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LIFE INSURANCE COMPANIES IN INDIA-AN OVERVIEW

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ABSTRACT

The entry of private sector insurance companies into the Indian insurance sector triggered off a series of changes in the industry. Even with the stiff competition in the market place, it is evident from the study that products offered by the LIC are creative, innovative and of the liking of the customers, moreover they are satisfied by the true knowledge provided by the company or agents and they are easily accessible, Flexible payment schemes with no hidden cost, there is no undue delay in claims settlement, customers are highly satisfied by the grievance Redressal mechanism, and in the near future if they will go for the policy they will stuck to LIC of India, which shows the great faith and positive perception of the customers towards LIC of India.

INTRODUCTION

The rural poor are engaged mostly in primary occupations which are related to nature and thus make their life exposed to a variety of risks. Even though they are affected with numerous risks, there are no proper risks coping mechanisms to reduce risks affected. Many of the risks which the poor are exposed to are not easily insurable with normal risk coping mechanisms. It thus becomes necessary to lead a subtle life completely insured against these risks. Micro insurance step in here to rescue. Hence new set of laws, policy and life micro insurance solutions help to permit the imbursement of insurance coverage against risks faced by the rural poor. Micro insurance is mostly provided as a credit plus service. There are various government and private insurance schemes in India but most of them do not reach the rural poor either because of too expensive premiums or because they are not easily accessible to the rural poor. Micro insurance is an attempt to provide insurance to poor people at a reasonable premium. Micro

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insurance can be in the form of life, health or property insurance which offers screen to the policyholder at a small premium imbursement. It is aimed at low-income population and designed to help them cover themselves collectively against risks.

Insurance offers revolutionary ways to fight poverty by scientifically administering economic risks to their livelihoods. In the past insurance was considered as an alternative for the poor. It was believed that insurance was not affordable to the poor and that poverty and insurance do not go hand in hand. Since the poor were exposed to multiple risks, they were considered uninsurable. The current developments shows that the poor can make diminutive contributions to insure themselves against risk and the risks to which they are mostly exposed are insurable. The rural and social sector obligations and the micro insurance regulations from Insurance Regulatory and Development Authority are important steps ensuring financial inclusion and social security of the poor.

WHAT IS INSURANCE?

Insurance is a tool by which fatalities of a small number are compensated out of funds (premium payment) collected from plenteous. Insurance is a safeguard against uncertain events that may occur in the future. It is an arrangement where the losses experienced by a few are extended over several who are exposed to similar risks. It is a protection against financial loss arising on the happening of an unexpected event. Insurance companies collect premium to provide security for the purpose. Loss is paid out of the premium collected from people and the insurance companies act as trustees to the amount so collected. These companies have proposal forms which are filled to give details of insurance required. Depending upon the answers in the proposal from insurance companies assess the risk and decide on the premium. Insurance companies are risk bearers. They underwrite the risk in return for an insurance premium. the function of insurance is to provide protection, prevent losses, capital formation etc. hence insurance can be defined as a tool in which a sum of money as a premium is paid by the insured in consideration of the insurer’s bearing the risk of paying a large sum .it may also be defined as a contract wherein one party (insurer) agrees to pay the other party (insured) or his beneficiary, a certain sum upon a given contingency against which insurance is required. Insurance industry commands massive funds through sales of insurance products to large number of clients. Insurers also create liabilities and commit themselves to compensate for losses occurring to the policyholders on future date. It also plays an important role in process of capital formation.

IMPORTANCE OF THE STUDY

This study has both theoretical and practical significance in insurance industry. The awareness and impact of life micro insurance based on the results of the study would highlight a strong theoretical support for the new researchers and the insurance sector could deliver more awareness and create high impact among the rural women policyholders. This study has brought out the association between demographic profiles with the preferences for taking micro insurance to help the life micro insurance providers to frame policies in such a way as to attract the rural customers. This study also tries to find out the factors facilitating intake of life micro insurance among rural women through various attributes which will definitely constitute a strong theoretical significance to policyholders and practical applications to the insurance industry.

Another important aspect of the study lies in identifying the constraints faced by women policyholders in life micro insurance currently offered by LIC, of Tamilnadu. These constraints will definitely help LIC to determine the same strategy for minimizing the constraints faced by policyholders. On the whole, this study would help the researcher to understand the association among the variables studied and would definitely assist the LIC on Jeevan Madhur life micro insurance to solve the problems in the context of awareness and impact of life micro insurance.

HISTORY OF LIFE INSURANCE IN INDIA

The insurance sector in India has come back to the square one from being an open competitive market to nationalization and back to a liberalized market once again. The business of life insurance started in India in the year 1818, with the establishment of the Oriental Life Insurance Company in Calcutta.

Milestones in the Life Insurance Business in India:

• 1912: The Indian Life Insurance 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 both about life and non-life insurance businesses. 11

• 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 Rs. 5 crore from the Government of India. • 1993: The Indian government constituted the “Malhotra Committee” to suggest reforms in the Insurance Industry.

• 1994: “Malhotra Committee” submitted its report.

• 1999: the Insurance Regulatory Development Act (IRDA) was passed in the Indian Parliament and the door was opened for private companies with foreign equity.

CONCEPT OF INSURANCE

Life has always been an uncertain thing. To be secure against unpleasant possibilities, always requires the utmost resourcefulness and foresight on the part of man. To pray or to pay for protection is the spirit of the humanity. Man has been accustomed to pray God for protection and security from time immemorial. In modern days Insurance Companies want him to pay for protection and security. The insurance man says "God helps those who help themselves"; probably he is correct. Too many people in this country are not in employment; and work for too many no longer guarantees income security. Several millions are part-time, self employed and low-earning workers living under pitiable circumstances where there is no security cover against risk. Further the inherent changing employment risks, the prospect of continual change in the work place with its attendant threats of unemployment

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and low pay especially after the adoption of New Economic Policy and the imminent lifecycle risks - a new source of insecurity which includes the changing demands of family life, separation, divorce and elderly dependents are tormenting the society. Risk has become central to one's life. It is within this background life insurance policy has been introduced by the insurance companies covering risks at various levels. Life insurance coverage is against disablement or in the event of death of the insured, economic support for the dependents. It is a measure of social security to livelihood for the insured or dependents. This is to make the right to life meaningful, worth living and right to livelihood a means for sustenance. Therefore, it goes without saying that an appropriate life insurance policy within the paying capacity and means of the insured to pay premium is one of the social security measures envisaged under the Indian Constitution. Hence, right to social security, protection of the family, economic empowerment to the poor and disadvantaged are integral part of the right to life and dignity of the person guaranteed in the constitution.

Man finds his security in income (money) which enables him to buy food, clothing, shelter and other necessities of life. A person has to earn income not only for himself but also for his dependents, viz., wife and children. He has to provide legally for his family needs, and so he has to keep aside something regularly for a rainy day and for his old age. This fundamental need for security for self and dependents proved to be the mother of invention of the institution of life insurance.

GROWTH OF LIFE INSURANCE IN INDIA

Before the private players entered into the market, LIC was the only dominant player in the public sector. LIC enjoyed over 98% of the market share in the early stage of liberalization and private players suffered losses in the first year of their operations. But LIC’s market share has drastically reduced and now it is nearly 78% and 22% of the market share has been gained by the private players. It could be seen that the Indian life insurance industry is an underdeveloped one, as 80% of the Indian population is still not under the insurance coverage. Therefore, there is ample scope for the growth of the life insurance sector in India. Previously, customers were insured with public insurance companies with no flexibility and transparency in the products. They have visualized the life insurance as a tax saving device only. As the private players entered, the change has taken place in terms of offering flexibility and transparency. Customers are looking for new and innovative products and are more interested to take insurance from private players due to its attractive features and services.

CONTRIBUTION OF THE INSURANCE SECTOR TO INDIAN ECONOMY

Some surveys have predicted that India and China will play a very vital role in the years to come. Indian economy can be termed as an emerging economy as it is doubling its GDP in 3 to 5 years and moreover it is not dependent on any particular sector for its GDP.

If we look at the GDP of the Indian economy very closely over the years, we can easily come to know the changing structure of the economy. We can also come to know the changing contribution of the various sectors like agriculture, manufacturing and the service sector. In the financial year 1993-94, agricultural sector contributed to 31%, manufacturing accounted to 26.3% and the service sector contributed to 42.7% of the total GDP of the country.

Thus over the years as India became an emerging economy in 2003-04 manufacturing sector contributed for 21.7 %, manufacturing contributed for 26.8whereas service sector contributed for 51.4% of the total GDP.

There has been 7.5% growth in the total GDP of the country and is estimated to grow at 8.0% in 2006-07. The Indian economy has shown signs of strong performance despite a rise in oil prices, high inflation rate and abnormal rains in many parts of the country. The overall growth of the Indian economy has been equally supported by all the three sectors of the economy, i.e. the agriculture, manufacturing and the service sector. Insurance, together with the banking sector, contributes to about 7.3 % of the total GDP of India, and the gross premium collected contributes to about 2% of the total GDP of the country.

The insurance sector in India has completed a full circle from being an open competitive market to nationalization and back to a liberalized market again. Tracing the developments in the Indian insurance sector reveals the 360 degree turn witnessed over a period of almost 200 years

DIFFERENT TYPES OF CONCEPT OF INSURANCE

- **Risk:** It is defined as an uncertainty of a financial loss. It is the unintentional decline in or disappearance of value arising from contingency..
- **Policy:** It is the document which embodies the insurance contract.
- **Whole Life Policy:** It is the policy under which the amount of policy will be paid only on death of the insured. Premiums may be payable throughout the life or for a limited period.
- **Endowment Policy:** Endowment policies entitle the insured to receive the amount of the policy on his reaching a certain age and premiums also stops. If death occurs earlier, amount of the policy will be paid at that time and payment of premium will also stop at that time.
- **Claim:** It is the amount which an insurer has to pay against a policy.
- **Reinsurance:** It refers to placing a part of the risk by an insurer with another insurer. The object is to reduce the possible loss to be borne by the original insurer, who pays premiums at the ordinary rates to the reinsurer. Reinsure must pay commission to the original insurer.
- **Premium:** A periodic payment made on an insurance policy.
- **Insurance penetration:** It is defined as insurance premium as a share of gross domestic product.
- **Insurance Density:** Insurance density is defined as per capita expenditure on insurance premium i.e. premium per capita.

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- **Actuary:** The actuary is a specialist who combines an understanding of risks and mathematical technique to develop financial products to manage these risks, price these products. He helps in designing insurance plans and then evaluates the financial risk of the company which it takes while selling an insurance policy.

INSURANCE SECTOR REFORMS

In 1993, Malhotra Committee, headed by former Finance Secretary and RBI Governor R.N.Malhotra was formed to evaluate the Indian Insurance industry and recommended its future direction. The Malhotra committee was set up with the objective of complementing the reforms initiated in the financial sector. The reforms were aimed at "creating a more efficient and competitive financial system suitable for the requirements of the economy keeping in mind the structural changes currently underway and recognizing that insurance is an important part of the overall financial system where it was necessary to address the need for similar reforms". In 1994, the committee submitted the report and some of the key recommendations included:

1. STRUCTURE

Government stake in the Insurance Companies to be brought down to 50%, Government should take over the holdings of GIC and its subsidiaries so that these subsidiaries can act as independent corporations. All the insurance companies should be given greater freedom to operate

2. COMPETETION

- Private Companies with minimum paid up capital of Rs.1 bin should be allowed to enter the industry.
- 3. No Company should deal in both Life and General Insurance through a single entry.
- 4. Foreign Companies may be allowed to enter the industry in collaboration with the domestic companies.
- 5. Postal Life Insurance should be allowed to operate in the rural market.
- 6. Only one State Level Life Insurance Company should be allowed to operate in each state.

3. REGULATORY BODY

- The Insurance Act should be changed
- An Insurance Regulatory Body should be set up.
- Controller of Insurance (Currently a part from the Finance Ministry) should be made independent

4. INVESMENTS

- Mandatory Investments of LIC Life Fund in government securities to be reduced from75% to 50%.
- GIC and its subsidiaries are not to hold more than 5% in any company (There current holdings to be brought down to this level over a period of time).

5. CUSTOMER SERVICE

- LIC should pay interest on delays on payments beyond 30 days.
- Insurance Companies must be encouraged to set up unit linked pension plans
- Computerization of operations and updating of technology to be carried out in the insurance industry.
- The committee emphasized that in order to improve the customer service and increase the coverage of insurance industry should opened up to competition. But at the same time, the committee felt the need to exercise caution as any failure on the part of new players could ruin the public confidence in the industry.

SUGGESTIONS AND RECOMMENDATIONS

- Insurance companies must introduce new ways and means that makes its customer highly delighted with its quality of services.
- The businessmen and government employees are less satisfied with the services of the insurance companies. Hence, it is suggested that special care to taken to satisfy the all type customers by the insurance companies.
- In the insurance sector where the personal selling through insurance advisors is the most effective way of selling the products and services, the insurance advisor is the most important link between the organization and the customer. Therefore the top-level and middle-level managers should take it upon themselves to train the advisors to practice relationship management and build relationship with their clients because a good marketer first forms relationships and then sells his goods.
- In the highly competitive insurance market to survive and have a competitive edge, insurance companies need to implement CRM not only technically but also as part of the culture.
- LIC may provide additional funds to its development officers and agents.
- All the hidden charges should clearly be stated in the form and explained by the agent and LIC should provide better training to its agents.
- Claim settlement process should be made fast and must not involve lengthy decision making process.
- Some special focus should be laid on individual risk coverage while designing the products.
- People becoming more aware and demanding so there is scope for a whole lot of innovative products. The reach of the product to its client and ensuring trust for insurance providers is completely missing. So the product should reach its customers by itself and this can be done only through a retail outlet in the village.
- The companies have the attitude of focusing on the rural poor only when they do not have sufficient market from the urban side. This has to change and certain percentage of business should necessarily be focused on the rural sector.

CONCLUSION

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This present study concludes that, the attitude of employees in insurance companies towards CRM practices. In the global era, Insurance companies are increasingly willing to spend more on the customer satisfaction and brand building exercises. Though it is one of the highly regulated industries, it still provides lot of scope for creativity and innovations. As this industry is predominantly dominated by personal selling and personalized services, many a time the service standards vary based on the intermediary involved in the process. In order to achieve the competitive edge over others, it is necessary to standardize the process and bring about quality improvement and get feedback from the customers regarding the quality of services rendered. This will result in customer satisfaction, customer retention, customer acquisition, and employee retention and cost reduction. Servicing focuses on enhancing the customer's experience and maximizing his convenience. This calls for effective Customer Relationship Management system, which eventually creates sustainable competitive advantage and enables to build long lasting relationship.

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