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CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

1.1 INTRODUCTION

Insurance sector plays a very important role in the development of any economy as it provides long term funds for infrastructure development and strengthens the risk taking ability. The current scenario in the insurance industry is a complex and competitive environment tinged with little stability. The major hassle the industry faces is obtaining clients. This is due to the fact that the big fish in the insurance industry dominates the sector. It has become increasingly difficult for this particular sector to gain profits while curtailing costs. Insurance is a contract between two parties whereby one party called insurer undertakes, in exchange for a fixed sum called premium to pay the other party an assured sum of money on the occurrence of a certain event. Life insurance protects against the economic loss in the event of death. A family is generally dependent for its food, clothing and shelter on the income brought in by the bread winner of the family. As long as he lives, the family is secure but an unexpected death of the person may put the family in a very difficult situation. Uncertainty of death is inherent in human life. It is this uncertainty that gives rise to the necessity for some form of protection against the financial loss arising from death. Life insurance substitutes this uncertainty by certainty.

In LIC, consumer orientation is gaining much importance. Customer satisfaction is the prime activity of the corporation at all levels of its activities. LIC introduces various schemes to provide safety and security to the lives of the people in the country. The main aim of LIC has been to mobilize the savings of the household
and to offer protection against death and sickness. In recent years, it has also become a medium for saving tax.

Insurance has become important to our national economy. The millions of rupees of annual premiums paid into insurance companies are invested in a wide range of investments to secure sufficient earnings to meet the contracted coverage. In fact, the insurance industry is reported to be second only to the commercial banking industry as a source of investment funds.

To the average untrained person, insurance as a whole is mind boggling and, since it involves one’s hard earned money, it is often scary. There’s no other way to put it. Insurance can be scary. There are so many choices for one’s money and so many people chasing after it that often times it is difficult to decide the best option for a person to take and talk about options! Life insurance, annuities, variable products, continued care insurance, etc., are all voluntary options. One does not have to invest in any of these but one wants for a myriad of reasons. Security for those one’s loved ones, better return on the investment, less risk, retirement, fear of old age, etc., are all good reasons to look at a vehicle to provide those results. Insurance can provide for those reasons but it’s not free. It’s scary!

Throughout most people’s lives, they will have to make some sort of decision relating to these options and will need to make these decisions again and again. New and better insurance products, interest rate changes, family changes, etc., will cause one to relook at one’s position many times. One wants to do the right thing each time but, indeed, it is scary!

From a purely financial perspective, both personal and business, insurance plays a very important role in preserving those hard earned rupees. One has tried so
hard to accumulate rupees and one needs to make the best choice possible with each of those rupees.

At some time one may be asked to exchange one’s life insurance product for another. Insurance is a constantly evolving industry and there are many new products on the market from when one may have entered into his current policy and he may be shown what appears on the surface to be a better deal. Is it a better deal? Should he exchange his old policy for a new one? That is difficult to say without a thorough review of both his old policy and the new policy but particularly his old policy.

1.2 STATEMENT OF THE PROBLEM

Life is full of risk and uncertainties. Since we are the social human beings we have certain responsibilities too. Indian consumers have big influence of emotions and rationality on their buying decisions. They believe in future rather than the present and desire to have a better and secured future. In this direction, life insurance service has its own value in terms of minimizing risk and uncertainties. Indian economy is developing and having huge middle class societal status and salaried persons. Their money value for current needs and future desires have the pendulum moves to another side which generate the reasons behind holding a policy. Insurance industry is a service-oriented unit. It renders services like available space, display adequate information, suggestion box and so on to the policyholders. It is essential that insurance schemes should attract and satisfy the policyholders in different ways. Life insurance has today become a mainstay of any market economy since it offers plenty of scope for garnering large sums of money for long periods of time.

Ever since its inception in 1956, the life insurance companies in India have been providing better service to the society. The policyholders once when they
become a part of the LIC feel free about the safety of their wards. The families of the non-policyholders meet out uncertainty on the death of the bread winner. So, there is an attraction towards life insurance. People who care much about them and their families become policyholders of life insurance. The tastes and preferences of policyholders are indifferent. The LIC of India has been introducing variety of policies suiting the tastes and preferences of the policyholders.

It is observed that many policyholders have taken more than one policy. It is a clear indication that they are very much interested in utilizing maximum benefits from LIC. Some people give due importance to money value and high returns on their investments. But greater risks are inherent advantages expected from LIC products. One can continuously utilize the corporation in various ways by becoming a LIC policyholder. The extent of utilization of LIC policies also differs from person to person for the above said reasons. Excess utilizations represent the value and the number of LIC products purchased and thereby availing multifarious utilities and services offered by the LIC.

The advent of private foreign insurance companies in India has become a competition of the LIC of India. The policyholders once satisfied with the service of the LIC of India started evaluating the services of the LIC of India with the other private insurance companies. Thus, the attitude of the policyholders towards the LIC of India has started changing in the present days. There are murmurs at different corners as to the services of the LIC of India.

More and more new private insurance companies coming up year after years. And, these new and private insurance companies adopt aggressive marketing strategies to introduce their products called policies and to attract the potential policyholders. It is witnessed that new policies like ULIPs are aggressively marketed
by these new private life insurance companies. It is in this context this study has been undertaken to analyze the perceptions and preferences of policyholders towards insurance products offered by Life Insurance Corporation of India in the study area.

1.3 OBJECTIVES OF THE STUDY

The following are the objectives of the study:

1. To know the perceptions and preferences of policyholders towards insurance products offered by LIC of India in Tirunelveli district.

2. To find out the satisfaction level of policyholders about the various products offered by LIC of India in Tirunelveli district.

3. To identify the main factors influencing the perceptions and preferences of policyholders towards insurance products offered by LIC of India in Tirunelveli district.

4. To find out the problems faced by the policyholders of LIC of India in Tirunelveli district.

5. To offer suitable suggestions to overcome the problems.

1.4 HYPOTHESES OF THE STUDY

The following hypotheses were framed and tested for the present study:

- There is no significant difference in preferences towards insurance products of LIC of India among different age group of policyholders in Tirunelveli District.

- There is no significant difference in preferences towards insurance products of LIC of India among different gender group of policyholders in Tirunelveli District.
There is no significant difference in preferences towards insurance products of LIC of India among different marital status of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different educational qualification of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different occupational status of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different types of family of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different area of residence the policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different nature of residence of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different monthly family income of policyholders in Tirunelveli District.
There is no significant difference in preferences towards insurance products of LIC of India among different monthly savings of policyholders in Tirunelveli District.

There is no significant difference in preferences towards insurance products of LIC of India among different mode of payment of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different age group of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different gender group of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different marital status of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different educational qualification of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different occupational status of policyholders in Tirunelveli District.

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There is no significant difference in satisfaction towards services of LIC of India among different monthly savings of policyholders in Tirunelveli District.

There is no significant difference in satisfaction towards services of LIC of India among different mode of payment of policyholders in Tirunelveli District.

1.5 SCOPE OF THE STUDY

This study focuses on the factors influencing policyholder’s perceptions and preferences. Further, this study focuses on identifying the present potential of the company’s products and aims at identifying the best-set promotional activity to be carried to improve the sales.
1.6 AREA OF THE STUDY

The study was conducted in Tirunelveli District. And, the study area consists of the following taluks:

1. Tenkasi,
2. Alangulam,
3. Sivagiri,
4. Puliangudi,
5. Tirunelveli,
6. Palayamkottai,
7. Shenkottai,
8. Nanguneri,
9. Ambasamuthiram,
10. Radhapuram,
11. Veerakeralampudur.

1.7 PERIOD OF THE STUDY

The study was conducted during 2010-2013. The required primary data were collected during November 2011 to February 2012.

1.8 OPERATIONAL DEFINITION OF CONCEPTS

1.8.1 LIFE INSURANCE

Life insurance is a contract between a person and an insurance company for a number of years covering either the life term or a fixed number of years.
1.8.2 POLICYHOLDER

Policyholder means one who takes the policy from the insurance company. A policyholder takes the policy based on his age, income. The policyholders get the maturity value on the maturity date. If death occurs, the nominee of the policyholder receives the claim amount from the insurance company.

1.8.3 PERCEPTION

It is defined as the process by which an individual selects, organizes and interprets stimuli into a meaningful and coherent way. It is how we see the world around us. Two persons subject to the same stimulus under the same conditions will react differently. A stimulus is any unit of input to any of the senses. The study of perception is largely the study of what we subconsciously add to or subtract from raw sensory to produce our own private picture of the world.

1.8.4 PREFERENCE OF POLICYHOLDER

Preference of policyholders denotes the way in which policyholders look at the various aspects related to insurance products of LIC of India.

1.8.5 PREMIUM

Premium is the consideration that the policyholder has to pay in order to secure the benefits offered by the insurance policy. It can be looked upon as the price of the insurance policy. It may be a one-time payment or periodical payment (Monthly Quarterly, Half yearly, yearly). A default in premium can endanger the continuance of the policy. If that happens, the policy will be treated as lapsed one.
1.8.6 CLAIMS

A claim is the demand that the insurer should redeem the promise made in the contract. The insurer has then to perform his part of the contract i.e. settle the claims, after satisfying himself that all the conditions and requirements for settlement of claim have been complied with.

1.8.7 AGENT

An insurance company representative licensed by the state, who solicits, negotiates or effects contracts of insurance, and provides service to the policyholder for the insurer.

1.8.8 BENEFICIARY

The person named in the policy to receive the insurance proceeds at the death of the insured.

1.8.9 CASH SURRENDER VALUE

The amount of money payable to a policyholder who purchased insurance with a savings element in it, when he or she stops paying premiums before the maturity date of the policy.

1.8.10 FACE VALUE

The amount stated on the face of the policy that will be paid in case of death of the insured or at the maturity of the contract. Dividend additions or additional amounts payable under accidental death or other special provisions are above the face value.

1.8.11 INSURED

Insured is the person on whose life an insurance policy is issued.
1.8.12 LIMITED PAYMENT LIFE INSURANCE

It refers to whole life insurance on which premiums are payable for a specified number of years or until death if death occurs before the end of the specified period.

1.8.13 POLICY

The printed document stating terms of the insurance contract issued to the policyholder by the company.

1.8.14 POLICY LOAN

A loan made by an insurance company to a policyholder on the security of the policy's cash value.

1.8.15 STRAIGHT LIFE INSURANCE

Whole life insurance on which premiums are payable for the life of the insured, at whose death the face value is paid to the dependents.

1.8.16 TERM INSURANCE

Insurance payable to a beneficiary at the death of the insured while the policy is in force.

1.8.17 SAVINGS AND INVESTMENTS

Savings and investments in insurance is a means to save and invest. One’s periodic premiums are like savings and one is assured of a lump sum amount on maturity. A policy can come in handy at the time of one’s child’s education or marriage! Besides, it can be used as supplemental retirement income.
1.9 METHODOLOGY OF THE STUDY

1.9.1 DATA USED

The study was based on survey method. The theme of the study was to find the policyholders’ perceptions and preferences towards various insurance products offered by Life Insurance Corporation of India in Tirunelveli District. The study is based on both primary and secondary data.

1.9.2 PRIMARY DATA

Primary data refer to data that are collected afresh for the first time and that is original in nature. The required primary data are collected through interview schedule.

1.9.3 SECONDARY DATA

Secondary data are that data that have been collected by someone else and which have already been passed through the statistical process. Secondary data here have been collected from company records, product profile of the company, newspapers, magazines and general discussion with company channels.

1.10 CONSTRUCTION OF INTERVIEW SCHEDULE

1.10.1 INTERVIEW SCHEDULE

An interview schedule is a list of questions to ask the interviewee. An interview schedule is prepared to effectively find out useful and accurate information. As a first step a pilot study was conducted from 5 respondents each in every taluk comprising a total of 55 respondents. An interview was conducted from them with the help of an interview schedule and identified the right questions and deleted the unnecessary questions and thereby the interview schedule was finished on the basis of the results arrived at. The finalized schedule was supplied to all the respondents and the process of analysis was proceeded.
1.11 SAMPLE SIZE

Sample size for this study is 550 and they were selected from the branch offices of LIC of India in Tirunelveli District.

1.12 SAMPLING DESIGN

The researcher had adopted disproportionate stratified random sampling method to select the sample policyholders. There are eight branch offices located in Tirunelveli District. The policies issued are 2, 49,151 and through them the premium collected is Rs. 2850.57 crores in during 2012. To conduct this study with regard to the utilization of the LIC services by the policyholders particularly the policyholders in early 2012, 550 sample policyholders were selected. For selecting the respondents the following process was adopted: ¹

Out of the total respondents scattered in 11 taluks of the Tirunelveli District and among nearly 2.5 lacks policyholders continuously paying the premium at present, 50 respondents in each taluk are selected as sample respondents. Thus, the total sample selected is 550 in the whole district.

1.13 TOOLS OF ANALYSIS

To analyze the collected data and thereby to draw inferences, the following statistical tools have been used. The chi-square test and ANOVA test were used to test the formulated hypotheses of the study. The Garrett ranking method was used to find out rank the problems encountered by the policyholders in availing insurance services from the life insurance companies. Further, factor analysis, correlation technique and average score analysis were used to draw inferences.

¹ www.tirunelvelidistrictprofile.com
The collected data had been processed with the help of appropriate statistical tools. The statistical tools were selected on the basis of the objectives of the study and also the nature of data included for the analysis. The details of statistical tools and its relevance of application are summarized below:

1.13.1 CHI-SQUARE TEST

Chi-square is a statistical test commonly used to compare observed data with data we would expect to obtain according to a specific hypothesis. For example, if, according to Mendel's laws, you expected 10 of 20 offspring from a cross to be male and the actual observed number was 8 males, then you might want to know about the "goodness to fit" between the observed and expected. Were the deviations (differences between observed and expected) the result of chance, or were they due to other factors. How much deviation can occur before you, the investigator, must conclude that something other than chance is at work, causing the observed to differ from the expected. The chi-square test is always testing what scientists call the null hypothesis, which states that there is no significant difference between the expected and observed result.

The formula for calculating chi-square (\( \chi^2 \)) is:

\[ \chi^2 = \frac{(o-e)^2}{e} \]

That is, chi-square is the sum of the squared difference between observed \( o \) and the expected \( e \) data (or the deviation, \( d \)), divided by the expected data in all possible categories.
1.13.2 ANOVA

ANOVA test is used by the researcher to find the significant differences existing among the three or more sample groups in relation to a variable. The total variance in a set of data is divided into variation within groups and variation between groups.

The ANOVA technique is based on the concept of sum of squared deviations from a mean. Correspondingly to the total variance and its two components, we have the total sum of squares (SS), between groups sum of squares (SS_b), within groups of squares (SS_w) is obtained by combining the sum squares i.e., the squared deviations of every raw score from its sample mean. The formula used is

\[ SS_w = \sum d_1^2 + \sum d_2^2 + \sum d_3^2 + \sum d_4^2 + \sum d_5^2 + \ldots \ldots \ldots \ldots \ldots \ldots \sum d_n^2 \]

Where \( d \) = a deviation of every raw score of a category from its sample mean.

Between groups sum of squares (SS_b) is by calculating the difference between each sample mean and the total mean. The squared difference is multiplied by the sample size in the concerned category and these quantities. The formula is

\[ SS_b = \sum [(X-X_1)^2 \times n] \]

Where,

\( X = \) any sample mean

\( X_1 = \) the total mean

\( n = \) the number of scores in any sample

\( SS_b = \) the between groups sum of squares

The total sum of squares (SS_1) is equal to a sum of within and between groups sum of squares.

\[ SS_1 = SS_b + SS_w \]
1.13.3 MEAN SQUARE

The value of the sums of squares tends to become larger as variation increases and also as sample size increases. The mean square (or variance) is obtained by dividing SS_b or SS_w by the appropriate degrees of freedom.

\[ MS_b = \frac{SS_b}{df_b} \]
\[ MS_w = \frac{SS_w}{df_w} \]

Where,
- \( MS_b \) = the between- groups mean squares
- \( MS_w \) = the within – group mean squares
- \( df \) = the degrees of freedom
- \( df_b = k-1 \)
- \( df_w = n_1-k \)

Where,
- \( k \) = the number of samples (groups)
- \( n \) = the total number of scores in all samples combined.

1.13.4 T-TEST

‘T’ test is used to study the significant differences among two groups of samples with respect to a variable. It is also used to test the significance of a correlation co-efficient calculated among two variables. In the study for the latter purpose ‘t’ test is employed. Theoretical work on t-distribution was done by W.S. Gosset in the early 1900. The “t-statistic” is defined as:

\[ t = \frac{\bar{x} - \mu}{S} \times \sqrt{n} \]
Where, $S = \sqrt{\frac{2(x - x^2)}{n-1}}$

The t-distribution is derived mathematically under the assumption of a normal distribution as:

$$f(t) = C \left( 1 + \frac{t^2}{\nu} \right)^{-\nu/2}$$

Where, $t = \frac{(X - \mu)}{S} \sqrt{n}$

$C$ = a constant required to make the area under the curve equal to unity.
$v = n-1$, the number of degrees of freedom.

To test the significance of the correlation coefficient the following formula is used:

$$t = \frac{r}{\sqrt{1 - r^2}} \times \sqrt{n - 2}$$

Where, $t$ is based on (n-2) degrees of freedom.

If the calculated value of $t$ exceeds $t_{0.05}$ for (n-2), d.f., the value of $r$ is significant at 5% level. If $t < t_{0.05}$ the data are consistent with the hypothesis of an uncorrelated population.

1.13.5 GARRETT’S RANKING TECHNIQUE

To find out the preference of policyholders towards LIC products, Garrett’s ranking technique was used. As per this method, respondents have been asked to assign the rank for all factors and the outcomes of such ranking have been converted into score value with the help of the following formula:

$$\text{Per cent Position} = \frac{100(Rij - 0.5)}{Nj}$$

Where,
Rij = Rank given for the ith variable by jth respondents

Nj = Number of variable ranked by jth respondents

With the help of Garrett’s Table, the per cent position estimated is converted into scores. Then for each factor, the scores of each individual are added and then total value of scores and mean values of score is calculated. The factors having highest mean value is considered to be the most important factor.

1.13.6 FACTOR ANALYSIS

Factor analysis is a statistical tool employed to find out the factors motivated the policyholders to take policy.

The factor analysis model in matrix notation is given by

\[ X = Af + e \]

Where,

\[ X = (x_1, x_2, x_3 \ldots, x_p) \]

\[ F = (f_1, f_2, f_3 \ldots, f_m) \]

\[ E = (e_1, e_2, e_3 \ldots, e_p) \]

M = Number of factors

And the relevant matrix is

\[
A = \begin{bmatrix}
    a_{11} & a_{12} & \ldots & \ldots & \ldots & a_{1m} \\
    a_{21} & a_{22} & \ldots & \ldots & \ldots & a_{2m} \\
    \vdots & \vdots & \ddots & \ddots & \ddots & \vdots \\
    \vdots & \vdots & \ddots & \ddots & \ddots & \vdots \\
    a_{p1} & a_{p2} & \ldots & \ldots & \ldots & a_{pm}
\end{bmatrix}
\]
Where $a_{ij}$ is the factor loading which give net correlation between the variables $x_i$ and factor $f_j$. (Where $i = 1, 2, .. p$ and $j = 1, 2, 3, .. m$). It is assumed that the error variables (e) are distributed independently of f and p and e as a multi-variable normal distribution.

1.14 LIMITATIONS OF THE STUDY

The following are limitations of the study:

- The study is restricted to Tirunelveli District only and the findings and suggestions may not be applied to other areas.
- Collection of data was a tedious process as respondents could be contacted only when they visit the branch offices of LIC of India.
- The results of the primary data are solely dependent on the trustworthiness of the respondents.
- The data were collected only from 550 respondents.

1.15 CHAPTER SCHEME

The present study has been organized in six chapters.

The first chapter deals with introduction of the study and research design. It includes statement of the problem, objectives of the study, methodology of the study, hypotheses of the study, tools of analysis, and limitations of the study and chapter scheme.

The second chapter consists of review of literature.

The third chapter deals with profile of the study unit. It includes types of insurance, brief history of insurance, objectives of LIC of India, organizational
structure and operation of LIC in all over India, life insurance companies in India, growth of Indian insurance industries and insurance products offered by LIC of India.

The fourth chapter deals with analysis and interpretation of perceptions of the policyholders.

The fifth chapter includes analysis and interpretation of preferences and satisfaction of the policyholders.

The sixth chapter envisages findings, suggestions and conclusion.