CHAPTER-1

INTRODUCTION

1.1 Introduction:

“Apraaptasya praapanam yoga; Praaptsya rakhanam kshema”

- Thus says Shankara in his commentary on Bhagavadgita (Geetha Bhashyam). Yoga means getting the things one has not got and Kshema means protection of things one has got. The sum and substance of the two are the essence of insurance. Life insurance is a social security tool. This is more pronounced in rural areas that promote and sustain the life links of the economy. The various programs of the government promoting agriculture and tiny industries, the scientific agricultural practices, the agrarian reforms, the empowerment of village panchayats and such other activities have created reasonable disposable incomes in the hands of the rural folk. At the same time we find the rural economy dependent on vagaries of monsoons. The existence of Below Poverty Line (BPL) families, the stark illiteracy, and the low levels of awareness are the major stumbling blocks to protect themselves against risks. The life insurance penetration in rural areas as percentage of Gross Domestic Product (GDP) is around 2.8% as at 2005 and again the so called penetration is catering to the needs of rural rich (Life Insurance in India by H.Sadhak, page no 187). The distribution costs, product designing to the needs of the rural people, the viability
of opening offices in rural areas are preventing major life insurance companies to opt out of this market. In this thesis an effort is made to study the rural life insurance market and try to identify the major factors inhibiting the insurance companies leading to ignore this market. The techniques that are being adopted by the top 5 insurance companies in the rural market, the limitations of their techniques and specific recommendations of marketing techniques for wide spread insurance coverage etc are discussed. The study is based on the analysis of the data collected from at least 500 individual policy holders having insurance policies in one or more number of insurance companies and also from two hundred agents. An attempt is made to find the lacuna in the existing marketing techniques adopted by different life insurance companies and suggestions based on the data collected and analysis are provided to develop tailor made techniques suiting the rural poor.

For understanding the rural insurance market and the marketing techniques, a brief understanding of the life insurance and its concepts are also felt necessary. Therefore the study is started with brief history of life insurance, the nature of life insurance contract, the benefits of life insurance to individuals and society, the present trends in life insurance industry, the various regulations of life insurance, the popular products, riders, funds available and the role of the regulatory body, i.e. Insurance
Regulatory and Development Authority (IRDA) are incorporated in the introductory note of the first chapter.

1.2 **A brief history of life insurance:**

The story of insurance is probably as old as the story of Mankind. Though the concept of insurance is largely a development of the recent past, particularly after the Industrial Era, yet its beginnings date back to almost 6000 years.

1.3.1 **Ancient idea of risk sharing:**

The Biblical story of Joseph during the famine in Egypt has been cited as the first insurance plan in recorded history according to which one-fifth of the crop of each prosperous year is collected by the king to be used in the years of famine. The story illustrates the principle of spreading the risk and the wisdom of preparation in the prosperous present for the needs of an uncertain future (ibid, Jayaramaiah, 1988.)

1.3.2 **Roman practices:**

High state of social structure was developed by the Romans and as a result “COLLEGIA” organizations were formed to pay for the funeral celebrations. A member of this organization was expected to pay a certain amount and good wine of approximately six gallons. He was also required to pay monthly minimum subscriptions. The benefits promised were a fund for burial expenses. No monthly payments were required for more than 50 years and the funeral
benefits were not paid if the monthly payment had not been made regularly up to certain period before death or if the member committed suicide. The Collegia represented the distinctive contribution of the Romans to the history of insurance. While there is little evidence of actuarial skill, adequacy of dues collections must surely have been a criterion of membership fee setting. (Insurance& Risk Management by Dr P.K. Gupta, Himalaya Publishing House, 2008- page nos 76&77)

1.3.3 Guilds:

The guilds existed in England at the time of Anglo Saxons and the system continued with modifications throughout the middle ages. Considerable attention was given to relief to the members and social matters in these guilds. These guilds or societies performed all chief functions of sickness and burial clubs. They went to the extent of caring for the family of a member even after his death. These guilds were followed by friendly societies in connection with payments to sickness or death. (Basic Training Course for Administrative Staff by M.Jayaramaiah published by LIC of India, Cuddapah Division, 1988. p. no 2&3).

1.3.4 Ancient insurance concepts in India:

It is claimed that insurance was practiced in India even in Vedic times. The earliest available reference to some form of insurance is found in the codes of Hammurabi and Manu. The term
“Yogakshema” is used in Rig Veda suggesting the existence of some form of insurance in Vedic period by the Aryans. During the Mohenjodaro and Harappan civilizations when Indian trade extended to Babylonia, the merchant guilds devised means to insure ships and caravans.

The burial societies of Buddhist period speaks about the existence of insurance. We have sufficient evidence available in our ancient literature where the entire community came to help the bereaved family by building up a house, protecting the widow, getting marriage of the girls etc according to the status of the family.

During the Mughal period, losses due to passage of the troops through agricultural farms were compensated by the State. (Source: Ibid: Jayaramaiah).

A faint resemblance to a life annuity can be seen in the practice of widows, while starting on a holy pilgrimage, handing their entire belongings to some rich neighbors on condition of being paid monthly allowance for life.

1.3.5 The Banyan Tree:

There was a special feature peculiar to Indian culture, namely the institution of Joint Family which for ages continued to afford complete protection to all of its members.

1.4.1 Towards the modern concepts:
In the 13th century under marine insurance “if the merchant obliges the Master to insure the ship, the merchant is obliged to insure the Master’s life against hazards of sea”. This simple rule implied that life insurance was available at that time.

In the middle ages, the church too recognized and even practiced the grant of life annuities.

1.4.2 Tontines:

In the middle 17th century, the principle of “Tontine” found birth. According to these annuities, a certain number of persons contributed specified sum to a fund. At the expiry of each year the interest on the fund was divided amongst the subscribers who were living and so on, from year to year, until the last survivor received the whole of the interest. The fascinating feature of this scheme was that the final survivor found himself receiving enormous sums, in return for a trifling contribution made at the entry stage. This tontine system played an important role in developing the concept of the insurance. It certainly provided data that formed the basis of mortality tables on which the modern life assurance is founded. That is why Toronto Tonti is sometimes called the “Father of modern life insurance”.

1.4.3 The first life policy:
The earliest available record of a life insurance policy is on the life of one Mr Willium Gybbons, a citizen of London and it was effected on 18\textsuperscript{th} June, 1583. It was underwritten by sixteen underwriters and it was procured by Richard Martin Company. It was a term assurance policy for a period of 12 months.

1.4.4 Real beginning:

The basic requirement of the science of life insurance is precise knowledge about the rate at which members of a group will die at a given age and from year to year. This knowledge is made possible with the help of past records of deaths. It is assumed that the same experience will repeat in future. The assumption has been formulated in the “Law of Large Numbers” which is the basis for “Theory of Probabilities”.

John Graunt, a Londoner worked on the statistics of deaths and published “Natural and Political Observations made up on the Bills of Mortality” in 1661. His findings regarding life expectancy laid the foundation of actuarial science.

In 1693, Edmond Halley, the Royal Astronomer presented “Degrees of Mortality of Mankind” based on vital statistics obtained from Breslau in Silesia, the only city in the world which, at that time, maintained records of births and deaths including the ages of its dead people.
It was followed by several scholars to engage in research. The actuarial science developed to a great extent in the 19\textsuperscript{th} century. The establishment of the Institute of Actuaries in 1848 in England marked a turning point in the history of life insurance.

1.4.5 Early insurance offices:

The first registered life office in England was “The Hand in Hand Society” established in 1696.

However, the old “Amicable Society” is reputed as the oldest life office in the world which commenced transacting life insurance business from 25\textsuperscript{th} March, 1706.

The Equitable Society founded in 1762 in England was the first to be founded on scientific basis with premiums computed according to age and period of insurance.

The life insurance business was largely done by English companies by opening branches in other countries. However some attempts have been made in Germany, France and other European countries. In USA, the life insurance business started after the American war of Independence. The first American company established was “Presbytarian Ministers' Fund in 1759.

1.5.1 The story of life insurance in India:

Though the concept of life insurance appeared to conflict with the spiritual and philosophical ideas of Indians, the exposure of
Indians to the British industrial and commercial system led to a fundamental change in life styles and "Indian Institutions in Insurance" were founded. As a result a few companies like Bombay Life Society (1793), Oriental Life Insurance Society (1818) were founded, but the same went in to liquidation soon. During the days of East India Company, policies on the lives of British officers were insured by some British offices. The failure of British companies such as “Europian” and “Albert” in 1870 adversely affected many people in the country.

The oldest known life policy sold in India was under written by Royal Insurance Company on the life of one Cursetjee Fundoonjee on 6\textsuperscript{th} Jan, 1848.

1.5.2 Birth of Indian insurance:

On 3\textsuperscript{rd} December, 1870 seven earnest men of Bombay with just seven rupees for initial expenses gave shape to a plan offering insurance to the public without the risk of ruin and the Bombay Mutual Life Assurance Society came into existence. Oriental Government Security Life Assurance Company Ltd was launched four years later, i.e. in 1874. Iswar Chandra Vidyasagar, a noted social reformer founded the “Hindu Family Annuity Fund” in 1872 at Calcutta. The Oriental, The Empire of India and the Industrial & Prudential were founded by Pheroj Shah Mehta. The Mysore State Government started “Official Branch Insurance” in 1891. The
Swadeshi movement gave impetus to the opening of many Indian insurance companies like “Hindusthan Cooperative”, United India”, Indian Mercantile” and such other companies.

1.6 **Major milestones of insurance regulations of this century:**

Some of the major regulations of Indian insurance industry are as follows:

- **1912** – There was a loud demand to regulate the affairs of insurance during the first decade of the 20th century after five hundred provident fund societies that ought to cater to the needs of small income groups failed miserably in the task. The government realized the need of regularization and passed ‘The Indian Life Insurance Company Act’ and 'The Provident Insurance societies' Act to regulate the affairs of insurance companies and to avoid failures and check malpractices. It mandated for the companies to submit certain records to the government. As a result several companies which conducted insurance business on unsound actuarial principles were closed.

- **1928-** The Indian Insurance Companies Act was enacted to enable the government to collect statistical information about both life and non life insurance business. The bill provided that the surplus shall be allocated to shareholders and to policyholders in certain proportion. Every insurance company
has to submit annual statements showing details of business both in and outside India.

- 1938 - The Insurance Act: It is a comprehensive act to regulate insurance business in India. It was due to the strenuous efforts made by J.C. Setelvad who was the founder president of the Indian insurance companies. This act forms the basis for the most current insurance laws. This act was passed with a view to establishing closer supervision and control in matters of investment of funds, expenditure and general management of insurance companies. The act facilitated for the establishment of the Department of Insurance under the authority of the Superintendent of Insurance. The act was amended in 1950 and The Controller of Insurance was held responsible for the orderly business of insurance in India. An Insurance Year Book (Blue Book) is published by the Controller of Insurance every year giving information relating to progress of life and general insurance business in India.

- 1956 - Nationalization of life insurance business in India. The Executive Committee of the Insurance Councils that was set up in 1950 by the government of India made serious efforts to ensure high standard of conduct and sound business practices. The study conducted by the committee found that the concept of trusteeship which should be the cornerstone of life insurance seemed entirely lacking and most managements had no appreciation of the clear and vital distinction that
exists between trust monies and those belonged to joint stock companies owned by the shareholders. The government of India thought it fit to nationalize the life insurance industry. The nationalization of the life insurance brought to an end for the private operators and 170 insurance companies and 75 provident societies that were issuing life insurance policies were amalgamated to form the Life Insurance Corporation of India, with a capital contribution of Rs 5 crore by the government of India.

- 1972 -Nationalization of general insurance business in India.
- 1993 -Setting up of Malhotra Committee to suggest structural reforms in insurance sector with a view to improving the functioning of LIC and GIC and to make recommendations on regulation and supervision of the insurance sector in India.
- 1994 Recommendations of Malhotra Committee, recommending for opening up of insurance sector to private players and for professionalizing of agency force by compulsory inductive training. The committee insisted that the insurance companies should pay special attention to the rural insurance business. For entry of private players, it suggested minimum capital requirement of 100 crore rupees and also suggested norms relating to promoters’ equity and equity capital by foreign companies. The report suggested that postal life insurance should be allowed to operate in the rural market. Mandatory investments of LIC Life fund in government
securities to be reduced from 75% to 50%. Government stake in the insurance companies to be brought down to 50%.

- 1995- Setting up of Mukharjee Committee to make concrete plans for the requirements of the newly formed insurance companies.

- 1996 - Setting up of (Interim) Insurance Regulatory Authority.

- 1997 - Mukhajee Committee Report submitted, but not made public.

- 1997 - Greater autonomy to LIC, GIC and their subsidiaries with regard to the restructuring of boards and flexibility in investment norms aimed at channeling funds to the insurance sector.

- 1999- The standing committee headed by Murali Deora decided that foreign equity in private insurance should be limited to 26%. The IRA bill is renamed as Insurance Regulatory and Development Authority (IRDA) bill. On 7th Dec, 99, the government passed IRDA act.

- 2000- President gives his assent to IRDA Bill.

- 2002 – Banks were allowed to sell insurance plans.

- 2005- Micro Insurance Regulations notified by the IRDA.

- 2007- Govardhan Committee was constituted to study the manner in which the distribution channels are functioning and to recommend changes, if any, for making them more effective.
• 2008- Govardhan committee submitted its report in April, 08 and the recommendations are under consideration of IRDA.

• 2009- A Government appointed Panel on Investor Protection & Awareness chaired by D. Swarup, the Chairman of Pension Funds Regulatory & Development Authority (PFRDA) submitted its report to the Government of India recommending, inter alia, for phasing out Agents’ commission by April, 2011 for ULIPs and allow investors to negotiate the fees. The proposal is under the consideration of the Finance Ministry.

• 2010 – Securities and Exchange Board of India (SEBI) banned the sale of ULIPs by the life insurance companies without getting its approval and claimed that the ULIPs are more of mutual fund entities rather than insurance entities. IRDA asserted its own authority on the governance of ULIPs and permitted the companies to resume selling the ULIP products. The matter is therefore referred to the Court of Law. Meanwhile the Finance Ministry has given directions in June, 2010 that they should be regulated by IRDA only.

1.7 Insurance Regulatory and Development Authority (IRDA):

With a view to regulate and promote the insurance, the Parliament passed the IRDA bill on 7th Dec, 1999 and IRDA came in
to existence. The monopoly of LIC of India came to an end and the industry was opened to private players. Private players were given licenses and allowed to operate in Indian insurance market. Joint ventures with foreign companies were allowed but the foreign equity was restricted to 26%. Protecting the interest of the policyholders and securing fair treatment was the prime objective of IRDA. Speedy and orderly growth of the industry with high standards of integrity and financial soundness and securing precise, clear and correct information to policyholders with regard to products, ensure speedy settlement of genuine claims, rural insurance obligations and to ensure enforcement of these provisions are the other objectives of this Authority.

1.8 Postal life insurance:

Postal life insurance was started in 1884 as a welfare measure to the employees of the Postal & Telegraphs department. It was extended to employees of Central & State Government employees, nationalized banks, public sector undertakings, and local bodies like municipalities, Zilla Parishads and educational institutions aided by the government. On 24th March, 1995 the scheme was extended to rural populace under Rural Postal Life Insurance Scheme (RPLI). Gram Santosh, Gram Surakha, Gram Suvidha, Gram Sumangal and Gram Priya are some of the important plans catering to the needs of rural people. The India Post (department of Post and Telegraph) with more than 1.55 lakh post offices administers these policies. Its
bonuses are much higher than that of LIC of India and offers better returns. But this is not available to investors who are looking for new age products such as ULIPs and pension plans. The popular plans of postal life insurance include Surakha (Whole Life Assurance), Santhosh (Endowment Assurance), Suvidha (Convertible Whole life), Sumangal (Anticipated Life Assurance), Yugal Surakha (Joint Life) and Child Policy. (Source: Economic Times – Secure the Future with Postal Life Insurance policies dated 22/06/09).

1.9.1 Importance of insurance for the individual and the society:

By means of insurance, an individual creates an asset. Life insurance is different from other forms of investments. In any investment, the amount that he gets on the termination of the contract is accumulations plus interest. In the case of insurance, the fund available is not the total of the savings already made (premiums paid), but the amount one wished to have at the end of the savings period. By paying, a single premium, a fixed amount is assured in the event of unfortunate death of the life assured.

Insurance enforces compulsory savings. In other savings with minor or no loss the investor can opt out of the scheme. In insurance withdrawal is sometime a total loss (withdrawal within 3 years) and sometime a major loss (withdrawal after 3 years).
Creditors cannot attach the insurance policies if they are absolutely assigned or invested under Married Women Property Act (MWP Act).

Insurance ensures tax benefits both income tax and capital gains. The principle of triple ‘E’ (Exempt, Exempt and Exempt) ensures tax exemption at the time of remittance of premium, receiving of survival benefits and at the time of final claim-maturity or death.

Any investment is considered safe and secure, if it has features of marketability and liquidity. Insurance bonds can be mortgaged or pledged against a loan. It ensures family protection, safe guard against unpredictable risk and help people to live financially secure.

1.9.2 For the society:

Insurance is a social security tool because without insurance this human society would consists of helpless old people, helpless widows and unprotected orphans. Every economic activity is associated with risk and insurance is the risk buster. For operating and sustenance of any meaningful business, the risk appraisal and suitable insurance remedies are the basic necessities. The bereavement of the bread earner in a family deprives them of the major sources of sustenance and the family is thrown in the streets and it becomes a societal problem. Insurance takes care of these situations.
The Article 41 of the Directive Principles of State Policy states that the State, within the limits of its economic capacity and development, shall make effective provision for security - right to work, to education and to provide public assistance in case of unemployment, old age, sickness and disablement. The insurance schemes designed and developed by the insurance companies for the socially disadvantaged people aid in promoting the spirit of the directive principles of State policy.

The declaration of Human rights by UNO declared that everyone has a right to a standard of living including food, clothing, housing, medical care and security in the event of unemployment. These declarations shall remain a Utopian dream in the absence of social security provided by the insurance.

Further, the social obligations of the insurer forces them to invest a chunk of their investable income in socially oriented projects like rural electrification, drainage, infrastructure and other people oriented projects. People’s money for people good is the prime factor that impels insurance companies to invest in social projects.

1.9.3 Development of capital markets:

Life Insurance companies invest the premiums collected by them in the capital markets and provide stimulus for the growth of capital markets. However for ensuring life insurance an important
vehicle for savings mobilization and sustain the capital markets, there is a need of flexible regulations for investment of funds by life insurance companies and also the availability of wide spectrum of financial instruments.

Life insurance companies support the market by absorbing market risks through underwriting new bond and equity issues and provide depth to the market. In 2004-05, LIC of India invested about 60% of assets in Central and State Government bonds while about 14% of assets were invested in equity. (Life Insurance in India, opportunities, challenges and strategic perspective by H.Sadhak, page no 16.)

1.10.1 Concepts of insurance and their working:

Insurance is a co-operative endeavor. People, who are exposed to similar risks come together and pool up a fund out of which the loss suffered by a single person is met. Pooling of risks and resources is the essence of insurance. It also relies on the theory of probability in the sense that the larger the number of risks pooled up, greater would be accuracy in determining mortality rates.

Insurance is the best example of Vinoba Bhave’s Sarvodaya concept – ‘EACH FOR ALL AND ALL FOR EACH’.

1.10.2 Insurance relies on certain principles:

• Sharing of risk – each for all and all for each.
- The peril shall be accidental and not intentional and deliberate. In simple parlance none in the group shall set fire to his assets and ask others to share costs of damage.

- The manner in which the loss is to be shared can be determined in advance based on mortality tables and premiums are collected suitably by the insurers.

- The insurer acts as a trustee in managing the common fund. Insurer has to ensure that nobody is allowed to take undue advantage of the insurance arrangement and thus he has to prevent entry of people whose risks are not of the same kind. In technical parlance, the insurer has to prevent adverse selection.

- The decision to allow / disallow to issue a policy on any life is called underwriting and the under-writer assesses the risk and decides the premium to be charged on any life.

- Insurance indemnifies the loss but it cannot prevent a loss.

- Insurance is not gambling in the sense that it depends on standard actuarial principles and standard underwriting procedures.
• Contract of insurance is intangible. It is selling a promise that is payable at a later date in the event of untoward incident or at the time of maturity.

1.11 Concept of ‘Human Life Value’:

The value of any physical asset can be quantified by applying the depreciation rate and can be compensated by any insurance company. But it is difficult to assess the value of a human life. The problem arises as to what amount of insurance should an individual have.

The concept of Human Life Value (HLV) was enunciated first by S.S.Huebner in 1924 to assess scientifically the quantum of insurance needed by any individual. In this model the gross annual present earnings of an individual are calculated. Thereafter, the expenses incurred by the individual on his own personal needs, the premiums paid under the existing policies, and income and profession taxes are deducted from the gross earnings. This represents the annual contributions of the individual from his income to the family. This amount should normally be available to the family during every year of his active working life, say up to 65 years. Then the present value of this series of the individual’s annual contributions over his future working life period, say, 30 years is arrived at by applying a factor from a compound interest table at an assured rate of interest. The amount so arrived at represents the gross human life value of the individual. From this if we deduct the
amount of liquid assets owned by the individual and also the sum
assured under all life insurance policies, we arrive at the net human
life value of the individual. And this is the amount for which the
individual has to secure a life insurance policy for his dependents.
Though the future earnings can not be predicted, for calculation
purpose, the present earnings are taken in to account to estimate the
HLV. The Human Life Value has relevance for assessing the life
insurance need of any earning individual. (Source: Mahadevan, CH,
Yogakshema, Jan., 09)

1.12 How insurance contracts differ from other contracts?

The Indian Contract Act, 1872 enunciates the essentials of a
contract, viz:

- Offer and Acceptance
- Consideration
- Capacity to Contract
- Consensus ‘Ad Idem’
- Legality of the object.

Apart from the above an Insurance contract should have the
following:

- **Ubereime fidie (Utmost good faith):**

  The insurer basically does not know the health, habits, family
  history, personal history etc of the individual proponent unless they
  are revealed. Medical examination can supplement but it cannot
supplant the true information available in the proposal since there are certain diseases like B.P and diabetics which can be hidden through appropriate medication. These facts are material for the consideration of the risk and non disclosure of these facts put the insurers and the community of the policy holders to disadvantage. In the famous case of Rozanes vs Bowen (1928) the principle was enunciated as follows:

‘As the underwriter knows nothing and the man who comes to him asking for insurance knows everything, it is the duty of the assured to make full disclosure to the underwriter without being asked, of all material circumstances. This is expressed by saying that it is a contract of ‘UTMOST GOOD FAITH’. (Balachandran,S, Life Insurance- IC 33 published by Insurance Institute of India, 2007, page no 22)

While the principle of Caveat Emptor (let the buyer beware) is the guiding principle of all contracts, the principle of good faith distinguishes insurance contract from other contracts. In view of this, the section 45 of the Insurance Act 1938 enshrines the insurer to revoke a contract within 2 years from the commencement of risk on the ground that the material facts are suppressed.

- **Insurable interest:**

  The object of insurance should be legal. Life insurance would be gambling, if the beneficiary of the insurance has no interest in the life of the insured. Such insurance is not permitted. Insurable
interest is said to exist when the beneficiary benefits by the existence of the subject and is prejudiced by damage or loss of it. An individual life assured would have unlimited insurable interest on his own life. Husband has insurable interest on the life of his wife and vice versa. Partners have insurable interest on the lives of partners to the extent of their share in the business. A surety has insurable interest on the life of co-surety to the extent of debt and also on the life of the principle debtors.

1.13 Types of life insurance products:

The products of life insurance have been evolving over the years as the socio economic conditions of the society have changed. The improvement in the area of social status of the women, improvement in the medical science in reducing child mortality and growing age of population, have great impact in the evolution of the insurance products and underwriting standards.

The basic plans of life insurance are:

- **Term assurance**: It is the cheapest plan of insurance where the claim is payable in the case of the death of the life assured during the term of the policy and nothing is payable if the life assured survives to the date of maturity.

- **Pure endowment**: It is opposite of Term Assurance where in the claim is payable on the date of maturity and nothing is paid
during the currency of the plan. It means there is no death claim in pure endowment.

Life insurance has a bundle of plans with the combination of these basic plans with either of the component has prominent feature or differs in percentage. A Term Assurance plan with unspecified period is called a Whole Life policy under which the sum assured is paid on death of the life assured. Combination of Term Assurance and Pure Endowment is called an Endowment plan where in the sum assured is paid on the happening of the event- maturity or death. We have plans like Double Endowment, Money Back, Anticipated Endowment, Joint Life, children plans, convertible whole life, Loan Protector etc catering to the needs of each requirement in the life cycle of an individual.

- **Unit linked insurance products:**
  These are market linked plans which offers high potentiality of return, but came with high risk. The investment element is transparent and yield depends on the risk appetite of the individual. The savings portion is managed separately from risk portion. When premium is paid, certain portion of the amount is kept apart for risk coverage and management expenses and the balance is invested in market as per the directions of the customer, viz. debt funds, equity funds, money market funds or balance funds.
ULIPs are contributing nearly 50% of the premiums for some companies and up to 85% for some other companies. The ULIPs present lot of flexibilities to the customers, viz, fund switches, top ups, premium holiday etc. These policies can have add-on values by opting for required riders. It is easy to understand and explain to the prospects and the premiums are fixed apparently irrespective of ages.

ULIPs can be compared to:

- Endowment plan, if not withdrawn till maturity.
- Money back plan by withdrawing as and when the funds are required.
- Children policy if the withdrawals are used for children education/ marriage.
- Whole life plan if the funds are not withdrawn till 70/ 80 years.
- Pension plan if regular and consistent withdrawals are made every month after retirement.
- Loan protector if it is assigned for housing loan.
- A perfect financial investment scheme if top ups are encouraged during the bear phase.
- A mutual fund scheme if fund switch option is judiciously used by the customer.
• **Annuities:**

Annuities are called the reverse of life insurance because the annuity starts, when life insurance ends. Under life insurance contract, the insurer starts paying upon the death of the insured but in annuity, the insurer stops paying upon the death of the annuitant. Annuities are of series of payments made by the insurer. Deferred Annuity, Immediate Annuity and Annuity Certain etc., are the variations of annuities. The other variants are:

- Life Annuity where in the annuities are paid throughout the life of the assured.
- Annuity Certain for 5/ 10/ 15/ 20/ 25 years and life there afterwards.
- Joint Life Last Survivor Annuity where in the annuity is paid till the last survivor lives.

• **Riders:**

Riders are the extra benefits offered by the insurer at an extra cost. The common riders available under an insurance policy are:

- Double accident benefit.
- Extended permanent disability benefit.
- Critical illness benefit
- Major surgical assistance benefit.
• Premium waiver benefit.
• Dreaded disease rider benefit.
• Cover to continue beyond maturity age.
• Guaranteed increase in cover at specified periods.

• **Group insurance policy:**

It is a single Master Policy having insurance written on a number of people and the policy is issued to the employer. The premium is paid usually by the employer on behalf of all members.

A group of homogeneous people are covered under this scheme without any medical examination, usually with term assurance component. It is the cheapest form of insurance since the cost of underwriting and administrative expenses are the lowest under group insurance policies. The common features are as follows:

• The group must not have been formed for the purpose of taking advantage of this scheme.

• The individual beneficiary can not choose the amount of insurance cover but will be decided on the basis of ages, income levels, rank of the members, years of membership etc.

• There shall be regular inflow and exit of members and compulsory for all new entrants.

• There is no underwriting of individual lives.
• The premiums may vary year after year depending on experience and the changed profile of the group.

One Year Renewable Group Term Insurance Scheme, Group Savings Linked Insurance Scheme (GSLI), Group Gratuity Scheme, Group Superannuation Scheme and Employees Deposit Linked Insurance Scheme (EDLI) are some of the popular group insurance schemes in vogue.

1.14 Micro insurance:

Craig Churchill, in his book, 'Protecting the Poor- A Micro Insurance Compendium' defines micro insurance as the protection of the low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Micro insurance looks like ordinary life insurance but its target group is basically low income groups. In micro insurance the normal medicals are avoided and the volumes of business take care of the physical hazards that are involved. This type of insurance normally covers people who are working in informal economy and who have no access either to commercial insurance or to social protection benefits provided by employers directly. It is delivered through variety of different channels, including small community based schemes, credit unions, self help groups and NGOs etc.

1.15 Life insurance needs at different stages of life cycle:
The life insurance needs of an individual are generally dependent on the particular life stage of the life assured. It also depends on the financial goals, the risk appetite and a host of other personal interests. Broadly the following representation given below summarizes the relevant plans of a particular stage of life.

**Table 1.1: Showing life insurance needs at different stages of life cycle.**

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<thead>
<tr>
<th>Life stage</th>
<th>Primary need</th>
<th>Life insurance product</th>
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<tbody>
<tr>
<td>Young and single</td>
<td>Asset creation</td>
<td>Wealth creation plans</td>
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<tr>
<td>Just married couple</td>
<td>Asset creation and protection</td>
<td>Mortgage protection plans</td>
</tr>
<tr>
<td>Married with kids</td>
<td>Child education and marriage</td>
<td>Child education and marriage protection plans</td>
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<tr>
<td>Middle aged people</td>
<td>Retirement planning</td>
<td>Pension plans</td>
</tr>
<tr>
<td>Senior citizens</td>
<td>Health needs and income need</td>
<td>Health plans and reverse mortgage plans</td>
</tr>
</tbody>
</table>

**Source:** Gap analysis of policy holders’ expectations and actuarial valuation – A study of selected life insurance products – Thesis submitted for Ph.D by Triveni, P for Bangalore University, 2009.
1.16 Risk management and life insurance:

Risk management is an integral part of life insurance. Risk is a choice than fate. The notion of bringing risk under control is one of the central ideas that distinguish modern times from the more distant past. Managing risk by risk retention, risk reduction and risk transfer are the key elements that drive economic system forward. An attempt to study insurance without first studying risk is much the same as studying medicine without understanding anatomy.

Economic well being is a web of many strands each of which is threatened by plethora of risks and for most people, their economic worth as earning machines is the strongest strand in the web. This earning machine is subject to plethora of risks viz. loss of work, sickness, untimely death etc. that shatters the well being of the dependent family. The human worth in terms of economic value is sought to be protected by means of life insurance.

1.17 Reinsurance:

When the insurer feels that the proposed risk is too high to accept, he tends to transfer part of the risk to other insurer who is known as re insurer. The insurer generally do not reject high risk proposal as it dents its popularity. At the same time he can not accept it if the liability is too large. Hence he comes to an agreement with the re insurer as to what percent of risk the primary insurer will bear (retain) and what percent he will cede (transfer) to the re insurer.

1.18 Actuaries:
Actuarial science is a specialized branch of mathematics dealing with analysis of mortality. It deals with calculation of premiums on policies, fixing of annuity rates etc. Actuarial science made rapid progress during 17th century A.D and it has now become integral for any insurance company. An actuary plays a very important role in analyzing the past mortality rates, designing policies for the future, assessing the risks involved and balancing the interests of the companies and policy holders.

1.19 Emerging trends in insurance due to globalization:

The globalization influenced the insurance sector in a tremendous way which is otherwise an integral part of national economy. The entry of global players in to the indigenous markets helped the growth of both markets. The driving forces identified for globalization of insurance market are both 'push factors' and 'pull factors'. The near saturation of insurance in developed markets pushes the foreign companies to en cash the emerging opportunities available in the growing markets of developing countries. The requirement of capital, managerial knowhow and technical expertise are the major 'pull factors'.

The benefits of globalization include increased mobilization of savings, more availability of resources for capital markets, increased customer satisfaction due to the presence of innovative products brought in by the foreign companies. The increased competition,
technology driven products and high standards of service help the
customers with better products and processes. The agreement of
WTO(World Trade Organization) arrived at in 1997 by 102 countries
across the globe for removal of entry barriers and liberalization of
markets helped in boosting the insurance sector by paving the way
for flow of funds from developed countries to the developing
countries(ibid, Sadhak, H, 2009).

The push factors for the entry of foreign companies in to
emerging markets are more. For example, in 2003, global life
business declined by 0.8% and however, emerging market life
business grew by 6.6% as against 1.7% decline in developed
industrialized countries. While the share of developing countries
premium income to the total global premium is 10.68%, the share of
developed countries is 89.32%. This indicates the trends of large
scope in emerging markets like India, Pakistan, Sri Lanka and other
Asian countries. (Source: Life Insurance in India, opportunities,
challenges and strategic perspective by H.Sadhak, page 21).

1.20 Life insurance industry in India:

The growth story of life insurance can be grouped in to 2
phases- post nationalization and post liberalization of the industry.
In the post nationalization phase after 1956 the LIC of India made
significant strides with regard to branch expansion, premium
income, life fund, asset growth, claims settlement, social obligations
and for promoting national economy. Some of the growth parameters are depicted in table 1.2.

### Table showing growth trends of LIC of India in post nationalization phase.

<table>
<thead>
<tr>
<th>Sl no</th>
<th>Growth parameter</th>
<th>As on 31st Dec, 1957</th>
<th>As on 31st March, 2000</th>
<th>As on 31st March, 06</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Business in force (Individual assurance)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>No. of policies (in lakh)</td>
<td>56.86</td>
<td>1,013.89</td>
<td>1796.63</td>
</tr>
<tr>
<td></td>
<td>Sum Assured (in Rs crores)</td>
<td>1474</td>
<td>536,450.82</td>
<td>1,282,467.87</td>
</tr>
<tr>
<td>2</td>
<td>Premium Income (in Rs crores)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>First year (in Rs crores)</td>
<td>13.72</td>
<td>4,956.10</td>
<td>12,805.56</td>
</tr>
<tr>
<td></td>
<td>Renewal (in Rs crore)</td>
<td>74.35</td>
<td>19,251.88</td>
<td>56,915.71</td>
</tr>
<tr>
<td></td>
<td>Total Premium (in Rs crore)</td>
<td>88.65</td>
<td>27,461.71</td>
<td>90,759.20</td>
</tr>
<tr>
<td>3</td>
<td>Policy payments</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Death claim (in Rs crore)</td>
<td>7.89</td>
<td>1,637.70</td>
<td>3,769.04</td>
</tr>
<tr>
<td></td>
<td>Maturity claim (in Rs crore)</td>
<td>20.81</td>
<td>7,628.55</td>
<td>24,743.42</td>
</tr>
<tr>
<td></td>
<td>Total Premium (in Rs crore)</td>
<td>28.7</td>
<td>9,266.25</td>
<td>28,512.46</td>
</tr>
<tr>
<td>4</td>
<td>Premium Income (in Rs crore)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>a) Life fund (in Rs crore)</td>
<td>410.41</td>
<td>154,043.73</td>
<td>463,147.62</td>
</tr>
<tr>
<td></td>
<td>b) Total assets (in Rs crores)</td>
<td>465.04</td>
<td>161,002.22</td>
<td>552,447.33</td>
</tr>
<tr>
<td>5</td>
<td>Investment (in Rs crore)</td>
<td>381.9</td>
<td>139,032.15</td>
<td>524,017.25</td>
</tr>
<tr>
<td>6</td>
<td>Government Share (5%) in valuation surplus (in Rs crores)</td>
<td>14.5</td>
<td>2,65.02</td>
<td>621.77</td>
</tr>
<tr>
<td>7</td>
<td>No. of Divisional offices (in numbers)</td>
<td>33</td>
<td>100.00</td>
<td>101.00</td>
</tr>
<tr>
<td>8</td>
<td>Number of Branches (in numbers)</td>
<td>240</td>
<td>2,048</td>
<td>2,048</td>
</tr>
<tr>
<td>9</td>
<td>No. of Agents on roll (in numbers)</td>
<td>207,373</td>
<td>714,615</td>
<td>1,052,283</td>
</tr>
<tr>
<td>10</td>
<td>No. of employees on roll (in numbers)</td>
<td>30,768</td>
<td>122,867</td>
<td>113,184</td>
</tr>
<tr>
<td>11</td>
<td>Expense Ratio</td>
<td>27.30%</td>
<td>21.16%</td>
<td>14.47%</td>
</tr>
</tbody>
</table>

Source: First Statutory Report of LIC (presented to Parliament on 13.03.59 for the first sixteen months from 01/09/56 to 31/12/57) and Annual reports of LIC 1999-2000 and 2005-06.

Life insurance industry in India, as people say, is a sunrise industry. It implies that the potential for growth is tremendous. The insurance sector which was opened up for private participation in the year 2000 has completed nine years in the liberalized environment. Twenty two life insurance and nine general insurance companies have been granted licenses as on 31.03.2009 to conduct insurance business.

A capital amounting to Rs. 9625.28 crore was brought in by private players of which the contribution of foreign partners has been 2174.28 crores as at 31\textsuperscript{st} March, 09. The Average annual growth of
first year premium in the life insurance segment worked at to 47.06 percent and in the non-life segment at was 16.87 percent. The industry services the largest number of life insurance policies in the world.

1.21 Key market indicators:

- Life and non-life insurance market in India Rs. 2,29,175 crores
- (Total Premium) (US $ 54.375 Billion)
- Growth in premium underwritten (World) in 2007-08 in Life: 5.4% and non life 0.7%.
- Geographical restriction for new players: None
- Equity Restriction Foreign promoters can hold up to 26% of equity.


1.22 Number of registered life insurance companies in India as on 31/03/2008:

- Bajaj Allianz Life Insurance Company.
- Ing Vysya Life Insurance Company.
- Reliance Life Insurance Company.
- SBI Life Insurance Company.
- Tata AIG Life Insurance Company.
- HDFC Standard Life Insurance Company.
- ICICI Prudential Life Insurance Company.
- Birla Sunlife Insurance Company.
- Aviva Life Insurance Company.
- Kotal Mahindra Old Mutual Life Insurance Company.
- Max New York Life Insurance Company.
- Met Life Insurance Company.
- Sahara Life Insurance Company.
- Shriram Life Insurance Company.
- Bharathi Axa Life Insurance Company.
- Future Generali Life Insurance Company.
- IDBI Fortis Life Insurance Company.
- Canara HSBC OBC Life Insurance Company.
- Aegon Religare Life Insurance Company.
- DLF Pramerica Life Insurance Company.
- Star Union Dai- Ichi Life Insurance Company.
- LIC of India.

The following table 1.3 shows the distribution of life insurance offices as on 31.03.08.

Table-1.3: Showing distribution of offices of life insurance as on 31/03/08.
The following chart 1.1 shows the distribution of offices of the life insurance companies in India.

(Chart 1.1 showing distribution of offices of life insurance companies in India)

(Source: IRDA Annual Report as at 31/03/08 – page no 10)

The following table 1.4 shows the growth of life insurance industry in terms of branch expansion.

Table-1.4: Showing the growth of life insurance industry in terms of branch expansion from 2001 to 2008.

<table>
<thead>
<tr>
<th>Insurer</th>
<th>2001</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>628</td>
<td>1169</td>
</tr>
<tr>
<td>LIC</td>
<td>311</td>
<td>468</td>
</tr>
<tr>
<td>Total</td>
<td>939</td>
<td>1637</td>
</tr>
</tbody>
</table>
1.23 **Indian life insurance industry- rural penetration--problems and objectives:**

The insurance business registered an impressive growth of 94.96% in 2006-07 surpassing the growth of 47.14% in 2005-06. The insurance penetration of premium volume as ratio of GDP (Gross Domestic Product) for 2006 stood at 4.10% for life insurance and 0.60% for non-life insurance. The level of penetration particularly in life insurance tends to rise as income levels increase. India with its huge middle class house holds has exhibited growth potential for the insurance industry. Saturation of markets in many developed economics has made the Indian market even more attractive for foreign players (Ibid: H.Sadhak).

Though all private players and the LIC have surpassed the rural targets as prescribed by the regulations of IRDA, the gross realities of rural life insurance scenario are as follows:

- Nearly 72% of Indian population resides in villages, with over 80% of them earning less than Rs. 6000/- per month.
- Life insurance penetration as number of policies sold to total rural population is approximately 25% as at 31/03/09.
• India’s life insurance premium as a percentage of GDP is currently estimated at 4.1% against 5.2% in US, 6.5% in UK and about 8% in South Korea. (Valedictory address of D.K. Mehrotra, MD of LIC at the Indian Merchant Chamber on 19th Oct, 07 (Yogakshema, Dec, 07, page no 10). The penetration remained very low in rural areas and is currently hovering at 2.8% of the GDP as at 2005 (H. Sadhak, page no 187).

• The Public sector LIC, though could boast of selling social security coverage to nearly 1 crore BPL families, yet it represents over 20% of 5 crores such families.

• The awareness of social security schemes is very low in the rural areas.

• Many people in the countryside hesitate to buy the policies of private players perceiving them to be unsafe (Dissertation on comparative and competitive analysis of private life insurance companies in India by Pooja Chauhan, page no 25).

• Only 13% of Indian households with annual income less than Rs 45,000 (these people constitute 76 million) had savings bank accounts with any bank and similar proportion had life insurance. (Source: The next billion consumers – a road map to expanding financial inclusion in India – a report by Boston Consultancy Group November, 07, page no 16.).

The above points clearly indicate the availability of high potential for life insurance in the rural sector.
The marketing challenges lie in creating insurance awareness and design the products according to the needs and requirements of the rural people. This includes customization, product pricing, distribution, internal processes and promotions. The cost of effective distribution mechanisms and designing of micro insurance products help in passing on greater benefits to the rural people.

“The rural market for life insurance is very different from the urban market in terms of needs, income levels and distribution (seasonality for example), penetration of media, awareness and so on. Except LIC of India, no other player has paid much attention to the rural sector in spite of their fully meeting the IRDA obligations. Prof. C.K. Prahlad rightly observes that rural market can be highly profitable if one is able to carefully plan and tailor an entire set of low cost activities of advertising, distribution, and product design etc. to successfully exploit the potential” (Dr Ranjan Das and C.Raveendra, IIM, Calcutta)
1.24 The IRDA regulations with regard to rural insurance requirements:

Insurers who begin to transact insurance business in the year 2000 or later are required to underwrite 7%, 9%, 12%, 14% and 16% respectively in the first five years of operations in the rural sector. With regard to social sector, they are required to issue 5000, 7500, 10,000, 15000 20,000 policies on different lives in the first five years respectively.

The rural sector has been defined as the places or areas classified as “rural” while conducting the latest decennial population census. People in the rural areas are largely engaged in agricultural pursuits such as cultivation, agricultural labor, and work in livestock, forestry, fishing, hunting, plantation, orchards and allied activities.

The social sector is defined as including the unorganized sector, the informal sector, the economically vulnerable or backward classes and other categories of persons, both in rural and urban areas. The unorganized sector will include self employed workers such as agricultural labor, bidi workers, brick kiln workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and khadi workers, lady tailors, leather and tannery workers, papad makers, powerloom workers, physically handicapped self employed persons, rikshaw pullers, safai
karmacharis, salt growers, seri culture workers, sugarcane cutters, tendu leaf collectors, toddy toppers, vegetable vendors, washerwomen, working women in hills or such other categories of persons.

1.25 **The objectives:**

In the light of the poor/ unsatisfactory insurance coverage in the rural areas, the objectives of study for the present thesis are determined as follows:

**Objective 1:** To study the rural customer vis-à-vis the life insurance under the following sub-objectives:

- 1.1. To study the awareness levels of rural people with regard to life insurance and their perceptions of private companies with regard to safety aspects.

- 1.2. To study the expectations of the rural customers with regard to type of products and frequency of payment of premiums.

- 1.3. To study the factors that influence customer satisfaction in rural areas.

- 1.4. To study whether the life insurance is equally sought after by both genders in rural areas.

- 1.5. To study the factors that influences the purchase decisions of rural customers with reference to life insurance.
Objective 2: To study the marketing techniques of life insurance companies in rural areas under the following sub-objectives:

- 2.1. To study the knowledge levels of the agents and the motivational factors for the agents in selling rural policies.
- 2.2. To study the effectiveness of advertisement and other promotional activities of life insurance companies.
- 2.3. To study whether the life insurance companies really show interest in rural areas.
- 2.4. To study the pattern of life insurance canvassing in rural areas.
- 2.5. To study the utilization of IT initiatives of the life insurance companies by the customers.
- 2.6. To study the awareness of government subsidized schemes of life insurance and their popularity in rural areas.
- 2.7. To study the rural centric marketing techniques adopted by the life insurance companies in rural areas.

Objective 3: To suggest suitable rural centric marketing management techniques to the life insurance companies for wider rural coverage.
1.26 Research location and rationale:

The survey for doing this research was conducted in the 2 districts of Karnataka viz, Kolar and the Bangalore rural district. The offices of all private insurance companies are located in Bangalore. The agents of these companies spread across major rural centers of these two districts which is not the case for the far off districts. Hence the people of these two districts are better exposed to all insurance players than the people of any other district of Karnataka. The rationale for selecting these two districts being their proximity to the metro city, Bangalore where the branches of all private life insurance companies are present and the customers are exposed to all private players in one way or other. There are 2 other districts viz, Mysore and Tumkur which are also of same distance to the Bangalore Metro. These 2 districts however are not selected as they have more urban characteristics. While the villages in Kolar are 2828, the villages under Tumkur and Mysore are 2452 and 1593 only. While the population of Kolar town as per 2001 census is 1,13,211, the populations of Tumkur Town and Mysore Town are 2,48,592 and 7,42,261 respectively. Due to the presence of large number of players with in the radius of around 200 kms, it gives an excellent opportunity for data collection from rural perspective for the Kolar district.
1.27 **Organization of the study:**

Chapter 1 is an introduction to the topic of study. A brief history of life insurance with reference to world perspective, the origin and growth of the industry, the Indian life insurance industry growth story, the emerging trends in the wake of globalization, the entry of private players, the extent of rural penetration, the IRDA regulations, the importance of insurance to the customers & the society, the objectives of the thesis & the research location and rational are covered.

In chapter 2, a review of literature is presented. An overall view of the existing literature on the subject together with the journals and articles are codified.

The chapter-3 deals with the research design. The rationale of the questions designed in the questionnaire for agents and customers, the analysis of the answers with reference to the object of study, the statistical tools used for the study are presented in this chapter.

In chapter 4, a thorough review of secondary data is made with regard to the rural potential vis-à-vis the rural penetration, the marketing techniques of the top five selected insurance companies as at 31st March,09, the inadequacies found in the existing techniques are studied with the help of secondary data.
In chapter 5, the results obtained by way of statistical analysis of the primary data are presented.

Chapter 6 deals with a discussion of the results presented. Based on the results obtained, reasonable interpretations are drawn and the null hypotheses are either rejected or accepted. The importance of the results is explained. The recommendations for total security cover for the rural people are also incorporated in this chapter.

Bibliography is added at the end of all chapters.

1.28 Summary:

The life insurance is as old as the history of mankind. The scientific concept as such was developed and perfected in the last two to three hundred years. The development of mortality charts and the science of actuaries further provided the impetus. Now all economic activities revolve around risk and insurance is therefore come to central stage of economic activity. Though need for insurance is felt in all financial and economic activities, it is rarely bought and always sold due its intangible nature and lack of proper awareness. This is more felt in rural areas where concept of insurance and the associated uncertainty is viewed with sternness. The need of the hour is more of inclusive insurance where the rural masses are to be further educated and empowered. All rural financial activities need to be inter-twined with insurance for added protection
and for meaningful success of all government activities. The IRDA framed certain guidelines for popularization of insurance in the rural areas and the results are encouraging. Still the progress is not sufficient as most of the companies lack focus on the rural sector and the tendency to view the rural customer as extension of urban customer. There is need to understand the diversities to further segmenting the rural masses for devising structured and scientific products according the specified needs.