GROWTH OF INSURANCE SECTOR IN INDIA
CHAPTER III
GROWTH OF INSURANCE SECTOR IN INDIA

Risk is an inherent part of our lives. The insurance providers offer a variety of products to businesses and individuals in order to provide protection from risk and to ensure financial security. Risk can also be the uncertainty about an outcome in a given situation. Risk implies both doubt about the future and the fact that the outcome could leave the individual or the business to a worse position. Insurance helps in reducing or eliminating the uncertainty. Insurance companies cover many risks for the payment of a sum called premium. The insurance company undertakes to indemnify the assured for the loss on the happening of the event. Thus insurance is considered to be the backbone of a country’s risk management system.

The insurance business is broadly divided into life, health, and non-life insurance. Individuals, families, and businesses face risks of premature death, depletion in income because of retirement, health risks, loss of property and risk of legal liability. The insurance companies offer life insurance, pension and retirement income, property insurance and legal liability insurance to cover these risks. In addition, they offer several specialized products to meet the specific needs and requirements of businesses and individuals. Businesses also depend on these companies for various property and liability covers, employee compensation, and marine insurance.

Insurance does influence the growth and development of an economy in several ways. The availability of insurance can mitigate the impacts of risk by providing products which help organizations and individuals to minimize the
consequences of risk and to have a positive effect on industry growth as entrepreneurs are able to cover their risks. In the absence of a full range or deficient insurance products in terms of coverage and scope, the risk taking abilities would be hampered and chances are that the economic activities would turn out to be high risk activities. The implications of leaving various risks uncovered can be significant and the impact of losses can be devastating creating a huge burden on the governments. Therefore a strong and competitive insurance industry is considered imperative for economic development and growth. However, the contribution of the insurance companies is also dependent on the fact that they are able to tackle risks effectively. Only then it would be possible to cover these risks at an affordable and reasonable cost as the insurance provider will be able to spread the risks throughout the economy.

The insurance industry is also an integral part of the financial system. For effective functioning of the financial system, it is important that the markets are efficient by ensuring liquidity and transparency in price discovery. The role of the insurance companies as financial intermediaries is also considered significant in making these markets efficient by providing liquidity and credit. This, in turn helps in lowering down the cost of capital and providing risk-free opportunities to all participants in the market.

HISTORY OF INSURANCE IN INDIA

The formal insurance business both the life as well as the non-life sector, was introduced in India by the British in the beginning of the 19th Century. In 1818, a British firm called the Oriental Life Insurance Company was formed in Calcutta. This was followed by the establishment of the Bombay Life Assurance Company in 1823 in Bombay. The Madras Equitable Life Insurance Society in 1829 and the Oriental Government Security Life Assurance Company in 1874.
The life insurance business was formally regulated under the provisions of the Indian Life Assurance Companies Act 1912. In 1928, the Indian Insurance Companies Act was enacted, inter alia, to enable the government to collect statistical information about both the life and the non-life insurance business, including the provident insurance societies. The earlier legislations were consolidated and amended by the Insurance Act 1928, to protect the interest of the insuring public.

In the year 1956, 154 Indian insurers, 16 non-Indian insurers and 75 provident societies (in all 245 entities) had entered the life insurance business in India. However the geographical spread and the number of lives covered were rather small.

A Snapshot of the growth and development of Indian Insurance Sector is given below:

1907 : The first company to transact all general insurance business was set up by the name ‘The Indian Mercantile Insurance Limited’

1912 : The first attempt was made to regulate the insurance business through the Indian Life Assurance Companies Act.

1928 : The Indian Insurance Companies Act was enacted to enable the government to collect statistical information about both life and non-life insurance business

1938 : All the earlier legislations were consolidated and then Insurance Act 1938 was enacted for protecting the interest of the insuring public

1956 : Nationalization of insurance was done by taking over 245 Indian and foreign insurers and provident societies. Life Insurance Corporation of India was
formed by Act of parliament with a capital contribution of Rs.5 crore from the government of India

1957: General Insurance Council, a wing of the Insurance Association of India, frames a code of conduct for ensuring fair conduct and sound business practices.

1968: The Insurance Act was amended to regulate the investment and set minimum solvency margins and the Tariff Advisory Committee was set up.

1972: General insurance business was nationalized through the Act, 1972 with effect from January 1, 1973. 107 insurance companies were amalgamated and grouped into 4 companies, i.e., The National Insurance Company Limited, the New India Assurance Company Limited, the Oriental Insurance Company Limited and the United India Insurance Company Limited. General Insurance Company was incorporated as a company.

1993: Formation of a high powered committee by R.N. Malhotra, former Governor, Reserve Bank of India to examine the structure of the insurance industry and to recommend the changes to make the industry more efficient and competitive keeping in view the structural changes in other parts of the financial system of the economy.

The insurance market was opened up (liberalized in 1999) with the passage of IRDA Act. IRDA framed regulations for private participation and the first private player commenced operations in November 2000.¹

LIFE INSURANCE NEEDS

The process of insurance has been evolved to safeguard the interests of people from uncertainty by providing certainty of payment at a given contingency.

¹ Alka Mittal & S.L. Gupta, Principles of Insurance and Risk Management, Sultan Chand & Sons, 2006, p. 47
Allan H. Willet has defined as “Insurance is that social losses which is carried out through the transfer of the risks of many individuals to one person or to a group of persons”. To identify the needs of life insurance of any individual, it is very necessary to gather and analyse the information. Life insurance policies satisfy various kinds of needs which are also follows:

**Estate planning needs:** Life insurance provides many ways to satisfy estate planning needs. Its primary objective is to provide funds to compensate the financial consequences of an early death. It provides tax-free liquid cash when needed most. Life insurance companies have developed many ways to finance the cost of insurance. Many of these methods rely on advantageous tax treatment. However, tax advantages and specific products are secondary in satisfying a client’s needs. After the agent and the client identify requirements, they should identify the appropriate product. Satisfying the needs require and allocation of resources which are often scarce. A typical need may be to protect against loss of earning power arising from premature death, disability or retirement. Within these categories the choice is between cash needs and income objectives, both short-term and long-term. These also tie into needs for individual and for the family.

**Cash at death:** Life insurance provides cash at death. Most of the people will wish to pass funds to their heir or beneficiary. If current assets cannot satisfy the deceased’s desire to pass wealth, life insurance can make up the short fall. The coverage which is needed depends on what the insured would need to maintain the family, home, earning power of surviving spouse and on assets of family. Immediate expenses that insurance should satisfy would include funeral expenses and cemetery costs. Other expenses include capital gains and other taxes, legal fees, debts, readjustments costs for future, additional or continuing expenses. Cash requirements might include the need for an emergency fund or an efficiency fund for children. Replacement of income is an important reason for insurance.
**Temporary needs:** Life insurance may satisfy temporary or permanent needs. Although each person will die, not all will have permanent needs for insurance. People can buy greatest amount of temporary insurance with a term policy. At the end of the term, if the individual still needs life insurance, the individual must repurchase it at a higher premium. Actuarial tables price insurance according to likelihood of death, which increases with age. Those with high insurance needs and little income to pay for the insurance would be better off with term policies which satisfy their immediate needs. Often, as finances improve the insured that could convert the term insurance over to a permanent policy, this might be more tax effective. Unless the term insurance provides guaranteed insurability, the individual cannot purchase insurance after the term expires, if he or she should become disabled or uninsurable during the term.

**Permanent needs:** Many of the products offered by life insurance companies provide ‘permanent protection’. These can be whole life products with participating dividend features while the primary needs for insurance may be temporary, various factors may create a need for permanent insurance. The cost of permanent insurance product can be much less than that of term products, overtime, because of tax advantage of permanent policies. Usually the accumulation of cash values in the permanent policies is tax free. In addition to providing death benefit, the permanent policy is also better for creating an estate and for long-term financial planning. The owner can also borrow from the cash values in an emergency or use them for purposes other than providing a death benefit.

**Payment of taxes:** Life insurance is a deal for satisfying the tax liability that arises on death. It can provide capital infusion to allow an individual’s estate to pay the taxes and avoid having to liquidate other assets. One half of capital gains, referred to as ‘taxable capital gains’ are included in income. This can result in a loss of more than 30% of the value of some capital properties. However, it is possible to defer the capital gain taxes when property passes to a surviving spouse.
Deferral also applies to the registered retirement savings, plans, pensions, and depreciable properties transferred to the spouse. Life insurance allows advancing of tax liability.

**Joint and Last Survivor Needs:** Joint and last survivor policy may be considered as appropriate means of reducing tax consequence on the death of the surviving spouse. Life insurance policy could insure both spouses and provide for the death benefit to be paid upon the surviving spouse's death. The policy can also include an option that would also provide for premiums to cease upon the death of the first spouse. Life insurance based on two lives is assuming longer life expectancy. Accordingly the cost is relatively low when compared to the cost of insuring a single a life.

**Providing Income with Back to Back Policies:** Sometimes, the purchase of both an annuity and a life insurance policy provides desired certainty of income and insurance. For example, spouses could purchase a prescribed life annuity on either one or both the spouses, as well as life insurance. The annuity payment would be subject to certain tax advantages, and the spouses could use the income to pay for the life insurance premiums. Depending on their age, the capital required for the annuity might only be a small fraction of the life insurance benefit. Depending upon whose life the annuity applied to if one's spouse died, the annuity income could continue to the survivor and the policy could be paid up on the first death.

To satisfy these myriad needs of customers, insurance products will need to be customized. Insurance today has emerged as an attractive and stable investment alternative that offers total protection-Life, Health and Wealth. In terms of returns, insurance products today offer competitive returns ranging between 7% and 9%. Besides returns, what really increases the appeal of insurance is the benefit of life protection from insurance products along with health cover benefits. Consumers today also seek products that offering flexible options, preferring products with benefits unbundled and customizable to suit their diverse needs.
TYPES OF LIFE INSURANCE POLICIES:

Life insurance is a contract whereby the insurer in consideration of premium paid either in lump sum or in periodical installments undertakes to pay an annuity or certain sum of money, either on the death of the insured or on the expiry of a certain number of years whichever is earlier. The contract of insurance provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death if it occurs earlier and there is price to be paid for getting this benefit. Thus payment has to be done in the form of premium. Life insurance provides coverage against risk of unfortunate death of the bread-winner, so that his family get the timely aid for running their lives. Various products are designed on the basis of the above needs.

TERM INSURANCE:

The term insurance policies are those policies which cover the risk of life for a specific term or specific period of time. If at the end of the term of the policy, the life assured is still alive, the contract of life insurance ends and no payment is made. Sum assured does not vary during the term of policy in most of the cases and then the policies are called level term assurance. Term insurance policies are always without profits policies. Some of the combinations in the term policy are temporary insurance, convertible term policy, renewable and term policy.

ENDOWMENT POLICIES:

Endowment policies are fixed-term contracts. In this policy, the sum assured is paid if the insured dies earlier. And if the insured survives for the full term of the policy, then also full sum insured is paid. It is considered as the flexible policy where the features are very simple to understand. Some of the combinations in this policy are pure endowment policy, ordinary endowment policy, joint endowment policy, double endowment policy, triple benefit policy and educational annuity policy.
WHOLE LIFE POLICIES:

Whole life policies are for covering the risk throughout the life. In this policy sum assured is paid at the death of the life assured. Thus that means not for the policyholders, but the dependants get the advantage. The payment for the premium can be done either as a single premium, as continuous premium or limited premium. In these policies, limited premium payment is most popular. In case of continuous premium, sometimes the policyholders pay what his dependants get at the death. Limited payment whole life policies and convertible whole life policy are the combinations in whole life policy.¹

LIFE INSURANCE IN INDIA

Life Insurance Corporation Act was formed on September 1, 1956 with a capital contribution of Rs. 50 million from the government of India for the purpose of looking after the life insurance business. LIC was established with a view to provide an insurance cover against various risks in life. A monolith then, the corporation became synonymous with life insurance. At present, LIC has its staff strength of 1.24 lakh employee and has 2,048 branches and an agency force of about one million. LIC has over one hundred divisional offices and has established extensive training facilities at all levels. At the apex is the Management Development Institute, apart from seven zonal training centers and 35 sales training centers. LIC, the premier life insurer and one of the most stable financial institutions in the country during the last 47 years of its existence has undergone several trials and tribulations but managed to grow and metamorphose into a giant in the industry.

LIC, the monolithic organization, has its insurance business in India as well as outside India. But the outside business of LIC is highly negligible as compared to the business in India.

¹ M.N. Mishra, Insurance principles and practice, S.Chand, New Delhi, 2006, p. 42.
Table 3.1

Number of LIC Policies Marketed Under New Business Insurance

<table>
<thead>
<tr>
<th>Year</th>
<th>In India</th>
<th>Outside India</th>
<th>Total</th>
<th>Annual growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>In India (%)</td>
</tr>
<tr>
<td>1996-97</td>
<td>1,22,68,476 (99.89%)</td>
<td>12,296 (0.11%)</td>
<td>1,22,80772 (100%)</td>
<td>---</td>
</tr>
<tr>
<td>1997-98</td>
<td>1,33,11,294 (99.89%)</td>
<td>13,904 (0.11%)</td>
<td>1,33,25,198 (100%)</td>
<td>8.50</td>
</tr>
<tr>
<td>1998-99</td>
<td>1,48,43,687 (99.90%)</td>
<td>13,356 (0.10%)</td>
<td>1,48,57,043 (100%)</td>
<td>11.51</td>
</tr>
<tr>
<td>1999-00</td>
<td>1,69,76,782 (99.93%)</td>
<td>12,648 (0.07%)</td>
<td>1,69,89,430 (100%)</td>
<td>14.37</td>
</tr>
<tr>
<td>2000-01</td>
<td>1,96,56,663 (99.95%)</td>
<td>7,911 (0.05%)</td>
<td>1,96,64,574 (100%)</td>
<td>15.78</td>
</tr>
<tr>
<td>2001-02</td>
<td>2,24,91,304 (99.56%)</td>
<td>8,695 (0.05%)</td>
<td>2,24,99,999 (100%)</td>
<td>14.42</td>
</tr>
<tr>
<td>2002-03</td>
<td>2,42,68,416 (99.94%)</td>
<td>10,359 (0.06%)</td>
<td>2,42,78,775 (100%)</td>
<td>7.90</td>
</tr>
<tr>
<td>2003-04</td>
<td>2,64,56,320 (99.56%)</td>
<td>11,562 (0.04%)</td>
<td>2,64,67,882 (100%)</td>
<td>9.01</td>
</tr>
</tbody>
</table>

Source: Complied from various Annual reports of LIC of India

The new business performance of LIC in terms of policies (Individual insurance) marketed both in India and outside India 1996-97 to 2003-04 is given Table 3.1. During 1966-67, the growth rate was 8.50% of 1,22,68,476 policies in India, where it has increased to next four years of 14.42% respectively. But in the year 2002-03, the growth rate decreased to 7.90%, where as in the year 2003-04, there was a slight increase of 9.0%. Comparing the growth rate, India seems to be low as compared to outside India. On the whole, the volume and value of

---

1 Krishna Kumar, “LIC – making surroads into Rural India”, Insurance chronicle, July 05, p. 42 – 45.
business in India is far higher than that of the volume and value of business outside India.

Therefore it is necessary for the public and the private sector to focus on the rural markets in India, where it provides a large and latent consumer base of 700 million people.

After the liberalization of the insurance sector, more than a dozen companies entered into the business. Some of the new players that have entered the insurance market are:

1. Tata AIG Life Insurance Company Limited.
2. ICICI Prudential Life Insurance Company Limited.
5. SBI Life Insurance Company Limited.
7. Met Life India Insurance Company Limited.
10. Aviva Life Insurance Company Limited.
11. AMP Sanmar Assurance Company Limited.

These new insurance companies started operating from metros and urban areas. As a result, the urban population got more attention and it led to more insurance penetration in urban areas as compared to rural markets though the urban segment in India is very small compared to the rural segment. The rural market has attracted little attention and the resultant poor insurance penetration.
To overcome the competition on opening up of the insurance sector, the untapped market should be the target to be achieved by LIC. LIC have to capture the untapped market. According to the 2001 census, the rural population in India stood at 74.6 crore spread over 6,00,000 villages. Although this large population has low income, there are some encouraging available. A recent study conducted by the National Council of Applied Economic Research (NCAER) shows the rise in the rural income, which indicates that the low income class (earning Rs. 25,000 per annum and below) would come down from more than 60% in 1994-95 to 20% by 2006-07.

Rural India provides a large and latent consumer base. Home to over 700 million people, it represents not only 70% of India's population but also over 12% of the world population. The rural population is spread over about 6.27 lakh villages and about 90% of them are in villages with 2000 people or less.\(^1\) Table 3.2 shows the population spread in Indian Villages.

<table>
<thead>
<tr>
<th>Population Strata</th>
<th>Number of villages</th>
<th>% of population</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 10,000</td>
<td>1,831</td>
<td>0.3</td>
</tr>
<tr>
<td>5,000-10,000</td>
<td>7,145</td>
<td>1.3</td>
</tr>
<tr>
<td>2,000-5,000</td>
<td>46,754</td>
<td>8.4</td>
</tr>
<tr>
<td>1,000-2,000</td>
<td>94,658</td>
<td>16.9</td>
</tr>
<tr>
<td>500-1,000</td>
<td>1,36,232</td>
<td>24.7</td>
</tr>
<tr>
<td>&lt; 500</td>
<td>3,40,380</td>
<td>48.7</td>
</tr>
</tbody>
</table>


The rural market has attracted little attention and the resultant poor penetration. In the year July 2002, the total population was 1.05 billion, where urban population was 27.78% and rural population was 72.22%. The penetration of insurance in rural markets was only 20.00%.\(^2\) It is clear that the majority of the

---

\(^1\) Shubhathra Bhattacharya, "Rural Marketing, The Hindu Survey of Indian Industry, 2003, p. 387

\(^2\) Source: IRDA Annual Report, 2002-03.
rural population is left uncovered although they are exposed to risks similar to or even higher than their urban counterparts.

The insurance sector has not made much headway in the rural area which constitutes nearly 70% of our population. It is common perception and belief amongst the insurance companies, particularly those in the private sector, that it is expensive to do business in rural areas. Most of the companies are focusing only on meeting the regulatory requirements from rural areas.

The potential for a quantum jump in the penetration level of life insurance in India lies in small towns and villages. Life insurance is truly a social profit and it symbolises socialism at its best. Both the rich and poor pay the same premium and provide a mutual form of cover to each other. For millions of people who do not earn regular income and for families that depend on the irregular wages or income of a sole breadwinner, life insurance is a potent way to provide economic protection and family welfare.

The definition of rural as per Insurance Regulatory and Development Authority has been a matter of debate for sometime now. IRDA classifies rural areas as one with a population of less than 5,000 population density less than 400 people / sq.km where 75% of the male population involved in cultivation. If these standards were applied to the census statistics of 1999, the rural population would be 44.5% of the total population as against the census view of 74.3% of total population.

The IRDA had amended the definitions earlier in 2002 to bring down the requirement stipulating that at least 25 per cent of the population had to be engaged in agricultural pursuits. Insurance Regulatory and Development Authority (IRDA), the industry regulator, having realized immense market potential in rural areas has laid down obligation to insurers to be fulfilled in the rural sector. The obligations are expressed as a percentage of total policy sales in
the rural sector, and as per the regulations insurers have to make policy sales of
5% in the first year, 7.5% in the second year and up to 15% in the fifth year.\textsuperscript{1} The
new entrants have focused only on meeting the regulatory requirements rather than
improving business in rural areas. Very stiff penalty is to be prescribed for failure
to attend to rural business. So, public and private insurance companies cannot
ignore rural market. Rural insurance, much like priority sector lending in banking,
is seen as some kind of a poison pill by the private sector players in the insurance
industry. Since the researcher’s study is confined to LIC in selected rural areas, it
is worthy to analyse the performance of LIC in rural areas.

PERFORMANCE OF LIC IN RURAL INDIA

The first declaration in the LIC list of objectives accompanying the vision
states that to spread life insurance widely 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.

In India there are over 5 lakh villages with population of 5000 or less,
totaling nearly 75 crores. Of these nearly 25% live below poverty line compared to
7% in rural areas.

Not only the rural sector indicates big potential by way of number, it is also
reflected by growing rural prosperity. Nearly 1.5 crore households in the rural
areas have an annual income of above Rs.50,000 and more than 3500 branches of
commercial banks operate in rural areas apart from the banks of agricultural
development. Studies reveal that consumption of consumer items are more in the
rural areas than urban areas.\textsuperscript{2}

\textsuperscript{1} "Indian Insurance Report", Birla Institute of Technology, Allied Publishers private Ltd, 2005, p. 121
\textsuperscript{2} "Indian Insurance Report", Birla Institute of Technology, Allied Publishers private Ltd, 2005, p. 121
For LIC, it has always been a case of ‘promise backed by performance’. Till date, nearly 55% of its new, individual policies have come from the rural sector. Its performance stand miles ahead of the private players, most of them who have ventured into rural markets only because of IRDA regulations, which have compelled them to do so. During 2004, LIC generated a total income of Rs. 73,342 cr showing a growth of 16.45% over the corresponding period of the previous year. The total premium income of LIC accounts for Rs. 46,531 cr showing a growth of 15%. The growth rate in both total income and total premium income has improved by over 2%, over and above the growth for the corresponding period in the previous year, and LIC’s assets crossed Rs. 4,00,000 cr mark taking it to Rs. 4,09,000 cr as on December 31, 2004.1

The Life Insurance Corporation of India sells about 23 per cent ie., 62 lakh of its total number of policies in the rural areas, a segment that is integral to its social security objectives. LIC has also been able to reach illiterate people those living in interior rural area and even people in the marginal income group or below the poverty line. Although LIC’s reach should be considered on the background of the poverty level, literacy problems, lack of insurance awareness, prevailing social customs and problems of communication to the deep rural areas.

LIC operated nationally through its network of agents armed with tables and scheme details to promote insurance policies. Rural markets were looked at closely only when urban Indian market showed signs of stagnation or saturation for many categories. Insurance however is one category to be an exception. Rural penetration is being attempted along with urban spread. The marketing policy of LIC aims at covering both urban markets and rural markets. These two segments are diverse in nature and have distinguished characteristics. Further, wide disparity

exists between the per capita income and literacy rate among other things in these two sectors. From the insurance perspective, statistics show that insurance penetration in rural India is very low at 20%. Having recognized immense insurance potential, the LIC has concentrated on the rural sector. During 2003-04, of the 264.56 lakh policies marketed as many as 62.20 lakh policies are marketed in the rural sector. LIC has also taken a number of measures to professionalise the rural career agents and as on March 31, 2004 there are as many as 53,037 rural career agents. Further, the promotional expenditure of LIC, which stood at Rs. 3,791.13 lakh in 1999-2000 rose to a high of Rs. 9,659.66 lakh in 2003-04. In the rural areas, along the dusty roads, LIC is painting the walls and adopting folklores so as to market insurance plans to rural customers like never before. The new players, on the other hand, have not paid much attention to tap the rural market. In fact, they located only on meeting the regulatory requirements rather than improving the business in rural areas.

According to a study conducted by FICCI-ING on insurance penetration in rural areas, a high level of awareness about insurance, particularly life insurance is seen. About one-third of the respondents owned some insurance product or the other. Among these, who owned insurance there was a feeling of being underinsured and those who did not as much as an investment option.1

LIC has achieved the rural obligations beyond the stipulation as prescribed by the regulations. In rural India, LIC has been able to maintain a sizeable growth. This is because, LIC has always made sustained and conscious efforts to take the message of life insurance to the rural areas especially to the backward and remote areas.

---

The table 3.3 depicts the rural new business of LIC in relation to total new business. The rural business of LIC has increased from Rs.24,278.73 cr under 109.20 lakh policies in 2000-2001. But in 2001-02 the number of policies as well as the sum assured declined heavily and reached a low of Rs.25, 461.94 cr under 37.02 lakh policies. In the succeeding year viz 2002-03, though number of policies increased considerably to 45.23 lakhs, the sum assured declined to Rs.23,574.69 cr. However in 2003-04 the number of policies marketed and sum assured under rural new business increased significantly. The percentage share of rural policies to total new policies in terms of number has increased from 49.2% in 1996-97 to 55.53% in 2000-2001 with negligible variation in percentages. Similarly, the sum assured under rural business has increased to 47.76% in 2000-2001 from 42.8% in 1996-1997. The rural new business in relation to total new business has declined heavily in 2001-2002. For instance, by the end of 2001-2002 the percentage share of rural policies to total new policies in terms of volume and value has come down and stood at 16.94% and 13.65% respectively. However, the rural new business of LIC has increased gradually and the share of rural new business in relation to total new business stood at 22.79% in terms of policies and 17.85% in terms of sum assured in 2003-2004.¹

Despite the penetration of LIC, there remains a huge untapped insurance potential in rural India. With the per capita income in India expected to grow at over 6% for the next 10 years and with improvement in awareness levels, the demand for insurance is growing at an attractive rate in India. An independent

---

### Table 3.3

**Rural New Business of LIC**

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of Policies (In lakhs)</th>
<th>Sum Assured (In cr)</th>
<th>Percentage of Share of the Rural New Business in Total New Business</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Policies</td>
</tr>
<tr>
<td>1996-97</td>
<td>60.33</td>
<td>24,278.73</td>
<td>49.20</td>
</tr>
<tr>
<td>1997-98</td>
<td>68.40</td>
<td>27,550.69</td>
<td>51.40</td>
</tr>
<tr>
<td>1998-99</td>
<td>81.23</td>
<td>35,372.94</td>
<td>54.70</td>
</tr>
<tr>
<td>1999-00</td>
<td>97.04</td>
<td>44,168.19</td>
<td>57.50</td>
</tr>
<tr>
<td>2000-01</td>
<td>109.20</td>
<td>59,676.42</td>
<td>55.53</td>
</tr>
<tr>
<td>2001-02</td>
<td>37.02</td>
<td>25,461.94</td>
<td>16.94</td>
</tr>
<tr>
<td>2002-03</td>
<td>45.23</td>
<td>23,574.69</td>
<td>18.90</td>
</tr>
<tr>
<td>2003-04</td>
<td>62.04</td>
<td>35,651.99</td>
<td>22.79</td>
</tr>
</tbody>
</table>

Source: Compiled from the various Annual reports of LIC of India

Consulting company, The Monitor Group has estimated that the life insurance market in India will grow from Rs.218 billion in 1998 to Rs.1,003 billion by 2008 out of which most of the business would come from the rural sector.¹

With high poverty levels prevalent in India, rural penetration remains a daunting challenge to most insurers. LIC is the only company to have broached this task efficiently with a large measure of success. However, with illiteracy widespread in the rural community, a number of stumbling blocks have cropped up, which the company will have to surmount to market insurance policies on a wide scale. Some of them are:


47
**Poor General Awareness:**

The scenario calls for customer education in a big way. Villagers relate savings to acquiring capital assets like land or gold. They should be schooled about the insurance as a means to both, risk coverage and as tool to build up financial reserves. This would involve detailed instruction on the various endowment products and term plans available. Consumer learning is an ongoing process and LIC must ensure there is no letup in the spread of information.

**Lack of Proper Documents:**

The main problem facing all insurance companies is the inability of the insured to provide proper attested or verified certificates. Chief among these are proof of age and record of death. In case of accidents getting a copy of the police registered First information report (FIR) from the claimant is practically non-existent. To help both the insurers and the rural insured the government must step into formulate systems for issuing age, date of birth and death documents. Also a declaration by the village council or panchayat on behalf of community members should be made acceptable for the purpose of issuing insurance policies. Needless to say, such procedures would call for putting into place adequate checks and balances.

**Inappropriate Market Coverage:**

Here LIC would score over others due to their deep social commitment to the uplift of the rural sector, whereas, the private players have stepped in owing to IRDA compulsion. Also, amongst the insurance products available, very few are tailor-made for the rural population. All insurers will have to rectify this and come up with innovative products taking into account specific needs of the rural poor. Payment of premiums is another point to be considered.
Lapsing of Policies:

Seasonal and irregular earnings by this target audience have resulted in policies getting lapsed because of non-availability of funds for the insured to pay premiums by the due date. In fact, this has been a source of finance for LIC, which has gained in crores by collecting money from lapsed policies. The corporation will have to think of ways to ensure that premium paying does not become a source of financial pressure and economic strain to the rustic client. This calls for framing of regulations solely for the rural sector, separate from those for the urban segment.

Healthcare Problems:

For rural people a large chunk of savings is eaten away when health problems crop up. Since most are not covered by any form of health insurance, it is imperative for LIC to install mediclaim concepts into their life products. This will provide double-edged security to the villages, risk cover for life and medical cover.

To mitigate these stumbling blocks in the insurance industry, the attention of LIC has primarily to be centered on marketing and customer service. While the industry would certainly be much heartened by the promising prospects in the rural sector, the real challenge for them would still be the strategies followed by the insurance companies.

STRATEGIES FOR LIFE INSURANCE BUSINESS

Marketing techniques are changing all over the world, not only in customer industries but also in service organizations like Insurance and Banking. This is because markets are becoming increasingly competitive and unless new strategies are adopted the institutions cannot survive. The life insurance business have their individuality in view of their unique role of covering life risks. Harnessing the enormous market potential in India is crucial to success. The product or service
concept must be in consonance with socio-cultural factors. Above all, it must be based on an extensive distribution network, even if built over time, to capture geographical spread. For, the real markets are in rural India. Sensitivity to the consumer is critical to success everywhere. It is more so in our country. Marketing to the Indian consumer is a challenging proposition. Factors such as disposable incomes, cultural biases, complexity of social habits and diversity of customs make them so.

While the industry would certainly be much heartened by the promising prospects in the rural sector, the real challenge for them would still be the distribution and delivery systems. Here again the research has come up with valuable data about the extensive network built by the rural development agencies, the banks, the cooperative institutions, the Non Governmental Organisations and some industrial houses in the rural sector. Insurance companies would therefore be well advised to work out collaborative arrangements with these institutions to mutual advantage. These institutions, having spent huge amounts for creating the infrastructure, will be happy to collaborate and recover some of the cost.

The insurance companies would be saving on huge potential investments that may be required to build up dedicated distribution and delivery systems and leverage the existing network at marginal costs. This indeed is a unique 'win-win' situation. Another very important observation is that the ongoing IT and Telecom revolution in India has not bypassed the rural sector. The rural folks are reasonably technology-literate and are not averse to its use in their day-to-day activities. Some state governments have also done their bit by inducting technology into their interface with them. This would certainly help in integrating the rural-urban markets.
According to a report by Price Water House Coopers, the future of insurance market will be influenced by three developments.

➢ The convergence of financial services
➢ The rise of e-commerce
➢ The emergence of new distribution channel

As for the customer, the key concern will be service and customization is against mere price. The marketing strategies for insurance products in the emerging scenario could be in terms of the following steps. Market research followed by segmentation targeting, positioning followed by marketing mix followed by implementation and control.

\[
R \rightarrow STP \rightarrow MM \rightarrow I \rightarrow C
\]

Where

R= market research
STP= segmentation, targeting positioning
MM= marketing mix
I= implementation
C= Control

The market research after the segmentation, targeting and positioning the strategy would focus on marketing mix.\(^1\) Different companies can choose to position themselves differently and hence the marketing mix would be different. However, there are certain common characteristics that one can call out from the possible strategies that companies can adopt.

The development of flexible products to suit individual requirements is what will differentiate the winners from the also-rans. The key to success is in providing insurance solutions, not standardized insurance products. The concept of riders/optional benefits has already been a huge innovation brought about by the new players, which had led to customization of products for individual needs. However, companies may differentiate themselves on the basis of product segments that they choose to focus on and excel in.

For excelling in the rural markets, some of the rural schemes offered by LIC are the Landless Agricultural Labourers Group Insurance (LALGI) Scheme, which was set up in 1987 to help insure poor agricultural workers. At present, about 1.2 crore landless agricultural labourers are covered under the scheme with a free life insurance cover of Rs. 2,000. Also the Integrated Rural Development Program, introduced earlier all over the country, takes care of people in the age group of 18 to 60 years who are covered under a Group Life Insurance Scheme operated by the LIC, for which the entire premium is paid by the Central Government. An amount of Rs. 5,000 is payable to the beneficiary in case of normal death and Rs. 10,000 in case of accidental death. To meet the insurance needs of the weaker and vulnerable sectors, LIC set up the Social Security Fund (SSF) in 1989-90. People belonging to 24 occupational groups have been covered under various social security schemes financed by the SSF.

To further expand its social commitment to the rural poor LIC introduced the Rural Group Life Insurance Scheme (RGLIS) on August 15, 1995. It provides a cover of Rs. 5,000. The premium payable is Rs. 60 per year for those who enroll up to the age of 40 years and Rs. 70 per year for those who enroll beyond 40 years and up to 50 years. The entry age is restricted to 20 years (minimum) and 50 years (maximum). Deaths occurring after 60 years are not covered. There are two types of schemes:
➢ General Scheme: For persons between the age of 20 years and 50 years, where premiums are to be paid by the members in full.

➢ Subsidized Scheme: For persons between the age of 20 years and 50 years who belong to a household below the poverty line. Only one member of such a household is eligible under the scheme where 50% of the premium is shared by the Central and State Governments in equal proportions.

LIC provides incentives of Rs. 6, for enrollment of a new member, to village level workers and Rs. 3 on renewal of insurance cover for an existing member in the subsequent year. Intermediate level panchayats are designated as the nodal agencies for its implementation. The Janashree Bima Yojana is a typical policy tailor-made for this target audience. People who are below the poverty line and between the age of 18 years and 59 years are eligible. It is issued to vocation/occupation groups whose minimum size is 25. The premium payable is Rs. 200 per annum out of which Rs. 100 is borne from the Social Security Fund. A member is required to pay Rs.100 only.

LIC has expanded the scope of this policy by offering another one Shiksha Sahayog Yojana free of cost to the holders of the Janshree Bima Yojana. This is a scholarship scheme launched for the benefit of the children of members of the Janshree Bima Yojana. Under this scheme, a benefit scholarship of Rs. 300 per quarter per child will be paid for a maximum period of 4 years and is restricted to two children per family only. No premium is charged for the scholarship.

A complementary factor to its marketing efforts is the "Bima Gram" program started by LIC where it has tried to link to the number of policies sold in village. The program went on stream in December 2001 offering development sustenance to village Gram Panchayats where atleast 100 policies were sold covering not less than 75% of the resident families. The help provided could be in the purchase of pumps, or donating money for village improvement needs. An
amount of upto Rs. 25,000 would be provided for each “Bima Gram” or village. Social groups are also helping LIC. This would result in a number of villages benefiting from the “Bima Gram” program.¹ Though LIC has introduced number of policies especially to the rural sector some of the policies introduced were not so profitable to the LIC it is because of non-acceptance of policies in the rural sector, which led to withdrawal of the policies introduced.

Distribution:

Different companies may however choose different channels and different geographies to focus on. The channel options are tied agency force, corporate agents and brokers and this is an area where different companies will make different options. Many companies like HDFC Standard life are focusing on all channels whereas companies like Max New York Life are focusing on the tied agency force only. Customer interface will be a key challenge for life insurance companies and includes the interaction that customer has with the company, such as sales, new business underwriting, policy servicing, premium payments, claim processing and so on. Technology can play a crucial role in delivering the highest standards of service set by the company and it will be imperative or any serious player to excel in all of these.

Price:

Price is a relevant differentiator only in two segments – pure term insurance and in pure annuities. Here too, service delivery and financial strength will need to be present at a minimum acceptable level for price to be a relevant differentiator. In case of service-oriented products, long term returns generated will be more relevant than just the price of the product. A focus on generating good performance and keeping a tight control on costs will help in generating good long-term maturity value for customers. Norms have been laid down on all of these by IRDA and adhering to these while delivering good returns will be a challenge.

¹ www.hindubusinessline.com
Advertising and promotion:

The level of demand is latent and will have to be activated considerably. The market needs to be developed. Greater awareness of insurance and the need to have it as a protection tool rather than as a tax planning measure needs to be appreciated by the Indian people. Various communication tools including advertising, direct marketing and road shows will contribute to all this and different companies will take different approaches on these.

Technology can play a crucial role in delivering the highest standards set by the company and it will be imperative for any serious player to excel in all these. Till two years back, the only mode of distribution of life insurance products was through agents. While agents continue to be the predominant distribution channel, today a number of innovative alternative channels are being offered to consumers. Some of them are bancassurance, brokers, the internet and direct marketing. Though it is too early to predict, the wide spread of bank branch network in India could lead to bancassurance emerging as a significant distribution mechanism.

Insurance is a business in which the financial stakes of both the consumer and the seller are high and which is to based on mutual trust. The concept of 'sales' is now redefined as a long-standing relationship. This relationship does not end with the conclusion of the transaction, but has to be durable and of a long-term nature. Hence, improved customer service on a continuing basis is the key method of maintaining relationships. Improvement in performance of the company will not be synonymous with only basic cost reduction or larger business, but the new measure of performance will be set in terms of service to the customer.

“In today’s challenging business environment, customer service, and more importantly customer loyalty are emerging as key competitive advantages. Companies are no longer making platitudes about the theory “the customer is King”. Maintaining closer relationships with existing customers increases revenue.
According to Loma’s Information Center Brief, Customer Conservation, “obtaining a new customer is ten times more costly than keeping an existing one”. Increased competition, wide varieties of product offerings, and multiple distribution channels cause companies to value satisfied and highly profitable customers.¹

Customers are making stiffer demands of the companies they do business with. Customers are pushing for 24-hours-a-day, seven-days-a-week access by utilizing multiple channels. Service expectations and a need to feel “my company cares about me” are at an all-time high. According the Gartner Group, customer relationship management (CRM) can be defined as “the concept whereby an organization takes a comprehensive view of its customers to maximize the customer’s relationship with an organization and the customer’s profitability for the company”. To become genuinely customer-driven, most companies must radically modify the way they do business. The companies may need to implement a new breed of technology with database tools for gathering information about their customers, desktop tools for enterprise-wide information sharing and Web technologies that let the customers’ service themselves.

In order to provide individual attention to the policyholders and to monitor continuously the quality of service delivery, the LIC has introduced the CRM initiatives during 2001-02. As a part of the initiatives Managers (CRM) at the Divisional Office are positioned. Customer Relations Executives (CRE) and Customer Relations Group (CRG) have been constituted at branch level Help lines Letters and Standing committees on Customer Relations have been constituted.²

The ombudsmen appointed by the insurance companies are empowered to receive and consider disputes arising of repudiation of claims by an insurer on the premiums paid or payable in terms of the policy, legal construction of the policies relating to claims, delay in settlement of claims, non-issue of any insurance document to customers after receipt of premium. There is no cost involved in taking the grievance to the ombudsmen and generally the decisions are more expeditions.

The thrust of the business should not be just on acquiring more customers, but on retaining the ones already served by the companies. Universally, it has been recognized that it takes far less to retain customer than to acquire a new one. Therefore, losing even one customer can prove quite costly in the long run. Thus, it is essential to study about customer satisfaction towards LIC in rural areas, which is analysed in the next chapter.