INTRODUCTION
CHAPTER – I
INTRODUCTION

Insurance was originated in the Mediterranean during the 13\textsuperscript{th} century. Marine insurance is the oldest form of insurance followed by life insurance and fire insurance. Life insurance activity in its modern form was started in India in 1818 to provide for English widows when oriental life insurance company was incorporated at Calcutta and followed by Bombay Life Assurance Company in 1823 and Triton insurance company for general insurance in 1850. Insurance rules and regulation formally began in India with passing of the Life Insurance companies Act of 1912. Between the years 1914 and 1920 many insurance companies were closed down on account of large losses and the small investors.

The first comprehensive legislation was introduced with the Insurance Act of 1938 which provided strict state control over insurance business in the country. The efforts of union governments at regulating the industry through various legislative means were not effective.

In the light of these developments, the demand for stricter government control over the industry gathered momentum and called for nationalization. In the year 1956, 154 Indian insurers, 16 non-Indian insurers and 75 provident societies entered the life insurance business in India. After independence, the business of insurance grew at a faster pace due to competition among the Indian companies that intensified 245 Indian and Foreign insurance provident societies were first merged and then nationalized in 1956. However the geographical spread and the number of lives covered were rather small.\textsuperscript{1}

After nationalization, the business was adversely affected by fall in number of policies and the sum assured. This arose mainly on account of the process of

\textsuperscript{1} P.S.Palande, R.S.Shah, M.L.Lunawat, "Insurance in India-Changing policies and Emerging opportunities" Response Books, Sage Publication 2003, P: 25-27
restructuring the divisional branch offices and also due to lack of technical and experienced staff.

After the initial period of difficulty, LIC made commendable progress by increasing the number of policyholders. Though LIC played a key role in improving the range, quality and price of insurance products, the overall insurance penetration was still quite low in Indian market. As a result, there was vast untapped potential, especially in the rural sector.

The Malhotra high–power committee set up by the government in April 1993 on insurance reforms strongly felt that it would be desirable to open up the insurance industry to competition. Accordingly the market was opened in India and there are twenty new players in the two sectors of insurance. The Insurance Regulatory and Development Authority (IRDA) was constituted in April 2000 as an autonomous body to regulate and develop the business of insurance and reinsurance in the country in terms of the IRDA act 1999. There was an attempt made by the IRDA to regulate the market conduct of the insurers in relation to policyholders’ service and grievances.1 The opening up of markets fuels competition where the stimulating effects are now well documented.

Spreading the message of insurance in rural areas is another major initiative in liberalized regime. Insurance today has opened up new vistas for every section of society. Even for the village farmers insurance holds a lot of potential. Insurance has become a necessity today. It provides timely finance and also rewards with bonuses to policyholders. It is believed that the opening up of the insurance business would lead to massive resource mobilization for social, industrial as well as infrastructure programs and projects in India.

Various studies have shown that the paying power of rural population is on the rise. But, the insurance products are in direct competition with consumer goods. With the same disposable income, the individuals have to make a choice between spending now and saving through insurance products to spend later.

LIC feels that rural insurance has always been a big business in having a changed concept. The rural market is vibrant and the logistics of revenue is in favour of LIC. LIC in its quest for expansion stands as one of the first insurance players to enter new areas of rural turf. BimaGram or Insurance village is LIC’s new brand on the block.

Rural insurance should be looked upon as an opportunity and not as an obligation. The challenge lies in reaching the critical man with redesigned product in traditional ways and also through non-conventional channels like Regional Rural Banks, Co-operative banks and Self Help Groups. There are opportunities for LIC as the new economic policy has brought about overall buoyancy in the market. Economic Indicators sound well for the growth of Insurance industry. Further the living standard has risen considerably over the past 20 years. The ratio of rural Indian population is very high and it has growing insurance needs. Therefore, the potential growth of the life insurance industry lies in rural markets.

Consumers today seek product that offer flexible options, preferred products with benefits unbundled and customized to suit their diverse needs. According to a survey conducted by the Center for monitoring of the Indian Economy, 312 million people in India can afford insurance with premiums from Rs.13, 500 per annum. The insurance potential class of households with an annual income of above Rs. 90,000 will increase from 13.6 million in 2001-02 to 27.7 million in 2006-07. These segments will constitute the principal market for
prospective insurance sellers. The average annual rural household’s income of Rs.56, 630/- coupled with changing rural aspirations in consumption patterns and life style unfold tremendous opportunities for rural marketing.\(^1\) Thus, the rural market is the largest potential market in India.

However, some of the key issues that seem to be hindering the large-scale product in the rural markets are as follows:

- Lack of understanding the rural customer
- Inadequate data on rural markets
- Reaching products/services to 6.4 lakh villages
- Poor infrastructure
- Relatively low level literacy
- Inadequate reach of mass media

Development of rural insurance business is one of the areas, which are likely to cause concern to the regulator in the immediate future, not because of any legal prescription but because they are vastly potential areas where the future of the industry as a whole belongs.

STATEMENT OF THE PROBLEM

As to the buzzword, “The real India lives in the villages”, all smart marketers, Indians as well as multinationals who have been quick to identify the tremendous market potential of rural India have revered this gospel.

Rural India provides a large and latent consumer base. The rural population is spread over about 6.4 lakh villages and about 90% of them are in villages with

2000 people or less.¹ Unlike the urban areas, they are scattered with hardly constructed roads and lack of transportation, one would have to travel long distances to contact people in these by all weather roads. These places also lack staying and food facilities.

The opportunities in rural India are due to huge population and the steady growth of agriculture and allied sectors. Indians, especially rural people are seen that even the relatively low-income families tend to save one third of their annual earnings.² The rural sector indicates big potential by its population and by growing rural prosperity.

The mounting problems of regional backwardness and regional imbalances complicate the making of marketing decisions, especially in the insurance sector. The critical barrier is the paucity of channels to communicate benefits of products and services to the entire population. Though the prospects in the rural sector are promising, the real challenge lies in distributing and delivering systems cost-effectively. Micro branches and appointment of specialized insurance agents in rural areas help insurers to make a dent in the vast untapped rural insurance market.

With high poverty levels prevalent in India, rural penetration remains a daunting challenge to most insurers. LIC has to launch its products suitable for rural masses. The five main challenges facing the industry are low awareness levels, product innovation, distribution, customer service and investments. Increasing the penetration of insurance is the single largest challenge before life insurers today.

Customer Service is important to the insurance industry. In the changed scenario customer satisfaction is assumed as a prime important service to the customers as LIC has to face competition from new entrants. There is a greater need to adopt market friendly posture. Already, LIC is changing to keep pace with the market forces. After the entry of new players in the Indian insurance sector, the customers expect better customer service especially in the areas of claim settlement and issuance of policies.

To compete with the new players, the insurance company will have to remove dissatisfaction of customers. Due to this effect, the insurance companies first need to compare the current levels of service offered by it vis-à-vis customer expectations and also the service standards set by the company in the light of the expected ones.

Industry experts opine that insurers need to explore alternative channels of distribution both in urban and rural areas. There is also the need to understand the importance of building credibility and trust in a sustained way in the rural market.

The customer in the rural sector does not expect anything more than prompt and efficient service. A satisfied customer is the greatest brand ambassador and any negative experience of a customer may cause adversely to the insurance company which will ultimately result in a difficult situation of retaining the customer and attracting the new customer. Hence it is essential to study the level of rural customer satisfaction towards LIC services.

The service of agent is important to the insurance industry, especially in the rural areas. In the distribution channel of insurance, where the policies are sold through agent, the role of agent is critical. He is the representative of the company.
and serves as a link between the customer and the insurance company throughout the service delivery. The effort taken by the agent to increase the policies in rural areas also helps to tap the rural market. As agents are the main link in the service delivery systems it is also essential to study the level of rural customer’s satisfaction towards agents’ services in rural areas.

OBJECTIVES OF THE STUDY

➢ To study the growth and development of LIC in rural areas.
➢ To analyse the awareness of rural customers about the various life insurance policies and services of LIC.
➢ To identify the factors influencing rural customers in selecting LIC policies.
➢ To examine the rural customers’ opinion and preference towards different types of LIC policies.
➢ To analyse the level of rural customers’ satisfaction towards insurance policies and services of LIC.
➢ To analyse the rural customers’ satisfaction towards their agent’s performance and services
➢ To offer findings, conclusion and suitable suggestions on the basis of the results of the study.

METHODOLOGY USED

The study has used both primary data and secondary data. Secondary data were collected from the books, journals, websites (www.lic.com, www.irda.com, www.insureindia.com), articles and various reports.

Primary data were collected from customers by using Interview Schedule. The study area refers to the rural areas of Coimbatore district comprising of nine blocks viz., Mettupalayam, Tirupur, Coimbatore South, Coimbatore North,
Avinashi, Palladam, Pollachi, Udamalpet, and Valparai. From each block four villages were selected randomly to have a total of 36 villages. 10 policyholders were selected from each village to have a total of 360 respondents. To collect data from 360 policyholders (not policies), Multi stage Convenience Sampling method was administered in the study.

**Statistical Tools used for analysis:**

The collected data were analysed using statistical tools based on the objective of the study. The following are the statistical tools used to draw the inference.

**Simple Percentage Analysis**

A Simple Percentage Analysis is a basic tool applied to all the questions given in the questionnaire, which is mainly used for standardisation.

**Chi-Square Analysis**

Chi-Square Analysis used in the study tests the influence of one factor over the other. In this study the Chi-Square test is applied between personal factors and study factors, to assess the influence of personal factors over the study factor at 5% level of significance.

**Scaling Technique and Average Score Analysis**

The 4-point Scaling Technique is similar to Likert scaling, which is mainly used to convert qualitative information to a quantitative one. Further the average score is obtained to assess the level of satisfaction of the policy taken by the customer, influence level of certain factors in opting LIC policies, level of satisfaction on the services and performances of LIC and opinion regarding agent’s approach based on their consolidated opinion of the respondents.
Average Rank Analysis

The Average Rank Analysis used in the study is to identify the priority of the different category of respondents. Further the final rank is also obtained using the criterion. "Smaller the average rank more is the priority".

Correlation Analysis, t-test, ANOVA

The Correlation Analysis is used to study the inter relationship between the different variables considered. Further this correlation is tested for its significance using t-test at 5% level of significance. The t-test is also used for the equality of the means score of two categories of respondents. If the number of the category involved is more than 2, the technique of Analysis of Variance (ANOVA) is used.

Multiple Regression Analysis

The Multiple Regression Analysis is mainly used to establish a functional relationship between a dependent variable and a set of independent variable. Further, the percentage of explanation provided by each independent variable on the dependent variable is assessed through $R^2$ (Co-efficient of determination).

Factor Analysis

Factor Analysis is used with two objectives. First for data reduction and secondly to identify the important factors responsible for customer satisfaction.

LIMITATIONS OF THE STUDY

The findings depend purely on the responses of the respondents. The process of collection of data was a real challenge due to the limited exposure of the rural respondents. The collection was challenging and time consuming as the customers were reluctant and hesitant to reveal their views regarding LIC and agents due to insecure feelings and aftermath repercussions. Nearly 40 of the rural people were approached to identify 10 respondents in each village. The analysis is based on the data collected for the mentioned period. The sample size was restricted to 360 respondents due to wide area coverage.
CHAPTER SCHEME

Chapter I  Presents the Introduction, Statement of the problem, Objectives, Methodology and Limitations of the Study.

Chapter II  Reviews in brief the literature available in these areas.

Chapter III  Deals with the growth and development of LIC. It also briefs about necessity of insurance in the rural areas, performance of LIC in rural areas and the strategies to be adopted in order to capture the market.

Chapter IV  The socio economic factors are analysed. The level of awareness towards various products and services of LIC, the factors influencing on selecting LIC policies, opinion and preference towards different types of policies and rural customer’s satisfaction towards insurance policies, services of LIC, agent’s performance and their services are analysed in this chapter.

Chapter V  Provides a summary of the findings, conclusions and suggestions to LIC for providing better services to rural customers and to improve the services of the agents.