CHAPTER – III

OVERVIEW OF INSURANCE POLICIES

3.1 Life Insurance in India

Life Insurance is the fastest growing sector in India since 2000 as Government allowed Private players and FDI up to 26 % and cabinet approved a proposal to increase it to 49 %. Life Insurance in India is nationalized by incorporating Life Insurance Corporation (LIC) in 1956. All private life insurance companies at that time is taken over by LIC. In 1993, the Government of India appointed RN Malhotra Committee to lay down a road map for privatization of the life insurance sector. While the committee submitted its report in 1994, it took another six years before the enabling legislation was passed in the year 2000, legislation amending the Insurance Act of 1938 and legislating the Insurance Regulatory and Development Authority Act of 2000. The same year the newly appointed insurance regulator - Insurance Regulatory and Development Authority IRDA- started issuing licenses to private life insurers.

3.2 Types of Life Insurance Policies in India

As individuals it is inherent to differ. Each individual’s insurance needs and requirements are different from that of the others. Hence life insurance products come in a variety of offerings catering to the investment needs and objectives of
different kinds of investors. Following is the list of broad categories of life insurance products:

**Endowment Policy**

In an endowment policy, periodic premiums are received by the insured person and a lump sum is received either on the death of the insured or once the policy period expires.

**Term Insurance Policies**

The basic premise of a term insurance policy is to secure the immediate needs of nominees or beneficiaries in the event of sudden or unfortunate demise of the policy holder. The policy holder does not get any monetary benefit at the end of the policy term except for the tax benefits he or she can choose to avail of throughout the tenure of the policy. In the event of death of the policy holder, the sum assured is paid to his or her beneficiaries. Term insurance policies are also relatively cheap to acquire compared to other insurance products.

**Money-Back Policies**

Money back policies are basically an extension of endowment plans wherein the policy holder receives a fixed amount at specific intervals throughout the duration of the policy. In the event of the unfortunate death of the policy holder, the sum assured is paid to his or her beneficiaries.
holder, the full sum assured is paid to the beneficiaries. The terms again might slightly vary from one insurance company to another.

**Whole-Life Policies**

Term plan, endowment plans and money bank plans offer insurance cover till a specified age, generally 70 years. Whole life plans provide cover throughout your life. Usually, the policyholder is given an option to pay premiums till a certain age or a specified period (called maturity age). On reaching the maturity age, the policyholder has the option to continue the cover till death without paying any premium.

**Unit-Linked Investment Policies (ULIP)**

Unit linked insurance policies again belong to the insurance-cum-investment category where one gets to enjoy the benefits of both insurance and investment. While a part of the monthly premium pay-out goes towards the insurance cover, the remaining money is invested in various types of funds that invest in debt and equity instruments. ULIP plans are more or less similar in comparison to mutual funds except for the difference that ULIPs offer the additional benefit of insurance.
Pension Policies

Pension policies let individuals determine a fixed stream of income post retirement. This basically is a retirement planning investment scheme where the sum assured or the monthly pay-out after retirement entirely depends on the capital invested, the investment time frame, and the age at which one wishes to retire. There are again several types of pension plans that cater to different investment needs. Now it is recognized as insurance product and being regulated by IRDA.

3.3 Life Insurance Companies in India

Apart from Life Insurance Corporation, the public sector life insurer, there are 23 other private sector life insurers, most of them joint ventures between Indian groups and global insurance giants.

Life Insurer in Public Sector

1. Life Insurance Corporation of India

Life Insurers in Private Sector

1. SBI Life Insurance
2. PNB Metlife India Life Insurance
3. ICICI Prudential Life Insurance
4. Bajaj Allianz Life
5. Max Life Insurance
6. Sahara Life Insurance
7. Tata AIA Life
8. HDFC Life
9. Birla Sun Life Insurance
10. Kotak Life Insurance
11. Aviva Life Insurance
12. Reliance Life Insurance Company Limited
13. ING Vysya Life Insurance
14. Shriram Life Insurance
15. Bharti AXA Life Insurance Co Ltd
16. Future Generali Life Insurance Co Ltd
17. IDBI Federal Life Insurance
18. AEGON Religare Life Insurance
19. DLF Pramerica Life Insurance
20. CANARA HSBC Oriental Bank of Commerce
21. Star Union Dia-ichi Life Insurance Co. Ltd
22. Edelweiss Tokio Life Insurance Company Ltd

3.4 Life Insurance Corporation of India

Life Insurance Corporation of India (LIC) is an Indian state-owned insurance group and investment company headquartered in Mumbai. It is
the largest insurance company in India with an estimated asset value of Rs.1560482 crore (US$250 billion). As of 2013 it had total life fund of Rs.1433103.14 crore with total value of policies sold of 367.82 lakh. The company was founded in 1956 when the Parliament of India passed the Life Insurance of India Act that nationalized the private insurance industry in India. Over 245 insurance companies and provident societies were merged to create the state owned Life Insurance Corporation. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian Soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and Indian natives were not being insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives. But Indian lives were being treated as sub-standard lives and heavy extra premiums were being charged on them. Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society. Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were
established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta. The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912 India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary. But the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage.

LIC had 5 zonal offices, 33 divisional offices and 212 branch offices, apart from its corporate office in the year 1956. Since life insurance contracts are long term contracts and during the currency of the policy it requires a variety of services need was felt in the later years to expand the operations and place a branch office at each district headquarter. Re-organization of LIC took place and large numbers of new branch offices were opened. As a result of re-organization servicing functions were transferred to the branches, and branches were made accounting units. It worked wonders with the performance of the corporation. It may be seen that from about 200.00 crores of New Business in 1957 the corporation crossed 1000.00 crores only in the year 1969-70, and it took another 10 years for LIC to cross 2000.00 crore mark of new business. But with re-
organisation happening in the early eighties, by 1985-86 LIC had already crossed 7000.00 crore Sum Assured on new policies. Today LIC functions with 2048 fully computerized branch offices, 109 divisional offices, 8 zonal offices, 992 satellite offices and the corporate office. LIC’s Wide Area Network covers 109 divisional offices and connects all the branches through a Metro Area Network. For the average Indian, LIC became synonymous with life insurance, and over the years it built up an enviable brand image in both rural and urban areas. The company grew by leaps and bounds, with people buying its policies due to the tax concessions attached to it. On account of its position as a monopoly, LIC did not standardize its practices, nor did it focus on providing better customer service to the policyholders. After privatization the LIC of India has been facing competition pressure, so it has been reorganizing itself in order to perform better and to compete with private players. LIC has been formulating new strategies and plans from time to time. In wake of coping with the competition LIC has been taking following steps to increase its market competitiveness and retain its dominant position in the insurance market.

**Product Development**

Product development is the most basic and essential part of marketing of a company. Prior to privatization almost 100 percent of the products sold to Indian customers are traditional ones with a quasi absence of individual pure protection products. More than 90 percentage of the individual products sold are traditional
savings cum protection products (endowment or money back). The product range is small and not innovative enough. Most customers are under insured with no flexibility or transparency in the products. LIC sold insurance as a tax planning instrument, not as a product giving protection. With the entrance of private players focus of LIC changed as many new and innovative products got introduced by the private players due to which the traditional products of LIC had to face tough competition. The customer had more to choose in terms of policy instruments as new players came up with innovative product line.

After entry of private players in life insurance industry, there has been a big change in the kind of products provided by insurers. Many products like unit linked plans, single premium plans and pension plans have become quite popular these days. Further, insurers have tried to keep the basic products of life insurance quite simple by providing multiple riders separately which a customer can choose as per his requirements on payment of extra premium, thus making possible for the customer to match the products with their requirements. In order to cope up with these efforts of the private companies, LIC of India has also changed its product features to meet the varied need of the customers. It has also introduced ULIPs in market.
Health Insurance Plans

Prior to privatization LIC did not concentrate on health insurance segment and not much products were available for health insurance. Life Insurance Corporation offered Ashadeep Plan II and Jeevan Asha Plan II. The year 1999 marked the beginning of a new era for health insurance in the Indian context. With the passing of the Insurance Regulatory Development Authority Bill (IRDA) the insurance sector got opened to private and foreign participation, thereby paving the way for the entry of private health insurance companies. Private sector insurers are more aggressive in health insurance segment. LIC also observed that there is huge potential for the health insurance business. So it had started one Health Insurance Department and as of now LIC has health protection plus and Jeevan Arogya Plan for catering the health needs of customers.

Micro Insurance Plan

Prior to privatization rural segment was not the priority for LIC to target. With tough competition after privatization, the LIC of India not only concentrated on celebrity marketing and rich class segment but also launched insurance plan under a separate business vertical of rural marketing to extend security to the less privileged section of the society. Under such business vertical ‘Jeevan Madhur’ plan was launched in Sept. 2006 by the LIC.
Marketing Activities

Prior to privatization there was lack of expertise in the investment marketing, distribution department, and distribution was only through tied agents. In marketing of insurance products effectively, field personnel play pivotal role. With privatization, alternative distribution channels along with channels to increase its business volume got identified. Corporate Agency and Broker channels are introduced. Banks became the primary sales channel for a few insurers such as HDFC Standard Life and SBI Life, and they contribute about 40 percentage of their new business. Through the Bancassurance partnerships, insurance companies are catering to the defined segments and are designing strategies to sell insurance to them. After privatization, as a part of change in marketing policy, LIC opened its first international branch in Nepal in 2001. The Corporation directly operates through its branch offices in Mauritius (Port Louis), Fiji (Suva & Lautoka) and United Kingdom (Wembley).

With private players paying much attention to advertising and promotional activities, LIC, too, made efforts to increase its visibility and enhance its brand image. The company commenced intense, systematic and well-focused public relations and publicity activities both at the corporate and operational levels. LIC came out with a corporate advertisement on TV with the punch line, ‘Zindagi Tumhari Roshan Rahe’ (May your life be glorious). In addition, LIC established abroad-based frame for external communication aimed at building a stronger
brand image. Several sports events were co-sponsored by the company and special publicity activities with a social purpose were undertaken.

3.5 Life Insurance Marketing in Rural India

The rural markets represent the heartland of the true culture, racial, language and demographic identity of India. This is so because the majority of India lives in the rural masses. Life Insurance is one of the fastest growing and emerging markets in India. Insurance penetration in the country is low mainly in rural area. The Insurance Industry has a significance contribution in socio-economic development. A majority of the underprivileged and rural poor society is still not insured and untouched by the benefits of Life Insurance. There is a tremendous scope for developing insurance business in the rural areas where human life and income generating rural assets need more protection. IRDA has acknowledged various reforms and initiatives for the welfare of rural people i.e. Micro - insurance especially designed to provide life insurance benefit to rural and economically backward class of the society. The development of insurance industry has been spurred by product innovation, vibrant distribution channels coupled with targeted publicity and promotional campaign by the insurers. Innovations have come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups both within the realm of financial services and outside. All these efforts have brought life insurance closer to the customer as made it more relevant.
The insurance companies are increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. The Industry has a significance contribution in socio-economic development of the nation. Selvakumar & Priyan (2010) found that insurance companies are increasingly taping the semi-urban and rural areas to take across the message of protection of life through insurance cover. Higher level of protection implies that customers are more conscious of the need for risk mitigation, greater security, and about the future of their dependents. Insurance sector has been evolving and improving its underwriting and risk management abilities.

In spite of high urbanization in India, rural India still lacks in terms of availability of various financial products especially the risk products like insurance. Rural insurance statistics still indicates a significantly low penetration and poor density even after the privatization of insurance sector in 1999. Rural India offers a tremendous scope for insurers where the protection of human life and income generating assets is a matter of concern. Regulators have also tried to impose rural insurance obligations for the insurance companies. Except Life Insurance Corporation of India (LIC) representing the public sector, which has predominantly in existence and monopoly for decades, most of the private players have not been able to tap the opportunities in the rural life insurance market to a satisfactory level. The insurance agents play an important role in creating awareness, motivating purchase and rendering other rural insurance services.
Agents contribution in distribution of insurance policies in rural and semi-urban market is significant and remarkable. The new companies need support of at least a limited agent network for their delivery system. Cost effective options exist for leveraging existing rural institutions for delivery of insurance products and services.

The Life Insurance Corporation of India identified the need of rural life insurance and the very first objectives of the LIC of India is to spread life insurance much more widely and in particular to the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost (Central office, LIC of India: Corporate Policies published in 1984). In spite of the above laudable objective, the concept of marketing entered in to life insurance industry very lately and the rural focus is still nascent. Charan (1994) in his book for management strategy for insurance in rural India elaborates some of the challenges in the rural market as follows:

- Consumers are scattered and spread over a vast area.
- Exposure to print media is very low.
- Variations to dialect and life styles abound.
- Message comprehension poor.
- Non conventional media more expensive and cumbersome.
• Awareness and distribution channels not available particularly for insurance.

LIC examined a lot of marketing practices in rural areas and problems involved in providing the services. The organization appoints development officers with responsibility in a specified territory (Trust it with Trust) and spend promotional efforts like field publicity vans, film shows, exhibitions etc are instructed. Only 4.55 crore people have been insured against insurable population of 21 Crore inspite of consistent efforts. The problems encountered are among seven segments, agriculturalists are not identified, no schemes are available to suit lower and irregular income groups, some policies are low cost plans without profit like Bima Sandesh. Lastly, rural people felt buying policy is costly and is added additional problems. In this regard, marketing of life insurance in rural areas is quite important. Focus should be given on improvement of services given by the rural agents. Insurer should spread more awareness and relax the product complications to make it easier to understand. To unleash this potential, insurance companies will need to show long-term commitment to the sector, design products that are suitable for the rural population and utilize appropriate distribution mechanisms.