"The Future Potential of the Business of the Private Life Insurance Players India – A Perspective"

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ABSTRACT:

Insurance is an important sector of an economy -- in particular, an emerging market economy (EME) like India. Figuratively and literally, insurance insures a country against collapse. It also insures the people of the country against adversity. The converse is also true. Insurance can catalyse the growth of an economy. Insurance can promote the financial security of the people. It is therefore not surprising that in the advanced economies we see today, the insurance sector is highly advanced, evolved and continues to evolve. It continues to evolve since business, trade, industry and commerce are not static – they grow all the time and into newer and unexplored areas. Almost all risks, present and foreseeable, can be insured in the advanced economies. Being the proverbial facilitator, the government has a moral responsibility to ensure that the participants in its economy are provided all the help in insuring against all the risks they are likely to face. Being the guardian of its people and the promoter of the welfare of its citizens, the government is bound to help its people ensure their financial security by in turn ensuring that they are in a position to access as many insurance solutions as possible, commensurate with their requirements. Since insurance is a capital-intensive activity and since it is not the government's business to be in business, governments across the world have encouraged investment in the insurance sector through a slew of fiscal and financial measures.

Key Words: Insurance, Financial Advisors, Life Insurance Corporation, Insured

INTRODUCTION

Almost 4,500 years ago, in the ancient land of Babylonia, traders used to bear the risk of caravan trade by giving loans that had to be later repaid with interest when the goods arrived safely. In 2100 BC, the Code of Hammurabi granted legal status to the practice. That, perhaps, was how insurance made its beginning.

However, life insurance had its origins in ancient Rome, where citizens formed burial clubs that would meet the funeral expenses of its members as well as help survivors by making some payments. As European civilization progressed, its social institutions and welfare practices also got more and more refined. With the discovery of new lands, sea routes and the consequent growth in trade, medieval guilds took it upon themselves to protect their member traders from loss on account of fire, shipwrecks and the like. Since most of the trade took place by sea, there was also the fear of pirates. So these guilds even offered ransom for members held captive by pirates. Burial expenses and support in times of sickness and poverty were other services offered. Essentially, all these revolved around the concept of insurance or risk coverage. That is how old these concepts are, really. In 1347, in Genoa, European maritime nations entered into the earliest known insurance contract and decided to accept marine insurance as a practice.

Insurance as we know it today owes its existence to 17th century England. In fact, it began taking shape in 1688 at a rather interesting place called Lloyd's Coffee House in London, where merchants, ship-owners and underwriters met to discuss and transact business. By the end of the 18th century, Lloyd's had brewed enough business to become one of the first modern insurance companies. Life insurance is a social security tool. This is more pronounced in rural areas that promote and sustain the life links of the economy. The various programs of the government promoting agriculture and tiny industries, the scientific agricultural practices, the agrarian reforms, the empowerment of village panchayats and such other activities have created reasonable disposable incomes in the hand of the rural folk. At the same time we find the rural economy dependent on vagaries of monsoons. The existence of Below Poverty Line (BPL) families, the stark illiteracy, and the low levels of awareness are the major stumbling blocks to protect themselves against risks. The life insurance penetration in rural areas as percentage of Gross Domestic Product (GDP)} is around 2.8 % as at 2005 and again the so called penetration is catering to the needs of rural rich (Life Insurance in India by H.Sadhak) The distribution costs, product designing to the needs of the rural people, the viability of opening offices in rural areas are preventing major life insurance companies to opt out of this market.

Impact of Industrialisation

There were more offshoots from the process of industrialization. In 1897, the British government passed the Workmen's Compensation Act, which made it mandatory for a company to insure its employees against industrial accidents. With the advent of the automobile, public liability insurance, this first made its appearance in the 1880s, gained importance and acceptance. In the 19th century, many societies were founded to insure the life and health of their members, while fraternal orders provided low-cost, members-only insurance. Even today, such fraternal orders continue to provide insurance coverage to members as do most labour organizations. Many employers sponsor group insurance policies for their employees, providing not just life insurance, but sickness and accident benefits and old-age pensions. Employees contribute a certain percentage of the premium for these policies.

Concept of Insurance

The concept of insurance is closely related to security. Insurance acts as a protective shield against risk and future uncertainties. Traditionally, a risk-averse behaviour has been a characteristic feature of Indians who preferred a 'low and certain' disposable income to a 'high and uncertain' income.

Hence insurance has become a close associate of Indians since 1818, when the Oriental Life Insurance Company was set up by Europeans in Kolkata to cater to the needs of their own community. The age was characterised by intense racial discrimination as Indian insurance policy holders were charged higher premiums than their foreign counterparts. The first Indian insurance company to cover Indian lives at normal rates was the Bombay Mutual Life Assurance Society which was established in the year 1870.

By the dawn of the 20th century, new insurance companies had started operations. In order to regulate the insurance business in India and to certify the premium rate tables and periodic valuations of the insurance companies, the Life Insurance Companies Act and the Provident Fund Act were passed in 1912. Such statistical estimates made by actuaries revealed the disparity that existed between Indian and foreign companies.

Life Insurance in Practice – the Indian Scenario

Although life insurance debuted in India well over a hundred years ago, its importance has not been appreciated fully. In India, which is one of the most populous countries in the world and social security is conspicuous by its absence, life insurance is relevant.

Life insurance is a contract that pledges payment of an amount to the person assured (or his / her nominee) on the happening of an event he / she has insured against. The contract requires the insurer to make payment / payments to the insured:

- ✓ Upon maturity of the policy, or
- ✓ At periodic intervals, or
- ✓ Upon the death of the insured, if it occurs earlier.

Among other things, the contract also warrants the payment of premium periodically to the insurer by the policyholder. Life insurance is universally acknowledged as an institution, which eliminates 'risk', replaces uncertainty with certainty and promptly helps the family of the insured in the event of death of the latter. By and large, life insurance is a partial solution provided by society to the problems arising from the death of the insured. Life insurance, in short, is relevant for the following reasons:

- ✓ One could die prematurely, leaving in the lurch the dependent family
- ✓ One might have nothing to fall back upon when one gets too old to earn a livelihood.

✓ Buying an endowment life insurance product involves periodical outflow of cash in the form of premium over an extended period of time. These cash outflows eventually return to the insured though. In the circumstances, the insured is often inclined to compare investment in endowment insurance products with that in other savings products. The following paragraph explains the difference between the two.

Life Insurance Vs Other Savings

Contract of Insurance

A contract of insurance is a contract of utmost good faith. It is technically called *uberrima fides*. The doctrine of disclosing all material facts is embodied in this important principle, which applies to all forms of insurance.

At the time of taking a policy, the policyholder should ensure that all questions in the proposal form are correctly answered. Any misrepresentation, non-disclosure or fraud in any document leading to the acceptance of the risk would render the insurance contract null and void.

Protection

Savings through life insurance guarantee full protection against risk of death of the saver. Also, in case of demise, life insurance assures payment of the entire amount assured (with bonuses wherever applicable) whereas in other savings schemes, only the amount saved (with interest) is paid to the investor.

Aid to Thrift

Life insurance encourages 'thrift'. It allows long-term savings since payments can be made effortlessly because of the 'easy instalment' facility built into the scheme. (Premium payment towards insurance is payable monthly, quarterly, half yearly or yearly).

For example, the Salary Saving Scheme popularly known as SSS provides a convenient method of paying premium each month by deduction from one's salary. In this case the employer directly pays the deducted premium to LIC.

Liquidity

It is easy to take a loan on the sole security of any policy that has acquired loan value. Besides, a life insurance policy is also generally accepted as security, for a commercial loan.

Tax Relief

Life Insurance is the best way to enjoy income tax and wealth tax shelter in terms of the provisions of the Income Tax Act in force. The result is that the insured in effect pays a lower premium towards insurance.

Money When You Need It

A policy that has a suitable insurance plan or a combination of different plans can be effectively used to meet certain monetary needs that may arise from time to time. Children's education, start-in-life or marriage provision or even periodical needs for cash over a period of time can be less stressful thanks to these policies. Alternatively, policy money can be made available at the time of one's retirement from service and used for any specific purpose, such as, purchase of a house or for other investments. Loans can be raised by policyholders for house building or for purchase of flats, subject to certain conditions.

REVIEW OF LITERATURE:

Padmavathi, V - Life insurance policy is an assurance to the dependents of the family against loss of income resulting from the death of the breadwinner of the family.

The policy holder is transferring the risk to the insurance company. In the case of ULIPs, the insurer is transferring the market risk to the holder of the ULIPs.

In the absence of social security, pure life and health insurance products are relevant to a country like India. The buyer of the insurance policy should not consider it as a tool that can help him / her make big bucks in quick time.

Nerurkar, U. J., Apte, N. V., - No planning precedes insurance buying. Often the decision to buy an insurance product is taken impulsively without regard to the magnitude of the insurance cover needed, the type of insurance needed, etc.

This is made worse by the fact that none knows how to deal with a crisis in a logical and consistent manner; nor can anyone guide the prospective customer in the matter.

Ramachandran, K., Chaubal, A. S. - They explains that there is no risk even if there is going to be a loss provided it is known for certain that the said loss will occur.

Additional dimensions of risk come in handy when one is required to decide whether there is risk in the first place which warrants hedging.

Majumdar, p. I., diwan, m. G. - They highlight that insurance is a growing field in terms of the products being introduced and of course in terms of the business volumes being logged.

The growth of business and the growth of insurance occur parallely since every emerging entity would like to transfer the risk associated with the new business to the insurer. By extension, new legislations have to be enacted to ensure that the emerging risk and the insurance cover in respect of the said emerging risk complement each other.

OBJECTIVES:

- To Study the existing structure of the insurance industry in India.
- To Identify the challenges and opportunities for private life insurance players in India in the changed scenario
- To Identify the different customised and general product profiles of the sample private life insurance players operating in Bangalore
- To Ascertain public perception of private life insurance firms vis-a-vis the LIC of India
- To Attempt an estimate of the future potential of the business of the private life insurance players and offer a suggestive framework model on the topic.

METHODOLOGY:

This is an analytical study of descriptive nature involving field survey. Hence the survey method has been employed to collect the data.

TOOLS AND TECHNIQUES FOR DATA COLLECTION:

- Primary data was collected from the respondents, viz, Financial Advisors through interviews.
- Secondary data was collected from reputed journals, magazines, the financial press and annual reports of the insurers and house journals of IRDA, FICCI and CII.
- In addition, secondary data has been obtained from Published books, records, reports, websites etc.

SAMPLING PLAN:

The following structured schedule was used for collection of primary data from the sample respondents:

20 LIC Agents were taken into consideration for the survey

STATISTICAL TOOLS USED TO ANALYSE THE DATA

The collected data has been analysed with the help of statistical tools and techniques such as :

- Averages
- Ratios
- Standard Deviation

LIMITATIONS OF STUDY:

- The research was limited to the restricted sampling frame of only Bangalore Rural and Kolar District.
- This study does not necessarily cover all the technical aspects of the Insurance Industry.
- Primary data has at times been detected through constant topic-oriented discussions with the respondents. It is possible that a certain degree of subjectivity, even if negligible, has clouded their views. Nevertheless, the fact is that the respondents, being human, could err and hence the Researcher would candidly like to admit that the findings of the thesis, which draw heavily from the discussions held with the said respondents, may have been affected, albeit to a negligible extent.

DATA ANALYSIS:

Table - 1

Rating of the Strategy of Private Life Insurance companies in respect of Physical Evidence vis-a-vis that of LIC

Rating Levels (Values)	Frequency	Mode
Outstanding (1)	**11**	
Better (2)	**5**	
The same as LIC (3)	**4**	**1**
Poor (4)	**0**	
Very Poor (5)	**0**	

According to the Table, the value of the variate for which the frequency is maximum (11) is (1) which represents 'Outstanding'. Hence the respondents have rated this strategy of private life insurance companies as 'outstanding' relative to that of LIC.

Table-2

Rating of the Potential for Growth of the Business of Private Life Insurance companies vis-a-vis that of LIC

Rating Levels (Values)	Frequency	Mode
Outstanding (1)	**0**	
Better (2)	**0**	
The same as LIC (3)	**4**	**4**
Poor (4)	**13**	
Very Poor (5)	**3**	

According to the Table, the value of the variate for which the frequency is maximum (13) is (4) which represents 'Poor'. Hence the respondents have rated the potential for growth of the business of private life insurance companies as 'poor' relative to that of LIC.

Table-3

Rating of the Strategy of Private Life Insurance companies in respect of Customer Service vis-a-vis that of LIC

Rating Levels (Values)	Frequency	Mode
Outstanding (1)	**2**	
Better (2)	**11**	
The same as LIC (3)	**5**	**2**
Poor (4)	**2**	
Very Poor (5)	**0**	

According to the Table, the value of the variate for which the frequency is maximum (11) is (2) which represents 'Better'. Hence the respondents have rated the strategy of private life insurance companies in respect of customer service as better than that of LIC

Table-4

The Financial Health of Insurance companies has a Bearing on their Product Portfolios

Financial Health has a Bearing	No of Insurance companies	Percentage
Yes	13	65
No	7	35
Total	**20**	**100**

65 percent of the respondents believe that the financial health of the insurance companies has a bearing on the product portfolios they offer. The remaining 35 percent of the respondents do not believe that the financial health of the insurance companies has a bearing on the product portfolios they offer.

Table-5

Competition Influences Product Innovation

Competition Influences Innovation	No of Insurance companies	Percentage
Yes	20	100
No	0	0
Total	**20**	**100**

All the respondents believe that competition influences product innovation

Summary of Findings:

Policy Holders

In the following paragraphs, the Researcher's findings and conclusions are presented in a summarised form in respect of policy holders:

1. An overwhelming majority of the respondents are satisfied with the service processes put in place by their insurers.

2. Respondents rate the private life insurers as better than LIC, on the whole.

3. The potential for growth of business of private insurers has been rated by the policy holders as being the same as LIC.

4. A majority of the respondents believe that their financial health has a bearing on the product portfolios they offer.

5. The unanimous view of the respondents is that competition influences product innovation.

6. A majority of the respondents believe that the success achieved by insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.

7. A majority of the respondents believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.

Non Policy Holders

In the following paragraphs, the Researcher's findings and conclusions are presented in a summarised form in respect of non-policy holders:

8. 44.17 percent of the respondents cite the non-availability of the 'no frills' version of the products for rejecting the proposal; 34.17 percent cite inflexible terms for rejecting the proposal; 27.50 percent cite inadequate product categories for rejecting the proposal; 25.83 percent cite coverage of unwanted risks for rejecting the proposal; 17.50 percent cite involved documentation for rejecting the proposal; 15 percent cite inadequate transparency for rejecting the proposal.

9. The respondents rate the private life insurers as being similar to LIC, on the whole.

10. The potential for growth of business of private insurers has been rated by the respondents as being the same as LIC.

11. A majority of the respondents believe that the financial health of the insurers has a bearing on the product portfolios they offer.

12. The unanimous view of the respondents is that competition influences product innovation.

13. A majority of the respondents believe that the success achieved by insurers is a function of the degree of rural penetration achieved by them and the extent to which they have networked their offices like the LIC.

14. A majority of the respondents believe that there is an association between the exploitation levels of the huge untapped insurance market and the challenges and opportunities the insurers are faced with.

CONCLUSION:

❖ A robust, profitable rural business model around new, tailored products and services for rural customers should be incorporated. Admittedly, it is a challenging task. The model should help the insurers figure out how to help their rural businesses reach the right level of scale so that their products can be sold economically and efficiently.

❖ Rural consumers too believe in saving for a rainy day but hassles like arranging documentation for opening SB accounts and tackling other day-to-day challenges distract them from taking precautions. Rural Indians are not averse to buying insurance products but need products which are easy to understand and do not warrant regular payments even as they allow them to withdraw their money for emergencies (with little or no penalty) and provide investment opportunities alongside guaranteed life protection. Hence it is suggested that a research be taken up to develop such a model.

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