1.1 INTRODUCTION

Insurance is the business of indemnification of the loss suffered by the beneficiary. Insurance business can be broadly classified into life and non-life insurance businesses. Insurance deals with the business of offering risk management solutions either in an individual’s life or to any business organisation. The risks in a human life can be broadly classified into two categories i.e. 1) Risk of early death and 2) Risk of living longer. Life insurance business addresses these two risks by providing a variety of solutions. The life insurance industry has developed a range of products to address these risks and life insurance business works on the basic tenet of “Loss of one shared by many “

On the other hand non-life insurance business deals with providing solutions for all risks, wherein the losses arising out of the peril are quantifiable. This includes business risks like fire, marine, aviation, loss of income, fidelity and also health insurance for individuals. Non life insurance business works on the principle of indemnification and the objective of insurance is to help the affected person to get back to the same state before the event, which resulted in huge loss.
1.2 BRIEF ON INDIAN INSURANCE INDUSTRY

Indian life insurance industry dates back to the year 1818 with the establishment of the first life insurance company, Oriental Life Insurance Co Ltd. at Calcutta. Indian Life Insurance Companies' Act 1912 was the first statutory act to regulate the life insurance business in India. By 1956, there were about 156 Indian Insurers, 16 non-Indian Insurers and 75 provident fund societies that were operating in the life insurance business in India.

On 19th January 1956 the management of life insurance business of 245 insurers, then operating in India, was taken over by the central government and subsequently nationalised on 1st September 1956 by an act of parliament. Since nationalisation Life Insurance Corporation of India has built up a vast network of more than 2000 branches under 93 divisions of 7 zonal offices.

The first general insurance company, Triton Insurance Company Ltd. was established in Calcutta in 1850 and was predominantly owned by the British. Indian Mercantile Insurance Company Limited was the first general insurance company set up by Indians in the year 1907. Management of non life insurance companies was taken over by the central government in 1971 as prelude to nationalisation. General insurance business (Nationalisation) Act 1972 effectively nationalised the general insurance business with effect from 1st January 1973.
1.3 CONTRIBUTION OF INSURANCE INDUSTRY TO DOMESTIC ECONOMY

In a developing economy, insurance plays a vital role. The role of insurance can be felt both in macro and microenvironment. In the macro economic scenario, non-life insurance provides the organization, which is a focal point of economic activity and also a place for providing employment to many, with adequate protection there by ensuring the continued existence and operations of the organisation even after an event affecting its operations. This ensures the continuity of the economic activity. On the micro level, life insurance ensures the family is financially independent by providing the sum assured in the event of death of the life assured. Pension plan provides for the annuities/pension after retirement with the help of accumulation of corpus during the income earning years of an individual.

Life insurance companies play a significant role in channelising funds to the government. Government and Infrastructure projects require long-term funds, which is being met up by the investments made by the life insurance companies. Life Insurance companies provide a convenient and effective link between savings and investment. Life insurance organisations channelise the savings of millions of individuals with varied characteristics and notions in respect of safety, liquidity and return. They also provide diversification of investment instruments to the individual policyholders, who otherwise may not be able to exercise the diversification of investment due to his/her limited savings potential.
1.4 PRIVATISATION OF LIFE INSURANCE INDUSTRY IN INDIA

Consequent to the economic reforms started by the Government of India in early 90s, financial sector reforms have also been initiated. In furtherance of the initiatives in the area of financial reforms covering banking system and the capital markets aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy and recognising that insurance is an integral part of the overall financial system, the government felt it necessary to address the need for reforms in insurance sector. In April 1993, the government constituted the “Malhotra Committee” to address the issues in insurance industry and the reforms. Malhotra Committee submitted its report and recommendations to the government in January 1994.

The committee interalia recommended setting up of an independent regulator for the orderly development of insurance industry, permitting private investments in Insurance industry and also to regulate the intermediaries involved in the distribution of insurance products.

Insurance Regulatory and Development Authority (IRDA), the regulatory body for insurance industry was set up by an act of parliament in the year 1999. IRDA has issued a host of guidelines for the regulation and management of insurance business in India. The first license for a private company was issued in the year 2000. Since then IRDA has licensed 15 life insurance companies (as on 30th Sep, 2007) and 10 non life insurance companies.
1.5 OBJECTIVES OF THE STUDY

In the emerging scenario of competition, one of the critical factors for success of any life insurance company is the ability to reach out to a large audience, consumers’ at the most cost-effective manner. According to a study by the Confederation of Indian Industry (CII) the size of Indian life insurance market is $8 billion a year and the life insurance business is expected to grow at an average rate of 20%. The new life insurance companies are vying with each other to get their market share and the success for them depends on the reach, marketing strategies and the segment they would like to focus in the market place. Life insurance companies are adopting different channels for distributing the products like tied agents, banks, corporate agents and others. IRDA has also issued several guidelines for development and regulation of newer channels of distribution like corporate agents and brokers.

Although the newer channels are emerging, the traditional tied agency channel continues to be the single largest contributor for distribution of life insurance products. For the year 2005-06, according to IRDA reports, business acquired by tied agency constituted about 98% for LIC of India and about 60% for private life insurance companies. The cost of recruitment and training is very high for developing an individual agent. It is a challenge for the life insurance companies to keep the recruited agents active and make them productive year after year to benefit out of the huge initial investment on recruitment and training.

The current study is aimed at understanding the profile of the customers, their preferences and their purchasing process. Secondly the study will strive to recognize
the selling process of agents and to comprehend the gap between the expectation of the customers and the practices of the agent, if any and provide appropriate solutions.

This study is aimed to recognize the current market dynamics and would encompass the following:

1. To trace the development of life insurance business in India
2. To review the life insurance business and practices in distribution in other countries
3. To assess the marketing strategies of life insurance business
4. To study the customers’ profile, purchase behaviour and process
5. To identify the perception of agents regarding consumers
6. To evaluate the practices of agents in distributing life insurance products
7. To examine the agent - customer relationship in life insurance marketing
8. To make suggestions for improving life insurance business distribution through agents

1.6 HYPOTHESES

Few hypotheses guiding this study in understanding customers’ preferences and agents’ practices are

1. There is no association between the income groups of respondents in Chennai and their existing life insurance cover.

2. There is no significant association between the income groups, age groups and employment groups of customer respondents with regard to awareness of financial planning.

3. There is no significant difference between mean ranks towards sources of information to customers.

4. There is no significant difference between mean ranks towards reasons for recommendation by agents.
5. There is no significant association between experience as agent and providing help in financial planning to customers.

6. There is no significant association between the age groups of agents and their commission earnings.

7. There is no significant difference between age groups of customers with regard to effectiveness of sales tools used by agents.

8. There is no significant difference between income groups of customers with regard to difficulty in decision making in life insurance buying.

1.7 METHODOLOGY

The secondary data used and referred in the study are mostly from the various annual reports of IRDA, data from RBI, other research reports and textbooks. Reports from business magazines like Insurance Chronicle and publications of ICFAI press have also been referred. Primary data was collected through questionnaire from the customers to understand their profiles and preferences and from the agents to learn their perception and practices in life insurance selling.

The study was done through structured questionnaires for both customers and agents. (Appendix 4 & 5). A total of 359 customers and 48 agents have been interviewed from the city of Chennai (the capital of Tamilnadu state) and Tiruchirapalli (from central Tamilnadu). Data has been collected from Chennai and Tiruchirapalli to understand the preferences of customers with a metro and an urban background.
1.8 DESIGN OF THE STUDY

Out of the 359 customers about 289 customers are drawn from the city of Chennai and the balance from the city of Tiruchirapalli. Any individual, male or female who is having an income on his/her own and is above 20 yrs of age and below 60 yrs of age is a potential customer for life insurance. Keeping this in mind a simple random sampling methodology was adopted while collecting the primary data, as an unbiased random selection of individuals is important so that the sample represents the population.

As the questionnaire is comprehensive, it takes about 20 to 30 minutes for a customer to complete the questionnaire and customers are unwilling to commit such a long time. Taking this factor into consideration, customers have been met in the evening at their homes or during weekend. There were also apprehensions about disclosing personal information like salary or insurance particulars and constant persuasion was required to get complete responses. Agents were also hesitant with regard to sharing details like commission and club membership and explaining to them the objectives of the research allayed their fears.

1.9 METHODS OF ANALYSIS

Data has been analysed by using various statistical techniques and tools. Statistical Package for Social Sciences (SPSS), a statistical and data management package has been used for analysis of the data. Some of the tools used are

⇒ Percentage analysis
⇒ Chi Square Test
⇒ t Test
⇒ ANOVA
⇒ Friedman’s test
The process flow adopted for analysis is presented below

**Figure 1.1: Process flow for analysis**
1.10 LIMITATIONS OF THE STUDY

- The study has been mainly concerned with life insurance products
- The survey has been limited to the city of Chennai and Tiruchirapalli to the extent it has a bias towards the urban market for insurance
- The analysis has been done through primary data collected using simple random sampling method. There may be a situation that this sampling method does not guarantee the particular sample is a perfect representation of the population

1.11 CHAPTER SCHEME

The contents of the study have been presented in seven chapters. The introductory chapter explains the subject and significance, the objectives, the hypotheses framed to investigate the study and the methodology adopted. Chapter II deals with the basics of life insurance and also summarises the developments in global life insurance industry. It also covers the key indicators of insurance development and the development of life insurance industry in select economies. Chapter III is devoted to the review of earlier studies in insurance field.

Chapter IV traces the current scenario of life insurance industry in India with special reference to developments in the post liberalization era. The different channels of distribution adopted by the life insurance companies have also been analysed in this chapter. Chapter V provides an overview on customers' profiles and preferences arising out of the study. Chapter VI is devoted to the details of the analysis on agents' practices. The final chapter lists the findings and recommendations emerging out of this study.