CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

INTRODUCTION

"So long as the maintenance of a family depends on the earning power of the bread winner; so long as earning power can be destroyed by death, old age, or disability, just so long will life insurance continue to be the keystone of the individual and those who are dependent upon him." 1

On the basis of all the religious beliefs and scientific reasoning, that "one who is born must die", is the greatest truth of life. A wise man, therefore, continues to endeavour for securing self protection and protection of his dependents against the perils of his premature death or unforeseen physical disabilities, rendering him jobless. Every bread winner feels worried for provision for old age or security of his kith and kin, if he does early. 2 One of the best solutions for these worries is life insurance, which alone provides guarantee under all circumstances, provided the policy is kept in full force by paying premia in time.

The Economists consider the bread-winners as better human beings and their life values invaluable for their dependents in the family.

The heads of the family should be impressed with the sacred duty of

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utilising life insurance, as a means to protect their loved ones against the want they may be occasioned by premature death. Life insurance is a bulwark of the home and the only safe method of hedging against the uncertainties of life. Public must be made to feel the value of human life both from the family and business standpoint. Capitalization of the value of a human life for the benefit of the dependents is the prime duty. 3

INSURANCE AS LIFE COVER

The actual value of life insurance policy is determined not by the amount invested, but by the cost of risk cover included in the premium payment. Life insurance provides many other advantages like security of capital, liquidity, tax benefits etc., besides providing cover against risk of death.

Today, life insurance is indisputably recognised as a truly remarkable and beneficial piece of property because it combines in one package called an insurance policy, an immediate estate with security, retirement fund, a guaranteed payment for the family members and tax savings on all fronts – income tax, wealth and gift tax. 4

Life Insurance helps to provide security against the threats of unemployment, disability, death and old age. The high cost of living and high

1 Ibid p.4
taxes made life insurance the only medium available to obtain a measure of security for the vast majority of people.  

The individual is not, as a whole, very insurance conscious. He is aware of the few covers of insurance available, but probably may not have a complete knowledge about variety of covers available. He may appreciate the idea of insurance, but still remains to be a reluctant purchaser. The main reason is that there is no immediate benefit from the life policy. The only thing provided is the piece of paper, the insurance policy, written in legal terms. The agreement is an odd one because not only a very long time elapse, before there is an opportunity to test the promise that has been given, but also that opportunity will usually arise only in unpleasant circumstances which the insured would rather not think about.

However, good the cover may look like will loose its value, if there are unwarranted difficulties in the settlement of claims.

Life insurance provides life cover besides inculcating saving habit. Generally, people desire to leave behind enough for their family in the event of their retirement, incapacity or death, each of which means a sudden cessation of income.

5 LIAMA Research in perspectives, Life Insurance Agency Management Association, Hartford, 1996, P.40
7 NCAER Chawla, S.R., Attitudes towards Life Insurance Cover, Registrar and Secretary, December 1979, P.14
Emphasis should be laid on the "crime of not insuring and on the biblical injunction", so frequently quoted, that "if any provided not for his own, and especially for those of his own house, he hath denied the faith, and is worse than an infidel". The man who has not provided for, as Dr. Talmage Well said, "is a defalcation, an outrage, a swindle. He did not die, he absconded". (Dr. De Witt Talmage was a prominent New York clergy-man who had preached a famous sermon in defence of life insurance).

The public should be shown that life insurance, besides protecting against misfortune, is also a powerful force in the production of wealth, and that premium payment should not be regarded merely as an expense to be grudgingly borne.

INSURANCE AS INVESTMENT

In the past, people had only limited alternatives to invest. In the present changing scenario, the need for liquid assets become lesser and the individuals have started looking for opportunities for growth of their surplus in many ways. In many countries, financial institutions have started introducing products and services which catered to the changing profile of the individual investors. Individual savings have always constituted an element in the financial sector. Insurance companies always encourage dispensers of door to door services.

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8 Need for Life Insurance, Magaratham, March 1996, P 46
9 Ibid p 49
Now, what really matters is, what is actually required by customers to suit their best interests.

Now, individuals are in a better position to hold their surplus and to have a better return on their investment. There is also tremendous change in the availability of information. Because of this change, the individuals are exposed to more information and in a position to weigh the alternatives for channelising their savings. In a situation like this, individual investor might be looking for a better system which would place before him a wide range of alternatives under a single shop from which he can choose.

There is an inherent risk, if any of the needs of the individuals are not catered to by the organisation and it will provide an opening for rival institutions to move in and eventually take away the policyholders from its fold. The only solution is to provide as many schemes and services as possible.

In the order of priority, first importance is to be given for life insurance, second - savings bonds, third - government bonds and company debentures and fourth - company shares.

There is a general opinion that the life insurance products earn lower rate of return than investment in the primary and, or secondary capital markets, mutual funds, bank deposit etc. Similar position prevails even when availing liquidity facility for pre-mature encashment - which is much greater than life insurance policies. Willy-nilly such comparisons tantamount to create a belief
that life insurance as a medium of savings is inferior to other means of savings. This eventually raises a question mark on the relevance of the life insurance product for the fulfilment of a need and as a medium of savings. No one can calculate the rate of return on investment in a life insurance policy in the case of a death claim. If calculated, it may sometimes come up to thousand percent depending upon the period of payment of premium. No other instruments can offer such a high rate of return. It is also not affected by the booms and bust in the capital market. It tries to satisfy a different kind of need.

It is one of the basic needs of an individual. Life insurance is not akin to other forms of investments and comparing it with other modes of investment would be odious. It aims to attain objectives which are different from those that motivate people to invest in other avenues of investment. Hence, before entering into any other investment proposition, every individual, for his own sake and for the sake of his family, should invest in life insurance. Having adequately covered oneself, one can invest his surplus in other forms of security.

A life insurance policy is distinct from other financial instruments because of the risk cover provided. From a purely savings point of view, one can never expect a life insurance policy to provide a better yield than an investment in a bank under a recurring deposit scheme or units of mutual fund, for the simple reason that in the case of insurance, a certain portion of the
premia paid has to be set apart to meet payments in respect of claims. And, procuring life insurance is a long-term activity which requires persuasive skills and considerable expenditure of time and money. This is true all over the world.

Further, life insurance is considered as an appropriate investment for the households with the following type of persons viz., regular savers, tax payers, persons with fluctuating income, weaker sections, persons in the hazardous occupations-relating to physical, occupational and moral, persons below the subsistence level, key-men, people with hobbies like mountain climbing, retired persons and self-employed.

Short-term investments react immediately to changes in rates of interest, but a long-term contract like insurance does not do so, since no financial institution can afford to assure high rates of interest for periods exceeding 7 to 10 years. So, in order to make LIC products more competitive in the market, the stress should be more on the risk cover and less on the savings element.

Recent trend is the increasing preference for money-back plans as the policyholders would like to get back the sum assured early in instalments. Another noticeable trend is the increasing preference for short-term policies.

The expense of living in retirement can never be escaped. If an individual does not provide for his old age, he has to depend on his labour in his old age. Then, the money will become the hardest earned after a lifetime of
experience. It is heart-rending to accept charity at the old age. With adequate life insurance as a base, an individual is free to invest any extra money in other investments.

The policyholders avoid the frailties of human nature that would interfere with their voluntarily saved money regularly; they eliminate the hazard of not living enough to create the desired estate; they completely avoid the possibility of capital losses through bad original investments or unwise reinvestments; they are assured of a guaranteed rate of return on their money, and most important of all, they probably could not create a sizable estate without life insurance. ¹⁰

People earning higher income find it difficult to avoid income taxes. Higher the income, higher becomes their tax, so that, the amount of savings might never be sufficient. Besides, their return on investment is also subjected to top rates, and thus, it is their problem that compounds, not their investments. Insurance makes it possible to attain the ultimate amount that is aimed for.

No other investment has a feature comparable to the settlement options of a life insurance contract, whereby, the principal and interest are scientifically blended and made to last for the life time of the beneficiary, no matter, how long that life may be. ¹¹ Life insurance tries to preserve a standard of living for survivors on behalf of persons of modest means.

HIGH PRESSURE SELLING

Public may not buy a policy just because it is marketed by LIC, but

¹¹ Ibid, p.13
because of high pressure selling. They should be made to feel that there is no substitute for life insurance.

Life insurance is seldom bought but for the efforts of the salesman. It needs more than one meet to effect a sale. Now-a-days, there is greater awareness among customers about domestic savings mainly because of two reasons. Firstly, publicity in the media carries the updated information to the doorsteps of customers. Secondly due to breaking away of joint family system in the present day social set-up, the need for protection of individual family has been increased.

Many times insurance policy is taken just to please the agents and DOs. The agents are required to do more than introducing their clients to the insurance cover. They should inform the clients, how to adjust the covers regularly whenever his life pattern changes or at times of inflation so as to make it an adequate policy.

The Concept of the Life Insurance as protecting human life values:

"Human life values, as reflected by current earning power, constitute an economic asset as much as tangible property does. The money worth of the nations life values exceeds by many times the aggregate total of the material wealth" - the late Solomon S. Huebner, Ph.D., former President of the American College. It is just as important to treat scientifically the monetary worth of the taxes of personal character, health, industry and judgement as it is to treat scientifically our material property possessions. 12
It is strange that many people give more importance to tangible possessions like homes, cars, and jewellery than insuring adequately. It is human value that causes property to have value. If it were not for life value, there would be no property value.

SAFETY AND SECURITY

Most owners of life insurance, most prospective buyers, and indeed most life underwriters will acknowledge the value of life insurance as a desire for protection against untimely death. Safety of principal is a factor of prime importance in appraising an investment programme. It is vitally important that when the money is required, it should be promptly available without delay or risk of depreciation.

MARKETABILITY

One of the important questions that arises in an individual’s mind before embarking on an investment venture is about the disposable value of the investments, because predetermined amount is not guaranteed by any investment other than life insurance. No one knows, what future financial reverses may cause the value of a stock or a bond to slump and cause the owner a serious loss when forced to liquidate it.

Deflation provides adverse effect on one’s financial security. People trying to sell their securities may find that there are no purchasers except at a greatly depressed price. Frequently they may be unable to borrow money even
with tangible assets as collateral. Or when they can, the amount they obtain is infinitesimal compared with the original value of the collateral.

Most life insurance owners know how much their policies are worth at any given date. They know because every policy states in black and white exactly, how much money is guaranteed to the owner if the owner should live to retirement and during the intervening years as well or to the heirs, if the owner does not survive. Neither buyers of life insurance nor their heirs are confronted with the typical, costly and frequently impossible task of liquidating a "frozen asset".

STABILITY OF VALUE

In most cases, at the inception of an investment purchase, it is impossible to predict with certainty whether it will or will not be possible to liquidate it at any future date. The buyer has no definite assurance of, what will it pay at retirement or to the family in the event of death. Worse, there is no assurance that it will yield anything at all.

Contrast to these fluctuations there is steady upward accumulation of a life insurance policy. Naturally, there is some shrinkage in the immediate value, but it is of little consequence, in view of the compensating advantages that are part of the life insurance agreement. The investment is bought for the long haul, not as a special savings account to mature in short order.

The cash value of the average investment is what someone else will pay for it during a depressed time, that might be very little indeed. On the other
hand, the value of a life insurance contract in the years ahead is known at the time of the purchase and does not depend on the fluctuations of the business cycle. Life insurance helps to alleviate this worry.

The average person who seeks an investment has neither the time nor the ability to seek out a sound financial investment - except, perhaps, through a mutual fund. But even if a person does have time and talent, it is certainly doubtful that the family would, if the buyer were to die, bequeath them the investment.

Life insurance companies, on the other hand, have tremendous sums to work with and can, consequently, obtain an unbelievably safe 'spread' of investments. The management costs, naturally, would be prohibitive to an individual investor, but they are negligible when shared by a group of policy-owners. When an individual buys life insurance and appraises LIC policy as an investment, two things are virtually certain. The person fails to realise the liberal terms and low cost of the investment, and, measures the ultimate worth of the investment against the total of the instalments instead of measuring it against the purchase price. 13

TAILOR-MADE MATURITY DATES

Making life insurance investment will certainly ensure maturity at its

13 The Concept of Life Insurance as incomparable prospects, LIMRA’s Agent Dev Library, USA, P 16
face value under conditions convenient to the policyholder rather than the seller. It will mature when he elects to mature, rather than depending on the option of the seller. LIC policy matures for its full ultimate value even if the owner dies before the maturity date.

No other investment, that is purchased in instalment waives payments after death except life insurance. Hence, no other investment can mature at the exact time when life's two urgent needs for funds arise viz., unproductive old age, the death of the family head. ¹⁴

**VALUE AS COLLATERAL**

Life insurance policy can be utilised as collateral security to avail loaning facility from banks. The LIC lends on the policy at the rate of interest specified in the contract without any question and no right to demand repayment or foreclosure. Repayment of principal can be made at the convenience of the policyholders. If he so desires, the loan need never be repaid until maturity of the policy. Thus its collateral value enhances its advantage as an investment.

**TAX ASPECT**

It continues to receive favourable position from a tax standpoint. No tax is levied on the yearly increase in the cash value of life insurance policies.

¹⁴ Ibid, p 16
Another type of tax advantage can be availed by making it payable to the beneficiaries, other than the insured.

Insured people are classified into three categories. The first category of people is those who need insurance cover per se. The second group consists of a sizeable section of the lower income group who has to be persuaded to insure themselves as a hedge against future uncertainties. The third group, if allowed to have its own way, would not bother about insurance. Yet, they take a policy primarily as a tax saving device. It is obviously the last category that provides the bread and butter of the corporation’s business and constitutes the bulk of policy purchasers in the January – March quarter.

**CREDITOR PROOF**

Life insurance cash values are exempted from the claims of the creditors of the insured. Life insurance is the best balanced investment for the average person - one that is unsurpassed in security, marketability, stability of value, freedom from care, and all the other qualification of an ideal investment - and should be the corner stone of every one’s personal investment programme.\(^\text{15}\)

Whether bought outright or financed over a period of time, life insurance is one of the valuable properties ever designed.

\(^\text{15}\) "This I believe" I.IMRA’s Research in perspective market in Life Insurance, Life Insurance Agency Management Association, USA., 1966, p.16
INSURANCE AS A DEVICE FOR BUSINESS FINANCE

All the labour of the sole proprietor may have been in vain if the business offers nothing to the owner's survivors. The owner's spouse or children may not have the ability to carry on the business. Life insurance on the owner's life will guarantee that the heirs receive the fruit of the owner's labour. In any organisation, there are certain key personnel whose loss in the event of death will lead to definite financial loss, either in the form of decreased efficiency or decreased sales. Life insurance on the lives of these individuals try to cushion the shock produced by their deaths. This aims at experts and represents another major area, where life insurance can aid to solve the problem. Life insurance is essential in the continuation of many business just as it is in the preservation of homes.

LIFE INSURANCE AS A COMPLETE FINANCIAL PROGRAMME

Adequately arranged, life insurance is a complete, balanced lifetime financial programme needing no supplements. Such a financial programme enhances an individual's standard of living rather than completes it.\(^\text{16}\) Without life insurance agent, doctor must live on one half of his income or lead a financially insolvent life. With life insurance services, the doctors can live on 80 per cent of the income and still lead a financially solvent life. If life insurance is guaranteed well, that will serve well.

\(^{16}\) Ibid. p 25
LIFE INSURANCE AS A WAY OF LIFE

A survey conducted by a manufacturing firm in a mid-western city among the employees shows that the greatest hope in life was the hope for security and the greatest fear is insecurity. Life insurance offers people the most efficient method of achieving economic security. Life insurance helps to provide security against the threats of unemployment, disability, death and old age. The high cost of living and high taxes make life insurance the only medium available to obtain a measure of security for the vast majority of people.

The sense of security provides dignity. Life insurance sells dignity and insures not only a life, but a way of life. This makes them possible to have security, dignity and freedom as well. A life insurance sale guarantees economic security for the nation. A country composed of secured homes, healthy, educated and happy citizens, is strong.

STATEMENT OF THE PROBLEM

A major portion of domestic savings originates in the household sector where the preference for direct savings in the form of tangible assets still dominates over savings in financial forms. Over the years, however, the share of the financial savings has gone up, a trend that has benefited several financial institutions including LIC.

Any further growth in life insurance can arise from:

♦ an increased volume of savings in the household sector, and
transfer of savings to insurance from other competing claimants.

To assess the potential of the LIC, one should know at least the extent of savings in the household sector and its destination. Besides, the decision making process has also to be understood so as to be able to devise, suitable policies. Several factors – income, its growth and distribution, social custom and traditions, parental aspirations, and regional or sectoral, influence the decision making process.

Among those who prefer financial assets over physical assets, a range of preferences may exist for different forms of financial claims, the contractual nature of some saving instruments, like life insurance, provident fund or chit fund, may have special appeal for some categories of household.

In the Indian background sale of life insurance on the basis of principle of human life values only, may not work well due to many misconceptions, superstition, orthodox and allergy to the idea of pre-matured death etc. Hence, it is better to combine the concept of need based and human life values, for LIC in India and in semi-urban and rural clientele, in particular. At the time of selling life insurance on the principle of human life values, family needs such as children's marriage, education, helping destitute and family provision etc., are to be taken into consideration.

Insurance is vitally linked to the daily lives of the people and its features are virtually limitless. The actual value of life insurance policy is determined not by the amount invested, but by the cost of risk cover included in the premium payments. Life insurance provides many advantages like security of capital, liquidity, tax benefits etc., besides providing cover against risk of death.

Today, life insurance is indisputably recognised as a truly remarkable and beneficial piece of property because it combines, in one package called an insurance policy, an immediate estate with security, retirement fund, a guaranteed payment for the family members and tax savings on all fronts - income tax, wealth tax and gift tax.¹⁸

Life insurance is unique in one aspect. As an instrument of economic security, it is incomparable. No other mode of savings can provide, what is provided by life insurance product. It also provides for tomorrow's bread, clothing and shelter. Death is certain, but it is the time of death, that is most uncertain. Life insurance policies per se seek to offer certainty for that uncertainty.¹⁹ Risk cover is the primary benefit offered by the insurance contract besides providing supplementary benefits like bonus (on with profit policies), income tax rebates, housing loan facility etc.

Life insurance is the only method to be used as a hedge against

possibilities of the saving period being cut-short. A policy of insurance from its beginning guarantees the full value as against other forms of savings. While comparing the returns from insurance cover with other forms of savings, one should take into account the cost of providing insurance cover as well.

LIC’s products are designed not only to cover the risk but also to offer avenues of savings and investments, with added tax concession built into it. Therefore, LIC has to face competition from a number of institutions such as banks, UTI, post offices, mutual funds, shares, debenture etc., All these institutions compete for a legitimate share in the household savings. LIC is to see that its share is not only maintained but also improved upon.

LIC policies are not bought but only sold because only a concept is sold, that too, involving fairly long period as compared with other modes of savings. Unlike other instruments, agents of LIC have to perform various service functions such as nomination, assignment, loans etc. The service begins with the sale and continues till the object of insurance is fulfilled.

It is easy to borrow against a life insurance policy, as it does not require any collateral other than the policy, and no time limit is set on repayment. But, by borrowing, the original purpose of taking the policy is defeated, as very few loans are repaid before the date of maturity of the policy.

Even though, LIC offers risk cover along with saving element and added tax benefit with liquidity facility, people do not come forward to invest in it.
Some of the reasons for their least preference for LIC are as follows:

Insurance in India is mostly an investment rather than a cover for risks. Many of the policyholders view their policy values from an investment angle though life insurance is a combination of risk and saving element. There are two things that insurance companies invariably fail to mention when discussing life insurance as a means of investment. One is the low rate of return. It is lower than savings in banks or mutual funds. The other reason is, the rate of inflation is not taken into consideration. The high inflation upon the value of insurance discourages the public to insure their lives.

Even though, LIC offers a dual objective of risk protection and saving, it is losing its importance because of the widening gap between what a policyholder gets on his salary invested in life insurance and what he can earn in other forms of savings. The general public have no idea of real return on their policies. A survey on customer satisfaction on LIC policies has shown that they are not satisfied with the mode and terms of bonus payment.

Surplus to LIC arises mainly because of lower mortality, higher interest, and lesser expenses and the non-participating policies also contribute to each one of these factors as do the participating ones. The constant and continuous erosion in the value of money acts as the disincentive for the people to enter into long-term saving like insurance. If the LIC promises to give, not only the face value but something more than that to this class of policyholders, in the
form of its contribution to surplus that will go a long way in increasing sale of life insurance.\textsuperscript{20}

LIC does not rise its premium rates frequently even though each decade life expectancy has increased. LIC does not offer reduced rates to non-smokers. There is general perception that the premium rates are high in India as disclosed by Era Sezchiyan Committee (1980). \textsuperscript{21}

The bonus rate offered by LIC is not attractive as compared to the interest rates in money market. The account holders can also withdraw their amount, if required. But, this is not permitted in LIC. Here, they can withdraw only to the maximum of the surrender value of the policies. So, to mobilise more resources and to withstand in the present economy, LIC has to provide a qualitative service to its policyholders.

"Prevalence rebates" creates a doubt in the minds of the public and LIC officials are also not in a position to prevent, because of quantum of business secured by the agents, helps them to achieve the fixed target. People invest voluntarily in bank deposits, post office deposits, NSC or even UTI. On the other hand, policies of LIC are sold and not bought.

Endowment insurance is poor investment which is not clearly brought to the attention of a potential policyholder. Even with profits, the return from an

\textsuperscript{20} Ibid., p 23
\textsuperscript{21} Era Sezhiyan, Role of Life Insurance in National Economy, A.D Shorooff Memorial Trust, 1985, p.25.
LIC policy is poor. There is a tendency among the agents to recommend a policy which gets them maximum commission. Endowment policies provide maximum commission to the agents. As a result, they are sold as a return on investment rather than as a risk cover.

Policyholders and agents of the LIC are up in arms against the monopoly organisation for having reduced the surrender value of its policies, thus minimising the already low returns given to the public on its investment.22 Besides, LIC still uses the prospective method for calculating the surrender value of a policy, when many companies in the world switched over to the retrospective method. The new tables along with the antiquated prospective method gives Indian policyholders around half of what other people get abroad. Even when policies are nearing maturity, the surrender values are far away from the amount of the sum assured, when mathematically it should not be so. This is glaringly inequitable. With the favourable conditions prevailing in India today, there is considerable scope for raising the surrender values of the policies. Previously, policies could acquire paid-up value after two annual premium were paid. At present, policies could acquire paid up value after three annual premiums were paid.

Policyholders are eligible to avail loan facility after the expiry of five years, which is longer than what was permitted by LIC in its early years of

22 The Times of India, 12, August 1993.
existence. Most loanees find that the existing procedure for obtaining loans from LIC against life policies is cumbersome. 23

The passive investment policy followed by the LIC is also detrimental to the best interests of policyholders. The LIC does not seem to be actually conscious of its responsibility to act in the spirit of a trustee for the policyholders, and has failed to show the same degree of concern and solicitude for the interest of the policyholders in the management of their funds, as a trustee should normally do. To canalise the savings into life insurance policies, it is, therefore, necessary that the rate of return is made attractive to the policyholders-investors.

The following are some other reasons why the general public is reluctant to invest in or purchase life insurance.

♦ It requires an immediate sacrifice for the enjoyment at the old age, or to provide for the family on his death which he considers to be in the distant future.

♦ The event insured against seems remote as he does not realise and thinks it far away and will not happen in the near future.

♦ Human inertia is over–powered:

Therefore, LIC has to face severe competition from similar other...
investments schemes offered by the public and private institutions. Thus it has become the *sine quo non* to find out the answers for the following questions:

1. What is the extent of utilisation of LIC by policyholders?
2. What are the various factors influencing such utilisation?

**REVIEW OF LITERATURE**

This study is the first of its category in the way it attempts to state the utilisation of life insurance in comparison with the total investment and the perception of policyholders with their respective utilisation. But there are certain other studies to review the working of LIC and life insurance service as could be seen from the following.

The working of the life Insurance Corporation of India has been the subject of review from time to time by a number of Parliamentary and other Committees. The Estimates Committees of Parliament (1960-61) was the first to examine its workings. It submitted its report (134\textsuperscript{th} Report of the Second Lok Sabha) in April 1969. A few salient findings and recommendations are:

Comparative standards for measuring efficiency and performance are readily available. The Committee suggested a federal structure with semi-autonomous zonal units to avoid duplication of organisation. An element of competition between the different semi-autonomous zonal units could thus be introduced. The figure of new business, management expenses, overall and renewal expense ratio, profit and loss, etc. could be worked out for each zone.
and published separately in the Annual Report of these units to enable their efficiency to be judged.

The Estimates Committee was followed by another Parliamentary Committee, the Committee on Public Undertakings (1964-65) which submitted its report in March 1965 (4th Report of the Third Lok Sabha). Their views are:

The Committee was convinced that the tardy growth of the business, deterioration of service to the policyholders were ascribable to the present size and centralised organisation of the corporation. To improve the standard of efficiency in the corporation, with better service to policyholders, the corporation is to expand its business in a massive scale, its present zones must be constituted into completely independent corporations. Based on the recommendations, LIC was reorganized on the model of the State Bank of India with Zonal Boards constituted by government with clear and well defined powers.

The next to examine the working of the LIC was the working group on Life Insurance Administration constituted by the Administrative Reforms Commission in August 1967. The group submitted its report in October 1968. A few findings of the working group of A.R.C are:

The deficiencies in the corporation’s working are not due to its monopolistic or monolithic nature, its size, but are due to unimaginative development and administrative policies and lack of appreciation of the
objectives of nationalization. Creation of semi-autonomous zonal units operating in their respective zones will not mean competition in the true sense of the word. It made the recommendation to introduce competitive spirit among the branches and divisions in efficient service to policyholders and reduction in expense ratio.

Another Committee under chairmanship of Shri R.R. Morarka - “to investigate into the causes of the present high level of expenses of the corporation as indicated by its renewal expenses rate and to recommend measures, administrative or otherwise to bring it down to reasonable level so as to sub-serve the maximum interests of the policyholders” - submitted its report in April 1969.

Three other Committees followed. All of them were appointed by the LIC and were concerned with the implementation of government’s decision to abolish or prune its zonal offices.

Another Committee was appointed in the year 1979, under the chairmanship of Shri Era Sezheyan, member, Rajiya Sabha. Some of the findings of this Committee are:

The cost of providing life insurance through individual life insurance policies is high and beyond the means of a large section of the population both in rural and urban areas. Only about 10% of the insurable male lives in the country have been provided cover against death. Even among these, the
concentration has hitherto been on the salary earning classes and persons in the higher income groups who take out life insurance mainly because of the tax relief available. The Committee notes that currently the LIC pays interest at the rate of 6% for delay in settlement of claims, where the delay is attributable to the LIC only. Though the procedure laid down for dealing with complaints are generally satisfactory, in actual practice they are not providing effective service.

In furtherance of the initiatives in the area of financial reforms covering the banking system and the capital markets aimed at creating a more efficient and competitive financial system suitable for the requirements of the economy and recognizing insurance as an important part of the overall financial system, the Government of India appointed a Committee on Reforms in the Insurance Sector in April 1993, to examine the structure of the Insurance Industry, and to make specific suggestions regarding LIC to improve its functioning in the changing economic scenario.

The Market Survey has brought forth a variety of findings: awareness level of various ‘plans’ of LIC were quite limited even among the policyholders; a majority of individual respondents who make claims on LIC felt that these settled satisfactorily (75%) and speedily (67%); about 64% individual respondents rated the quality of overall service to be excellent or good and only 3% rated it as poor or very poor; however, in regard to ingredients of operations related service, a large majority of respondents said
that while premium receipts were received punctually, that they did not get premium default notice in time; and that general consensus was that LIC offered a range of policies suited to the policyholders, yet it was also felt that the premia were too high; LIC policies were perceived to be an excellent investment in as much as they offered tax breaks, forced savings and funds for dependents in the event of the breadwinners death, but at the same time there was a predominant feeling that yields on policies were not good; though there is a fear that money with private insurers might not be safe, payment might not be guaranteed on death or maturity and tax benefit might not be available, the major advantages of privatization were perceived to be more efficient and better service, more innovative schemes and timely payment of claims. Need based selling and post-sales service to policyholders are inadequate even among many of the apparently successful agents.

Ram Mohan Roy in his thesis entitled “Life Insurance in India” has highlighted the significance of life insurance service. This study deals with some of the problems faced by policyholders and throws light on the several scientific measures to expand the life insurance business.\(^{25}\)

Mohamed Talha in his study entitled “An appraisal of investment policies of LIC” has mentioned various investment policies followed by LIC,

growth of life insurance business in India and suggestions for increasing it.26

Amit Bajaj in his study entitled “Management of Earnings of LIC” has highlighted prospects of rural insurance business, business in other areas and suggestions for improving the same.27

Patki in his book “Saga of Security, Story of Indian Life Insurance 1870-1970” has dealt with the origin and growth of life insurance business in India. Insurance business before nationalization and after nationalization had been dealt with clearly in his book.28

The book “Tryst with Trust” dealt with the progress of insurance business in India. It also deals with the rural business, measures for improving it further, various areas of policyholders’ servicing and also measures for improving it.29

Era Sezheyan in his book “Role of Life Insurance in National Economy” has dealt with the benefit of life insurance for the individual and for the country, the objectives and performances of nationalized insurance in India and the attitude of the government and suggestions for improvement.30

Even the few limited studies referred above have not taken up the extent

29 Bajpai, G.N. , Tryst with Trust, Yogakshema, 1990
of utilisation of investment in LIC vis-a-vis other avenues of investments by policyholders. Hence, this study has been attempted to fill this gap.

**SCOPE OF THE STUDY**

The main theme of the study is utilisation of LIC by policyholders. This study also aims at highlighting the problems of policyholders, some of the reasons for lapsation and remedial measures to reduce the lapse ratio, investigating into the perception of policyholders towards life insurance cover in Tamil Nadu.

**OBJECTIVES OF THE STUDY**

The objectives of the study are as follows:

- To review the progress of LIC in South Zone, and in Tamil Nadu.
- To study the extent of utilisation of LIC policies for savings by the sample policyholders in Tamil Nadu.
- To analyse the relationship of the personal and socio-economic factors of the policyholders with their utilisation of LIC policies.
- To study the reasons for high rate of lapsation.
- To classify the sample policyholders into lapsers and non-lapsers and to study the influencing factors of the sample policyholders on their lapsation.
- To identify the problems of policyholders and to offer suggestions, for achieving higher utilisation of LIC policies and retention of business.
HYPOTHESES

Based on a few of the above objectives, the following hypotheses have been formulated and tested in the study.

1. **Age promotes utilisation:** young policyholders utilise LIC policies more than others.

2. **Sex promotes utilisation:** Male policyholders utilise LIC policies more than the female policyholders.

3. **Level of education promotes utilisation:** Higher educated utilise LIC policies more than the others.

4. **Occupation** promotes utilisation of LIC by the policyholders.

5. **Income** promotes utilisation of LIC policies.

6. **Marital status promotes utilisation of LIC policies:** Married policyholders utilise LIC policy more than the unmarried policyholders.

7. **Family system promotes utilisation:** Those who are in the nuclear family utilise LIC policy more than the others.

8. **Family size promotes utilisation:** Policyholders having big family utilise more than the others.

9. **Number of adults in the family** promotes utilisation.

10. **Number of children in the family** promotes utilisation.

11. **Employment of the spouse promotes utilisation:** Policyholders having employed spouse utilise more than the others.

12. **Number of earning members in the family** promotes utilisation of LIC Policies by the policyholders.

13. **Number of members who have taken LIC policy** promotes utilisation.

14. **Assessment of Income tax promotes utilisation:** Assessees utilise more than the non-assessees.

15. **Policy loan promotes utilisation:** Policyholders who have availed policy loan utilise more than the others.
16. **Housing loan promotes utilisation**: Those who have availed housing loan utilise more than the others.

17. **Amount of loan** promotes utilisation.

18. **Receipt of rebate from the agents promotes utilisation**: Sample Policyholders who have received rebate utilise more than the others.

19. **Quality of service rendered by the agent** promotes utilisation.

20. **Knowledge about LIC policies** promotes utilisation.

21. **Quality of service rendered by LIC service branches** promotes utilisation of LIC Policies.

22. **Influencing factors** promote utilisation of LIC Policies.

23. **Income influences lapsation of life insurance policies.** Lapses are more among lower income group than among the higher.

24. **Marital status influences lapsation of life insurance policies.** Lapses are more among unmarried persons than among married respondents.

25. **Family size** influences lapsation of life insurance policies.

**OPERATIONAL DEFINITIONS**

**Utilisation**

The expression ‘utilisation’ refers to the function of appropriation of product or service. Utilisation also means ‘to make use’ of ‘the utility’ or ‘benefit’. Utilisation can be measured in quantitative as well as qualitative terms. Quantitative measurement entails the amount of investment and qualitative measurement concerns the policyholders.

Dr. S. Shanmugasundaram in his published thesis ‘Weavers’ Co-operatives – A study of their utilisation in Coimbatore district’ referred the term to denote making use of weavers’ co-operative societies by their respective members in getting employment and earning their livelihood for the benefit of the society. He has taken the percentage of the average wages in the total
earning capacity of the member per year as the utilisation index. 31

A similar concept known as ‘participation in business’ has been applied by Dr.O.R. Krishnaswami to denote the amount of loans borrowed from the credit co-operative society. 32

Dr.N.Thanulingam has used the word utilisation in his article titled “Agricultural Credit by Pandian Grama Bank, empirical study of utilisation by the Borrowers” to connote the loan used by the farmers for the purpose for which it was obtained. 33

Mr.D.Graha Rajendran in his M.Phil dissertation ‘The American College Co-operative Societies Limited – A study on utilisation by student – members and employee members’ has measured the level of utilisation in terms of benefits derived by them. He has developed a three-point ‘benefit scale’ to measure the economic benefits derived by the members. 34

V.Murthi in his study titled “Employees Co-operative stores in Salem district – A study on utilisation by members’ has made out a case on how best the members utilised the co-operative stores. He has considered the value of purchase from the store as a percentage of the total amount of purchase in a year as the extent of utilisation. 35

Dr.Kamalaveni in her Ph.D thesis ‘Milk Producers co-operative society

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32 Ibid.


in Periyar district – A study of utilisation by members' denoted the term utilisation to measure how best the members utilised the services provided by the society. The percentage of the milk poured by the member to his society out of the total quantity available for sale for five years has been taken as utilisation index for each member.  

Dr. P.Muthusamy in his Ph.D thesis, “Utilisation of regulated markets by farmers and traders in South Arcot district” used the term utilisation to study the utilisation of services provided by the regulated markets by the farmers and traders.  

Dr. S.Shanmugasundaram and Thiru. S.Benjamin Christopher in their article titled, “The Chinthamani Co-operative Supermarket, Coimbatore – A study on utilisation by members” expressed the term utilisation to measure how best the members utilised the supermarket. Amount of expenditure on goods purchased from Chinthamani as a percentage of total expenditure incurred during a month has been regarded as utilisation index.  

Dr. S.Shanmugasundaram and Mrs. Kamalaveni in their article “Chittode Farmers service co-operative society by the members of Nallagoundan Palayam Village” indicated the term utilisation to evaluate whether the finance provided by the co-operative credit society meets the total financial requirements of the members. The percentage of finance supplied by the society to the total cost of

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18 Dr. Shanmugasundaram, S., and Benjamin Christopher, S., “The Chinthamani Co-operative Supermarket, Coimbatore – A study on utilisation by members”. Indian Cooperative Review, National Co-operative Union of India, 3, Siri Institutional Area, Panchshela Mag Hauzkhas, New Delhi. 16.
production has been taken as utilisation index for each member. \(^{39}\)

**The Policy**

A life insurance policy is the document which expresses or evidences the contract between the insurer and the insured. The four essentials of a contract of insurance are, (i) the definition of the risk, (ii) the duration of the risk, (iii) the premium and (iv) the amount of insurance. But the policy which is issued contains more than these essentials because it lays down and measures the rights of the parties and each side has obligations which are also defined.

**Premium**

The consideration is paid to the insurer to secure the payment of the sum assured on the happening of the contingency insured against. In life insurance premium is graded according to the age of the persons and persons at different ages have to pay different premium. With the increase in the age of a person, his chances of death increases and so the rate of premium also increases every year.

**Sum assured**

The total amount of policy assured by the LIC under an insurance contract.

**Salary savings scheme (SSS)**

The SSS is ideal form of insurance for mopping up the savings of an employee as it provides for automatic deduction of premium from the salary and is thus taken as a first charge on the family budget. Thus, chances of

\(^{39}\) Dr. Shanmugasundaram, S., and Mrs. Kamalavent, "Chittode Farmers Service Cooperative Society by the members of Nallagoundan Palayam Village", Indian Cooperative Review, Vol.xxiii, No.4, April, 86, National Cooperative Union of India, 3, Siri Institutional Area, Panchsela Mag, Hauzkhas, New Delhi-16
lapsation on such policies are considerably reduced.

**Policyholder**

The person holding the policy on his own life is entitled to receive money under an insurance contract on the happening of the specified contingency.

**Insurance agent**

He is a person who conducts an insurance agency and is remunerated by commission for the business introduced by him. His main function is to canvass and develop business and his powers are limited by the terms of his appointment. The license to act as an insurance agent is granted by LIC for a period of three years. He may be a full-time or part-time worker. The agent possesses knowledge of insurance so as to advise and contract insurance business in the most favourable manner for his clients.

**Lapsers**

When the assured fails to pay premium continuously, the policy lapses and the contract comes to an end. Thereafter, the policyholders can be called lasers. The liability of the LIC automatically ceases without any need for making payment on the policy.

**Non-lapsers**

When the policyholder regularly pays premium, the policy is said to be in force and the policyholder is known as non-lapsers.

**Claim concession**

If, after at lease three years premiums have been paid, the insured at any time has not paid further premium on a policy and happens to die within six months from the due date of the first unpaid premium, the beneficiary will get the policy money after deduction of unpaid premium to the date of death with
interest. If, after at least five years premiums have been paid, he dies within twelve months from the date of first unpaid premium, the policy money less the unpaid premium to the date of his death with interest will be payable.

**Disability benefit**

When a life assured whether male or female, meets with total and permanent disability as described in the policy due to an accident and is unable to continue his occupation or to earn any income, the disability benefit will be granted to him freely by way of allowing exemption from paying future premiums. ⁴⁰

**Accident benefit**

All males, except those having special occupational hazards, certain categories of sub-standard lives and students, and all educated women in receipt of earned income are granted this benefit on payment of extra premium. ⁴¹

**Guaranteed addition and Loyalty addition**

Apart from the basic sum assured payable at maturity or death, Jeevan Shree policy also provides for a guaranteed addition at the rate of Rs.75/- per thousand sum assured per year and likely loyalty addition ranging from 5% to 75% of the basic sum assured. However, the actual loyalty addition would depend upon the corporation’s working experience.

**METHODOLOGY**

This study is an empirical research based on survey method. Primary and secondary data have been used in the study. The primary data have been collected directly from the policyholders in Tamil Nadu through personal

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⁴⁰ Modern Applications of Life Assurance, Insurance Institute of India, 1994, p.53.
⁴¹ Ibid., p.53.
L.I.C. OF INDIA
SOUTH ZONE
interview using interview schedule. Secondary data required for the study have been collected from the published and unpublished records of LIC.

**SAMPLING SCHEME**

In this study multi-stage sampling technique has been applied. From the south zone, Tamil Nadu state was selected based on the business performance (sum assured) during the year 1995-96. In Tamil Nadu, out of 177 branches of all the eight divisions, four branches have been selected from each division. Branches have been stratified into four different strata based on the life sum assured during the year 1995-96. One branch was selected on Simple Random Sampling basis from each strata using lots. This was followed in all the eight divisions. Thus, the study covers the following 32 branches at the rate of four branches per division.

**DETAILS OF THE SAMPLE COVERED BY THE STUDY**

<table>
<thead>
<tr>
<th>Divisions</th>
<th>Name of the Branches</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 SALEM</td>
<td>Salem South, Salem East, Salem North, Omalur (Rural Branch).</td>
</tr>
<tr>
<td>2 VELLORE</td>
<td>Tirupattur, Cuddalore, Pondicherry and Vaniambadi (Rural Branch).</td>
</tr>
<tr>
<td>3 MADRAS DIVISION I</td>
<td>City Branch 29, CBO 19, CBO 2 and CBO 5.</td>
</tr>
<tr>
<td>4 MADRAS DIVISION II</td>
<td>CBO 13, CBO 24, CBO 27 and CBO 3</td>
</tr>
<tr>
<td>5 THANJAVUR</td>
<td>Trichy CAB, Contonment Branch, Thiruverambur and Trichy Unit 1 (Rural Branch).</td>
</tr>
<tr>
<td>6 COIMBATORE</td>
<td>CAB, Podanur, Bhavani (Rural Branch) and Erode.</td>
</tr>
<tr>
<td>7 TIRUNELVELI</td>
<td>CAB, Unit II, Nagercoil unit and Unit I</td>
</tr>
<tr>
<td>8 MADURAI</td>
<td>CBO 4, Virudhunagar, CBO 1 and Karaikudi</td>
</tr>
</tbody>
</table>

CBO - City Branch Office  
CAB - Career Agents Branch.

The policyholders of all the branches in all the divisions constitute the
population of the study. It is likely that many policyholders may have more than one policy. Under these circumstances, the total amount invested in all the policies so far is considered while constructing utilisation index for the respondents. And also, the sampling frame includes policyholders of lapsed policies.

10 Policyholders have been selected from each branch. Out of 320 schedules 20 schedules were defective and thus, have not been included for further analysis. Therefore total 300 schedules were included for analysis.

**PERIOD OF THE STUDY**

This study covers the period of seven years from 1991-92 to 1996-97.

**CONSTRUCTION OF TOOLS**

The study involves developing and use of the following tools:

- Interview schedule for the policyholders and
- Schedule for LIC branch offices.

Various factors have been identified after going through the various literature available and through information collected from the branch offices. Preliminary interviews were conducted with the branch offices (Salem South, Salem North, Salem East and Omalur) in the Salem Division. The interview schedule for the policyholders and that for the branch offices have been developed in consultation with the higher officials of LIC and the policyholders.

A rough draft was prepared. After improving it, the final draft was
prepared. The interview schedule was designed to elicit information about the level of utilisation of LIC compared to other modes of investment, perception of policyholders with regard to quality of service rendered by LIC, etc.

Through the schedule for the branch offices, data relating to various kinds of policies, details of total premium income received, total number of agents, amount of maturity claim and death claim settled, claims outstanding, and complaints received have been collected.

PILOT STUDY

A pilot study was conducted during April '97. For the pilot study, Salem-East branch office and 40 policyholders of Salem-East branch office were selected. On the basis of the results of the pilot study, hypotheses were formulated, schedules were refined and the study was redesigned.

FIELDWORK AND DATA COLLECTION

Field work was undertaken by the researcher during the period from May 1997 to November 1997. The lists of Branch offices have been collected along with their business performance. Based on this, branch offices have been selected from each division. Schedules for the branch offices were given to the officials to elicit information about the performance of the branches and quality of services rendered.

The main source of data collection is through the personal interview of the policyholders. Policyholders were met in the branch offices and at homes either with the help of their agents or Development Officers. It required about 45 minutes on an average to complete each interview. The interview was conducted in a natural, informal and casual manner.

MEASUREMENT OF VARIABLES

One of the objectives of the researcher was to find out the relation between various factors and utilisation, and various factors and lapsation. The
following are the various dependent and independent variables selected for the study.

<table>
<thead>
<tr>
<th>Dependent Variables</th>
<th>Independent Variables</th>
</tr>
</thead>
<tbody>
<tr>
<td>Utilisation of LIC Policy</td>
<td>Age</td>
</tr>
<tr>
<td>Lapsation of LIC Policy</td>
<td>Number of children</td>
</tr>
<tr>
<td></td>
<td>Income</td>
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<tr>
<td></td>
<td>Sex</td>
</tr>
<tr>
<td></td>
<td>Number of members in the family</td>
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<tr>
<td></td>
<td>Number of earning members in the family</td>
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<tr>
<td></td>
<td>Employment of the spouse</td>
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<tr>
<td></td>
<td>Income tax</td>
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<tr>
<td></td>
<td>Family system</td>
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<tr>
<td></td>
<td>Policy loan</td>
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<tr>
<td></td>
<td>Rebate</td>
</tr>
<tr>
<td></td>
<td>Quality of service provided</td>
</tr>
<tr>
<td></td>
<td>housing loan</td>
</tr>
<tr>
<td></td>
<td>Amount of loan</td>
</tr>
<tr>
<td></td>
<td>Knowledge about LIC</td>
</tr>
<tr>
<td></td>
<td>Opinion on LIC</td>
</tr>
<tr>
<td></td>
<td>Influencing Factors</td>
</tr>
</tbody>
</table>

The term utilisation is an abstract variable. There is no direct measurement of this variable. An utilisation index was constructed to measure utilisation of LIC policies, for each respondent. (Ref. Chapter III) The utilisation index is the percentage of investment in LIC policies in the total investment of the policyholders.

FRAMEWORK OF ANALYSIS

The general plan of analysis ranges from simple descriptive statistics and bivariate test of hypothesis to multiple regression models.

Mean, range and S.D. were calculated for each variable. In order to ascertain the significance of the differences between the averages, ‘t’ tests and analysis of variance have been employed. The impact of the various factors influencing utilisation and lapsation have been analysed with the aid of Chi-square test. Co-efficient of correlation between dependent variable and independent variables were calculated.
Multiple regression analysis (step-wise regression method) has been employed to explain the extent of variance of the dependent variable influenced by the independent variables combined. Simple correlation value of each independent variable with the dependent variable and partial correlation of each variable with that of utilisation have been calculated. Using the regression coefficient the regression equation was fitted finally.

Discriminant Function Analysis (DFA) has been applied to ascertain how respondents whose LIC policy lapsed differ from those who are continuing with the LIC policy and to find the variables which significantly discriminate the respondents of one group (Lapsers) from the other group (non-lapsers).

CHAPTER SCHEME

The thesis contains five chapters.

The first chapter contains introduction, statement of the problem, objectives, hypotheses, methodology, measurement of variables, framework of analysis and the chapter scheme.

The second chapter reviews the performance of LIC in Tamil Nadu and South Zone. It also focuses on the general administrative practices and various areas of policyholders servicing.

The extent of utilisation of LIC as compared to the total investment was measured in the third chapter. This chapter analyses the relationship between the utilisation and the independent variables influencing utilisation.

Fourth chapter relates to lapsation and reasons for lapsation. It also deals with the relationship between lapsation and factors which are significantly influencing lapsation.

The summary of findings, problems of policyholders and appropriate suggestions for solving those problems are presented in the fifth and final chapter.