Insurance Need for Customer Delight

A Case study of LIC of India's performance.

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ABSTRACT

Life insurance was first time brought in India in 1818 at Calcutta by Europeans. The first attempt to regulate insurance business in India was with the enactment of legislation- The Indian Life Insurance Companies Act, 1912. Later on, by the year 1955, approsimately 170 insurance companies and 80 provident societies had been registered for conducting the business of life insurance in India. To regularize the insurance business and to protect the interests of poiicyholders, the Government of India nationalized the life insurance business by taking over 245 Indian and foreign insurance companies and provident societies. Thus, Life Insurance Corporation came into existence on Sept. 1, 1956. With the winds of change in overall global economy. Government of India set up an RN Malhotra Committeee to evaluate the Indian insurance industry and recommend its future direction. The committee submitted its report in 1994 giving insurance sector reforms a start. In 1999, the IRDA bill was passed and private companies started coming in this sector. But, the performance of LIC of India has been ever protected. The present paper gives an insight study of the performance of LIC of India.

1. LIFE INSURANCE IN INDIA

Life insurance in India was brought for the first time in 1818 at Calcutta. The Oriental Life Insurance Company was founded by Europeans to help the widows of their community. Afterwards, the failure of two British companies 'The European' and 'The Albert' in the year 1870 had adversely affected many people in India. Therefore, in 1870 the first Indian insurance company, Bombay Mutual Life Assurance Society came into existence. The basic aim of this company was to insure Indian lives at normal rates, since in the earlier period Indian lives were treated subnormal and was loaded an extra premium of 15 to 20 per cent.

The 'Swadeshi' movement of 1905 provided stimulus for the formation of several insurance companies. A further push in it was witnessed during the Second World War, when inflationary pressure tended to grow the volume of business underwritten in the country.

The first attempt to regulate insurance business in India was with the enactment of legislation-The Indian Life Insurance Companies Act 1912. In 1928, the Indian Insurance Companies Act enabled the government to collect statistical information about insurance business. Later the Insurance Act, of 1938 was passed and Department of Insurance under Authority of Superintendent of Insurance was established for the administration of the Act. Upto 1939, 199 companies were working in India.

2. FORMATION OF LIFE INSURANCE CORPORATION

By the year 1955, approximately 170 insurance companies and 80 provident societies had been registered for conducting the business of life insurance in

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India. A few of these were foreign companies having their head office outside India. At that time the concept of trusteeship which is the cornerstone of life insurance was perfectly lacking and most management had no appreciation of the clear and vital distinction that existed between trust money and those belonging to stock companies owned by shareholders. Therefore, the nationalization of life insurance business became necessary with a view to- Provide 100 per cent security to policyholders; Insure the use of life insurance fund for nation building activities; Avoid wasteful effort in competition; Save the dividend paid to the shareholders of insurance companies; and Avoiding of certain undesirable practices adopted by some insurance companies; Spread the gospel of life insurance into the neglected rural areas.

In 1956, the Government of India nationalized the life insurance business by taking over 245 Indian and foreign insurance and provident societies. Thus, Life Insurance Corporation of India came into existence on 1 Sept., 1956. Since then the life insurance business has been transacted by the LIC of India enjoying monopoly status, getting super profits.

3. INSURANCE SECTOR REFORMS

The first step towards reform has been initiated in 1993, when the then Central Government of India set up the Malhotra Committee headed by the Reserve Bank of India governor R.N. Malhotra. The committee was to evaluate the Indian insurance industry and recommend its future direction. The committee submitted its report in 1994. Some main recommendations of this committee include bringing down of Government stake; allowing private enterprise; allowing Foreign companies in combination with an Indian partner; changes to be made in the Insurance Act; establishment of independent insurance regulatory authority; and some other recommendations relating to structural changes, but the significant one was opening the industry for foreign players in collaboration with domestic companies.

It was some 5 years later; the insurance sector began its reform process, when IRDA (The Insurance Regulatory and Development Authority) bill in parliament in Dec., 1999 was passed. IRDA was formed in the year 2000. The Authority announced various regulations covering various activities of the insurance companies.

After opening the insurance industry, 13 new entrants have registered and started life insurance business in India.

4. PERFORMANCE OF LIC OF INDIA

LIC of India came into existence on 1 Sept., 1956 as an outcome of nationalization of life insurance industry, the monopoly grew in size and status. From 5.7 Mn. policies in 1957 to some 156.2 Mn. by the end of 2003-04. The LIC has grown significantly, but this more than 27 times increase is still not very satisfactory if it is taken into account that insurance of life in India is still 20 percent of its estimated potential.

'The global life insurance market stands at $ 1,521.2 billion while the non-life insurance market is placed at $ 922.4 billion…the USA itself accounts for about one third of $ 2,443.6 billion global insurance market and Japan stands next with a 20.62% share…India takes 23rd position with $ 9.933 billion annual premium collections and a meager 0.41% share…out of one billion people in India, only 35 million people are covered by insurance.'

The main indicators to evaluate the performance of insurance services are premium income and settlement of claims. Other indicators are new business, no. of policies and life fund.The compound growth rates of premium income show that LIC has been showing better performance after IRDA.

The efficient management of claims is a basic requirement for any insurer. This analysis shows the serious efforts of LIC of India towards claims settlement by providing quality of service in claims management after the sector opened up.

The table 2 shows that LIC of India is doing well after IRDA (2000-01 to 2003-04) in terms of new business as the compound growth rates are showing better performance especially in group insurance business.

5. LIC AND COMPETITORS

In 1956, the life insurance business in India was nationalized and with the formation of IRDA in 2000, it has been opened for private players, thus the insurance sector in India has come full circle from being an open competitive market to nationalization and back to a liberalized market again.The monopoly status of LIC is being threatened. The market share of private companies in

Insurance ventures could be wholly financed by an Indian promoter or can team up with an international company provided the foreign promoter's investment is limited to 26 percent.

Table 1
PRIVATE LIFE INSURANCE COMPANIES IN INDIA

S. No.	Reg. No.	Date of Reg.	Name of the Company	Indian Partner	Foreign insurer
1	101	23.10.2000	HDFC Standard Life Insurance Co. Ltd.	HDFC	Standard Life,U.K.
2	104	15.11.2000	Max New York Life Insurance Co. Ltd.	Max India Ltd.	New York Life, USA
3	105	24.11.2000	ICICI Prudential Life Insurance Co. Ltd.	ICICI	Prudential plc. U.K.
4	107	10.01.2001	Kotak Mahindra Old Mutual Life Insurance Ltd.	Kotak Mahindra	Old Mutual plc, S. Africa
5	109	31.01.2001	Birla Sun Life Insurance Co. Ltd.	Aditya Birla Group	Sunlife, Canada
6	110	12.02.2001	Tata AIG Life Insurance Co. Ltd.	Tata Group	AIG, USA
7	111	30.03.2001	SBI Life Insurance Co. Ltd.	SBI	Cardif S.A., France
8	114	02.08.2001	ING Vysya Life Insurance Co. Pvt. Ltd.	Vysya Bank	ING Insurance, Netherlands
9	116	03.08.2001	Bajaj Allianz Life Insurance Co. Ltd.	Bajaj Auto	Allianz AG, Germany
10	117	06.08.2001	Metlife India Insurance Co. Pvt. Ltd.	Jammu and Kashmir Bank	Metlife, USA
11	121	03.01.2002	AMP Sanmar Life Insurance Co. Ltd.	Sanmar Group	AMP, Australia
12	122	14.05.2002	Aviva Life Insurance Co. India Pvt. Ltd	Dabur	Aviva Plc.,U.K.
13	127	06.02.2004	Sahara India Insurance Co. Ltd.	Sahara	None

Source: - 1- www.knowledgedigest.com. 2- www.irda.com

The insurance sector in India has come full circle from being an open competitive market to nationalization and back to a liberalized market again.

terms of premium as well as number of policies; is continuously increasing. See the table 3.

The table reveals that the private companies are getting more and more share in terms of new business premium than the number of policies. Thus, private insurers seem to be scoring big in other ways-they are persuading people to take out bigger policies. For instance, the average size of a life insurance policy before privatization was around Rs.50,000. That has risen to about Rs.80,000, but the private insurers are ahead in this game and the average size of their policies is around Rs.1,10,000 to Rs. 1,20,000- way bigger than the industry average.

6. PERFORMANCE OF SOME LEADING PRIVATE COMPANIES

Bajaj Allianz has over 4,40,000 customers, presence in more than 500 locations with 60,000 insurance consultants. It has a growth rate of 78% for the year ended 31 March, 2005. Net earned premium grew by 61% to Rs. 3,709 Mn. Underwriting profit was Rs. 41 crore, which is highest among private insurance companies. During the year over 2 Mn. policies were issued. The ratio of insurance reserves to net earned premium increased from 109 % to 112 % during the financial year 2004-05.

ICICI Prudential has generated Rs. 1,584 crore of new business premium for a total sum assured of Rs. 13,780 crore and wrote nearly 6,15,000 policies in the financial year 2004-05. The company has a network of about 56,000 advisers as well as 7 bancassurance and 150 corporate agent tie-ups. For the past four years ICICI Prudential has retained its position as the no.1 private life insurer in the country.

SBI Life's total premium till Aug, 2004, towards individual single and non single policies stood at Rs. 1,185 crore and Rs. 4,389 crore respectively

TABLE 2 : PERFORMANCE OF LIFE INSURANCE OF INDIA

Year	Premium Income	Claims Paid (In Rs. Crores)	Total New Business (In Rs. Crores)	No. of Policies in force (In lakh) Including Individual Pension plan	Life Fund (In Rs. Crores)
1993-94	9533.40	3354.09	80741.78	608.73	49665.82
1994-95	11267.65	4076.07	106120.67	655.29	59978.90
1995-96	13149.57	4532.22	114769.52	709.60	72780.06
1996-97	15823.29	5691.49	119685.82	777.50	87759.96
1997-98	18549.32	6677.04	138976.05	850.03	105832.89
1998-99	21781.95	7583.18	145164.40	917.26	127389.06
1990-00	26162.95	9211.30	157833.69	1013.89	154043.73
2000-01	31514.42	11637.98	202891.80	1131.11	186024.75
2001-02	40709.88	14519.25	292018.42	1258.76	227008.98
2002-03	49256.40	17035.81	344385.61	1411.63	281664.33
2003-04	57900.83	19607.20	560927.68	1562.44	337986.12
Before IRDA (1993-2000)	18.3	–	11.9%	8.9%	20.7%
After IRDA (2000-2004)	22.6%	–	40.4%	11.4%	22.0%

Source: LIC of India.

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TABLE 3 : MARKET SHARE OF INSURANCE COMPANIES IN INDIA					
New Business (Premium)					
Company	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06 Up to May,05*
Pvt. Companies	*2.5%*	*5.66%*	*13.95%*	*21.93%*	*24.29%*
LIC	*97.5%*	*94.34%*	*86.05%*	*78.07%*	*75.71%*
New Business (No. of Policies)					
Company	*2001-02*	*2002-03*	*2003-04*	*2004-05*	*2005-06 Up to May,05*
Pvt. Companies	*1.5%*	*3.00%*	*5.00%*	*8.5%*	*9.00%*
LIC	*98.5%*	*97.00%*	*95.00%*	*91.5%*	*91.00%*

Source: Compiled from LIC of India sources

accounting for 2.73 lakh and 73.85 lakh policies. Its paid up capital is Rs. 125 crore. SBI Life is a predominant player in bancassurance. The company aims at acquiring 75 % of the total business through bancassurance and the balance through other channels by 2007.

Tata AIG's total premium is up by 101 % to Rs. 496.4 crore in the financial year 2004-05. Its capital base is Rs.381 crore. HDFC Standard has a 149 % growth in quarter-1 of 2005-06 over quarter-1 of 2004-05 to get total premium of Rs.187.45 crore over 73.35 crore.

The market share of private insurers in terms of new premium income for Apr-Nov. 2006 is presented in the following table. View the data.

The table shows that the performance of ICICI Prudential Life Insurance Co. Ltd. and Bajaj Allianz Life Insurance Co. Ltd. is good among private life insurers.

Thus, some private companies are doing well. Their approach is more consumers friendly. It is a serious threat for LIC. LIC was the monopoly player during deregulation era. The domestic insurance company, despite meeting their social objectives of going into the deepest interiors of the country, has lagged behind in meeting customer expectations in products and services.

In between, AMP Sanmar has decided to exit from Indian life insurance industry in its fourth year of operation.

Therefore, there is an adverse impact of competition on LIC of India and a need for customer delight services exists by LIC to have pace with competitors. LIC can take back its lost business only through consumer satisfactory measures as there is consumer sovereignty in open economy.

7. STRENGTH OF LIC

The LIC is still a big player in India. It has a trump card. Its products come with government guarantee under LIC of India Act, 1956. It has a stronghold in rural areas and enjoys strong brand equity. It has a wide range of products. It has 7 regional offices, 100 zonal offices and 2048 fully computerized branch offices. It offers payment of premium in any of its 2001 branches. It has a broad human resource base having 115 thousand employees and 10 lac agents.

First and foremost, the people of India by and large still have a great faith in the government stamp; this is LIC's greatest strength.

LIC is the winner of Business World Award, Outlook Money Award, Golden Peacock Award and Selected Superbrands India award in 2004; and

The domestic insurance company, despite meeting their social objectives of going into the deepest interiors of the country, has lagged behind in meeting customer expectations in products and services.

TABLE 4 : TABLE SHOWING MARKET SHARE	
Name of the Company	**Market Share (Apr-Nov, 2006) In Terms of New Business Premium**
Life Insurance Corporation of India	73.91 %
ICICI Prudential Life Insurance Co. Ltd.	7.11 %
Bajaj Allianz Life Insurance Co. Ltd.	6.12 %
HDFC Standard Life Insurance Co. Ltd.	2.96 %
Birla Sun Life Insurance Co. Ltd.	1.84 %
Tata AIG Life Insurance Co. Ltd.	1.78 %
SBI Life Insurance Co. Ltd.	1.52 %
Max New York Life Insurance Co. Ltd.	1.32 %
Aviva Life Insurance Co. India Pvt. Ltd.	1.12 %
Kotak Mahindra Old Mutual Life Insurance Ltd.	2.32 %
ING Vysya Life Insurance Co. Pvt. Ltd.	
Metlife India Insurance Co. Pvt. Ltd.	
AMP Sanmar Life Insurance Co. Ltd.	
Sahara India Insurance Co. Ltd.	

Source: Times of India, New Delhi, 13 Jan., 06, Page 18.

Awaaz Consumer Award, Golden Peacock Award in 2005. It is rated by Dun and Bradstreet as the Numero Uno insurer world wide in claim settlement, no.1 in total net worth/net profit, and no. 2 in total premium income in 2004.

LIC has bancassurance ties with 8 banks including Corporation Bank, Oriental Bank of Commerce and Indian Overseas Bank, apart from tie-ups with 30 brokers and 130 corporate agents. It has appointed Kotak Securities and CLSA as its merchant bankers.

LIC has opened its subsidiaries in Bahrain, Nepal and Sri Lanka to tap these foreign markets. LIC (International) E.C. Bahrain caters to insurance needs of NRIs in Bahrain, Dubai, Oman, Kuwait and Qatar. LIC is trying to establish a new joint venture company in Saudi Arab.

LIC has also opened its offices in foreign countries like U.K., Mauritus and Fiji and issues policies in local currencies to Local NRI.

8. CONCLUSION

The study is based on primary as well as secondary information. The study is analytical and investigative and aims at exploring the factors of customer's satisfaction. The secondary data are used to compare the performance of LIC of India before and after IRDA period. Purposive sampling technique is used to select a sample of 60 respondents from Gonda city for the purpose of study. In this sample various groups of policyholders are selected such as employees, farmers, businessmen, labourers and others.

The primary data are collected through a self developed structured questionnaire from the customers of LIC of India. The information is sought from the respondents in face to face meeting after building relationship with them. The reliability and validity of the data is checked using Split Half Method. The results of empirical study are abridged in the following table.

The table reveals that the percentage of satisfied customers was approximately equal to dissatisfied customers. This might be a strong reason for decreasing market share of LIC. Major reasons of dissatisfaction were poor services by agents, less working hours of branch, less knowledge about policy taken, lack of basic amenities at branch and unreliability of agent's projection. Further, dissatisfaction exists about all the factors which were taken into account while studying customers' satisfaction.

The study reveals that top priority should be given to customer services, because LIC is a service providing company, offering invisible and intangible products. Life insurance products are different from FMCG (Fast Moving Consumer Goods) products. It is difficult to sell a product where the benefit does not accrue to the purchaser (but to the family of the purchaser) or the benefit will be available to purchaser after a long time.

Full information should be provided while selling the life insurance product. Staff should be courteous. A proper training for this should be provided to retain the customers. i.e., there is a need to develop corporate culture.

TABLE 5 : LEVELS OF SATISFACTION OF SAMPLE POLICYHOLDERS

S . No.	Factors of Satisfaction	No. of Respondents					% of Total				
		A	B	C	D	E	A	B	C	D	E
1.	Full knowledge about policy	8	12	6	13	21	13.33	20.00	10.00	21.67	35.00
2.	Location of LIC Branch	6	16	17	4	17	10.00	26.67	28.33	6.67	28.33
3.	Courtesy of LIC staff	9	23	5	14	9	15.00	38.33	8.33	23.33	15.00
4.	Agents service	4	15	-	27	14	6.67	25.00	-	45.00	23.33
5.	Quick service	5	30	10	15	-	8.33	50.00	16.67	25.00	-
6.	Basic amenities at branch	5	26	5	21	3	8.33	43.33	8.33	35.00	5.00
7.	Loan facility	-	20	31	8	1	-	33.33	51.67	13.33	1.67
8.	Institutional guidance	16	13	12	17	2	26.67	21.67	20.00	28.33	3.33
9.	Working hours of branch	4	11	13	26	6	6.67	18.33	21.67	43.33	10.00
10.	Service on lapsed policies	10	5	34	9	2	16.67	8.33	56.67	15.00	3.33
11.	Reliability of agent's projections	12	6	17	16	9	20.00	10.00	28.33	26.67	15.00
12.	Settlement of claims	9	7	37	5	2	15.00	11.67	61.67	8.33	3.33
Average satisfaction of respondents		7.33	15.33	15.58	14.58	7.17	*A = Too Much Satisfied*				
% of Respondents		12.22	25.55	25.97	24.3	11.95	*B = Satisfied*				
% of Respondents (3 point scale)		37.77		25.97	36.25		*C = Indifferent*				
							D = Dissatisfied				
							E = Too Much Dissatisfied				

Source: Compiled from Questionnaire data.

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Therefore, trust and consumer's satisfaction are extremely important factors while selling a life insurance product.

Full information should be provided while selling the life insurance product. Staff should be courteous. A proper training for this should be provided to retain the customers, *i.e.* there is a need to develop corporate culture.

LIC should train its agents in proper manner, because these are backbone of LIC. They should realize that they are selling the insurance product in a highly competitive atmosphere. They should offer the right product according to the need of the customer, rather than keeping in mind their commission. They should provide full information about policy and full service to the customers. The LIC should pay the renewal commission to any agent after being satisfied that he/she is providing full services to the customers, *i.e.* there is a need to develop a service evaluation mechanism.

LIC should make a change in its working culture to meet the requirements of competition. The working hours should be increased, institutional guidance should be provided, basic amenities should be enhanced, and procedures should be simplified. LIC should strengthen its information base also.

Though, efforts have already been started, LIC needs to spread its reach through various strategic means. As agents network was not found to be good enough to retain its market, LIC must now stress on alternative distribution channels, like bancassurance, corporate agency tie-ups, selling of products on internet etc. to increase its penetration. LIC should try to penetrate in rural markets of India with greater enthusiasm.

LIC has substantial experience of life insurance business in India; it should try to expand its reach in other parts of the world, like Middle East, Africa and South Asia.

The IRDA should make strict regulations and should have vigil monitoring to safeguard the interests of policyholders in case of exiting any company from the industry.

The insurance industry is facing a healthy competition, which really benefits the people. Some private companies are doing well. There is an adverse effect of competition on LIC of India. Therefore, LIC should improve its working, improve its product varieties and should pay attention on consumers delight services to compete with the private players to survive in the market.

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