This chapter presents a review of available literature relating to life insurance industry and distribution of life insurance products. Globally, the life insurance industry is in an advanced stage of development in developed economies as against the initial stages in developing economies. Keeping with this trend, quite a few research studies and analyses have been done in respect of the life insurance industry globally. In India, after the liberalization of life insurance industry in 2000, we are witnessing significant changes in products offered, services delivered and methods of distribution. Due to monopoly status of the life insurance industry between the years 1950 and 2000 coupled with the lack of product differentiation, there have been few elaborate studies in India on this subject. This review is aimed at capturing the essence of recent investigations undertaken in the life insurance industry both in India and globally.

White (1990) traces the development of bancassurance in the US and other markets. One of the reasons for slow development of bancassurance has been attributed to the multistate structure and the legal environment in the US. The entry of financial institutions, particularly banks, into the insurance business marked a significant change in the financial services industry. Bank entry into the insurance business as agent and/or underwriter is an accomplished fact in Australia, Britain, Denmark, France, Germany, Ireland, the Netherlands, Spain and other European countries. In other nations with developed financial markets, regulators, legislators and financial service competitor’s debate how, when and in what way banks may enter insurance markets.
The study by Rao (1996) is aimed at understanding the evolution and development of life insurance business in India over a period of three and half decades. The study focuses on the growth of business by life insurance Corporation of India, which is the monopoly public sector life insurance company. It has been observed that in spite of the commendable growth and performance of life insurance business, a vast potential still exists. Key macro economic indicators like population coverage and per capita premium, are still very low in India as compared to other developed countries.

Gidhagen (1998) has made an attempt to develop a conceptual framework from a relationship perspective for the study of insurance services marketing. Deregulation and internationalisation have created a new, increasingly competitive business climate. The focus of this research work is on the relationships between insurance companies and their corporate customers. Interesting analyses include how highly the customers value the relationship in comparison with the price level of the services offered, the perceived quality of the exchange relationship, the level of interdependency, mutual trust, and commitment.

Cummins, et al (1998) have examined the relationship among mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. Authors have estimated cost and revenue efficiency over the period 1988-1995 using data envelopment analysis (DEA). According to the findings, acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale and financially vulnerable firms are more likely to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry have had a beneficial effect on efficiency.
In his work Purcal (1999) examined the question of lifetime personal financial planning and how should individual investors determine their optimal consumption, portfolio selection and life insurance needs. Human Life Value (HLV) model as a preliminary step to developing a relevant model for financial planning has been analysed. The life insurance purchasing behaviour implied by the model was also examined, showing that, optimal life insurance purchase is related to consumption levels. This finding calls into question the usefulness of the HLV concept of financial planning, which focuses on future income streams. In addition, the model provides details about optimal annuity purchase around retirement, suggesting a hump shaped pattern of annuity receipts.

According to Clemons and Croson (2000), there are three principal issues i.e. transparency, disintermediation and differential pricing that will determine the transformation of retail financial services, including life insurance companies. Each of these will affect the roles to be played by financial service providers, the sources of profits available to them, and the strategies they may choose to pursue in order to earn those profits. The authors have postulated that financial services industries are going to be transformed by these three trends.

A study was conducted by Srinivasan, Prakash and Sitharamu (2001), to explore the changes in management of agents (distributors of life insurance products) in the liberalized economic scenario. The major focus of the study was to identify the competencies necessary for a successful agent and to provide objective
methodology for selecting the effective agents. The Semi-Structured Interview technique was used to assess the competencies of the agents. The findings of the study indicate the professional competencies necessary for successful Insurance agents. The research also highlighted the expertise required in selection of effective agents, managing them and developing their competencies.

This research done by Organisation for Economic Co-operation and Development (OECD) Secretariat (2001) dwells in detail on the benefits of life insurance for an individual and for the economy as a whole. The authors also list down the forces, which drive the development of life insurance industry in the OECD countries. The authors have analysed the impact of key macro indicators like economic growth and regulatory environment in the growth of life insurance industry in an economy. The difficulties to be surmounted by the life insurance industry according to them are inflation, customer awareness, underdeveloped financial markets and lack of actuarial data.

The investigations by Adams and Hardwick (2001) are aimed at finding an answer to the question of whether small life insurers in United Kingdom grow as fast as (or faster than) large life insurers as this is an issue of some importance to policymakers, industry associations and others. For example, insights into the relation between self-generated corporate growth and firm size could help policy-makers to frame rules that achieve desired objectives in policy areas, such as the licensing of new entrants to the market. During the boom years of 1987-90, the results suggest that smaller firms were growing faster than larger firms, but there was still no significant influence on growth from any of the four firm-specific variables. However,
during the recession years of 1990-93, larger life insurance firms grew faster than smaller ones, and the evidence further suggests that firms with higher input costs grew more slowly. Interestingly, authors also found that, during the years of recession, life insurers located outside London tended to grow faster than London-based life insurers. In the years of recovery, 1993-96, larger companies continued to grow faster than smaller ones, but the only firm-specific variable that exerted any significant influence on asset growth during this period was the lagged input cost variable: \( i.e., \) higher input costs in 1990-93 led to faster growth during 1993-96. These results suggest that while short-term fluctuations in business cycles can influence the relation between firm size and growth rate patterns, over the long-term the linkage becomes indeterminate.

Peterson (2001) has made suggestions supported by several work samples to help an evaluator during assessment to determine the skill and aptitude of individuals expressing an interest in sales related fields. Besides assessing the prospect in the area of sales, the evaluator will also be able to find other valuable information like communication skills, body language, ability to read charts, following instruction and retaining information.

Kundu (2002) assesses different aspects of life insurance business like distribution channel, regulatory reforms, product innovation and investments. With the entry of new players in India, new distribution channels like Bancassurance and direct marketing will see increasing contribution to the industry. Rural sector is a perfect case for mass marketing and the new private life insurance companies cannot afford to ignore this market segment. Competition will surely cause the
market to grow beyond current rates and offer varied choices to customers through the introduction of products, services and pricing options.

According to Agarwal (2002), deregulation in India has resulted in increased number of players in the life insurance market. The competition in the industry has brought changes in business, like experimenting with newer distribution channels and adoption of technology in distribution. It is important that insurers need to develop appropriate infrastructure for the distribution of products, especially in the rural areas. Infrastructure should also be built in terms of reach to the customers and use of sophisticated technology like CRM (Customer Relation Management) to fetch good results in future.

Cupach William R and Carson James M (2002), in their market study have observed that agent’s commission structure has been cited as a prime source of ethical conflicts in insurance sales. Researches analysed whether different forms of compensation influence agent’s recommendations of products. Findings indicated that neither the amount of life cover nor type of coverage recommended by agents was associated with his compensation. One interesting observation during the study was that the amount of coverage recommended was higher when the insured was male than when the insured was female.

According to Eckardt, Martina (2002), Insurance markets are characterized by market imperfections. From an analysis of transaction cost economics and agency theory, a hypothesis is derived that insurance brokers may provide high quality information and advisory services which are better suited for the needs of consumers than insurance agents. Upon analysis of quality indicators of insurance
agents and brokers, it has been observed that the advisory services are influenced to some degree by firm size and employment structure as well as the degree in specialization on private customers.

The history of life insurance industry starting from the preindependence era has been described in detail by Sinha (2002). In addition to listing down the grounds for nationalisation of life insurance in India in 1956, the reasons for liberalization of the industry under the current economic reforms have also been spelt out. Insurance industry holds a huge potential in India. It is contended that 312 million middle class consumers in India have enough financial resources to purchase insurance products like pension, health care, accident benefit, life, property and auto insurance. Only 2.5 per cent of this insurable population, however, has insurance coverage in any form. The potential premium income is estimated at around US $80 billion. This will place India as the sixth largest market in the world. Over the next couple of decades Indian insurance industry, which is in a critical stage of development, is likely to witness high growth primarily due to two reasons, i.e. financial deregulation and growth in per capita GDP. Financial deregulation always speeds up the development of the insurance sector. Growth in per capita GDP also helps the insurance business to grow.

The study done by Beck and Webb (2002) is aimed at finding whether the economic variables such as Income per capita, Inflation, banking sector development as well as religious and institutional indicators are predictors of the use of life insurance. A sample of data on 68 countries (consisting of determinants of life insurance consumption of 68 countries over the period 1961-2000) has been considered for analysis. Life insurance penetration is defined as the ratio of premium
volume to GDP and measures the importance of insurance activity relative to the size of the economy. Insurance penetration is not a perfect measure of consumption since it is the product of quantity and price. Life Insurance Density is defined as premiums per capita expressed in constant dollars. It indicates how much each inhabitant of the country spends on average on insurance in constant dollars. Life insurance penetration measures the life insurance consumption relative to the size of the economy, while life insurance density compares life insurance consumption across countries without adjusting for the income level of the economy. Key findings are countries with higher income levels, lower inflation and better-developed banks have higher levels of life insurance consumption. Per capita income, inflation and banking sector development are the most robust predictors of life insurance consumption across countries over time.

According to Jha and Longjam (2003), gross financial assets in the household sector's savings in India, as in many other countries, are measured as a sum of the component assets. In the Indian context these assets include, broadly, currency, deposits, net claims on government, shares and debentures, insurance and provident fund. However, aggregating these by simple summation implicitly assumes that the individual assets are perfect substitutes. In India, the pace of financial innovation was relatively slow until the initiation of the financial liberalization program in 1991–92. The subsequent financial reforms have had important implications for the user costs of assets and resulted in significant substitution among them. Hence there is a need to develop an aggregate measure of savings that would more accurately reflect household choice over various assets than the simple sum.
Lakshmikutty and Baskar (2003) analyse the distribution channels, in life insurance industry from the perspective of the socio-cultural ethos. Challenges posed in managing different channels, to be faced by life insurance companies have been assessed. In defining a distribution model, its cost effectiveness and its capability to reach a large section of population are some of the critical aspects to be addressed by the life insurance companies to be successful in life insurance business, rather than the technology which is only an enabler.

Reiche (2004), has presented analytical information on the development of life insurance industry in India and compared the domestic industry with the happenings in the other countries. The life insurance industry of India is firmly positioned in the emerging market sector, alongside a number of other Asian countries, notably China. Life insurance markets start more slowly than non-life markets due to lower consumer awareness and individual income constraints. The author has pointed out that there will be a trend over time towards unbundling of protection and saving and for less investment guarantees to be offered by life insurers. Clearly, such developments will not simply happen in isolation, but will be dependent on the legal and regulatory environment of the country.

In their research, Hong and Jose (2004) have analysed the data of life insurance holdings by age, sex, and marital status to infer how individuals value consumption in different demographic stages. One of the key features displayed in the figures, used by the authors, is that the face value of life insurance is greater for males than for females for all ages and marital status. The ratio of face values for males relative to face values of females is 2.7. Married men and women are more likely to own life insurance than single men and women. Authors used these profiles
to learn about how preferences depend on family structure. The findings also indicate that individuals are very caring for their dependents.

In the opinion of Machiraju and Sandhya (2004) the insurance scenario in India especially in terms of coverage of the rural populace is not very satisfactory. Researchers have done an analysis of the distribution reach and strength of post offices in mobilizing rural savings through life insurance products. The NCAER Surveys report that India has an insurable population of about 250 million. Authors recommend the use of the wide postal network for marketing and servicing of life and health insurance products and channelise the raised demands in rural areas for insurance cover to truly facilitate peoples’ empowerment.

Roth and Athreya (2005) provide a broad overview of how the microinsurance programme works and it places particular focus on the micro-agent as a distributor of life insurance products. Due to the low value of microinsurance premiums, low cost distribution is very critical in microinsurance distribution. The benefits and possible shortcomings of micro insurance distribution strategies are discussed in the paper. While the micro-agent model holds much promise, the scheme is still too new to be definitively declared a success or failure.

Sinha (2005) has observed that India, with a relatively youthful population from the total population of over a billion people, is projected to become an attractive insurance market, globally, in the next decades. This paper also examines the details of evolution of the insurance act in 1938, which has set the basis for current liberalization of the industry. The report highlights the importance of the rural sector and analyses the impact of recent privatisation of the insurance industry. The Indian
life insurance market is expected to be at US $ 140 billion in India in the year 2020 based on the GDP growth rate.

**Varma (2005)** starts the paper with a background on the economic situation in 1991 like precarious balance of payment position, inefficiency plagued public banking system, poor regulation for financial markets and under-developed debt markets. Significant reforms introduced in financial market regulation, banking, insurance and capital markets are also discussed in the work. Throughout this paper, references have been made to the reforms initiated and unfinished agenda. The most important and urgent task that remains to be done is that of dismantling the structural and micro regulations that have accumulated over several decades of a command economy. It is also necessary to make the financial sector more competitive to realise efficiency gains and to ensure that the consumers receive the benefits of lower costs, better returns and greater choices.

**Thomas (2005),** analyses in detail the Indian financial system and the need for the reforms in the early 1990s and the reforms initiated in financial markets, capital market and banking systems. Reforms in Insurance sector began with the setting up of the regulator, Insurance Development and Regulatory Authority in 1999. The two visible outcomes are an increase in the number of insurance companies and products available to the Indian public. Instead of public sector monopolies, over a dozen insurance companies now compete for customer business in India. In 2004, there was a flow of Rs.60, 000 crore of premium income going into the insurance industry. Of this, as much as Rs.6, 000 crore, or roughly 10%, went back to sales agents. This shows an enormous burden of sales costs, which detract from the usefulness of these products for customers.
This study by **Honan et al (2005)**, analyses some of the major components associated with developing new agents starting from recruitment till signing of agency contract. Field recruitment and new agent development are essential to the future growth of the sales force and new recruitment is critical to the long term viability of the life insurance industry and selecting and training the right candidate is an important role. Authors have suggested several recommendations in respect of each of the activities like recruiting and selection, precontract and agent training.

According to **Chevalier, Launay and Mainguy (2005)**, the fantastic success of bancassurance in certain southern European countries is increasing by the year, with bancassurance premium income in France up more than 10% in 2004. The same is true in Spain and Portugal, where it is the dominant distribution channel and is becoming a strategic factor for life insurance operators. Authors have described the key success factors in bancassurance like regulatory environment, training and also the different models in which bancassurance can be launched. Case studies on successful bancassurance models and practices provide information on factors behind the success.

According to **Mandal, (2006)**, Insurance being a service with very high degree of intangibility, the role of intermediaries is very vital to the distribution of insurance products. Individual agents dominate Indian life insurance distribution. Study lists down the key attributes to become successful as a life insurance agent. Agent’s role does not come to an end with the sale of policy but it marks a beginning of relationship between the customer and the agent as life insurance contracts are long by nature.
The focus of the research of LIMRA (2006) is on U.S. distribution systems and the relationships between insurance carriers and practitioners in local communities who sell or recommend a company’s products and services. The research explores the economics behind meeting the constantly changing demands of distribution.

Moss Adams (2006) under the aegis of LIMRA International in June of 2006 surveyed members of LIMRA’s producer panel to investigate their current practice model, the practices of carriers (distributors) and the succession planning support from their carriers. In addition, the respondents provided information about the size of their clientele, the type of agency structure and its ownership, the types of products and the services they offer. The industry has entered a new era with unprecedented ways to align customer, distribution, and corporate interests. While advisors may be able to identify potential clients, the strategies they employ to secure those relationships will ultimately determine their success and the financial services companies that provide the needed management support will be rewarded with their business.

According to Jampala and Adilakshmi (2006), long term nature of business, stringent solvency margin norms, cap on Foreign Direct Investment at 26%, cost overruns, low agent productivity coupled with high attrition, capital constraint and value conscious consumers are cited as few reasons for the under-performance of the private insurers in India. Authors also feel that consolidation in the sector is
inevitable. By acquiring scale, managing expenses and being selective about the quality of business, new life insurance companies may be successful.

Goodenow and Painter-Eggers of LIMRA (2007) electronically surveyed more than 1,000 members of a national consumer panel in the US market in order to gauge consumers’ financial literacy and their own assessments of their financial preparedness for the future. All participants were at least 25 years of age with a minimum household income of $75,000. Research shows that households with incomes at this level or more are far more likely to rely on a financial advisor than those whose household incomes are less than $75,000 per year. They are also more likely to be presented with a myriad of solutions by financial services organizations. Data has been weighted by gender, age, household income, level of education, and marital status. Other key findings are that people of all age groups regardless of their marital status are most worried about their ability to pay for hospital and medical coverage, their ability to maintain current lifestyle in retirement and being debt-free.

Nanda (2007) has recorded the huge potential in the country in life insurance market and states that India is the second fastest growing economy in the world next to China and the fourth largest economy in terms of purchasing power parity. Citing a NCAER report, the author observes that 30% of India’s population has the earning capability between Rs.80000 and Rs.2 lakhs and adds that 50% of this population lives in the rural areas, which provides the huge opportunity for life insurance agents. The author describes the attitudes, approach and skill required to become a successful life insurance agent.
The review made thus far includes research work on the life insurance industry, in India and abroad and also on distribution of life insurance products. Agents play a major role in distributing life insurance products in the Indian context. The present study is aimed at understanding the profile of customers and their preferences and to understand their life insurance purchasing process. The study will also strive to examine the current selling practices of agents. The investigation is based on the primary data collected from customers and agents. Current work aims to understand the expectation of customers and the practices of agents and suggest recommendations to life insurance companies in agent recruitment and training intervention to make the agents more effective and efficient in the business.
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