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CHAPTER II

METHODOLOGY

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2.1 SCOPE OF THE STUDY

The Indian money and capital markets are dominated by a few giant financial institutions, one of them being the Life Insurance Corporation of India. It is essential that the functioning of these institutions, either individually or as a group, is studied from time to time, presenting in one place a wealth of statistical data in a meaningful way, summarizing the findings of earlier studies and giving constructive comments and suggestions based on not only published data but also discussions with senior people working in the organizations or those who have been closely connected with the institutions in some capacity or the other. I made an immense study of many facets of the L.I.C functioning with relation or comparative to private players, its sales efforts investment policies for promoting economic development after privatization of life insurance business in India.

The study brings out clearly that the L.I.C’s overall performance has been good but that it could be and ought to be much better. the life insurance habit has yet to spread in a big way in the country as a whole, especially the rural and semi urban areas and among relatively low income groups. The question is whether a single institutional agency like
the L.I.C can do a very good job or whether we need more private players to meet the available potential in India.

There is urgent need to raise the ratio of savings to national income and the life insurance offers tremendous scope in this regard. It is, therefore, of the utmost importance that the life insurance organization is restructured and streamlined and thus it gave rise to the private insurance players to enter into the market.

Since the life insurance business was nationalized in India, which came into existence on and started functioning from September 1, 1956 has completed 50 years of service to its policy holders and to the nation. The progressive improvement in mortality experience of insured lives and the continuous increase in the yield on the corporation's investments over time are cited as the two main reasons warranting enhancement of bonus rates or lowering of premium rates.

The scope of study is confined within India and the operation of different private insurance companies with comparison to LIC within India as whole.
2.1 STATEMENT OF THE PROBLEM:

Even with the outstanding performance of LIC and its achievements insuring people, it is revealed that there is enormous scope for the life Insurance business in India, as it has high potential still untapped. It is reflected in certain independent studies that the LIC is performing very well in certain areas, while their performance to tap the potential is outreach in certain areas. Evidence also suggests that there is more untapped potential in India, the liberalization of the economic reforms in 1990’s gave way to privatization of life Insurance sector in India, and the question of accepting the private players to enter the life Insurance business in India, and whether can they win the market is a problem.

It is also brought to light that, how the LIC has withstood the competition of private players, how it has maintains its loyalty. It is reported that in some areas the marketing of products designed by the private players has become a serious problem to customers to understand the policies, while in other areas the mobilization of savings is a problem. The problem of lack of knowledge about the products, lack of awareness of the policies from the private players there is also variation in the levels of awareness created by the LIC and private players among the people in
India. So also there is variation in the levels of getting policies from public to private players with comparison to LIC… and to know whether the growth in the industry has been accelerated after opening up. With the intervention of the private players how the market is being shared among the private players and LIC without affecting the growth of the business of life Insurance Corporation of India. Thus there are several issues which need to be examined carefully for removing the lapses in the life Insurance business in order to make it more effective in achieving the objective of IRDA with relevant of life Insurance business in India and also to see the extent to which the objectives of IRDA are fulfilled. This requires undertaking an independent and in-depth research on the different aspects of life Insurance business in India in order to find answers to the various dilemmas faced during the implementation of privatization in India. In this context, the present study is attempted to examine the implementation of privatization of life Insurance sector in India and its impact on the life Insurance business. A comprehensive and thorough analysis of the problem of this type is possible only through a micro-level study. In view of this the present study addresses the policy and implementation connected with the privatization in India, in order to make a critical assessment of its performance and impact on the life Insurance business. However, the main focus of the study is on how far
the LIC has achieved its objective of economic and infrastructure development, and awareness and implementation of life insurance in rural areas, and also on the organizational and administrative constraints that are impeding the effective implementation of the privatization of the life insurance business in India.

2.2 NEED FOR THE STUDY

In the recent times, life insurance have become a very important area of research in all most all the social services, because of the spread of concept of life insurance movement and increased concern of the Nation for welfare of life and increased health consciousness and control over the mortality rate. In India also there has been a phenomenal spurt in life insurance studies over the past three decades or so. All these years there has been a continuous and serious debate among both scholars and practitioners over the issues concerning the problems that are faced by the privatization of the life insurance business of this Country and on the process of their development. Of late, the issue relating to the awareness of concept of life insurance among people through continuous advertisement has aroused a lot of interest, which inspired a good amount of research in different social sciences. As a result, there has been an urge on doing research on different issues relating to the process of
privatization of life Insurance, through social, economic and political spheres. Of these issues, the performance of various policy initiatives aiming at procuring economic, social and political empowerment of people has an important place in the research on life Insurance related issues in different aspects.

As already stated a number of studies have been undertaken on the important initiatives designed for the life Insurance awareness among the people, such as the policies, returns on investment, infrastructure development, and growth of economy and so on. All these studies have highlighted various aspects of life Insurance related initiatives with special focus on their achievements and failures in achieving their objective of IRDA through privatization.

Due to globalization the rules of IRDA lead to intervention of private players in market, which leads the market from monopoly to multiple sellers in a competitive environment and to study the customer behavior towards the life insurance corporation products and of other private players in the market and to study the economically changes in the firm as well as in the industry and its impact to the national economy.

In India there is a spurt in research on life Insurance related issues, including the privatization of life Insurance sector in India, after the
introduction of IRDA and the amendment of 1938 insurance Act. However, most of these studies are conducted at macro level covering certain broad issues relating to this concept without focus on any specific aspect. In spite of the fact that India is one of the countries where the life Insurance business and other aspects of life welfare initiatives have achieved spectacular success. Even in the existing research there are several critical gaps which need to be filled. Hence, there is an imperative need for micro-level and area-specific studies on these aspects of privatization to fill the gaps in the research and to facilitate the tacit understanding of the different dimensions of these aspects. The present study is a modest attempt which mainly focuses on the implementation process of IRDA and other private players along with LIC in the selected area with a view to assess their performance in achieving their aim of privatization of life Insurance aspect in different spheres.

2.3 REVIEW OF LITERATURE

The topic privatization of life insurance sector in India has ample scope for researchers in India in the emerging scenario. Numbers of eminent scholars have conducted research on life insurance market in India. The scholar has studied various aspects relating to the life insurance sector starting from privatization before nationalization to monopoly to again privatization after nationalization. The scholar has studied a few
thesis written by eminent authors on the privatization of life insurance sector in India.

Mr. Tapen Sinha has conducted research on privatization of the insurance market in India. His studies explore the subject of life insurance in India from the British Raj to Monopoly Raj to Sawraj, and explains how the life insurance industry has taken a full circle shape from privatization to monopoly to privatization. In the above study, more explanation was given only about the historical events which have taken place. The study has not done any comparative study of LIC with private players and not shown any future aspects of privatization of life insurance sector in India.

Dr. Vijay Pithadia, He explains the life insurance industry as, the largest number of life insurance policies in force in the world and insurance happens to be a mega opportunity in India. It's a business growing at the rate of 15-20 per cent annually and presently is of the order of Rs 450 billion. Together with banking services, it adds about 7 per cent to the country's GDP. Gross premium collection is nearly 2 per cent of GDP and funds available with LIC for investments are 8 per cent of GDP. Yet, nearly 80 per cent of Indian population is without life insurance cover while health insurance and non-life insurance continues to be below
international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. Thus it is an indicator that growth potential for the insurance sector is immense. A well-developed and evolved insurance sector is needed for economic development as it provides long term funds for infrastructure development and at the same time strengthens the risk taking ability. It is estimated that over the next ten years India would require investments of the order of one trillion US dollar. The Insurance sector, to some extent, can enable investments in infrastructure development to sustain economic growth of the country. Insurance is a federal subject in India. There are two legislations that govern the sector- The Insurance Act- 1938 and the IRDA Act- 1999. In India, insurance is generally considered as a tax-saving device instead of its other implied long term financial benefits. Indian people are prone to investing in properties and gold followed by bank deposits. They selectively invest in shares also but the percentage is very small. Even to this day, Life Insurance Corporation of India dominates Indian insurance sector. With the entry of private sector players backed by foreign expertise, Indian insurance market has become more vibrant. He concentrated on only on historical aspects of the life insurance in India and up to the present state of privatization but not the future of private players working with
competence to LIC and how they have captured the market share, and impact of privatization in the life insurance sector in India.

Mr. N. Kannan, He explains on the historical as well as future aspects of life insurance and also highlighted some areas of future growth where LIC and private players can have ample scope of business like pension products, health products etc, but not highlighted what is the impact of privatization on life insurance business on LIC with the intervention of the private companies in India.

Dr. D. Tripati Rao, tripati@iiml.ac.in Dissertation: A Study of the Indian Life Insurance Industry. The study is about the post-nationalization development of life insurance industry in India over a period of three and half decades. It is motivated by the need to study an industry, of which there is little systematic analysis, but is dominant in two aspects: pooling and redistributing risks across millions of policyholders and performing financial intermediation. Further, it acquires importance in the current context of insurance reforms. The study analyses the growth and performance (physical and financial) of life insurance industry coterminous with the Life Insurance Corporation of India (LIC) so far. He also discussed the implications of privatization and
foreign participation in (life) insurance sector in which argument is made for micro institutional and legal reforms.

**Tapen Sinha**[^1] He examines the critical underpinnings of the recent 2020 Vision mooted by the Planning Commission. He shows how the insurance sector will play an important role in the implementation of this Vision Statement. He shows that by 2020, premium volume in the Indian market could easily exceed USD 120 billion in today’s money.

**Shalinee Singh & Divya Mohanan**[^2], PGDBM-I The size of the market has grown and the size of the insurable population in India is indeed vast and the existing player has managed to cover about one-fourth of it. The opportunities before the players are therefore a plenty in terms of target audience. The falling interest rates, the collapse of many small-time financial institutions, the scope for entering related areas like banking and pensions in a bid for synergy and the promise of e-commerce are some of the other opportunities knocking at the doors of the insurance majors. There is a probability of a spurt in employment opportunities. A number of web-sites are coming up on insurance, a few financial magazines exclusively devoted to insurance and also a few training institutes being set up hurriedly. Many of the universities and management institutes have already started or are contemplating new

[^1]: Tapen Sinha
[^2]: Shalinee Singh & Divya Mohanan
courses in insurance. Health insurance, which is still in its infancy, is also likely to get a major boost, ultimately leading to improvement in the quality of medical treatment and facilities in the country.

Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time. A well-regulated life insurance industry which moves with the times by offering its customers tailor-made products to satisfy their financial needs is, therefore, essential if desire to progress towards a worry-free future.

D. Maheswara Reddy and Prof.CR Reddy, Explains Most of the insurance companies concentrated on urban markets because of easy availability of interested intermediaries, sufficient margins of profits available to cover operating costs and marketing costs. It implies that the insurance companies are not shown that much of concentration on rural areas where the agricultural operations are continuously exposed to natural disasters. Agriculture is the mainstay of the Indian economy, as it accounts for 22 percent of the GDP, 14.7 percent of the total exports earnings and provides livelihood to 58 percent of population. There will be an impact of agriculture sector over the other sectors as the other sectors relied up on agriculture sector for their raw material requirements.
directly or indirectly. Achieving growth in the sector will have a cascading impact on other sectors, leading to the spread of benefits over the entire economy. It plays a significant role in reducing poverty and regional inequalities in the country.

**Dr. V. Krishna Mohan, Dr. B. Ramakrishna Rao**

The shift in the Indian Economy from controlled one to that of openness and the competition has lead to an era of market driven strategies in the light of well-defined consumerism. The entry of foreign insurance companies with vast economic, managerial and technological resources, posing challenges for Indian insurance public sector in redesigning their approaches not only for the effective market coverage but also to become competitive and sustaining their credibility.

The contemporary insurance market is throwing unprecedented challenges and opportunities and at the same time growing by leaps and bounds in a very sophisticated manner. The market is having multifarious product choices. There is a new kind of pressure on the consumer profile aspiring for quality, effectiveness and adaptability. These parameters would now determine the survival, growth and stability of the market operators.
The aim of this paper is to identify and analyze the changes in the insurance market environment with a focus on customers’ expectations that directly affect the insurance business. It examines the need for a clear customer focus in insurance companies to face the challenges of market. With the competitiveness, the emphasis would be in innovation of new products, and the value added customer service.

This paper suggests that assertive approach with customer-driven marketing strategies would be significantly required to explore and exploit the opportunity in spite of foreign insurance companies’ presence with their better systems, products and experience transfer in India.

Dr. P. Viswanadham, Ph.D, P. Pramila Rani9 Bancassurance is the distribution of Insurance products through the bank’s distribution channel. It is a phenomenon wherein insurance products are offered through the distribution channels of the banking services along with a complete range of banking and investment products and services. An effective insurance company distribution channel should be customer focused. It should also reflect both company goals and customer needs. It means, the channel selected should be consistent with the company strategy, supportive of its values, and economically viable, while satisfying customer demands for value.
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Dr. Y.K.M. NAIDU\textsuperscript{12} Explains Indian insurance is on the threshold of deep and fundamental changes. The life insurance industry was nationalized in 1956 and the general insurance industry in 1972. Before that India had a thriving and competitive insurance industry with hundreds of private and foreign operators. Indian companies held a 60% market share even then. Yet, insufficient regulation also meant that there were a number of abuses.

LIC has about 100 million policies. This works out to an average of 1.5 policies per individual. So, only 65 million people are policyholders in India. This translates into just six to seven per cent of the Indian population. This clearly shows the low penetration of insurance in India. Currently, it is very difficult to make changes in policies once they are bought. This has to change. Moreover, to make them attractive, insurance policies should be made more people-friendly by launching products such
as equity-linked insurance. Such policies can offer higher returns to investors.

**Impact of Liberalization**:

The opening-up of insurance sector for competition offers ample opportunities to both existing as well as new players to penetrate into untapped areas, sectors and sub-sectors and unexploited segments of population as presently both insurance density and penetration are at low level. Both indices being at very low level in the country even compared to the countries with the same level of economic development and per capita income are indicative of the vast potential of the growth of this sector in future. In this context, the opportunities and challenges are analyzed hereunder.

**2.4 OBJECTIVES OF THE STUDY**:

The privatization of life Insurance sector in India 1999 through IRDA Act has emerged as a viable alternative. It has made tremendous impact on the business of life Insurance sector in India. The premium collected through LIC and private players is only the single source for the Nation to pool up funds and invests in infrastructure development of the country. Life Insurance is not only to cover the risk of uncertainty but also
becomes an important instrument of savings of people particularly in developing countries like India. In this context, the present study is carried out to examine the operationalisation of the concepts of privatization and the impact of life Insurance sector in India, and also impact on the socio-economic conditions of India. The main focus of the study is on how practices and imaginative initiatives have contributed to the privatization of life Insurance Sector in India.

The objectives of the study are as follows:

1. To study the growth of life insurance sector in India
2. To study the development aspects of private insurance companies vs LIC.
3. To study the legal framework of life insurance sector in India.
4. To study the customer preference in different insurance policies.
5. To study the impact of privatization of life insurance sector in India.

2.5 METHODOLOGY

2.5.1 Selection of the Sample Size: Andhra Pradesh State is selected. My Study: In Andhra Pradesh. One District will be selected that is Krishna District.
2.6 Selection of the District

Krishna district has been selected purposefully for the present study based on the following criteria.

1. Krishna District is one of the districts in Andhra Pradesh where the life Insurance business is more effective.

2. A majority of people in the District have taken the life Insurance policies from LIC and also with number of private insurers in the life Insurance..

3. private insurers have been working effectively in the District to cater to the needs of the public

4. At present there are altogether 12 private life insurers out of 16 present in the country, and 1 Life Insurance Corporation of India, in the district. And most of the policies are active.

5. The life Insurance business has made considerable impact on the people in the District. This is evident from the fact that these people are interested in life Insurance

Based on all these factors the District of Krishna is selected purposely for carrying out the present study.
Selection of Place.

In the second stage, Vijayawada has been selected for the intensive study of the impact of Privatization of life Insurance. The scholar is familiar with the socio economic aspects of the place and it is easy for the scholar to gather the information. One more purpose of selecting the place is that the area of operations is moderate and the scholar has full knowledge on the geographical distribution of the place.

Selection of Respondents.

In the third stage, respondents were selected on the basis of random sampling method and together 300 (Employees – 180, Profisionals-30, Skilled-80, Self employed-10) respondents have been selected for the purpose of study from whom required information is collected. Based on the pre-testing of the interview schedule, one member specifically, has been selected from each of the family in Vijayawada, Krishna District for the purpose of the present Study. Along with this managers-20 relating to various private companies as well as LIC have been interviewed to study the growth aspects of Life insurance in Vijayawada in Krishna District.
2.7 Sources of Data

Primary Data:

Since the study is mainly an empirical one, it is based on the primary data collected from the field through techniques of empirical research, notably the interview, discussion and participant observation methods. The data pertaining to the core aspects of the IRDA and privatization of life Insurance Sector in India, such as the implementation process of these programmers, role of bureaucracy, problems of the private insurers, performance of private insurers with comparison of LIC and so on were collected by extensively using these research techniques.

The primary data has been collected from members of managers and employees and public through a well-structured interview schedule. The schedule has been pre-tested and necessary changes have been made to suit the present study. The schedule has been filled in with the help of sample respondents through a face-to-face interview by the researcher. Further, group discussions with selected respondents of companies were held to get information on their perceptions, views and on the performance of private insurers and LIC. The present researcher also interviewed a number of functionaries of the various agencies involved in the enhance the opportunities for the private insurers and LIC business.
The scholar personally observed the working of these insurers for getting first hand knowledge.

**Secondary Data:**

The scholar has also collected a good amount of secondary data pertaining to the conceptual issues, historical background, policy aspects, environmental setting and other aspects of the privatization of life Insurance business under study. The secondary data was collected from the documentary sources like Government Reports, Google Search, Reports and Reports of International Agencies, Reports and Records of the concerned agencies and also from published literature such as the Books and Journals.

**2.8 Tools of Analysis**

The data collected through the interview schedule has been classified and tabulated into many tables for analysis purpose. Simple statistical tools like averages, percentages and values etc., have been used to analyze the data.

**2.9 Period of Study**

The primary data was collected from 2006 to 2007 in Vijayawada, Krishna District.
2.10 Scheme of Presentation

The present research work has been presented in seven chapters.

The First Chapter, "Introduction" gives complete view of Life Insurance business introduction, its history since before nationalization to present privatization, and its also explains how life insurance sector is indirectly becomes an economic indicator and the benefits of life insurance.

The Second Chapter, "Methodology" provides a broad outline on the problem selected for the study and method of the study. Further, this chapter also presents the review of literature existing in the concerned area.

The Third Chapter, "The privatization and Growth of life Insurance Sector in India" depicts how the private insurers have entered the life Insurance business. An attempt is made to present the conceptual framework relating to private insurers in life Insurance business and also their position in India. This chapter describes the growth of private life insurer’s business in India.

The Fourth Chapter, "The developments aspects of private sector insurance companies in competence with LIC" deals with the profile of India with special reference to the position of private insurers in different
aspects. It highlights the how different strategies adopted by the private insurers to capture the market, how they struggled to get sustainability, in respect to market shares, and it also explains the marketing, infrastructure and the training provided to the members of that. People who are working in different levels in private life Insurance companies with competence of LIC, and also depicts the future scenario of life business in India.

The Fifth Chapter, "the legal frame work of life Insurance sector in India" It also focuses on the powers and functioning of IRDA, it examines the legislative developments in life insurance sector before and after 1999, various Acts relating to life insurance like Insurance Act 1938, LIC Act 1956, IRDA Act 1999 are also explained, and it also explains how the private insurers abide by the rules and regulations of the authority, in maintaining the uniformity in the business, with regard to customer protection and profit and also the development of the country infrastructure etc.,

The Sixth Chapter, "study the customer preference in different life Insurance companies and policies" analyses the socio-economic characteristics of the sample respondents, it includes age distribution and educational status of the respondents. It also analyses the various policies serving the customers, sum assured, customer protections, and rate of policies with comparison to LIC and private insurers. It also assesses the
impact of the privatization of the life Insurance businesses process of interview with managers of private companies and LIC. Further, it presents few cases revealing the success as well as failure of the privatization of the life Insurance sector in the selected district.

The Seventh Chapter, "Findings and Conclusions" presents the major findings of the study, conclusion drawn on the strengths of the study. Further, in this chapter an attempt is made to give suitable suggestion to strengthening of the private insurers which facilitates the process of enhancement of the business much more meaningful and fruitful ways.
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