Insurance has become an integral aspect in everyone’s life today. It is a written contract of insurance that offers protection against future loss. The life insurance generally helps to insure the life of people. A definite compensation is provided by the insurer to the insured person. The non-life insurance provides financial support to people or companies and helps them to overcome the losses. The basic human trait is to be averse to the idea of taking risks. There is always an urge to minimize the risks and provide protection against possible failure. The risk includes fire, the perils of sea, death, accidents and burglary. Any risk may be insured against at a premium commensurate with the risk involved. Thus collective bearing of risk is insurance that provides reasonable degree of security and assurance that insured will be protected in the event of a calamity or failure of any sort. There are number of forces driving the service sector today. Five environmental variables universally affect all industries are; buyer, competitors, government, technology and globalization. In addition, there are four factors of particular importance to service providers- change in how quality is perceived, cost control, customer services and the new definitions of the customer. Services are relatively intangible, produced and consumed simultaneously and often less standardized than goods. These heterogeneous characteristics of services present special challenges and strategic marketing opportunities to the service marketers. The real competition between the service marketers is set on after globalization, financial reforms and information technology progression. The service marketing organisation has to adopt professional management approach and its marketers have to imbibe the qualities of professionalism in order to meet the expectation of the policyholders. Hence, in this study an attempt has been made to discuss the status of insurance in economy, penetration of insurance industry, key issues in insurance, behaviour of policyholders, regulations and legislations insurance industry and other such emerging areas of marketing of insurance, which is one of the leading services in our country.  

The life insurance market was underdeveloped in the developing counties and started to open up new vistas and increase its cover with the entry of private players under the
supervision of regulatory bodies. Initially the life insurance was seen more as a tax saving instrument than a life insurance product. The pace of coverage extension was found to be awfully inadequate. In recent times, there has been growing awareness about life insurance products and the various associated benefits among the policyholders. The private players customized the insurance products and introduced innovations in annuity, health, education and pension plans. Offerings like Unit Linked Insurance Plans (ULIPs) have done their bit to draw attention of individuals towards the insurance segment. Tax benefits have also contributed to their allure and helped in popularizing insurance products. Conversely, there are products like medical insurance or mediclaim as it is commonly referred to, which can add value to an individual’s insurance portfolio, but are relatively lesser known. People started thinking that life insurance also caters to the increased savings from the households thus increasing the much needed domestic savings. Awareness in the benefit of life insurance as such and also as a secondary investment instrument had to the increased interest in the life insurance products. The advertisement, promotional activities, e-commerce, m-commerce and viable strategic planning by the new entrants in the insurance market have also helped in spreading the consumer awareness and policy benefits. The distribution of life insurance in innovative methods apart from the standard agent based model has also helped in creating awareness and interest among people. On-line insurance, kiosks for mallsurance, bankasurance and other e-marketing activities are insisting marketers to cater varying needs of intellectual, rational and busy policyholders as a faster mode of communication approached by a mass all over the world.

An insurance policy is primarily meant to protect the income of the family’s breadwinners. The idea is if the insured die, dependents may hereto continue to live comfortably. The circle of life begins at birth, followed by education, marriage and eventually, after a lifetime of work, people look forward to a life of retirement. Finances too tend to change as people go through the various phases of our life. In the first twenty years of our life, they are financially and emotionally dependent on parents and there are no financial commitments to be met. In the next forthcoming years, they gain financial independence and provide support to their families. This is
also the stage when the income may be insufficient to meet the growing expenses of a young household. In the following twenty years, as the children grow and become financially independent, people see their savings grow, a nest egg put away for life after retirement. The final twenty years of life, post retirement is the time to reap the rewards of hard work. Life insurance is also being promoted as a vehicle for investment. The unique feature of insurance is; it covers the risk of life and provides better return for investment. Most people would like to invest in insurance for risk hedging and tax saving potential. The government provides tax saving benefits for insurance. This is encouraging people to save their money. The other options of investment are mutual funds, share market, gold, government bonds/securities, bank and post office deposits. The fluctuations and financial crisis in stock market is also changing attitude of consumers for exploring new pattern of investments. Some of the government investments plans provides return and benefits after certain periods at limited time only. Life insurance provides returns and risk coverage for whole life. The return may come to the policyholders on monthly, quarterly, half yearly and annual basis. This feature is possible in money back policy and in some other life insurance products.

1.1 INSURANCE CONCEPT, NEED AND MEANING

The insurance industry has both economic and social purpose and relevance. It provides social security and promotes individual welfare. Generally the insurance companies are big investors in long gestation infrastructure development projects. Insurance reduces risk and helps to raise productivity in the economy. Insurance is a device for the transfer of risks of individual entities to an insurer who agrees for a consideration (called premium) to assume to a specified extent losses suffered by the insured. Insurance covers insurable risks and the probability of insurable risk can be determined or forecasted for example risk related to life, property, riots, thefts are insurable.

The insurance companies are also financial intermediaries as they collect and invest large amount of premiums in government projects. They offer protection to the investors, provide means for accumulating savings and channelize funds to the government and other sectors. They are a contractual saving agency which receives
mostly without fail, steady inflow of funds in the form of premiums or regular contribution to pension plans. They are also in a position to predict, relatively accurately, when and what amounts of insurance or pension benefits have to be paid. Further, liabilities in most of the cases are long term liabilities, for many life policies are held for 30 or 40 or even more years. As a result, the liquidity is not a problem for them and their major activity is in the field of long-term investments. Since the offered life-cover to the investors, the guaranteed rate of return specified in insurance policies is relatively low. Therefore, they do not need to seek high rates of return on their investments. As a combined result of all these factors, the investments of insurance companies have been largely in government bonds, mortgages, state and local government clams and corporate bonds. The insurance companies are active in the following fields among other life, health and general and they have begun to operate the pension schemes and mutual funds also. Insurance business consists of spreading risks over time and sharing them between persons and organisations. The major part of insurance business is life insurance, the operations of which depend on the laws of mortality. Pension business is a specialised form of assurance provides social security to old aged population.

1.1.1 Concept and Definitions
Any property human or animal life or any event that may lead to the loss of a legal right, including value or the creation of legal liabilities is referred to as the subject matter of insurance. Insurance is an event that may or may not occur. LIC crystallizes essence of insurance by a saying “Little Price- For a Priceless Security.”

**General Definitions:** These are conceived by writers who perceive insurance as an instrument to manage and mitigate various risks associates with human activities. In other words at a relatively specific and negligible cost insurance substitutes a large and unspecified financial loss.

**Contractual Definitions:** Contractual definitions perceived insurance as a legally enforceable contract of indemnity to indemnify losses that occur due to the given contingencies insured against.

Life insurance is a contract under which one person, in consideration of a premium paid either in lump sum or by monthly, quarterly, half-yearly or yearly payments,
undertakes to pay to the person for whose benefit the insurance is made, a certain sum of money either on the death of the person whose life is insured or on the expiry of a specified period of time.

**Fundamental Definitions:** Fundamental definitions looks at insurance purely as a device to minimize and compensate losses arising out of various hazards to the economy and business activity in a specific and global economic system.

**Definition of an Insurance Contract as per IFRS-4:** The International Accounting Standards Boards (IASB) while circulating the International Financial Reporting Standards for insurance (IFRS-4) in March 2004, prescribing insurance accounting and disclosure, define a contract of insurance as “a contract under which one party (that is insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified, uncertain future event (insured event) adversely affect the policyholder.

1.1.2 **Need for Life Insurance**

As life insurance became more established and useful tool for a number of situations, including:

I) *Temporary needs/ threats*- The original purpose of life insurance remains an important element, namely providing for replacement of income on death etc. Typically in the case of the breadwinner dying an early death.

II) *Regular Savings*- Providing for ones family and oneself, as a medium to long-term exercise (through a series of regular payment of premiums). This has become more relevant in recent times as people seek financial independence from their family.

III) *Investment*- Insurance also helps in building up of savings while safeguarding it from the ravages of inflation. Unlike regular saving products, investment products are traditionally lump sum investment, where the individual makes a one-time payment.

IV) *Retirement*- Provision for one’s own later years becomes increasingly necessary, especially in a changing cultural and social environment. Therefore, a suitable insurance policy can provide periodical payments in one’s old age.
Minimizing Risk - Life cannot be compensated by anything but financial help in hard time can support anyone. An earning member in family wants to secure his family who are financially dependent and need life insurance. Nevertheless, the question is ‘how much life insurance is required’ at a time. There are many factors that are relevant in determining the amount of life cover one should buy at a time. It is essential that a particular level of income should be maintained for the family even when its breadwinner is not around.

Social security - Insurance also provide some social security that insured expects in future such as a particular sum of money for the education and wedding of children. One may like to buy an insurance policy for a specific sum to meet such a lump sum commitment.

Transfer of risk - Payment of insurance premium results in an outflow of disposable income. Insurance may solve future cash inflow problems that will occur during ones lifespan. Therefore, provide a cover and transfer the risk.

Diffusion of risk - The amount and mode of payment spend on insurance is as per the option picked by one according to his own choice. Therefore one can park funds according to their choice of risk and return.

Profitable opportunity - Our present age is a critical factor in deciding the quantum of insurance that one can afford. The rates of premium go up with the advancing age of the life assured. Hence, one can buy more insurance for the same premium at a younger age than at an older age. The final decision rests upon a careful consideration and balance of all the above factors. The need for minimum protection may be quite high, but the current need for disposable income may not immediately permit buying adequate insurance.

Tax Savings - If people have an option of risk coverage with guaranteed return and tax saving they will surely prefer it. Generally policyholders take into account the tax benefit under Section 80C.

1.1.3 The Five Simple Rules for Life Insurance

In the event of any misfortune, well-planned life insurance can protect loved ones from financial difficulties. However, in most cases people find it difficult to estimate
the correct value of insurance they need. Partly this is because life insurance needs change through different stages of life. There are several simple methods available to broadly estimate one’s life insurance needs. Five simple rules of are:

1. Income rule: The most basic rule of thumb is provided by the income rule which holds that individual insurance cover should be at least around eight to ten times one’s gross annual income. For example, a person earning a gross annual income of 1 lakh should have about ₹ 8 to 10 lakh in life insurance cover.

2. Income plus expenses rule: This rule suggests that an individual needs insurance equal to five times of his gross annual income, plus the total of basic expenses like housing or car loans, personal debt, child’s education, etc.

3. Premiums as percentage of income: By this rule, payment of insurance premium depends on disposable income. In other words, one should decide the quantum of insurance after meeting the regular outgo from salary. From the first two rules, one can make a broad estimate of the minimum insurance one should have. The premium as percentage of income rule can help one fine-tune his cash flow by committing an appropriate percentage of his income for paying life insurance premium.

4. Capital fund rule: This rule suggests that if one need ₹ 1 lakh per annum for his family needs and assuming one do not have any other income-generating assets, one may like to create a capital fund of ₹ 12.5 lakh (₹ 1.25 million) which can yield ₹ 1 lakh (₹ 100,000) annual income at the rate of 8 percent per annum One may therefore buy a life insurance policy of ₹ 12.5 lakh.

5. Family needs approach: This rule holds that one purchases enough life insurance to enable his family to meet various expenses in the event of key earning person’s death. Under the family needs approach, one has to divide his family's needs into two main categories: immediate needs at death (cash needs) and ongoing needs (net income needs). The are various stages in life such as initial stage, married, married with children and empty nest. In every
stage of life cycle the set of needs may differ individual to individual and even within a person it varies from time to time.

There is a broad relationship between needs and policyholder satisfaction over a period of time. Thus, not much life insurance is needed in the initial stage. The same is true in the empty nest stage. The maximum need for life insurance arises during the mid-phase, when one is married and has children. In other words, one may go for life insurance so long as the satisfaction level increases and once the satisfaction surpasses the need-level, the importance of life insurance declines. If one may consider inflation, there could even be a negative rate of real return at the time of maturity of his insurance policies. Therefore, while it is important to secure his family’s well being through adequate insurance of the lives of the earning members, over-investing in insurance is a mistake.

1.1.4 Advantages and Features of Life Insurance

(I) Insurance products are better than a traditional saving instrument: As well as providing a secure vehicle to build up savings. In the event of premature death, of say the main earner in the family, the policy will pay out the guaranteed sum assured, which is likely to be significantly more than the total premiums paid. With more traditional savings vehicles, such as fixed deposits, the only return would be the amount invested plus any interest accrued.

(III) Insurance provides easy settlement and protection against creditors: Once a person is appointed for receiving the benefits (nomination) or a transfer of rights is made (assignment), a claim under the life insurance contract can be settled easily. In addition, creditors have no rights to any monies paid out by the insurer, where the policy is written under trust. Under the Married Women’s Property Act (M.W.P Act), the money available from the policy forms a kind of trust which cannot be attached by judgment creditors.

(IV) Insurance helps to achieve the purpose of the Life Assured: If someone receives a large sum of money, it is possible that they may spend the money unwisely or in a speculative way. To overcome this, the person taking the policy can instruct the insurer that the claim amount is given in installments.
(V) Insurance can be chased and facilitates quick borrowing: Some contracts may allow the policy to be surrendered for a cash amount, if a policyholder is not in a position to pay the premium. A loan, from certain policies, can be taken for a temporary period to tide over the difficult. Some lending institutions will accept a life insurance policy as collateral for a personal or commercial loan.

(VI) Disability Benefits: Death is only the hazard that is insured. Many policies also include disability benefits. These provide for waiver of future premiums and payments of monthly installments spread over certain time period.

(VII) Tax Relief and savings: The policyholder obtains Income Tax rebated by paying the insurance premium. The specified forms of saving which enjoy a tax rebate, under section 88 of the Income Tax Act, include Life Insurance Premiums and contributions to a recognized Provident Fund etc., section 10 (10D) and other sub-sections of Section 80 of the Income Tax Act.

1.2 GROWTH AND TRENDS IN GLOBAL INSURANCE INDUSTRY

Global economy is reshaping and restructuring day by day and dynamic competitive forces are influencing all the segment of societies and business activities including insurance. Increasing demand of life insurance is an opportunity for global insurers and new entrants. The emerging insurance market is opening a new way for transnational and multinational corporations too. The increasing life expectancy, better health care facilities and increasing population are some of the causes influencing demand of life insurance in many countries. Strong economic growth and catch-up dynamics has positive impact on growth trend. The profitability of life business continued to improve in many countries as costs were cut, guaranteed interest rates were reduced, changes in repo rates and reverse repo rates and profit participation was adjusted to reflect the low interest environment. All these improvements have reflected in the increased level of life insurer’s risk capital. The global growth performance in insurance business varied between industrialized countries and emerging markets. While industrialized countries shown a small growth where as emerging markets exhibited a robust growth in the insurance sector.
Insurance is contributing a fair percentage in GDP in various countries and life insurance is a major part in service sector in most of the countries.

The latest insurance sector statistics is an evidence of expansion and unexplored potential in the sector. The potential and performance of the insurance sector is universally assessed with reference to two parameters; i) Insurance Penetration and ii) Insurance Density. Insurance penetration is defined as the ratio of premium underwritten in a given year to the gross domestic product (GDP). Insurance density is defined as the ratio of premium underwritten in a given year to the total population (measured in USD for convenience of comparison).

The worldwide insurance premium was amounted to US$ 3723 billion in 2006. The growth in life insurance premium was about 7.7 percent which was the highest since 2000. It may be interesting to note that in most of the countries the growth in life insurance premium was faster than growth in the economic activity. In emerging markets, the growth in life insurance tripled to 21.1 percent from 7.5 percent in 2006. The insurance density was 330.6 in the year 2006 and 358.1 in the year 2007. Further the insurance density was increased and it was recorded 369.7 USD in the year 2008. The macroeconomic environment in 2007 across the globe was characterized by marginally slower economic growth and rising inflation driven by a steep increase in food, oil and energy prices. Key interest rates diverged, but were generally low. Though strong at the end of 2007, stock markets fell in early 2008 leads to financial crisis all over the world influenced the investments and savings. In this backdrop worldwide insurance premium amounted to US Dollar 4061 billion in 2007 as against US Dollar 3723 billion in 2006. Of the total premium, life insurance premium amounted to US Dollar 2393 billion and the remaining US Dollar 1668 billion by general insurance business. At this level, the global total premium increased by 3.3 percent in real terms in 2007 compared to 5.0 percent in 2006. The growth in life insurance premium was about 5.4 percent. While the premium grew by 4.7 percent in industrialized countries, it grew by 13.1 percent in emerging market economies. The continued expansion of life insurance business in industrialized countries was through pension and annuities products driven by an aging population, nuclear families, increasing number of singles and reductions in state social security benefits. In the
case of emerging economies, strong economic growth, relatively young population and an expanding middle class contributed to higher insurance sales. In emerging markets, the growth in life insurance was 13.1 percent during 2007 as against 21.1 percent in 2006.4

The profitability of life insurance business continued to improve in many countries as costs were cut, guaranteed interest rates were reduced and profit participations was adjusted to reflect the low interest rate environment. Life business accounted for USD 2491 billion and nonlife insurance accounted for USD 1779 billion. The life premium in the industrialised countries declined by 5.3 percent and in the emerging markets increased by 15 percent in 2008. The financial crisis and the economic downturn severely impacted sales of single premium products and unit-linked products. The profitability of life insurers deteriorated in 2008 due to low investment yields, high cost of guarantees and low revenues from asset management fees. The outlook for insurance industry in 2009 was uncertain due to many challenges. Reduced demand, low interest rates and the need for additional capital by many companies were some of the major challenges for the insurance industry in the year 2009. Average insurance density (per capita premium) in dollar terms for industrialized countries stood at USD 3655, of which USD 2175 was for life insurance.

As per the World Insurance Report published by reinsurance major Swiss Re, the global insurance premium for the year 2009 was USD 4066 billion, which is 1.1 percent (inflation adjusted) lower than USD 4220 billion reported during the previous calendar year 2008. The share of life insurance business was 57 percent in total premium collection. While life insurance business collected USD 2331 billion as premium, the same for non-life business was USD 1735 billion. During 2009, the premium in life insurance business fell by 2 percent on account of double digit decline in premium collection in USA and UK. However, compared to 2008, when life insurance premium fell by 5.8 percent, this is an improvement on account of the improved sentiment in the calendar year 2009. The global insurance premium for the calendar year 2010 was USD 4339 billion, which is 2.7 per cent (inflation-adjusted) higher than USD 4109 billion reported during the previous calendar year 2009. The share of life insurance business was 58 per cent in total premium collection. The
prospects for life insurance in the year 2011 are promising as growth resumes in the sector.5

The insurance companies are keeping their eyes on two global giants India and China. The Insurance density of India was USD 47.4, in 2008 which continued to be dominated by life insurance business (USD 41.2). Insurance penetration (insurance premium as percent of GDP) measures the level of insurance activity relative to the size of the economy. As GDP per capita rises, it is expected that individuals will purchase more insurance. The insurance penetration was 5.10 percent and Non-life: 0.70 per cent. The insurance density stood at USD 64.4 in 2010 (Life: USD 55.7 and Non-life: USD 8.7). The latest Swiss Re report reveals that the insurance penetration in India was 4.6 percent in 2008 consisting of 4.0 percent in life business and 0.6 percent from non-life business, unchanged from 2007. Two global giants India and China reported strong performance in both life and non-life business. China reported 19 percent of growth in its life-insurance premium and 20 percent in non-life insurance premium. Life insurance business in India grew by 14.2 percent in US Dollar.

Strong economic growth, consequent increase in household disposable income, penetration of insurance companies to uncovered markets and introduction of compulsory motor third-party liability are the major contributing factors for the strong performance of Chinese insurance industry. The global insurance statistics indicates United Kingdome, Switzerland, United States, France, Australia, Hong Kong, Japan, Singapore and Taiwan have highest insurance density.

Introduction of new products and new channels of distribution and penetration of private insurance companies in uncovered markets were the major contributing factors. However, profitability of insurance companies in the non-life business was affected due to detariffication and consequent reduction in premium rates. The figures provided below are showing global insurance trends:
Chapter 1: Life Insurance In India

1.3 GROWTH AND TRENDS IN THE ASIAN LIFE INSURANCE MARKET

The Asian market is also showing enormous untapped potential for life insurance and many multinational insurers are focusing their marketing strategies for this region. The Asian life insurance market accounted for approximately 30 percent of global life premiums in 2004, with total premium volume of approximately US$ 556 billion. Although growth in recent years has been relatively modest, due to continuing uncertainty in the economy, which dominates the region in terms of premium

Global Trends in Life Insurance (Premium and GDP)

Global Trends in Life Insurance (Premium Per Capita)


Growth and Trends in the Asian Life Insurance Market
volumes, the region experienced 7.4 percent growth in premiums during 2004. However, this disguises important regional trends, with strong growth in China, Hong Kong and Taiwan being offset by declining volumes in South Korea and more modest growth in demand in Japan. High growth rates are expected to persist in most countries, supported by rising incomes, an increasing level of risk awareness and the general economic development of the region. In reality, Asia is home to life insurance markets of vastly differing sizes and characteristics. Japan, is a mature market with the second highest level of insurance penetration globally. In contrast, the South-East Asian countries of Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam combined accounted for little more than 3 percent of the region’s premiums in 2004 and were generally characterized by low levels of life insurance penetration. According to a report prepared by Ernst and Young, China reported approximately 44 percent increase in premiums from bancassurance sales in the year 2010 as compared to the same period in the prior year. This contrasts sharply with premiums from agency sales, which increased by only 17 percent over the same duration. Insurance premiums from Internet sales in China similarly grew, surpassing the US$1 billion mark (7.8 billion) in 2009. Although it is difficult to predict whether this channel will see the same growth in China as it has in other markets, it is clearly now a permanent facet of the market. In Malaysia, bancassurance is growing strongly and is estimated to have a market share of around 45 percent. Thailand also enjoys robust bancassurance sales of around 30 percent. In India, several insurers have all announced linkages with banks to sell both life and non-life insurance. Ministry of Finance in India urging banks to enter in the insurance market and the same time, the traditional agency channel must forced to follow review of unit-linked commission structures by the industry regulator, IRDA year. Foreign insurer have captured only 4.8 percent of Chinese life and health insurance market. In India, the foreign ownership cap of 26 percent is a significant impediment, limiting foreign investors’ leverage over local management. Other countries in the region do not erect such daunting ownership obstacles and permit a more level playing field. Malaysia, for instance, now allows 70 percent foreign ownership, although entering the market still remains difficult. Meanwhile, the maximum allowable ownership in Thailand has increased from 25 percent to 49 percent. Ernst and Young anticipate further regional
evolution, but not revolution, in Asia-Pacific markets in 2011. Each insurer’s strategic prioritization and response to the opportunities presented may reap significant rewards. Early movers may especially benefit by their immediate actions, while the insurers who wait to discern the short-term mistakes of others may similarly attain valuable traction. Indefinitely postponing a response to the current market opportunities seems ill-advised, given the chief attraction of the Asia-Pacific market the world’s fastest remarkable growth rate. This alone explains why many multinational insurers are either preparing plans for further investment in the region, or are in the thick of implementing them. By 2015, approximately 39 percent of the world’s economy is predicted to be in Asia-Pacific. Ernst and Young has identified three key issues that influence insurers looking to share in this growth in 2011: i) Adjusting and expanding distribution strategies amid shifting demographics and consumer buying patterns, ii) Developing strategies to shape and comply with the heightened pace of local and global regulatory and accounting developments and iii) Developing dependable capital sources required to support accelerating business growth. Within this outlook, countries have been classified as Mature, Developing or Emerging markets. For the purpose of this outlook, we have broadly classified the various countries as follows:

**TABLE 1: Country and Category Assigned To Insurance Market**

<table>
<thead>
<tr>
<th>Category</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mature</td>
<td>Australia, Hong Kong, Japan, Korea, New Zealand, Singapore, Taiwan</td>
</tr>
<tr>
<td>Developing</td>
<td>China, India, Malaysia, Thailand</td>
</tr>
<tr>
<td>Emerging</td>
<td>Indonesia, Philippines, Vietnam</td>
</tr>
</tbody>
</table>

Source: 2011 E and Y Asia-Pacific Insurance Outlook

**The Contemporary Issues in Asian markets:** Asian industry professionals expect significant premium growth throughout the region. This premium growth forecast is based on strong economic fundamentals, growing trade flows, increasing specialization and sophistication of the Asian corporate landscape, including its insurance markets. The need for local insurance markets to provide risk management techniques for rapidly maturing economies forms the basis of strong premium growth.
This growth creates a wealth of opportunities for both the local and international insurance companies. However, to be successful in the Asian market, there are a number of factors to take into consideration.

**Overall growth of the entire region:** The region’s economic growth is considered both as a challenge and great opportunity for Asia. In fact, the Chinese economy’s purchasing power is now the second largest in the world and its economic output is expected to be the largest within a few decades but will not sustain in longer run. Meanwhile, economists expect India’s output to grow by around 6 percent a year over the next 10 to 15 years and the political and business environments are expected to stabilize further. However, while the incredible growth rate of both the countries must not be ignored, it should not obscure the importance of other Asian nations, for example, those in South East Asia. The ASEAN countries represent a fast-growing region and one which is keen to strengthen its ties with the international markets and with the US and Europe in particular. It is essential to realize that the entire Asian region is blossoming. A particular challenge for the insurance industry is to ensure that the world and the global insurance market, knows there is much more to the Asian growth story than simply China and India.

**The uniformity in regulatory system:** A common regulatory structure is highly demanded to reduce costs and free up resources for innovation. Obviously, each country is different and will have certain factors unique to it. Those regulatory systems which do not follow similar principles, however, tend to be less efficient and more costly. Such extra costs will not be met by the shareholders of insurers indefinitely and ultimately will be passed on to policyholders. On one hand, the challenge for Asian regulators is to ensure that their standards are harmonized, efficient and fair. Doing so will help all insurers to provide their specialist services throughout the region, creating fairer competition and the better deals for policyholders. On the other hand, the challenge for international players is to have a clear understanding on regulatory issues and the priorities of regulators in order to influence. Moreover upcoming joint ventures and foreign investments are also forcing to reform traditional regulatory system.
The global expertise: Meaningful experience and expertise brought to the region is one of the critical success factors in helping this burgeoning market to tap its full potential. The region’s insurance markets will, for now, continue to require the injection of significant expertise from global industry to cope with the rapid growth. Nevertheless, local insurers will ultimately want to build on their own technology platforms rather than paying indefinitely for foreign expertise. With such transfer of know-how, developing Asian insurance markets can benefit from the full resources and experience the global industry has to offer. This model for success has nothing to do with transience and everything to do with teamwork. Indeed, it rests on a foundation of cross-continental communication and teamwork that is right in line with the collaborative culture of Asia.

Quality at third world price: In the globalization policy, insurance companies face an instable business scenario. Radical changes are taking place to the internationalization of activities, the appearance of new risks, new types of covers to match with new risk situations and unconventional and innovative ideas on policyholder service. The existing insures are facing difficulties from non-traditional competitors that are entering the competitive market with new approach, through new channels and new insurance products to cater need of various segments of policyholders. New type of risk coverage such as natural calamities, terrorism and such unforeseen situations are covered by insurers. Therefore, quality of service is the main influencing factor in the insurance market where product and service attributes decide the success of insurance companies.

The global insurance industry is showing immense potential for the insurance companies showing interest in designing diversified schemes, custom offerings and follow policyholder relation management. The experience after seventies in insurance sector showed that the ultimate objective remained largely unfulfilled due to the relatively low spread of insurance in Indian and Asian market, the efficient and quality functioning of the public sector insurance companies and the untapped potential for mobilizing long term financial resources to finance the growth of infrastructure, the government set up an insurance returns.
1.4 LIFE INSURANCE AND INSURANCE SECTOR IN INDIA

1.4.1 Role of Insurance in Indian Economy

The role of insurance goes beyond its primary purpose of spreading the risk and thereby minimizing the loss. The huge fund collected by way of premium from policy holders and the amount retained by them as solvency funds to meet unforeseen contingencies. Insurance plays significant role in shaping economy of a nation. The contribution of the insurance sector to the growth of economy is gauged by the rate of penetration. The reported insurance penetration of around 1.5 percent of GDP of India until the 1990s was considered lowest in the world. Year 2009-10 the average is considered 2.2 percent which is less as compared to other countries. In an economy insurance provides optimum utilization of capital, it encourages thrifts and saving among individuals and also offers risk covers at a cost effective price to the society. Insurance companies are investing large amount of funds in infrastructure and generating ample of employment for India as a leading public insurance company.

1.4.2 Foreign Direct Investment (FDI) Policy in Indian Life Insurance sector

The FDI norms presented in 2006 restricts the foreign participation in an Indian Insurance Company to 26 percent of the latter's share capital. Although the LIC still remains the largest player in the market, the private companies are emerging with a bunch of lucrative policies and investment opportunities for people belonging to all sections of the society. Such policies are promoted through attractive marketing strategies and luring the society at large.7

1.4.3 Development of Insurance in India

The origin of concept of insurance is adumbrated in antiquity. Various authors attribute the development of the concept to different communities and tribes. Some aver that the Indus valley was the cradle of insurance, while other believes that Eionis, an ancient ethnic community of Greece, nurtured this concept of risk sharing. Insurance in India can be traced back to the Vedas. For instance, “Yogakshema” the name of LIC of India’s corporate headquarter which is derived from the Regveda. The term “Yogakshema” means community insurance that was prevalent around 1000 BC and practiced by Aryans. During seventies and eighties insurance was conceived as
Chapter 1: Life Insurance In India

means to provide money for English widows. First insurance company in India was started in 1870 in Bombay as a part of financial sector reform. The first stock companies entered into insurance segment were charted and incorporated business in England in 1720. In the year 1753 first life insurance Corporation offered insurance benefits in America only for American Ministers and their dependents. Independence of its origin and antecedents, insurance today occupies an important place in the socio-economic life of all civic societies.

Insurance has got its origin from the concept of Indemnity against the loss, which has occurred due to some unavoidable circumstances. Though the concept of insurance is old as history of mankind to some 6000 years, it got its presences registered in India somewhere in 1818 with opening up of Oriental Life Insurance Company in Calcutta by Europeans. The first Indian Insurance Company, Bombay Mutual Life Assurance Society was established in 1870, later on the development of Indian Life Insurance companies such as United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative assurance at Lahore were amongst those companies which were formed to treat the Indian populace at par. With increase in the pressure from Indian intellect, to give the Indian Insurance Companies act, 1912 and Provident Fund act of 1938 which was not only governed the Life Insurance Industry but also had its speared to the Non-life Insurance Industry. With the increase in atrocities from all these companies, the demand to amend the prevailing act of 1938 assumed velocity. Therefore, in the year 1956 the act was passed as Life Insurance and Prevailing act, 1956, which called for nationalization of all the Insurance Companies working in India under one name as Life Insurance Corporation of India (LIC). Till 1999 LIC was the only life insurance player in the Indian Life Insurance field, when government of India decided to amend the then prevailing act prohibiting the private life insurance player to enter the Indian market. It was Insurance Regulator Authority, 1999 (IRA) that gave the freedom the private players to play in the field. But the basic motive for introducing such an act was not fulfilled as the amended act was further to add the element of development to the concept and thus came the current prevailing act such as Insurance Regulatory and Development Authority (IRDA), 1999. It was further amended to incorporate the element of competitiveness. Thus, government of
India via IRDA permitted the private insurance player also to enter the Indian field and made some provision for foreign insurance companies that if they want to enter the Indian market they can do so but to the extent of 26 percent of share only with any of the Indian partner. Today various private life insurance companies are working in India, some in wholly owned format and some as a joint venture with foreign company or with Indian company. Together they hold the market share of approximately 24 percent in life insurance market. Still LIC holds the kingship with almost 76 percent of market share.

Indian Insurance Sector was nationalized under the Life Insurance Act 1956. After the nationalization of Life Insurance in 1956, there have been fundamental changes in the organisational objectives of Life Insurance Corporation of India (LIC). The insurance business was attempted to be expanded even in rural areas. The purpose was to reach all the potential users of the services. Despite the various measures adopted by both the Corporations, the insurance business couldn’t get much positive response, especially in rural areas. This needs a change in the marketing practices of LIC. The main task is to transform the potential policyholders into actual policy holders. This paradigm shift in Indian Insurance is showing positive signs for our economy especially in private sector. In the long history of Indian Insurance, the first drastic transition took place in 1956 with the nationalization of the life insurance business in India followed by the nationalization of the general insurance industry in 1971. There has been a life insurance business in India since 1818. Till 1956, the insurance business was mixed and decentralized. There was a large number of companies (245 before centralization) of different ages, sizes and patterns of organisation, which conducted only life insurance business and there were some companies whose main business was general insurance, but they did life insurance also. In addition there were a number of ‘Provident societies’. In 1956, the life insurance business of all companies as mentioned was nationalized and a single monolithic organisation, the Life Insurance Corporation of India, was set up. Today the life insurance is almost entirely in the hands of LIC. The post and Telegraph Department conducts some business in this area for its employees, but the volume of that business in relation to that of LIC, is negligible and declining. A major step taken by the Government in
1991 with a dawn in realization in the public sectors that without policyholders there would be no business and that policyholders are an equally important part of a business. A well-developed insurance sector contributes to economic growth by encouraging risk taking by entrepreneurs. Insurance is also perceived as a tool of wealth management. A well-managed insurance industry offers risk-specific and risk-adequate insurance covers at a cost effective price to the society. Many developing economies tap the insurance premium mobilized by the insurance companies as a source of national development and infrastructure financing. Insurance not only helps in the assessment of the economic value of insurance cover offer to society but also as an economic model which reduces the aggregate value of risk in an economy by the process of risk transfer. Insurance also provides the optimal utilization of capital without any necessity to lock in huge amount of capital to provide cost contingencies arising out of risk events. Life insurance encourages thrift and saving among individuals thereby contributing to the economic growth by encouraging capital formation. The three prominent phases of development of insurance are briefly elaborated:

**Phase I (1818-1956)**: Many (245) private insurance companies (only), competitive market.

**Phase II (1956-2000)**: Nationalization, public sector or state monopoly (only one company).

**Phase III (After 2000)**: Opened to the entry of private domestic and foreign companies, mixed sector of public and private sector units, oligopoly of public sector companies (12 life insurance and 12 general insurance companies).

With the nation’s expanding infrastructure in a state of imminent collapse, India couldn’t have afforded to be lumbered with sub-optimally performing monopoly insurance companies and therefore the passage of the Insurance Regulatory and Development Authority Bill on December 2, 1999 heralds an era of cautious optimism where stakes are high for all parties concerned.
1.5 GROWTH AND TRENDS IN INDIAN INSURANCE INDUSTRY

The Indian economy registered an impressive growth rate of 7.4 percent in 2009-10 following 6.7. This was achieved against the backdrop of a broad based recovery in the second half of the financial year. The overall stability of the financial system of India continued to positively impact business confidence. The major source of worry, however, is the inflationary conditions which changed significantly in 2009-10, particularly, in the second half of the year. Positive development was, however, observed in demand for private investment during the last quarter of 2009-10 and has been particularly robust in the first quarter of 2010-11. The contribution of the industrial sector to the overall growth increased sharply at 28 percent in 2009-10 (9.5 percent in 2008-09); while the growth in the services sector was lower at 8.3 percent in 2009-10 (9.3 percent in 2008-09). Although there has been some concern around the crisis emanating from the sovereign debt in the Euro area and its likely impact about the durability of the global recovery, the overall movement in growth has been positive. The prominent feature of Indian insurance are described briefly:

1.5.1 The participants and growth

Since opening up, the number of participants in the industry has gone up from six insurers (including Life Insurance Corporation of India, four public sector general insurers and General Insurance Corporation as the national reinsurer) in the year 2000 to 48 insurers operating in the life, non-life and reinsurance segments (including specialised insurers, viz., Export Credit Guarantee Corporation and Agriculture Insurance Company). Three of the non-life insurance companies, viz., Star Health and Alliance Insurance Company, Apollo Munich Health Insurance Company and Max Bupa Health Insurance Company function as standalone health insurance companies. The insurance penetration was 2.32 percent (Life 1.77 percent and Non life 0.55 percent) in the year 2000 when the sector was opened up for private sector. It had increased to 5.20 percent in 2009 (Life: 4.60 percent and Nonlife: 0.6 percent). The insurance density stood at USD 54.3 in 2009 (Life USD 47.7 and Non-life USD 6.7) from USD 9.9 in 2000 (Life USD 7.6 and Non-life USD 2.3). The first year premium, which is a measure of new business secured, underwritten by the life insurers during 2009-10 was ₹ 1,09,894 crore as compared to ₹ 87,331 crore in 2008-09 registering a
growth of 25.84 percent against negative growth rate of 6.81 percent during 2008-09. In terms of linked and non-linked business during the year 2009-10, 54.53 percent of the first year premium was underwritten in the linked segment while 45.47 percent of the business was in non-linked segment (51.13 and 48.87 percent respectively in 2008-09). The total premium underwritten by the life insurance sector in 2009-10 was ₹ 2,65,450 crore as against ₹ 2,21,785 crore in 2008-09 exhibiting a growth of 19.69 percent (10.15 percent in 2008-09). At present one public and 22 private insurer are commencing business in the area of life insurance in India.

1.5.2 The Share and Position in Global Market

The life insurance market, which was underdeveloped in the country started to open up new vistas and increase its cover with the entry of the private players in 1999 when the government opened up the sector. Prior, to this, penetration of life insurance had been low, even though LIC had been steadily covering some ground. The private players customized the products and introduced innovations in annuity or pension products. The market is currently growing at the good pace. India ranked 9th in life insurance business among the 156 countries according to the survey conducted by Swiss Re. During 2009, the life insurance premium in India grew by 10.1 percent (inflation adjusted). However, during the same period, the global life insurance premium had contracted by 2 percent. The share of Indian life insurance sector in global market was 2.45 percent during 2009, as against 1.98 percent in 2008. New companies are entering into the market and they are needed for penetrating the market further. The insurance density of life insurance sector had gone up from USD 9.1 in 2001 to USD 47.7 in 2009. Similarly, insurance penetration of life sector had gone up from 2.15 per cent in 2001 to 4.60 per cent in 2009. There is another dimension to this growth. People also see life insurance as an instrument to invest as savings in other investment options are unable to attract middle class segment. However, vast sections of society are still to be brought under life insurance. There are vast rural areas that are yet to learn about life insurance and even in urban areas, the poor are still out of the purview of life insurance. A large population is still uninsured in rural as well as urban segment. New companies are entering into the market and they are needed for penetrating the market further.
1.5.3 Contemporary Issues in Indian Insurance Industry

**The Saving Culture and untapped potential for life insurance:** India’s propensity to save, though lower than China, is substantially high at 17 percent. While the survey may be influenced by vagaries of sampling, responses suggest a striking sophistication in the savings culture. More than 90 percent respondents have a bank account and 66 percent have invested in life insurance. The Indian insurance market is the seventh-largest in the world and is one of the fastest growing. More importantly, we observe that the investment in life insurance increases with income levels and purchasing powers of consumers. A similar trend is observed in stock market participation (less than 10 percent on average), which rises sharply in high income groups. The investment in life insurance also caters to the increased savings from the households thus increasing the much needed domestic savings.

**Growing demand of life insurance:** The scope of life insurance is recognised by the insurance corporation’s world over. Insurance titans are opening new vistas to the Indian life insurance for the two important reasons; Firstly, the population of young working people (25-35 years of age) is expected to increase in India. Secondly, the reported insurance penetration of around 1.5 percent of GDP of India until the 1990s was considered to be lowest in the world. The average global insurance penetration during the period 1995-2001 was around 7.50 percent as against the average penetration in India was around 2.2 percent. This also indicates that India’s insurance potential lies dormant and remain to be harnessed. There are various factors influencing insurance industry in India such as globalisation, easy entry of private player, product mix offered by private players, instable investment environment and unpredictable consumer. In spite of the changes, variations and dynamism of insurance sector various new policies were issued during 2002-2007 and with a remarkable growth in the number of new policies issued. The LIC faced downfall in the percentage of number of policies issued, it was measured approximately -1.61 in the year 2007-2008 and further -4.52 in the year 2008-2009. In the case of life insurance, the individual new business premium under this segment stood at ₹ 130 crore under 36.51 lakh policies in 2010-11. The same for the group business amounted to ₹ 155 crore premium under 1.52 crore lives. LIC contributed most of the
business procured in this portfolio by garnering ₹123 crore of individual premium from 29.51 lakh policies and ₹138 crore of group premium. The insurance penetration is defined as a ratio (in percent) of premium to Gross Domestic Product and insurance density is defined as a ratio (in percent) of premium to population.

Marketing Environment: The gradual liberalisation of insurance business, the separation of non-life and life business, introduction of capital adequacy, solvency based regulation of the insurance sector and such other factors are influencing unstable market environment. An Insurance Regulatory Authority Bill was passed in 1999. The new regulator, Insurance Regulatory and Development Authority (IRDA) took office at the same time to oversee and regulate the market. The Indian life insurance market is drawing intense attention, fuelled in part by the fast expansion of its insurance markets and the fact that this growth potential is now available to all (subject to the regulatory restriction on foreign equity holding). India is the second most populous country of the world with more than one billion population. The economic growth record is strong (more than 6 percent during the past one decade). In spite of these positive developments, the life insurance market in India is extremely under-penetrated. Tables 2 and 3 provide a comparison of Indian insurance penetration and density levels with the Asian and global markets for 2003 to 2010. The comparison of insurance penetration and density is shown below:

**TABLE 2: Life Insurance Penetration (Percentage): International Comparison**

<table>
<thead>
<tr>
<th>Country/region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>2.26</td>
<td>2.53</td>
<td>2.53</td>
<td>4.10</td>
<td>4.00</td>
<td>4.00</td>
<td>4.60</td>
<td>4.40</td>
</tr>
<tr>
<td>Asia</td>
<td>5.74</td>
<td>5.58</td>
<td>5.16</td>
<td>5.00</td>
<td>4.60</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>World</td>
<td>4.59</td>
<td>4.55</td>
<td>4.34</td>
<td>4.50</td>
<td>4.40</td>
<td>4.10</td>
<td>4.00</td>
<td>4.00</td>
</tr>
</tbody>
</table>

Source: Swiss Re, Sigma various volumes

**TABLE 3: Life Insurance Density: International Comparison**

<table>
<thead>
<tr>
<th>Country/region</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>12.9</td>
<td>15.7</td>
<td>18.3</td>
<td>33.2</td>
<td>40.4</td>
<td>41.2</td>
<td>47.7</td>
<td>55.7</td>
</tr>
<tr>
<td>Asia</td>
<td>140.1</td>
<td>147.2</td>
<td>149.6</td>
<td>154.6</td>
<td>156.7</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>World</td>
<td>267.1</td>
<td>291.5</td>
<td>299.5</td>
<td>330.6</td>
<td>358.1</td>
<td>369.7</td>
<td>341.2</td>
<td>364.3</td>
</tr>
</tbody>
</table>

Source: Swiss Re, Sigma various volumes
Indian insurance market is recording remarkable growth and immense potential. The growth recorded in insurance premium was higher in India as compared to Asian insurance market during 2009-2010. The world statistics is also showing negative growth (-0.2) whereas Indian market and Asian market are showing positive growth. The wide difference indicates immense potential in Indian market and is to be more strong in future (more than 6 percent during the past one decade).

**TABLE 4: Growth in Insurance Premium: Real Growth (Percentage) in Premium During 2009**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrialized country</td>
<td>-2.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>4.2</td>
<td>13</td>
</tr>
<tr>
<td>Asia</td>
<td>1.8</td>
<td>4.2</td>
</tr>
<tr>
<td>India**</td>
<td>10.1</td>
<td>4.2</td>
</tr>
<tr>
<td>World</td>
<td>-2.0</td>
<td>3.2</td>
</tr>
</tbody>
</table>

Source: Swiss Re, Sigma No. 3/2010. Note: * calendar year. ** Financial Year 2009-10

The number of insurance policies sold in India is increased in public and private sector during 2008 to 2010 and the recorded growth in public sector was highly positive 22.59 in 2009. The total number of policies increased in the year 2010 from 8454751 to 48106668.

**TABLE 5: Life Insurance Policies in India**

<table>
<thead>
<tr>
<th>Insurer</th>
<th>Year 2008</th>
<th>Growth</th>
<th>Year 2009</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>4819546</td>
<td>-23.36</td>
<td>5908412</td>
<td>22.59</td>
</tr>
<tr>
<td>Private</td>
<td>2725468</td>
<td>43.99</td>
<td>2546339</td>
<td>-06.57</td>
</tr>
<tr>
<td>Total</td>
<td>7545014</td>
<td>-07.78</td>
<td>8454751</td>
<td>12.05</td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2010-11

The number of life insurance policyholders has increased approximately 12 percent in India in the year 2008 to 2010 as shown in the table above. The insurance industry in India has seen an array of changes in the past few decades. The year 2009 saw an up rise in the Indian insurance sector as major structural changes with the fast changing liberalization; globalization and privatization policies, the changing and growing needs and demands of people have made the insurance industry more
competitive. Both public and private players now offer greater choice in terms of products and services. They also make valuable efforts to create awareness about the benefits and significance of insurance although there is still a blocking point among the people. The share of Indian life insurance sector in global market was 2.45 percent during 2009, as against 1.98 percent in 2008. The year 2009-10 witnessed a 1.39 percent increase in the number of individual agents. The number of the agents has gone up from 29.38 lakh as on 1st April, 2009 to 29.78 lakh as on 31st March, 2010. While the private life insurers reported a decrease of 1.07 per cent, LIC showed an increase of 4.31 per cent in the number of individual agents. As on 31st, March, 2010, the number of agents registered with LIC stood at 14.03 lakh (13.45 lakh in 2008-09). The corresponding number for private sector insurers was 15.75 lakh (15.93 lakh in 2008-09). The attrition was higher in case of private sector insurers at 6,42,439 more than two times, as against 2,54,596 for LIC.

**TABLE 6: Details of Life Insurance Agents**

<table>
<thead>
<tr>
<th>Insurer</th>
<th>As on 1/6/2010</th>
<th>As on 1/4/2009</th>
<th>Additions</th>
<th>Deletions</th>
<th>As on 31/3/2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>1306185</td>
<td>1592579</td>
<td>625336</td>
<td>642439</td>
<td>1575476</td>
</tr>
<tr>
<td>Private</td>
<td>1173505</td>
<td>1344856</td>
<td>312547</td>
<td>254596</td>
<td>1402807</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2479690</strong></td>
<td><strong>2937435</strong></td>
<td><strong>937883</strong></td>
<td><strong>897035</strong></td>
<td><strong>2978283</strong></td>
</tr>
</tbody>
</table>

Source: IRDA Annual Report 2010-11

The turnover of agents continued to be a matter of concern for the industry even in the year 2009-10. While the number of agents appointed was 9.37 lakh, the number of agents terminated was as high as 8.97 lakh. The scenario was worse for private insurers as compared to LIC. The private insurers appointed 6.25 lakh new agents, while at the same time terminating 6.42 lakh agents. On the other hand, LIC terminated 2.54 lakh agents while appointing 3.12 lakh agents. Thus, the public sector insurer was a net contributor to the agency force. Such high turnover in the agency force is a matter of concern, as it could have negative consequences for the life insurance industry as a whole. Firstly, it is a huge drain on the financials of the insurers who invest considerably in terms of money and time on prospecting, appointing and training of individual agents. Secondly, the policies procured by these agents are rendered “orphan” upon termination of the respective agent, and thereafter
often result in lapsation due to absence of servicing support. Thirdly, the image of the profession of agents too suffers a setback since the public in general, and prospective agents in particular, perceive it as lacking in stability, thus making it more difficult for insurers to enrol committed agents.

**Consumer Driven Forces:** India is highly populated country and new players may tend to favour the ‘creamy layer’ of the urban population. But, in doing so they may miss a large chunk of the insurable population. A strong case in point is the current business composition of the dominant market leader- the life insurance. The business of LIC comes from the rural and semi-rural market. In a country of one billion people, mass marketing is always profitable and cost-effective opinion for gaining market share. Competition in rural area tends to ne ‘kinder and gentle’ than that in urban segment and metropolitan cities, which can easily be termed cutthroat. Identifying the right agent and channel to harness the full potential of the vibrant and dynamic rural markets will be imperative. Rural insurance should be looked upon as an opportunity and not an obligation. The role of insurance is undergoing a phenomenal change today as is evident from the product bouquet and the product advertisements. The emphasis lies on insuring oneself and one’s close family members for self-reliance more-so because nuclear families are the emerging trend in the country today. To meet the varying needs of various individuals, the insurance players have a vast foray of products in their bouquet. Besides this, almost all companies offer the flexibility to policyholders to choose the most suitable product for themselves by combining features of a number of products together. Thus the products can be customized to suit the policyholder as per their needs. Companies in the industry today have widened their distribution channels by approaching prospective policyholders through agents, brokers and bancassurance. With Information Technology revolutionizing the financial sector, another channel has been made available for selling which is the internet. ICICI Prudential offers Instainsurance through which a client can chose an insurance policy in mere 10 minutes. Similarly other players have also been pushing their products through the internet. Another dimension of insurance is also attracting investors that are new offerings such as growth and investment options with fibulas portfolio.
Nearly 80 percent of Indian population is without life insurance cover while health insurance and non-life insurance continue to be below international standards. And this part of the population is also subject to weak social security and pension systems with hardly any old age income security. This is an indicator that growth potential for the insurance sector is immense.

Life insurance is not bought in India. General insurance is often bought because there are compulsions under the law (motor vehicles, public liability, workmen etc.) or from the financiers asking for insurance as collateral security. In the case of life insurance, there is very little compulsion. The tendency is to defer the decision. The possibility of death is either ignored or not considered imminent. Most people never do believe that they can succumb to destiny and they think they will live a long and healthy life. Sadly, that is not always true. A prudent financial plan needs to build in the risk of dying too early to ensure that our family’s financial future is protected.

There are financial tools that help us determine the “risk of dying early” leading to the quantum of Life Insurance required. While the algorithms may be different, conceptually, all that these tools try and determine is the present value of one’s future earnings keeping in mind the future goals and aspirations. It is important that each one of us put some thought into the potential exposure of our family to the risk of the primary wage earners risk of dying too early and arrive at the level of protection required. Before we get into the recommended approach to Life Insurance, let us delve on some of the myths surrounding Life Insurance in India. These myths will help explain why the number of individuals insured and the average amount of insurance cover per individual is poor. Insurance supports loved ones in the event that one meets with an untimely demise.

**Consumer Grievances:** The life insurance statistics are showing that many consumers are dissatisfied with the services provided by insurance companies. The number of grievances and complaints are increasing day by day. The Grievances Cell of the Authority receives grievances from the policyholders against insurance companies. Such complaints are forwarded to the companies for resolution at their end. The insurance companies are required to keep the Grievances Cell of IRDA informed about the status of respective grievances and whether the same have been
resolved or otherwise. As on 31st March, 2010, there were 395 complaints pending with the Authority pending resolution by life insurance companies. During the year 2009-10, the Authority received 2,449 complaints (1,794 in 2008-09), out of which, 606 related to LIC (481 in 2008-09) and 1,843 to private sector insurers (1,313 in 2008-09). In order to ensure that policyholder grievances are addressed in an efficient / faster manner and provide a qualitative grievances redressal experience across the country, IRDA has set up the Insurance Grievance Call Center (IGCC). The call center is involved in establishing IGCC with inbound, outbound and back office capabilities to achieve its objectives and to meet the long-term vision of IRDA. Call center is also setting up Nationwide Consumer Service help line supported by back office activity to provide a single window system to policyholders to lodge their complaints with their respective insurers.

**Tax Saving Concept:** Life insurance in India is promoted and sold in manner which is not clear to the consumers because of poor knowledge about financial planning and tax planning. However, lack of financial education has made policyholders believe that insurance is a tax-planning tool and the protection element is only a marketing strategy. Sad, but true; this is the way Life Insurance has been largely sold in this country. Individuals buy “enough” Life Insurance to get tax breaks just before the financial year ends. The moot question is—are we buying Life Insurance to save taxes or are we buying it to protect our family’s financial future? Since people believe that nothing ever can happen to them, the decision on quantum of insurance cover and timing is made just before the financial year ends. Tax benefits have been driving LIC’s business over the years and the same will drive private player’s too, since the same incentives are available to all insurance companies. There is a large potential in rural India. As stipulated by the Insurance Regulatory Development Authority, five percent of our new business must cover rural India and the figure must reach 15 percent by the fifth year. All of this is very encouraging for the life insurance sector. Innovative products, smart marketing and aggressive distribution, that’s the triple whammy combination that has enabled fledgling private insurance companies to sign up Indian policyholders faster than anyone ever expected. Indians, who have always
seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer.

**Guaranteed Returns:** The insured person is generally not aware about the guaranteed return that a Life Insurance contract can give. Unfortunately, individuals expect life insurance companies to give “high guaranteed” returns. What most individuals fail to understand is that life insurance contracts are long-term contracts. The way in which the contract works is that the premium that each of us pays gets invested after deducting for the cost of mortality and other administrative expenses of the insurance company. Since the premium is paid over a period of time, the investment return that the insurance company can generate on our savings depends upon the prevailing investment opportunities at the time when the premium is paid. With volatility in interest rates and capital markets, the level of investment return that an insurance company can generate can vary substantially. In such a scenario, where is the scope for the insurance company to offer a fixed return to their policyholders but have an earning stream that is highly volatile and variable? Interest rates on Government of India securities have fallen by over three hundred basis points in the last three years. Given such an economic environment, it is foolhardy to expect that the “high guaranteed return” policies can continue for very long. The classic example is Japan where with interest rates at sub zero levels, insurance companies that offered guaranteed return policies to their policyholders are going down. Again, if buying Life Insurance for the “high guaranteed return” the policy offers; please examine the company and the product again. Insurance company may not be able to pay the promised return when family of insured needs the money most.

**Contribution to economy:** The Indian economy continued to exhibit robust growth even though global economy experienced many uncertainties, ups and downs. The real GDP growth emanating from the industry and services sector declined slightly during 2007-08. The continued acceleration in saving and investment rates and sustained productive growth were underpinnings the growth momentum in the Indian economy during 2007-08. The real GDP growth in 2007-08 though high at 9 percent was lower than the 9.6 percent recorded in 2006-07. Services sector continued to grow at double digit level. The gross domestic capital formation rate at the economy level increased from 35.5 percent in 2005-06 to 35.9 percent in 2006-07. The saving
preference of the households had slightly shifted away from the bank deposits in 2007-08 from that of 2006-07.

**Contribution of Public Sector (LIC):** Economic reforms in India initiated in the early 1990s saw the liberalisation of insurance business move up the government’s policy agenda. Led by the Life Insurance Corporation (LIC), the life insurance industry registered a growth of 110 percent in fiscal 2006-07, taking the total business to US$ 19.2 billion from the previous year’s US$ 9.1 billion. The life insurance market has grown rapidly over the past six years, with new business premiums growing at over 40 percent per year owing to the entry of a host of new players with significant growth aspirations and capital commitments.

The total life insurance market premiums is likely to more than double from the current US$ 40 billion to US$ 80-US$100 billion by 2012, says a study by McKinsey. The study titled ‘India Insurance 2012: Fortune Favours the Bold,’ expects a rise in premiums between 5.1 and 6.2 percent of the GDP in 2012 from the current 4.1 percent driven by greater insurance intensity per capita as the average per capita income increases and rise in penetration in urban and rural areas. The life insurance premium contributions per capita have jumped from a little over US$ 7 in 1999-2000 (pre-liberalization) to US$ 38.5 in 2006-07. Life insurance penetration in India was less than 1 percent till 1990-91 and increased to 2.53 percent in 2005 and to 3 percent in 2006-07. The impetus for growth has come from both public and private insurers. Also, the number of players in this segment has also increased to 17 (16 in private sector), with Life Insurance Corporation (LIC) being the dominant player (market share of about 74 percent).

**Need of Finance Experts:** The industry is expanding and job opportunities are likely to increase manifold. The liberalization of the insurance sector promises several new job opportunities. There is a need for finance experts, marketing specialist and human resource professionals apart from purely agent based services. The segment is also generating ample opportunities for professional in streams like underwriting, actuarial sciences and claims management.

**Financial System and financial market:** According to the preliminary estimates released by RBI on household financial savings for 2007-08, insurance funds constituted 17.5 percent of the total gross financial savings of the households in 2007-
08. This has resulted in an increase in the share of insurance funds in the total household savings. A similar increase was observed in mutual funds also. The above shift in the preferences towards insurance sector was mainly on account of the households preferring to invest in Unit Linked Insurance Products (ULIPs) of life insurers in the backdrop of bullish stock market as the returns of a part of ULIPs depend on the behaviour of the stock market. The financial markets during 2009-10 showed signs of volatility while reflecting the developments in the global markets. However, the signs were clearly that of rising activity. This is critical to ensure that the economy is catapulted to the next phase of growth. The external balance situation improved and reflected a positive growth in both exports and capital inflows during 2009-10. This reflected a favourable trend from the downturn observed in the wake of the financial crisis. Overall, developments during 2009-10 have been positive although there had been some macroeconomic concerns at the beginning of the year. The financial positions of various insurers is provided in the table-7 in terms of their equity share capital for the year 2002-2010. The figures indicate that there was a remarkable increase in the equity share capital of private companies threatening stagnate Life Insurance Corporation of India. The equity share capital of private companies is setting new challenges and pace competition to LIC of India. The increasing market of private insurer is directly or indirectly influencing monopoly regime of public sector in India. The table-7 provides the detail of equity share capital of private and public insurance companies.
### TABLE 7: Equity Share Capital of Life Insurance in India

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Source: IRDA Annual Report 2010-2011
Chapter 1: Life Insurance In India

The equity share capital of private as well as public companies is also increasing as indicated in the table above LIC is holding stagnant equity share capital from past nine years. The figures also indicate faster increase in the equity share capital of Birla Sunlife, Tata AIG, Aviva, HDFC, Metlife, Max New York and ICICCI.

TABLE 8: New Insurance Policies Issued in India

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<td>(-4.70)</td>
<td>(8.21)</td>
<td>(-4.52)</td>
<td>(-1.61)</td>
<td>(21.01)</td>
<td>(31.75)</td>
<td>(-11.09)</td>
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<td>(96.75)</td>
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<td>(30.14)</td>
<td>(35.29)</td>
<td>(-8.44)</td>
<td>(12.83)</td>
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Note: Figure in bracket indicates the growth over the previous year in percent.

Source: IRDA Annual Report 2010-2011

As far as India is concerned, in the absence of any scientific study on the insurance via-a-vis the GDP multiplier, it is difficult to assess whether the industry was really keeping a pace with the growth of the economy or not. Insurance is closely links with the strengthening financial structure, savings and economic growth of a country. Since 2007 the number of new policies sold by LIC was increasing but there was a recorded growth in the number of new policies issues till 2007. After 2007 there was a downfall in the number of new policies issued by public as well as private sector.

Apart from new policies issued the variation in the growth of life insurance premium is also observed. The figures in the table indicates that there is an incremental growth in the life insurance premium in case of many private companies such as Birla sun life, Kotak Mahindra, Met Life, Max New York, Reliance, Shara, SBI Life, Shriram and Tata AIG. Therefore it is clear that in spite of overall decline in the growth there are many private companies which are showing incredible growth in the amount of single premium paid by the policyholders from 2001-2010.
**Chapter 1:**

**Life Insurance In India**

**TABLE 9: Life Insurance Premium (Including Single Premium) in India**

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<td>(15.00)</td>
<td>(25.84)</td>
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<td>(23.88)</td>
<td>(94.96)</td>
<td>(47.94)</td>
<td>(32.49)</td>
<td>(16.80)</td>
<td>(-14.68)</td>
<td>(104.56)</td>
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Note: Figure in bracket indicates the growth over the previous year in percent.
After comparing the performance of private companies and LIC separately it is clear that the tough competition is luring the policyholders and effective private companies are enjoying the status of excellence and incremental growth in the amount of single as well as total premium. The amount of single premium paid by the insured in the first year was also increased in the private sector during 2001-2010 but there was a subsequent fluctuation observed in case of LIC. During the year 2008-2009 there was a downfall of -11.36 percent in the single premium amount collected by public sector insurance or LIC of India as shown in the table-9. There was a downfall of -7.16 percent in the single premium amount collected by private insurance companies. The figures further indicated growth in 2009-10 in single premium amount collected by public and private sector. The figures in the table also indicates that the growth of single premium was positive (0.33) in case of private sector in the same financial year. Whereas during the 2008-2009 there was a growth of 5.01 percent in the total premium amount collected by public sector and 25.10 percent by private insurers.

According to IRDA Annual report 2010-2011 Life insurance industry recorded a premium income of 2,65,450 crore during 2009-10 as against 2,21,785 crore in the previous financial year, registering a growth of 19.69 per cent. While private sector insurers posted 23.06 per cent growth (25.09 per cent in previous year) in their premium income, LIC recorded 18.30 per cent growth (5.01 per cent in previous year). While renewal premium accounted for 58.60 per cent (60.62 per cent in 2008-09) of the total premium received by the life insurers, first year premium contributed the remaining 41.40 per cent (39.38 per cent in 2008-09). During 2009-10, the growth in renewal premium was 15.69 per cent (24.91 per cent in 2008-09). By comparison, the growth in first year premium was higher at 25.84 per cent during 2009-10 (negative 6.81 per cent in 2008-09). Further bifurcation of the first year premium indicates that single premium income received by the life insurers recorded 31.05 per cent growth during 2009-10 (negative 3.34 per cent in 2008-09). Single premium products continue to play a major role for LIC as they contributed 24.36 per cent of LIC’s total premium income (21.64 per cent in 2008-09).
## TABLE 10: Life Insurance Premium (Total) in India

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<td>Aviva</td>
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<td>(43.54)</td>
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Note: Figure in bracket indicates the growth over the previous year in percent.

*"* indicates the company has not started its operation.

Source: IRDA Annual Report 2010-2011
The figure provided in the table indicates that the growth in premium amount collected by LIC is less as compare to private sector.

### TABLE 11: Life Insurance Status in Harayana

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<th>Insurer</th>
<th>2010-11 (policies new business)</th>
<th>2010-11 (premium total in crores)</th>
<th>2010-11 (offices)</th>
<th>2010-11 (individual agents)</th>
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Source: IRDA Annual Report 2010-2011

The table is showing present states of life insurance in Haryana and LIC collected 818.25 crores as a life premium insurance and private sector collected 244213 crores. Therefore Haryana contributed only 2 percent of total insurance premium (Industry total India 291604.99 and Industry Total Haryana 802421). Haryana is the fourth state contributed fair premium amount after Maharashtra, West Bengal and Uttar Pradesh.

**Insurance Products:** Almost all the insurance companies offer what is called an “illustration” to policyholders the illustration is designed to help the policyholder
understand the policy values better. From a policyholder point of view, it is imperative that each policyholder understands and is able to determine the benefits of the product. Given the long-term nature of the Life Insurance contract, it is important to look at the profile of the life insurance company that is underwriting the risk. Given that all the private sector insurance players are new to the business, it would help to look at the past record of the foreign partner in the joint venture and the ability of the Indian partner to continue to infuse capital, given the capital-intensive nature of the business. Again, it is very simple to compare the product with other company products because almost all insurers have their web portals with their product details. Even cost comparisons can be made through premium calculators. What is needed most is the guaranteed return and wider risk coverage. Riders are very economical and one should always choose the desired riders along with the basic life insurance policy.

The growth in premium income of traditional products was lower at 14.33 per cent, IN 2010 with premium income increasing to 1,49,929 crore as against 1,31,138 crore in 2008-09. Accordingly, the share of unit-linked products in total premium increased to 43.52 per cent in 2009-10 as against 40.87 per cent in 2008-09.

**The Stiff Competition:** The competition is stiff and, besides, there’s a behemoth to contend with. Private players realize what they are up against and are, consequently, tailoring their strategy to suit the circumstances. There is no question of competing with LIC. It already has about 10 lakh agents and that number is likely to go up to 11 lakh by the end of the current fiscal. No company is allowed to poach on another’s agents, least of all on LIC’s. Private players only select freshers and, five years down the line, they hope to have about 1-lakh agents. Right now most of them have about 5000 to 8,000 agents, either undergoing training or already on the streets. Unlike the non-life segment, selling life insurance requires a more personal touch, which is why good agents are important in this business. In life insurance, policies are ‘sold’ not ‘bought’. As of now about 60 percent of the agents work on a part-time basis, but the ratio will come down to 50 percent by the end of their 10th year in operation. All insurance agents’ earnings are commission-based. They make a 40 percent commission in the first year on new business and 7.5 percent in the next two years on renewable business. The commission rate declines to 5 percent in the fourth year. All
insurers are careful about selecting and training their agents. They want them to remain committed. Insurers know that there is enough business for everybody. Even if an insurer gets 1 to 2 percent of the 250 to 300 million insurable Indians, it would have covered a lot of ground. The growing popularity of the private insurers shows in other ways. They are coining money in new niches that they have introduced. The state owned company still dominates segments like endowments and money back policies. But in the annuity or pension products business, the private insurers have already wrested over 33 percent of the market. And in the popular unit-linked insurance schemes, they have a virtual monopoly with over 90 percent of the policyholders.

**Role of Information Technology:** The worldwide acceptance of e-commerce is gaining attention of financial experts. In today’s highly competitive environment effective organisations employ technology in a planned and strategic way so to achieve a competitive edge. A number of IT projects have been initiated within IRDA during 2009-10 towards achieving these objectives. These projects include automation of Data Collection and Business Analytics Project, revamping of Agency Licensing Process integrating all stakeholders, Integrated Grievances Management System, Vehicle Insurance Status SMS System, etc. The projects are at various stages of implementation. One of the recent initiatives of IRDA, to ensure that clear information regarding products is given to the prospect/policyholder in a way he/she can understand, is the proposal to introduce Key Features Document in simple language. The test of a Key Features Document is whether or not the target policyholder for a particular product understands its main features and is able to take a decision as to whether the product is suitable for him/her. A Key Features Document would also ensure disclosure by insurers of other important information such as premium details, payment modes, various charges, risks involved, what happens in the event of discontinuance etc.

**Uncertainty in environment:** The concept of insurance grew as a meaningful economic activity only from the beginning of the twentieth century. This phenomenon gave a new shape to financial structure of our country by developing various associated products and services. The traditional perception of insurance may
need to redefine, for the world faces major uncertainties from terrorist threats and the rising number of natural disasters. Since the 1960s, losses due to natural calamities and terrorist attacks have increased manifold and, as a lubricant of the economy, insurance will have to play a more dominant role in addressing contingencies. On the other hand, changing business culture, social and political trends, governance trends and technological change all require creative risk solutions. Therefore the environment for insurance industry is driven by many forces as described below:

**The Indian Mindset and Insurance Benefits:** Traditionally, the psyche of the Indian insurance seeker has been such that they have been averse to term insurance plans. Term plans require regular premium payments to be made throughout the tenure of the policy; the sum assured is paid only upon the unfortunate death of the policyholder during the policy tenure. If the policyholder survives the tenure, he is paid nothing; in other words, there are no survival benefits. The absence of survival benefits makes these plans rather unpopular among policyholders, as they like to receive a return as a reward for investing. They fail to appreciate that insurance is about ‘insuring’ and not investing’, so typically there should not be any expectations of a return. A mediclaim policy or car insurance or home insurance or factory/warehouse insurance doesn’t offer returns. Similarly, there are no returns from a term plan. To worsen matters, insurance advisors weren’t interested in educating insurance seekers about why term plans are a must-have for every individual regardless of age. This gave a fillip to endowment plans not only because they pay the sum assured on the unfortunate death of the policyholder during the policy term, but also because they pay a survival benefit if the policy holder survives the term. Jeevan Anand, given the ‘LIC tag’, has always been among the preferred plans, since it is a combination of both endowment term insurance. It provides financial protection against the death of the policyholder, throughout his lifetime. However, now some private players have introduced the ‘Term Plans’ where the proceeds are also paid on maturity of the policy if the insured survives.

**Monopoly Regime is over and Insurance Market is opening up for private players**

The life insurance sector was nationalized and consolidated into one entity viz. LIC in 1956. Since then, the LIC has been a monopoly operator, charged with the tasks of
making life insurance available throughout the country, particularly in rural areas and mobilizing savings by providing attractive insurance products. On the first count, LIC has been fairly successful having built up a large regional distribution network comprising 2,048 branches, rural areas now account for over 25 percent of new policies. However, the Indian insurance market, with an estimated $5 in annual premiums paid per capita, has not made a significant contribution to savings mobilization. Like other long-term saving instruments, life insurance has experienced a relative decline recently, mainly owing to the comparatively low interest rate paid on life insurance funds. The LIC is subject to similar, although somewhat less restrictive portfolio allocation constraints as pension funds, some 75 percent of annual portfolio investments must be allocated to Central/State government securities or socially oriented purposes, while the remaining 25 percent can be invested in private sector, cooperative sector as per IRDA regulation. Reforms in the Insurance sector were initiated with the passage of the IRDA Bill in Parliament in December 1999. The IRDA since its incorporation as a statutory body in April 2000 has fastidiously stuck to its schedule of framing regulations and registering the private sector insurance companies. Since being set up as an independent statutory body, the IRDA has put in a framework of globally compatible regulations. The opening up of the sector is likely to lead to greater spread and deepening of insurance in India and this may also include restructuring and revitalizing of the public sector companies. In the private sector, 15 life insurance companies have been registered. A host of private Insurance companies operating in both life and non-life segments have started selling their insurance policies since 2001. On the basis of total premium income, the market share of LIC declined marginally from 70.92 per cent in 2008-09 to 70.10 per cent in 2009-10. The market share of private insurers had gone up marginally from 29.08 per cent in 2008-09 to 29.90 per cent in 2009-10.

**Woman, Emerging As Potential Consumers of Insurance:** A woman has unique needs and concerns when it comes to preparing for the future. While the basic life insurance policy protects the bread-earner and his loved ones, he also needs some protection against health risks specific to women. In today’s society, there is no difference in professional men and women and they both have the same earning
power and both contribute to the family earning. Both incomes are important for family lifestyle and standard. When the whole world seems to be riding on ‘woman power’ insurance companies can not remain far behind. Insurance traditionally has been targeted at the earning member of the family as insurance means helping the family to maintain the standard of living for a few years in case something unfortunate happens to the main breadwinner. Moreover, insurance products not only provide security for family, but also help in savings, investment towards creating a fortune for needs in the future or pension for the golden years. There is a strong-felt need for women to also insure and invest and, therefore, insurance companies are targeting women with specially-designed products. What is more, some insurance companies also offer some discounts to women, although they don’t have any specific product for them. Women investors have shown longer investment tenure and regular saving habits. So, the future products are aimed to target these two specific characteristics and would span over both health and investment domain. Insurers also feel that the women-specific insurance market is expected to grow much faster than the overall insurance sector. No wonder, this is one domain which will become a strong focus point for them in the near future.

### 1.6 REGULATORY BODIES

The industry is now open to private players under the Government mandate of a minimum capital requirement of ₹ 100 crores, of which a maximum of 26 percent stake can be held by a foreign partner as equity. For license renewal, each company is required to file an application to IRDA on an annual basis accompanied with a payment fee of 50000/- for each class of insurance business and 20 percent of the total gross premium written by the insurer in the previous year of operation in India or 5 crores whichever is less. IRDA also holds the right to cancel the license of any insurance company if it feels that the company or insurer fails to conduct its business in a manner prejudicial to the interests of the policyholders. To prevent any accidental or uninformed decisions in such circumstances, IRDA appoints an enquiry officer who looks further into the matter before any verdict is taken. So far no life insurance company has been challenged by the authority for violating any of the norms. By not passing the verdict before validating, the Government has tried to keep the interests of
the players in mind along with the consumers. IRDA also clearly explains the reasons under which a license can be cancelled. This transparency in the regulatory body proceedings helps to allay the fears of any private enterprise subjected to Government regulations. The insurance players today are expected to invest the funds judiciously with the combined objectives of liquidity, maximization of yield and safety by conferring to the Authority’s guidelines on investments. There have also been regulatory norms that have been put in place by the Insurance Regulatory Authority (IRDA) for the safety of the insured and to safeguard the insurance companies from bankruptcy. The insurance industry has been operating with a high entry barrier of capital requirements (₹ 1 billion) and solvency ratios. However it is suggested to decrease the high capital requirements as the return on capital also built into the pricing of the policy. The Insurance Regulatory Authority (IRDA) is spearheading the development of insurance in India. Since the responsibilities of ombudsman, awareness of citizen charter, on-line contracts of insurance, on-line premium payments, cyber laws, network security, direct tax code, right to information and corporate governance are insisting insurers to become more transparent and responsible towards policyholders.

Life Insurance Council: The Life Insurance Council is a body set up under section 64C of the Insurance Act, 1938. All life insurers who have been granted certificate of registration by IRDA, are members of the Council and are represented by their respective CEOs. The Council has two nominee members from the IRDA, one of whom is the Chairman of the Council. The Secretary General functions as the Chief Executive of the Council. Council carries out it consultative work through the standing sub-committees. In addition, as and when specific areas of work are taken up, ‘working groups’ are constituted, to discuss and address emerging issues from time to time.

Insurance Regulatory Development Authority (IRDA): Insurance Regulatory Development Authority (IRDA) Bill was passed in 1999 and IRDA came into existence as a regulator for the insurance business in India. The Act provides protection to the interest of holder of insurance policy and aim to regulate, promote and ensure orderly growth of the insurance sector. As per the Section 4 of IRDA Act
1999, IRDA was constituted by an act of parliament specified the composition of authority.

Tariff Advisory Committee (TAC): Statutory Body under Insurance Act 1938 controls and regulates the rates, advantages, terms and conditions that may be offered by insurers in respect of General Insurance Business relating to Fire, Marine (Hull), Motor and workmen compensation. Effective 22/07/98, the TAC Board has been reconstituted with seven members representing the present General Insurance Industry and eight members from government and Industry. The Controller of Insurance cum Chairman IRDA is the Chairman of TAC. The Government of India liberalized the insurance sector in March 2000 with the passage of IRDA Bill, lifting all entry restrictions for private players and allowing foreign players to enter in the market with some limits on direct foreign ownership. Narayanan H., (2005)

An Emerging Field of Study: After nearly a decade of intense debate a consensus developed in India for ending the public sector monopoly in insurance and open the industry to private sector participants subject to suitable prudential regulation. Today, to the credit of combined efforts by both the regulators and industry players, the benefits of insurance are widely acknowledged, public confidence in the industry has been very much restored and the industry on the whole is far more dynamic. In the last two years alone, we have witnessed some fundamental changes in the landscape of the Indian insurance industry. The insurance industry has been opened up, with a restriction of 26 percent on foreign ownership to Indian insurers. The total Foreign Direct Investment in India in the insurance sector today stands at Rs 812.50 crores. The total premium income of the Indian insurance industry, both life and non life for the year ending 31st March, 2003 stands at Rs 71376.11 crores. Out of this the share of life insurance premium is 78 percent i.e. Rs 55738.11 crores and general insurance premium is 22 percent i.e. Rs 15638 crores. This is contrast to the premium levels of Rs 34898.48 crores in life insurance and Rs 10087.03 crores in general insurance as on 31-03-2001. The growth rate of life insurance has been slightly over 26 percent and general insurance 23 percent and the combined growth rate stands at 25 percent over the last two years. The paid up equity of the insurance industry is Rs 3916 crores today. The emerging markets were of great interest not only to the insurance companies, but
also to the insurance regulators. The regulators have been constantly studying the
trends and the International Association of Insurance markets in general:- Weakness in
the legislative framework Lax management within insurance companies, Weak
corporate governance, Ineffective market discipline; and Inadequate information
flows due to a lack of transparency or undeveloped accounting systems. In the context
of life insurance, a human life is treated as an asset. In other words the wage earning
human life is an asset for his or her dependants as the value of an asset is directly
proportionate to the generation of cash, its utility span, expected growth and the risk
associated with the maintenance of the asset. Life insurance addresses itself with the
income earning capacity of an individual, which is the present value of the money lost
to the family in the event of the death of the wage earner. It, therefore, implies that
any attempt to measure the value of a human life is related to the present value of
money earned.

1.7 POTENTIAL AND PERFORMANCE OF LIFE INSURANCE IN INDIA

India’s life insurance market has grown rapidly over the past six years, with new business
premiums growing at over 40 percent per year. The premium income of India’s life
insurance market is set to double by 2012 on better penetration and higher incomes.
Insurance penetration in India is currently about 4 percent of its GDP, much lower than
the developed market level of 6-9 percent. In several segments of the population, the
penetration is lower than potential. For example, in urban areas, the penetration of life
insurance in the mass market is about 65 percent and it’s considerably less in the low-
income unbanked segment. In rural areas, life insurance penetration in the banked
segment is estimated to be about 40 percent, while it is marginal at best in the unbanked
segment. The total premium could go up to $80-100 billion by 2012 from the present $40
billion as higher per capita income increases per capita insurance intensity. The average
household premium will rise to ₹ 3,000-4,100 from the current ₹ 1,300 as will penetration
by the existing and new players. India’s ratio of life insurance premium to its GDP is
around 4 percent against 6-9 percent in the developed world. It could rise to 5.1-6.2 by
2012 in tandem with the country’s demographic profile. India has 17 life insurers and the
state owned Life Insurance Corp. of India dominates the industry with over 70 percent
market share, though private players have been growing aggressively. Considering the
world’s largest population and an annual growth rate of nearly 7 percent, India offers
great opportunities for insurers. A life insurance policy covers one’s personal self. Unlike
with general insurance, it is not like insuring a vehicle. LIC has been in business for 50
years now and has not covered the entire population base yet. About 250 to 300 million
Indians are still insurable. LIC has issued about 120 million policies till now, with new
premium income of US$ 1 billion. Its assets have been estimated at $37 billion and in the
last quarter it reported a 60 percent growth in new business. LIC’s business is growing at
the rate of 20 percent every year. That is the kind of potential one is talking about in life
insurance in India. It would not be wrong to say that a lot of the advantage of advertising
by new private sector insurance companies has by default gone to LIC. While they have
created a lot of awareness through private insurer’s advertisements, LIC has benefited.
Why? Because LIC has a much wider branch network and policyholders are surer of LIC
because it has been in existence for long; they are more comfortable about its safety.
Some LIC agents continue to follow the unethical practice of offering discounts from
their commissions to new policy policyholders; this makes a difference.

Performance of Indian Insurance Before 2007

The Government tried various models for the insurance industry such as privatization
with negligible regulation (pre 1956) and nationalization (1956-2000) and observed
suboptimal performance of the sector, resorted to adopting a hybrid model of both
these, resulting in privatization of the sector with an efficient regulatory mechanism
(post 2000). This was initiated with the aim of making the industry competitive so
that there are more players offering a greater variety of products over a larger section
of the population. Table-1 lists out five objectives which were gleaned from the
Government policy documents, with a qualitative assessment of the extent to which
each of them have been met. We elaborate further with specific evidence to justify our
analysis below. It had become apparent that the monopoly was inhibiting the growth
of the industry within the country. Hence the new policy sought to encourage more
players into this sector. It achieved this firstly by doing away with the legislation that
disallowed private players and secondly by creating minimum capital requirement
criteria which was low enough to encourage more players and high enough to
safeguard the interests of the stakeholders. Thus a minimum of ₹ 100 crores of
contribution of equity capital was mandated by the regulatory body for any life insurer. The increase in the number of players within the sector also led to the expansion of the product portfolio offered by them. Greater focus began to be laid on not only meeting the policyholder’s need but surpassing his expectations in terms of product range, benefits offered in terms of return, premium payment options etc. The whole industry is thus moving towards mass customization to develop products which suit the policyholders’ needs perfectly. Pre 2000, the sole Life Insurance player LIC operated as a virtual monopoly and there was little need for it to pay attention to policyholder needs. The most popular policy or more appropriately the only policy variants available were Pure Protection ‘Jeevan Suraksha’ policy (with or without the money back guarantee). Endowment policies and Whole Life plans were also in place but the term policies were the largest selling product of LIC. However after liberalization, there has been a change in the mindset which can be understood by observing the product portfolio of the insurers.

**Performance of Indian Insurance in 2008-09**

**Life insurance:** The life insurers underwrote a premium of ₹ 14320.20 crore during the first quarter in the current financial year as against ₹ 12511.80 crore in the comparable period of last year recording a growth of 14.45 percent. Of the total premium underwritten, LIC accounted for ₹ 7524.56 crore and the private insurers accounted for ₹ 6795.64 crore. The premium underwritten by LIC declined by 12.31 percent while, that of private insurers increased by 72.88 percent, over the corresponding period in the previous year. The number of policies written at the industry level declined by 7.78 percent. While the number of policies written by LIC declined by 23.36 percent, in the case of private insurers they grew by 44.00 percent. Of the total premium underwritten, individual business accounted for ₹ 10995.90 crore and group business for ₹ 3324.30 crore. In respect of LIC, individual business was ₹ 5275.71 crore and group business was ₹ 2248.85 crore. In the case of private insurers, they were ₹ 5720.19 crore and ₹ 1075.45 crore respectively. The market share of LIC was 52.55 percent in the total premium collection and 63.88 percent in number of polices underwritten, lower than 68.58 percent and 76.87 percent respectively reported in the previous year. Under the group scheme 56.13 lakh lives
were covered recording a growth of 8.51 percent over the previous period. Of the total lives covered under the group scheme, LIC accounted for 38.96 lakh and private insurers 12.77 lakh. The life insurers covered 12.50 lakh lives in the social sector with a premium of ₹ 17.10 crore and underwrote 13.53 lakh policies with a premium of ₹ 1275.78 crore in the rural sector.

**Insurance Industry:** Insurance was considered as a big opportunity in a country like India with a large population and untapped potential. The life insurance business (measured in the context of first year premium) registered a growth of 23.88 percent in 2007-08, (94.96 percent achieved in 2006-07). The general insurance business (gross direct premium) has registered a growth of 11.72 percent in 2007-08 (3.52 percent achieved in 2006-07). This has resulted in increasing insurance penetration in the country. Insurance penetration or premium volume as a ratio of GDP, for the year 2007 stood at 4.00 percent for life insurance and 0.60 percent for non-life insurance. The level of penetration, particularly in life insurance, tends to rise as income levels increase. India, with its huge middle class households, has exhibited growth potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance market in India has witnessed dynamic changes including entry of a number of global insurers in both life and non-life segment. Most of the private insurance companies shown interest in joint ventures with recognized foreign players across the globe. Over the last eight years, consumer awareness has improved. Competition has brought more product innovation and better policyholder servicing. This made a positive impact on the economy in income generation and creating employment opportunities in this sector.

**Products and New Policies:** The total capital of the life insurers at end March 2008 stood at ₹ 12296.42 crore. The additional capital brought in by the existing private insurers during 2007-08 was ₹ 3787.01 crore and the two new entrants, brought in equity of ₹ 385 crore making the total additional capital brought in 2007-08 by the private insurers to ₹ 4172.01 crore. Of this, the domestic and the foreign joint venture partners added ₹ 3160.12 crore and ₹ 1011.88 crore respectively. There has been no infusion of capital in the case of LIC which stood at ₹ 5 crore.
Innovations in products: Growth in insurance industry has been spurred by product innovation, vibrant distribution channels coupled with targeted publicity and promotional campaigns by the insurers. Innovations have come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups both within the realm of financial services and outside. All these efforts have brought life insurance closer to the policyholder as well as made it more relevant. The insurance companies were increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. The insurers have also introduced special products aimed at the rural markets. The design of ULIP products addressed and overcomes several concerns that policyholders have had in the past like liquidity, flexibility and transparency. ULIPs are structured products and give choices to the policyholder. The Authority prescribed guidelines for Unit Linked products, stipulating minimum risk to be covered, minimum period of premium payment and several other requirements including NAV computation. With ULIP guidelines in place, there has been an enhanced transparency on the charges involved and associated risks. Fund-wise Net Asset Values (NAVs) and portfolio allocations were disclosed on a regular basis. One of the most significant outcomes of the enhanced competition has been the reduction in the rates for pure protection plans. Over the last seven years, the rates have been revised downwards and were significantly lower than those prevailing prior to opening up of the sector. The life insurance market has become competitive benefitting the policyholders. Simultaneously, insurance industry has been evolving and improving its underwriting and risk management abilities. The reduction of term rates has facilitated increase in the level of sum assured for policies. This higher level of protection implies that policyholders were more conscious of the need for risk mitigation, greater security and about the future of their dependents. Life insurance companies have also been quick to recognize the larger need for structured retirement plans and have leveraged their abilities for long-term fund management towards building this segment. Pension was recognized as a necessity and presents an opportunity for growth in the country and considered as a significant part of portfolio of life insurers. Private life insurers with their expertise in long-term mortality and morbidity introduced annuities. The growth in group insurance business has also been impressive. The superannuation and
Gratuity business has grown on the strength of professional fund-management and a host of value-added services. Given such scope for innovations, the life insurance sector in India was expected in the report to maintain the growth momentum of new premium in future.\textsuperscript{10}

**New Policies:** New policies underwritten by the industry were 508.74 lakh in 2007-08 as against 461.52 lakh during 2006-07 showing an increase of 10.23 percent. While the private insurers exhibited a growth of 67.40 percent, (previous year 104.64 percent), LIC showed a decline of 1.61 percent as against a growth of 21.01 percent in 2006-07 The market shares of private insurers and LIC, in terms of number of policies underwritten, were 26.07 percent and 73.93 percent as against 17.17 percent and 82.83 percent respectively in 2006-07.

**Premium:** Life insurance industry recorded a premium income of ₹ 201351.41 crore during 2007-08 as against ₹ 156075.85 crore in the previous financial year, recording a growth of 29.01 percent. Regular premium, single premium and renewal premium in 2007-08 were ₹ 54888.16 crore (27.26 percent); ₹ 38824.36 crore (19.28 percent); and ₹107638.89 crore (53.46 percent), respectively. It may be recalled that in 2000-01, when the industry was opened up, the life insurance premium was ₹ 34,898.48 crore which comprised of ₹ 6966.95 crore (19.96 percent) of regular premium, ₹ 2740.45 crore (7.86 percent) of single premium and ₹ 25191.07 crore (72.18 percent) of renewal premium.

The first year premium (comprising of single premium and regular premium) amounted to ₹ 93712.52 in 2007-08 as against ₹ 75649.21 crore in 2006-07 recording a growth of 23.88 percent as against a growth of 94.96 percent in 2006-07. The first year premium growth in 2007-08 over a higher growth in 2006-07 has been on account of continued popularity of unit linked products. It is observed that LIC too has shifted its marketing strategy in favour of unit linked products since 2006-07 though LIC’s performance has slowed down in 2007-08. While at the industry level, there has been a growth because of slow down in the premium underwritten by LIC the growth levels in 2007-08 were lower than 2006-07. LIC reported growth of 24.17 percent in single premium individual policies and decline of 6.48 percent in non-
single premium individual policies. LIC reported a growth of 9.11 percent in Group Single Premium. As against these, private insurance companies reported growth of 39.45 percent and 69.93 percent in individual single and non-single policies respectively. The growth in the number of policies underwritten in the Group Single and Non-single segments by the private insurers stood at 54 and 1 percent respectively. A shift in the shares of first year premium and renewal premium to the total premium was observed in 2007-08. In 2007-08 renewal premium accounted for 53.46 percent of the total premium underwritten slightly higher than 51.53 percent in 2006-07.

Performance of Indian Insurance in 2009-10

**Life insurance:** During the first quarter of the year 2009 life insurers underwrote a premium of ₹ 14456.34 crore, marginally higher than ₹ 14320.20 crore in the comparable period of last year. LIC accounted for ₹ 9028.68 crore and the private insurers accounted for ₹ 5427.66 crore. While the premium underwritten by LIC was increased by 19.99 percent, premium of the private insurers was declined by 20.13 percent over the corresponding period of the previous year. The number of policies written by life insurers grew by 12.06 percent. While the number of policies written by LIC increased by 22.59 percent, there has been a decline of 6.57 percent in the case of private insurers. Of the total premium underwritten, individual premium accounted for ₹ 10308.40 crore and the remaining ₹ 4147.93 crore came from the group business. In respect of LIC, individual business was ₹ 5963.64 crore and group business was ₹ 3065.04 crore. The corresponding figures for private insurers were ₹ 4344.75 crore and ₹ 1082.90 crore respectively. The number of lives covered by life insurers under the group scheme were 89.90 lakh recording a growth of 60.16 percent over the previous period. Of the total lives covered under the group scheme, LIC accounted for 33.18 lakh and private insurers 56.72 lakh. The life insurers covered 37.86 lakh lives in the social sector with a premium of ₹ 34.13 crore. In the rural sector, the insurers underwrote 21.89 lakh policies with a premium of ₹ 1455.71 crore.
The Industry: The fiscal 2008-09 witnessed global financial meltdown. Despite it, the Indian insurance industry, which has big opportunity to expand, given the large population and untapped potential, grew satisfactorily. While life insurance business registered a growth of 10.15 percent, general insurance business recorded a growth of 9.09 percent in 2008-09. With this, Insurance penetration (premium volume as a ratio of GDP) in rupee terms for the year 2008-09 stood at 4.74 percent; 4.17 percent for life insurance and 0.57 percent for non-life insurance. The level of penetration, particularly in life insurance, tends to rise as income levels increase. India, with its huge middle class households, has exhibited growth potential for the insurance industry. Saturation of markets in many developed economies has made the Indian market even more attractive for global insurance majors. The insurance market in India has witnessed dynamic changes including entry of a number of global insurers.

Premium and New Policies: The total capital of the life insurers at end March 2009 stood at ₹ 18253.04 crore, with additional infusion of capital to the extent of ₹ 5956.62 crore. There had been no infusion of capital in the case of LIC, which continued to be ₹ 5 crore. The infusion of additional capital of ₹ 5956.62 crore comprised of ₹ 987.05 crore from new companies and remaining ₹ 4969.57 crore from existing private insurers.

New policies underwritten by the life insurers were 509.23 lakh in 2008-09 as against 508.74 lakh during 2007-08 showing a marginal increase of 0.10 percent. The private insurers exhibited a growth of 13.19 percent, which is much lower than 67.40 percent recorded in the previous year. LIC, showed a negative growth for the second consecutive year at 4.52 percent as against its previous year negative growth of 1.61 percent. In terms of number of policies underwritten, private insurers have increased their market share from 26.07 percent in 2007-08 to 29.48 percent in 2008-09. To that extent, LIC has lost its market share.

Life insurance industry recorded a premium income of ₹ 221791.26 crore during 2008-09 as against ₹ 201351.41 crore in the previous financial year, recording a growth of 10.15 percent. Out of ₹ 221791.26 crore, premium from unit-linked products, stood at ₹ 90645.78 crore. This resulted in a fall in the share of unit linked
premium to the total premium to 40.87 percent in 2008-09 from 46.14 percent in 2007-08. The decline was observed both in the case of LIC and private insurers. This decline can be attributed to subdued Indian equity market. The share of ULIP premium to total premium fell to 22.06 percent in LIC from 31.61 percent in 2007-08. The private insurers registered a marginal slowdown in ULIP products, as the composition of ULIP premium to the total premium for them was 86.74 percent in 2008-09, as against 88.34 percent in 2007-08. Regular premium, single premium and renewal premium in 2008-09 were ₹ 49370.56 crore (22.26 percent); ₹ 37635.67 crore (16.97 percent); and ₹ 134785.03 crore (60.77 percent), respectively. It may be recalled that in 2000-01, when the industry was opened up, the life insurance premium was ₹ 34898.48 crore which comprised of ₹ 6966.95 crore (19.96 percent) of regular premium, ₹ 2740.45 crore (7.86 percent) of single premium and ₹25191.07 crore (72.18 percent) of renewal premium.

1.8 PENETRATION- LOWER THAN POTENTIAL

Management consultancy firm McKinsey has forecast that India’s life insurance industry will be double in the next five years from $40 billion to $80-100 billion in 2012. This growth would improve the level of insurance penetration from 5.1 percent of gross domestic product to 6.2 percent in 2010-2012. The Indian life insurance industry could witness a rise in the insurance sector premiums between 5.1 percent and 6.2 percent of GDP in 2012, from the current 4.1 percent. Total market premiums are likely to more than double during this period, from about $40 billion to $80-100 billion. This implies a higher annual growth in new business annual premium equivalent (APE) of 19 percent to 23 percent from 2007 to 2012. The large part of the growth would come from second- and third-tier cities and small towns. Based on MGI forecasts, 26 tier-II cities with population greater than one million and 33 tier-III towns with the population of more than 5 lakh will account for 25 percent of the middle class and newly bankable class in 2025. Over 5,000 tier-IV small towns will account for as much as 40 percent of these two classes in 2025. However, if an insurer decided to be a niche player and concentrated on metros and their suburbs, they will have a big market, since 60 percent of the very rich (annual income over ` 10 lakh)
would be concentrated in the top eight cities. Although these consumers will be highly accessible, players will have to reckon with intense competition that is only going to increase and extend to other segments as well.

**LIC- Ahead of All**

LIC of India has mobilized ₹12,361 crore of new business premiums in March, 2007 the highest recorded by the corporation in any single month. This has enabled the corporation post new business premium of ₹55,934 crore in 06-07, a 118 percent growth over the previous year. LIC’s premium collection in March ’07 was higher than the premium collected in the whole of whole of ’03-04. LIC’s has been the growth driver for the entire life insurance industry which grew 110.7 percent to ₹75,406 crore from ₹35,897 crore during the current financial year. The rise in premium gives LIC a market share of over 74 percent of the total new business premium mobilized in India, which is substantially higher than the 72 percent as on March 106. The rise in premium is on the back of unit-linked policies which account for nearly 70 percent of the total individual premium. The surge in sales in March attributed to higher sales of unit linked insurance and group insurance business. In March the corporation booked over ₹4,826 crore in group insurance, which accounted for nearly 30 percent of total collections. Collection from single premium plans amount to ₹24,927 crore, which is nearly 44 percent of the premium raised by the corporation during the current fiscal. Single premium plans are a demand of the market. There are a large section of people who do not want to commit premium payments for every year. Meanwhile, the private life insurance industry has recorded a growth of 89 percent with total new business premium for the year standing at ₹19,471 crore as against ₹10,252 crore in the corresponding period last year. ICICI Prudential continues to be the largest private life insurance player with a market share of 7 percent followed by Bajaj Allianz Life Insurance which has a market share of 5.7 percent. The companies that have recorded the fastest growth in the current year include Reliance Life Insurance, which grew 381 percent recording new business premium of ₹931 crore, followed by SBI Life Insurance which grew 209 percent to ₹2,566 crore. The high growth has enabled SBI Life to move into the number three positions after Bajaj Allianz Life Insurance.
Life Insurance Corporation of India, under the Act (LIC Act 31 of 1956 dated June 18, 1956) was constituted in the year 1956. At the time of the nationalisation, the corporation took over the assets and liabilities of 245 private insurance companies. The total life business taken over was around ₹1,128.06 crores, under 47.82 lakh policies; of which, the share of Indian insurance was around 87.25 percent and that of the non-Indian insurance was 12.28 percent. From the time of nationalisation of the life insurance business in India in 1956 until the end of 1999, Life Insurance Corporation of India was the only body authorised to transact life insurance business in India.

**New Joint Venture Set Ups**

Canara Bank, Oriental Bank of Commerce (OBC) and HSBC Insurance (Asia-Pacific) Holdings Ltd have signed an agreement to jointly establish a life insurance company in the country. The company has been christened Canara HSBC Oriental Bank of Commerce Life Insurance Company Limited. Canara Bank would take a 51 percent stake in the company, while HSBC and OBC will hold 26 percent and 23 percent stake respectively. The new life insurance company will be capitalised at ₹325 crore, of which Canara Bank will contribute ₹102 crore, HSBC ₹177 crore and OBC ₹46 crore. Under the terms of the agreement, HSBC would provide a range of management services, which would include nominating executives for certain senior roles. While both Canara Bank and OBC offer an extensive client base, complementary distribution networks and broad local market knowledge, HSBC brings to the partnership its considerable insurance experience, product range and proven bancassurance capabilities.

IRDA further gave clearance to a joint venture between Kishore Biyani’s Pantaloon Retail India and Italian insurance firm The Generali Group to start insurance businesses. The joint venture, Future Generali India Life Insurance Company Ltd, would transact life insurance business. Generali is one of the largest insurance groups in the world, operating in 40 countries through 107 companies. It ranks 22 in the list of Fortune 500 companies and is the largest corporation in Italy with an asset base of over 300 billion euro.
Eying Abroad

Although Japanese insurance companies account for one-fifth of the total life insurance premium in the world, they have been slow to expand internationally as most companies were going through a consolidation phase locally. The crash in interest rates to near-zero levels in Japan had made it difficult for insurance companies to generate surpluses to cover costs. Financial sector juggernaut LIC of India is now on the look out for a potential buy abroad. The company is planning to use its massive cash reserve to finance the acquisition of a company in the New Zealand and Australia markets. If approved, LIC would become the second public sector financial institution, after State Bank of India, to acquire a company abroad. For LIC, a buyout of an insurance company Down Under could make sense, as it has already established its presence in some of the Oceania markets, like Fiji. The plan would, however, require prior passage of the amendments to the LIC Act, to enable the company to raise its paid-up capital from ₹ 5 crore to ₹ 100 crore, at par with private insurers. The government plans to amend the Act passed in 1956 to give more flexibility to the largest insurance company to expand its footprint. LIC commands a 77 percent market share. Its premium income soared to 182.26 percent during the period against the industry average of 177.44 percent. Its new premium grew 191 percent to ₹ 10,381.57 crore as in August ’06. It has offices in the UK, Nepal, Bahrain, Kenya and Mauritius other than Fiji. But its UK operations have not been able to grow at the expected rate. While the insurance industry in the UK is growing at 10-12 percent, LIC has been growing at 4-5 percent annually. It is understood that it has been capitalised a couple of times.

1.9 PROBLEMS IN INDIAN INSURANCE

The Indian insurance industry has been growing between 15 and 20 percent, but it lags far behind its global counterparts. This was due to the following reasons:-

1. Insurance companies create products and go out to find policyholders. They do not create products that the market and Indian consumer wants offering for supplement their varying needs. The insurer must find more markets outside the India.
2. Insurance awareness among the general public is low and insurance is sold as an instrument for saving tax rather than investment. There is a need to develop new ways to promote insurance products.

3. Term-Insurance Plants were not promoted well by the insurers but there is an immediate requirement to promote term-insurance and convertible plans.

4. Unit-linked assurances were not available previously but now the marketers feel a tough competition with mutual funds, stock market and government securities. Therefore, there is a need to revitalize outdated promotional strategies.

5. Insurance covers were expensive and not affordable by majority of consumers. Hence there is a requirement to cover young aged population by introducing new policies.

6. Returns from Insurance Products are low therefore the companies must offer more plans with fixed or assured return.

7. There is a dearth of innovative and policyholder-friendly insurance products and policyholders are less aware about marketing mix of insurance policies and they expect more transparency in the insurance market, price mix, product mix and such other components of insurance policy.

8. Most agents and development officers are interested only in producing new business servicing existing policyholders satisfactorily has not been a priority for them the obvious reason to this is that incentives are them the obvious reason to this is that incentives are based on new business generation and not on satisfactory serving of existing policyholders it is surprise to note that more than 10 percent of LIC policies are surrendered or get lapsed every year. The insurance industry should come out of traditional agent based model.

**Few Prominent Reasons of Failure**

1. *Beneficiary:* The most prominent feature of a life insurance policy is the beneficiary clause, which facilitates the easy transfer of money to successors. However, one need to be aware of the different kinds of beneficiaries in life
insurance. One can have children as multiple beneficiaries. All one have to do is to indicate the names of these recipients and the amount of proceeds that they are going to get. Naming a contingent beneficiary is always practical. Suppose that first beneficiary dies near the time of own death. In that case, children will qualify for the insured money if one nominates them as contingent or secondary beneficiaries. A contingent beneficiary can get life insurance proceeds if the primary beneficiary dies before he or she can receive the assets. If one has named your minor child as a beneficiary, he will have to appoint a guardian/appointee who will administer the insurance proceeds upon death. As revocable beneficiary, the recipient can be changed any time during the policy. While in irrevocable beneficiary clause as in the case of absolute assignments, one cannot change assignee’s name unless they consent to it. With an irrevocable assignee, creditors cannot touch the policy proceeds, as these monies are not considered to be a part of assets.

2. **Lapsation of policy:** It can happen that due to certain circumstances one forget to pay due premiums, even in the specified grace period. Unfortunately, because one has missed the deadline the policy will lapse. Consequently, the insurance company can stop covering or may provide reduced insurance coverage equivalent to the total premiums paid formerly (also called paid-up policies). Nonetheless, a lapsed policy may be renewed in some plans, although the exact renewal procedure varies among different insurers. Revival of policy is not simple. Other than payment of interest the life insured has to undergo the medical examination and accordingly the policy terms may be revised.

3. **Cash Surrender Value:** Permanent life insurance policies like universal life insurance, whole life insurance and variable life insurance are more attractive because of the presence of built-in cash value. Term life insurance policies do not offer cash values. The interesting aspect of these policies is that one can surrender the policy and get the accrued cash value in hands provided a substantial amount of cash value. Cash Value is a part of premium is put in savings or another investment account according to the type of purchased
policy. As a result, the ongoing interest is received from investment account gradually increases the cash value.

4. **Non-Forfeiture Options:** In permanent life insurance policies, if one fail to pay the premiums in the grace period, won’t lose life insurance but the accumulated cash value will come to rescue with the following options. The above non-forfeiture options may differ from one insurance company to another.

5. **Surrender:** It is always easy to terminate (surrender) policy and get the entire cash surrender value, which will solve liquidity problems. However, people need to consider many factors before surrendering the policy, such as the increase in the cash surrender value if policy is maintained for the full term. Consult the insurance advisor to about the full consequences of these issues before deciding whether the policy should be cashed or kept.

6. **Policy Loan:** Another positive characteristic of a life insurance policy is that one can take out a policy loan against the policy to cater emergency needs. The interest is relatively low and the policy loan can be repaid in a lump sum or installments. If people are incapable of repaying policy loan, their insurance company will use the cash value to settle the loan.

7. **Dividends:** Dividends are the earnings paid out by the insurer to its shareholders and/or policyholders. Policyholder is entitled to enjoy the fruits of insurance company’s labor, for example, dividends if one own a participating policy.

1.10 **MARKETING OF INSURANCE PRODUCTS**

Marketing of services is different from the products because services are deeds, processes and performances. It is important to draw the distinction between services and products. Service sector is the lifeline for the social economic growth of a country. It is today the largest and fastest growing sector globally contributing more to the global output and employing more people than any other sector. The real reason for the growth of the service sector is due to the increase in urbanization, privatization and more demand for intermediate and final consumer services. Availability of quality
services is vital for the well being of the economy. In advanced economies the growth in the primary and secondary sectors are directly dependent on the growth of services like banking, insurance, trade, commerce, entertainment etc.

In simple words service sector includes commercial firms engaged in communication, transport, banking, insurance, warehousing etc. There are various reasons for growing importance of service sector such as planned development, shifting of population from rural to urban areas, increase in income level, demand for health care services, advancements in technology, increasing purchasing power etc.

Among the number of persons involved in the marketing of both life and non-life insurance products, the role of agents, marketing agencies, promotional tools and policyholders is crucial. 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 chances 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 are 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 policyholder satisfaction. While marketing the services, it is also pertinent that they think about the innovative promotional measures. It is not sufficient to perform well but it is also important that let others know about the quality of 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.

Distinct Features of Insurance Marketing

Marketing is a continuous activity in any insurance and includes various functions like sales promotion, advertising, public relations, efficient servicing, monitoring etc., which is achieved by the marketing organization. A typical insurance company may include the following marketing personnel, whose designations however may vary. The network of insurance market consists of various authorities and channels such as Regional Marketing Manager, Senior Branch Manager, Asst. Branch Manager, Development Officers (Select, train, motivate, supervise agents, liaise with policy
holder etc), Permanent employees (also called Field Officers in General Insurance) Agents (Canvassing policies, sale and service of policies, avoid adverse selection, settlement of claims. Agents can be Part time, Full time or Career agents).

Marketing is all about identifying the needs of the policyholders and making them profitable. It is much broader in nature than sales and also includes pre sales and post sales activities. Broadly marketing can be studied under the 7 P’s of services marketing mix, which include: Product, Place, Promotion, Price, People, Process and Physical evidence. Developing product designs and pricing according to the requirements of the policyholder will enable a company to fare well in the market.

The makeup of the insurance premium is a function of pure premium and loading. The insurer must also make allowance for the credibility factor or extent to which he can rely on the loss experience. Various distribution channels have been devised to reach out to the policyholder fast. Customer relationship management is gaining significance to maintain and expand the customer base.

**Differences in Goods versus Services Marketing**

There is a general agreement that inherent differences between goods and services exist and that they result in unique or at least different, management challenges for service business and for manufacturers that offer services as a core offering.

Intangibility: The most basic and universally cited difference between goods and services is intangibility. Because services are performances or actions rather than objects, they cannot be seen, felt, tasted or touched in the same manner that we can sense tangible goods.

Heterogeneity: Services are performances, frequently produced by humans; no two services will be precisely alike. The employees delivering the service frequently are the service in the customer’s eyes and people may differ in their performance from day to day or even hour to hour. Heterogeneity also results because no two customers are precisely alike; each will have unique demands or experiences the service in a unique way. Thus, the heterogeneity connected with services is largely the result of human interaction and all of the vagaries that accompany it.
Simultaneous production and consumption: Most of the goods are produced first, then sold and consumed but most of the services are sold first and then produced and consumed simultaneously.

Perish ability: perish ability refers to the fact that services cannot be saved, stored, resold or returned.

**Services Marketing Triangle**

The services marketing triangle shows the three interlinked groups that work together to develop, promote and deliver services. These key players are: the company, the customers and the providers. Between these three points on the triangle, there are three types of marketing that must be successfully carried out for a service to succeed: external, internal and interactive marketing. All these activities revolve around making and keeping promises to the customers. For services, all three types of marketing activities are essential for building and maintaining relationship with customer.

**External marketing:** In external marketing a company makes promises to its customers regarding what they can expect and how it will be delivered. Traditional marketing activities such as advertising, sales, special promotions and pricing facilitate this type of marketing. But for services, other factors also communicate the promise to customers as various components of external marketing. The service employees, the design and décor of the facility and the service process itself also communicate and help to set customer expectations. Service guarantee and two way communications are additional ways of communicating service promises. Unless consistent and realistic promises are set via all of these external communication vehicles, a customer relationship will be off to a shaky beginning. Further, if there is a tendency to over promise, the relationship may also be off to a weak beginning.

**Interactive marketing:** External marketing is just a beginning for services marketers. Promises made must be kept. Keeping promises or interactive marketing is the second type of marketing activity captured by the triangle and is the most critical from the customer’s point of view. Service promises are most often kept or broken by the
employees of the firm or by third party providers, most often in real time. Sometimes service promises are even delivered through technology. Interactive marketing occurs in the moment of truth when the customer interacts with the organisation and the service is produced and consumed. The promises are kept or broken and reliability of service is tested every time the customer interacts with the organisation.

**Internal marketing:** A third form of marketing, internal marketing, takes place through the enabling of promises. In order for providers to deliver on the promises made, they must have the skills, abilities, tools and motivation to deliver. In other words, they must be enabled. These essential services marketing activity has become known as internal marketing. Promises are easy to make but unless providers are recruited, trained, provided with tools and appropriate internal systems and rewarded for good service, the promises may not be kept.

**Technology and the services marketing triangle:** With the impact of technology on all dimensions of service and service delivery, it has been suggested that the services triangles be expanded to explicitly include technology and turning the triangle to a pyramid. The pyramid suggests that interactive marketing can be result of customers, providers and technology interacting in real time to produce the service.

### 1.11 THE SERVICES MARKETING MIX

One of the most basic concepts of the marketing is the marketing mix, defined as the elements an organisation controls that can be used to satisfy or communicate with customers. The traditional marketing mix is composed of the four P’s: Product, price, place and promotion. These elements appear as core decision variables in any marketing text or marketing plan. The notion of marketing mix implies that all of the variables are interrelated and dependent on each other to some extent. Further, the marketing mix philosophy implies that there is an optimal mix of the four factors for a given market segment at a given point of time. Careful management of product, place, promotion and price will clearly also be essential to the successful marketing of services. However, the strategies for the four P’s require some modifications when applied to services. Some other factors are also important in delivering services such as service delivery people, unit cost, real time promotion etc.
Expanded Marketing Mix (7 p’s) for Services

Marketing for insurance companies includes marketing of Insurance services with the aim to create policyholder and generate profit through policyholder satisfaction. This Marketing focuses on the formulation of an ideal mix for Insurance business so that the Insurance organisation survives and thrives in the right perspective. The marketing mix is the combination of marketing activities that an organisation engages in so as to best meet the needs of its targeted market. Marketing mix for the Insurance business is needed, because of the Insurance business deals in selling services. The marketing mix includes sub-mixes of the 7 P’s of marketing i.e. the product, its price, place, promotion, people, process and physical attraction.

Insurance Marketing Mix

The term Insurance Marketing refers to the marketing of Insurance services with the aim to create policyholder and generate profit through policyholder satisfaction. The Insurance Marketing focuses on the formulation of an ideal mix for Insurance business so that the Insurance organisation survives and thrives in the right perspective. The above mentioned 7 P’s can be used for marketing of Insurance products, in the following manner

Product: A product means what we produce. If we produce 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 policyholder has to buy. Thus, an Insurance company sells services and therefore services are their product. When a person or an organisation 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. 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.

**Pricing:** 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
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. The changing tax and saving environment is demanding low priced insurance products or high priced insurance products with investments. The pricing decision also governs the transformation of potential policyholders into actual policyholders. The strategies may be high or low pricing keeping in view the level or standard of policyholders or the policyholders. 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. For example: 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 instalments and premium sum and forms the integral part of the pricing strategy.

Interest: One of the major factors which determines people's willingness to invest in insurance, is the rate of interest. 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.

**Place:** This component of the marketing mix is related to two important facets
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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 organisations, such a gap is found existent which has been instrumental in making worse the image problem. The transformation of potential policyholders to the actual policyholders is 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 weight-age 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 programme 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 offices 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.

**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, organisation of conferences and seminars, incentive to policyholders are impersonal communication. Arranging exhibitions, participation in fairs and festivals, rural wall paintings 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.

**People:** All human actors who play a part in service delivery and hence, influence the policyholder’s perceptions; namely the firm’s personnel, the policyholder and other policyholders in the service environment.

All of the human actors participating in the delivery of a service provide cues to the policyholder regarding the nature of the services itself. How these people are dressed, their personal appearance and their attitude all influence the policyholder’s perceptions about the offerings and company. The service provider or contact person can be very important. In fact, for some services, such as consulting, counselling, teaching and such other professional relationship-based services, the provider is the actual service. In other cases the contact person may play what appears to be relatively small part in service delivery.

Understanding the policyholder 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 policyholders. Training, development and strong relationships with intermediaries are the key areas to be kept
under consideration. Training the employees, use of Information Technology and capacity building for efficiency, both at the staff and agent level, is one of the important areas to look into.

Agent: There are number of persons involved in the marketing of insurance products, the crucial role of agent or an advisor is a primary role in evaluating the risk and recommending the life or the property for insurance. Hence, an advisor is also known as the ‘Primary Underwriter.’

The world over, agents or advisors are primarily responsible for flourishing insurance business. The network of insurance agents or advisors in the life insurance system forms a backbone of the efficient marketing team. In the Indian insurance setup, there are different types of agents or advisors. They can be grouped as:-

Direct Agents or Advisors: This kind works independently without the assistance of a Development Officer or the Sales Officer in the area pf pre-sale activities and post-scale service.

Organisational Agents or Advisors: These are the agents or advisors recruited and initially trained by the Development Officer or the Sales Officer in the areas of pre-scale activities and post scale service.

Allotted Agents or Advisors: The orphan agents or advisors of a Development Officer’s organisation, who cannot work independently, are allotted to a new Development Officer

**Process:** The actual procedure, mechanism and flow of activities by which the service is delivered are known as process. The process should be policyholder friendly in insurance industry. The speed and accuracy of payment is of great importance. The processing method should be easy and convenient to the policyholders. Instalment schemes should be streamlined to cater to the ever growing demands of the policyholders.

Information Technology and Data Warehousing will smoothen the process flow: IT will help in servicing large no. of policyholders efficiently and bring down overheads. Technology can either complement or supplement the channels of distribution cost effectively. It can also help to improve policyholder service levels. The use of data
warehousing management and mining will help to find out the profitability and potential of various policyholders product segments.

**Physical Distribution**: 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 policyholders, 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.

Technology will not replace a distribution network though it will offer advantages like better policyholder service. Finance companies and banks can emerge as an attractive distribution channel for insurance in India.

Bancassurance is a new buzzword in India. It originated in India in the year 2000 when the Government issued notification under Banking Regulation Act which allowed Indian Banks to do insurance distribution. It started picking up after Insurance Regulatory and Development Authority (IRDA) passed a notification in October 2002 on ‘Corporate Agency’ regulations. As per the concept of Corporate Agency, banks can act as an agent of one life and one non-life insurer. Currently bancassurance accounts for a share of almost 25-30 percent of the premium income amongst the private players in India.

**Consumer Behaviour in Services**

Consumer have a more difficult time evaluating and choosing services than goods, partly because services are intangible and non-standardized and partly because consumption is so closely intertwined with production. These characteristics lead to differences in consumer evaluation process for goods and services in all stages of the buying process. Consumer obtains information about products and services from personal and non-personal sources. While purchasing services, consumers seek and rely to a greater extent on personal sources for various reasons. Firstly, mass and selective media can convey information about search qualities but can communicate little about experience quality. By asking friends or experts about services, however,
the consumer can obtain information vicariously about experience qualities. Second, non-
personal sources of information may not be available because (a) many service
providers are local, independent merchant with neither the experience nor the funds
for advertising, (b) cooperative advertising or advertising funded jointly by the retailer
and the manufacturers, is used infrequently with services because most local providers
are both producer and retailer of the service and (c) professional association banned
advertising for few years or permitted with some restrictions.

1.12 MAJOR LIFE INSURANCE COMPANIES IN INDIAN MARKET

Life Insurance Corporation (LIC): The Life Insurance Corporation (LIC) of India
founded in 1956 is the largest life insurance company in India owned solely by the
Government of India. Headquartered in Mumbai, which is considered the financial
capital of India, LIC presently has 7 Zonal Offices and 100 Divisional Offices situated
all around the country. In addition to an even distribution of 2048 branches located in
different towns and cities of India, LIC also has a network of around one million
agents who solicit life insurance policies to the public. The first war of independence
in 1857, the World Wars 1 and 2 (1914-1918 and 1939-45) and India’s national
struggle for freedom in between had adverse effect on the economy. In addition to this
the period of world wide economic crisis in between the two World Wars termed as
the period of Great Depression led to the high rate of bankruptcies and liquidation of
most Life Insurance Companies in India that existed during that time. These
occurrences led to loss of faith in insurance of the people of India. The Life Insurance
Companies Act and Provident Fund Act both passed in 1912 provided regulatory
mechanisms to the Life Insurance Industry in India for the first time. After undergoing
several other such reforms in the following decades and nearly a decade after India
achieved independence, the Parliament of India passed the Life Insurance of India Act
on 19th June, 1956 following which the Life Insurance Corporation (LIC) of India on
1st September of the same year. The Company began its operations with 5 Zonal
Offices, 33 Divisional Offices and 212 Branch Offices. LIC has diversified its
activities considerable in the recent past by establishing (i) LIC Housing Finance
Limited, (ii) LIC Mutual Funds, (iii) Jeevan Beema Sahayog Asset Management
Company and (iv) LIC (International) E.C.
A large number of insurance policies have been offered and popularized by LIC. A study of the provisions of these plans, the essential differences between them and the principles underlying those plans is interesting and essential from the point of view of management of insurance companies. However, since the focus of our discussion is elsewhere, we do not intend to describe these policies here. Some of the policies are mentioned here with their characteristics. Life insurance policies make a very flexible financial instrument. There are only a few basic types of such policies such as term insurance, whole life insurance, endowment policies, annuity contracts, individual insurance, group insurance, pension plans, children’s plan and equity-linked plan. These policies are mostly specific to different income and age groups. The whole life policies charge a premium throughout one’s life while endowment policies are taken for a fixed period. The latter provide life cover and also carry an adequate return. The former also cover life and are intended to be long-term investments, which cover risk rather than provide return. However in order to serve different purposes, these basis types can be and have been combined in many ways to devise a large number of plans.

Life policies of any type can be either “with profits” or “without profits”. In the later case, the sum paid out on maturity or at death is the sum assured of the policy when it was taken out. In the former case bonuses out of extra earnings from various investments are added to the assured sum periodically during its currency or occasionally paid out in cash. The premium on “with profits” policies are higher than those on “without profits” policies as an allowance for the bonuses paid.

As a financial instrument, life policy is a claim to a future payment of either a lump sum or a stream of income. The value of a policy is the present value of a lump sum or a future stream of income less the value of future premiums. It is possible to withdraw from the obligations to contribute further premiums and of realizing immediately the present value of the policy by (a) surrendering the policy for cash, (b)assigning it in the open market, (c) raising loan with the policy as security and (d) converting it into a “free” or “paid up” policy. The life insurance policy and pension funds are popular because they act as life cover or protection and medium of saving with the added benefits of profits sharing (in case of “with profit” policies) and many
tax advantages. Life policies become in many case vehicles for linking up such actions as house purchase, provision of school fees, purchase of unit trust units and avoidance of tax. In many cases now, the provision of life insurance covers becomes a subordinate motive, while the other motives are more important even when taking up a life insurance policy.

Like insurance companies in other countries, the LIC also offers various schemes, policies and plans to the investors. There are individual insurance, group insurance, group gratuity, group superannuation, non-medical insurance, salary saving insurance, annuities and many other schemes. It offered under individual insurance alone, in 1986-87, as many as 26 plans. In response to changing needs, preferences and conditions of investors, the LIC goes on increasingly undertaking “product development” by adding newer and newer plans to its portfolio plans. In 1989, LIC initiated the LIC Mutual Funds with as view to mobilizing savings from the people, especially from rural and semi-urban areas and to providing good returns, liquidity and security to the investors. The mutual fund had already offered four attractive plans for investment in 1993; it introduced two pension plans apart from annuity scheme, called Jeevan Dhara and Jeevak Akshay. The former is declared annuity plan, while the later is a voluntary immediate pension plan for senior citizens. Over the years, LIC has launched 37 new insurance plans, adding to the large portfolio it had started with. Presently LIC conducts its affairs from over 1191 centers in the country, through 1774 branches. In the beginning of 2004, the LIC has seven zonal offices, 100 divisional offices, 2048 branch offices and about 6.28 lakh agents.

Life insurance: From the time of nationalization of the life insurance business in India until the end of 1999, Life Insurance Corporation of India was the only body authorized to transact life insurance business in India to the general public. The performance of an individual or an institution has to be benchmarked with reference to the conditions under which the person or the company had to function. To appreciate the performance and progress of an institution, some understanding of the socio-economic clime in which the institution had to function may be useful. It is no secret that during the initial years of India’s Five Year Plans, the economic growth
was not impressive. The GDP growth rate averaged around 3.5 percent which is expected to grow further.

Those were the times when the Government was spreading its tentacles to engulf free enterprise and tighten its hold on various sectors of the economy. The financial profligacy of the government also started attracting the frowns of knowledgeable economists.

Contrary to the expectations of the anti-nationalization lobby, LIC made impressive, if not excellent by its performance in some of the key result areas. Generally, the performance of the first decade of an organisation is the straw that indicates the direction in which the wind will blow in future. Among others, two of the primary objectives of the Corporation are:

(a) To spread life insurance widely and, in particular, to the rural areas and to socially and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost.

(b) To maximize mobilization of people’s savings by making insurance-linked savings adequately attractive.

1.13 KEY RESULT AREAS

LIC 3 claims every 2 seconds: The claims performance of the Corporation has received many encomiums from the media. The claim settlement operations of LIC surpassed global standards during the fiscal year 2002-03, LIS had settled 97.48 lakh claims for a sum assured of ₹16,980 crores, which is a world record. The well-known market research agency Dun and Bradstreet recognized this as the numero uno performance in global life insurance claims settlement for the year 2003. An LIC advertisement released them claimed that on working days, the Corporation settles 3 claims every 2 seconds. In the event of any complaints with regard to claim settlement, the claimants before approaching the insurance Ombudsman have an opportunity to appeal to the Claim Review Committee of the Corporation headed by a respected member of the judiciary.
Rural Portfolio of LIC: After the formation of LIC in 1956, in keeping with one of its stated objectives of spreading the message of insurance in the rural areas where population is more than 5000, the Corporation initiated many steps. This includes the codification of business from the rural and urban areas, introducing the Rural Career Agents Scheme, business competition for rural agents and opening many new branches in the rural areas. More than 50 percent of the branches of the Corporation are situated in rural areas of the country. The rural portfolio of LIC had kept pace with its general growth. The distortions during the years 2001-02 were due to redefinition of the rural areas. LIC is the sole operator in the public sector, the following is the list of few private companies in the Life Insurance Sector operating in India are:

1. ICICI Prudential Life Insurance Company Ltd.
2. SBI Life Insurance Company Ltd.
3. Bajaj Allianz Life Insurance Company Ltd.
4. Birla Sunlife Insurance Company Ltd.
5. Tata AIG Life Insurance Company Ltd.
6. HDFC Standard Life Insurance Company Ltd.
7. Reliance Life Insurance Company Private Limited
8. Aviva Life Insurance India Private Ltd.
9. Om Kotak Mahindra Life Insurance Company Ltd.
10. Max New York Life Insurance Company Ltd.
11. ING Vyasya Life Insurance Company Private Ltd.
12. Metlife India Insurance Company Private Ltd.
13. Shriram Life Insurance Company Ltd.
14. Bharti AXA Life Insurance Company Limited
15. Sahara India Insurance Company Ltd.

**ICICI Prudential Life Insurance Company Limited**

ICICI Prudential Life Insurance Company is a joint venture between ICICI Bank—one of India's foremost financial services companies—and Prudential plc—a leading
international financial services group headquartered in the United Kingdom. Total capital infusion stands at ₹ 47.80 billion, with ICICI Bank holding a stake of 74 percent and Prudential plc holding 26 percent. ICICI Prudential Life Insurance Company began its operations in December 2000 after receiving approval from Insurance Regulatory Development Authority (IRDA). Today their nation-wide team comprises of over 2000 branches (inclusive of 1,100 micro-offices), over 258,000 advisors; and 24 insurance partners. ICICI Prudential is the first life insurer in India to receive a National Insurer Financial Strength rating of AAA (Ind) from Fitch ratings.

**SBI Life Insurance Company Limited**

SBI Life Insurance Company Limited is a joint venture between the State Bank of India and BNP Paribas Assurance. SBI Life Insurance is registered with an authorized capital of ₹ 2000 crores and a Paid-up capital of ₹ 1000 Crores. SBI owns 74 percent of the total capital and BNP Paribas Assurance the remaining 26 percent. BNP Paribas Assurance is the insurance arm of BNP Paribas-Euro Zone’s leading Bank. BNP Paribas, part of the world’s top 10 group of banks by market value and part of Europe top 3 banking companies, is one of the oldest foreign banks with a presence in India dating back to 1860. BNP Paribas Assurance is the fourth largest life insurance company in France and a worldwide leader in Creditor insurance products offering protection to over 50 million clients. SBI Life extensively leverages the SBI Group as a platform for cross-selling insurance products along with its numerous banking product packages such as housing loans and personal loans. SBI’s access to over 100 million accounts across the country provides a vibrant base for insurance penetration across every region and economic strata in the country ensuring true financial inclusion. Agency Channel, comprising of the most productive force of more than 63,000 Insurance Advisors, offers door to door insurance solutions to policyholders.

**Allianz Bajaj Life Insurance Company Limited**

Allianz Bajaj Life Insurance Co. Ltd., was incorporated on 12th March 2001. It is a joint venture between Allianz AG and Bajaj Auto Limited. The key to Allianz’s success worldwide has been its ability to use its global presence and experience while
adapting to local market conditions and develop policyholder-focused solutions. In India, the strong local focus and policyholder orientation of Allianz Bajaj has enabled it to establish high earnings potential and financial strength. Allianz Bajaj Life Insurance Company Ltd. announced their Annual Results for the year ended 31st March 2003. Allianz Bajaj Life Insurance started operations in October 2001 and the period from April 2002 to March 2003 marks the first full fiscal in the history of Allianz Bajaj. Individual Policies-1,15,951, First Premium Income- ₹ 53.78 crores, Gross Written Premium-₹ 69.17 crore, Sum Assured Coverage- ₹ 3976 crores, Locations and Branches-33 cities, 61 Customer (Policyholder) Care Centers/branches.

Birla Sun Life Insurance Company Limited

BSLI has cemented its position as a leading player within four years of its launch in the Private Life Insurance Industry. There has been focus on Investment Linked Insurance Products, supported with protection products to maintain leadership in product innovation. Multi Distribution Channels-Direct Sales Force, Alternate Channels and Group offering convenient channels of purchase to policyholders.

Tata AIG Life Insurance Company Limited

Tata AIG Life Insurance Company Limited (Tata AIG Life) is a joint venture company formed by the Tata Group and American International Group, Inc. (AIG). Tata AIG Life combines the Tata Group’s pre-eminent leadership position in India and AIG’s global presence as one of the world’s leading international insurance and financial services organisation. The Tata Group holds 74 percent stake in the insurance venture with AIG holding the balance 26 percent. Tata AIG Life provides insurance solutions to individuals and corporates. Tata AIG Life Insurance Company was licensed to operate in India on February 12, 2001 and started operations on April 1, 2001.

HDFC Standard Life Insurance Company Limited

HDFC Standard Life Insurance Company Ltd. is one of India's leading private insurance companies, which offers a range of individual and group insurance solutions. It is a joint venture between Housing Development Finance Corporation Limited (HDFC Ltd.), India's leading housing finance institution and a Group
Company of the Standard Life, UK. HDFC as on December 31, 2007 holds 72.38 percent of equity in the joint venture.

**Reliance Life Insurance Company Private Limited**

Reliance Life Insurance is an associate company of Reliance Capital Ltd., a part of Reliance-Anil Dhirubhai Ambani Group. Reliance Capital is one of India’s leading private sector financial services companies and ranks among the top 3 private sector financial services and banking companies, in terms of net worth.

**Aviva Life Insurance India Private Limited**

India, Aviva has a joint venture with Dabur, one of India's oldest and largest Group of companies. A professionally managed company, Dabur is the country's leading producer of traditional healthcare products. In accordance with the government regulations Aviva holds a 26 percent stake in the joint venture and the Dabur group holds the balance 74 percent share. With a strong sales force of over 35,000


**Modes of Life Insurance Policies**

Insurance sector is now ruled both by public and private players. They offer more categories of products to children, the young and the aged. All the products come under some or the other categories of policies. Those policies are as follows:

1. **Whole life policies**: is the most basic permanent life insurance policy with a fixed premium. It has a savings component that earns cash value, but the policyholder has no control over how or where the money is invested.
   - As the name suggests, a Whole Life Policy is an insurance cover against death, irrespective of when it happens.
   - Under this plan, the policyholder pays regular premiums until his death, following which the money is handed over to his family.
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This policy, however, fails to address the additional needs of the insured during his post-retirement years. It doesn't take into account a person's increasing needs either. While the insured buys the policy at a young age, his requirements increase over time. By the time he dies, the value of the sum assured is too low to meet his family's needs. As a result of these drawbacks, insurance firms now offer either a modified Whole Life Policy or combine in with another type of policy

2. *Endowment life insurance policy:* The endowment policy acquires the nature of providing benefits to the policy holder during their lifetime. The life protection is the secondary aspect in this policy. This endowment policy covers risks only for specific period. After a certain period of time the maturity amount will be given to the policy holders along with interest and bonus. Combining risk cover with financial savings, endowment policies is the most popular policies in the world of life insurance. The policy encourages people to save money.

- In an Endowment Policy, the sum assured is payable even if the insured survives the policy term.
- If the insured dies during the tenure of the policy, the insurance firm has to pay the sum assured just as any other pure risk cover.
- A pure endowment policy is also a form of financial saving, whereby if the person covered remains alive beyond the tenure of the policy; he gets back the sum assured with some other investment benefits.

In addition to the basic policy, insurers offer various benefits such as double endowment and marriage/ education endowment plans. The cost of such a policy is slightly higher but worth its value.

3. *Term insurance policy:* Term life insurance policy mainly protects the policy holder from the risk throughout the selected term period. This is intended to meet the financial need of the people who are initially not capable of paying the large amount of premium for their whole life or endowment life insurance policies. In this policy, there is no surrender value; loan or paid up values,
because reserves are not guaranteed. The premium amount to be paid within grace period, otherwise the policy comes to an end. Term insurance policy may describe as under;

- A term insurance policy is a pure risk cover for a specified period of time. What this means is that the sum assured is payable only if the policyholder dies within the policy term. For instance, if a person buys ₹ 2 lakh policy for 15-years, his family is entitled to the money if he dies within that 15-year period.

- In case if a person survives the 15-year period then he is not entitled to any payment; the insurance company keeps the entire premium paid during the 15-year period.

- So, there is no element of savings or investment in such a policy. It is a 100 percent risk cover. It simply means that a person pays a certain premium to protect his family against his sudden death. He forfeits the amount if he outlives the period of the policy. This explains why the Term Insurance Policy comes at the lowest cost.

4. **Joint life policy:** Joint life insurance policy is like to endowment policy. It also provides maturity benefits apart from the risk coverage. The main feature of the policy is covering the life of two persons. Those two persons may be couple or partners of the company. In this policy the sum assured is payable on the death of one or two persons. But the remaining benefits will be continued to another person who is alive. If the two persons are still alive at the maturity period the assured amount and bonus will be divided in two parts and then issued to respective persons. The premium amount paid up to the first person on death or maturity period, whichever is earlier. In joint plans the insurer agrees to ensure more than two lives at a time.

5. **Annuity:** In an annuity, the insurer agrees to pay the insured a stipulated sum of money periodically. The purpose of an annuity is to protect against risk as well as provide money in the form of pension at regular intervals.
6. **Children’s endowment policy:** The Children’s Endowment Policy is best suited for planning the financial future of his children, their education and marriage. It has two variants such as; Endowment to 18 or Endowment to 24.

7. **Convertible whole life policy:** Convertible plans of insurance, which states in their term and conditions, that they can be changed to other plans after or within a certain period after commencement. A whole life without profit policy is issued with premiums payable till the age of 70. At the end of five years from the commencement of the policy, the policy holder has the option of converting it into an endowment policy, either on a with profits or without profits basis, without having to undergo a fresh medical examination, subject, however, to payment of a suitably increased premium applicable on an endowment policy from the date of its conversion. An additional advantage of this policy is that in case one chooses to convert it into an endowment policy, one can decide the date of the policy’s maturity at that stage rather than having to commit oneself to a particular maturity date at the very commencement of the policy. One thus have five year’s time to make that decision and one can do so based on the level of his responsibilities, risk and income at that time.

8. **With profit and without profit policy:** There is a wide range of “with-profit” insurance products. The most common products are: Smoothed/stable bonus endowment (investment) policies for individuals and retirement funds; and “With-profit” annuities. One invests a lump sum and is paid out a regular amount (pension) which increases depending on the “profits” made in the underlying investment portfolio.

The main features of “with-profit” policies are: The capital is normally guaranteed, plus some growth; and in times of good market performance, some of the investment profits are held back as reserves to be paid out in years of poor investment performance.

9. **Group insurance:** Group insurance in another popular category in life insurance. As a compassionate employer who regards employees as most precious asset provide group insurance for satisfying financial and social security of their employees. It provides policies to groups such as; employers-
employees group, professional groups, members of co-operative banks, members of co-operative societies and welfare funds. Generally the policy is offered at low premium amount. So, it creates an opportunity to poor people to obtain the insurance policy. In some cases, the employers and organisations are paid the premium on behalf of its workers.

10. **Money back policy:** The money back policy varied from the endowment policy in nature. In the endowment policy, the maturity amount will be given only after its maturity or death of policy holder. But the money back policy offers periodic payments of limited endurance benefits during the policy period. Another salient feature of the policy is the assured amount to be given to the policy holder on nominee of policy holder without any deduction along with interest and bonus. The interest and bonus also calculate the total sum of the assured amount. These policies are structured to provide sums required as anticipated expenses (marriage, education, etc) over a stipulated period of time. With inflation becoming a big issue, companies have realized that sometimes the money value of the policy is eroded. That is why with-profit policies are also being introduced to offset some of the losses incurred on account of inflation. A portion of the sum assured is payable at regular intervals. On survival the remainder of the sum assured is payable. In case of death, the full sum assured is payable to the insured. The premium is payable for a particular period of time.

11. **Loan Cover Term Policy:** Loan cover term policy is meant to help people repay their housing loan at the time of death or when untoward event takes place in his life. This policy does not provide any return to policyholder. But safeguard him during the time of crisis. Some insurance companies offering this type of loan covering term policies, such as HDFC standard life insurance and Tata AIG. The premium amount of this policy is some what high when compared to other policies. This policy helps to claim the tax benefits under the section 88 and section 10 (10d) of the Income Tax Act.

12. **Pension Plan:** The pension plan is different form of life insurance. It does not provide any life insurance coverage benefits, but gives definite returns for
whole life or curtained period of life. The premium amount is paid as a single lump sum payment or installment paid up to some limited period. The return to be received in the form of income every year, every half-year and every month, either for whole life or for a certain period of time. The premium paid for this plan is eligible for tax benefits under section 80ccc of the Income Tax Act 1999. These plans also provide the critical illness cover to the policy holders.

13. Unit Linked Plans: Unit linked plan is life insurance solution rather than offering the benefits of safeguard and flexibility in investments. The investments are indicated as units and symbolize the value that it has achieved known as Net Assets Value (NAV). The policy value at any time differs as per the value of the basic assets on the time. The unit linked plan offers several benefits to the policy holders. The benefits include: life protection, investment and saving, flexibility, adjustable life coverage, investment options, transparency, disability, critical illness, surgeries and liquid tax planning.

The regulator had given an indication that checks would be in place to prevent mis-selling of ULIPs, which have become popular investment instruments. IRDA is understood to have extended the deadline for Bajaj Allianz to phase out its actuarial-funded product or capital unit. This is set to be replicated in other ULIPs as well in due course. The regulator has asked private insurer Bajaj Allianz Life Insurance to ensure that policyholders investing in the actuarial-funded products sign on sales illustration given out by agents. The entire exercise is aimed at ensuring that the policyholder is fully aware of the features of the product. Aviva Life Insurance is the other company that has been asked to withdraw actuarial-funded products. IRDA justified the withdrawal of these products, saying that its objective was to enable the policyholders of ULIP products to compare features and charges across products and companies. However this order of IRDA is stayed by the High Court of Chennai. The regulator has also introduced safeguards to see that actuarial-funded products are not sold aggressively while they are being phased out. In the case of Bajaj Allianz, for instance, the regulator has stipulated that the total premium collected under this product between August 2007 and September 15, 2007 should not exceed the average
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growth in sales posted in the previous quarter of July 31, 2007. Although ULIPs may have become popular for more’ wrong’ reason that ‘right’ ones, the segment does have its fair share of positives. The right reasons includes multiple benefits to the policyholders like Life protection, Investment and Savings, Flexibility, Adjustable Life Cover, Investment Options, Transparency, Options to take additional cover against, Death due to accidents, Disability, Critical Illness, Surgeries, etc.

Liquidity and Tax Planning: The Regulator is in the process of modifying the guidelines for ULIPs so that products with high concentration of investments will be treated as mutual funds and term products if the proportion is tilted towards a greater risk. The reviewed is aimed at bringing in better information, transparency standards and understanding of such products among policyholders. Policyholders should have an idea as to what the risk and the return in the policy are when they subscribe to them. IRDA has also proposed to make it mandatory for insurance companies to issue sales of document with illustration as a part of the over all policy document. This would give an idea to policyholders about the instruments they are investing in and risks are taking. The company, in this document, will have to explain what component actually goes towards life cover and what towards investment. The Regulator has clarified that the policyholders in the unit-linked scheme could remain invested in the policy for another five years after the maturity, but could not withdraw any amount. The decision to continue with the scheme after maturity will be purely at the option of policyholders. The objective was to ensure that the insurance companies cannot act as a fund manager while it can only provide the option to the policyholder for waiting for a better NAV. The Regulator has observed that the proportion of unit linked insurance plans in the total product portfolio has gone up by 65-70 percent, which ties the fortunes of the insurance company and its investors to the vagaries of the stock market. Meanwhile, all companies are well above the solvency margin of 150 percent. The life insurance industry is growing at 30 percent each year; it’s one of the fastest growing industries in the country. Private players have captured a sizeable chunk of the market in these six years, with the Life Insurance Corporation of India’s (LIC) share in the new business falling to 74 percent. The upside includes improved service, riders with policies unit linked insurance policies health care for as little as ₹ 100 per
month, need-focused products with flexibility and sales channels to suit the policyholder’s convenience. There’s a wide range of products and services competing to deliver the best value to policyholders, which has increased the market. Expansion coupled with a rapidly growing business is the big reason for the fresh capital infusion at regular intervals. Most private insurers have stabilized their operations in the last five years and fine-tuned their business models. Now is the time for expansion and launching their services beyond metros and big cities, to get the real benefits of mass business and exponential growth. Pension and health are two areas that have tremendous growth potential in the future. Almost 90 percent of the people in the country have no old age benefits or health cover. New products are launched targeting niche markets. Pension products are developing in a big way and will benefit a large section of people in the organized and unorganized sector. The annuity market has also started growing and new players are offering a plethora of new and innovative products. Alternate channels of distribution like corporate brokers, online selling and bancassurance are increasing their share in the business of all the companies. Increasing the insurance sector FDI limit to 49 percent is the foremost issue, to provide financial flexibility to the existing players and make the Indian market attractive for foreign investment. Also, the fringe benefit tax (FBT) needs to be eased, especially for group products like superannuation schemes. FBT has caused this market to stagnate and most companies have withdrawn this product, as companies find it increases their costs by more than 30 percent. Now FBT restricted to more than ₹1 lakh contribution per member per year. The prospects for India’s insurance sector are good on the back of expected buoyant economic growth and rising levels of wealth in society. The new insurance companies aims to fulfill the needs of high net worth individuals, professionals, small and medium enterprises, farmers and also rural and semi-urban masses. Private insurance ventures, allowed to compete with state owned Life Insurance Corporation and non-life companies beginning 2000, are trying to tap expanding demand for insurance in an economy growing nine percent a year. The demand, which has seen annual premiums double to more than 20 billion dollars since 2000, is being driven by the absence of a social security system and low penetration dating back to the decades when government-owned insurers enjoyed a monopoly. Dismally low life insurance penetration rates, a growing need for social
and old age security, strong GDP growth and the expected rise in savings. The life insurance industry is close to eclipsing the mutual fund sector in terms of its total investment in equities through the success of unit-linked products. The MF industry registered a total AUM of ₹ 4.86 lakh crore till July 2007, while the investment in equities stood at ₹ 1.59 lakh crore. As per figures compiled by the Life Insurance Council, life insurers’ total investment in equities was close to ₹ 1.5 lakh crore as of March 2007, while total AUM stood at about ₹ 6.1 lakh crore. As much as 75 percent of investments made in ULIPs get routed to the stock markets at SBI Life. At least 60 percent of the funds from unit-linked products are invested in the equity market. With the growth in ULIPs, the total investment in equities rose sharply over the last few years. ULIPs are sold like hot cakes but still they are under constant scrutiny. ULIPs have given the Life Insurance market a big boost to grow and expend. The reason behind foreign companies making a beeline to enter the insurance business in the country is pretty obvious: Insurance in India is only 3.14 percent of its GDP compared with the global average of 7.52 percent. And this is expected to rise to only 4 percent. This means a vast majority of Indian population is left to be covered by insurance. At present, there are 16 companies providing life insurance in the country. In India, insurance is seen with an improper perspective. Insurance products are sold rather than bought, as most people do not realize that insurance is for the security and benefits of their dependants. While the objective of life insurance is to provide a lump sum amount in the eventuality of untimely death of the insured, most Indians buy insurance to save taxes. This is evident from that around 40 percent of the insurance business of any insurer takes place in March, which marks the deadline for submission of investment details for computation of income-tax liabilities.

In India micro-insurance is defined by the size of the policy (₹5,000-₹ 50,000 sum assured) and covers health, household, fire and motor insurance portfolios that are non-commercial or of lower asset value. As per the new regulation, individual companies will now be allowed to design composite products within broad parameters. They will be branded as micro-insurance products for file and use. A single agency system can sell these packaged composite products. The IRDA will soon issue broad guidelines authorizing composite products for micro-insurance.
Emerging Issues in Insurance Marketing

Insurance for Farmers: ICICI Lombard has come up with an attractive product for our farmers who are the most important and yet the most neglected segment of Indian society. Lombard Insurance along with Weather Risk Management Services has come up with hybrid weather cum satellite imagery based insurance product for farmers in rural India.

Navkalyan Yojna: An initiative of a first of its kind taken by Tata AIG Life Insurance specially made to suit the needs of the rural sector. Navkalyan Yojna is a five year Micro Insurance plan that provides financial protection to the rural policy holder at reasonable rates. The policy also has the facility of adding an Accidental Death benefit rider that will provide additional benefit less than or equal to the sum assured in the case of an unfortunate event.

Sampoorn Bima Yojna: Another attempt to provide assistance to the rural policy holder Tata AIG Life Insurance has come up with the Sampoorn Bima Yojna which promises to pay the policy holder a cover for 15 years on payment of a premium for 10 years.

Ayushman Yojna: Once again an attempt by Tata AIG Life Insurance to protect the rural segment of our country by coming up with the Ayushman Yojna policy. On the payment of a single premium at the beginning of the policy term for a period of 10 years the policy holder gets back 25 percent extra at the end of the plan.

Secure Dreams: The latest product launched by Max New York Life Insurance is known as ‘Secure Dreams’. This product as claimed by the company is the only product in the entire universe that offers the best of Unit Linked Life Insurance and traditional products. The premium collected from this policy would not be invested in equities rather they would be invested in government or corporate bonds. For the first 3 months the policyholders would get an interest of 6.5 percent of the product, which would make it a fast moving product in the insurance market.

Smart ULIP: The life insurance arm of State Bank of India SBI Life Insurance Co. Ltd. has come up with an innovative Unit Linked Product called Smart ULIP. The product promises to return a Net Asset Value of 168 fortnightly NAVs during the first seven years or NAV after maturity whichever is higher. The Smart Ulip also provides to its policyholders the benefit of shorter premium paying terms which could be as
short as 3-5 years and further also give them the facility of tax benefit under section 80 C and section 10 (10 D) of the Income Tax Act.

**Free Cover Plan:** The latest product offered by Aviva Life Insurance is meant for new parents, which is known as Free Cover Plan. This plan provides life cover to new parents up to 6, 70,000 approximately if their new born baby is not more than 6 months old. This policy would last until the child's first birthday. The basic idea behind taking such a step to provide free insurance to new parents is basically a way to tell young parents that the necessity of financial protection starts early.

**New Accelerated Critical Illness Policy:** Future Generali India Insurance Company Ltd has launched its latest health insurance product which is termed as New Accelerated Critical Illness Policy. The extra ordinary feature about this product is that if claimed before the end of the term period the assured sum is paid to you. To be a little more precise in the event of a diagnosed critical illness a person can claim the amount assured to him so that the treatment can start off immediately. It is a comprehensive plan with low rates of premiums to be paid. However the policy covers 12 critical illnesses.

**Indian Policyholders and Insurance Marketing**

Now the Indian consumer is knowledgeable and sensitive. Consumers are increasingly more aware and are actively managing their financial affairs. People are increasingly looking not just at products, but at integrated financial solutions that can offer stability of returns along with total protection. In view of this, the insurance managers need to understand more about the details that go into the introduction of insurance products to make it attractive in this competitive market. So now a days an insurance manager requires visionary leadership, commitment, creativity and flexibility. “Every family in every village in the country should feel safe and secure”. This vision alone will help to bring the new ideas to the insurance manager. Financial, marketing and human resource polices of the corporations influence the unit mangers to make decisions. Performance of insurance company depends on the effectiveness of such policies. Insurance corporations formulate and revise these policies from time to time to ensure that the performance of the managers is best for the organisation.
The global economic recession caused by the misdeeds of investment banks such as Lehman Brothers, Goldman Sachs aided and abetted by insurance behemoths such as AIG led to the collapse of the investment banking industry in the US, failure of over 60 banks and financial markets meltdown. Due to the interlinked nature of the global economy and with many central banks and institutions across the world holding securities of the investment banks, the failure of investment banks led to panic across the world and huge losses. The crisis has led to great loss of investor wealth, huge job losses, loss of investor confidence, increased risk of counter party losses, steep decline in demand and exports. Economies across the world face a bleak future in terms of GDP growth rates and trade losses. Considering the fact that insurance penetration in the country is abysmally low when compared to other developing countries it is imperative that the growth momentum is sustained. Though the Indian insurance sector has weathered the impact of the global economic crisis in an appreciable manner, the fact needs to be acknowledged that insurance density and penetration are very low in comparison to global standards. With more than 88 percent of the population devoid of any form of social security, the poor spread of insurance even after nearly a decade of liberalization is a cause of major concern. Therefore this paper was written with the basic objective of designing a strategic roadmap for kick starting growth in the sector. With the fundamentals of the Indian economy being intact, the stock markets are expected to grow at a sustained pace barring a few downward corrections. Therefore insurance companies should come out with growth oriented unit linked insurance plans and communicate their benefits to the investors.

**Targeting Niche Segments:** Tata AIG General Insurance, has pioneered the concept of offering insurance products for professionals in different segments. In the professional indemnity space it has offered Directors and Officers policy and has also introduced a policy exclusively for Chartered Accountants. This policy covers claims pertaining to professional negligence, wrongful acts committed in the performance duties. It also provides for coverage of all legal expenses incurred in defending such claims. Likewise professional indemnity policies can be introduced for medical professionals etc.

India is the only country in the world which would have a growing population of those in the productive working age group upto the year 2035. Insurance companies should leverage the potential of this demographic advantage. With countries around the world,
including China, rapidly ageing, more amount of work would be outsourced to India and there would be increased migration of Indian youth to foreign countries because of the growing employment opportunities. All these would translate into higher disposable income and greater purchasing power. Insurance companies should tailor products to the youth segment focussing on different benefits with varying terms and investment options. Instead of focusing only on the traditional channels of marketing they should use social networking sites, blogs etc., to promote their products.

**Premium charges based on potential risk factors:** People who are non-smokers and tee-totallers have higher life expectancy when compared to those who smoke and consume alcohol. Therefore insurance companies may offer plans at a lower premium to non-smokers and tee-totallers when compared to those who smoke or drink.

**Tapping the potential of the rural markets:** India lives in its villages, the reason being that 70 percent of the Indian population still lives in rural areas. The rural segment with a market size of 700 million provides great opportunities for growth. The proportion of the rural population having insurance covers is abysmally low. To reach the rural segment, insurance companies should utilise multiple channels such as NGO’s, Self Help Groups, Co-operative societies, Regional Rural Banks (RRB’s), ITC’s, e-choupal etc.

**Selling through corporate distribution agencies:** Insurance companies may utilise the services of corporate distribution agencies to market their products. Indiabulls, Karvy Consultants, India Infoline, Way2Wealth, SPA Capital Markets and other such corporate agents have wide network of clients and they can be useful for both cross selling and upselling of products.

**Thrust on bancassurance:** Insurance companies may increase their alliances with banks for marketing of insurance products. Bancassurance offers the benefit of low marketing spends, readily available database of clients and high conversion ratio of prospects into sales. AVIVA has been a leader in the bancassurance sphere and derives nearly fifty percent of its revenues from bancassurance. Bancassurance can become an effective distribution channel provided there is better understanding of the synergistic benefits for both the banks and insurance companies.
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Marketing through the postal channel: The country has more than 1.5 lakh post offices, which is more than twice the number of bank branches. The postal channel can really be a channel with very great potential to market insurance products. Recently the postal department has introduced the concept of ‘Shop Post’ wherein consumers can buy gift wrappers, CD’s, pen drives and calculators. Postal insurance is newly available product for government employees. It is also planned to offer a number of e-enabled services including e-post, instant money order and money transfer facilities. Such facilities can be gainfully utilised to market insurance schemes according to consumer requirements. The postmen can be trained in marketing of insurance policies and can be compensated for their efforts. They can be used for marketing of policies, collection of premiums as well as settlement of claims.

Mallassurance – An emerging channel: The number of malls across the country is increasing at a fast pace. With malls being a favourite hangout of the young crowd, setting up insurance kiosks in malls can be an ideal way of targeting the youth. With the disposable income in the hands of the youth increasing, mallassurance can be a sure fire way to kick start growth.

Ethical Marketing: Many of the insurance products are currently being sold by agents by over exaggerating benefits and suppressing or misrepresenting vital details. Without any proper assessment of the financial needs and risk profile of the prospect, the agent tries to peddle those policies which would yield him the highest possible commission. For instance, ULIP’s are characterised by high front loading. The policy holder would get decent benefits only if he pays premiums over the long term because it takes at least 5 years for the policy to breakeven. But many insurance agents hide these truths and entice the prospect by telling that premium need not be paid after 3 or 5 years. Since agents get maximum commission during the initial years, there have been instances where agents have gone back to a policy holder after three years to sign him up for another ULIP scheme. In order to create trust among policy holders, insurance companies should train their sales force to be ethical, understand policyholder needs and sell appropriate products and provide complete information to the policyholders so that they can make informed choices.

Distant Marketing: The internet penetration in India is growing by leaps and bounds. Insurance companies should utilize this emerging medium to reach a vast segment of
the population at a low cost. Their websites should have easy navigation facility and secure payment options to investors. They should go in for banner advertisements to attract traffic to their site and convert prospects into policyholders. Online selling, premium payments, promotions could be used for e-promotion of insurance products as the policyholder today is computer and technology savvy. IRDA Guidelines cover distance marketing activities of insurers/brokers and corporate agents (with specific approval of insurers) at the stages including offer, negotiation as well as conclusion of sale.
REFERENCES


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