3.1 Introduction

Life insurance plays an important role in individuals and families financial lives because it is a hedge against the loss of income following the death of an earner. Premature death of a family head can bring serious financial consequences for the surviving family members because the family head’s earnings are lost forever leaving unfulfilled financial obligations, such as dependents to support, children to educate, and a mortgage to repay. Life insurance allows individuals and families to share the risk of premature death with many others and to alleviate the financial loss from the premature death of the primary wage earner. Thus, the main reason for the purchase of life insurance is to provide financial security for the family. There is more to it, however; people also buy life insurance as a medium to long-term tax favored savings and investment vehicle.

There are two methods to provide life insurance protection: term insurance and cash value insurance. Term life insurance provides protection for a limited period but permits the policyholder to renew the policy without evidence of insurability if the policy is guaranteed renewable. The right to renew, however, is limited to a specified age and the premiums increase with age as the probability of death increases. The benefits from term life insurance are paid only if the insured dies within the period of validity. Cash value life insurance not only pays the death benefit to the beneficiaries of the insured but also has a saving component built into the policy. In many cash value policies, the premium remains level throughout the life of the policy. The premiums paid in the early years are excessive relative to current death claims, whereas the premiums paid in the later years are inadequate relative to the probability of death. The excess premiums paid in the early years are invested by the insurance company at a compound rate of return to accumulate cash, and the
accumulated funds are then used to supplement the inadequate premiums paid during the later years of the policy. The manner of investing and building up the cash value is regulated by contract and law, and is usually referred to as a legal reserve. The difference between the face amount of the policy and the legal reserve is called the net amount at risk or, literally, the insurance. Thus, a cash value life insurance policy combines an element of protection (the net amount at risk) and an element of savings (the legal reserve). The policyholder has the right to borrow the cash value or surrender the policy for the cash value without tax liability.

3.1.1 Direct Benefits of taking a Life Insurance Plan

As discussed earlier, Life insurance is usually taken by the earning member(s) of the family to ensure that in case of their death, and hence their source of income ceasing to exist, the dependent family members would have a lump-sum amount to fall back on. So by paying a small amount every year the earning member of the family can ensure that the future of their loved ones is absolutely secure from a financial point of view. So in the event of death of an insured person, the nominee of the policy would receive an amount called the sum assured which can then be used effectively to plan for their future.

Life insurance is absolutely critical for everyone irrespective of the amount of income policy holder invest or currently earn, unless policy holder have saved enough to ensure that his family can comfortably live with the savings alone and not everyone can manage to do this even with high salary and income levels. Imagine, living in a great house, policy holder have taken on loan and his family not being able to live in it, just because they do not have the income to keep paying the monthly EMI of the home loan.

i. Provides for Loss of Income: In case of the policy holder’s death, the dependents will suddenly be left without a constant source of income. The future requirements of the dependent members too would be hugely compromised with them having to settle for options which are not as good
as policy holder would have wanted if policy holder were around. With a good amount of life insurance cover, policy holder can ensure that his family is not left high and dry along with emotional trauma of his absence. It is one of the most important reasons for taking a life insurance policy.

ii. Protects policy holder Assets: In policy holder absence, policy holder family should not have to resort to selling the assets which policy holder accumulated with his hard work. In the event that there is no source of income, policy holder family would have to sell assets like land, home, vehicle, jewellery which policy holder had so lovingly purchased. The comforts that a policy holder wanted to provide to his family should not be taken away from them to make do for their day-to-day living. In case policy holders are adequately ensured, all policy holders loans and policy holder family’s financial future would be well taken care of.

iii. Financial Planning: Life insurance policies can also be taken for sound financial planning depending on policy holder’s requirements and risk appetite. For the conservative investors (policy holders) there are a host of traditional policies like money back insurance policies and endowment plans to provide income to policy holder at regular intervals of time. The more, market friendly policy holders can choose ULIPs (Unit Linked Insurance Plans) to plan their future. There is a higher element of risk involved with ULIPs but the gains too can potentially be on the higher side. Ideally each individual should assess his/her requirements and choose their investment options and time horizon.

iv. Tax Savings: One of the key reasons, people buy life insurance is to avail tax benefits under section 80C up to the limit of ` 1,00,000 annually. Money paid as premium of Life Insurance policies is exempted from income tax and the proceeds from a life insurance policy on maturity also get tax exemption under section 10(10D) of the income tax.
3.1.2 Growth of Life Insurance Business in India

Life insurance industry contributes to the financial sector of an economy and also provides an important social security net in developing countries. The growth of the life insurance sector in India has been phenomenal. The insurance industry has undergone a massive change over the last few years and the metamorphosis has been noteworthy. There are numerous private companies and government insurance (LIC) company in India that have become synonymous with the term insurance over the years. Offering a diversified product portfolio and excellent services the many insurance companies in India have managed to make their way into almost every Indian household.

<table>
<thead>
<tr>
<th>Year</th>
<th>Life</th>
<th>Non-Life</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Density (USD)</td>
<td>Penetration (Percentage)</td>
<td>Density (USD)</td>
</tr>
<tr>
<td>2001-02</td>
<td>9.10</td>
<td>2.15</td>
<td>2.40</td>
</tr>
<tr>
<td>2002-03</td>
<td>11.70</td>
<td>2.59</td>
<td>3.00</td>
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<tr>
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<td>12.90</td>
<td>2.26</td>
<td>3.50</td>
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<tr>
<td>2004-05</td>
<td>15.70</td>
<td>2.53</td>
<td>4.00</td>
</tr>
<tr>
<td>2005-06</td>
<td>18.30</td>
<td>2.53</td>
<td>4.40</td>
</tr>
<tr>
<td>2006-07</td>
<td>33.20</td>
<td>4.10</td>
<td>5.20</td>
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<tr>
<td>2007-08</td>
<td>40.40</td>
<td>4.00</td>
<td>6.20</td>
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<tr>
<td>2008-09</td>
<td>41.20</td>
<td>4.00</td>
<td>6.20</td>
</tr>
<tr>
<td>2009-10</td>
<td>47.70</td>
<td>4.60</td>
<td>6.70</td>
</tr>
<tr>
<td>2010-11</td>
<td>55.70</td>
<td>4.40</td>
<td>8.70</td>
</tr>
</tbody>
</table>


The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 55.7 in 2010. Similarly, insurance penetration had gone up from 2.15 per cent in 2001 to 4.60 in 2009, before slipping to 4.40 per cent in 2010.
TABLE: 3.2
PROFILE OF LIFE INSURANCE SECTOR

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of Companies (Values in Nos)</th>
<th>No. of branch offices (Values in Nos)</th>
<th>Insurance penetration (Values in per cent)</th>
<th>Insurance density (Values in US $)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>13</td>
<td>2306</td>
<td>2.15</td>
<td>9.10</td>
</tr>
<tr>
<td>2002-03</td>
<td>13</td>
<td>2445</td>
<td>2.59</td>
<td>11.70</td>
</tr>
<tr>
<td>2003-04</td>
<td>13</td>
<td>2612</td>
<td>2.26</td>
<td>12.90</td>
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<td>2004-05</td>
<td>14</td>
<td>3001</td>
<td>2.53</td>
<td>15.70</td>
</tr>
<tr>
<td>2005-06</td>
<td>15</td>
<td>3865</td>
<td>2.53</td>
<td>18.30</td>
</tr>
<tr>
<td>2006-07</td>
<td>16</td>
<td>5373</td>
<td>4.10</td>
<td>33.20</td>
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<td>2007-08</td>
<td>18</td>
<td>8913</td>
<td>4.00</td>
<td>40.40</td>
</tr>
<tr>
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<td>4.00</td>
<td>41.20</td>
</tr>
<tr>
<td>2009-10</td>
<td>23</td>
<td>12018</td>
<td>4.60</td>
<td>47.70</td>
</tr>
<tr>
<td>2010-11</td>
<td>23</td>
<td>11546</td>
<td>4.40</td>
<td>55.70</td>
</tr>
</tbody>
</table>


The number of insurance companies stood at 48 at the end of 2010-11, consisting of 23 life insurers. The insurance penetration was 2.15 percent in the year 2001 when the sector was opened up for private sector. It increased to 4.40 per cent in 2010. The total insurance density stood at USD 64.4 in 2010 and the life insurance valued at USD 55.70. The number of life insurance companies’ branches has risen from 2306 in 2001 to 11546 in 2010.

TABLE: 3.3
BUSINESS FIGURES OF LIFE INSURANCE SECTOR

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of new policies issued (Values in lakhs)</th>
<th>First year premium (including single premium) (Values in crore)</th>
<th>Total Premium (Values in crore)</th>
<th>Market share of LIC (based on Total Premium) (Values in per cent)</th>
<th>Individual Business in Force (Number of Policies) (Values in thousands)</th>
<th>Individual Business in Force (Sum Assured) (Values in crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>-</td>
<td>19857</td>
<td>50094</td>
<td>99.46</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2002-03</td>
<td>253.71</td>
<td>16942</td>
<td>55748</td>
<td>97.99</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2003-04</td>
<td>286.27</td>
<td>19788</td>
<td>66654</td>
<td>95.32</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2004-05</td>
<td>262.11</td>
<td>26218</td>
<td>82855</td>
<td>90.67</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2005-06</td>
<td>354.62</td>
<td>38786</td>
<td>105876</td>
<td>85.75</td>
<td>193601</td>
<td>1554045</td>
</tr>
<tr>
<td>2006-07</td>
<td>461.52</td>
<td>75649</td>
<td>156076</td>
<td>81.90</td>
<td>45963</td>
<td>3857531</td>
</tr>
<tr>
<td>2007-08</td>
<td>508.74</td>
<td>93713</td>
<td>201351</td>
<td>74.39</td>
<td>257911</td>
<td>2396646</td>
</tr>
<tr>
<td>2008-09</td>
<td>509.23</td>
<td>87331</td>
<td>221785</td>
<td>70.92</td>
<td>291618</td>
<td>2913703</td>
</tr>
<tr>
<td>2009-10</td>
<td>532.25</td>
<td>10984</td>
<td>265447</td>
<td>70.10</td>
<td>318927</td>
<td>3338541</td>
</tr>
<tr>
<td>2010-11</td>
<td>481.52</td>
<td>126381</td>
<td>291605</td>
<td>69.78</td>
<td>329187</td>
<td>3856219</td>
</tr>
</tbody>
</table>

The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2010-11 was ₹1,26,381 crores as compared to ₹10,984 crore in 2009-10 registering a lower growth of 15 per cent against 25.84 per cent of 2009-10. The total premium earning of the life insurance business had risen from ₹50,094 to ₹2,91,605 crores. In the case of life insurance, the individual new business premium under this segment stood at ₹130 crores under 36.51 lakhs policies in 2010-11. The same for the group business amounted to ₹155 crores premium under 1.52 crore lives. LIC contributed most of the business procured in this portfolio by garnering ₹123 crores of individual premium from 29.51 lakhs policies and ₹138 crores of group premiums. Life insurance industry recorded a premium income of ₹2,91,605 crores during 2010-11 as against ₹2,65,447 crores in the previous financial year, registering a growth of 9.85 per cent. While private sector insurers posted 11.04 per cent growth (23.06 per cent in previous year) in their premium income, LIC recorded 9.35 per cent growth (18.30 per cent in previous year).

On the basis of total premium income, the market share of LIC declined marginally from 70.10 per cent in 2009-10 to 69.78 per cent in 2010-11. Accordingly, the market share of private insurers has gone up marginally from 29.90 per cent in 2009-10 to 30.22 per cent in 2010-11. The market share of private insurers in first year premium was 31.15 per cent in 2010-11 (34.92 per cent in 2009-10). The same for LIC was 68.85 per cent (65.08 per cent in 2009-10). However, in renewal premium, LIC had a higher share of 70.49 per cent (73.64 per cent in 2009-10) when compared to 29.51per cent (26.36 per cent in 2009-10) share of private insurers.
TABLE: 3.4
INTERMEDIARIES OF LIFE INSURANCE SECTOR

<table>
<thead>
<tr>
<th>Year</th>
<th>No. of individual agents (Values in Nos)</th>
<th>No of corporate agents (Values in Nos)</th>
<th>Commission paid (Values in lakhs)</th>
<th>Operating Expenses related to Insurance Business (Values in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001-02</td>
<td>476902</td>
<td>275</td>
<td>456691</td>
<td>467417</td>
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<tr>
<td>2002-03</td>
<td>1038802</td>
<td>757</td>
<td>515273</td>
<td>545115</td>
</tr>
<tr>
<td>2003-04</td>
<td>1556817</td>
<td>2436</td>
<td>615838</td>
<td>642483</td>
</tr>
<tr>
<td>2004-05</td>
<td>481250</td>
<td>819</td>
<td>709861</td>
<td>821560</td>
</tr>
<tr>
<td>2005-06</td>
<td>1423839</td>
<td>216</td>
<td>863548</td>
<td>961105</td>
</tr>
<tr>
<td>2006-07</td>
<td>1993199</td>
<td>656</td>
<td>1226864</td>
<td>1358584</td>
</tr>
<tr>
<td>2007-08</td>
<td>2520492</td>
<td>2415</td>
<td>1468058</td>
<td>2030673</td>
</tr>
<tr>
<td>2008-09</td>
<td>2937435</td>
<td>2506</td>
<td>1549598</td>
<td>2583190</td>
</tr>
<tr>
<td>2009-10</td>
<td>3742439</td>
<td>2930</td>
<td>1803559</td>
<td>2890628</td>
</tr>
<tr>
<td>2010-11</td>
<td>2639392</td>
<td>2165</td>
<td>1828029</td>
<td>3294230</td>
</tr>
</tbody>
</table>


The year 2010-11 witnessed 11.38 per cent decrease in the number of individual agents. The number has gone down from 37.42 lakhs as on 31st March, 2010 to 26.39 lakhs as on 31st March, 2011. While the private life insurers recorded a decrease of 17.34 per cent, LIC showed a decrease of 4.69 per cent. LIC has more number of individual agents than all private life insurers put together. At the end of the year, while the number of agents with LIC stood at 13.37 lakhs, the corresponding number for private sector insurers was 13.02 lakhs.

As on 31st March 2011, there were 2,165 corporate agents. When compared to 31st March 2010, the number of corporate agents in life insurance fell drastically by 765 (26 per cent). While 1,935 new agents were added during 2010-11, licenses of 2,700 corporate agents were cancelled. LIC has terminated 231 corporate agents when compared to 16 new recruitments. The private insurers have terminated 2,469 corporate agents while recruiting 1,919 new corporate agents.

The operating expenses of the life insurers increased from `467417 lakhs in 2001 by 704 per cent in 2010-11 (11.84 per cent in 2009-10). The
operating expenses towards life insurance business were `. 32,94,230 lakhs in 2010-11 as against `.28,90,628 lakhs in 2009-10.

**TABLE: 3.5**

POLICYHOLDER’S SERVICES OF LIFE INSURANCE SECTOR

<table>
<thead>
<tr>
<th>Year</th>
<th>No.of Claims submitted (Individual) (Values in Nos)</th>
<th>No.of Claims submitted (Group) (Values in Nos)</th>
<th>Amount Claimed (Individual) (Values in crore)</th>
<th>Amount Claimed (Group) (Values in crore)</th>
<th>Total Benefit Paid (Values in lakhs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1747952</td>
</tr>
<tr>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>2004</td>
<td>-</td>
<td>-</td>
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<td>2875133</td>
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<td>-</td>
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<tr>
<td>2006</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5571501</td>
</tr>
<tr>
<td>2007</td>
<td>577322</td>
<td>162837</td>
<td>4625.95</td>
<td>1114.31</td>
<td>6168637</td>
</tr>
<tr>
<td>2008</td>
<td>640620</td>
<td>264138</td>
<td>5279.02</td>
<td>1383.04</td>
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</tr>
<tr>
<td>2009</td>
<td>762435</td>
<td>309151</td>
<td>6541.04</td>
<td>1678.77</td>
<td>9556491</td>
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<td>2010</td>
<td>851534</td>
<td>436201</td>
<td>8286.40</td>
<td>2118.01</td>
<td>14215045</td>
</tr>
</tbody>
</table>


Protection of the interests of policyholders in matters concerning assigning of policy, nomination by policyholders, insurable interest, settlement of insurance claim, surrender value of policy and other terms and conditions of contracts of insurance. Over 95 per cent of the total individual death claims intimated have been paid by life insurers in each of the last five years. While about 2 per cent were repudiated, another 2 per cent were pending settlement as at the end of each of the five years. The claim settlement ratio of LIC was better than that of the private life insurers. Settlement ratio of LIC increased to 97.03 per cent during the year 2010-11 when compared to 96.54 per cent during the previous year. The per cent of repudiations declined from 1.21 per cent in the previous year to 1.00 per cent in 2010-11. Similarly for private insurers, settlement ratio has gone up to 86.04 per cent during the financial year 2010-11 when compared to 84.87 per cent during the previous year. Private insurers repudiated a larger number of claims when compared to LIC. The per cent of repudiations increased to 8.90 per cent in 2010-11 from 7.61 per cent in
2009-10. Overall, the industry’s settlement ratio has improved slightly at 95.58 per cent in 2010-11 from 95.24 per cent in 2009-10 and the repudiation ratio has also gone up to 2.04 per cent in 2010-11 from 1.93 per cent in 2009-10. The ratio of claims written back has, however, declined at 0.45 per cent as against 0.75 per cent in the previous year.

The life insurance industry paid higher gross benefits of `1,42,15,045 crore in 2010-11 (`95,56,491 lakhs in 2009-10) constituting 48.88 per cent of the gross premium underwritten (36.10 per cent in 2009-10). It was recorded as `1,74,79,525 lakhs in 2001. The benefits paid by the private insurers which stood at `31,251 crore (`16,658 crore in 2009-10), showed an increase of 87.60 per cent constituting 35.46 per cent of the premium underwritten (20.99 per cent in 2009-10). LIC paid benefits of `1,11,273 crore in 2010-11, constituting 54.69 per cent of the premium underwritten (`79,162 crore in 2009-10, 42.54 per cent of the total premium underwritten). The benefits paid by the life insurers net of reinsurance were `1,42,196 crore (`95,565 crore in 2009-10). There has been a significant increase in the benefits paid on account of surrenders/withdrawals which stood at `76,712 crore, of which LIC accounted for `49,774 crore and private sector `26,938 crore. The comparative previous year statistics were `36,225 crore, of which LIC accounted for `22,395 crore and private sector `13,830 crore. In case of LIC, out of the `49,774 crore surrenders, ULIP policies accounted for `40,761 crore (82 per cent) as against `11,125 crore (50 per cent) in 2009-10. In case of the private insurance industry, the surrenders accounted for `26,207 crore (97 per cent) in ULIPs for 2010-11 as against `12,959 crore (94 per cent) in 2009-10.
TABLE: 3.6  
REGION WISE DISTRIBUTION OF OFFICES 
OF LIFE INSURANCE SECTOR  
(Values in Nos)

<table>
<thead>
<tr>
<th>Year</th>
<th>Metro</th>
<th>Urban</th>
<th>Semi-Urban</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>549</td>
<td>1347</td>
<td>2159</td>
<td>1318</td>
<td>5373</td>
</tr>
<tr>
<td>2007</td>
<td>939</td>
<td>637</td>
<td>3540</td>
<td>2797</td>
<td>8913</td>
</tr>
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<td>2009</td>
<td>1244</td>
<td>2105</td>
<td>4530</td>
<td>4139</td>
<td>19575</td>
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<tr>
<td>2010</td>
<td>1132</td>
<td>1988</td>
<td>1668</td>
<td>3758</td>
<td>11546</td>
</tr>
</tbody>
</table>


From Table: 3.6, it is observed that majority of offices of life insurers are located either in semi-urban areas or in small towns which are not listed in HRA classifications of the Ministry of Finance. Around 70 percent of life insurance offices are located in these small towns. This pattern of distribution of offices is consistent across both private sector and public sector life insurers. In the recent past there was a decrease in the number of life insurance offices in India. While private insurers closed 593 offices, the public sector insurer LIC established 121 new offices. With this, the number of offices of life insurers declined from 12,018 as on 31st March, 2011 to 11,546 as on 31st March, 2010.

3.2 Overview of ULIP

ULIP came into play in the 1960s and is popular in many countries in the world. Unit Linked guidelines were notified by Insurance Regulatory Development Authority (IRDA) on 21st December 2005. On April 9, 2010 SEBI barred 14 life insurance companies from selling or renewing ULIPs unless they registered with it. These ULIPs had already got the approval from IRDA which led to a legal tussle between two regulators. Finally on June 18 2011, in an amendment favoring IRDA over SEBI an act was signed by President Pratibha Patil. The main intent of the guidelines was to ensure that they lead to greater transparency and understanding of these products among the insured, especially since the investment risk is borne by the policyholder.
It is the endeavor of IRDA to enable the buyer to make the most informed decision possible when planning for financial security. The Indian insurance sector has gone through a sea change after the adoption of liberalization, privatization and globalization process by the government in the last decade of 20th century. Consequently, a lot of foreign players entered into the Indian market in collaboration with the Indian companies to break the monopoly of the state owned giant the LIC of India, in the field of life insurance with a capital ceiling of 26 per cent. As a result, the LIC’s share in total premium, which was 99.46 percent in 2001-02 decreased to 70.92 per cent in 2008-09; and at the same time, its share in new life policies issued also decreased to 70.52 per cent during the same time period, which is an indicator of the strong building competition against corporation. At present, there are 23 life insurance companies in India with variety of innovative and customized products including ULIPs. ULIP is an abbreviation for Unit Linked Insurance Policy.

A ULIP is a life insurance policy which provides a combination of risk cover and investment. The dynamics of the capital market have a direct bearing on the performance of the ULIPs. In a ULIP, the investment risk is generally borne by the policy holder. The three important things to remember about a ULIP is that entry costs are high and the brokerage, commission could be as high as 30 percent of the premium in the first year. The second thing to remember is that management fee is low in a ULIP at around. The price of an insurance cover is higher in a ULIP than in a plain vanilla insurance policy. To that extent if a person has the time and inclination to research, he would be better off buying separate insurance and mutual funds. The third point that one must keep in mind is that in India one gets tax benefits on investing in ULIPs. As ULIPs are an efficient tax saving instrument too. The tax benefits that one can avail in case he invests in ULIPs are described below:

1. Life insurance plans are eligible for deduction under Sec. 80C.
2. Pension plans are eligible for a deduction under Sec. 80CCC.
3. Health insurance plans and critical illness riders are eligible for deduction under Sec. 80D.

4. The maturity proceeds or withdrawals of life insurance policies are exempt under Sec 10(10D), subject to norms prescribed in that section.

The following are some of the common types of funds available along with an indication of their risk characteristics

EXHIBIT: 3.1
TYPES OF FUNDS AVAILABLE AND THEIR RISK CHARACTERISTICS

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>General Description</th>
<th>Nature of Investments</th>
<th>Risk Category</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Equity Funds</td>
<td>Primarily invested in company stocks with the general aim of capital appreciation.</td>
<td>Medium to High</td>
</tr>
<tr>
<td>2.</td>
<td>Income, Fixed Interest and Bond Funds</td>
<td>Invested in corporate bonds, government securities and other fixed income instruments.</td>
<td>Medium</td>
</tr>
<tr>
<td>3.</td>
<td>Cash Funds</td>
<td>Sometimes known as Money Market Funds- invested in cash, bank deposits and money market instruments.</td>
<td>Low</td>
</tr>
<tr>
<td>4.</td>
<td>Balanced Funds</td>
<td>Combining equity investment with fixed interest instruments.</td>
<td>Medium</td>
</tr>
</tbody>
</table>

Most insurers offer a wide range of funds to suit one’s investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund. Investment returns from ULIP may not be guaranteed. Depending upon the performance of the unit linked fund(s) chosen; the policy holder may achieve gains or losses on his/her investments. It should also be noted that the past returns of a fund are not necessarily indicative of the future performance of the fund.

3.2.1 Differences between ULIP and Mutual Fund

Unit Linked Insurance Plans (ULIP) and Mutual Fund (MF) are the two most preferred options for a part time investor to invest into equity. Mutual Fund is pure investments. ULIPs are the combination of insurance and
investment. This is the type of investment where the characteristics of insurance and mutual funds are combined.

**EXHIBIT: 3.2 DIFFERENCES BETWEEN ULIP AND MUTUAL FUND**

<table>
<thead>
<tr>
<th>General Description</th>
<th>ULIPs</th>
<th>Mutual Fund</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Amounts</td>
<td>Determined by the investor and can be modified as well</td>
<td>Minimum investment amounts are determined by the fund house.</td>
</tr>
<tr>
<td>Expenses</td>
<td>No upper limits, expenses determined by the insurance company</td>
<td>Upper limits for expenses chargeable to investors have been set by the regulators.</td>
</tr>
<tr>
<td>Portfolio Disclosure</td>
<td>Not mandatory</td>
<td>Quarterly disclosures are mandatory.</td>
</tr>
<tr>
<td>Modifying Asset Allocation</td>
<td>Generally permitted for free or at a nominal cost</td>
<td>Entry/exit loads have to be borne by the investor.</td>
</tr>
<tr>
<td>Tax Benefits</td>
<td>Section 80C benefits are available on all ULIP investments</td>
<td>Section 80C benefits are available only on investment in tax-saving funds.</td>
</tr>
</tbody>
</table>

3.2.2 Unique characters of Unit Linked insurance plan

ULIP Plan is a life insurance plan, which is a fantastic insurance solution not only because it provides protection but also of the flexibility it offers in the investment. Mostly, the investments are termed as units and they are usually represented by the value that the investment has gained, known as the net asset value (NAV).

ULIP plan provides many different benefits to the customers which are as follows:

- Protection of life
- Protection of savings and investments
- Providing flexibility of the sum assured and increasing the sum granted or invested
- Life cover is adjustable
- There are many different investment options
- The plan is transparent
- One has options to add additional cover against accidental death or critical illness
- Liquidity
- ULIP plan is also very helpful in tax planning

ULIP life insurance policy is basically a long term investment in equity market type of plan that provides protection in case of death. In the ULIP plan the consumer has the flexibility to decide the risk factor that is the sum that will be granted for his policy. On the basis of risk factor, the amount of premium that has to be paid for the policy is decided. The policy holder subtracts the charges towards mortality life insurance charges that are the charges for administration, charges of the risk premium and the management of fund charges. The remaining amount of premium is invested in the money investment funds such as stocks or bonds. The share of the policy holder is exhibited by numbers of the units held in one's account. Value of unit is calculated by the aggregate value of overall investments made in that fund, which is divided by total number of the units. The value of cash will be equal to the number of the units held by a person.

3.2.3 Working of ULIPS

It is critical for a policy holder to understand how his money gets invested once he purchases a ULIP. When he decides the amount of premium to be paid and the amount of life cover he wants from the ULIP, the insurer deducts some portion of the ULIP premium upfront. This portion is known as the premium allocation charge, and varies from product to product. The rest of the premium is invested in the fund or mixture of funds chosen by him. Mortality charges and ULIP administration charges are thereafter deducted on a periodic (mostly monthly) basis by cancellation of units, whereas the ULIPs
fund management charges are adjusted from net asset value (NAV) on the daily basis.

ULIP is an abbreviation for Unit Linked Insurance Policy which is a combination of life insurance and a market linked investment product. Therefore, it provides policy holders life cover as well as capital appreciation. The allocated (invested) portions of the premiums after deducting all the charges and premium for risk cover policies chosen by all policy holders are pooled together to form a fund and units are allocated from this fund as per policy holders’ invested amount.

i. Guaranteed returns

ULIPs were originally meant to channelize savings to create wealth in the long term. But many ULIPs are today being sold as a tax saving and guaranteed return product with promises like this “policy holders invest \( X \) and we will double the money in 5 years”. It is often accompanied by attractive graphs and charts showing policy holders’ how their money will grow. As a policy holder, he must understand that the charts are usually based on some assumptions. Similarly the returns during good times are highlighted but same is not shown to policy holders for the periods when the fund didn’t
perform well. IRDA makes it mandatory for every insurer to provide an illustration to accompany every ULIP sold. This illustration should project returns assuming 6 and 10 per cent annualized returns and take the signature of the policy holder on the same. Policy holders should be aware that the returns may or may not materialize. Moreover the actual returns will be net of charges and expenses. As a thumb rule, the net return is between 5.5 to 6 per cent if the plan annualized return is 10 per cent over a period of 10 years. The net return is higher for a period beyond 10 years.

ii. Types of Funds offered

Most insurers offer a wide range of funds to suit one’s investment objectives, risk profile and time horizons. Different funds have different risk profiles. The potential for returns also varies from fund to fund. ULIPs offered by different insurers have varying charge structures. Broadly, the different types of fees and charges are given below. As per IRDA (Insurance Regulatory Development Authority) norms, insurers have the right to revise fees and charges over a period of time.

1. **Premium Allocation Charge** - This is a percentage of the premium appropriated towards charges before allocating the units under the policy. This charge normally includes initial and renewal expenses apart from commission expenses.

2. **Mortality Charges** - These are charges to provide for the cost of insurance coverage under the plan. Mortality charges depend on number of factors such as age, amount of coverage, state of health etc

3. **Fund Management Fees** - These are fees levied for management of the fund(s) and are deducted before arriving at the Net Asset Value (NAV).
4. Policy/ Administration Charges - These are the fees for administration of the plan and levied by cancellation of units. This could be flat throughout the policy term or vary at a pre-determined rate.

5. Surrender Charges - A surrender charge may be deducted for premature partial or full encashment of units wherever applicable, as mentioned in the policy conditions.

6. Fund Switching Charge - Generally a limited number of fund switches may be allowed each year without charge, with subsequent switches, subject to a charge.

7. Service Tax Deductions - Before allotment of the units the applicable service tax is deducted from the risk portion of the premium.

The charges and various other expenses are front loaded i.e. high in initial years. Over a long period of time they even out. Thus ULIPs make sense only if policy holders plan to stay invested for 10-15 years or more. Marketing agents often try to sell ULIPs as three-year products for tax saving purpose and suggest policy holders to withdraw the proceeds at the end of three years. That is a sure shot way to lose money as policy holders will end up paying all the charges but not reap the benefits of appreciation.

i. Free Look Period

As per IRDA, the policyholder can seek refund of premiums if he disagrees with the terms and conditions of the policy, within 15 days of receipt of the policy document (Free Look period). The policyholder shall be refunded the fund value including charges levied through cancellation of units subject to deduction of expenses towards medical examination, stamp duty and proportionate risk premium for the period of cover.
ii. Switching facility

“SWITCH” option provides for shifting the investments in a policy from one fund to another provided the feature is available in the product. Many policies give policy holders multiple fund options and policy holders can decide investment allocation according to the market conditions. Switch should be used intelligently to protect policy holders’ investments during turbulent times by making a switch to safer debt funds and during boom time policy holders should switch to more of equity funds. Policy holders need to be aware of the fund options provided by the policy before they sign up.

iii. Exit options

If all the premiums have not been paid for at least 3 years continuously, the insurance cover ceases to exist. Policy holders will be paid the surrender value in that case. The tax benefits cease to exist when an individual wants to get out of a ULIP before three years i.e. any contribution made towards the policy during the financial year is not eligible for a deduction under section 80C; On top of this deductions that have already been taken in the previous years would be added back as the income of the individual in that particular year of policy termination.

Under the ‘premium holiday’ feature, most ULIPs continue running if premium payment is stopped after the first three years, with the charges being deducted from the fund value through the term. While policy holders may stop premium payments after three years and keep a ULIP going, the contract between policy holders and the insurer will be terminated when, after deduction of charges, the fund value becomes equal to or less than one year’s premium. So, policy holders need to keep an eye on the fund value if policy holders’ exercise the option of stopping premiums after three years.
3.2.4 Do's for investing in ULIPs

The policy holders who operate in ULIP have to keep in mind the following operational features of ULIP

i. **Returns:** Compare returns offered by various ULIP insurance policies and other financial instruments like mutual funds, bonds etc.

ii. **Credibility of the Insurer:** Check carefully the life insurance company(s) credibility and analyze the past performance of all ULIP plans offered by that insurer.

iii. **Charges in ULIP:** ULIPs being complex insurance products attract heavy premium allocation charge. According to new guidelines from IRDA effective 1st September 2010, the charges are to be evenly distributed over the lock in period of 5 years. The new rules have restricted the charges to an upper limit of 3 per cent of the gross yield on ULIPs for 10 or less years; whereas the charges cannot exceed 2.25 per cent on ULIPs with tenure of more than 10 years.

iv. **Switching Cost:** Find out how many switches between funds are freely allowed during a year. Most insurers levy some fees in case the number of switches exceeds the permissible limit.

v. **Partial Withdrawal Facility:** Many ULIP insurance plans offer partial withdrawal facility. Find out about any restrictions on using this facility.

vi. **Lock-in Period:** According to new IRDA rules, the minimum lock in period for ULIP plans has been extended up to 5 years from the existing 3 years.

vii. **Surrender Options:** Check charges and deductions for surrendering the policy.

There are so many advantages that ULIPs have over traditional policies. Some of them have been described in Exhibit: 3.4.
## EXHIBIT: 3.4
### ADVANTAGES OF ULIPS

<table>
<thead>
<tr>
<th>Features</th>
<th>ULIPs</th>
<th>Traditional Policies</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description</strong></td>
<td>Insurer allows policy holder to direct part of their premiums into different type of funds like equity, dept, money market, hybrid etc. and risk of investment is borne by policy holder</td>
<td>Insurer takes decision and usually invests into low risk return option. insurer also offers guaranteed maturity proceeds along with declared bonuses</td>
</tr>
<tr>
<td><strong>Flexibility of investment</strong></td>
<td>Policy holders are allowed for choosing their investment avenues as per their risk profile</td>
<td>Policy holders are not allowed to choose their investment avenues</td>
</tr>
<tr>
<td><strong>Transparency</strong></td>
<td>Policy holder can track their portfolio. They are also informed about the value and number of fund units they hold</td>
<td>Individual cannot track their portfolio</td>
</tr>
<tr>
<td><strong>Maturity benefit Payouts</strong></td>
<td>At the time of maturity, policy holder redeems the unit collected at the prevailing unit prices. Some plan also offers royalty or additional units annually or at the time of maturity</td>
<td>At the time of maturity, policy holder get the sum assured plus bonuses(if applicable)</td>
</tr>
<tr>
<td><strong>Partial withdrawal</strong></td>
<td>Subjected to some condition, policy holders are allowed to withdraw from their fund</td>
<td>Policy holders are not allowed to withdraw part of their funds. Instead, some policy provides facility of loan against the investment</td>
</tr>
<tr>
<td><strong>Switching options</strong></td>
<td>Available(with some charges)</td>
<td>Not available</td>
</tr>
<tr>
<td><strong>Charges structures</strong></td>
<td>Charges are specified under various heads</td>
<td>Charges are not specified</td>
</tr>
<tr>
<td><strong>Single premium top up</strong></td>
<td>Allowed</td>
<td>Not allowed</td>
</tr>
</tbody>
</table>

Source: Compiled from Various Sources

The flexibility, transparency, liquidity and fund options available with ULIPs made it the preferred choice of customers and gradually it changed the trend of insurance policy.

### 3.3 Marketing Life Insurance Products

Privatizations of insurance sector has brought in new players in the market with almost all having foreign partners. For the last one decade of this liberalized era, Indian life insurance industry has been witnessing tremendous changes with private players having reasonable growth rate and market share.
The emerging scenario provides the customers with choice of insurance, wider range of new and innovative products, competitive pricing of products and services.

Insurance business falls under the ambit of services and is widely used as a method of risk transfer. Services are benefits, which are sold to customers or clients such as hospitality, transport, and education. Service is an activity or benefit that one party can offer to another that is essentially intangible and does not result in the ownership of anything. Its production may or may not be tied to a physical product (Kotler and Bloom, 1984; Kotler, 2000). Insurance can be considered as a product evidenced by the policy document and as a service in terms of the benefits (services) rendered by the insurance companies and their intermediaries. Marketing of life insurance service is critical and complex compared to non-life insurance for various obvious reasons that include time span, periodicity and potentiality of claims and higher brand switching costs affecting the buying behaviour. In the present scenario, insurance companies are facing problem of transiting from a perceived selling activity to a structured-strategic marketing activity.

There is no doubt that the potential market for buyers of insurance is significant in India and offers a great scope of growth. Though a vast population waits to be served, a well-defined strategy to reach out to this population is a must. Much of the demand may not be accessible because of poor distribution, large distance or high cost relative to returns. Solutions to such problems must come out clearly from the strategy. Rather than adopting a myopic strategy of targeting the business of existing companies, the new entrants should spell out a strategy to expand its market.

Because, insurance marketing is basically just the marketing of insurance products. Insurance marketing emphasizes the importance of the customer preferences and priorities. Major objectives of life insurance marketing are increasing customer awareness, successful distribution of
insurance products, developing corporate image, improving customer service, improving customer base and its spread, and etc. Factors impeding the application of insurance marketing are insufficient experience of insurers while expanding insurance business, non-existence of long-term development strategies of insurance companies and the fact that insurers orient mostly to short term needs; and while trying to apply more actively insurance marketing means it is necessary to change the whole organizational management structure of an insurance company, the channels of insurance products sales, technologies of communication with clients, and etc.

Insurer has to analyse the nature of the customer’s needs and plan their products and services in such a way that they can give satisfaction to the customers and face the competitors. Planning needs analysis of the insurance market to take a decision, prediction, and forecasting as to future needs of customers. All these programs involve a number of functions (7Ps), which are to be planned carefully. The combination of these functions is known as insurance service marketing mix. Marketing mix is the planned package of elements, which will support the organization in reaching its target markets and specific objectives. The marketing mix has its origin in marketing of goods for consumer markets and consists of the well-known 4Ps: Price, Promotion, Place, and Product. Numerous modifications to the 4Ps have been proposed, the most concerted criticism came from the services marketing area.

3.3.1 7 p’s of Insurance Sector

Wherever there is uncertainty there is risk. We do not have any control over uncertainties which involves financial losses. The risk may be certain events like death, pension, retirement or uncertain events like theft, fire accident etc. Insurance is a financial service for collecting the savings of the public and providing them with risk coverage. The main function of Insurance is to provide protection against the possible changes of generating losses. It eliminates worries and miseries of losses by destruction of property and death. It also provides capital to the society as the funds accumulated were invested in
productive heads. Insurance comes under the service sector and while marketing this service, due care is to be taken in quality product and customer satisfaction. While marketing the services, it is also pertinent that they think about the innovative promotional measures. It is not sufficient that companies perform well but it is also important that they let others know about the quality of companies’ positive contributions. The creativity in the promotional measures is the need of the hour. The advertisement, public relations, word of mouth communication needs due care and personal selling requires intensive care.

The marketing mix is the combination of marketing activities that an organization engages in so as to meet the needs of its targeted market. The Insurance business deals in selling services and therefore due weightage in the formation of marketing mix for the Insurance business is needed. The marketing mix includes sub-mixes of the 7 P’s of marketing i.e. the product, its price, place, promotion, people, process & physical attraction. The above mentioned 7P’s can be used for marketing of Insurance products, in the following manner:

i. Product

A product is anything that can be offered to a market to satisfy a need or want. The products, which can be marketed, include physical goods, services, persons, places, organizations, and ideas. In the deeper sense, the product is not a physical item but a perception of the consumer or the user. A product means what insurer produce. If an insurance company produces goods, it means tangible product and when we produce or generate services, it means intangible service product. A product is both what a seller has to sell and a buyer has to buy. Thus, an Insurance company sells services and therefore services are their product. In India, the Life Insurance Corporation of India (LIC) and the General Insurance Corporation (GIC) are the two leading companies offering insurance services to the users. Apart from offering life insurance policies, they also offer underwriting and consulting services. When a person or an
organization buys an Insurance policy from the insurance company, he not only buys a policy, but along with it the assistance and advice of the agent, the prestige of the insurance company and the facilities of claims and compensation. It is natural that the users expect a reasonable return for their investment and the insurance companies want to maximize their profitability.

Hence, while deciding the product portfolio or the product-mix, the services or the schemes should be motivational. The Group Insurance scheme is required to be promoted, the Crop Insurance is required to be expanded and the new schemes and policies for the villagers or the rural population are to be included. The Life Insurance Corporation has intensified efforts to promote urban savings, but as far as rural savings are concerned, it is not that impressive. The introduction of Rural Career Agents Scheme has been found instrumental in inducing the rural prospects but the process is at infant stage and requires more professional excellence. The policy makers are required to activate the efforts. It would be prudent that the LIC is allowed to pursue a policy of direct investment for rural development. Investment in Government securities should be stopped and the investment should be canalized in private sector for maximizing profits. In short, the formulation of product-mix should be in the face of innovative product strategy. While initiating the innovative process it is necessary to take into consideration the strategies adopted by private and foreign insurance companies.

ii. Pricing

Price is the mean of setting the exchange value between two parties. Price, in marketing mix terms, covers all aspects of pricing such as discount pricing, extended credit, list price, and payment period. In the insurance business the pricing decisions are concerned with:

I. The premium charged against the policies,

II. Interest charged for defaulting the payment of premium and credit facility, and
III. Commission charged for underwriting and consultancy activities. With a view of influencing the target market or prospects, the formulation of pricing strategy becomes significant. In a developing country like India where the disposable income in the hands of prospects is low, the pricing decision also governs the transformation of potential policyholders into actual policy holders. The strategies may be high or low pricing keeping in view the level or standard of customers or the policy holders. The pricing in insurance is in the form of premium rates. The three main factors used for determining the premium rates under a life insurance plan are mortality, expense and interest. The premium rates are revised if there are any significant changes in any of these factors.

- **Mortality (deaths in a particular area):** When deciding upon the pricing strategy, the average rate of mortality is one of the main considerations. In a country like South Africa the threat to life is very important as it is played by host of diseases.

- **Expenses:** The cost of processing, commission to agents, reinsurance companies as well as registration are all incorporated into the cost of installments and premium sum and forms the integral part of the pricing strategy.

- **Interest:** The rate of interest is one of the major factors which determine people’s willingness to invest in insurance. People would not be willing to put their funds to invest in insurance business if the interest rates provided by the banks or other financial instruments are much greater than the perceived returns from the insurance premiums.
iii. Place

Place is another important element of marketing mix. Place refers to the location where the product or service is available to the customer, including distribution channels. Place contributes an important factor in the marketing of services. Black (2002) found that customers sometimes use the same products through different channels. In case of life insurance, it is a combination of decisions regarding channels of distribution.

This component of the marketing mix is related to two important facts—

I. Managing the insurance personnel, and

II. Locating a branch.

The management of agents and insurance personnel is found significant with the viewpoint of maintaining the norms for offering the services. This is also to process the services to the end user in such a way that a gap between the services-promised and services-offered is bridged over. In a majority of the service generating organizations, such a gap is found existent which has been instrumental in making worse the image problem. The transformation of potential policy holders to the actual policyholders are a difficult task that depends upon the professional excellence of the personnel.

The agents and the rural career agents acting as a link, lack professionalism. The front-line staff and the branch managers also are found not assigning due weightage to the degeneration process. The insurance personnel, if not managed properly, would make all efforts insensitive. Even if the policy makers make provision for the quality upgrading, the promised services hardly reach to the end users. It is also essential that they have rural orientation and are well aware of the lifestyles of the prospects or users. They are required to be given adequate incentives to show their excellence. While recruiting agents, the branch managers need to prefer local persons and provide them training and conduct seminars. In addition to the agents, the front-line
staff also needs an intensive training program to focus mainly on behavioral management.

Another important dimension to the Place Mix is related to the location of the insurance branches. While locating branches, the branch manager needs to consider a number of factors, such as smooth accessibility, availability of infrastructural facilities and the management of branch officers and premises. In addition, it is also significant to provide safety measures and also factors like office furnishing, civic amenities and facilities, parking facilities and interior office decoration should be given proper attention. Thus the place management of insurance branch offices needs a new vision, distinct approach and an innovative style. This is essential to make the work place conducive, attractive and proactive for the generation of efficiency among employees. The branch managers need professional excellence to make place decisions productive.

iv. Promotion

The promotional mix is a term used to describe the set of tools that a business can use to communicate effectively the benefits of its products or services to its customers. Market communication performs three basic roles in marketing—to inform, to persuade, and to remind. Traditional promotion employs a variety of methods—including advertising, sales promotion, public relation, and personal selling—to attract the attention of existing and potential customers, and to inform them of the products, services, and special offers made available by the firm. Each of the categories of promotion mix has now become familiar in many areas of services marketing. In case of life insurance services, promotion is done through a mix of advertising, personal selling, and sales promotion.

The insurance services depend on effective promotional measures. In a country like India, the rate of illiteracy is very high and the rural economy has dominance in the national economy. It is essential to have both personal and impersonal promotion strategies. In promoting insurance business, the agents
and the rural career agents play an important role. Due attention should be
given in selecting the promotional tools for agents and rural career agents and
even for the branch managers and front line staff. They also have to be given
proper training in order to create impulse buying. Advertising and Publicity,
organization of conferences and seminars, incentive to policyholders are
impersonal communication. Arranging trade shows, exhibitions, participation
in fairs and festivals rural wall painting and publicity drive through the mobile
publicity van units would be effective in creating the impulse buying and the
rural prospects would be easily transformed into actual policyholders.

v. People

People, process, and physical evidence are the three-Ps, which are
especially applicable to services marketing mix. These three elements are
highly interrelated with each other. People are the main critical resource in any
organisation, particularly service organisation. Because of the simultaneous of
production and consumption in services, the service staff occupies the key
position in influencing customer’s perceptions of service quality.

Understanding the customer better allows designing appropriate
products. Being a service industry which involves a high level of people
interaction, it is very important to use this resource efficiently in order to
satisfy customers. Training, development and strong relationships with
intermediaries are the key areas to be kept under consideration. Training the
employees, use of IT for efficiency, both at the staff and agent level, is one of
the important areas to look into.

vi. Process

A process is the method and sequence of actions in the service
performance. Unlike goods, services are processes. Services are the end results
of deeds, acts, performances, and activities performed by the firm’s employees
alone or in conjunction with various equipments, machinery, facilities, and so
on. In assessing process, customers evaluate whether the service follows a
production-line approach or whether the process is a customized one in which
the customer is given personalized attention. The process should be customer
friendly in insurance industry. The speed and accuracy of payment is of great
importance. The processing method should be easy and convenient to the
customers. Installment schemes should be streamlined to cater to the ever
growing demands of the customers. IT & Data warehousing has smoothened
the process flow. IT will help in servicing large number of customers
efficiently and bring down overheads. Technology can either complement or
supplement the channels of distribution cost effectively. It can also help to
improve customer service levels. The use of data warehousing management
and mining will help to find out the profitability and potential of various
customers product segments.

vii. Physical Evidence

The physical evidence is defined as the environment in which the
service is delivered and where the service provider and the customers interact,
and any tangible commodities that facilitate performance or communicate the
service. Distribution is a key determinant of success for all insurance
companies. Today, the nationalized insurers have a large reach and presence in
India. Building a distribution network is very expensive and time consuming. If
the insurers are willing to take advantage of India’s large population and reach
a profitable mass of customers, then new distribution avenues and alliances will
be necessary. Initially insurance was looked upon as a complex product with a
high advice and service component.

Buyers prefer a face-to-face interaction and they place a high premium
on brand names and reliability. As the awareness increases, the product
becomes simpler and they become off-the-shelf commodity products. Today,
various intermediaries, not necessarily insurance companies, are selling
insurance. For example, in UK, retailer like Marks & Spencer sells insurance
products. The financial services industries have successfully used remote
distribution channels such as telephone or internet so as to reach more
customers, avoid intermediaries, bring down overheads and increase profitability. A good example is UK insurer Direct Line. It relied on telephone sales and low pricing. Today, it is one of the largest motor insurance operators.

Technology will not replace a distribution network though it will offer advantages like better customer service. Finance companies and banks can emerge as an attractive distribution channel for insurance in India. In Netherlands, financial services firms provide an entire range of products including bank accounts, motor, home and life insurance and pensions. In France, half of the life insurance sales are made through banks. In India also, banks hope to maximize expensive existing networks by selling a range of products. It is anticipated that rather than formal ownership arrangements, a loose net-work of alliance between insurers and banks will emerge, popularly known as bank assurance. Another innovative distribution channel that could be used is the non – financial organizations. For an example, insurance for consumer items like fridge and TV can be offered at the point of sale. This increases the likelihood of insurance sales. Alliances with manufacturers or retailers of consumer goods will be possible and insurance can be one of the various incentives offered.

3.3.2 Role of Distribution Channels

Distribution is a key determinant of success of all insurance companies. In case of life insurance, it is a combination of decisions regarding channels of distribution. Life insurers market various insurance covers either directly or through various distribution channels—individual agents, corporate agents including bancassurance and Brokers. These are generally called the traditional channels. In today's scenario, agents continue as the prime channel for insurance distribution in India and almost all the players follow this model primarily. However, with new developments in consumers’ behaviour, evaluation of technology and deregulation, new distribution channels have been developed successfully and rapidly in recent years. This section discusses the various insurance distribution channels and the related problem.
i. **Agents:** All life insurance companies have an agency-building distribution strategy under which they recruit, train, finance, and supervise their agents/advisers. For decades, agency was the only distribution channel for life insurance in India. Even today more than 70 per cent of business is carried through insurance agents. Through the agency, personal contact and relationship can be established with the customer. The system of agents is a major source of both presales and post sales services to customers, since it has the direct relationship with customers. Due to personal contact, it can provide valuable feedback about the need and expectation of consumers. However, it is nowadays considered as an old fashioned channel and not fully updated with latest technologies.

ii. **Brokers:** Insurance brokers are professionals who assess risk on behalf of a client, advice on mitigation of that risk, identify the optional insurance policy structure, bring together the insured and insurers, and carry out work preparatory to insurance contracts. Brokers represent the customer and will sell the products of more than one company. They seek to determine the best fit for the client and can effectively address the mind block faced by the public about the various companies. The system of brokers is generally applicable in the case of life insurance for the high-end and corporate/group segment.

iii. **Bancassurance:** Bancassurance, in its simplest form, is the distribution of life insurance products through a bank's distribution channel. Insurance companies see bancassurance as a tool for increasing their market penetration and premium turnover. It takes various forms in various countries depending upon the demography and economic and legislative climate of that country. While bancassurance has become a success story in Europe, it is relatively a new concept in Asia. It was introduced in India when insurance industry was opened up for private players. In India, a bank can tie up with one general insurance and one life insurance Company as mandated by IRDA regulation. The banking sector in India comprises of
more than 67,000 branches and around 20 crores bank accounts. Only 8.4 per cent (public: 22.02 per cent and private: 1.17 per cent) of new business have been done through banks in the year 2010-11.

iv. **Independent Financial Advisor**: IFAs are authorised agents of insurance companies having tie-ups with more than one insurance company. They are qualified persons or institution who can provide advice on financial products. Independent financial advisors are commissioned agents whose primary business is the sale of property and casualty insurance for several insurers. IFA assembles different financial products in accordance to customer needs and provide value added product by creating customized financial product. Today, IFA show their significant presence as distribution channel in both life and non-life insurance business. Technically, independent financial advisors who sell life insurance policies usually do so as brokers.

v. **Direct Marketing**: Insurers have also resorted to direct marketing wherein insurance companies get in touch with the customers without the aid of an intermediary. A separate department has been set up and officers were deputed to solicit and administer insurance business. The advantage of this system is the reduction of cost incurred by the agency system. Company owned sales team concept is now employed by a majority of new players and has proved more effectiveness in customer creation and retention. However, as compared to the system of agents, contribution of direct marketing is considerably low and it was 25.73 per cent (public: 26.86 per cent and private: 23.63 per cent) in the year 2010-11.

vi. **Worksite Marketing**: Under this Strategy, life insurers send team to a target group and explain the products either individual or group products suitable to them at their place of work on a voluntary, payroll-deduction basis. The target group may be employees of a particular company, educational institute or any kind if organisation. Insurance companies will
be able to sell insurance products particularly pension and health plans through this channel. One possible reason for insufficient development of this channel in India is that employers generally expect some kind of incentive to provide the facilities to the life insurers for making presentations and making arrangements for deduction of premium from salaries. With changes in human resources management, policies and compensation packages, group products or work site products do have a definite market that cannot be ignored.

vii. Retail Chain: Another innovative distribution channels that could be used are the non-financial organizations. The Indian retail market is the most fragmented in the world and at present, organized retail channel is around 3per cent of total retail business. But the organized sector is expected to grow at rate of around 30 per cent per annum. With this huge growth rate of retail sector it can become a viable distribution channel for life insurance products. In the life segment, group creditor insurance may be the most suitable product for this channel. However, repeat business or renewal of business cannot be assured in this system. Scope of retail business in life insurance is limited as compared to non-life insurance.

viii. Distribution Channel for Micro Insurance: The huge untapped market for insurance is the rural and social sector. Micro-insurance is defined as the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved. It provides an opportunity to the insurance companies to meet their social responsibility as well as secure a strong footing in the rural market. The active distribution channels for micro insurance in India are NGOs, MFIs, and SHGs (self-help groups), Micro agents, Cooperative Banks and RRBs (regional rural banks), and Post Offices. The MFIs/NGOs have been identified as main delivery channels by most of the insurance companies. These have a large network, catering to huge number of clients. However most of the MFIs have limited ability to process the insurance
claims as such they try to customize the insurance product in order to simplify the operational process involved. As far as Formal Banks and RRBs, Post Offices and Internet & Rural Kiosks are concerned they have not developed their potential in delivering the insurance product.

ix. Internet: Initially, insurance was seen as a complex product and buyers preferred face-to-face interactions with intermediaries. Nowadays, the advantage of technology allows insurers to increase their reach into the market. All insurers have websites through which they provide information about products and services. In India, Internet penetration is still low and legality of agreements are posing difficult problem. The insecurity associated with transactions over the net is still an inhibiting factor. Internet has not been evolved into a means for direct selling of insurance in the current scenario. In the Indian market, where insurance is sold after considerable persuasion even after face-to-face selling, the selling over the net, which must be initiated by the client, would take some more time.

3.3.3 Issues and Challenges faced by the Life Insurance Sector

Statistics of Indian life insurance industry indicates that the industry has been showing a tremendous growth and looking forward a prospective future. Given aggressive expansion plans of the private players and the need to beat the competition, the period to break-even in life-insurance business has risen from what was estimated at 9-10 years to about 13-15 years now. The industry, which is already reeling under the pressure of high upfront cost of a nationwide expansion, is now also facing the problem of dwindling volumes as policy lapses are increasing every year. The following are some of the important Contemporary Issues in life insurance business for which all insurance companies have to pay more attention and adequate measures to overcome.

i. Pensions Plans: As far as life insurance products are concerned, pension coverage is a major issue in Indian life insurance business. Benefits at retirement stage remains confined to only the employees of
organised sector. There is no proper pension scheme for self-employed and agricultural workers in the unorganised sector. There is a pressing need for well-defined and assured pension plans. Even though the insurance players are now in the process of studying the potential of the pension market, the destination is too far to reach.

ii. **Alternative Channels:** The new alternative channels of distribution are yet to be utilized in full swing. Till now, nearly 80 per cent insurance policies are sold through traditional channels. Exploitation of retailing and other forms of modern channels will definitely bring life insurance business to new heights. The success of marketing insurance depends on understanding the social and cultural needs of the target population, and matching the market segment with the suitable intermediary segment. Furthermore, all intermediaries can't sell all lines of business profitably in all markets. There should be clear demarcation in the marketing strategies of the company from this perspective.

iii. **Product Positioning:** The biggest challenge for life insurance companies is positioning the products. In India life insurance has been seen as a tax saving mechanism rather than a tool of personal risk management. Now, customers have different needs and different types of products are available in the market. Instead of thinking that it is selling a product, an insurance company must see its task as that of converting an undifferentiated product into a differentiated product. Therefore, life insurance companies must carefully select the ways in which it will distinguish itself from competitors.

iv. **Customer Education:** The existing level of awareness of the consumers for insurance products is considerably very low, because majority of the Indian population is illiterate. Even the educated customers are ignorant about the various products of insurance. Therefore it is necessary that all insurers should undertake extensive plan for educating the customers.
The consumer organizations and media can play a very important role in the education of customers.

v. **Product Line:** Life insurance companies have come out with innovative product lines after the liberalisation. However, the nature of the products is a major concern as far as the basic principle of insurance is concerned. Life insurance companies, particularly private sector, have been growing fast on the back of single product–ULIP, which does not provide risk cover as done by traditional policies. More than 80 per cent business comes from only ULIPs in the current scenario of insurance business environment. Customers require insurance policies, which cover multiple risks. One of the major issues in the contemporary scenario is the future of ULIPs. In these plans, risk cover component is less than the investment component. SEBI had, in April 2010, banned 14 life insurance companies from selling ULIPs on the ground that they were akin to mutual funds and were launched without obtaining registration from it. The fight between SEBI and IRDA was basically on the issue whether ULIPs are investment product or insurance schemes. The spat between insurance regulator IRDA and equity market regulator SEBI settled in favour of the former. ULIPs are now governed by a new set of guidelines that may change the whole ULIP story. According to the regulator, ULIPs launching after September 1, 2010, would have lower charges, guaranteed returns and larger insurance cover. But future will acknowledge the fate of ULIPs.

vi. **Information Technology:** Information technology has become an intrinsic part of the insurance industry worldwide, but in India, it has not effectively reached to the public particularly in rural sector. Majority of customers are yet to receive IT–enabled services.

vii. **Rural Marketing:** Rural and social sector exploitation is a major issue for life insurance companies. Even the awareness of insurance products
and benefits in this sector is very low. Insurance has been a priority of the urban area. Now, with numerous companies in life insurance industry, the rural areas are expected to be tapped as well. IRDA has laid down separate regulation for micro-insurance. While enabling regulations are in place and several insurance companies are in operations in India, there is still a need for innovation in products and distribution channels for ensuring penetration of micro-insurance. Design of micro-insurance products must have the features of simplicity, availability, affordability, accessibility and flexibility. Moreover, many of the NGO and MFIs have only a few members. While microfinance model based on micro lending can survive with a few clients, the same cannot be said for insurance offers in a micro scale, because it hampers with the basic Law of Large Numbers.

viii. Customer Service: With both LIC and private players in the fray, Indian life insurance market has undergone significant changes recently. One of the greatest challenges facing organizations is the ever-growing competition, the continuous increase in customer expectation. In order to achieve competitive advantage and efficiency, organizations have to seek profitable ways to differentiate themselves. There are many different strategies to reach success, but the delivery of competent service quality is the vital one, especially in this competitive environment. It is an overwhelming fact that most of the life insurance providers are keen on only selling their product, not on understanding the customers’ need. Moreover, they are also not at all concerned about the post-sales services. Since, a satisfied customer brings in more customers and carries out word of mouth publicity, life insurers need to identify customers’ needs and fulfill them rather than selling insurance policies to keep their customers satisfied.
3.4 Conclusion

With the sudden growth of private players, insurance marketing is under tremendous pressure, sometimes involving strategies detrimental to the public interest. A fundamental principle of insurance marketing dictates that insurance products and policies must be marketed and sold primarily on the basis of the need for security and the ability of the insurance product and policy to provide adequate financial security from fortuitous losses. The challenge thus, facing life insurance industry is the need for diversification of insurance products better tailored and suited to meet the needs. Especially, in case of the package products like ULIPs that have proven to be inadequate risk covers for the insured significantly affect life insurance business. This may become a major threat in future for the growth of life insurance industry. For life insurance to be successful: for the insured and for the risk-bearers, many elements are important; i.e. simple and affordable insurance products reaching large numbers of people; streamlined administration, including premium payment; a simplified claims procedures and verifications; and rapid delivery of benefits. If most of these elements are present, it can be possible for life insurance schemes to become sustainable, to perform well and to provide —real value to the need insurable population. The following chapter attempts to analyse the life insurance policy holders’ awareness, perception and satisfaction towards commonly marketed life insurance products and in special references to ULIPs.