CHAPTER

9 LIFE INSURANCE

INTRODUCTION

Insurance has been an important segment of the Indian financial system. Insurance is a financial service for mobilising the savings of the public and providing them with a risk covering. The risks may be certain events like death, retirement, accident, pension, education, marriage, etc. Insurance invests the funds in government securities, social sectors like housing, power, irrigation, infrastructure, etc., for the benefit of the community. Insurance also plays an active role in the capital market. The post-liberalisation period has witnessed tremendous growth in the life insurance segment.

OPENING OF THE INSURANCE

APPRAISAL OF INSURANCE MARKET

The contours of insurance business have been changing across the globe and the ripple effects of the same can be observed in the domestic markets as well. An evolving insurance sector is of vital importance for economic growth. While encouraging savings habit it also provides a safety net to both enterprises and individuals. The insurance industry also provides crucial financial intermediation services, transferring funds from the insured to capital investment, which is critical for continued economic expansion and growth, simultaneously generating long-term funds for infrastructure development. In fact investment in infrastructure are ideal for asset-liability matching for life insurance companies give their long-term liability profile. Development of the insurance sector is necessary to support the structural changes in the economic. Social security and pension reforms too benefit from a mature insurance industry.

Insurance industry has passed through private sector to public sector and again public-private sector phases. In January 1956 private insurance companies were nationalised into Life Insurance Corporation (LIC). For nearly, 44 years LIC had the monopoly in life business. In 2000, Life insurance business was opened up to private sector yet, LIC's market share in policies accounted for 91.5 per cent, lives covered under group insurance 74.31 per cent and its share in premium stood at 68.9 per cent at end March, 2011. The private players have been focusing on growth. Their market share has increased to 31.1 per cent in 2010-11. The new players have pumped in ` 9,625.28 crore, of which the foreign partners contributed ` 2,148.28 crore at the end of March 2007. In fact, life insurance is spreading in urban and rural areas. The total premium underwritten by the life insurance industry has grown from ` 34,898.47 crore in 2000-01 to ` 2,21,791.26 crore in 2006-07. The first year premium, which is a measure of new business secured underwritten by the life insurers during 2008-09 was ` 87,006.23 crore as compared to ` 9,708 crore in 2000-01. Annual growth during this period worksout 25-28 per cent. The chapter dwells on the growth and potential of life insurance as a key financial service of utmost importance.

WHAT IS LIFE INSURANCE?

Life insurance is a contract providing for payment of a sum of money to the person assured (or failing him/her, to the person entitled to receive the same) on the happening of the event insured against. Usually the contract provides for the payment of an amount on the date of maturity or at specified dates at periodic intervals or at unfortunate death, if it occurs earlier. Among other things, the contract also provides for the payment of premium periodically to the corporation by the assured. Life insurance is universally acknowledged to be an institution which eliminates 'risk' substituting certainty for uncertainty and comes to the timely aid of the family in the unfortunate event of the death of the breadwinner. By and large, life insurance is civilisation's partial solution to the problems caused by death.

Life insurance, in short, is concerned with two hazards, that stand across the life path of every person: that of dying prematurely, leaving a dependent family to fend for itself and that of living to oldage without visible means of support.

WHY IS IT SUPERIOR TO OTHER FORMS OF SAVINGS?

(i) **Protection:** Savings through life insurance guarantee full protection against risk of death of the saver. In life insurance, on death, **the full sum assured is payable** (with bonuses wherever applicable), whereas in other savings schemes, only the amount saved (with interest) is payable.

(ii) **Aid to Thrift:** Life insurance encourages 'thrift'. Long-term saving can be made in a relatively 'painless' manner because of the 'easy instalment' facility (method of paying premium either monthly, quarterly, half-yearly or yearly, built into the scheme. Take, for example, our **Salary Saving Scheme**. This scheme provides a convenient method of paying premium each month by deduction from one's salary. The deducted premium is remitted by the Employer to the LIC. **Salary Savings Scheme** can be introduced in an institution or establishment, subject to specified terms and conditions.

(iii) **Protection Against Creditors:** Proceeds of a policy can be protected against the claims of creditors of the life assured through a valid assignment or by taking out a policy under the **Married Women's Property Act**.

(iv) Liquidity: Loans can be raised on the sole security of the policy which has acquired loan value. Besides, a life policy is generally accepted as security for a commercial loan.

(v) Tax Relief: Tax relief in income tax and wealth tax is available for amounts paid by way of premium for life insurance. Assessees may acquaint themselves of provisions in the law for tax relief. In such cases the assured, in effect, pays a lower premium for his insurance than he would have to pay otherwise.

(vi) Cash Estate: Life insurance is the most practicable way to ensure definite payments on one's death without having to resort to conversion of other assets at a loss. Life insurance, therefore, is one of the most satisfactory means of making provision for payment of estate duty.

(vii) Money When You Need It: A suitable insurance plan or combination of different plans can be taken out to meet the specific needs that are likely to arise in future, such as children's education, start-in-life or marriage provision or even periodical needs for cash over a stretch of time. Alternatively, policy moneys can be so arranged to be made available at the time of one's retirement from service to be used for any specific purpose, such as for the purchase of a house.

INSURANCE AND YOU

- Insurance should be for at least four times the annual income of the assured person.
- Term assurance is cheapest At 30, a man can insure for ` 10 lakh for ` 2,500 a year.
- Insurance should not only be seen as means to save tax.
- Primary motive is risk cover.
- Additional covers against critical illnesses, surgeries and disability are helpful.

INSURANCE COMPANIES

Insurance business in India has had a long history. The year 1818 saw the advent of life insurance business in India with the establishment of the Oriental Life Insurance Company in Calcutta. This company however failed in 1834. in 1829, the Madras Equitable had begun transacting life insurance business in the Madras Presidency. The year 1870 saw the enactment of the British Insurance Act and in the last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay Residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Global Insurance and the Indian offices were up for hard competition from the foreign companies. Life insurance and general insurance were a mixed business and were decentralised until the entire insurance business was brought under social control — life insurance in 1956 and general insurance in 1972.

Insurance basically is sharing of loss of a few individuals by a large group of persons. It is an arrangement by which a large number of persons agree to share the loss which a few of them are likely to incur in future, with the advantage that the individual share of the loss is small and remains fairly steady over a number of years. Such association of persons is organised by an insurance organisation.

RISK: For insurance purpose risk means uncertainty about loss, *i.e.,* financial loss.

PERIL: The term “Peril” may be defined as the cause of loss.

The milestones in the insurance sector 1912 onwards can be summarised asunder. The life insurance sector witnessed the following development.

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies taken over by the Central Government and nationalised. LIC formed by an Act of Parliament, *viz.,* LIC Act, 1956, with a capital contribution of ` 5 crore from the Government of India.

Major Evolutionary Milestones

Year	*Event*
1818	Oriental Life Insurance Co., was established in Calcutta
1870	The Bombay Mutual Life Insurance Society — first Insurance Limited was formed
1907	India Mercantile Insurance Limited was formed
1912	— Life Insurance Companies Act & Pension Fund Act of — Begining of formal insurance regulations
1928	Indian Insurance Companies Act was passed to collect statistical data on both life and non-life
1938	Insurance act of 1938 Passed. Strict state supervision to control frauds
1956	— 245 India and foreign life insurers as will as provident societies taken over by central government and nationalized — LIC act of 1956 passed
1957	Framing of a code of conduct by the General Insurance Council to ensure fair conduct and ethical business practices
1972	General Insurance Business (Nationalization) Act was passed
1991	Begining of economic liberalization
1993	Malhotra Committee set up to complement the reforms initiated in the financial sector
1994	Detariffication of aviation, liabilities, personal accidents and health and marine cargo products

1999	Insurance Regulatory and Develpoment Authority (IRDA) bill passed in Parliament
2000	IRDA incorporates as the statutory body to regulate and register privates sector insurance companies. General Insurance Corporation (GIC) and its four subsidiaries, i.e,. National Insurance Company Ltd., Oriental Insurance Company Ltd., New India Assurance Company Ltd., made India's reinsurer
2005	Detariffication of marine hull
2006	Relaxation of foreign equity norms thus facilitating entry of new players
2007	Detarifffcation of all non-life insurance products except of the auto third-party liability segment

Source: Confederation of Indian Industry (CII) and Ernst & Young (E&Y) Study on "Indian Insurance sector, Stepping into the next decade"

HOW IT ALL STARTED — **BOX: 9.1**

Life insurance in its modern form is a Western concept. Although it has been taking shape for the last 300 years, it came to India with the arrival of the Europeans. The first life insurance company was established in India in 1818 as Oriental Life Insurance Company, mainly to provide for widows of Europeans. The companies that followed mainly catered to Europeans and charged extra premium on Indian lives. The first Indian company insuring Indian lives at standard rates was Bombay Mutual Life Insurance Company, which was formed in 1870. This was the year also when the first Insurance Act was passed by the British Parliament. The years subsequent to the Swadeshi Movement saw the emergence of several insurance companies. At the end of the year 1955 there were 245 insurance companies and provident societies out of which 16 were non-Indian companies. All the companies were nationalised in 1956 and brought under one umbrella — The Life Insurance Corporation of India (LIC) — which enjoyed a monopoly of the life insurance business till near the end of 2000. By enacting the Insurance Regulatory and Development Authority (IRDA) Act (2000), the Government of India effectively ended LIC's monopoly and opened the doors for private insurance companies.

MEANING OF LIFE INSURANCE

According to Sec. (2) (11) of the Insurance Act, Life Insurance business means "the business of effective contracts upon human life. It includes:

(*a*) Any contracts whereby the payment of money is assured upon death (except death by accident only) or the happening of any contingency dependent on human life;

(*b*) Any contract which is subject to the payment of premiums for a term dependent on human life;

(c) Any contract which include the granting of disability and double or triple indemnity, accident benefits, the granting of annuities upon human life, and the granting of superannuation allowance."

ESSENTIAL FEATURES OF LIFE ASSURANCE

The following are the essential features required for a valid contract of life insurance:

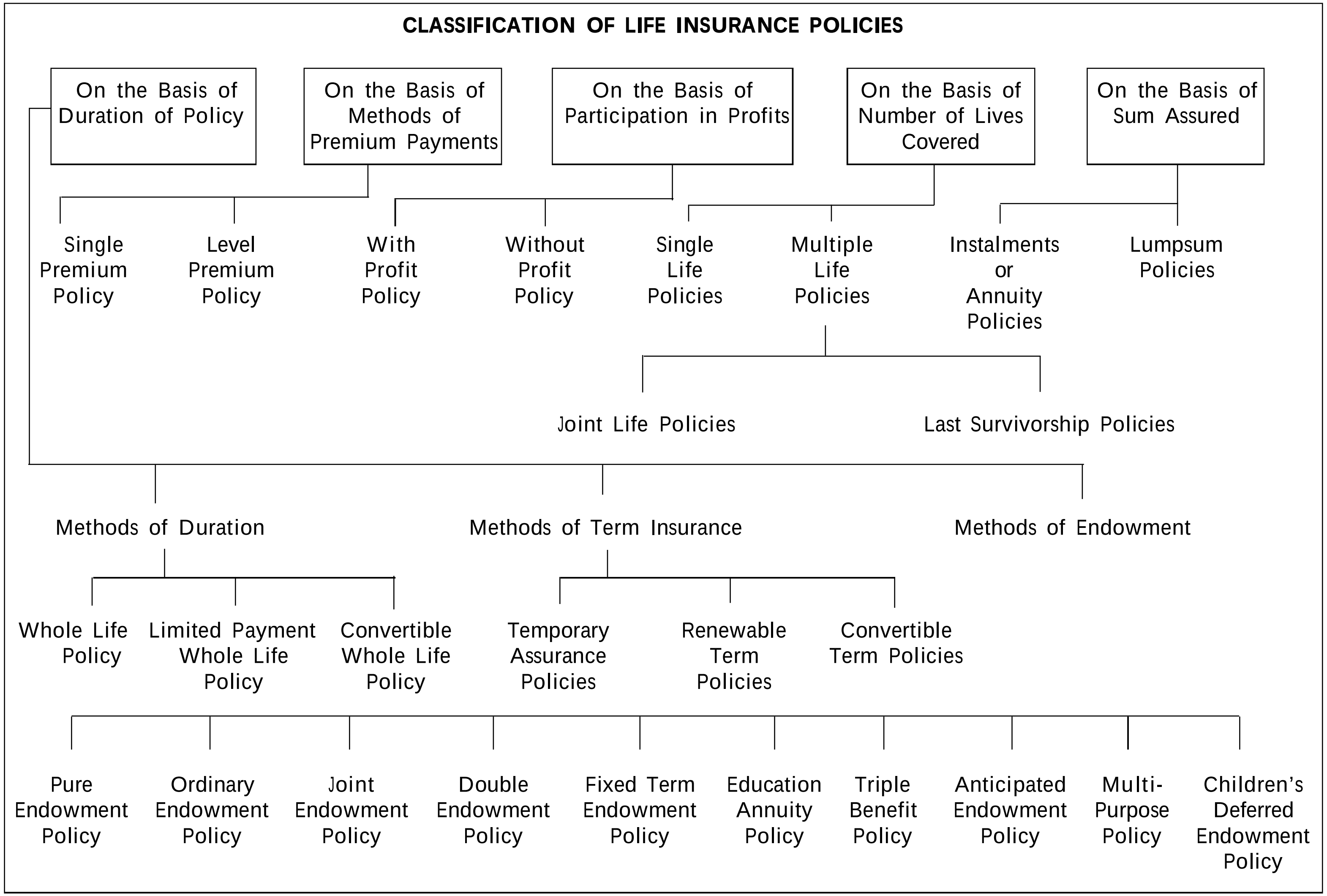
1. Elements of a Valid Contract
2. Insurable Interest
3. Utmost Good Faith
4. Warranties
5. Assignment and Nomination
6. Cause is Certain
7. Premium
8. Terms of Policy
9. Return of Premium.

LIFE INSURANCE CORPORATION OF INDIA

There were a large number of companies of varying age, size and pattern of organisations — 245 on the eve of nationalisation in 1956 which conducted life insurance business in India. There were also other companies which had main business of general insurance but also undertook life insurance. On nationalisation, a single monolith organisation, the Life Insurance Corporations of India (LIC), was set up in 1956. Almost the entire life insurance business is now in the hands of the LIC. The Post and Telegraph Department conducts such limited business for its employees on a negligible scale.

The objective of the nationalisation of life insurance business was to take insurance to the neglected areas in the country and utilise the savings of the people in such activities as would ensure not only the safety of the capital, but also help in the rapid economic development of the nation. As a matter of fact, it is the largest single investor in the country today. It invests its funds in well-established joint-stock companies which have been regularly paying a good dividend to their shareholders.

Life Insurance Policies can be Classified as shown in the following chart:



OBJECTIVES OF LIC

- Spread life insurance widely and in particular in the rural areas and to the socially and economically backward classes with a view to reaching all insurable persons in the country and provide life insurance protection to the masses at a reasonable cost.
- Mobilise people's savings through insurance-linked savings schemes.
- Invest the funds to serve the best interests of both the policyholders and the nation.
- Conduct business with maximum economy, remembering always that the money belongs to the policyholders.
- Act as Trustees of the policyholders and protect their individual and collective interests.
- Innovate and adapt to meet the changing life insurance needs of the community.
- Involve all the people working in the Corporation to ensure efficient and courteous service to the insured public.
- Promote amongst all agents and employees of the Corporation a sense of participation, pride and job satisfaction through dedicated service to achieve the corporate objectives.

The LIC operates a variety of schemes so as to benefit individuals and groups from the urban and rural areas.

According to the Investment Policy of LIC, out of the accretions to the Controlled Fund, not less than 75% has to be invested in Central and State Government securities, including Government-guaranteed marketable securities and in the socially-oriented sectors. Besides investing in Government and other approved securities like shares, bonds and debentures, LIC grants loans for housing, rural electrification, water supply, sewerage and other socially-oriented purposes. LIC provides direct assistance to the corporate sector by way of term loans and underwriting/direct subscription to shares and debentures. Besides assistance to industry, LIC extends resource support to other term-lending institutions by way of subscription to their shares and bonds and also by way of term loans.

EYE ON GROWTH

Life insurance is a growing sector with ample opportunity of growth and profitability. The new players have increased their share to 18.1 per cent in 2006-07. Over the last years, it has been increasing at an average rate of 2 per cent. At the same time, the LIC has also been competing with the new players. In fact, the life insurance companies have to maintain the balance and still achieve market leadership.

In the life insurance segment, profitability is related to size and scale, quality of new business and renewal business. It is measured as the Net Present Value (NPV) of all profits expected to be generated in future, from the new business achieved during the year, based on standard pricing assumptions that include assumptions on mortality, expenses, lapsation, maturity payment, death payments, tax rate, inflation, investment return and risk discount rate. This is known as the New Business Profit (NBP)'.

Market Penetration: The LIC has 100 million life insurance policies outstanding in the 2006-07. In a country where the middle-class comprises 200 to 300 million people, this represents significant market-penetration. This is impressive even by monopoly standards, thus indicating that the LIC has invested a significant amount of time and resources in educating the market, and earning the customer's trust over the last 4 decades.

The ratio of total life insurance premiums relative to general insurance premiums is also telling of the LIC's success. Due to the mandatory nature of general insurance, it is typical that, in a country with low per capita GDP, general premiums are higher than life, which are a voluntary purchase. In India, however, the opposite is true. In fact, life premiums are more than double the general premiums. This ratio is yet another indicator of the extent to which the LIC has been able to tap the Indian market, and sell the concept of life insurance.

Thrust: The LIC's coverage of the rural market is another testament to its success. Of its outstanding life policies, 48 per cent comes from the rural and semi-urban areas. The LIC has built an extensive distribution network to reach those middle-class Indians who live across the expanses of rural India. This penetration is impressive since no other company in any other industry has been able to tap the rural market to this extent. Even consumer-goods marketers, who are known for their ability to develop distribution-channels and penetrate remote segments of the population cannot boast of revenue-shares from rural markets that compare with those of the LIC.

Life Insurance Corporation of India has constantly worked towards its objectives, set out as the time of nationalisation. Brand LIC is one of the strongest brands in India; a brand that has got established while the Corporation was engrossed serving its policyholders and the nation, without other documented or conscious effort to be identified as a Power Brand. A product or a service has actual attributes, but a Brand has perceptional attributes. These attributes are perceived by the holder based on his experience, and cannot be identical in all the cases. It is vital for an organisation to ensure that the brand creates only the desirable perceptions. In today's activity oriented fast moving world, 'Brand' is gaining higher significance, since every business house intends to be the first pop-up in the prospect's mind when he recognises a need concerned. Winners in the market create strongest brands and can influence them across the largest segments and deliver to live up to the image. In the process of brand-building the brand also positions itself in the market and segments. LIC, lead by its objectives and being a national organisation has to cater to all the segments of the society; Brand LIC is expected to be seen as an accessible friend by a rural customer and at the same time as a tech-savvy, financial conglomerate of international standard by a high net worth metro-customer too. LIC has indeed succeeded in building both the perceptions in the proper positions, and now conscious efforts towards Product-Branding will be a step further towards positioning.

INVESTMENT POLICY OF THE LIC

The investment of funds by the LIC is governed by Section 27A of the Insurance Act, 1938. Subsequently guidelines/instruction issued thereunder by the Government of India from time-to-time, and the IRDA by way of regulations.

The LIC is required to invest at least 50% of its funds in Government and other approved securities, 15% in other investments which include loans to State Governments for housing and water supply schemes, to municipal corporations, government guaranteed loans to municipal committees and co-operative sugar factories. The LIC can invest up to 35% of its funds in "approved" investments, which include shares and debentures of public and private limited companies, of cooperative societies, immovable property, loans to policyholders and fixed deposits with banks and cooperative societies.

As is evident, the investment pattern decided upon is premised, besides upon the basic objective of providing life cover, on providing cheaper finance for public projects. The main principle involved is security of funds, rather than maximisation of return on investment. Consequently, an upper limit has been fixed for investments which 'promise high capital gains but also have a strong element of risk of capital loss. Since long-term life cover is the essential purpose of life insurance, speculative investments are strictly avoided. Investment policies of the LIC are thus more or less similar to those of insurance companies in other countries.

The other objectives served is providing finance to priority sectors and socially desirable activities, for which a certain minimum ratio has been prescribed. A much debated provision of the investment pattern in the case of the LIC pertains to investment in industrial securities. While some sections feel the upper limit should be removed, others favour lowering it. It is to be borne in mind that a portion of insurance funds has, however, to be invested in assets yielding higher return although by properly spreading in portfolio to minimise risk. Contrary to belief, the maximum permissible limit for investment in industrial securities for the LIC (35%) is already much higher than the limit allowed in many other countries. On the other hand, the LIC's investment in such 'approved' securities has always been below the prescribed maximum level (35%), perhaps reflecting the LIC's judiciously mixing safety with higher yield. LIC also plays an active part in the financial markets too.

BETTER HEALTH, MORE POWER AND HOUSES TO MASSES

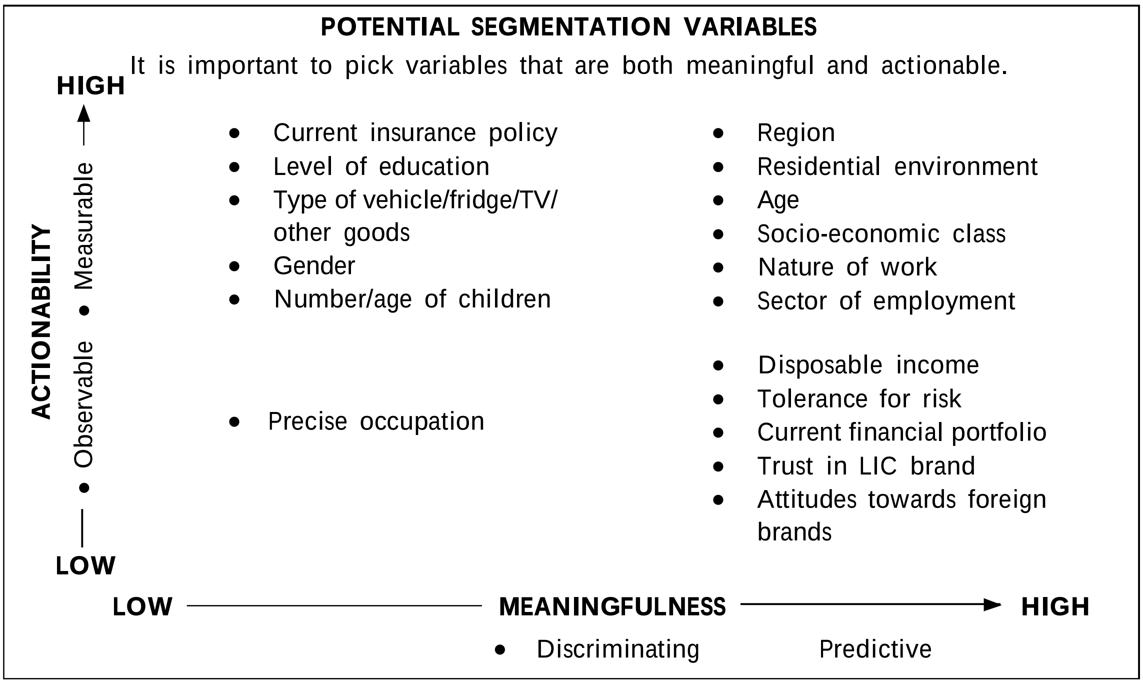
The savings generated are channelised for the welfare of the people with a view to providing security to the community at large. Towards this end, the Corporation has been promoting Social Welfare through Socially Oriented investments. These investments are regulated by the Government from time to time to benefit the people at large by providing basic amenities like potable water, drainage, housing, electrification and transport.

Housing is one of the basic necessities of human beings. Since inception, the Corporation has been providing finance for formulating various mortgage schemes for granting loans for housing to individuals, Cooperative Housing Societies and private undertakings. With a view to solving the problem of housing shortage in the country, the Corporation has joined in a big way in the massive efforts by providing financial assistance to individuals, Cooperative Housing Societies and State Governments. In order to foster the Cooperative Housing movement for development of housing activities, the Corporation is also providing financial assistance to Apex Cooperative Housing Societies, the benefits of which are passed on to individuals through Primary Societies. The Corporation is also providing loans directly to State Governments for house building activities to reduce the housing shortage by constructing quarters for various categories like Economically Weaker Sections, Low Income Groups, High Income Groups, Middle Income Groups and for various other housing schemes. The Corporation has been playing a purposeful and effective role in housing development activities through Cooperative Societies.

As per the recent modification to Section 27 A of the Insurance Act, 1938, LIC could invest up to 5% of its accretion to its Controlled Fund in the National Housing Bank.

BOOSTING INDUSTRIAL GROWTH

The Corporation helps boost the industrial growth in the country. It gives financial assistance to companies by way of loans and by contributing to their shares and debentures. These loans in recent years are being granted in consortium with the other All-India Financial Institutions such as IDBI, IFCI, UTI and GIC. On Government Securities now, it is expected, henceforth greater benefits would accrue to policyholder.



Source: Monitor

MALHOTRA COMMITTEE

The major recommendations of R. N. Malhotra Committee (1994) on the reforms in the insurance sector are as follows:

1. A strong and effective Insurance Regulatory Authority is to be set up on the lines of SEBI for the capital market, which is already done.
2. LIC should be registered as a company under the Companies Act and its paid-up capital raised from ` 5 crore to ` 200 crore with Government holding only 50% and the rest by the Public at large.
3. LIC zonal offices should have more powers and there should be greater decentralisation of decisions and authority along with a reorganisation of both the central office and zonal offices and branches.
4. GIC should function independently as the Indian Re-Insurer and all the four subsidiaries of GIC should be more independent Companies.
5. GIC paid-up should be raised to ` 200 crore of which 50% should be held by the Government and the rest is privatised.
6. The mandatory investment of insurance funds in govt. Sector should be reduced in stages from 75% at present to 35% only.
7. Entry of private and foreign enterprises may be allowed into insurance business, subject to certain guidelines.

(8) Cooperative Sector and Postal Departments may be permitted to undertake life insurance business.

(9) All insurance companies have to transact a minimum business from the rural areas.

(10) Tariff Advisory Committee should be, delinked from GIC and should function independently to advise on tariff matters and there should be no monopoly rates for all insurance companies.

(11) Computerisation of LIC and GIC offices and development of an MIS in both the offices.

(12) Insurance companies should be free to assign the right job to right surveyors, who are to be trained for the jobs.

(13) Pension schemes should be linked to savings with some tax reliefs to the pensioners.

(14) The institution of ombudsman should be set up to settle disputes on personal claims up to ` 5 lakh more quickly and reduce litigations.

The recommendation of the Committee for Reform in Insurance Sector under the Chairmanship of R.N. Malhotra (1994) were implemented by the Government and Insurance (Amendment) Act was passed in 1999 and insurance sector was privatised with the entry of foreigners up to 26 per cent holding. Insurance Regulatory and Development Authority (IRDA) was set up in 1999 with its headquarters at Hyderabad. The IRDA has been the regulatory and supervisory authority for both life and non-life insurance companies.

NEW PLAYERS

With the reopening for private participation in 2000, the insurance landscape changed completely with new players. Of the 23 life insurance companies which have set up operations in the life segment post opening of the sector, 19 are in joint ventures with foreign partners with established foreign insurance companies from across the globe. All new entrants have expanded rapidly and have presence in about 40 cities across the country, represented by more than 2,00,000 agents.

Growth in the Number of Insurance Players

Life Insurers	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Public	1	1	1	1	1	1	1	1	1	1	1
Private	3	10	12	12	13	13	15	15	21	21	22

Source: Confederation of Indian Industry (CII) and Ernst & young (E&Y) study on, "Indian Insurance sector, Stepping into the next decade"

Liberalisation has expectedly been followed by a plethora of launches, each event laying claim to some variant of the "new, improved" blurb. Company launches followed by product launches and these by distribution-related announcements. While this has presented the consumer with unprecedented choice, participants — after the initial euphoria — have to grapple with major issues: What is the "winning formula" here? What degree of focus — as against a broad-based approach — is required? Will alternate channels become significant sources of business?

A criticism is often voiced that the LIC's investment policies have not benefited the policyholders. Policyholders, it is argued, pay high premia but receive bonus at low rates. The criticism is not entirely misplaced. But the major factors responsible for high premia and low bonus rates are the high expense ratio, premia rates not being correctly adjusted to actual mortality experience — mortality rates have gone down but premia rates have not come down correspondingly — and, more importantly, lower returns on LIC investments. Bulk of LIC investments going into low-yield government securities has, as mentioned, led to lower aggregate returns on investments resulting in higher premia rates being levied. With higher interest being offered on Government Securities now, it is expected, henceforth, greater benefits would accrue to policy- holders.

PRODUCT INNOVATION

Growth in the insurance industry has been spurred by product innovation, active sales and distribution channels coupled with targeted advertising and marketing campaigns by the insurers. Innovations have come not only in the form of benefits attached to product, but also in delivery mechanisms which have emanated from various marketing tie-ups both within the realm of financial services and outside. All these have taken life insurance closer to the customer as well as making it more relevant. Insurance companies are 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. Introduction of unit-linked insurance plans (ULIPs) has been, possibly, the single-largest innovation in the field of life insurance in India. The design of the product addresses and overcomes several concerns that customers have had in the past like liquidity, flexibility and transparency.

India is a market where products are most attractively priced for the consumers. In the life insurance business, which is long-term, it is important that we build customer relationships that last long. This is only possible by providing need based product solutions and by helping our customers plan for their financial goals over the various stages of life. The life insurance business become profitable if the life insurer is able to offer solutions for financial protection and long-term wealth creation to its customers and remain committed to customer needs over the long period of relationship.

The Insurance and Regulatory Development Authority (IRDA) and the industry have been playing an active role in increasing consumer awareness. Insurance companies in general, and private insurance companies in particular, are reaching out to untapped semi-urban and rural areas through advertisement campaigns and by offering products suitable to meet the specific needs of the people in these segments. The insurers are increasingly introducing innovative products to meet the specific needs of the prospective policyholders.

THE PRODUCT RUSH

The disparity in initial performance, however, masks the marked similarity in the new entrants' route-to-market choices. A quick look at the product and distribution configurations highlights this phenomenon.

The private players have introduced 70 odd "new" products in all. A portfolio scan shown up two important conclusions — first, endowment and moneyback products (historically, mainstay of LIC's business) constitute almost half of the total and second, much of the actual business transacted has been through their assured return, single premium policies. In pushing a combination of standard products and assured benefits, the new entrants have elevated to tread safe ground (though the emphasis on assured return products has already invited cautionary comment from IRDA).

Not surprisingly, the starting point of such strategies is a superior understanding on part of companies of customers and the market realities. Conventional segmentation approaches utilising one or more variables of income classification, age group, and level of education sometimes succeed in identifying groups of customers who share the same basic needs and beliefs. But the segmentation is almost invariably done in a manner that no one can ever find such groups.

For instance, a study that concludes that "self-assured' young women are looking for a high-value term policy" might have an assertion that is quite accurate on its own but will likely prompt some sales managers to justifiably ask: How do I find these people?

The game is to find customer segments that are relevant to the realities of the company and also economically well-defined, in the sense that all members of the same segment have similar needs and experience concerning the product offering.

Customer segments must be both meaningful — in that they exhibit distinct behaviours, needs, and beliefs — and actionable, in that the company can conceivably do something to affect their behaviour. One of these without the other won't work.

STREAMLINING THE CHANNEL

Insurance is all about distribution. Hence, network expansion has been a key drive to growing the industry. What has contributed to the growth is multichannel distribution expansion, the quality of advice through the best in-class training, a comprehensive and flexible product portfolio, high customer-service standards, a strong IT infrastructure, superior fund management capabilities and focus on financial protection and long-term wealth creation. Insurance penetration is also increasing through Vanilla risk covers offered to different employees and borrower groups in the life insurance industry, penetration can be measured through geographical reach, touching various customers' segments and strong distribution channels.

It is a truism that life insurance is sold, not bought. Agency force management thus becomes a critical area for companies to focus on. This is currently reflected in an emphasis on growing agency force size rapidly (ICICI intends to add 500-odd agents every month in the next year). However, in the rush for size, it is easy to forget that unless handled properly, a sales force can become an expensive option.

Companies need to design and manage their sales forces in a manner that yields both high performance and high agent retention numbers — not an easy task.

Gold standard agency force management practices imply making appropriate choices in recruitment (*e.g.,* in sync with the demographics of target segments as the most effective agents use their own networks to acquire new relationships); in roles and responsibilities (given the savings-intensive nature of life insurance in India, it may be advisable to equip — not just designate — the sales forces as financial planners); in matters such as compensation (rewards tied not only to total production but also to quality of sale).

Additionally, new entrants must eschew the LIC 'lone wolf' model where the psychological contract between the agent and organisation is mostly restricted to direct and indirect compensation based on total production. Successful companies have to go much further in supporting their feet-on-the-street by measures such as creation of product and other specialists as central resources for them to draw upon or by deploying automation technologies in order to enhance effectiveness. Interest in alternate distribution channels is also high. Given the state of communication infrastructure and low absolute cost of traditional methods some options that are standard in developed world — *e.g.,* telephone sales or internet-based marketing — can safely be classified as esoteric in India for anyone with mass market ambitions.

The big initiative, however, is happening around bancassurance — insurance companies partnering with banks to sell their policies on the back of a previously existing financial services relationship. Historically, bancassurance has met with varying levels of success in different economies across the world and it must be recognised that conditions in the Indian banking by set-up do not augur well for the near-term development of this alternate distribution channel.

FINDING THE DIFFERENTIATOR

A recent study on key success factors in business identified five factors that are important in making such partnerships work. These, combined with looking at the details of current arrangements, suggest that relationships will be effectively restricted in the foreseeable future to referral arrangements rather than full-fledged bancassurance executions.

Finally, companies need to re-examine their advertising spends. New entrants have collectively spent about ` 150 crore on advertising already. However, there is little differentiation in messaging with most players using tag lines such as “Friends for Life”, “Your Partner for Life”, and “with you always”. Companies need to clearly outline campaign objective and then execute on differentiated creatives.

The opening up of the insurance sector is expected to lead to increased competition and innovations in financial products. Insurance products compete with other saving products such as bank term deposits and small savings. Many of the new insurance products, especially unit-linked insurance/pension schemes, now bear a close resemblance to mutual funds. While the yield on life insurance products, in the range of 7.15 per cent to 9.46 per cent during the by 2006-07 was normally much lower than other long-run investments, this was compensated by the insurance cover and tax benefits. As new players join the fray, the competition in by respect of various financial products is expected to go up in the near future.

The expansion of the insurance industry has a special significance in that it creates a demand for long-term Government paper, especially as Government Securities accounted for 66.3 per cent of the life investment as at end-March 2007. Together with State Government and other securities, the share in investment goes up to 82.1 per cent. This could ease the fiscal constraint on monetary policy in two ways, *i.e.,* by enlarging the pool of institutional investors in the Government Securities market and by according the Reserve Bank the necessary Flexibility to enlarge the maturity profile of public debt.

The key policy challenge, at this stage, is to ensure the financial stability of the new insurers, while at the same time encouraging entrepreneurship, product innovation and increasing insurance penetration especially in rural and semi-urban areas.

There is, therefore, a case for gradually replacing across-the-board capital requirements with capital stipulations inked to the risk and claims characteristics of a particular line of business as is the practice in some advanced countries as recommended by the Advisory Group on Insurance Regulation (2001). This would increase the number of players and product innovation. Also, while the present statutory stipulations are adequate, there is a need to explore the possibilities of linking prudential norms to the size of the balance sheet, especially in terms of capital adequacy norms (IRDA, 2002). Presently, insurers are mainly offering insurance schemes, which are based on assured returns. This is fraught with serious risks, especially when interest rate scenario/market condition changes. In order to stave off the risks associated with assured returns schemes, insurers need to shift to unit-linked insurance schemes based on the market rates of return. While the joint ventures formed by new insurers with entities, including banks and NBFCs, having a large branch/

dealer network, minimise establishment costs, the contagion risks also get amplified in the process. This would require close coordination among the regulating agencies.

THE WAY FORWARD

The insurance industry is at a very critical stage from where either it can flourish or can witness a muted growth. The last ten years have been the year of growth and development. But now is the time for growth along with stabilization. IRDA, on its part, is facilitating the expansion of the sector by formulating conducive regulations. However, along with keeping the interest of the customers at the forefront, there is a need to facilitate a favorable environment for distribution intermediaries, which can result in exponential growth for the sector.

The regulator has laid down a framework for insurers to make disclosure of financial statements, investment portfolio, and operating rations. These disclosures are going to make the industry stronger and also earn faith of its stakeholders. Shift from solvency I to solvency II is also taken as a big step towards risk management. IRDA is also considering the formulation of rules and regulations for a smooth transition to this new regulatory standard.

The growth potential and opportunities for the Indian insurance industry is enormous. In the wake of the improving global financial situation, the industry is expected to be a major contributor to the country's growth.

CONCLUSION

The growth of the life insurance sector has been quite impressive. Through the concentration in insurance sector is very high it shows a declining trent since the sector was opened to private participation has increared to 159.5 per cent. The asset quality of the insurance sector is also good. More than has emered as one of the key player in the financial market.

India has a long way to go in insurance. Life insurance is greatly influenced by changes in the social structures, social thinking and social values, which in turn influence the needs of individuals. LIC has been continuously taking innovative steps to live up to the ever-changing expectations of the insuring public. Today, it has more than 50 different products that address the need of each of every Indian from a newborn to a 70-year-old. Underwriting rules were also relaxed. The agency force was professionalised through training.

Although the insurance industry will not dominate the financial sector in the next decade in terms of the funds under management, together with pensions it will be the dominant force in the financial sector or a 10 to 15 year horizon. We will also see consolidation within the industry, reflecting not only what is happening in overseas markets, but also the compulsions in the domestic market. This will lead to a few players, from the financial sector, dominating the industry.

Life Insurance Corporation of India, created by nationalisation in 1956, is today the largest insurance player in Asia – about 35 per cent bigger than China Life. Its large distribution base saw the total number of policies, issued by public sector players, rise 22 per cent to nearly

6 million, while that of private players fell 6 per cent to 2.5 million. While there has been an increase in the market share in the regular premium for private players, according to IRDA figures, its share in single premium has declined.

There is an ongoing debate about whether insurance companies' investment income should be treated as business income, which could make it liable for tax payments. Insurance players make losses on their underwriting business, which they compensate by investment gains. As the operations of the life insurers stabilise, their investment base gets strengthened, resulting in investment income forming a larger proportion of total income. In the case of LIC, the investment income including capital gains was at ` 43,000 crore in 2008-09. The proposal being discussed extends not just to the realised gains of all players, but also unrealised gains – a practice which has happened nowhere else in the world yet.

More than investment returns, however, a survey by PricewaterhouseCoopers indicates that managing sales and distribution networks – and agent quality – is seen as a bigger challenge to insurance companies. Complicated products are difficult to sell, and players are investing to train distributors and strengthening processes. Some players now even penalise agents wherever the customer is able to prove that the agent missold a policy.

Life insurance has great potential of growth with profitability. The players have to penetrate in the varied segments not touched so far. Innovative products, imaginative marketing, aggressive distribution, building up and spreading awareness and good services go a long way in reaching the people.

At the time of opening up of the sector, life insurance was viewed as a tax saving device. Of late, the policyholder's perspective is slowly changing towards taking insurance cover, irrespective of tax incentives. The insurable populace is looking for products which suit their specific requirements. The players should now focus on long-term profitable growth along with building robust business in life insurance segment.

In future the perception of the insuring populace will change and insurance will not be looked at as a mere tax-saving instrument. The pension market will prosper more speedily for two reasons:

1. Average longevity is increasing and the number of senior citizens will rapidly rise; and
2. The absence of social security schemes from the government.

Life insurance companies have also been quick to recognise the huge need for structured retirement plans and have leveraged their abilities for long-term fund management towards building this segment. Pension is recognised as necessity and presents an opportunity for growth in the country, and forms a significant part of portfolio of life insurers. More recently, private life insurers with their expertise in long-term mortality and morbidity introduced annuities. The growth in group insurance business has also been impressive.

There will be healthy competition amongst the insurers under the regulatory control of IRDA. No company would like to lure customers by giving unwarranted incentives leading to disaster. While LIC will continue to grow at 15 per cent compounded on number of sales and 30 per cent compounded on first premium income, other players will have their due share, too.

The insurance sector is also gradually moving from the erstwhile state-owned regulated regime to one characteised by liberalisation and increased competition. The life insurance segment has been experiencing robust growth with increasing innovative products diversification and customer-oriented by both public as private players.

Towards spreading the wings of life insurance in India, the insurers are increasingly introducing innovative products to meet specific needs of the prospective policyholders more particularly, innovative products, imaginative marketing, and aggressive distribution to reach to different cross-sections of the society and across age groups.

In India, endowment products have been dominant in insurance as they provide a component of savings also. As long as the business was being conducted only by the public insurers, this was not felt as a great constraining factor. However, in the aftermath of liberalisation with the opening up of the sector, some insurers are offering flexible. While it is very difficult to come out with fresh products, the flexibility afforded through riders in life insurance and add-ons in non-life insurance comes in very handy for providing 95 customised solutions for the policyholders.

If the hike were to taken place, there could be an additional inflow of $ 1.5-2 billion from the existing foreign partners of Indian insurance companies, points out an HSBC report. In addition, new entrants could attempt to enter the market. Greater financial flexibility will only encourage the devlopment of new products, leading to more diversified distribution channels, and thus enhanced growth within the industry

In India, the solvency regime in the insurance industry is simple and there is a thin line of demarcation between a risky portfolio and a not-so-risky one. In some developed insurance markets, Risk Based Capital (RBC) is put in place which aims at better deployment of capital resulting in higher profitability. As IRDA intends to move towards the RBC regime eventually, it should be our endeavour to develop a robust, wide and deep database, so as to ensure that the implementation of RBC is possible.

Distribution plays an important role in widening the insurance market. While the tied agency system worked well in a monopolistic regime, the introduction‘ of brokers, corporate agents including banks and other alternate channels of distribution of insurance have impacted the insurance industry in India. The third party administrators for health insurance are working well. These channels helped insurance growth. Agents, who are the first persons to meet the prospective buyers of insurance, need to be well trained and fully equipped with the knowledge about the products. As the agents are acquainted with the prospective buyers, they have to advise them on the suitability of the product rather than on the commission they may earn in the process. In this regard, insurance companies need to develop dedicated and efficient workforce and motivate them at frequent intervals. In this way, best practices evolve.

SELF ASSESSMENT QUESTIONS

(1) What do you mean by life insurance? Discuss practical aspects of it.

(2) Discuss the procedure for taking new life insurance policy.

(3) What is the procedure for the issue of duplicate life insurance policy?

(4) What is nomination? Discuss the important issues in nomination.

(5) What is assignment of life insurance policy? What are the conditions governing valid assignment?

(6) What are the rules governing surrender of life insurance policy? How is it calculated?

(7) What do you mean by the revival of life insurance policy? What are the rules governing revival of live insurance policy?

(8) What are the various conditions for taking loan against life insurance policy?

(9) Discuss the procedure for settlement of claim on death of the insured.

(10) What are the documents required in case of early death claims?