ABSTRACT

The focal point of international economic growth keeps on shifting from region to region. The world economists foresee a further shift of focal point of economic activities towards Asia. India being the prominent Asian Country and recently liberalized, will undoubtedly benefit from the economic spread of this shift and will also be able to materialize its own potential.

The direct linkage between the entrepreneurs and the business and that of economic growth and development is long established. Since the former contribute significantly for the later and thus it is logical that the society should also hedge the interest of individual organisations and ensure its sustainability. Insurance is based on the said premise.

The insurance is a cooperative device to spread the loss. Further, it is also a social device to accumulate funds to meet uncertain losses. The main function of insurance is to provide protection against the possible chances of generating losses. It eliminates worries and miseries of losses at destruction of property and death. Further it provides capital to the society as the accumulated funds are invested in the productive channel.

The earliest traces of insurance are in the form of marine trade losses or carriers’ contracts. In ‘Rigveda’, the references are made to the concept of ‘Yogakshema’, which is more or less kin to the well-being and security of people. This makes it clear that albeit in the ancient world, the traces for sharing future losses are available.
To describe the main divisions of the insurance business – Marine, Fire, Life and Accident Insurance – is to emphasize how they interpenetrate the central themes of the economic history. The growth in terms of Foreign Trade, Capital Formation, Social Security, Transport Systems, Consumer Durable industries; all these and more can be directly/indirectly traced and examined, through the systematic and comprehensive documentation that has been generated through insurance. The expansion of insurance and the value of its contribution have been based on its capacity to develop efficient forms of market organization and to innovate creatively.

The business world is full of challenges and opportunities. India, the happening place of the business world with a market over 100 crores population growing at a 25% decadal growth, with huge middle class appears to be a heaven for one and all business organizations. The opening up of the economy has further magnified the existing opportunities, insurance is no exception to this trend. It is against this background that the project entitled “Marketing Of Insurance Services – A Study Of General Insurance” has been researched herewith.

The project mainly provide a brief prologue of the developmental history of the insurance industry in general and that of general insurance in particular. It is observed that insurance though centuries old concept is largely an outcome of over last hundred years only so as to come into its modern form. It is taken as a supporting system to the ongoing business activities against eventualities/mishappenings. It largely covers that part of risk which occur due to accidental mishappening and is based on the principle of pooling of
resources of larger groups and spreading the loss of a few over the larger groups.

Marine was reported to be the oldest type of insurance with its records as early as 1347. Spain had formulated a law pertaining to insurance in 1435. The concept of insurance travelled to various nations with the traders. Upto 17th century insurance was a part-time profession. It was only in 18th century when corporate organizations were established to underwrite insurance business on a full time professional basis. The great fire of London in 1666, gave the concept of fire insurance to the world.

However, the modern industrialized society has rendered man and his property most vulnerable to various kinds of risks. The concept of insurance protected against many of these uncertainties on the risk sharing basis. In addition to being a protective shell against the uncertainties, insurance industry heavily contributed in the process of capital mobilization and industrial development world over.

Insurance industry with the gestation period of over 10 to 15 years has a potential of making huge profits. Thus giant multinationals world over take insurance business as a serious proposition. They leave no stone unturned and implement innovative and dynamic marketing approaches and forge ahead of their competitors. Indian insurance industry has also started opening up gradually and its public mammoths are also fast becoming innovative.

The thesis also considers the reforms that have led to opening up insurance sector, earlier reserved for the public players alone. Initially insurance sector was not liberalized. The
sectors that were liberalized experienced flow of foreign capital, latest technology and expertise that rejuvenated the market. As a second generation reforms it was felt that insurance sector can also not work in isolation. Malhotra committee appointed in 1993 by the then Narasimha Rao government and the process of liberalization of insurance sector became a hot bed for the concerned policymakers despite strong recommendations it took six years for its acceptance. Regulatory Authority was established (popularly called as IRDA) under the Insurance Regulatory and Development Authority bill. With liberalization, insurance sector has been opened for the private players in both life as well as general insurance sector with minimum paid up capital of Rs. 100 crores. The promoters may hold upto 40% of capital. While formulating the norms IRDA has particularly provided for the expansion of insurance business in the rural area. IRDA has also laid down specific investment norms for these players. In order to have more professionalism, the development of human resource is well emphasized. The role of IRDA as a facilitator and protector to the policyholders, provider and controller of the insurance organizations and a preventer from frauds and a trend setter in general has been conceptualized.

Misconceptions against the liberalization of insurance sector have also been deliberated. For instance, the notion that there could be larger repatriation of profits and capital, against the actual inflow of funds. Given the gestation period of 10 to 15 years, the opinion does not hold good. The causes of low penetration of general insurance business in India have also been highlighted. For instance apathy of the state run
organisation, poor customer services, lack of customer friendly product, poor marketing, ignorance of rural market and to cap it all inadequate trainings to agents are some of the basic reasons for low penetration of general insurance business in India.

The thesis also gives a synoptic view of general insurance business in India. With the expanding British trade relations with India the concept of general insurance gained ground in India and Triton Insurance Company was established in 1850 as the 1st company of general insurance business in India. The first Indian general insurance company was Indian Mercantile Insurance Company Limited established in 1907 in Bombay. In 1957, general insurance council framed a code of conduct for ensuring fair conduct and send business practices in the general insurance industry. In 1968, the insurance Act was amended to provide for extension of social control over insurers transacting general insurance business. It was in 1971, when nationalization took place.

Though in the pre-nationalized period the growth was consistent but the nationalization largely aimed at extending the services to the masses. The sector during nationalization period recorded even higher growth in general insurance business. During this period the workforce of insurance agents and a deep rooted network has developed. However, the project also reveals that despite absence of competition the relative penetration of business remained low. The ailments of Public Sector Organizations crepted into general insurance organizations as well. Lack of technology and motivation on the part of employees left many existing consumers highly dissatisfied while the potential customer were turned off.
The thesis briefly presents a synoptic view of major players of the general insurance sector. The public sector organization included General Insurance Corporation as a holding company of four subsidiary companies namely the National Insurance Company Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and The United India Insurance Company Limited. These organizations not only work in India but have good business linkages with the outside world.

The liberalization paved way for new entrants for instance, IFFCO- Tokio General Insurance Company Limited, ICICI – Lombard General Insurance Company Limited, Tata AIG General Insurance Company Limited etc. With the entry of these organizations the total pie of insurance business has ballooned substantially on the one hand while on the other hand the share of public mammoth is being slowly but steadily eaten up by the new entrants. These organizations with their expertise and technology are giving enough competition to the public mammoth mentioned earlier.

The whole of discussion in the first three chapters narrows down to the fact that Indian General Insurance business is passing through the transitional phase. The sector that was closed earlier has been opened up and is being restructured so as to facilitate faster growth and development in the sector. The market shifting from the state monopoly to the competitive market, now have been a large number of players with even larger number of products.

The public organizations of the sector riding on the widely spread network are giving run for the money to private organizations. The new entrants are trying to penetrate
through product variety, prompt claim settlement and high quality speedy service. It is felt that it is not in fact a question of snatching the customers and the market share but there is much larger scope for the expansion of the business. In the year 2000 insurance penetration in India was as low as 0.55% (premium as % of GDP), which is about 8 times lesser than that of USA and about six times smaller than Canada indicating the expansion potential of the general insurance business in India. It is expected that it is a Win-Win situation for Public as well as private organization through the expansion of business, pie, along with the victory of customers with the reduced prices and quality services.

However, the competition is so tough that every organization will have to put in all its efforts in order to get an economically viable share in the market. There insurers will have to consider the basic marketing issues like segmentation, product development, pricing, distribution channels, communication and promotion and also the customer service.

There are different bases of market segmentation but from general insurance point of view market segmentation on the basis of rural market and urban market is the minimum basic. Rural sector which initially may not be lucrative, can still not be ignored. The rural area may further be segmented on the basis of subsistence rural sector, semi-commercial sector and commercial rural sector. While urban sector may also require market segmentation on individual or corporate basis. The chapter also highlights the issue of products which are less sensitive to the needs and expectations of the customers.
It has been further pointed out in the fourth chapter that miscellaneous general insurance is increasing its share in the gross direct premium in general insurance sector.

The dominating component of miscellaneous insurance namely motor insurance is a loss making unit. Introduction of newer products and fast expanding automobile industry is contributing for increased share of miscellaneous insurance. The new entrants with their experience in many developing countries are trying out newer products for instance, kidnap and ransom policy has been coined to cover and reimburse the ransom paid to kidnapper to secure the release of a hostage. This policy is being purchased by a large number of employees in the eastern states even the public insurance companies have also launched this policy.

Health insurance is another major product being sold in the market heavily. The chapter further points out the issue of pricing of insurance product, which has conflicting logical derivations. The insurance products in India are tariffed ensuring a minimum subsistence price for all the organizations and thus avoiding cut throat competition. With the opening up of the insurance sector for the private players and also in the interest of consumers, there is likely to be increasing pressure for detariffing the pricing system. Thus it appears to be appropriate time, on the contrary, the claim cost being futuristic in nature is difficult to estimate requiring great deal of expertise and skill for the actuaries. Further the required information and data is also missing. Therefore, there cannot be a scientific system for understanding and fixing the prices of the insurance products to be launched in the de-tariffed era. If de-tariffed, in the absence of data, information and skill the
organizations are likely to price their products extremely low in order to compete. This process may initiate losses to all the organizations on the one hand while lesser capital mobilization on the other hand.

It is also emphasized that there is need and urgency of expanding and fine-tuning of distribution channels. The organizations will have to stretch out to the full. The traditional channels namely advisors and agents are likely to continue as major distribution channels but insurers will have to innovate and find new methods delivering the products at customer doorsteps. Corporate agency, brokerage, Banacassurance, E-insurance, Cooperative Societies and Panchayats are some of the channels, which can be tapped by the insurers to reach the appropriate market by segment.

Suggestions have also been given at the end of the project. Insurance sector passing through transitional phase is likely to be benefited by these suggestions, if implemented in true spirit. Some of them are mentioned as below-

Motor insurance sector is one sector reporting losses over the last many years. Therefore, it is suggested that some of the issues of this sector need to be streamlined.

(a) The insurance organizations may come out with differential products for various types of users. For instance, if there is Mr. X, a retired person moving in the car occasionally within the city driving with utmost care, while Mr. B, could be a young person in age bracket of 25 to 30 years driving more often in city and on highways. He has a greater chance of driving the car at a higher speed with comparatively careless
attitude. There could even be a third person who owns the car and use it on rent, this type of car may be extensively used. In all these three cases the degree of risk differs, that may provide a sound genesis for product differential in terms of insurance policy. The rate of premium should naturally differ with all these three types of individuals.

(b) Insurance policy is a unique product in the sense that its most vital component of cost namely claims cost is not known while fixing the price. However, the upper limit of the compensation to be paid in case of mishappening is limited to the cost of vehicle insured. Another part of the compensation that is third party liability has no upper limit. The insured person is assured for the payment of compensation generated due to accident to third party as well, this part of compensation has no limit. Presently, it is one of the biggest drain on the insurance organizations. It is suggested that the third party liability be made limited.

It is strongly recommended that compensation be paid as fast as possible. It is further recommended that transparency and accuracy of the claims could go a long way in building up the goodwill of the organization. An organizational policy may be evolved to clear a compensation claims within the stipulated time and in case of delays accountability be fixed on the employees responsible for the delay.

Lack of after sale services leaves the customer frustrated. There are hardly any efforts on the part of agents to help the customer in paying their premium and remind them for
renewal of the policy. In case of mishappening the selling agent is hardly instrumental, while customer seeks his help.

Another serious problem is the pathetic attitudes of employees towards their duties, hardly entertain the customers in a friendly way. When a customer comes to buy a policy is welcomed but when he approaches organization for anything other than purchase of policy he gets cold looks and at times harassment.

It has further been pointed out that people have comparatively limited knowledge about general insurance business and various policy products offered. The new products being introduced by the existing as well as new entrants but unless a customer knows about these products, the market will remain dormant and potential unexploited. Therefore, it is suggested that insurance organizations will have to be a little more aggressive on advertisement and promotional front.

The Indian customers do not really understand and appreciate the importance of insurance culture for instance, health care insurance, enables an individual to get best of treatment possible / available in the country. No doubt the quality of medical care may be a matter of life and death for a patient. In the first instance it is recommended that the customers should be educated on the above said lines by the IRDA, it is also suggested that insurance organization may also decide to create a fund with IRDA, that should be used for creating the required insurance culture in the country.

For public mammoths of general insurance sector, despite enough control there is overstaffing. This distorts the work culture in the organization and also makes it difficult to fix the
responsibility and accountability of the employees. It is suggested that the excessive staff may be aggressively utilized for more aggressive promotional efforts as well as extensive field interaction with grass root workers and the customers. The people so deputed may be used as an effective tool for greater control and confidence building in the field on the one hand while they may also appraise the organizational policymakers about the practical realities of the field. Thus forging an alliance from top to bottom.

It is further suggested that Indian masses live into villages and if the insurance culture is to be evolved, the masses cannot be ignored. There is ample scope and potential to penetrate deeper into rural market. The rural market need to be segmented on the basis of subsistence, semi-commercial and commercial and the products need to be evolved accordingly. The gestation period may be a little longer but brand loyalty is more common in rural markets and therefore early entrance in the rural market will be benefited in the long run.

Corruption is another major problem ailing the insurance sector. The honest and genuine customers are neither genuinely paid nor paid in time, while many corrupt customers and employees cheat the insurance companies by ensuring disproportionate compensation. Thus the genuine buyers get frustrated while dishonest people get rewarded. It is suggested that the process of computation of compensation be made more transparent. The insurance organization should go a step further and counter check/cross check atleast some of the compensations awarded depending upon the employees and policyholders track record.
Another major issue likely to be raised in near future is detariffing. The problem of detariffing get compounded given the fact that the required data and information is not available with the insurers. The expertise and skill of actuaries is also missing in most of insurance organizations. In the absence of these factors tariff fixation could be a difficult task. It is recommended that the insurance may again pool out their resources under the leadership of IRDA for the collection and compilation of data.

Adoption of the latest technology, available in the insurance sector in the developed world is also required for the faster development of insurance business in India. At least computerized networking between various branches should be done on priority basis. So as to facilitate smooth transactions for the customers from anywhere in the country. Networking with the brokers and agents etc. could be an added advantage to the industry.

Distribution channel is also a crucial factor in the process of penetration and growth of insurance business. The role of agents should not be underestimated but the newer channels could be of great use for the insurers for instance, bank routes could be a dependable and cost effective source for reaching the remotest of the areas of the country. Attachment of policies to certain funding schemes could be a powerful strategy. A bank financing for house construction may guide the customer for house insurance. On these lines similar monoline producers may be evolved for specific target groups.