance**
- Fire Policy
- Burglary Policy
- Machinery Breakdown Policy
- Electronics Equipment Policy
- Consequential Loss Policy
- Contractors All Risk Policy
- Marine cum Erection / Storage cum Erection Policy
- Advanced Loss of Profit / Delay in Startup Policy
- Contractor Plant and Machinery Policy
- Mega Package Policies

**Liability Insurance**
- Public Liability Policy
- Products Liability Policy
- Professional Indemnity Policy
- Directors and Officers Liability Policy
- Lift (Third Party) Insurance
- Employers' Liability Policy
- Carrier's Liability Insurance
- Liability Insurance Act Policy
- Golfers Indemnity Insurance

**Social Insurance**
- Universal Health Insurance Scheme for BPL families
- Universal Health Insurance Scheme for APL families
- Jan Arogya Bima Policy
- Raj Rajeshwari Mahila Kalyan Yojana
- Bhagyashree Child Welfare Policy
- Janata Personal Accident Insurance
- Student Safety Insurance
- Ashrya Bima Yojana
- Rural Insurance
1.2 STATEMENT OF THE PROBLEM

The insurance sector has been playing a leading role in Indian economy and performs significant changes in socio economic conditions of the society, making inroads into interior of the economy. It is a fast developing areas in Indian financial sector. It caters to the needs of both rural and urban people of Indian society. It supports the economy by mobilizing long term savings in Life Insurance and Non – Life Insurance. Insurance is the base of avoiding or minimizing the risk of physical as well as human life fully. Realizing the significance of the sector, the Government of India has opened it to the private players with the objective of creating a healthy competition. As a result, the Indian Insurance Industry is now going with full stream, in its new regenerated form in the era of Globalization. There are several players in each of the classes competing with other to grab the best share and create a niche for them. The best thing that has happened is the overall freshness that is perceptible as regards the insurance business as also the other things attached to it. Like the distribution channels, new styles of service delivery, the genesis of new products on the horizon and above all, a whole new set of opportunities for employment in the insurance sectors.

The market share of the public undertakings in insurance industry has been showing a declining trend after the private sector has been allowed to operate in the industry. In the competitive region, the private players are keen on product innovation and customer service. Unless the public insurance sector comes out with innovative ideas and is not keen on providing effective customer service, the declining trend in market share of public sector in insurance industry cannot be arrested. In other words these insurance companies should understand the customer attitude towards the product offered by these companies and motivational factors behind the choice of the policy. The insurance sector being a service – oriented industry has to sustain on the quality of customer service. The survival and growth of a insurance not only depend on its ability to provide qualitative services to its customers on a sustained basis, but in building a long term mutually beneficial and trust-worthy relationship with its policyholders. The operational and service aspects of the insurance sectors have witnessed significant changes owing to the innovations of science and technology and computer revolution.
In the context of growing competition amongst insurance sectors and between life and Non-Life Insurance companies, quality of customer services has assumed greater importance. The insurance market has a large number of players. The changing scene has been accompanied by growing expectations of policyholders, new products, new forms of services and customer friendliness. Thus, insurance sector are compelled to adapt various marketing strategies to gain competitive edge over each other, which ultimately results in the creation of satisfied policyholders.

Several efforts were made in the past by Insurance Regulatory and Development Authority, the Government of India and the Ministry of Finance to set up various Committees from time to time to find out the challenges and suggested some ways for the policyholders to overcome them. Insurance employees do not view empathetically the policyholders who represent their grievances.

The Non-Life Insurance Corporation explicitly states that one of its objectives is to spread the message of Non-Life Insurance as widely as possible to provide Non-Life Insurance to all insurable population of both urban and rural areas, socially and economically backward classes.

Non-Life Insurance Corporations branch has been rendering best services effectively ever since its inception. In the Globalised scenario, NIAC is taking various steps to increase its performance in the aspect of Shareholders’ Fund, Gross Premium, Net Premium, Claims, Commission, Net Profit, Net Assets, Income from Investment, Expenses of Management, Networth and Total Assets. Hence, it is felt as necessary to evaluate the performance of NIAC.

In the field of Non-Life Insurance there are various providers both private and public and every provider is trying their level best to win the minds of policyholders. As the policyholders are sophisticated, they expect more services from the providers. Hence, it is necessary to assess the factors influencing the policyholders to prefer NIAC. Moreover, policyholders’ level of awareness and satisfaction may also influence a lot in the aspect of various policy decisions making of NIAC. At the same time, policyholders are facing a number of problems with NIAC.
By keeping all these, it is pertinent to identify the answers to the following questions:

- What is the performance of New India Assurance Company in the present trend?
- What are the factors influencing the policyholders to avail the products and services of NIAC?
- Is there any problem to the policyholders while availing the policies of NIAC?
- To what extent the policyholders are aware about various products and services offered by NIAC?
- What is the level of satisfaction of the policyholders about NIAC and its services?

1.3 REVIEW OF LITERATURE

In any study, the review of previous studies are considered as important for getting a better understanding of the problem, objectives, the methodology followed and to identify the unexplored part of the field of study under consideration. In this regard, a review of some of the studies relating to the present study has been undertaken and presented in this section.

Anderson and Mittal\(^1\) (2000) proposed the conceptual logic of relationships within the customer satisfaction chain and found that by improving product and service quality attributes, customer satisfaction should increase.

Brown\(^2\) (2000) outlined the rationale for applying methodologies developed to estimate different kinds of efficiencies of insurer. The data of 100 largest General insurers of UK for the year 1998 were taken. The data envelopment analysis (DEA) was used to analyze the data. The study used five models of input and output, and started with the simplest—where there was one output—net written premium and one input—net operating expenses. In the second model, financial capital was added as the second input. The third

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model included reinsurance as input and gross premium as outputs. The fourth model used output as the net written premium, investment income and input as net operating expenses, capital and technical provisions.

Carmichael and Pomerleano\(^1\) (2000) highlighted contribution of insurance as a promoter of financial stability among households and firms by transferring risks to an entity better equipped to withstand them, it encourages individuals and firms to specialize, create wealth and undertake beneficial projects they would not be otherwise prepared to consider.

Kala\(^2\) (2000) undertaken a study entitled “The workings and Evaluation of New India Assurance Company Limited”. In her findings, she has stated that 48.38% of the respondents have insured with the expectation of loss of property by fire and 21.74% of them for loss due to shortage and theft etc. Hence, the insurance policy was essential for industrial units.

Nicolo and Russell\(^3\) (2000) identified through their study that performance of the insurance company can be measured effectively with tools like interest margin, capital adequacy, expense/income ratio and return on assets. They concluded that efficiency of the insurance companies can be increased by increase the premium.

Verma\(^4\) (2000) evaluated the performance of the GIC and its subsidiary companies over the years, throwing light on the probable effects of the various insurance sector reforms on the future development of General Insurance in the country. The study was based on the published and primary data. The techniques like trend analysis,


averages, graphs etc., were used to analyse the quantitative data. The study found that the GIC along with its subsidiaries has emerged not only as a strong insurance institution but also as an influential institutional investor in the financial market of India due to large amount of funds at its disposal. It made investment with the objective of safety and maximization of return. The underwriting results showed losses in about all the years except 1993-94. Despite the rise in premium income, the profit position had not improved due to rise in expenses, commission and net incurred claims at a higher rate than the growth premium income. The study suggested that GIC should bring reform in pricing the General Insurance contracts and use information technology for better management, customer service, efficiency and competitiveness.

Ward and Zurbruegg\(^1\) (2000) examined the casual relationship between growth in the insurance industry and economic development by recognizing that the economic benefits of insurance are conditioned by national regulations, economic systems and culture. Further, they found that an examination of the inter-relationship between insurance and economic growth needs to be conducted on a country-by-country basis.

Diacon\(^2\) (2001) explored the efficiency of UK specialist and composite insurer transacting general insurance business. The concept of efficiency concerns as insurers' ability to produce a given set of outputs (such as premiums and investment income) via the use of inputs, such as administrative and sales staff and financial capital. The study uses the variable returns to scale Farrell efficiency scores formulation of the well-known data envelopment analysis (DEA) to identify the locally efficient and inefficient insurers within each country. A comparison is then undertaken for all insurers after adjusting the impact of their local efficiency. Traditionally the efficiency of insurance firms has often been measured by key ratios such as the expenses and claims ratios, the solvency margin and the return on invested assets.


Brady et al., ¹ (2002) evaluated the two service quality measurement models of the performance only index (SERVPERF) and the gap-based SERVQUAL scale. The study was carried out with the objective to examine the ability of the performance of only measurement approach to 45 capture the variance in the consumers overall perceptions of the service quality across three studies. For the first study, the original Cronin and Taylor data was obtained from 660 persons through personal interviews in a medium-sized city in the southeastern US. The data for second and third studies was collected from service industry, namely, spectator sports, entertainment, healthcare, long distance carriers and fast food. The results of first study indicated that the replication successfully duplicated their finding as to the superiority of the 'performance only' measurement of service quality. The results from the other two studies also lent storing support again for the superiority of the 'performance only' approach 'to the measurement of service quality'.

Diacon et al., ² (2002) explored the efficiency of European specialist and composite insurers transacting long-term insurance business. An exploration of the value based measure of the insurance company inputs and outputs were utilized to measure technical efficiency of long-term insurers by comparing the performance of approximately 450 insurers licensed in fifteen European countries using data from Standard and Poor's Euro thesis database. The efficiency analysis used the variable returns to scale formulation of the well-known data envelopment model to compute the pure technical, scale and mix efficiencies of each insurer relative to an European efficiency frontier for each year between 1996 to 1999. The objective of this study was to identity the best practice companies operating in the European long-term insurance market, and then to benchmark all other insurers against these. The study used total operating expenses, capital, technical reserves and borrowings as the main inputs premiums and investment income as the main outputs. It is clear from the analysis that


there were wide variations in all types of efficiency. The more efficient insurance companies in technical terms are likely to be either very large or very small (specialist) companies. Mutuality and financial securities were also conducive to technical efficiency.

Shrivastava and Shrivastava\(^1\) (2002) found that the act of saving involves refraining from the present consumption and thereby placing a proportion of income for being consumed at a later date. The act of investment can only take place when there are savings in the economy.

Swaraj Krishnan\(^2\) (2005) identified that there must be necessary to have a sound understanding of the terms among the customer/client. He suggested that claims settlement requires accurate engineering and legal support within the contractual context of the insurance product as well as relevant governing law and legal precedents affecting the contracts of reinsurance and claims made.

Worthington and Hurley\(^3\) (2002) indicated that the major source of overall cost inefficiency would appear to be allocative inefficiency; rather than the technical inefficiency and that the largest 20% of the insurers are significantly more efficient than the remaining firms. A second stage analysis has used limited dependent variable regression techniques to relate efficiency scores to firm specific information. Cost efficiency appears to be closely related to asset size but not to stock exchange listing or product diversification or specification.

Achamma Samuel\(^4\) (2003) made a study to examine the performance of insurance market during post-liberalisation. He identified that insurer has realized the significance of service towards policyholders’ post-liberalisation period.


Bodla et al.,\(^1\) (2003) suggested that a resilient and well regulated insurance industry can significantly contribute to economic growth and efficient resource allocation through transfer of risk and mobilization of savings. In addition, it can enhance financial system efficiency by reducing transaction costs, creating liquidity and facilitating economies of scale in investment. They found that laid down the three essential steps in the process of capital formation viz., Real savings, Mobilization and Channelizing of savings through financial and non-financial intermediaries for being placed at the disposal of investors. 3. The act of investment.

Das et al.,\(^2\) (2003) found that the Insurance is an important growing part of the financial sector in virtually all the developed and developing countries.

Lai and Limpaphayom\(^3\) (2003) examined the relation between organisational structure and firm performance in the Japanese Non-Life Insurance industry. The data used for this study has been collected from the annual special issues of the Statistics of Japanese Non-Life Insurance Business published by the Insurance Research Institute of Japan and from the PACAP Japan database. As many as 26 non-life insurers for the period 1983 to 1994 were taken for the purpose of study. The results indicated that the stock companies that belong to one of the six horizontal Keiretsu groups have lower expense and lower levels of free cash flow than independent stock and mutual insurance companies. Keiretsu insurers also have higher profitability and higher loss ratios than independent insurers. There was also evidence that mutual insurers have higher levels of free cash flows, higher investment incomes and lower financial leverage than their stock counterparts. Overall, empirical evidence suggested that each structure has its own comparative advantage.


Raviprakash et al.,\textsuperscript{1} (2003) found that the size of the existence insurance market is very large. On the basis of their study, they suggested that quality of the service to be upgraded on the basis of the prevailing competition.

Verma\textsuperscript{2} (2003) highlighted that motor insurance is the biggest and fastest growing general insurance portfolio in the Indian insurance market and it accounts for more than 42\% of the cash flow of general insurers.

Anil Bhattacharya\textsuperscript{3} (2004) found that insurance policyholders’ satisfaction is to be increased by considering the liberalization of insurance sector.

Ennsfellner et al.,\textsuperscript{4} (2004) examined the development in the production efficiency of the Austrian insurance market for the period 1994 using firm- specific data on life/health and non-life insurers obtained from the Austrian insurance regulatory authority. Bayesian stochastic frontier was used to obtain aggregate and firm- specific estimates of production efficiency across insurer types and time. The paper used same inputs for health, life and non-life insurers, namely, net operating expenses, equity capital and technical provisions net of reinsurance and outputs for health; and life insurers, namely, incurred benefits net of reinsurance, changes in reserves net of reinsurance and total invested assets; and outputs for non-life insurers, namely, claim incurred net of reinsurance, and total invested assets. The study provides strong evidence that the process of deregulation had positive effects on the production efficiency of Austrian insurers.


Fabiano Colombini and Simone Ceccarelli\(^1\) (2004) found that dynamic financial approaches to solvency analysis in Non-Life Insurance companies by explaining cash flow simulation models which are based on the planning of their typical cash inflows and outflows.

Raman and Gayathri\(^2\) (2004) found that the policyholders are attracted towards the new companies because of their innovative products and services. They also suggested that the existing company should develop a suitable strategy to attract and retain their policyholders.

Tripathy\(^3\) (2004) made an endeavour to find out the perception of customers towards insurance companies through marketing variables, and also analyzed the performance of customers and the importance they assigned to different attributes. The author also examined the satisfaction level of respondent customers and agents regarding customer service offered by the company, and tried to determine the position of different companies in the minds of people. The study is based on a questionnaire survey of 225 respondents in Orissa by using multi-dimensional scaling technique. It is observed that 58 per cent of the investors preferred to invest in insurance companies due to choice of products, servicing policy and claims settlement. Majority of the respondents were influenced to take the policy through financial journals and business magazines, and also keeping in mind the high reputation and good CRM of the company. The author suggested that to achieve greater insurance penetration, private companies have to create more vibrant and competitive industry, with greater efficiency, choice of products and value for customers.

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Vijaya Banu\textsuperscript{1} (2004) found that Indian Insurance industry is going through a boom phase and the general insurance industry is poised for a higher growth. The service delivery standards are improving.

Azam\textsuperscript{2} (2005) examined the customers' attitudes towards private and public owned general insurance organisations' products exploring 8 salient beliefs, namely, sound financial strength, goodwill, satisfactory claim settlement, easy risk underwriting, diversified policy, experienced employee, excellent client service and good office environment. The study utilised fishbeins' multi-attribute attitude object model to measure overall attitude. T-test was performed to test the hypothesis. The study indicated that among 8 salient beliefs customers' perceptions on financial strength, goodwill and office environment are statistically different at 0.001 level, while risk underwriting and client service are different at 0.05 level of significance. The results revealed that customers' favourable perception towards financial strength and goodwill of SBC, while office environment, risk underwriting and client services were favourable for private insurance companies.

Barros et al.,\textsuperscript{3} (2005) investigated the performance of 27 Insurers of Portugal from the period 1995 to 2001 using DEA and concluded that there had been improvement of technical efficiency over time but deterioration in terms of technological change.

Brockett et al.,\textsuperscript{4} (2005) investigated the efficiency of 1,524 insurance companies. He found that agency is more efficient than direct marketing.


Jeng and Lai\(^1\) (2005) used the non-parametric frontier method to examine differences in efficiency for three unique organisational firms in the Japanese Non-Life Insurance industry, Keiretsu firms, Non-Specialized Independent Firms (NSIFs), and Specialized Independent Firms (SIFs). The data of Japanese Non-Life Insurance companies from 1983 to 1994 was considered for the study. Two approaches were used to analyse the data, viz. value-added approach and intermediary approach. In value added approach, the output was used as number of policies and total invested assets and inputs were used as labour, business service, debt capital and equity capital. On the other hand, in the financial intermediary approach output was taken as return on assets and inputs were equity capital, underwriting and investment expenses and debt capital supplied by policyholders. The results showed that it is not possible to reject the null hypothesis that efficiencies are equal with one exception. Keiretsu firms seem to be more cost-efficient than NSIFs. The study also indicated that the productivity changes across the different organizational forms revealed deteriorating efficiency for all three types of firms throughout the study period.

Vijayakumar\(^2\) (2005) conducted a study on Globalization of insurance sector issues. He identified that insurance sector as emerging areas. Further, he found that insurance industry is likely to play an important role in changing the economic landscape of the country.

Hwang and Kao\(^3\) (2006) utilized the two stage data envelopment analysis. In the first stage they measured marketability and the profitability at the second stage. The sample of the study was 24 non life in Taiwan for the period 2001-2002. An interesting finding was that company which had efficiency in the traditional one stage could never

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achieve efficiency both in the marketability and profitability stages. Moreover they found no different values for efficiency between domestic and foreign and with different sizes or scales.

Raghubir and Arunesh¹ (2006) made a study to examine the role of public sector players in Non-Life Insurance. They identified that the liberalized Indian insurance market has seen the entry of a number of private Non-Life Insurance players. Private players are able to capture a significant market share in the Non-Life Insurance market. It is firmly believed that ultimately, most of the Non-Life Insurance market will be taken over by private sector players, and public sector players will have to face a tough time. Prior to liberalization, the contribution of public sector players in the growth of Non-Life Insurance sector was very less. But, after the liberalization of insurance sector, the growth rate per annum has increased gradually. They concluded that the declining market share of public sector players should not be taken as an erosion of their business levels. Public sector companies have to leverage upon their strengths to give a tough fight to the private sector players.

Ramanadh et al.,² (2006) identified that performance of insurance company in financial terms is normally expressed in net premium earned, profitability from underwriting activities, annual turnover, return on investment, return on equity etc. These measures can be classified as profit performance measures and investment performance measures. Profit performance includes the profits measured in monetary terms. It is the difference between the revenues and expenses. Investment performance can take two different forms. One the return on assets employed in the business other than cash, and two, return on the investment operations of the surplus of cash at various levels earned on operations. All the financial measures mentioned pertain to the efficiency of operations.


Namasivayam et al.,¹ (2006) examined the socioeconomic factors that are responsible for purchase of insurance policies and the preference of the policyholders towards various types of policies. From the analysis, this study concluded that factors such as age, educational level and sex of the policyholders are insignificant, but income level, occupation and family size are significant factors.

Banga² (2007) made an attempt to examine the effectiveness of marketing strategies being adopted by insurance companies, the satisfaction level of the customer, different types of pricing and product management strategies adopted, and various promotional and distribution channels used by insurance companies for marketing their products. This study revealed that the same product may not be able to give full satisfaction to different categories of customers. Hence, while planning the product the above mentioned factors are required to be considered earnestly. The quality of services provided to their customers by private general insurance companies are better than public sector general insurance companies. It is in this context that the public sector insurance organisations need to think in favour of managing the marketing activities with the help and co-operation of world class professionals. This study also revealed that employees and agents working with insurance companies are not properly trained, resulting in slow business. The present marketing policies of insurance organizations are unable to make the public aware totally, and a drastic change is required in the marketing system. So, it is right to opine that the marketing practices need a new look, an innovative approach and the conceptualization of the holistic concept of management can make it possible.

Gupta³ (2007) analyzed that motor insurance is the most important insurance tool for all motor vehicle owners. Further, he stated that customers will benefit from the policy only when they are aware of the details and renew their policies in time. Improper handling of motor insurance can become a nuisance and a liability for the policyholder.


Klumpes\(^1\) (2007) provided that acquiring firms achieve greater efficiency gains than either target firms or firms not involved in mergers. However no beneficial effect of mergers on target firms had been found, rather mergers and acquisitions had been driven mostly by solvency objectives.

Markus Buchwalder et al.,\(^2\) (2007) analysed the future cash flows resulting from the insurance contracts. They found that basic elements and the technical fluctuations are covered by an increased number of basic elements.

Milsom et al.,\(^3\) (2007) identified that the general insurance industry generates an abundance of cash, retains it for long periods, and pays out vast amounts in claims settlements, so why should there be a concern about the financial performance? It is simply because cash management affects profitability. It’s surprising then that cash management does not seem to be at the top of every insurance group’s agenda. If premium income, reinsurance claims and investment income are the metaphorical taps supplying the “cash” bath then claims payments, reinsurance premium and operating expenses are the main items forming an orderly queue down the drain.

Murugan\(^4\) (2007) found that company from rural insurance schemes has not reached the rural messes. He highlighted that the significance of fire insurance business to match and fireworks industries.

Nelson et al.,\(^5\) (2007) found that the Growth is a constant in the insurance industry. To become, or remain, a major player, insurers are expected to consistently deliver double-digit revenue growth. Mergers and acquisitions, geographic expansion, product development, cross-selling and client retention are all vital strategies. Insurers are


expanding into emerging markets such as Central and Eastern Europe (CEE), Russia and India, which are generally underinsured but increasingly affluent. In the mature markets, demographic changes are driving new product development as insurance companies adjust to the changing needs of their core domestic client base.

Rao\(^1\) (2007) analysed the existing technology and competition to insurance sectors. He found that agents are playing an important role in development of insurance and he suggested that insurance company should take all possible steps to extract more services from agents.

Sinha\(^2\) (2007) compared the performance of four public sector and eight private sector general insurance companies in respect of technical efficiency, scale efficiency and total factor productivity for the years 2003-04 and 2004-05 by using data envelopment analysis and malmquist total factor productivity index. The present study has taken two outputs: Net Premium Income and Gross Income, and three inputs, viz. equity capital, operating expense and number of agents. The results indicated that the public sector insurance companies exhibited higher mean technical efficiency than the observed private companies (income as the output). However, in respect of gross income as the output indicator, the result is contingent on the return to scale. Under constant return to scale, the public sector insurance dominates the private sector in terms of means technical efficiency, while under variable return scale the private sector insurance has a marginally higher technical efficiency than the public sector insurance companies.

Tamzid Ahmed Chowdhury et al.,\(^3\) (2007) made a study with the objectives of clients’ behaviors and attitude regarding insurance companies in public and private sectors in Bangladesh to suggest policy measures for improving insurance services delivery process in Bangladesh. For which they have highlighted the following questions:


What type of insurance company one prefers for insurance services? For which services a client visit the insurance companies? What factors influence the choice of an insurance company? Which medium is more effective for awareness of the customers? Is there any significant association between the type of insurance company selected and demographic variable such as gender, education, and income?. To analysis the collected data, the have used Simple statistical techniques like frequency distribution along with percentage were obtained to check for data entry errors (e. g. unrecognized or missing codes) and to obtain descriptive statistics mean and standard deviation were also obtained from the frequency analysis. To determine whether a significant association exists between binomial variables (e. g. income, education and gender with type of insurance company chosen), cross tabulation analysis and chi-square test were performed. To determine the crucial factors that influence choosing an insurance company, t-test and F-tests were performed. Chi-square, F values, Cramer’s V and “p” value were considered in testing hypothesis. They suggested that Choose service providing employees very carefully; train them highly to make them knowledgeable regarding the service standards.

Chawla and Singh¹ (2008) investigated the service quality factors affecting customer satisfaction levels of the policyholders. The data was collected from 210 policyholders belonging to northern India through a questionnaire. Factor Analysis and reliability analysis were carried out to test the data. The results revealed that the accessibility factor has a higher mean satisfaction as compared to mean satisfaction of reliability and assurance factor. The comparison of overall mean satisfaction based on various factors expected showed that respondents who had purchased insurance policies before privatization had a higher mean score as compared to respondents who took insurance policies after privatization.

Chirag Gosalia² (2008) analysed the financial performance of the Non-Life Insurance sector in India by using financial ratios such as claims ratio and combined ratio.


It also involves assessment of compliance with IRDA regulations - Solvency margins and Rural and Social Sector Obligations - by the existing insurers.

Davutyan and Klumpes\(^1\) (2008) examined the efficiency of 472 life and non life insurers for the period 1996-2002 using DEA. This study concluded that in Life Insurance, after mergers business inputs replaced labor for both targets and acquires, but these effects did not apply to Non-life as targets and mergers did not significantly impact the acquirer behavior.

Fenn et al.,\(^2\) (2008) analyzed the efficiency of 14 European Countries Life and Non-Life Insurers from the period 1995 till 2001 using SFA. This study concluded that most European Insurers which operated under IRS, size and domestic market share led to higher levels of cost inefficiency.

Garg and Deepi\(^3\) (2008) compared the technical and scale efficiency of twelve general insurance companies in India for the period 2002-03 to 2005-06 by using output-oriented Data Envelopment Analysis (DEA). Three models of input and output were used. Model I represents output as net premium income and input as number of agents, operating expense; Model II represents output as operating income and inputs as number of agents, operating expenses and equity capital. The results showed that among the public sector general insurance companies, New India is the only company which turned out to be technically efficient on both constant returns to scale and variable returns to scale for the whole period of study.

Khurana\(^4\) (2008) conducted a survey to identify customers’ preferences regarding plans and their purpose of buying insurance policies, their satisfaction level and their


future plans for the new insurance policy. The data was collected through a questionnaire filled from 200 customers of Hisar city on the basis of convenience sampling method. The results revealed that the customers still prefer public sector companies to the private sector ones. The main purpose of buying an insurance policy is protection. The survey showed that only 6.3 per cent of the respondents having policies of LIC faced some problems. As high as 56.3 per cent respondents were ready to buy new insurance plans from the same company.

Murty et al.,\(^1\) (2009) found that insurance sector as an important sector for mobilization of long-term saving and they identified that IRDA is playing a crucial role towards meeting the special needs and challenges of the Indian Insurance Sector.

Manjit and Rohit\(^2\) (2009) analysed the emerging trends in the growth and performance of General Insurance Companies in India. They concluded that the entry of Private Sector Insurance Companies has, undoubtedly, contributed to the strengthening of General Insurance business by creating a competitive atmosphere. The Private Sector General Insurance Companies' results present better efficiency in terms of expenses of management ratio, combined ratio, underwriting results ratio and they are increasing their market share year by year, whereas the performance of Public Sector General Insurance Companies in terms of net earnings, and return on net worth ratio is better than that of Private Sector General Insurance Companies.

Rama Krishna Rao and Samuel Babu\(^3\) (2009) analyzed the status of insurance both in India and in some developed countries. They identified that India’s contribution towards insurance is lesser than other countries. On the basis of their study, they suggested that Government should take all possible steps to create awareness in the minds of Indian.


Rao\(^1\) (2009) found that insurers today are playing for higher stakes than ever before, in an uncertain and volatile market environment, with huge risks to run and with fewer rewards in sight. Further, he concluded that they effective steps to be taken to expand the marketability of the insurance product.

Rao\(^2\) (2009) found that the performance metrics of the non-life insurers at the end of the third quarter of 2008-09 shows that their performance has significantly dropped in all the portfolios. Detariffication coupled with economic downturn and worsening stock market conditions has put insurers under a grave threat of breaking even in 2008 - 09.

Simpson and Damoah\(^3\) (2009) analysed that shed light on the contention regarding ascertaining the financial soundness of Non-Life Insurance companies, using a developing country as the context. It examines the current evaluation tools that are being used by the Ghanaian regulatory and supervisory body the National Insurance Commission (NIC) on Non-Life Insurance companies in Ghana, and compares them with the CARAMEL (Capital adequacy, Actuarial, Reinsurance, Asset quality, Management soundness, Earnings and profitability, Liquidity and Sensitivity to market risk) model, including other rival theories in determining the financial health of insurance companies. The motivation of the study is that the unique format of insurance companies' financials does not lend itself to traditional financial accounting analysis. Besides, assessing financial soundness in the insurance industry is a complex task, since the overall financial position of an insurance company depends on many factors, some of which are difficult to quantify. Though recommendations as well as conclusions from past studies concerning the financial health of Non-Life Insurance companies are mixed, results from this study suggest that the framework being used currently by the NIC to assess the financial health of non-life insurance companies in Ghana is not comprehensive enough to give early warnings to the

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industry's stakeholders, and that the CARAMELS model, as proposed by other authors, fits the Ghanaian context and helps to bring to the fore, the generally accepted insurance core principles in the financial behavior of non-life insurance companies in Ghana.

Vencapa et al., ¹ (2009) used Stochastic Frontier Analysis to measure and decompose productivity growth in European insurance over period 1995-2003. They concluded that life insurers have slightly higher technical efficiency than non life companies and life and Non-Life Insurance companies have been capable of generating some growth from scale economies and enhancement in technical efficiency.

Zaenal and Emilyn ² (2009) analysed the relative efficiency of 23 Non-Life Insurance companies in Indonesia using Data Envelopment Analysis (DEA) model. They found that the performance of insurance companies is a concern by the managers, the community and the decision-makers.

Owusu et al., ³ (2010) evaluated the performance or efficiency Ghanaian general insurance companies from the year 2002 to 2007 and provided with the result that Ghanaian general insurers operated at an average overall efficiency of 68%, technical efficiency of 87% and scale efficiency of 78%.

Manjit and Rohit ⁴ (2010) examined the emerging trends of each product portfolio in the public sector and the private sector general insurance companies in the post-liberalisation era. They concluded that the Indian general insurance industry lacks balanced product portfolio performance, as the companies emphasize only few portfolios like motor, fire, health, etc., where the need of the hour is to have a balanced portfolio performance to sustain general insurance penetration.


Rao\(^1\) (2010) found that the Indian Non-Life Insurance market has seen competition increasing since 1991. Further, he analysed the various challenges facing the players, both new and existing in this sector and he concluded that the non-life market is still attractive.

Sylwester Kozak\(^2\) (2010) examined the level of the cost efficiency of the Polish Non-Life Insurance industry in the period 2003-2007. It is found that 80% share of foreign capital is in the Polish insurance sector resulted in reduction of dominance of the main state-owned insurer and the increase of competition on the Polish Non-Life Insurance market. By using the Stochastic Frontier analysis, it is found that the average level of cost efficiency was decreasing from 49% to 43%. The regression analysis indicates that operational costs have negative impact on the level of efficiency. Further, it is found that there is no correlation between efficiency and insurer’s size.

Christy and Nagarajan\(^3\) (2011) highlighted that insurance is an investment. They examined performance evaluation of United India Insurance Company Limited. For their study, they have used both primary and secondary data. They found that all the three types of policies viz., fire, marine and motor constitute more or less an equal share in premium income during 2009-10. Further, they suggested that the company shall take more steps to popularize these policies through advertisement, circulars etc., and by extending fire insurance facilities at a concessional rates to institutions.

Doongar Singh Khichee\(^4\) (2011) found that customer satisfaction is basis of building the quality services of the insurance system operating in any society. A satisfied customer is the basis for building good sustainable models to operate in the society.


They found that impact of technology has changed the landscape of serving the clients in the insurance sector where the competition has become intense and retaining the clients was important for the survival of the insurance business companies.

Sharma Aparajita \(^1\) (2011) in her study aims to develop the managerial competency framework for the middle level managers of the general insurance sector in India. Secondary research provides the overview of existing generic competency models. The need was observed for a competency based framework in the insurance sector in India. Survey was conducted among ninety eight middle level managers of the public and private sector general insurance companies. The results revealed the fourteen managerial competencies: analytical skills, communication skills, creativity, decision-making, ability to delegate, flexibility, initiative, interpersonal skills, job knowledge, leadership, managerial skills, ability to motivate, ability to plan and team management. Job knowledge and managerial skills was the most important skills. Other important skills were communication skill, inter-personal skill and team management.

Tarek et al., \(^2\) (2011) identified Loss reserve is one of the most important indicators that have many important and strategic decisions applications, such as rate making decisions, underwriting decisions, investment decision and corporate planning. The aim of this study is to identify the reliable time series forecasting model to forecast loss reserve estimates of Egyptian general insurance companies. Exponential smoothing model, Box-Jenkins analysis and time series regression model are applied on actual reported loss reserves data for general insurance sector for the period 1986 to 2006 and their accuracy are compared based on several error measures. The series from 1986 to 2001 are used for the estimations process and the remaining observations are used to evaluate the models as outside sample data. Exponential smoothing technique in all steps-ahead is identified as the best forecasting technique to Egyptian general insurance sector.

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Sumninder and Navjeet¹ (2011) identified that the insurance sector is one of the significant components in the financial sector. They examined the efficiency of general insurance companies. Collected data have been analysed with DEA. They found that though the technical efficiency public sector is more than that of the private sector, the improvement space and direction of the private sector is decreasing which describes that competition would enhance efficiency through increased resource mobilization.

Dhiraj and Nikita² (2012) examined the awareness of public towards the rights given to them by insurance companies across various demographic profiles. By using Random Sampling method, data have been collected from 170 sample respondents. Further, various null hypotheses have been framed and the same have been tested by using chi-square test. They found that 80% of sample respondents have more awareness about insurance companies and its products.

Harminder et al.,³ (2012) examined the customer relationship management in insurance sector. They suggested that there must be necessary of 360⁰ view of company, activity management and enhance productivity are important for the development of customer relationship management.

Srivastava et al.,⁴ (2012) suggested that the factors that most significantly influence Indian non-life insurers are lines of business, the firm’s market share, the premium growth rate, the underwriting performance and the claims incurred. Further, the factors which have the strongest effect are market share, change in inflation rate, firm size, lines of business and claims incurred. This study highlighted that provides insurers


with easy-to-use operational and marketing indicators to benchmark their solvency risk. It will lead to competitive goal setting for continuous improvement. Estimation of appropriate market/economic parameters can be a useful input for regulators.

An overview of the studies shows that the present study differs from other earlier studies in the aspect of area of the study, period of the study, methodology, scope, tools and objectives. Hence, the present study is an attempt to fill the research gap.

1.4 IMPORTANCE OF THE STUDY

In the present scenario, the insurance industry faces a dynamic global business environment. Radical changes have been taking place due to the internationalization of activities, new risks and innovative ideas on customer service. After liberalization, various new players entered into the insurance business and the existing insurers are facing many problems from non-traditional competitors. In any sector whether it is public or private, the growth of the business depends on the innovative services that are provided to meet the needs and requirements of the customer.

In Non-Life Insurance, existence of competition is severe. Consequence of this, every Non-Life Insurance corporation is trying their level best to survive and also to improve their level. In this regard, NIAC is not an exemption. Hence, NIAC is taking various efforts to win the minds of the policyholders. By keeping all, the present study has been undertaken to identify the factors, problems, level of awareness and satisfaction of the policyholders.

The analysis of these aspects is effectively used to evaluate the quality of services. It is hope that the present study would be useful to the Non-Life Insurance for taking various decisions in future to improve the services of the NIAC.
1.5 SCOPE OF THE STUDY

The present study is an attempt to examine the perception of the policyholders of New India Assurance Company Limited in the Coimbatore Region of Tamil Nadu. The present study is based on both primary and secondary data. The required primary data have been collected with a well structured Interview Schedule during June 2011 to June 2012.

Required secondary data have been collected from the website of New India Assurance Company Limited and Insurance Regulatory Development Authority during the period between 1998 and 2011 and the same have been verified with Chief Regional Manager, Coimbatore Region and other Officials.

On the basis of the collected secondary data, an in-depth analysis has been made on the performance of the NIAC. To examine this, parameters like Shareholders’ Fund, Gross Premium, Net Premium, Claims, Commission, Net Profit, Net Assets, Income from Investment, Expenses of Management, Networth and Total Assets are taken into consideration.

On the basis of the collected primary data, the study aims to find out the factors influencing the policyholders to prefer NIAC and the problems faced by them. Further, the present study intends to identify the awareness level and satisfaction level of the policyholders. On the basis of findings, various constructive suggestions have been offered for the betterment of NIAC.
1.6 OBJECTIVES OF THE STUDY

The present study is undertaken with the following specific objectives:

1. To analyse the performance of the NIAC.
2. To identify the factors influencing the policyholders to prefer NIAC.
3. To find out the problems faced by the policyholders of NIAC.
4. To study the awareness level of the policyholders about products and services offered by NIAC.
5. To ascertain the level of satisfaction of the policyholders about products and services offered by NIAC.
6. To offer suggestions for the betterment of NIAC.

1.7 HYPOTHESES

On the basis of the framed objectives, the researcher’s theoretical knowledge, discussions with field experts and from other research studies the following null hypotheses have been framed and there subjected to appropriate statistical tests.

H₀₁: There is no significant association between the socio-economic characteristics (Gender, Age, Marital Status, Education Status, Occupation, Gross Annual Income, Number of Policies, Premium Amount, Duration of Policy and Period of Association with NIAC) of the policyholders and their level of awareness about the products and services of NIAC.

H₀₂: There is no significant association between the socio-economic characteristics (Gender, Age, Marital Status, Education Status, Occupation, Gross Annual Income, Number of Policies, Premium Amount, Duration of Policy and Period of Association with NIAC) of the policyholders and their level of satisfaction about the products and services of NIAC.
1.8 PERIOD OF THE STUDY

In order to achieve the objectives of the study both primary and secondary data have been used. The survey for the collection of primary data has been conducted from June 2011 to June 2012, covering a period of one year. Required secondary data have been collected for a period of thirteen years from 1998 to 2012.

1.9 PILOT STUDY AND PRE-TESTING

The pilot study is conducted with a sample of 50 policyholders during January 2009. In the pilot study, the Interview Schedule is pre-tested and then refined for use in the final study. On the basis of outcome of the study appropriate modifications have been made in the final Interview Schedule. Further, the findings of the pilot study enabled to frame hypotheses and design of the study.

1.10 SAMPLING DESIGN AND METHODOLOGY

The present study is an empirical research based on survey method. For this present study both primary and secondary data have been used. Required secondary data have been collected from websites of NIAC and IRDA. Such collected secondary data have been used to examine the performance of NIAC. Required primary data have been collected by using Multi-stage Random Sampling Method.

SELECTION OF NIAC

Non-Life Insurance consists of four public limited companies viz., New India Assurance Company Limited, United India Insurance Company Limited, National Insurance Company Limited and Oriental Insurance Company Limited. Among them, NIAC is leading company which possesses highest Gross Premium of Rs.8542.86 crores\(^1\). Hence, NIAC has been selected purposively.

SELECTION OF REGION

In Tamil Nadu, NIAC consists of two region viz., Chennai and Coimbatore. Among these, Coimbatore Region covers all the districts of Tamil Nadu except Chennai. Hence, the Coimbatore Region has been purposively chosen.

\(^1\) www.niac.co.in, retrieved on March 16, 2011.
SELECTION OF DIVISION

In Coimbatore Region, there are 18 Divisional Offices viz., Coimbatore I, Coimbatore II, Coimbatore III, Coimbatore IV, Madurai, Salem, Tirunelveli, Sivakasi, Trichy, Erode, Dindigul, Ooty, Tanjore, Tiruppur, Namakkal, Tuticorin, Virudhunagar and Hosur. By using Lottery Method, Erode Division has been selected. It is found that in Erode Division there are 47,776\(^1\) number of policies.

SELECTION OF BRANCH

In the selected Erode Division, there are four branches viz., Erode (18,766 number of policies), Gobichettipalayam (14,004 number of policies), Dharapuram (8,378 number of policies) and Perundurai (6,628 number of policies). All these branches have been selected for the study.

SELECTION OF POLICYHolders

It is decided to select 150 policyholders at random from the all four branches. Thus, total constituted 600 policyholders. All these 600 policyholders has been fixed as sample size.

1.11 COLLECTION OF DATA

For the present study, both primary and secondary data are used. Required primary data have been collected with the pre-tested, well structured and non-disguised Interview Schedules from the policyholders. Required secondary data have been collected from the website of New India Assurance Company Limited and Insurance Regulatory Development Authority for the period between 1998 and 2011.

\(^1\) Report of Chief Regional Manager, Coimbatore.
1.12 FRAMEWORK OF ANALYSIS

The present study is based on both the primary and secondary data. Collected primary data have been analysed with various statistical tools like Percentage, Chi-Square Test, Mean, Standard Deviation, ‘Z’ Test, ‘F’ Test, Factor Analysis, Cluster Analysis, Kendall’s Co-efficient of Concordance, Multiple Regression and Garrett’s Ranking. Analyses have been made with the statistical package SPSS 9.0.

Collected secondary data have been analysed with the help of Ratio Analysis, Simple Growth Rate and Trend Analysis.

1.13 OPERATIONAL DEFINITIONS

1.13.1 AGENT

Agent is an individual who sells and services insurance policies.

1.13.2 CLAIMS

Claims are the notification to an insurance company that payment of the benefit is due under the terms of the policy.

1.13.3 COMMISSIONS

A fee or percentage of premium allowed to a salesperson or agent for services rendered.

1.13.4 INSURED

Insured is a person whose interests are protected by an insurance policy; a person who contracts for an insurance policy that indemnifies him against loss of property.

1.13.5 INSURANCE COMPANY

Insurance company is a company that provides insurance coverage through the issuance of insurance policies. This is also referred to as the Insurer.

1.13.6 INCURRED CLAIMS

The total number of claims associated with insured events/situations occurring during a given time period.
1.13.7 INSURANCE POLICY

The physical, written document issued by an insurance company to the policy owner. The insurance policy represents the written contract between the insurance company and the policy owner.

1.13.8 LAPSE

Lapse is the process of termination of an insurance policy due to non-payment of premium.

1.13.9 NON-LIFE INSURANCE

Non-Life Insurance refers to the property and liability insurance. It is a form of insurance mainly concerned with protecting the policyholder from loss or damage caused by specific risks.

1.13.10 PREMIUM

The amount to be charged for a certain amount of insurance coverage is called the premium.

1.13.11 RISK

Risk is defined as uncertainty of a financial loss.

1.13.12 SETTLEMENT

Settlement is the process of receiving the proceeds from a Life Insurance policy. Settlement choices usually include lump sum payments.

1.13.13 UNCERTAINTY

Uncertainty means lack of certainty which is a state of having limited knowledge where it is impossible to exactly describe the existing state, a future outcome, or more than one possible outcome.
1.14 LIMITATIONS OF THE STUDY

The following are the limitations of the present study:

1. The required primary data have been collected for the present study by using Interview Schedule. The data so collected are subject to what may be called the error of response for some degree or other. Such errors of response are largely due to lacking of memory. Particularly, respondents were very reluctant to reveal the data relating to income and expenditure. Even by adopting pleasing strategy such data have been collected, that to they revealed out of their memory power. Because, they don’t have any record relating to income and expenditure.

2. The size of the sample is restricted. Therefore, the limitations of a restricted sample size are applicable to the present study.

3. The study is confined to the policyholders residing in the Coimbatore region of Tamil Nadu. Hence, general application of the results may be restricted only to similar socio-economic environment.
1.15 CHAPTERISATION SCHEME

Keeping in view of the objectives mentioned earlier, the present study is presented in six chapters along with Tables and Annexure to support the analysis and findings of the study. The Interview Schedule used to collect primary data has been appended at the end of the thesis.

CHAPTER I: INTRODUCTION AND DESIGN OF THE STUDY


CHAPTER II: PERFORMANCE OF NIAC

This chapter focuses on the performance of the NIAC.

CHAPTER III: FACTORS INFLUENCING THE POLICYHOLDERS AND PROBLEMS FACED BY THE THEM

This chapter deals with the motivational factors which influence the policyholders to prefer NIAC and problems faced by them about products and services of NIAC.

CHAPTER IV: AWARENESS LEVEL OF THE POLICYHOLDERS

This chapter discusses on the awareness level of the policyholders about the products and services of NIAC.

CHAPTER V: SATISFACTORY LEVEL OF THE POLICYHOLDERS

This chapter analyses the level of the policyholders’ satisfaction on products and services offered by NIAC.

CHAPTER VI: A SUMMARY OF FINDINGS, SUGGESTIONS AND CONCLUSION

This chapter contains the summary of findings that emerged from the study and offers suitable suggestions to improve the quality of services offered by NIAC to increase the awareness and satisfactory level of the policyholders.