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INSURANCE INSTITUTE OF INDIA
॥ ज्ञानयोगात सिद्धिः ॥

# The Journal
## of Insurance Institute of India

July – December 2010

# Life Insurance
## issues in the millennial decade

भारतीय बीमा संस्थान
Insurance Institute of India
Plot no. C-46, G-block, Bandra Kurla Complex, Mumbai – 400051.

भारतीय बीमा संस्थान का

# दि जर्नल

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# Editorial

*On 8th June 2010 the Insurance Institute of India moved to its own new premises in Bandra - Kurla Complex. It marked more than a mere shift of place. In the last few months we have been engaging in some serious soul searching. What role should the institute play in the emerging milieu of the insurance market in India? Should it be a mere examining body that makes industry constituents aware and proficient about ongoing insurance concepts and practices? Or should it play a torchbearer's role, disseminating knowledge and lessons of best and worst practices drawn from experience worldwide? Should it be a mere onlooker or could it take a proactive approach and develop new knowledge and research-based solutions to the serious issues and problems confronting the industry today?*

*The Finance Minister in his speech inaugurating the institute's new premises clearly set the mandate. He spelt out a "need for continuous academic research for giving a scientific backing to the practice of insurance. He added that "the institute should have a regular knowledge cum research wing for studying the common issues of the industry."*

*The mandate calls upon us to don a new mantle – to ask bold questions, challenge existing paradigms, seek out and suggest new directions while not forgetting the fundamentals. This realization has led to new initiatives during the last few months. Apart from re working on the existing courses like Licentiate and Associate, it is proposed to address the industry's needs in Insurance Marketing. Another initiative is the setting up of a Knowledge Management Centre at the Institute for developing research and new knowledge outputs.*

*The current issue of the Journal reflects the spirit of renewal that pervades the Institute today. Starting with this issue, we propose to make 'The Journal' more research based. Each issue of The Journal would thus be around a theme. We also propose to have regular features like "Country Reports" on different markets, studies of best practice and reflections on various aspects of management.*

*This issue comes out at a time when the blossoms of the first decade of the millenium have yielded a mixed fare and the early buds of the second decade promise a richer harvest to the insurance industry.*

*The theme for this issue is "Life Insurance – issues in the millennial decade." We hope you find it useful and interesting. We also take the opportunity to invite your comments and suggestions for improvement. The theme of the next issue is 'New Vistas in Health Insurance.'*

# The Evolution of Life Insurance Industry in the last decade (2000 – 2010)

*G. Prabhakara*

*This paper traces the evolution of life insurance in India during last decade with special reference to the role of the IRDA in regulating and guiding the industry.*

## INSURANCE INDUSTRY - PRE REFORMS ERA

Social security is one of embedded values of Indian social life which is referred even in theVedas. Joint family system is the best example of a social institution of mutual help which was part of traditional life. The role of local institutions like village level community boards *(Grama Sabhas)*, churches and charitable societies was paramount when uplifting the orphaned families in the event of untoward eventualities.

Indian Life Insurance industry during the pre opening decades prior to 1999-2000 catered to the insurance needs of a wide section of the population, leaving a sizeable number of insurable population untouched. When the reforms were swaying the Indian Financial sector during 90s, in order to increase the insurance coverage for more number of population, with a better product choice, enabling the customers to take an informed decision, the Government of India opened the Insurance Industry in the year 1999 by enacting IRDA Act, 1999 on the recommendations of committee on insurance reforms.

## PROGRESSIVE GROWTH IN POST REFORM ERA

The life insurance industry started with a modest beginning in the year 1957 with Rs 82 Crores of funds. The business performance of life industry for the period ending 31.12.1957 was Rs 13 Crores First Year Premium on 9.5 lakh policies. The number of direct agents was 12387 in the year 1958 who contributed just 7% to the total business. As against this, the life fund of the industry scaled to Rs 154043 Crores in the year 2000 and the industry has underwritten Rs 26250 Crores of premium for the year ending 31.03.2000 on 1.69 Crore number of policies. As against this back drop, the life insurance industry after first 10 years of its operation has done a business of Rs 109894 Crores of First Year Premium on 5.32 Crores of new policies with 2978283 individual agents by 31st March, 2010. The industry also contributed significantly in Group Insurance. As at the end of March, 2010, 8.07 Crores of lives were covered under 28,659 schemes by collecting Rs 27550.48 Crores of premium. By the end of 10 years of opening up of the industry the private insurers succeeded in garnering a market share of 29.90% of the total premium.

Insurance penetration which is computed as a percentage of premiums to Gross Domestic Product (GDP) and insurance density which is computed as a percentage of premiums to total population are yet to scale high when compared to Asian Average and Global Average. Insurance penetration which was 1.93% in the year 1999 (before opening up of the insurance sector to private participation) has gradually risen to 5.20% in 2009. Similarly Insurance density which was 8.5 in the year 1999 has raised to 54.3 in the year 2009 an indication of higher insurance awareness levels.

Life Insurance being the business of large numbers gathers higher volumes of premiums, which in turn help in economic building activities of the economy. The growth of total funds under management of the industry is quite phenomenal since the opening up of the industry. From Rs 2,60,552 Crores in the year 2002-03 the total funds under management scaled to Rs 12,05,155 Crores. The total life insurance premium garnered by Life Insurance industry in the year 1999-00 was ` 26250 Crores as against this the industry garnered ` 2, 61,172 Crores in the year 2009-10. The capital deployed by Life Insurance Industry which was 5 Crores in the year 2000 stood at 28,943 Crores in 2010. The progress achieved by industry in the first decade of privatization is excellent and also indicates the extent of confidence of insuring public that it won.

## LEGISLATIVE BACKGROUND:

Though the first legislation on insurance enacted in the year 1912, a comprehensive legislation was enacted in the year 1938. This legislation withstood the changing strides of time and proved to be a time tested insurance legislation. This Act continues to be in existence even today, meeting the requirements of a competitive business environment. After nationalisation of life insurance industry Government enacted LIC Act, 1956 and after nationalisation of non life industry in 1972 General Insurance Business (Nationalisation) Act, 1972 was enacted. With the changes in the regulatory regimes and business dynamics of insurance industry, there was a felt need to revisit the legislations consequent to the enactment of IRDA Act in 1999. With the objective of removing inconsistencies and enacting a possible comprehensive insurance legislation, Insurance (Amendment) Bill, 2008 is under consideration before parliament.

## IRDA – A UNIQUE ROLE MODEL

Indian Insurance regulator is unique in its model as legislation has entrusted the responsibility of developing the nascent insurance market. While regulating the insurance market is inevitable post privatisation, the regulator is expected not to lose sight of the requirement for expanding the base of insurance business with conferment of these responsibilities. It was envisaged that opening up of the insurance sector would enable all sections of the society an opportunity to access the services offered by insurance companies. It is the obligation of the regulator to oversee and facilitate the penetration of insurance amongst the hinterlands of the land, one of the prime objectives of privatisation of the insurance industry. Insurance Act, 1938 empowers IRDA to put in place regulations for carrying out the purposes of Insurance Act, 1938 and IRDA Act, 1999. Promoting the market efficiency of the industry is one of the prime objectives of any regulatory body. As regards insurance industry market efficiency is to be monitored through both off site and on site examinations of the Governance Practices and Market Conduct aspects of insurance companies. Since the entry of new players, IRDA has been successfully striking the right balance in regulating and developing the insurance market keeping the interests of policyholders as its prime objective while prescribing any regulatory norms. While regulations require insurance companies to adhere to the prescriptions laid down in the course of their business, reasonable relaxations are also provided in the areas where the industry expects to explore the available business potentialities of insurance markets. Of the notable relaxations; lower academic qualification requirements to the Insurance Agents of the rural areas, facilitative norms for appointing micro insurance agents are the few prominent norms one can cite.

As against the previous practice of incorporating the Government owned insurance companies through statutes, the era of licensing of new companies by a regulatory body was dawn in the year 1999-2000. Keeping in mind the requirements of the capital for insurance business and the gestation period that the insurance business takes to break even, stringent capital and solvency norms were laid down in the legislation so that only serious players would enter the market. In a developing market it is essential to prioritise the stability and solvency of the insurance companies as any failure to meet the claims requirements of the policyholders will have an impact on the growth of overall financial sector. Apart from the stringent capital norms and solvency norms IRDA also carries out due diligence to examine fit and propriety of the companies before granting the license, a pre requisite before commencing insurance operations.

## SELF REGULATORY ORGANISATIONS

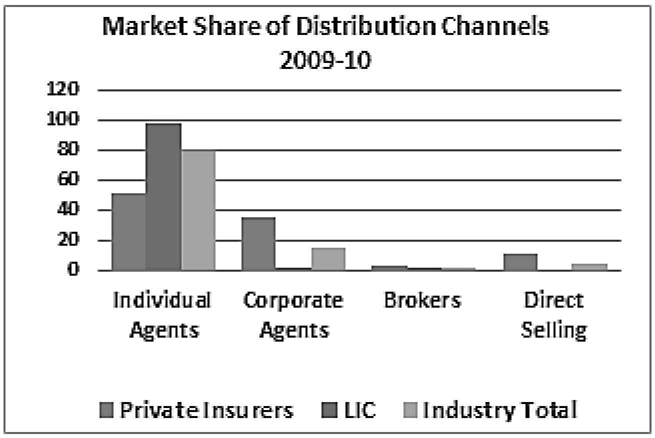
Though the provisions of Insurance Act 1938 established a Life Insurance Council and General Insurance Council as a self regulatory measure, the need for these organisations was never felt during the nationalisation period of the insurance industry. As these councils enhance the market efficiency of the insurance companies by monitoring the industry adopting the best business practices in the conduct of their business, immediately after the privatisation of the industry IRDA revived these councils. Since the formation, these SROs played a prominent role in adopting the best practices. In the year 2004 the Life Insurance Council recommended the base norms for presenting the Sales Illustrations to the prospects, which are still in vogue in the market. Further the Council publishes very useful statistics regarding insurance sector performance on regular basis.

## EXPANDING THE REACH

It is envisaged that development of insurance market is entwined with the development of distribution channels. With over 1.10 billion of population geographically spread over length and breadth of the country an acceptable delivery channel is essential for further penetration of insurance. In order to facilitate the penetration of insurance IRDA introduced corporate agency and brokers as new class of intermediaries which lead to the evolution of '*bancassurance'* channel in India. In addition to this, a separate class of Micro Insurance Agents is created through Micro Insurance Regulations, to distribute the Micro

Insurance products to the down trodden sections of the society. As at March, 2010 the life industry appointed 8676 Micro Insurance Agents to distribute the micro insurance products.

Despite the development of other alternate channels in distribution of insurance products, individual insurance agents are still dominating the market with higher slice of share. For the year ending March 2010 the share of individual agent in the individual new business performance of life insurers was 79.61%. The following chart indicates the role of various distribution channels in spreading the life insurance.




In order to infuse the professional approach to the process of distribution of insurance products the training norms are introduced to the entire gamut of various distribution channels of Indian insurance industry. Though, training norms were in vogue even in the pre nationalisation period internally within the offices of LIC, a pre defined training programme by the professional training centers is expected to enhance the skills of these sales personnel. In addition to pre licensing training, norms are mandated to infuse the periodical training to these sales personnel at the time of renewal of their respective licenses or on expiry of a pre defined period. Further, all the personnel who are involved in the process of sale of insurance products are subjected to a code of conduct which also attempts to enhance the professional approach of these distribution channels. The life industry is also spearheading to geographically reach the entire length and breadth of the country. As at March, 2010 there are 12018 life insurance offices opened, of which 8669 offices are located in Semi-Urban and other localities.

## SERVICING THE POLICIES

From a stage where policy services were being rendered in specified timings at specified locations of insurers' offices, the industry has moved to the stage of rendering 24x7 policy services. During the last decade the industry introduced various proactive policy services like ca ll centre facilities, Interactive Voice Response Services, Toll Free Numbers and on line services. The increased use of Information Technology in developing and offering customised policy services not only helped in enhancing the spread of insurance business but also reinforced the faith of policyholders in the system of insurance itself. On the other hand the procedure of making available the grievances redressal mechanisms is introduced at various levels. While the regulatory requirements warranted all the life insurers to put in place in-house grievances redressal mechanisms, the central government also established the system of Ombudsman, a quasi judicial process, the award of which is binding on the insurer. At present the number of Ombudsman are 12, spread across the country. In order to improve the out of court settlement of grievances, there is a need for increasing the number of Ombudsmen. In addition to Ombudsman IRDA also put in place the

Grievances Redressal Cell to receive the complaints. The Grievances Redressal Cell of IRDA facilitates the resolution of policyholders' complaints.

## SPREADING INSURANCE THROUGH RURAL, SOCIAL SECTOR AND MICRO INSURANCE

Development of insurance market is complete only on it's reaching all the sections of society. In order to ensure that all insurance companies take forward their business operations to the rural lands and also with the aim of bridging the demand supply gap in rural areas and to ensure even spread of insurance business amongst all geographical sections of the country, mandatory norms were introduced to cover rural and social sector population in the year 2002. Rural areas and occupations that come under social sector were pre defined and insurance companies are required to fulfil these norms. This is as part of its developmental role. IRDA notified these Rural and Social Sector obligations mandating business norms for all insurance companies to fulfil in these sectors.

To further the concept of facilitating the spread of insurance as also in order to let the insurance companies tap the business that is prevailing at the bottom of pyramid as also to drive inclusive insurance to the hitherto neglected sections of insurable population IRDA floated the concept of Micro Insurance by bringing out separate regulations. India is the first country to come out with a sub-ordinate legislation on Micro Insurance and Indian experience and approach has been deliberated in various international forums. Integrating the life and non life insurance products, introduction of stand alone micro insurance delivery channel, covering the family as a unit are the prime features of micro insurance regulations notified by IRDA. Regulations empowered MI agents with additional functions and introduced a need based reward system with a higher percentage of remuneration than that was normally available to other agents. By leveraging on the strengths of local institutions like NGOs, Micro Finance Institutions and SHGs, who are permitted to take up Micro Insurance Agency, Micro Insurance regulations attempted to customise the insurance products to meet the domestic needs of localised population as also to create the necessary awareness amongst the insurable population to appreciate the need for insurance. Though MI regulations paved the way for furthering Micro Insurance as a business concept, they are equally subjected to prudent regulatory norms like applicability of File and Use norms for MI products, prescription of code of conduct and training norms to MI agents and a mandatory due diligence before appointing MI agent. For the first time in the insurance industry the regulations required the insurance companies to issue the policy documents in vernacular languages. Though industry garnered Rs 401.63 Crores of premium during 2009-10, under Micro Insurance there is an abundant business potentiality that is available to tap.

## PRODUCT INNOVATION DURING THE LAST DECADE

One of the prominent results of privatisation of insurance industry is the innovation of products to cater to the needs of various sections of the population. Unveiling the Unit Linked Life Insurance products is the biggest innovation in the life insurance industry during the last decade. Based on the buoyancy of capital markets these products have not only driven the growth of life insurance business but also ensured the participation of retail policyholders in the capital markets. The percentage of ULIP funds on the total funds under management of life insurers which were 0.10% in the year 2002-03 reached 27.52% in the year 2009-10. In absolute terms the ULIP funds which were Rs 266 Crores in the year 2002-03 reached to Rs 331619 Crores in the year 2009-10. It indicates the level of acceptance of these products by the insuring public. In addition to this the life industry also witnessed the launch of insurance cover for the first time specifically for cancer and another product catering to the needs of Diabetes patients. In respect of Annuity products also Indian Insurance Market witnessed entry of innovative products whereunder the annuity payable to the annuitant will be revisited periodically even after vesting. In respect of Group Insurance also, the industry introduced Unit Linked Group Gratuity/Superannuation products. Further life industry also introduced standalone health insurance products apart from health riders to base products.

## RECENT REGULATORY INITIATIVES

During recent past IRDA initiated various regulatory changes both to contain mis selling and also to enhance transparency at various stages of the sales process.

I. ULIP related changes:

1. Life insurers are mandated to provide a detailed account of the premium received, charges and money available for investment. This is to be given for each year of the contract period.
2. Every prospective policy holder has to sign the sales illustration at the time of submitting a proposal form, so that this becomes part of policy document.
3. The mandatory level of Life coverage is increased. Further all unit-linked products, other than pension and annuity products shall compulsorily provide life cover or health cover.
4. Lock-in period increased from 3 years to five years and ULIPs shall have Minimum Premium Paying Term of Five Years.
5. All regular premium / limited premium ULIPs shall have uniform / level paying premiums. Any additional payments shall be treated as single premium for the purpose of insurance cover.
6. Charges on ULIPs are mandated to be evenly distributed during the lock in period, to eliminate the high front-loading of expenses.
7. As regards pension products, all ULIP pension / annuity products shall offer a minimum guaranteed return of 4.5% per annum or as specified by IRDA from time to time. The objective of the same is to protect the lifetime savings of pension policyholders from any adverse fluctuations at the time of maturity.
8. With a view to smoothening the cap on charges, the charges have been rationalized to ensure that the difference in yield is capped from the 5th year onwards. This will not only reduce the overall charges on these products, but also smoothen the charges structure for the policyholder.
9. IRDA has also addressed the issue of discontinuance of charges for surrender of

ULIPs. The IRDA (Treatment of Discontinued Linked Insurance Policies) Regulations ensure that policyholders do not get overcharged when they wish to discontinue their policies for any emergency cash requirement. The Regulations stipulate that an insurer shall recover only the incurred acquisition costs in the event of discontinuance of policy and that these charges are not excessive. The discontinuance charges have been capped both as percentage of fund value and premium and also in absolute value. The Regulations also clearly define the Grace Period for different modes of premium payment. Upon discontinuance of a policy, a policyholder shall be entitled to exercise an option of either reviving the policy or completely withdrawing from the policy without any risk cover. Further, the regulations also enable IRDA to order refund of discontinuance charges in case they are found excessive on enquiry. These regulations are applicable to all new ULIP products approved by IRDA after these regulations are notified.

II. Distribution channel related changes:

1. IRDA (Insurance Advertisements and Disclosure) Regulations were amended to remove any scope for the involvement of unlicensed personnel / entities in the sale of insurance products.

2. IRDA (Licensing of Corporate Agents) regulations were amended to further tighten the Code of Conduct of corporate agents to ensure that the prospect does not deal with any unlicensed person. The Regulations also prohibited payment of any amounts other than the eligible commission to a Corporate Agent. This measure will reduce the expenses of the insurer, thereby lowering premiums to be paid by the policyholder.

3. The issue of referrals was addressed by bringing out separate Regulations leaving no scope for misuse of the system. Companies which wish to share their database of customers with insurers would need to get approval from IRDA after having conformed to the requirements as laid down in the Regulations.

## WAY FORWARD

Advanced technologies like networking of operating offices of insurance companies enabled the insurance companies to offer policy services in a time bound manner. With population growing at 1.5% p.a. it is expected that real per capita income quadruples by 2020. There are changes in the socio economic life style of Indian population. With fragmentation of joint family system more number of people are leading independent family units. The income levels of young generation are also expected to increase significantly. With the development of infrastructure projects there is a migration of labour forces from rural to urban lands finding better employment avenues thereby enhancing the purchasing capacity. 93% of Indian population are working in unorganised sector with an absolute number of 369 million*. While Indian demography statistics indicate a growth of 45% of working age population, there is a potentiality of generating 150 – 200 million jobs by 2020*. Keeping in view these dynamics it is expected that life insurance industry designs market segment-specific insurance solutions to enhance the acceptance levels of insurance products. With better prospects offered in technology sector, the ability of the insurance industry to retain the customer base lays in rendering the timely and effective policy service.

*Statistics from 11th Plan approach paper & Report of the committee on India Vision 2020 – planning commission.

***– G. Prabhakara,***

***Member, (Life) Insurance Regulatory and Development Authority of India.***

***The views expressed are personal.***

***"Physically you are a human being, but mentally you are incomplete. Given that we have this physical human form, we must safeguard our mental capacity for judgment. For that, we cannot take out insurance; the insurance company is within: self-discipline, self-awareness, and a clear realization of the disadvantages of anger and the positive effects of kindness."***

*- **Dalai Lama** (Head of the Dge-lugs-pa order of Tibetan Buddhists, 1989 Nobel*

# Going with the Tide – Risk Assessment in Life Insurance

*U. Jawaharlal*

*U. Jawaharlal asserts that there should be total objectivity in assessing a life risk in order to achieve not only* corporate *goals but also to be fair to the average policyholder.*

Historically, risk assessment by insurers has followed the basic tenet of selection and classification in order that equitability is accomplished. There have been several progressive changes that have crept into the system over a period of time. But either by default or by design, the basics have firmly remained intact; and that about sums up the success of the insurers. In several classes, where there has been a deviation from the values of this well-entrenched practice, the results are obvious. With increasing emphasis on the importance of the generation of operational profit, rather than undue dependence on investment income; there is no doubt that insurers are bound to latch on to these basic values more firmly. For one thing, emphasis on operational surpluses will ensure a genuine assessment and rating of the risk; and for another, prolonged dependence on investment income could prove dicey, especially in a globally volatile interest rate scenario.

## TWO-WAY PROCESS:

While accepting that insurers are looking for more modern and challenging forms of decision-making in order to accomplish higher scales of business, how pertinent are they in an industry where the awareness levels are still at a low ebb? The effectiveness of such techniques demands that both the parties are totally aware of the business ethics and rules. In nascent markets, the policyholder's acumen with regard to the basic concepts of insurance being what it is, it is one's guess as to what extent such modern techniques are successful.

## PROGRESSIVE IMPROVEMENT:

Underwriting, as a key function, has undergone several stages of improvement historically. For example, in life insurance, the acumen or the judgment of the underwriter used to be the deciding factor for arriving at a decision whether a proposal for life insurance should be accepted or not. Those were the days of judgment method of underwriting and it was entirely dependent on the experience and the gut feeling of the underwriter. It was quite successful in its own way as long as the complexities of the function and the challenges related to it were limited. As the challenges grew, it was found to be woefully inadequate and had to make way for a more scientific and analytical process; and it led to the emergence of the numerical rating method.

In the ancient method, when a combination of risk factors presented itself, the underwriter still used to depend on his underwriting acumen. This led to the problem of inconsistent decisions – inconsistency with regard to decisions taken at different times; or the inconsistency with regard to a similar decision taken by different underwriters. These decisions sometimes unduly favored the insurers or in some cases, the proponents for life insurance. These limitations were overcome by adopting the numerical method of underwriting whereby any amount of complications with regard to underwriting were assigned numerical values and the inconsistency associated with the decisions was set at naught. While an element of the underwriter's judgment in the end cannot be totally ruled out in any case, it was more like adding one's sagacity to a solution that has been obtained scientifically. This enabled the underwriters to be able to acquit themselves efficiently even in case of the most complicated of decisions. By assigning the values numerically, any combination of risk factors, whether positive or negative, was treated meticulously. In particular, one constraint that was overcome was the combination of opposing factors, which was earlier not possible.

## IMPORTANCE OF INFORMATION:

Being such a dynamic form of decision-making, it stood the test of time and has been the backbone of insurance business for ages. One constraint that it could not overcome, however, was the time factor. In case of a complex underwriting decision, the insurers had to depend on obtaining additional information pertaining to the risk, in some cases repeatedly; and this led to loss of time. It has always been the endeavor of the insurers to look for easier and less complicated forms of obtaining information from the proposers in order to overcome such delicate situations. One such dynamic form of underwriting is the process of tele-underwriting, which cuts across all barriers like place, time etc. But, for such an initiative to be effective, it goes without saying that the awareness levels about the concepts of insurance are at a very high level. In a regime where information is given loosely without attaching much importance to the implications, in spite of written declarations, one could imagine the extent to which telephonic decisions could go!

## ROLE OF INTERMEDIARY:

Apart from the levels of awareness in general, the distributor should be an expert himself in his role as a primary underwriter. He should be able to identify the needs of the proposer, convince him/her, and be able to explain the implications of the telephonic enquiries that would follow in order to take a decision. The entire process expects that the distributor play a role that would ensure success in the end. One problem that can surface is that the proposer could feign ignorance with regard to some aspects that could have negative implications of underwriting decision. One dynamic process that could come into play here is the introduction of the free look period. By studying the clauses of the insurance contract, the policyholder can decide whether to hold on to the contract or not. However, just because the free look period has been introduced, one cannot say a great hurdle has been crossed. Is it being really used by the policyholder on an ongoing basis? The continuance of the not-so-healthy retention ratios of the insurers has a different tale to tell. It should be once again the responsibility as also the prerogative of the distributor to convince the policyholder about the need to understand the contractual clauses; and then decide whether to continue with it or not.

## SIMPLICITY OF QUESTIONNAIRE:

Even before the efficacy of the process of underwriting, another very important factor that has a huge role to play in the success of insurance business is the quality of information provided by the proponent. Where eventually the decision of the underwriter is totally dependent on the assessment of the risk factors, it is essential that the information provided is absolutely true. The declaration at the end of the proposal form lays emphasis on this and it is expected that the proposer takes cognizance of its importance before signing it. It is however ironical that we have not made much progress in this regard and it is still not uncommon to observe that the policyholder puts the blame on the distributor for filling up all the information in the proposal form. In a few cases that eventually end up in legal battles, courts often support the policyholder in this regard for obvious reasons. There should be higher emphasis on the applicant understanding all the questions he is being asked – along with the purpose for which they are being asked – so that there is greater improvement in the assessment of the risk. The designing of the proposal form itself can be made much simpler so that the proposer appreciates the intentions. The underwriter, rather than considering the replies as a matter of routine, should peruse them analytically; and ensure that the prognosis of the risk is taken into account while arriving at a decision. In the long run, it should be ensured that the terms of the contract are well understood; and that the insurers and the insuring public see eye to eye with regard to the terms of the contracts so that the need for contests and legal redressal are reduced to the greatest extent.

## CHARGING THE RIGHT PRICE:

Having selected the risk, the next logical task is to classify it appropriately. If a business enterprise is to be successful, the pricing strategies must be objective. In the same way, for an insurer, ratemaking must be as objective as possible if the overall success of the insurance mechanism is to be accomplished. However, insurers face several hurdles in achieving this. In order to ward off anti or adverse selection, the price charged to a policyholder must be commensurate with the risk; and this necessitates that once again the reliability of information assumes great importance. The seriousness with which the replies are furnished in the proposal form once again assumes vital importance in this regard and the distributors have to play their role responsibly in ensuring that this is accomplished.

While it is an accepted fact that a little subsidization cannot be totally eliminated in the entire insurance mechanism, it should be the endeavour of the underwriter to ensure that it is reduced to the barest minimum. If it goes unchecked, it would lead to a situation where the insurers are left with only adverse risks that would eventually lead to their nemesis. There must be appropriate methods of compensating for negative factors so that the health of the group remains intact. Adding value to the process of selection, underwriters should use tools like charging an extra premium, changing the terms of offer etc in order that the risk is accepted at equitable terms.

Apart from properly fulfilling the process of selection and classification, there is need for insurers to ensure that the price they are charging from their clientele is realistic. It is a known fact that construction of mortality tables is a Herculean task; and as such, the exercise is taken up at reasonably long intervals. On the contrary, medical technology and disease intervention occur on a regular basis thereby rendering the mortality tables ‘near obsolete’ at any point of time. Unless there are proper systems in place to provide for compensating the policyholders for it, it would amount to charging an excess from the policyholders without their knowing it. In a competitive regime, however, although this would be taken care of by the market forces, there is need to ensure that the margin for such an eventuality is reduced to the minimum.

## CONCLUSION

In order to fulfill their role of achieving equitability from a given pool of risks, underwriters should use all their resources exhaustively so that in the end, the successful survival of the pool is ensured. It must however be ensured that there are no overtones of excess charges or undue adverse decisions being slapped on the applicants in the process of ensuring this. Although market forces demand that the insurers have to remain objective in risk assessment for their survival, any covert methods of treating the applicant adversely have to be avoided totally. The continued success of the life insurance industry is itself an indicator of the sound practices and it is hoped that such trends continue to grow as we march towards the road for attaining global standards.

***– U. Jawaharlal – Editor, IRDA Journal.***

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***The views expressed are personal.***

*"In every one of us there are two ruling and directing principles, whose guidance we follow wherever they may lead; the one being an innate desire of pleasure; the other, an acquired judgment which aspires after excellence."*

*- Socrates*

# Indian Life Insurance – The Millennial Decade

***Shashidharan Kutty***

*In this theme paper, Dr. Kutty engages in a comprehensive review of qualitative developments in the life insurance industry during the last decade, both in the global and Indian contexts.*

The first decade of the third millennium has ended. It's also been a decade since Indian life insurance was liberalised and opened to competition. How does the scorecard read? Reflecting back, we derive a mixed picture. During 1981 - 2009 the industry made remarkable strides in terms of expanding its reach and spread. Penetration [given by Premiums / GDP] has risen from 0.79% to 4.6 %, reflecting the rising economic significance of life insurance vis-à-vis income. Density [represented by Premiums per capita] rose from US$1.8 to US$ 47.7. Premiums have risen over six fold since 2000 to over US $57 billion, making India the world's ninth largest market. This was a result of extended reach - a four fold increase in branches during 2005 -09 and establishment of a massive agency force touching over 2.9 million by 2009. No doubt, such impressive growth reflects the progress of the industry, particularly in the post liberalisation period. But has the industry and the market grown in qualitative terms? What are the critical issues facing Indian life insurance at the end of the decade. Do we need a paradigm shift in the way business is conducted today?

## PURPOSE

The purpose of the present paper is to reflect on some of the above questions. We have sought to critically review the development of Indian life insurance in the context of its global environment. The paper has two sections.

The first places life insurance in the perspective of global changes and examines its principal shifts in recent decades, as also its current challenges in the global context.

Secondly we have examined certain developments in the Indian life insurance market from a Quality perspective. Three dimensions have been considered for the purpose:

- Productivity - of marketing channels, including agency business
- Quality of Business – in terms of Products and Service
- Profitability

An empirical analysis of performance of selected Indian life insurers has been conducted on the above aspects. While data on global market is drawn from various sources like Swiss Re's SIGMA, Indian Market data is drawn from IRDA's Annual reports as also insights of various industry constituents.

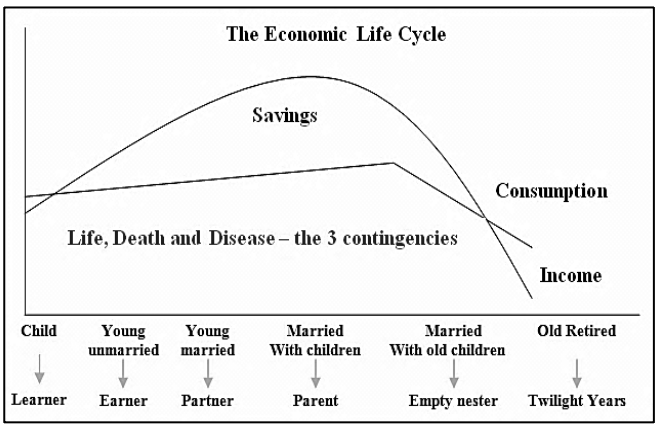
## SECTION I: LIFE, DEATH, DISEASE AND INSURANCE – IN PERSPECTIVE

### THE BACKGROUND

Let us begin with the economic rationale of life insurance – its raison de etré.

Economic life cycle models postulate an optimisation of lifetime utility of consumption, through inter - temporal allocation of resources [redistribution of income and wealth across one's life time]. Longevity, Mortality and Morbidity [life, death and disease] are three contingencies that could adversely impact life cycle planning and the resource allocation process. Collectively termed as Life Contingencies, they could result in cutting the flow of income or a leakage of capital. The process is illustrated below

### THE ECONOMIC LIFE CYCLE




Life Insurance developed as a commercial response to these uncertainties, its cutting edge being given by the application of the mutuality [pooling] principle for pricing and allocating mortality and investment risk among individuals. Its product archetypes, like Conventional Endowment and Whole Life plans, were ***bundled products*** that contained a standard mix of Protection and Savings elements. These were designed and positioned as ***unique*** instruments for providing both death protection and safety with returns. A key debate in actuarial and life insurance circles was on how to meet the "***Reasonable expectations of Customers.***" Proponents of this concept argued that there was expectation not only about the amount of returns [quantum of benefits] but also about it being sustained in future. The process they advocated for the purpose was that of generating and distributing a gradually increasing surplus via the ***Uniform Reversionary Bonus Mechanism***. Participation in profits coupled with tax concessions and linkage with death protection emerged as the principal value propositions for pitching life insurance products worldwide.

With respect to marketing, the approach was simple. Life Insurers focussed on hard selling, guided by the adage that "life insurance is sold, not brought". Marketing literature was concerned with why and how much one ***should buy*** rather than why one ***would buy.*** Marketing strategies largely revolved around building organisations of intermediaries [agents] to somehow sell what the insurer had.

One result of all this was that, thanks to the work of generations of actuaries, life insurers made significant strides in product design and pricing to meet objectives like solvency, capital adequacy and profitability. Relatively lesser emphasis was laid on the task of enhancing the desirability and efficiency of life contracts from a market and customer standpoint. The post world war decades of the fifties and sixties were the hey days of these products.

### THE SHIFTS

The last four decades meanwhile witnessed momentous environmental changes, which significantly impacted life insurance and other financial markets, especially in developed countries.

## AGING AND CHANGES IN THE MORBIDITY / MORTALITY PROFILE

Firstly there were significant **Demographic** shifts. The most critical of course was the phenomenon of population ***aging*** – the baby boomer generations of industrial markets expect to live much longer than their parents or grand parents. Another significant shift has been in ***patterns of morbidity***. Earlier decades were dominated by 'acute' diseases like typhoid and malaria; whose results were instant – one either died or got cured. The rapid advancement of medical science and technology has led most micro organism caused killer diseases to lose their sheen. The killers of today are degenerative and geriatric in nature – like cardio vascular ailments, cancer and kidney failure. Their causes and symptoms - like High Blood sugar or Cholesterol - do not kill immediately but remain, with waxing and waning symptoms, for life. Soaring costs of medical care have meanwhile made treatment of critical degenerative ailments a nightmare for most. The principal concern of middle income cohorts has thus shifted from premature death to the prospect of living long with possible impairment.

## LIFE CYCLE CHANGES

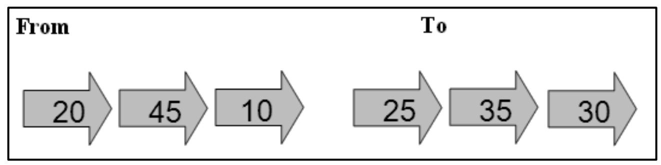
Demographic changes above also ushered significant life cycle changes that tilted the balance between pre working, working years and post retirement years. The erstwhile life cycle concept envisaged three stages involving:

- Preparation for work or career [education and training];
- A long period, of forty to forty five years, of uninterrupted and full time work;
- A short post retirement [of dis-savings] phase, of about ten to fifteen years till death.

The cycle began to be altered during last decades of the twentieth century, partly on account of increased life expectancy but also due to early job exits and falling participation rates among older employees in most developed countries.

Employers, who were beleaguered by industrial recession and the need to cut flab and become competitive, cut at both ends of the age spectrum.

The shift is illustrated below




The result was to lower the period of saving while increasing the period of dis-savings. The key issue now was to build sufficient provision for income replacement during the long twilight years of one's life.

## FAMILY CHANGES

The problems of aging were compounded by family changes. If emergence of life insurance corresponded with the universal shift towards nuclear family [father, mother and children], we are now witnessing the gradual disintegration of the nuclear family. A significant number of homes have become empty nests [children leaving home and aging parents behind]. Even worse, the increasing spate of divorces have left significant numbers of cohorts utterly alone, precisely in those years when one is infirm and needs companionship. Thus average size of the family in the United States fell from 3.14 in 1970 to about 2.63 in 1990. One-person households rose from about 18% to 24%

during this period. The percentage of households in United Kingdom, living alone or married without children or as single parent has risen from 24.2% in 1961 to 44.6% in 1992. [Source: Advertising Association: 1994].

The fall in household size has been witnessed in other industrial countries as well. It is also slowly creeping into emerging markets. This has significant implications. Family protection has been a key consideration in buying life insurance. Positioning around family security has run into rough weather with the erosion of the family concept. Meanwhile it has opened a new potential market – large numbers of baby boomers concerned about the prospect of facing late life tribulations alone and without the security net of loved ones.

## BREAKDOWN OF THE THREE PILLARS

The aging of populations and changes in the economic life cycle also had a deleterious impact on **the three pillars** structure of social security.

The first pillar consisting of state sponsored Social Security schemes, funded on a 'Pay As You Go' (PAYG) basis, was a kind of contract between generations, under which the pension tax rate was given by the product of:

1) Replacement ratio: average level of pension benefits to earnings of existing workers
2) Dependency ratio: number of pensioners to active workers.

Public pensions started getting unsustainable when both dependency and replacement ratios began to rise. This led to jacking up pension tax rates to ever-exorbitant levels. Three significant factors contributed to this rise - population ageing and early job exits; generous benefits granted to past and current retirees combined with a slowdown in the growth of real wages; and reduction in collections of social security contributions due to increasing numbers of individuals getting unemployed or retiring early. The World Bank estimated that by 2030, about 16% of the world's population would be over sixty. A majority of these would on average have spent 25 years or more in retirement. The problem is much more severe in the advanced market economies.

If demographic changes created financial strain in Social Security schemes of developed countries, emerging markets have faced an additional problem of burgeoning government fiscal deficits. Social Security systems typically cover a mere 10-20% of population in poorer countries and 50% in middle-income countries. There is little scope for taxation, given the large incidence of informal sector workers. In sum, sustaining the first pillar has become a serious problem for the state. Governments have tried to respond by seeking a retreat from these obligations towards other methods of financing old age security.

The Second Pillar, consisting of Occupational schemes that were typically based on the defined benefit pattern, has run into rough weather in recent years on account of various reasons. The most significant perhaps is the decline in the "Job for life" concept. Economic downturns and severe competition forced many employers to downsize, retrench and force early retirements of workers. This reduced the (service) period during which contributions could be accrued. For the individual employee a bounded pension provision imposed barriers on labour mobility. Again, with business conditions neither stable nor profitable, many employers who offered Defined benefit schemes are no longer sure about meeting the uncertainties posed by their open-ended liabilities. Pensioners themselves are aware about their exposure to the default risk of the company, especially in instances where employers take investment, inflation and other risks upon themselves. A third critical point militating against erstwhile defined benefit schemes was the payment of a benefit, not linked to investment performance of the fund. Meanwhile large returns could be earned by investment in equity markets, which was far in excess of the pension the employees would receive under their occupational scheme. Employees sought out the opportunity to decide themselves how their funds should be invested. Many prospective members opted out of erstwhile social security and occupational schemes, investing the transfer value in a personal pension.

One result of the cutback on both pillars was massive growth and expansion of the third pillar – personal pensions and other old age provision products, offered by Life Insurers, Banks and Mutual Funds.

## FINANCIAL MARKET CHANGES

The life insurance market was also impacted by changes in the financial marketplace.

The tone was set by ***Deregulation***. It opened the life insurance market to competition from within and also from other players like banks and mutual funds. It also freed life insurers from external intrusion on areas like product design and pricing while focus shifted to capital adequacy and internal controls.

The second major trend was that of ***Inflation***, coupled with rise of interest rates. It upset the stable regimes of the post war era under which traditional life insurers had thrived, forcing them to raise their yield. It also ushered a strong equity culture into western markets as both individuals and institutions looked towards equities as a solution to the perennial problem of erosion of values in real terms. This paved the way for growth of variable products, spearheaded by mutual funds. The impact on life insurers was severe. As the yield gap between their traditional offerings and capital market products widened, policyholders found it advantageous to take loans on their policies and invest the proceeds in money and capital market instruments.

Let us now look at two other trends that swamped the financial marketplace – ***disintermediation and securitisation***. The first is a process whereby issuers of primary securities bypassed erstwhile financial intermediaries and directly raised money from capital markets. Securitisation, as a related process, implied a shift from non - marketed assets (like mortgage loans) to marketable assets or securities. Related to this was a change in the way debt was financed – through selling securities in financial markets rather than mortgage borrowings from institutions like banks. Banks and other institutions also had a change in their roles - from being creditors to becoming underwriters or holders of such securities. Institutional investors in fact became the dominant purchasers of both debt and equity in capital markets. Life Insurers were caught on two fronts. In the retail market, they faced competition from other capital market securities. They could compete only if they kept their funds profitably and safely invested. At the same time, they had to come to terms with a difficult investment environment. Earlier advantages, which they had enjoyed as creditors – like their relative size and ability to garner resources and make huge loans; diversification and credit monitoring abilities – were less relevant, given that mortgage debt had ceased to be the paramount form of investment. As life insurers metamorphosed into capital market investors, they found themselves called upon to play more the role of an efficient portfolio manager than creditor. Tracking market trends and efficient portfolio selection, rather than credit monitoring, now emerged as the key factors for determining their competence.

Finally we have de-specialisation and **Financial Market Convergence.** The former was about the lifting of barriers between financial institutions, enabling them to enter each other's areas of Specialisation. It was essentially a deregulation measure. Convergence was the financial market's response to it. It implied integration of facilities and capabilities at the institution and product level so as to reduce transaction costs and create economies of scale and scope. At the institutional level, it was best personified by the concept of "**Financial Supermarket**" or "Single Window" for shopping of financial services. Both Banc-assurance and Unit Linked Insurance reflected convergence – the first involved sale of both banking and insurance products through a single retail outlet – the bank counter. Unit linked insurance, on the other hand, exemplifies the **Integrated Financial Package –** combining core attributes of different financial services [e.g. insurance and mutual funds] to create a new product package.

The significance of the convergence revolution lies in the dents it could make in the erstwhile positioning of life insurance as a unique protection cum savings vehicle. The issue could be better appreciated by making a distinction between life insurance as product and life insurance (cover) as attribute of a product. If life insurance cover, as an attribute, could be packaged with a credit card or a mutual fund sold through a bank, why should one necessarily buy a policy from a life insurance company?

## INDUSTRY RESPONSES

Life insurers responded to the challenges they faced in their environment by moving away from their traditional bundled product offerings.

The essence of this shift was given by two significant developments

1. Firstly the central focus of the industry moved from the premature death to travails of the living. This was particularly evident in the OECD markets which accounted for four fifths or more, of life insurance premiums.

2. Secondly there has been a polarisation and clear positioning of life insurance plans either as protection or investment products but not as an amorphous mix of both.

These developments were reflected in a spate of new product offerings, particularly during the last three decades.

The first set of products was related to the ***Re-discovery of the Protection Role in a larger life contingencies environment.*** With contingencies other than death [like longevity and morbidity] coming into sharper focus, new products emerged as solutions to the problems of the living. Thus:

- **Living [accelerated] Benefits**: first introduced in South Africa in 1983 and in the UK and US market in 1985 and 1987 respectively, this innovation was spurred by the need to meet catastrophically high costs in treating certain major diseases. They differ from other life insurance plans in the sense that they provide for pre-payment of a part of the death benefit if the insured is stricken with a catastrophic or terminal illness. Known under different names like Critical Care, they are available in India and elsewhere either in the form of a separate policy or as rider to an existing life insurance contract.

- **Long Term Care** : '*Every man desires to live long; but no man would be old'* [Jonathan Swift] : One of the terrors of growing old is the prospect of being unable to take care of oneself and hence having to depend on others for support in conducting one's daily activities of life. People growing old and infirm are not a new thing. However two significant changes have impinged on the situation. First is the markedly higher incidence of very aged people suffering from chronic ailments. The other is the breakdown in family support systems either because of geographical dispersion among family members [the empty nest] or fissures in family relationships [e.g. divorce]. Long Term Care emerged as the industry's response to this problem. It consists of services provided to people who need assistance to perform daily activities at home or in a nursing home or some other facility. These services are pre-funded through premiums paid during a policy term. These products have emerged among the leading protection products in OECD markets.

- **Disability Income Insurance**: seeks to protect the insured against the prospect of discontinuity of income on account of a loss event, typically disease or accident. In the past, this product has taken a relative backseat to life insurance even in the OECD countries. Nevertheless it has begun to come of age, though many problems, like the definition of disability and the issue of moral hazard continue to plague it.

- **Resurgence of Term Insurance**: Term Assurance has historically been the simplest and cheapest form of life insurance. Over time, the industry moved away from it towards complex products with a mix of protection and savings. The re-emergence and new found popularity of term assurance in recent decades reflects consumer disenchantment with cash value contracts and their willingness to look at life insurers only for pure protection. In the US market they had a cliché for it – 'buy Term and invest the difference elsewhere.' Another factor is the possible role of term insurance as an instrument for preserving one's capital against erosion from terminal care expenses.

The product has also seen change in recent decades. One result of price competition was to spur life insurers to develop more aggressive pricing models and revise premiums downwards. Companies emerged with differential pricing, where select and preferred lives could get insurance at much lowered preferential rates. This offered clear advantages for insurers having rich mortality / morbidity data and experience on which to base their pricing.

- **Annuities:** provide for an income benefit towards replacing income lost in the post - retirement phase. In recent decades, developed markets have been faced with two areas of serious concern – the sharp fall in savings rates, implying lower provision for the future, and growing uncertainty about the ability of traditional annuity products to meet problems of aging. All this has not only led to a marked rise in annuities but also a range of innovative approaches towards addressing the problems of old age living. Firstly, we have Variable Annuities, whose value is not fixed but depends on the investment performance of an underlying asset. These annuities often also provide for a minimum guaranteed annuity amount. Variable annuities have come to dominate American Life Insurance and are also popular in Japan and other Asian and European markets. Another product solution has been that of Reverse Mortgages, in which the property [like house ] of an aged cohort could be mortgaged with a bank or other institution in exchange for a lump sum or annuity payment. When the individual and his / her spouse dies, the property is sold off to recover principal and interest accumulated. The balance, if any, is paid to the heirs. These products have found ground both in developed and emerging markets like India. The third kind of solution, already discussed above, is Long term Care.

The second set of products heralded a move from traditional standardized products like Endowment towards ***Non Standard and Unbundled products, which offered a choice of structure and / or investment vehicle:*** Thus :

- **Universal Life** was a product which offered total flexibility of structure, within the wider framework of Whole Life. The buyer could alter the premium paying period or the benefits structure – in a word, one could play with the cash value and adjust the product to suit pone's needs. While Universal Life lent flexibility to the structure, **Universal Variable** offered another dimension of flexibility – one could choose the assets [investment vehicle] in which the proceeds of one's premiums were to be invested. The value of the cash value [and death benefit] varied with the investment, subject ofcourse to a minimum guaranteed amount. These products have emerged very popular in the US, dislodging traditional Whole Life Products.

- **Unit Linked policies** and **Single Premium Bonds** constitute the UK version - where the premiums are used to purchase units of an investment. The size of the benefits to the policy holder depends on the value of the underlying unit of investment. In all instances of variable products, including unit linked policies, investment risk passes to the customer.

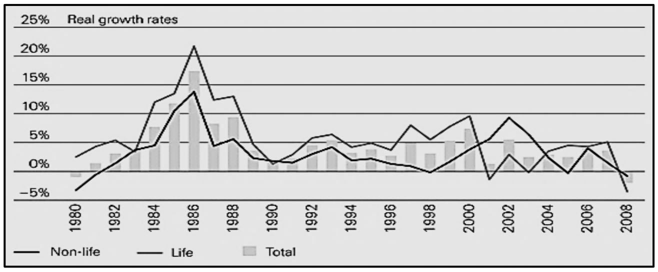
In sum we see a dynamic process of trying to match design and pricing of life insurance products with changing customer needs and preferences, to secure a marketing orientation. In one set of value propositions [the protection products] we find an attempt to apply the mutuality principle to address new kinds of life contingent problem situations. With respect to the savings role of life insurance, we see a retreat from Mutuality or the pooling principle and a move towards Unitizations and Individual treatment of risk.

How has this helped the industry? Let us look at how life insurance has fared during recent years and the challenges it has come to face, particularly during the last decade

## LIFE INSURANCE – EMERGING ISSUES

A first step is to examine how life insurance premiums have grown world wide during the last three decades. The graph below shows growth for the period from 1980 to 2009.

## LIFE INSURANCE PREMIUMS - WORLDWIDE




*Source: Sigma

During the immediate post world war phase extending till late sixties, life insurance premiums grew at around 6 to 10% on average, spurred by aggressive selling to a rising middle class who enjoyed a relatively high degree of income growth and stability. This impetus began to dry up by the late sixties and seventies as seen in the sharp decline in growth of real premiums to about 5%. The period also marked a watershed for traditional life products. The sharp drop in popularity of traditional savings products can be seen from the decline of premiums in relation to sum assured in force, as seen below:

### TABLE – 1

### PREMIUMS IN RELATION TO SUM ASSURED IN FORCE

**(premium per 000 SA )**

| Country | 1960 | 1970 | 1980 |
|---|---|---|---|
| USA | 22.7 | 18.1 | 14.1 |
| United Kingdom | 49.6 | 34.1 | 31.5 |
| France | 31.7 | 22.0 | 11.6 |
| West Germany | 45.8 | 42.1 | 36.5 |
| Canada. | 20.3 | 15.9 | 15.1 |
| Japan | 36.5 | 23.0 | 14.4 |

* Source: Sigma - 7/ 1985

This was the period when savings oriented life insurance began to come under increasing attack from other financial products, like mutual funds and other capital market instruments. The third phase, which began in the early eighties, saw a remarkable upswing accompanied by marked changes in the industry's responses to changed realities. This was the period when the industry witnessed a spurt in investment oriented and innovative products like unit linked and Universal / Variable assurance. Growth rates of life insurance attained a peak of nearly 20% by 1986 as seen in the graph above. The stock market crash of 1987 and its aftermath ushered a reverse swing, which brought growth rates down sharply in the next phase – that extended into the latter half of the nineties. The last two to three years of the century saw a revival with real growth rates climbing to almost 10% by 2000. Growth in the industrial countries was partly fuelled by the growing concern about the viability of state pension schemes and the dwindling confidence of the public in state social security arrangements. The other key driver of life insurance premium upswings was the growth of unit linked and single premium businesses, both of which are entirely investment oriented. Thus the share of unit linked policies in total premiums for Western Europe rose from 18.4% in 1995 to about 46% in 2000. Single premiums saw a similar rise as seen from the figures below

### TABLE – 2

### SINGLE PREMIUMS AS % AGE OF TOTAL LIFE BUSINESS

| Year | USA | UK | France | Germany | Japan |
|---|---|---|---|---|---|
| 1995 | 12.7 | 47.4 | 69.2 | 9.3 | 9.8 |
| 2000 | 16.2 | 76.9 | 71.7 | 11.6 | 6.8 |

* Source : Sigma - 6/2001

The first decade of the new millennium has seen declining fortunes of the life insurance industry, particularly in the developed markets. Global premiums registered only about 5% annual growth during 1997-2007. Industrial countries grew at a still lower pace of about 3.8% while emerging markets grew at around 13%. Growth in industrial countries has been primarily driven by sale of retirement and wealth accumulation products while in emerging markets it was stronger economic performance and catch up potential.

The year 2008 saw sharp Negative growth [-3.5%] in global premiums. Industrial countries registered a decline of nearly 5.3% in the wake of one of the deepest recessions since the 1930s. The year 2009 has seen a slight improvement. Premium growth continues to be negative [-2.0%] but less severe than the previous year. The decline continues to be fuelled by double digit falls in US [-15%] and UK [-12%]. It has plummeted still more in Australia [-20%] in the wake of removal of tax advantages. Growth has remained flat in Japan while falling a little [-1.2%] in other Asian newly Industrialized countries. In many markets the declines were prompted by sharp fall in the sales of savings and investment linked products – for example a double digit fall in the sale of variable annuities in US and of Unit linked products in UK, Netherlands, Belgium and Ireland. Meanwhile France, Germany and Italy has seen a rebound with traditional products providing attractive interest rate guarantees. Similarly, Asian industrial markets have contracted on the back of sluggish sale of Investment linked products, partly countered by upswings in sale of protection products.

The singular challenge facing life insurers in providing both traditional savings and investment linked products stems from their problems in the bond and stock markets. If the eighties, with its soaring interest rates, enabled insurers to innovate and enjoy a brief honeymoon with high interest sensitive products, that era has disappeared over last two and a half decades. The trend of long term interest rates can be seen from the yield on ten year government bonds for three key markets – US, UK and Germany.

**TABLE – 3**

**YIELDS ON TEN YEAR GOVERNMENT BONDS (%)**

| Country | 1990 | 1994 | 1999 | 2003 | 2006 | 2009 |
|---|---|---|---|---|---|---|
| US | 9.0 | 5.8 | 4.2 | 5.0 | 4.0 | 2.0 |
| UK | 12.5 | 6.0 | 4.0 | 5.0 | 4.0 | 3.0 |
| Germany | 9.0 | 6.0 | 3.9 | 5.0 | 4.0 | 2.5 |

* Source : Sigma

Meanwhile we have experienced a roller coaster ride in equity markets. Taking 1990 as a base [100], it may be seen that stock prices rose to about 200 by 1996-97, then peaked at about 400-450 by the turn of the century [year 2000]. From 2001, we see a sharp slump to about 200-250. It again rose to about 450-500 by 2007-08, only to slump sharply in the wake of the recession and global meltdown of 2008-09. These ups and downs also meant bumpy rides for investment linked products, particularly impacting markets that were dominated by such products. An idea of this impact can be gauged by looking at the figures of growth of In force and New Business premiums in selected markets

**TABLE – 4**

**IN FORCE AND NEW BUSINESS PREMIUMS – % AGE GROWTH RATES IN**
**(Figures in brackets indicates growth of in-force premiums)**

| Country | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|
| USA | 3.4 (3.5) | 5.4 (6.3) | -3.6 (-4.4) | -2.9 (-7.4) | 1.3 (1.5) |
| UK | 17.9 (33.8) | 24.9 (14.1) | -31.7 (-20.6) | -21.6 (-25.3) | 4.3 (4.8) |
| Australia | 6.6 (7.3) | 34.1 (41.1) | -16.2 (-17.9) | -10.0 (-13.0) | 3.0 (3.9) |
| Japan | -2.2 (-7.8) | 11.5 (-0.7) | 8.5 (2.8) | -3.0 (-7.7) | 0.2 (7.2) |
| France | 14.2 (18.0) | -3.7 (-5.2) | -12.4 (-15.0) | 9.8 (2.9) | 3.7 (6.4) |
| Germany | 2.2 (20.7) | -2.1 (-1.0) | -2.0 (1.9) | 4.7 (13.5) | -2.0 (-0.8) |
| Italy | -7.5 (-9.6) | -13.2 (-16.8) | -14.1 (-16.9) | 24.5 (34.6) | 13.0 (16.4) |
| Netherlands | 3.3(6.4) | 1.2 (-13.1) | 0.3 (-2.2) | -0.3 (-29.8) | 1.5 (3.1) |
| Industrial Markets | 4.7 | 8.0 | -8.2 | -2.9 | 2.1 |
| Emerging Markets | 19.9 | 13.9 | 16.2 | 2.5 | 8.0 |
| World | 5.8 | 8.5 | -5.9 | -2.2 | 2.8 |

* Source : Swiss Re Economic Research and consulting insights

As we can see, the last year of this decade has seen a moderate recovery from the dumps, primarily with capital markets beginning to turn around and countries to slowly come out of recession. However there are many questions that remain unresolved and markets are not likely to have an easy time coming out of the trap of low and negative growth rates.

What are the key issues facing life insurers in 2011 and beyond? It would be instructive to look back at some of the key concerns that have emerged in last few years.

## SOME KEY CONCERNS

The first concern is that of growth. For over two decades now, growth rates have been lack luster and even negative in some leading industrial countries. Even as the increasing concerns for old age security, coupled with the decline in other pillars like [state] social insurance, provided immense opportunities for private insurance to play a key role, it has obviously not been able to capture the imagination of people in the marketplace. Much of the growth has been linked to expectations of return – which were difficult to sustain during market downturns. Growth continues to be high in emerging markets, propelled by enormous catch up potential that economic development has prompted. But competition from other financial products and rising customer demands has already made the going difficult even in these countries, especially among the more industrialized emerging markets.

The second major concern is that of financial soundness. The down turn in equity markets destroyed huge amounts of capital value of invested assets. Low interest rates and declining dividends meanwhile reduced investment income. At the same time the demand for embedded financial guarantees in investment linked products has slashed profits, both as costs of such financial guarantees mounted and revenues enjoyed from management fees was cut. Again, as financial meltdown brought fears of institutional failure to the fore, insurers and other financial institutions have been subject to more intrusive regulation and surveillance. This includes stringent disclosure and market conduct norms and stronger emphasis on Risk Based Capital. The implementation of robust capital adequacy and solvency norms ushered a need for increasing reserve margins. All this has occurred at a time when insurers have been faced with a massive liquidity crunch, as credit markets have dried up in the wake of near zero market confidence. The needs to expand reach while cutting expanses also led to multiple marketing channels and breakup of the traditional value chain.

The next decade would see a continuation of the twin challenges:

- Finding relevance and legitimacy in the emerging market place
- Walking the tight rope between enhanced benefits and financial soundness

More and more, these would entail going back to the basics - not blindly but with a view to rediscover what one should renew and discard. One would need to search for new directions and options.

For example, the current volatility brings systematic risk to the fore rendering traditional risk management techniques, based on diversification and hedging, less effective. Are there alternative methods to transfer risk?

Again, there are haunting issues like ALM Mismatch which arise both on account of longer duration annuity / insurance contracts and growing demand for yield coupled with embedded financial guarantee options. The solutions already imply moving out of Deterministic Models and Commutation Functions to Stochastic Modeling with Multiple Scenarios. They call for a renewed respect for the Actuarial Control Cycle.

Finally there is the reality of declining asset values and [short run] technical insolvencies in the face of crunched credit and immense demand for capital. These have led to sharp fall in shareholder value and returns in the past. For instance, shareholder capital during the meltdown years shrank by 30 - 40% on average and some companies showed decline by 70%. They may continue to haunt the industry in future.

The issues have more to do with leadership than with management.

## SECTION II: THE INDIAN MARKET

Indian Life Insurance has been around for well over a century. Nationalization of the industry in 1956 and establishment of the state sector company, LIC of India, ushered an era of consolidation of systems and organization building, placing the industry on a sound footing in terms of financial solidity and prudence. The eighties witnessed a rapid extension of reach and spread, facilitated by an OD Intervention [the OIC Intervention] which decentralized operations and brought both sales and service operations to the branch level. Liberalization and opening of the industry to competition around year 2000, provided a powerful stimulus to business growth as a host of new life insurers entered the market. New Business Premiums grew at a whopping 47% annually during the first seven years [2000 -2007], well above the growth rates evinced even in other emerging markets. Indeed, India, like other South / Eastern markets, has benefited from strong economic performance and enormous catch up potential. The amount of catching up to do can be seen from the table 5.

## TABLE – 5

## MARKET EVOLUTION – SELECTED MARKETS

| | Penetration (Premiums / GDP) | | | Density (Per capita Premiums US $) | | |
|---|---|---|---|---|---|---|
| Market | 1981 | 1995 | 2008 | 1981 | 1995 | 2008 |
| USA | 2.6 | 3.7 | 4.1 | 330.4 | 1005.6 | 1900 |
| UK | 3.24 | 6.58 | 12.8 | 278.7 | 1281 | 5582 |
| France | 1.06 | 5.41 | 6.2 | 106.4 | 1434.5 | 2792 |
| Germany | 2.3 | 2.58 | 3.0 | 255.2 | 763 | 1347 |
| Japan | 3.69 | 10.24 | 7.6 | 357.1 | 4075.8 | 2870 |
| Taiwan | 0.93 | 3.74 | 13.3 | 24.1 | 459.3 | 2281 |
| S.Korea | 2.17 | 10.25 | 8.0 | 34 | 1042.1 | 1348 |
| S Africa | 3.56 | 12.37 | 12.5 | 83 | 401.9 | 707 |
| India | 0.79 | 1.41 | 4.0 | 1.8 | 4.5 | 41. 2 |
| Asia (2007) | | | 4.6 | | | 156.7 |
| World (2007) | | | 4.4 | | | 369.7 |

* Source : Sigma

As we can see from the figures of penetration rates, most of these markets above have shown near stagnation [1995 – 2008] with some exceptions like Taiwan, UK and India. The Indian market has grown apace with its rapidly emerging Asian counterparts. It has all the characteristics of the latter: High growth of income coupled with high savings + Asian family values + Increasing proportion of Insurance in household financial portfolios.

The key drivers of growth have been the high economic growth rates of GDP, which has been well above the "Hindu" Growth rate and higher than growth rates in many other countries. This has been supplemented by a whopping Savings rate of nearly 37%, far higher than most countries of the world. We also see a marked rise in the proportion of insurance funds in household financial savings

## TABLE – 6

## SHARE OF PRODUCTS IN HOUSEHOLD FINANCIAL SAVINGS (%)

| Year | Deposits | Shares / bonds | Claims on govt. | Insurance funds |
|---|---|---|---|---|
| 2004 - 05 | 37.2 | 1.1 | 24.5 | 15.7 |
| 2007- 08 | 52.2 | 12.4 | - 4.0 | 18.0 |
| 2008- 09 | 58.5 | 2.6 | -3.1 | 20.1 |

* Source : IRDA Annual Reports

What does the future portend?

Consider the fact that we had, as on March 2009, about 291 million policies for about 1.2 billion people. Each policy on average yields a premium of Rs 7605 [about 169 USD @ Rs 45 per USD].

Its middle class is estimated at anywhere between 30 million to around 300 million or more, depending on how one defines it. The McKenzie Global Institute, using NCAER Data estimated a figure of around 50 million between the income group of Rs 2 lakh to Rs 10 lakh Household income per annum. It also estimates the size of this group to rise by about ten times by 2025. Assuming a growth rate of around 8% per annum, it may not be too far fetched to conceive a middle class of around 500 million individuals. If we assume an average of 1.3 policies per person and a premium of about Rs. 10000 [about 5% of income or USD 222] on average per policy, we get an expected estimate of about Rs 6.5 lakh crores for around 650 million policies [650 mn x 10000 ] as against Rs. 2.65 lakh crores for around 318.92 million individual life insurance policies in force as on March 2010. The challenge is to make this two and a half fold growth in premiums happen and manage this growth.

Much of the growth of this decade can be linked to the rapid expansion of reach and spread, both as the number of market players have risen from 1 to 23 over little more than a decade and each player built its marketing organization to embrace all parts of the country. This expansion can be seen from the remarkable growth of branch offices during the last five years

**TABLE – 7**

**NUMBER OF LIFE INSURANCE OFFICES (AS ON MARCH)**

| Insurer | 2005 | 2008 | 2009 | 2010 |
|---|---|---|---|---|
| Private Cos | 804 | 6391 | 8785 | 8768 |
| LIC of India | 2197 | 2522 | 3030 | 3250 |
| Industry | 3001 | 8913 | 11815 | 12018 |

* Source: IRDA Annual Reports

There has been a fourfold growth of offices in just five years, with the private companies accounting for nearly 73% of the total. Again, we see that growth has not been confined to just the metro cities but has been spread to all areas, as can be seen from the table below:

**TABLE – 8**

**DISTRIBUTION OF OFFICES OF LIFE INSURERS (MARCH 2010)**

| Insurer | Metro | Urban | Semi Urban | Others | Total |
|---|---|---|---|---|---|
| Private | 897 (10.23) | 1555 (17.73) | 3607 (41.14) | 2709 (30.90) | 8768 (100) |
| LIC of India | 347 (10.68) | 550 (16.92) | 923 (28.40) | 1430 (44.00) | 3250 (100) |
| Industry | 1244 (10.35) | 2105 (17.51) | 4530 (37.69) | 4139 (34.44) | 12018 (100) |

(Figures in bracket indicates % of Total)

* Source: IRDA Annual Reports

Both private companies and LIC have spread out to the semi urban and rural areas, which today account for almost 72% of the offices. The industry is thus poised to spread the message of insurance and advance rapidly.

How has the industry been able to capitalize on its favourable macro-economic environment? How sustainable is the growth? Will it really be able to continue with the huge strides of the early part of the decade? To answer these questions we need to first take a look at the growth pattern of the last five to six years. This is shown in the table below, where we have considered the growth of New Business [Regular and Single premiums] and Total Premiums.

**TABLE – 9**

**GROWTH RATES OF PREMIUMS: 2005-10**

| Insurer | 2004-05 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|---|
| **New Business - Regular Premiums** | | | | | | |
| LIC | -1.25 | 17.75 | 117.7 | -12.26 | -27.01 | 36.8 |
| Private Cos | 106.46 | 78.23 | 105.59 | 85.24 | 6.97 | 12.61 |
| Total | 14.65 | 33.84 | 113.4 | 21 | -9.26 | 21.91 |
| **New Business - Single Premiums** | | | | | | |
| LIC | 62.32 | 64.4 | 78.1 | 28.24 | 0.78 | 33.19 |
| Private Cos | 239.46 | 104.46 | 44.04 | 27.82 | -30.91 | 10.13 |
| Total | 74.11 | 69.6 | 72.6 | 28.18 | -3.34 | 31.05 |
| **Total Premiums** | | | | | | |
| LIC | 18.25 | 20.85 | 40.79 | 17.19 | 5.01 | 18.3 |
| Private Cos | 147.65 | 95.19 | 87.31 | 82.5 | 25.1 | 23.06 |
| Total | 24.31 | 27.78 | 47.38 | 29.01 | 10.15 | 19.69 |

* Source: IRDA Annual Reports

What we see above is a decline in growth rates over last five years. The slide is seen from 2007-08 and reached its worst state in 2009, when first year premiums [both single and regular] showed negative growth rates. Growth has picked up again during 2009-10 and the atmosphere is buoyant. For example the growth rates of First year premium [Single Premium and Regular Premium] for the period from April to November 2010 against the corresponding period in 2009 is given below:

**TABLE – 10**

**NEW BUSINESS PREMIUMS GROWTH (APRIL-NOVEMBER)**

**% GROWTH FOR 2010 OVER 2009**

| Single Premiums | | | Regular Premiums | | |
|---|---|---|---|---|---|
| **Private Cos.** | **LIC** | **Total** | **Private Cos.** | **LIC** | **Total** |
| 175.20 | 70.81 | 80.59 | -1.62 | 20.75 | 8.13 |

* Source: IRDA Journal

Once again the growth rate of Single premiums has taken a leap while that of regular premiums have yet to take off. Does this growth really reflect the growth of life insurance? Is it healthy? Will it be sustained or will Indian life insurance take the roller coaster road of UK and other markets even as the potential remains immense?

Again, the growth of premiums is only half the story. How has Indian life insurance developed in a qualitative sense? In the next few pages we shall examine some qualitative aspects of India's life insurance industry. As indicated earlier we shall focus on the three areas of Productivity, Quality and Profitability.

## PRODUCTIVITY

The first aspect we shall consider is that of productivity of channels. Channel Performance is especially critical in an emerging market, where growth depends on reach. We shall consider three indices for the purpose

The first is agent productivity. As on march 2010 there were about 2.98 million agents registered with life insurers, of which LIC of India had about 1.4 million and the private companies had about 1.57 million. Five years ago, on March 2006, there were only about 1.42 million agents. The number has thus doubled in a space of five years, and for the private companies, it has risen by over 4.2 times during the same period.

What about agent productivity? A relevant measure for the purpose of number of policies and New Business Premium per agent.

### TABLE – 11

### NUMBER OF POLICIES AND FIRST YEAR PREMIUM PER AGENT [PREMIUM IN LAKHS]

| Insurer | 2006-07 | | 2007-08 | | 2008-09 | | 2009-10 | |
|---|---|---|---|---|---|---|---|---|
| | No of Pols per agent | Premium per agent | No of Pols per agent | Premium per agent | No of Pols per agent | Premium per agent | No of Pols per agent | Premium per agent |
| Aegon Religre | | | | | 3.25 | 0.33 | 2.69 | 0.72 |
| Aviva | 4.39 | 0.70 | 5.78 | 0.87 | 7.51 | 1.02 | 3.09 | 0.93 |
| Bajaj Allianz | 6.46 | 1.50 | 8.11 | 1.66 | 6.60 | 1.26 | 5.58 | 1.29 |
| Bharti Axa | 2.30 | 0.31 | 3.44 | 0.52 | 4.21 | 0.51 | 3.14 | 0.72 |
| Birla Sunlife | 6.44 | 0.76 | 5.40 | 1.03 | 7.11 | 0.97 | 4.20 | 0.83 |
| Future Generali | | | 42.55 | 1.64 | 3.32 | 0.43 | 2.95 | 0.48 |
| HDFC Stdf Life | 3.40 | 0.89 | 4.61 | 0.89 | 3.11 | 0.57 | 3.33 | 0.63 |
| ICICI Pru | 4.86 | 1.19 | 5.55 | 1.48 | 4.44 | 1.01 | 3.56 | 1.10 |
| IDBI FORTIS | | | 4.30 | 0.91 | 5.02 | 0.89 | 3.75 | 1.21 |
| ING Vysya | 6.05 | 1.06 | 5.09 | 0.98 | 3.71 | 0.62 | 3.72 | 0.68 |
| Kotak Mahindra | 3.97 | 1.21 | 4.02 | 1.37 | 4.02 | 1.12 | 4.13 | 1.34 |
| Max Newyork Life | 14.07 | 2.68 | 13.78 | 2.68 | 9.27 | 1.43 | 7.97 | 1.69 |
| Met Life | 3.03 | 0.76 | 3.19 | 0.84 | 2.54 | 0.65 | 2.13 | 0.56 |
| Reliance Life | 4.43 | 0.78 | 2.86 | 0.71 | 4.82 | 0.82 | 4.22 | 0.80 |
| Sahara | 3.23 | 0.29 | 8.49 | 0.95 | 8.13 | 0.96 | 5.80 | 0.74 |
| SBI Life | 12.87 | 4.45 | 13.77 | 5.28 | 8.68 | 3.12 | 12.93 | 3.75 |
| Shriram | 6.66 | 1.29 | 4.24 | 1.24 | 3.91 | 1.04 | 3.51 | 1.05 |
| Tata AIG | 7.13 | 0.90 | 6.49 | 0.85 | 5.22 | 0.66 | 3.36 | 0.56 |
| Private | 5.69 | 1.25 | 5.97 | 1.36 | 5.29 | 1.00 | 4.41 | 1.02 |
| LIC | 33.76 | 3.94 | 30.86 | 4.06 | 26.05 | 2.18 | 27.15 | 3.51 |
| Industry | 21.22 | 2.74 | 17.76 | 2.64 | 14.80 | 1.88 | 15.12 | 2.19 |

* Source : Derived from IRDA Annual Reports

For the industry as whole it has declined from an average of 21.22 policies per agent to about 15.12 policies per agent during last four years. Premium per agent has similarly declined from about 2.74 lakhs to 2.19 lakhs. We must also note the figures for each company. The figure for LIC of India for 2009-10 was about 27 policies for about 3.51 lakhs premium per agent. The corresponding figure for the private sector companies as a whole was just 4.41 policies per agent for a premium of about 1.02 lakhs. Assuming a commission rate of about 15%, this works out to about Rs 15000 for an agent per annum in the private sector. How many agents could survive?

A related trend is agent turnover. The Year 2009 - 10 witnessed about 0.93 million appointments and about 0.9 million terminations. Termination to appointment ratio was 95.64 – in other words for every hundred agents appointed there were over 95 who were terminated. The ratio was 81.5 terminations per hundred appointments for LIC and 102.7 terminations per hundred appointments for private companies. The statistics of Agents Churn for the last four years is seen in table 12.

Do we need to say much further? Look at the progressive deterioration in the extent of agents churn. What is the cost of recruiting and training each agent? Imagine the consequent drain on funds when such large numbers get terminated. Worse, imagine the number of orphaned policies and the large scale attrition of Sales / Agency Managers that follow.

## TABLE – 12

## NUMBER OF AGENT TERMINATIONS PER HUNDRED APPOINTMENTS

| Insurer | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|
| Aegon Religre | - | - | 3.47 | 0.64 |
| Aviva | 12.70 | 54.22 | 121.58 | 87.15 |
| Bajaj Allianz | 24.24 | 68.12 | 153.87 | 160.17 |
| Bharti Axa | 6.50 | 10.54 | 46.09 | 74.38 |
| Birla Sunlife | 6.45 | 4.73 | 37.47 | 92.91 |
| Future Generali | - | - | 27.88 | 7.32 |
| HDFC Std Life | 17.30 | 11.90 | 28.33 | 121.07 |
| ICICI Pru | 18.74 | 69.26 | 103.44 | 166.13 |
| IDBI FORTIS | - | - | 0.14 | 53.56 |
| ING Vysya | 41.16 | 39.16 | 38.01 | 190.64 |
| Kotak Mahindra | 30.70 | 57.81 | 75.28 | 135.13 |
| Max Newyork Life | 48.05 | 54.62 | 31.49 | 125.60 |
| Met Life | 25.40 | 21.71 | 28.97 | 85.96 |
| Reliance Life | 8.32 | 9.43 | 137.16 | 56.47 |
| Sahara | 0.00 | 0.62 | 74.51 | 55.42 |
| SBI Life | 6.08 | 31.30 | 34.70 | 111.73 |
| Shriram | 0.00 | 0.00 | 0.00 | 0.83 |
| Tata AIG | 142.20 | 45.50 | 37.63 | 41.94 |
| Private | 22.10 | 43.51 | 71.82 | 102.74 |
| LIC | 74.72 | 61.38 | 56.29 | 81.46 |
| Industry | 34.15 | 47.68 | 67.66 | 95.64 |

* Source: Derived from IRDA Annual Reports

Productivity is also measured by premium per policy secured by various channels. In the table below we have first presented the share of different channels in new Business for LIC and the Private Sector Companies.

**TABLE – 13**

**SHARE OF ALTERNATIVE CHANNELS IN INDIVIDUAL NEW BUSINESS PREMIUMS (%)**

| | Agents | | Banks | | Other corporate agents | | Brokers | | Direct | | Referrals | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Policies | Premium | Policies | Premium | Policies | Premium | Policies | Premium | Policies | Premium | Policies | Premium |
| **2007-08** | | | | | | | | | | | | |
| Private | 59.73 | 59.81 | 9.21 | 18.89 | 17.76 | 11.03 | 1.43 | 1.5 | 11.87 | 8.78 | 10.18 | 7.79 |
| LIC | 97.99 | 98.36 | 1.26 | 1.3 | 0.65 | 0.29 | 0.1 | 0.05 | … | … | … | … |
| Industry | 88.01 | 83.75 | 3.33 | 7.97 | 5.11 | 4.36 | 0.45 | 0.6 | 3.1 | 3.33 | 2.65 | 2.95 |
| **2008-09** | | | | | | | | | | | | |
| Private | 56.16 | 54.94 | 8.77 | 20.78 | 16.96 | 10.92 | 1.84 | 2 | 16.27 | 11.37 | 12.97 | 9.27 |
| LIC | 97.6 | 97.34 | 1.62 | 1.7 | 0.7 | 0.49 | 0.08 | 0.47 | … | … | … | … |
| Industry | 85.38 | 79.57 | 3.73 | 9.69 | 5.5 | 4.86 | 0.6 | 1.11 | 4.8 | 4.76 | 3.83 | 3.9 |
| **2009-10** | | | | | | | | | | | | |
| Private | 48.42 | 50.67 | 11.28 | 24.88 | 24.68 | 10.28 | 2.98 | 3.44 | 12.64 | 10.73 | 8.42 | 7.85 |
| LIC | 98.06 | 97.75 | 1.20 | 1.64 | 0.71 | 0.52 | 0.03 | 0.09 | 0.00 | 0.00 | 0.06 | 0.18 |
| Industry | 84.66 | 79.61 | 3.92 | 10.60 | 7.18 | 4.28 | 0.83 | 1.38 | 3.41 | 4.13 | 2.32 | 3.13 |

* Source : IRDA Annual Reports

**Note :** Total share of channels excludes referals.

Agents still account for about 85% of the number of policies and about 80 % of premium income as on 2010. But this is because of the predominant role of agents in LIC of India, which occupies the lions' share of total business. For Private sector companies, the share of agents was just 48% of policies and a little over half the premium. Further we also find that the share has come down drastically over last two years. Meanwhile the share of banks and other corporate agents has increased for number of policies and banks have particularly shown a growth in terms of share of premiums.

Let us now turn to the size of premiums per policy procured by each channel. We have considered statistics for only the latest year available [March 2010]. The data is presented in table 14.

*"You can start right where you stand and apply the habit of going the extra mile by rendering more service and better service than you are now being paid for."*

*- Napolean Hill*

## TABLE – 14

## PREMIUM PER POLICY SECURED UNDER EACH CHANNEL ('000) - 2010

| Insurer | Agents | Banks | Other Corporate Agents | Brokers | Direct | Total | Business via Referrals |
|---|---|---|---|---|---|---|---|
| AEGON | 26.57 | … | 32.27 | 26.59 | 34.73 | 30.15 | 25.00 |
| Aviva | 30.14 | 35.36 | 6.35 | 10.88 | 40.06 | 30.98 | 39.93 |
| Bajaj Allianz | 23.18 | 18.31 | 8.30 | 17.21 | 29.04 | 17.43 | 105.07 |
| Bharti Axa | 22.94 | 27.47 | 28.73 | 18.01 | 25.86 | 23.02 | …. |
| Birla Sunlife | 19.75 | 60.08 | 3.12 | 19.98 | 9.56 | 12.91 | 4.23 |
| Future Generali | 16.19 | … | 11.44 | 19.10 | 14.47 | 13.53 | …. |
| HDFC Std Life | 18.92 | 53.70 | 279.09 | 29.96 | 19.57 | 28.98 | 11.40 |
| ICICI Pru | 30.77 | 71.43 | 47.68 | 36.38 | 8.73 | 29.60 | 5.55 |
| IDBI FEDERAL | 32.20 | 51.63 | 26.92 | 30.45 | 18.14 | 41.38 | …. |
| ING Vysya | 18.26 | 39.70 | 20.05 | 17.42 | 22.32 | 21.78 | 22.32 |
| Kotak Mahindra | 32.47 | 105.89 | 26.96 | 26.41 | 17.85 | 34.75 | 20.16 |
| Max New York Life | 21.18 | 23.17 | 12.50 | 13.09 | 24.80 | 18.48 | 16.59 |
| Met Life | 26.27 | 41.51 | 17.44 | 23.40 | 25.90 | 32.11 | 44.05 |
| Reliance Life | 18.93 | … | 7.65 | 19.44 | 22.12 | 14.57 | 22.11 |
| Sahara | 12.78 | … | 11.28 | … | … | 12.71 | …. |
| SBI Life | 29.01 | 41.05 | 35.57 | 30.13 | 6.48 | 33.22 | 15.38 |
| Shriram | 29.91 | … | 20.17 | 24.44 | 26.06 | 27.42 | 27.03 |
| Tata AIG | 16.78 | 26.30 | 15.65 | 23.55 | 3.44 | 16.47 | …. |
| Private | 23.03 | 48.55 | 9.17 | 25.34 | 18.68 | 22.01 | 20.52 |
| LIC | 12.94 | 17.77 | 9.48 | 38.89 | … | 12.98 | 37.13 |
| Industry | 14.50 | 41.68 | 9.19 | 25.68 | 18.68 | 15.42 | 20.84 |

* Source: Derived from IRDA Annual Report

For the Industry as a whole we find that premium per policy was just about 14.5 thousands for agents. Size of policy was much higher for private companies. We also find that banks came out as a clear winner in this respect – the size per policy was almost 41.7 thousand for the industry as a whole and it was almost 48.5 thousand for the private companies. Low premiums per policy would especially lead to problems in the event of caps on expenses. For LIC of India, it may be worthwhile to consider a more active role for banks and brokers, given the much higher sizes of their policies, relative to that procured by agents.

## QUALITY OF BUSINESS AND SERVICE

The second dimension of performance we have considered is that of quality. There are two major indices we shall consider here.

## PRODUCT DIVERSITY

The first is composition of the product portfolio. It is an index of the diversity of the product line and reflects the degree to which it is well rounded and balanced. For the purpose we have considered the percentagewise break up of number of policies in force for two years – 2008 & 2010. It is presented in table 15:

**TABLE – 15**

**SHARE OF DIFFERENT PRODUCTS IN POLICIES IN FORCE ( % AGE)**

| | 2008 | | | | 2010 | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Insurer** | **Life business** | **General annuities and penions** | **Health business** | **Linked business** | **Life business** | **General annuities and penions** | **Health business** | **Linked business** | **Linked health business** |
| AEGON | | | | | 26.09 | 0.00 | 0.00 | 74.94 | 0.00 |
| Aviva | 6.56 | 0.00 | 0.00 | 93.44 | 7.00 | 0.03 | 0.00 | 93.70 | 0.00 |
| Bajaj Allianz | 8.73 | 0.11 | 0.49 | 90.67 | 9.56 | 0.08 | 0.99 | 87.56 | 0.00 |
| Bharti Axa | 14.08 | 0.00 | 0.00 | 85.92 | 17.18 | 0.00 | 1.95 | 83.52 | 0.00 |
| Birla Sun life | 23.20 | 0.00 | 0.00 | 76.80 | 27.90 | 0.00 | 0.23 | 69.60 | 0.17 |
| Future Generali | 100.00 | 0.00 | 0.00 | 0.00 | 57.14 | 1.27 | 0.00 | 41.49 | 0.00 |
| HDFC Standard Life | 47.45 | 3.57 | 0.00 | 48.98 | 45.34 | 2.46 | 0.00 | 51.38 | 0.00 |
| ICICI Pru | 19.37 | 1.03 | 4.24 | 75.37 | 20.36 | 0.91 | 1.82 | 80.51 | 1.39 |
| IDBI FEDERAL | 0.00 | 0.00 | 0.00 | 100.00 | 12.35 | 0.00 | 0.00 | 70.74 | 0.00 |
| ING Vysya | 39.48 | 6.01 | 0.00 | 54.51 | 35.76 | 7.53 | 0.00 | 56.01 | 0.00 |
| Kotak Mahindra | 26.42 | 0.00 | 0.00 | 73.58 | 16.51 | 0.55 | 0.00 | 84.41 | 0.00 |
| Max New York Life | 52.37 | 0.41 | 0.82 | 46.41 | 44.09 | 0.22 | 1.40 | 53.30 | 0.00 |
| Met Life | 29.56 | 0.26 | 0.00 | 70.18 | 27.24 | 0.10 | 0.12 | 70.83 | 0.00 |
| Reliance Life | 15.12 | 0.00 | 2.20 | 82.68 | 7.07 | 0.00 | 0.00 | 85.93 | 1.12 |
| Sahara Life | 49.03 | 0.00 | 0.00 | 50.97 | 42.62 | 0.11 | 0.00 | 58.75 | 0.00 |
| SBI Life | 23.22 | 5.09 | 0.00 | 71.70 | 18.51 | 3.43 | 0.00 | 81.65 | 0.00 |
| Shriram Life | 21.31 | 0.00 | 0.00 | 78.69 | 14.66 | 0.00 | 0.00 | 87.75 | 0.00 |
| Tata AIG Life | 51.60 | 1.87 | 8.02 | 38.50 | 43.64 | 1.07 | 5.59 | 51.55 | 0.87 |
| Private | 23.95 | 1.28 | 1.64 | 73.14 | 22.29 | 1.00 | 0.90 | 75.39 | 0.40 |
| LIC | 82.25 | 1.21 | 0.04 | 16.49 | 81.51 | 1.00 | 0.00 | 17.75 | 0.10 |
| Industry | 71.95 | 1.14 | 0.18 | 26.74 | 74.65 | 1.00 | 0.11 | 25.04 | 0.14 |

* Source: Derived from IRDA Annual Report

The table below clearly reveals the heavy dominance of Unit Linked Business. It accounts for almost three fourths of all policies in force of the private sector companies.

Its share is more than 80% for six companies The share of Unit linked Products in LIC of India's portfolio is about 25% but this is due to the large proportion of traditional products purchased in the past. Meanwhile the share of annuities and pensions business and health business has been negligible. These, we must note, have been the principal drivers of life insurance business in the world insurance markets, particularly in advanced industrial countries.

The share of Unit linked business can also be seen from the premiums. Figures for the last two years 2008-09 and 2009-10 are shown below

**TABLE – 16**

**SHARE OF LINKED BUSINESS IN FIRST YEAR [REGULAR AND SINGLE] AND TOTAL PREMIUM (% AGE)**

| | 2008-09 | | | | 2009-10 | | | |
|---|---|---|---|---|---|---|---|---|
| **Company** | **Regular** | **Single** | **First Year** | **Total** | **Regular** | **Single** | **First Year** | **Total** |
| LIC of India | 23.30 | 31.33 | 28.44 | 22.06 | 18.49 | 51.27 | 39.27 | 25.40 |
| Private | 87.63 | 76.50 | 86.49 | 86.75 | 83.76 | 75.94 | 82.97 | 86.00 |
| Industry | 62.90 | 35.53 | 51.14 | 40.87 | 55.61 | 53.20 | 54.53 | 43.52 |

* Source IRDA Annual report 2009-10

While accounting for 40.87 % of total industry premiums in 2008-09, ULIP s dominated New Business, particularly of the private sector, accounting for 86.74% of latter's premiums. In fact the share of Unit Linked policies was even higher during the previous year [2007-08] standing at 46.14% for the industry as a whole and 88.34% for the private sector. The year 2009-10 has again seen Linked Business picking up, partly with the revival of equity markets.

Investment linkage of insurance, particularly with equity markets, has no doubt been a major innovation in the field of life Insurance and has enabled it to considerably enhance its value proposition and positioning in customer portfolios. We may also note that strong linkages with equity markets are possible for traditional products as much as for Unit linked or other variable products. What really distinguishes ULIP s from traditional insurance is the issue of whether both the risks and returns are accorded a pooled or an individualized treatment. In case of the latter it is vital that each buyer is fully aware about the risks involved and take an informed decision about how such products can fit with their portfolio needs. ULIPs may not be an appropriate vehicle for those who are averse to bearing investment risks. Are prospects fully aware about these facts? What exactly is the message that gets communicated during the numerous 'illustrations selling" sessions that are conducted thousands of time each day across the country? Do these encounters promote ULIP s as vehicles for long term capital accumulation? Or has life insurance been promoted as an instrument for short term speculation?

Again, ULIP s makes a real contribution only in one aspect of the role of Life Insurance – as a vehicle of savings. Unitization implies a retreat from mutuality, which is the core of the life insurance principle. Life Insurance is fundamentally an instrument of protection. Its raison d'être has been the application of the pooling principle to meet a whole set of life contingent risks. What happens to this role?

If international experience of the last three decades is anything to go by, the lessons are clear – countries like United Kingdom, which were dominated by variable products have been caught in the roller coaster ride much more than others. How much of this do we want in India? The hazards of undue reliance on ULIP business in a volatile capital market, coupled with incomplete or wrong illustrations, are only beginning to haunt the industry.

## DEATH CLAIMS PERFORMANCE

Let us now turn to an important dimension of service.

The litmus test of an insurer - is death claims performance. The performance of the industry with respect to settlement of death claims for the last two years – 2008-09 and 2009-10 is presented in the table below:

### TABLE – 17

### SETTLEMENT OF DEATH CLAIMS

| Insurer | 2008 – 09 | | | | 2009-10 | | | |
|---|---|---|---|---|---|---|---|---|
| | Total (nos.) | Paid (%) | Pending (%) | Repudiated (%) | Total (nos.) | Paid (%) | Pending (%) | Repudiated (%) |
| Aegon Religare | 7 | 0 | 28.57 | 71.43 | 50 | 48 | 8 | 44 |
| Aviva | 1438 | 71.77 | 8.9 | 19.33 | 1877 | 87.1 | 3.14 | 9.75 |
| Bajaj Allianz | 12011 | 87.29 | 4.36 | 8.35 | 23040 | 88.2 | 6.63 | 5.2 |
| Bharti Axa | 203 | 53.2 | 1.97 | 44.83 | 491 | 77.8 | 0 | 22.2 |
| Birla Sunlife | 2757 | 89.12 | 0.51 | 10.37 | 5921 | 89.1 | 0.29 | 10.62 |
| Future Generali | 30 | 56.67 | 13.33 | 30 | 453 | 38.9 | 31.79 | 29.36 |
| HDFC Standard Life | 2898 | 87.96 | 7.25 | 4.8 | 3837 | 91.1 | 4.2 | 4.67 |
| ICICI Pru | 10743 | 86.55 | 8.25 | 5.2 | 16057 | 90.2 | 6.56 | 3.27 |
| IDBI Fortis | 39 | 30.77 | 64.1 | 5.13 | 210 | 49.5 | 26.67 | 23.81 |
| Ing Vysya | 1523 | 77.48 | 14.18 | 7.81 | 1926 | 89.3 | 6.44 | 4.26 |
| Kotak Mahindra | 1300 | 77.08 | 13.69 | 9.23 | 2280 | 87 | 8.64 | 4.39 |
| Max Newyork Life | 3938 | 90.02 | 2.21 | 7.77 | 6019 | 65.5 | 22.18 | 12.31 |
| Metlife | 729 | 57.89 | 19.07 | 22.77 | 1346 | 82.5 | 11.52 | 5.94 |
| Reliance | 3701 | 86.57 | 7.75 | 5.67 | 8754 | 89.1 | 3.88 | 7.05 |
| Sahara | 439 | 45.1 | 42.6 | 12.3 | 731 | 63.1 | 30.1 | 6.84 |
| Sbi life | 4260 | 76.57 | 8.33 | 15.09 | 7232 | 83.3 | 1.98 | 14.75 |
| Shriram | 791 | 39.44 | 36.28 | 24.27 | 1166 | 39.5 | 40.73 | 19.73 |
| Tata aig | 2700 | 61.19 | 11.04 | 27.78 | 3495 | 78.2 | 8.9 | 12.93 |
| Private sector | 49523 | 82.26 | 7.75 | 9.97 | 85061 | 84.9 | 7.52 | 7.6 |
| Lic of india | 591097 | 95.48 | 2.21 | 1.33 | 677374 | 96.5 | 2.25 | 1.21 |
| INDUSTRY | 640620 | 94.46 | 2.64 | 2 | 762435 | 95.2 | 2.83 | 1.93 |

* Source: IRDA Annual Report

The table is self explanatory. LIC of India paid almost eight times the number of claims paid by the private sector during 2009-10, and almost twelve times that number during 2008-09. Yet the total number of claims unpaid [repudiated or pending] was less than 5%. For the private sector as a whole, unpaid claims stood at over 15%. What is particularly a matter of concern is the very large percentage of repudiated claims for individual companies. We must note that majority of claims of private companies are likely to be early claims as compared to LIC, which would have a layer proportion of older claims. Early claims are more prone to get repudiated. So claims experience of LIC and other companies cannot be at par, strictly speaking. Neverthless, high repudiations reflect not only on the quality of claims administration but, is especially indicative of lax underwriting standards. To the customer at least, it represents a clear case of breach of trust and could prove deleterious in the long run.

## GRIEVANCES

The notable point about grievances in the life insurance industry is not how they are disposed off but how many are registered in the first place. In fact, every claim that is repudiated should be a serious cause of grievance for the claimant. Compare the figure of 14693 repudiated death claims for 2009-10 with the figure of 2449 grievances [this includes all instances of service failure and not just claims repudiation] that have been reported during the same year. We have another 8967 cases for 2009-10, registered with Ombudsmen all over the country. The moot question is: what is the proportion of service failures that actually comes before the relevant public authority? Do the cases registered account for even 5% of aggrieved policy holders? We have little way to know.

## PROFITABILITY

Let us now look at the third dimension, namely Profitability. We shall first look at the profits / losses of the industry and its constituent companies and then we shall explore some of the drivers of profitability – in particular we shall focus on Expenditures; Persistency and Return on Investment:

## NET PROFITS

The table below gives us the net profits after tax of the industry for 2006 -10

> *"Do it the hard way! Think ahead of your job. Then nothing in the world can keep the job ahead from reaching out for you. Do it better than it need be done. Next time doing it will be child's play. Let no one or anything stand between you and the difficult task, let nothing deny you this rich chance to gain strength by adversity, confidence by mastery, success by deserving it. Do it better each time. Do it better than anyone else can do it. I know this sounds old-fashioned. It is, but it has built the world."*
>
> *- Harlow H. Curtice*

**TABLE – 18**

**PROFITS AFTER TAX OF LIFE INSURERS**

**Rs cr**

| Insurer | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|---|
| Birla Sunlife | -61.13 | -139.74 | -445.28 | -702.14 | -435.5 |
| ICICI Pru | -187.88 | -648.91 | -1395.1 | -779.7 | 257.97 |
| ING Vysya | -124 | -177.57 | -190.53 | -19.45 | -136.76 |
| LIC of India | 631.58 | 773.62 | 844.63 | 957.35 | 1060.7 |
| HDFC Standard Life | -128.75 | -125.56 | -243.51 | -502.96 | -275.18 |
| Max New York Life | -60.06 | -60.47 | -256.93 | -393.02 | -20.91 |
| Reliance Life | -98.4 | -315.11 | -768.07 | -1084.9 | -283.79 |
| Bajaj Allianz | -98.54 | -71.7 | -315.11 | -70.68 | 542.29 |
| SBI Life | 2.02 | 3.83 | 34.38 | -26.31 | 276.46 |
| Kotak Mahindra | -44.42 | -110.47 | -71.87 | 14.34 | 69.22 |
| Tata AIG Life | -53.91 | -72.36 | -339.3 | -565.24 | -400.01 |
| Met Life | -79.4 | -11.97 | 21.25 | 14.52 | 25.06 |
| Aviva Life | -143.87 | -131.75 | -202.49 | -495.05 | -344.72 |
| Sahara Life | -7.84 | -0.51 | 3.34 | -18.15 | 36.21 |
| Shriram Life | 2.18 | 9.5 | 5.58 | 8.11 | -18.06 |
| Bharti Axa Life | 0 | -80.43 | -242.01 | -417.46 | -478.17 |
| Future Generali Life | 0 | -3.57 | -30.05 | -255.94 | -356.86 |
| IDBI Federal Life | 0 | 0 | -25.53 | -110.23 | -104.95 |
| AEGON Religare Life | 0 | 0 | 0 | 4.08 | 3.82 |
| Industry | -452.42 | -1159.6 | -3412.8 | -4883 | -988.82 |

* Source: IRDA Annual Report

Total industry losses on March 2006 stood at Rs 452.4 cr. It mounted over ten times to Rs 4883 cr in 2008-09 and fell sharply to Rs 988 cr during 2009-10. The number of companies making profits [including LIC of India] rose from five to eight during last two years, while losses of seven other companies fell sharply. In this sense, 2009-10 has been a much better year than the previous one, which saw twelve companies registering a rise in net losses. However no private insurer has yet been able to pay dividends to shareholders so far. Continuing losses has been one of the key concerns of private sector executives. Let us look at some of its drivers.

## COMMISSIONS AND OPERATING EXPENSES

The first driver of Profits is expenses. These are of two types – Commissions and Operating Expenses of the Insurer. The table below indicates the incidence of commissions and operating expenses as a ratio of Total Premium of various companies

## TABLE – 19

## COMMISSIONS AND OPERATING EXPENSES AS % OF TOTAL PREMIUM

| Insurer | Commissions | | | | | Operating expenses | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
| Birla Sun Life | 12.7 | 11.4 | 10.3 | 10.5 | 9.4 | 19.4 | 22.8 | 20.5 | 27.3 | 24.1 |
| ICICI Pru | 6.7 | 6.6 | 6.0 | 4.6 | 3.6 | 17.0 | 19.2 | 21.5 | 17.8 | 15.5 |
| ING Vysya | 16.3 | 13.3 | 9.1 | 7.7 | 7.4 | 49.6 | 42.9 | 34.8 | 32.2 | 28.4 |
| LIC | 7.8 | 7.2 | 6.4 | 6.4 | 6.5 | 6.7 | 5.5 | 5.5 | 5.8 | 6.6 |
| HDFC Std Life | 7.7 | 7.4 | 7.2 | 7.6 | 7.5 | 25.4 | 20.2 | 20.8 | 31.6 | 21.5 |
| Max New York Life | 17.1 | 15.2 | 14.2 | 10.2 | 8.7 | 43.1 | 34.2 | 32.4 | 41.7 | 31.0 |
| Reliance Life | 6.4 | 9.8 | 9.0 | 12.1 | 9.5 | 51.7 | 42.7 | 31.5 | 39.0 | 24.8 |
| Bajaj Allianz | 10.9 | 17.7 | 15.4 | 9.9 | 8.4 | 15.5 | 20.1 | 20.6 | 17.7 | 15.5 |
| SBI Life | 6.5 | 6.9 | 6.5 | 6.5 | 7.5 | 17.7 | 10.8 | 8.7 | 8.6 | 6.5 |
| Kotak Mahindra | 9.5 | 8.3 | 9.2 | 9.6 | 5.9 | 21.6 | 24.7 | 25.1 | 25.9 | 20.0 |
| Tata AIG | 15.6 | 14.0 | 11.2 | 8.7 | 8.0 | 33.0 | 26.1 | 34.3 | 39.0 | 29.4 |
| MET LIFE | 19.7 | 21.3 | 23.0 | 17.5 | 11.5 | 78.4 | 47.1 | 36.8 | 31.7 | 26.9 |
| AVIVA | 17.2 | 15.6 | 11.5 | 7.6 | 6.7 | 42.5 | 37.3 | 35.4 | 38.8 | 29.9 |
| Sahara Life | 13.7 | 13.1 | 14.3 | 11.7 | 9.4 | 40.5 | 30.2 | 16.5 | 19.2 | 14.8 |
| Shriram Life | 34.7 | 19.6 | 12.5 | 12.8 | 10.9 | 63.8 | 13.4 | 14.2 | 15.5 | 20.3 |
| Bharti AXA | | 7.2 | 10.7 | 10.7 | 9.5 | | | 249.1 | 157.0 | 98.6 |
| Future Generali | | | 1.6 | 14.4 | 23.9 | | | 1328.9 | 178.2 | 81.5 |
| IDBI Federal | | | 3.1 | 4.8 | 7.7 | | | 84.4 | 37.4 | 26.0 |
| AEGON Religare | | | | 7.0 | 32.2 | | | | 519.5 | 725.3 |

* Source : Derived from policy holders' Account and premium figures – IRDA annual Reports

The ratio of commissions to total premiums for the industry has reduced from 6.99% in 2008-09 to 6.84% in 2009-10. It was still lower for LIC at 6 4% [2009-10]. For private companies it varies – from a low of 3.6% for ICICI to over over 20% for the new companies like Future Generali and AEGON Religare.

Coming to Operational Expenses as a ratio of total premiums, the Industry average was 11.65% for 2009 and 10.85% for 2009-10. The corresponding figures for LIC of India was 5.8% and 6.6%. The only other company which comes close to this figure and below the industry average is SBI Life [at 6.5%]. For fourteen of the companies represented above, the ratio is over 20%.

Another way of looking at commissions and operational expenses is to consider their per policy incidence. The table below would give us an idea of the same.

**TABLE – 20**

**COMMISSIONS AND OPERATIONAL EXPENSES PER POLICY**

| Insurer | Commissions per policy | | | Expenses per policy | | |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2008 | 2009 | 2010 |
| Birla Sun Life | 2395 | 1988 | 1559 | 4788 | 5154 | 4006 |
| ICICI Pru | 1514 | 1085 | 954 | 5453 | 4249 | 4064 |
| ING Vysya | 1442 | 1087 | 1019 | 5515 | 4571 | 3943 |
| HDFC Std Life | 1673 | 1548 | 1620 | 4826 | 6414 | 4651 |
| Max New York Life | 2247 | 1521 | 1415 | 5146 | 6251 | 5053 |
| Reliance Life | 1991 | 1802 | 1355 | 6989 | 5806 | 3533 |
| Bajaj Allianz | 2420 | 1394 | 1163 | 3241 | 2487 | 2140 |
| SBI Life | 2020 | 1771 | 1955 | 2692 | 2349 | 1704 |
| Kotak Mahindra | 2750 | 2370 | 1553 | 7533 | 6390 | 5307 |
| Tata AIG | 2040 | 1474 | 1552 | 6261 | 6584 | 5673 |
| MET LIFE | 6846 | 5411 | 3680 | 10967 | 9797 | 8580 |
| AVIVA | 2978 | 1715 | 1610 | 9149 | 8735 | 7221 |
| Sahara Life | 1326 | 1019 | 838 | 1531 | 1676 | 1309 |
| Shriram Life | 2447 | 2105 | 2046 | 2781 | 2550 | 3815 |
| Bharti AXA | 1780 | 1706 | 2059 | 41541 | 24928 | 21427 |
| Future Generali | 400 | 2249 | 4152 | 330900 | 27741 | 14160 |
| IDBI Federal | 1233 | 1907 | 2725 | 33467 | 14710 | 9158 |
| AEGON Religare | | 952 | 2089 | | 70491 | 47122 |
| LIC | 409 | 389 | 435 | 355 | 352 | 440 |

* Source : IRDA Annual Report : Total commissions and Operational expenses are derived from policy holders accounts These are divided by number of in-force policies for the year.

The industry average for the year 2009-10 was Rs 569 per policy of commissions and Rs 903 per policy of operational expenses. The figure for LIC of India is of course, much lower than this because of the large economies of scale enjoyed. The industry average is also much lower than that for individual private companies due to the large preponderance of LIC in the total. We may note that high commissions / expense ratios and high incidence of per policy commissions / expenses are partly attributed to the strains of new business expansion, including setting up of branch operations and the distributional network. It also reflects on extent of judiciousness of spending. We must particularly correlate the level of expense with the high churning and attrition levels we have seen above in case of agents and field force. Can companies afford to just spend without a sound reasoning of what they are spending on and how it affects the outcome?

## SURRENDERS AND WITHDRAWALS

The second factor which impacts on profitability of the insurer and is also an index of quality of the business and trust reposed is early withdrawals and surrenders. The table below gives us the figures of surrender and withdrawals for the industry as a whole, over the period from 2005-06 to 2009-10.

**TABLE – 21**

**SURRENDERS AND WITHDRAWALS**

| Year | surrenders/ withdrawals (in Rs Crs) | As% age of FYP | As %age of Total premium |
|---|---|---|---|
| 2005-06 | 4622.19 | 11.92 | 4.37 |
| 2006-07 | 17690.32 | 31.46 | 11.33 |
| 2007-08 | 21677.25 | 23.13 | 10.77 |
| 2008-09 | 13869.56 | 15.88 | 6.25 |
| 2009-10 | 36244 | 32.98 | 13.65 |

* Source : IRDA Annual Reports

The table shows how surrenders and withdrawals mounted between 2006 -08 and then sharply came down in 2009 in the wake of minimum lock in period of three years for ULIPs. We then see a huge rise in surrenders during 2009-10, amounting to almost one third of first premium incomes for that year. While surrenders before 2009 were in part driven by early redemption of unit linked policies taken as short term investments, the rise in its incidence during 2009-10 may be partly a result of distress surrenders by policy holders caught in the economic turndown. It also may indicate a serious erosion of the credibility of these policies. The performance is little better for LIC as compared to Private sector companies, as indicated by the table below:

**TABLE – 22**

**SURRENDERS AND WITHDRAWALS**

**Rs crs**

| Insurer | 2008-09 | | | 2009-10 | | |
|---|---|---|---|---|---|---|
| | Surrender | % of FYP | % of Total Premium | Surrender | % of FYP | % of Total Premium |
| **LIC of India** | 9723 | 18.28 | 6.18 | 22395 | 31.31 | 12.04 |
| **Pvt. Cos** | 4146 | 12.14 | 6.43 | 13849 | 36.09 | 17.45 |
| **Industry** | 13869 | 15.88 | 6.25 | 36244 | 32.98 | 13.65 |

* Source : IRDA Annual Report

The industry obviously needs to take a good look at itself and reflect. A good part of surrenders and early redemptions come at a cost to the customer, especially in the wake of minimum lock in of three years. When customers still decide to surrender, it is probably to cut their losses. What happens to the image of the industry as a vehicle for long term security in such situation? What would this entail for future business?

## INVESTMENT INCOME

The third component of profitability of life insurers is their investment performance. For the purpose of determining this we have considered investment income (obtained from policy holders account) as a percentage of total investment (given as AUM) under all funds.

**TABLE – 23**

**INVESTMENT INCOME AS % AGE OF TOTAL INVESTMENT**

| Insurer | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|---|---|---|---|---|
| Birla Sun Life | 6.32 | 9.24 | -8.59 | 32.61 |
| ICICI Pru | 9.08 | 14.37 | -1.93 | 10.33 |
| ING Vysya | 6.40 | 7.68 | -13.40 | 28.23 |
| LIC | 8.93 | 9.00 | 5.80 | 12.60 |
| HDFC Std Life | 5.96 | 8.04 | -17.93 | 37.27 |
| Max New York Life | 6.83 | 8.26 | -4.77 | 25.37 |
| Reliance Life | 4.22 | -2.60 | -18.76 | 34.61 |
| Bajaj Allianz | 5.75 | 6.66 | -21.44 | 39.25 |
| SBI Life | 6.71 | 6.92 | -13.85 | 27.55 |
| Kotak Life | 8.21 | 10.88 | -9.91 | 19.77 |
| Tata AIG | 8.96 | 9.22 | -16.67 | 29.55 |
| MET Life | 5.49 | 4.91 | 1.47 | 4.89 |
| Aviva | 7.29 | 6.92 | -11.79 | 26.48 |
| Sahara | 2.17 | 3.50 | -9.12 | 25.03 |
| Shriram | 0.23 | 0.31 | 2.40 | 6.14 |
| Bharti AXA | -0.02 | -1.64 | -10.78 | 31.10 |
| Future Generali | | 0.21 | 0.97 | 11.78 |
| IDBI Federal | | | -1.94 | 13.33 |
| AEGON Religare | | | 0.74 | 8.41 |

* Source : IRDA Annual Reports

The figures show low to moderate return for all companies in first two years and a sharp decline towards negative investment incomes during 2007-09, the year of stock crashes. There is a sharp upturn as markets have again turned buoyant. LIC of India is among the few companies that have retained a positive investment income throughout, even though it has also been affected by the market downswing. One reason is that LIC investments include several generations of policy holder funds invested over several years. Again, LIC's investments [which are linked to its product portfolio] are less exposed to the ups and downs of the equity market. The moot question is about which returns profile, customers would reasonably expect from a life insurance company. A high return with volatility or moderate returns that are more stable. How does it match with what they are implicitly led to believe during sales illustrations…

## IN RETROSPECT

In previous pages we have attempted to describe the trends of development of the life insurance industry, particularly during the first decade of this millennium. What are the critical issues that arise? Let us now explore some of these.

## LEGITIMACY

It is said that people buy products not just for what they do but even more so for what they mean. The first issue for reflection is the continued relevance of life insurance. What is its answer to the question that a consumer would legitimately ask: ***what does***

***life insurance mean to me*** ? As a child of the industrial revolution, the industry was traditionally built around the premise of financial security – where security was defined, more or less, as death protection and safety of savings. In many markets, including India's, it was also positioned as an effective tax savings device. The core of the life insurer's value proposition was given by the application of mutuality or risk pooling for addressing mortality and investment risk. While the former was achieved through cross sectional pooling to create an immediate estate, investment risks [including systemic risks, affecting the market as a whole] could be evened out through intergenerational pooling.

With the worldwide shifts in the industry's external environment, including financial market changes, the challenge is now to locate life insurance purchase in the wider context of meeting multiple life contingent needs through alternative assets: It is, in other words, just one financial asset which has to find a place within a portfolio. In response the industry has, with some success, developed protection products to address contingencies facing the living. It has also come up with investment linked products like ULIPS, which are near look – alike of their capital market counterparts, like mutual funds. Here the insurer is less a security provider and more an efficient portfolio manager. The new investment linked products mark a retreat from mutuality The skewed product line of most life insurers in India [towards linked business] indicates the extent to which the industry has departed from the risk pooling principle.

The moot question is whether consumers see life insurers as just portfolio managers. Or do they expect financial security? This expectation is reflected in the demand for investment linked products with embedded financial guarantees.

Which road should life insurers take? Should they continue on their current path? Should they go back to traditional life insurance, in which mutuality played a certain type of role? In answering these queries it may be pertinent to also ask a deeper question – have we really understood what mutuality means and what it can do? Are entirely new applications of the principle not possible? Can it not be combined more effectively with other principles like unitization and maturity transformation?

Perhaps far more than design of products and benefit payments is the issue of how does the life insurer relate to its constituents. Consider the consumers' emerging reality: Once afraid of death, now afraid of life – plagued by dread of a prolonged hell – where one's only companions are the demons within. How does the insurer come across? Is it a valued and trusted friend and companion? Or is it another lurking predator that one must be weary of?

Along with the demons there is hope as well – This has taken shape in the wake of mounting affluence and awareness. Consumers the world over are beginning to have aspirations – going beyond just security and investment returns – for affirmation of values related to wellness and holistic living. Indians are no exception. Should insurers seek a different kind of brand identity that is linked with a new value alignment? Should they build a brand around a product or a company or a relationship? Should they go beyond making benefit payments and risk management and don a new mantle. The next decade may see tremendous new opportunities waiting for those willing to venture off the beaten track and think a little differently.

## THE SALES PARADIGM

There is an old saying that insanity is doing the same thing over and over again and expecting results to be different. The dominant paradigm in sales has been to ***build the sales infrastructure somehow, growth will automatically materialize***. No doubt, this has happened, but at what cost?

Perhaps it is time to reflect whether growth comes only or even principally from building sales infrastructure or from enhancing ***selling competence.*** In a market where trust and assurance are the vital ingredients, the critical challenge is to move from hand shake to hand holding – from product peddling to building long term relationships. Best practices indicate that Sales Champions in the life insurance business are social entrepreneurs rather than peddlers. Building a social enterprise around community relationships takes time. Do we have the right soil for nurturing such sales champions? The enormous levels of attrition and the sense of impermanence and 'living for the day' that go with it, tell the tale of a certain kind of ethos. Similarly, high levels of claims repudiation raises questions about the level of due diligence exercised, while selecting lives at the new business stage and the degree of customer sensitivity exercised while settling the claim. The question lingers – is this the kind of world a customer would be comfortable with and willing to buy?

## RED BOTTOM LINES

Red Bottom Lines imply a home truth – we need not just Growth but ***Growth with profits***. How does one ensure this? There are no easy solutions. As we have seen, there is the constant imperative to walk the tight rope – being competitive while remaining financially sound. It may be however worthwhile to reflect on two possible lines of approach

The first is to consider interventions for ***Optimizing Customer Lifetime Value.*** As is well known by now, customer value is not measured in terms of premiums received today but what would be expected over a life time of association. Delighted customers are again, the pivotal points of access to entire community networks. Customer value is not necessarily created by giving quality service. It is a function of the total experience that is created through carefully designed relation centric customer engagements and customer inclusion. Interventions for the purpose involve expenditure of time and resources. In the longer run, they may be worth the cost, many times over.

Secondly one may consider an ***integrated view of profits***: for example linking the Actuarial Control cycle with approaches like Cost Volume Profits; Activity Based Costing and Performance planning and budgeting - to evolve a new framework for planning and control. Can the bottom line be improved by doing the same things more efficiently or do we need to do different things?

Life insurance is an industry built on trust, protection, preservation and long term opportunity. It may flounder if based on a one sided myopic focus of "somehow getting the numbers". There is a need for consolidation and putting one's house in order. A starting point is perhaps to ask about the purpose of it all – is it value appropriation or value creation.

Not more work but more Meta-work should be the watchword of the next decade.

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*"The most important moral of all is that excellence is where you find it. I would extend this generalization to cover not just higher education but all education from vocational high school to graduate school. We must learn to honor excellence, indeed to demand it in every socially accepted human activity, however humble that activity, and to scorn shoddiness, however exalted the activity. An excellent plumber is infinitely more admirable than an incompetent philosopher. The society which scorns excellence in plumbing because plumbing is a humble activity and tolerates shoddiness in philosophy because philosophy is an exalted activity will have neither good plumbing nor good philosophy. Neither its pipes nor its theories will hold water."*

*- John William Gardner*

# Insurance revolution and the way ahead!!

***Alok Ghosh***

*Alok Ghosh talks about the need for life insurers to go back to the language of safety and protection along with higher returns – to go back to the basics.*

- *"Mr. Customer! God forbid, if something happens to you today and you don't come back home, will your family continue to maintain the same life style as you are maintaining today? "*
- *"How much money can you put aside on a daily basis to take care of your family's financial security?"*

For generations, insurance was sold around the concept of protection.

Till 1990's insurance products were traditionally perceived to offer risk cover along with moderate return on investments (ROI's) – between 3% to 4%. These products were also positioned to address our medium and long term life cycle needs (e.g. family's financial security/ child education / marriage / retirement etc.)

However, things changed dramatically with the privatization of this sector in the year 2000-01. Privatisation not only brought a totally new dimension in the sales process, but also a host of new products , specially unit-linked products (ULIPS), which offered excellent solutions specially for child education / marriage & retirement.

Within a short span of 2-3 years ULIPS completely changed the definition of life insurance industry. This small initiative became so big that it quickly garnered 60-70% market share. Every insurance company started rolling out ULIP products one after another and the focus shifted from 'Protection' to 'Investments'

Unit-Linked products were also responsible in enhancing Customer's expectations of higher returns (15%-20%) in a short span of time (3yrs-5yrs.)

Hence, the sales pitch deviated considerably from long term products, risk cover and moderate returns to short term products, moderate risk cover and high returns. For the last 7-8 years, every constituent of insurance business i.e. promoters, product team, sales team, training team etc. have got totally swayed by this new approach. And why not- it was contributing to 60%-70% of the top-line for every insurance company!

**As a result, a whole generation of Insurance professionals totally missed out the core selling process of life insurance**.

The sales pitch, now, shifted to:

*"Mr. Customer, I have a product which will give you 20% -30% return and your money will become double in 3 years time! How much money would you like to Invest?"*

Surprisingly, in this mad rush for grabbing market-share the companies completely forgot the basic reason why privatisation was encouraged in this sector! The main reason for privatisation was to create better penetration of Insurance in a

Country where Insurance penetration was just 2 % till the year 2000-2001.

Insurance is very critical for countries like India since we don't have provision for Social Security in this country/ Today, when something happens to the bread earner of the family, the whole family has a risk of becoming a social liability. This can impact the social well being of the complete family. Normally, in this situation, the family actually comes under immense financial pressure and can end up getting involved in various types of anti-social activities. The child's education can be impacted. These social issues can easily be addressed by a healthy penetration of Insurance in the Society.

Unlike other Sectors, Insurance sector also carries a social responsibility towards our society. This responsibility need to be evenly shared with the Regulator (IRDA), Insurance companies as well as the distributors and brokers who play a key role in making Insurance products available to end customers. Unfortunately, this was not the case as the Insurance companies went overboard in the race for market share and the distributors were heavily focusing on Commissions. This resulted in heavy miss-selling and wrong selling in the marketplace and ultimately resulted in an alarming increase in the number of lapsed policies, specially in the last 3 years. The market desperately required an intervention from the Regulators to bring the Industry back on track and not surprisingly, Insurance Regulatory Development Authority (IRDA) came up with the New Regulations & Guidelines in mid-2010

As expected, the rules of the Game changed all over again! However, it is very disappointing to find today that although the rules have changed, the Industry is yet to respond to these rules! Although the new ULIPS are more beneficial to customers today, Insurance companies are yet not fully willing to use this as an opportunity to expand the Market & create better penetration in the Society. The prime reason for this is the new IRDA regulations itself, which has reduced the new business margins for the promoters and commissions for the advisors. Today the Industry is talking about a 70% - 80% portfolio of Traditional Plans. The reason is that Traditional Plans are still not under the purview of the new regulations and are still carrying high front-end loading and offering heavy commissions to the distributors.

Interestingly, the Market is again talking the language of protection and security. Insurance companies are also exploring different Channels of Distribution like Banc-assurance, Brokerage, Partnership distribution etc., to reduce their cost of distribution and develop an economically viable business model.

While the attempt to bring more efficiency in the distribution channel is a very good move, as this will reduce the cost of acquisition however, the same cannot be said about the Industry's new product focus. It is sad to see that today, most of the Insurance companies are focusing on strategies, which are against the interest of the common man. Today, our new ULIP plans have lower charges than previous plans and are offer more benefits to the common man than ever before. This scenario provides excellent opportunity for Insurance companies to take the initiative and expand the market size by going aggressive on ULIP's. This will not only help in better penetration of Insurance in this country, which is widely needed in a country that is unable to offer social security to it's population. This ultimately will also help the Company to make better profits since they will have better economy of scale resulting from higher volumes.

The present scenario also brings some interesting questions in front of us. Can Insurance Industry be evaluated like any other Industry? Should insurers be only evaluated based on Market share and Profits? Can Insurance professionals and distributors afford to think or act like individuals from any other Industry like Consumer Durable or Mutual Fund and can they afford to focus only on their profits and commissions? If the answer to these question are "No" then , the next Question is, Has any attempt been made, through specific interventions, to help the Industry cope with this dilemma of managing Social responsibilities along with Corporate Profits!

This dynamic scenario no doubt brings inherent challenges for every one in the industry.

Today, every constituent in the distribution channel i.e. advisors, agency managers, branch manager etc. need fresh mind-sets along with skill-sets to manage and excel in fulfilling various responsibilities in the present business environment.

The distribution channel needs to be re-trained, so that they can start talking the language of safety and protection along with higher returns for the customers. The agency managers require new skill sets to manage brokers and banc-assurance personnels and drive business as well as social responsibilities through them.

**The Industry needs to go back to the basics all over again!**

***– Alok Ghosh – Branch Head,***

***ING Vysya***

***The views expressed are personal.***

*"People who have accomplished work worthwhile have had a very high sense of the way to do things. They have not been content with mediocrity. They have not confined themselves to the beaten tracks; they have never been satisfied to do things just as others so them, but always a little better. They always pushed things that came to their hands a little higher up, this little farther on, that counts in the quality of life's work. It is constant effort to be first-class in everything one attempts that conquers the heights of excellence."*

*- Orison Swett Marden*

# Claims Management and Claims Settlements in Life Insurance

***Bindu Krishnan***

*Ms Bindu Krishnan reviews the claims settlement process in Life Insurance and also explores alternative approaches to Claims, like Settlement Options and Long Term Care, which have emerged significant in the global market*

Every life insurance company has two gateways – the Underwriting Gateway when the insurer under certain terms selects a proposal for life insurance, and the Claims Gateway, through which policy benefits are passed on to the life assured/ policyholder or a beneficiary in the event of death or survival of the term. Needless to add, Claims performance is the litmus test of a life insurer's credibility. If it repudiates or delays payment of a claim, a customer is going to be very unhappy and many more customers and prospects would have cause to doubt the promise made by the insurer. At the same time, if claims are paid blindly, overlooking fraudulent claims that can arise, it can seriously erode the financial soundness of the insurer and put its other customer's interests in jeopardy. Again, it is not just important to know whether a claim has been paid. It is perhaps equally important to ask whether the claim actually serves to benefit the beneficiary. A claim need not necessarily be the end of all relationships with a customer. It could also be the beginning of another relationship.

In this paper we shall explore some of the issues related to the process of claims settlement and its management. We shall first discuss the salient aspects involved in settlement of claims, then review the situation in India and finally we shall explore certain other options and practices that are prevalent in the area of claims and their relevance to India.

## CONCEPT OF CLAIMS IN LIFE INSURANCE

Life Insurance contract is an agreement wherein the insurer agrees to pay a certain sum to the ensured upon the happening of events specified in the policy, and upon the assured paying the premium for the agreed term.

A claim on the policy is thus a demand on the insurer to fulfill it part of the promise, committed to while writing the contract with the life assured.

The claim obligations of the insurer may vary, depending on the type of policy. Some of these are:

a. Payment of Sum Assured on death of Life Assured within the specified term as in term assurance

b. Payment of Sum Assured with or without Bonus on death at any time of the Life Assured, as under a Whole Life Policy

c. Payment of Sum Assured with or without Bonus on Maturity only as in pure endowment polices

d. A combination of 'A' and 'C' above, with payment of Sum Assured either on life Assured's death or survival up to the end of specified term, as in Endowment Assurance.

e. Payment of Accrued Value of Units less charges and / or guaranteed death benefit sum if any, in the event of death or redemption of a Unit Linked Policy.

f. Other Benefits like periodical payments as on money bank polices, Payment of Disability Benefits, or Annuity Payments etc depending on the contingencies covered and the event that has occurred

How the claim is processed – workflow and decision considerations

The 'Claimant,' who may be the policyholder, in the case of maturity claim, or the beneficiary in the case of death claim, submits the application to the insurer's office. The claims examiner in an insurance company has to consider the following aspects before proceedings with claims settlements:

1) **Whether the premium has been paid by the policy holder as stipulated in the contract** : An insurer has an obligation to pay the proceeds only if premiums are paid for specified term. However under non-forfeiture regulations, insurers make payment of paid up value even if premiums are paid for 3 years

2) **Whether age has been admitted on the bases of satisfactory age proof**: As 'age' is the basic factor on which premium & admissibility of insurance depends, it has to be compulsorily admitted.

3) **Whether the contingent event for which the policy is insured has happened:**

The event may be survival of the Assured to the end of the specified term or death during the term, or it may be disability, leading to inability to work. Previously Survival Benefit was paid only or submission of a Discharge Voucher along with policy document by the policyholder. In recent times, survival benefit up to certain amounts are paid without calling for discharge vouchers provided due premiums have been paid.

Death claim requires the claimant to produce a Death Certificate as proof of death as well as other documents [like hospital reports or police inquest report] as may be required by the claims examiner to confirm veracity of the claim and cause of death. In some instances like an air or sea accident, where the body is not found, a certificate from the appropriate authorities can be relied upon for payment of the claim.

For payment of accident benefit, it has to be proved that cause of death was due to accident.

Again, if a person is missing and has not been seen or heard from, it is necessary to produce a certificate of presumption of death from a competent court – such a document being available only after a waiting period of seven years.

A special situation is obtained when death is through suicide. In India it is provided that if death occurs within 1 year from date of issue of policy and cause of death is suicide then the claim is refused on the basis of suicide clause as per policy contract. Thus, cause of death has to be ascertained to exclude any possibility of suicide.

4) **Whether the person making the claim is the actual holder of the title to the claim proceeds:**

In case of Survival Benefit under a Maturity Claim, the life assured or assignee [in case the policy has been assigned] is generally the holder of title. But payment does not automatically devolve on the life assured in all cases. In case of prohibitory orders issued by Court, no payment can be made to assured till the order has been vacated. Another special situation arises, where the claimant is a lunatic. In this case, a guardian has to be appointed to manage the properties under the Indian Lunacy Act. If the claimant is a minor, claim amount will be paid to his natural or legal guardian.

In case of a death claim, knowing who the claimant is becomes very critical. In the US and some other markets, the life assured has to clearly designate a beneficiary who will be eligible to receive and enjoy the proceeds. In India, we have provision for a nomination. A nominee is however only eligible to give a valid discharge for receipt of the policy money. He or she may not have title to the policy.

In the event of an assignment of the policy, the assignee is the claimant and the nomination stands cancelled. If the assignee gives a valid discharge with note of authority in favour of life ensured then payment can be made in favor of life ensured.

In case there is no clear nomination or assignment, or if policy is subsequently reassigned, with no fresh nomination effected, we have a case where the 'title is open.' In such a case, the legal heirs of the life assured have to apply for waver of legal evidence of title. The claim can then be decided and settled in favour of class I legal heirs or, in the alternative, the Class II heirs of the assured.

Where the nominee is minor, the claim may be pid to the appointee under the policy. If there is no appointee, the claim may be paid to the natural guardian or testamentary guardian or failing him or her, to the legal guardian as per court order.

Rival Claimants pose another situation. When there are 2 or more claimants under a policy the claim can be paid only on receipt of a court order. If the insurer pays the claim moneys into the court, it may then declare the insurer to be discharged from all liability. The court will then decide the title to the policy moneys.

It is obvious that the claims examiner be very diligent in checking the validity of the claimant's right to collect the claim proceeds. Establishing this can sometimes lead to delay, especially where title to a claim is under dispute.

## UTMOST GOOD FAITH AND CLAIMS SETTLEMENT

One of the key concepts one comes across in Insurance is that of Uberrima Fidei or the principle of Utmost good Faith. It means that a person proposing his or her life for insurance needs to fully and accurately disclose all relevant material facts to the insurer at the time of submission of the proposal. Failure to do so can be construed as disclosure or misrepresentation and can lead to possible repudiation of the claim on grounds of breach of good faith. The claims examiner needs to carefully review every death claim to check if there are such grounds for suspecting such non disclosure or misrepresentation. Section 45 of the Insurance Act provides that after two years from completion of policy, the insurer would have to prove that there was fraudulent and willful misrepresentation of facts by the insured at the time of taking the policy – a task which is fairly difficult. Generally, claims have thus been classified into Early and Non Early Claims. The latter type of claims [where the policy has completed over three years term at the time of death] is more quickly settled after receipt of intimation, original death certificate, original policy and claim statement, unless there is cause to believe there was suspicious death or misrepresentation of facts by the insured at the time of taking the policy. Early claims [which arise within three years of inception of policy] call for a more comprehensive process. Apart from claim forms, policy document, death certificate and intimation, insurers may also call for other documents like Last attending physicians report and employees certificate etc. Investigations are also conducted by company officials to confirm whether assured had concealed any material fact at the time of taking insurance.

## CLAIM SETTLEMENT IN INDIA – SOME STATISTICS

The annual reports of IRDA of 2006 -7 to 2008-09 reveal the following

### 2006-07

Total number of claims of 15 private insurers was 15033 for Rs. 243.78 cr. Out of these only 10928 cases (72.69%) were settled for an amount of Rs. 155.46 cr. As many as 2102 cases (13.98%) were repudiated, amounting to about Rs. 43.68 cr.

The public sector insurer [LIC] had a total of 611999 for Rs. 4589.42 crores. It paid 593250 of the claims (96.94%) while repudiating 8767 cases (1.43%) for an amount of Rs. 94.71 crores (2.06%).

The aggregate amount of claims paid by the industry as a whole is Rs 4444.74 crores under 604178 policies.

### 2007-08

For 2007-8, the total number of claims of private insurers stood at 27561 for Rs. 443.72 cr Claims were settled for 21755 policies (78.93%) for Rs. 316.28 cr (71.28%). Claims of 2804 policies (10.17%) were repudiated, amounting to Rs. 62.12 cr (14%).

Total amount of claims of the public sector insurer was Rs 4182.23 crs under 549761 policies Claim Payments made was for Rs. 3918.72 cr (93.70%) for 53153 policies (96.71%). Number of Claims repudiated was 6223 (1.13%) for Rs. 90.54 cr (2.16%).

The Industry as a whole settled claims amounting to Rs 4235 cr under 553408 policies.

### 2008-09

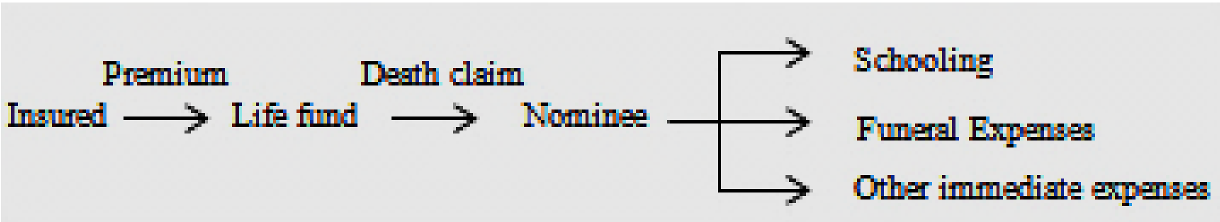
Total claim of 21 private insurers was for Rs. 834.85 cr under 49523 policies of which payments of Rs. 633.12 cr (75.84%) were made, under 40739 policies. Claims of 4935 policies (9.97%) were repudiated, for an amount of Rs. 107.14 cr (12.83%).

Total claims of public sector insurers stood at Rs. 4444.17 cr under 591097 policies. Of these, claims for 564389 policies (95.48%) were paid, for a total amount of Rs 4165.10 cr (93.72%) under. Claims under 7846 policies (1.33%) were repudiated, for an amount of Rs 72.45 cr (1.63%). Total claims paid by the industry was Rs 4798.22 cr under 605128 policies.

It can be seen that the public sector has a clear edge over private sector companies in the matter of death claims settlement.

### METHOD OF CLAIM SETTLEMENT IN INDIA AND NEED FOR OTHER OPTIONS

The above statistics of settlement pertain to death claim alone. Add to this the figures of maturity claims / survival benefits paid statistics, and the figure would be staggering. However death claim assumes more significance in the sense that it provides financial relief to a family reeling under emotional and financial pressure. The usual method of settlement is by a cheque to the beneficiary. The flow may be illustrated as shown below:




As we can see above, the proceeds of a death claims are generally used to meet immediate financial needs. If the amount is not reinvested property, the nominee may find himself / herself in the middle of another financial crisis unless he / she has a secure job or income stream. Also after say 20 years, the value would be negligible.

Here we find a critical requirement for making provision to have the benefit amount paid through other options. In the US there are several such options for making payment of the death claim to the beneficiary. The option can be decided by the insured at the time of taking the policy and is built as a provision in the contact itself.

Some of these options are:-

1. In lieu of a lump sum payment, some people can opt for the funds to be deposited into a signature account that they can draw upon when needed.

2. The insurance companies make available to the policyholders and to the beneficiaries several alternate methods of securing the proceeds of life insurance policies. These alternative methods are called settlement options.

    a. The policyholders may select the settlement option to be made at the time of proposal itself, or at any time the policy is in force.

    b. If the option is exercised by the policyholder when the policy is in force, the terms of settlement (i.e. how the proceeds will be given to beneficiary) are incorporated into a settlement agreement.

    c. The settlement agreement is thus a contractual agreement – it governs the rights and obligations of the parties after the insured's death

    d. The policyholders may make the settlement 'irrevocable' – in which case the beneficiary cannot change the mode of payment of policy proceeds when due.

    e. If not so stated, then the settlement is revocable and the beneficiary under the policy has the right to select another option when the proceeds become payable

    f. If the policyholder has not chosen the mode of payment of proceeds, then the beneficiary has the right to choose the option. In this case the settlement agreement is also known as a 'supplementary contract' between the insurer and beneficiary.

The main type of settlement options available are:

### 1. THE INTEREST OPTION-

Here the policy proceeds are invested by the insurance company and periodical payments of 'interest' are made to the payee. Usually, a 'minimum interest rate' is guaranteed and it will pay more if the investment earnings are more. Interest may be paid on Yly, Hly, Qty or Mly basis. The policyholder may choose to give the beneficiary a restricted or unrestricted withdrawal option, whereby the beneficiary can withdraw part or whole of the proceeds.

### 2. THE FIXED PERIOD OPTION-

Under this option, the policy proceeds are paid to the beneficiary in equal installments over a fixed period of time. Each installment consists partly of the policy proceeds and partly of the interest earned on the proceeds. Here also, the interest rate would be a guaranteed minimum, and installments could be on Yly, Hly, Qly or Mly mode. In this case, if the option is not irrevocable, the beneficiary can withdraw the remaining proceeds in a lump sum. Partial withdrawal is not allowed as insurers would have to recalculate the entire schedule of benefit payments.

This option is useful when the beneficiary is in need of money for a certain period, say for children education, or till she herself gets an alternate source of income.

### 3. THE FIXED AMOUNT OPTION-

In this option, the insurance company pays equal installments of a stated amount till the policy proceeds plus interest earned are exhausted. The rate of interest is guaranteed under this option also. If the payee opts for partial withdrawal, the number of installments will be reduced by the insurers. The beneficiary is also eligible to alter the amount of installments – she can opt for increased amount for a lesser period, or decreased amount for a longer period.

### 4. THE LIFE INCOME OPTION-

Here the policies are paid by the insurance company in periodic installments over the lifetime of the payee. The proceeds are converted in one of the following ways:

a) Life time annuity for the beneficiary

b) Annuity guaranteed for a certain term and for lifetime thereafter

c) Annuity payable for the lifetime of the beneficiary with return of purchase price on death of beneficiary

d) Joint and survivor annuity – where the insurer provides for annuity payments to continue till all the individuals die.

1. **An Indexed Option** : that raises the death benefit in step with inflation:

The policy proceeds as reviewed on a certain date would have considerably reduced in purchasing power after a period of say 20 years. This is due to inflation. To address this problem, the above option can be provided to policyholders to increase the death benefit in step with inflation.

### NEED FOR SUCH ALTERNATIVES IN CLAIM SETTLEMENT:

The major issue faced by the life assured in a maturity claim payment and the beneficiary in a death claim payment is the problem of proper utilization of the money received. An individual on receipt of lump sum payment tries to fulfill his or her immediate needs. Again many people do not have the proper source of advice for proper investment of these funds, to ensure a worry free life in future. In most of the cases, it is the gratification of present needs without a plan for future requirements that may arise. By providing alternate settlement options as shown above, the insurers can partly resolve the problem facing the recipients of policy proceeds.

### LONG TERM CARE

One major cause of concern for the future, which an individual thinks of only when actually faced with the problem, is long term care insurance

People with disabilities, or elderly people who are unable to manage their day-to-day activities of living on their own need assistance to get through with life. In the US, in 2004 about $193 billion was spent on long term care services. This includes nursing home care and other aided .living services Government programs like Medicare take care of this requirement to some extent. But even then, given the large proportion of elderly population living under impairment and need for such care, federal resources are likely to prove inadequate. In India, this problem is raising its head to a large extent now and unlike the US, there are no Government programs to provide financial assistance. If the sole income earner in a household were to suffer a paralytic stroke – then apart from the fact that the income of the household stops, an additional burden for medical expenses and rehabilitation costs come upon the family. In a metro city in India the cost of hired help for such care-services is approx Rs 9000/- per month and more so for nursing staff.

Even for a family with an upper middle class income, this sort of expenditure would be a severe drain on resources. Here we realize the importance of long term care insurance in any economy including ours.

Long term care includes services provided to individuals who have a cognitive impairment or who, because of illness or disability, are unable to perform certain activities of daily living – such as bathing, dressing and eating – for an extended period of time. The average cost of 10 hours per week of such care of a home health aide in the US in 2006 would be approximately US $ 10000 a year.

In the US, individuals purchase long term care insurance (LTCI) policies from insurance companies – this helps to pay for the costs of these long-term care services. The maximum daily benefits range from less than $30 to over $100 per day, with benefit periods ranging from 1 year to a life time of coverage. (Reference data of policy sold in 1995, 2000 and 2005). An additional option provided is that of inflation protection, which increases the maximum daily benefit covered and ensures that, over time, the daily benefit remains commensurate with the costs of care.

There is also the feature of 'elimination period', which is the length of time a policyholder, who has secured long-term care, has to wait before his or her insurance policy makes payments towards the cost of case.

The benefits are settled only when:

1. The consumers has a specified degree of functional disability or
2. The consumer requires supervision because of a cognitive impairment.

Premium rates are designed to remain level over time.

Premium rates meet claim settlement standards and complaints are overseen by state and federal authorities to ensure they adhere to the regulations set.

## LIFE INSURANCE SETTLEMENTS

Life insurance settlement (LIS) has emerged as a major industry in the US. It is a $ 15 billion global industry, under which an investor acquires the life insurance policy on a person's life pays all future premiums and receives the proceeds of the policy after the death of the life assured. The value paid to the insured would be much higher than the current surrender value. Such settlements are generally opted for in case of policies which have outgrown their usefulness to the policy holder. For example suppose the policy was a taken as surety for a loan which has been since repaid.

In the Indian market, a person has the option to assign his or her policy to another for meeting certain cash needs. However the above concept is debatable in the sense that the person who secures such proceeds under a life insurance settlement might be actually entering in to a wagering contract.

Payment of surrender value to the insured before the expiry of term of the policy, especially in case of 'substandard' lives, ensures that the insurer can avoid an 'adverse' risk in its books. For the insured person, the surrender of a policy in lapsed condition especially when it cannot be revived, provides funds which are otherwise locked in.

The proceeds which are generalized from the settlement transaction can be recycled once again into the insurance industry – in the form of single premium policies, or annuity plans providing life time income to the beneficiary etc. They can also be used to finance long-term care insurance, which would provide for valuable financial aid when the contingency arises.

In the Indian market, the concept of long-term care insurance is yet to develop. Considering the significance and the quantum of expenditure in this area, there is a need to create a functional market with supply of this product and recycle at least part of the proceeds under various insurance products into this market.

Let us now consider some aspects towards improving the quality of the claims process.

## ONLINE CLAIMS PROCESSING

The process of claims settlements, as seen above, is the final point in an insurance contract. When a policy is due for claim, the beneficiary has to submit a series of forms to the insurers, and the process of claims settlement involves a series of steps like:

a. Scrutiny of the papers submitted
b. Calling for further requirements from the beneficiary wherever necessary
c. Investigation in the case of death claims wherever required
d. Decision on the Claims and final settlement of the amount

In some cases, the process goes on for months. The obstacles in the Claims settlement process, through conveyed to the beneficiary, are not understood in the proper context. The entire process being manual, the client has no idea as to what stage of the claim settlement process his or her policy is in. This leads to consumer complaints, and claims managers have often no way to know where the problem lies, in many a case, without a manual scrutiny of the policy file and documents.

The need for a web-based system of claims processing assumes considerable significance in light of the fact that it is a very sensitive area, needing to be to considered as top priority. The advantages of an online system of claims processing are:-

1. Forms can be completed online and submitted to the insurers
2. The deficiencies in the forms can be pointed but in a faster manner since consumers can review and rectify the same
3. The agents who are representatives of the insurer, can help the client in completing the requirements online
4. The claims management staff can track the movement of claim cases online and help in resolving disputes in difficult cases
5. There is no need for repeated phone-calls or visits to the insurer's office to enquire claim status
6. Administrative costs are reduced and customer satisfaction increases.
7. Paper work is reduced to a large extent resulting in efficient claims management
8. It helps capture, retain and recall experiences for the management to take decisions

The Standard Insurance Company has started disability claims managements system for clients with 10 or more covered lives. Benefits managers check the status and information about claims cases. Minnesota life, another US based Company, has a Life Benefits Website, whose customized version is used by employers to help manage their group insurance. Here also, benefits professionals are allowed to view individuals' insurance applications and track claims.

Wisconscon based Church Mutual Insurance Co. which received the E-fusion claims managements award had developed a system called e-File, which provides immediate simultaneous electronic access to file claims on web and automatic handling of e-mails, attachment and interaction with clients and agents, resulting in speedier claims settlements.

In the near future, it is likely that most of claims settlements would be done online, resulting also in greater volume of recycling.

## NEED FOR SENSITIVITY IN CLAIMS MANAGEMENT

Throughout the term of the policy say 10, 15 or 20 or even more years, the insured keeps up her side of the bargain through payment of premiums. Finally at the time of settlements, it is the insurer's turn to fulfill its promise.

It is at this point that speed, sensitivity and accuracy is required on the part of insurers. The insured expects his or her proceeds to be paid in the fastest time possible. In the case of death claims, especially where the beneficiary is usually ignorant about the formalities, the claim staff has to be extremely knowledgeable and at the same time capable of resolving the difficulties of the beneficiary in completion of formalities. At the same time, care has to be taken to ensure that speed is not at the cost of accuracy of payments. Death claim payments, especially in the earlier years of policy result in a drain from insurer's funds, hence utmost care is to be taken against unauthorized and unwarranted payments.

The role of the insurance agent is also important in conveying the proper amount of claim, getting the required forms filled and coordinating between the client and insurer's office.

With an effective and efficient claims management team in place, the insurer can create a win-in situation for all covered.

***– Bindu Krishnan – Vashi Branch,***

***LIC of India, Navi Mumbai.***

***The views expressed are personal***

*"Nothing average ever stood as a monument to progress. When progress is looking for a partner it doesn't turn to those who believe they are only average. It turns instead to those who are forever searching and striving to become the best they possibly can. If we seek the average level we cannot hope to achieve a high level of success. Our only hope is to avoid being a failure"*

*- A. Lou Vickery*

# Increasing Life Insurance penetration in the next decade

***Nirjhar Majumdar***

*This paper, which won the Technical paper competition- 2009-10, explores the issues in expanding coverage and penetration of life insurance in the Indian market*

Measuring insurance penetration is perhaps the best way to assess the level of maturity of the life insurance market of a country. Insurance penetration is the proportion of life insurance premium paid to total income [GDP] of a country, and is expressed in percentage terms. For India, this figure is at present 4.1. When insurance sector was opened up a decade ago, insurance penetration was a dismal 1.2. So, we can say, without any hesitation that insurance mindedness has increased due to the opening up of life insurance industry.

Can we be euphoric about the rise in insurance penetration that has taken place in the industry? We have to keep in mind that the growth was on a very low base. The last decade was the decade of unprecedented rate of growth of GDP. The economy grew by 7 to 9 per cent per annum and many people could start to save something. People saved in various forms ranging from bank and post office deposits to putting money in mutual funds and stock markets. People also saved more through life insurance policies. But, growth in premium income earned by the insurers was mostly less than the growth in the economy. Nature of saving habits of Indians in general has remained the same. According to The Max-NCAER India Financial Protection Survey, 2007 (henceforth referred to as Financial Protection Survey), nearly 50.9% people still prefer to keep their savings in the form of bank deposits and 35.8% people prefer to keep their savings at home in the form of cash!

Asian people, in general, save well through life insurance policies. According to a study made in 2004, Europe accounted for 37.57% of world insurance premium while it earned 35.65% of world income. North America and Canada together accounted for 28.35% of world insurance premium while they earned 31.3% of world GDP. Asian countries accounted for 31.3% of world premium while earning only 24.5% of world GDP! According to the same report, world Insurance Penetration is 4.55 % whereas the figure is 4.68 in Europe, 4.12 in North America and 5.58 in Asia. But that does not mean that Europeans or North Americans are now less interested in insurance. In developed countries of North America and Western Europe, pension and mutual funds are now extremely developed and people’s savings are going in that direction. In many of these countries, social security is also available for most of the citizens and therefore people now need not buy life insurance heavily. But in India where there is little social security for people and where there are so many risks and volatilities in life, insurance penetration has to be much higher. The following table shows the insurance penetration of some developed and emerging markets of Asia:

**TABLE:1 INSURANCE PENETRATION,2008 (PER CENT)**

| Country | Penetration | No. of Insurers | Year of allowing Foreign Entry |
|---|---|---|---|
| South Korea | 9% | 22 | 1986 |
| Taiwan | 13% | 31 | 1987 |
| Hong Kong | 10% | 66 | N.A. |
| Singapore | 7% | 13 | 1931 |
| Malaysia | 3% | 16 | 1938 |
| Japan | 7.6% | 41 | 1954 |
| Australia | 4% | 32 | 1980s |
| China | 2.2% | 53 | 1992 |
| India | 4.1% | 22 | 2000 |

* Source: Swiss Re Sigma, 2009

It is clear from the above table that while Japan and Asian tigers have been doing reasonably well in insurance penetration. India and China are way behind them. In fact, the life insurance industry of India and China has similar type of problems.

It is true that insurance sector of India benefited in recent years because of growth of the economy as people became more capable of maintaining insurance policies. Those who had no insurance are now able to afford insurance and those who had some insurance are able to go for higher amount of insurance. Innovative products offered by the private insurers and better marketing strategies adopted by them were also important reasons for the rise in insurance penetration. But the journey ahead in the next ten years will not be easy. The fact remains that further insurance penetration is necessary and also possible. An insurance penetration rate of 4.1% is good but not too great, as we already know that there are still about 73% insurable persons living without any type of insurance cover and even those who have taken some insurance policies are grossly under-insured. Compared to India, the other emerging economies are showing far greater insurance penetration. In countries like Hong Kong, Taiwan and South Africa, insurance penetration is around 11 to 13 per cent while in South Korea and Ireland, the figure is 7 to 9 percent. This penetration level is also high in most of the West European countries and Japan.

Financial Protection Survey, 2007 which was based on a homogeneous sample of more than 60,000 Indian households spread across the country reveals that as much as 78% Indian households are aware of life insurance as a tool to cover the risk of life. It is thus very unfortunate that although Indian people know what life insurance is, the insurers have failed to provide insurance cover to at least those who could conveniently afford it.

In this paper, I have made an attempt to understand what holds back the insurance sector from furthering insurance penetration. I have also tried to explore what insurers could do in the next ten years. I have tried to discover ways in which Indian insurance market could gain maturity. Efforts have been made to understand the role alternative distribution channels can play for the industry and the products that can be innovative enough to gain further penetration.

## BUYING BEHAVIOUR OF LIFE INSURANCE IN INDIA

Life insurance is basically a risk management tool. It is an arrangement through which we can get financial protection for our near and dear ones. We are living in a risky world today and only life insurance can ensure that our family enjoys a decent standard of living and our children can get good education even in our absence. When we are adequately insured, our risk taking ability increases quite naturally. In fact, success in our personal and professional life depends to a large extent, on well taken risks and therefore we can say that the more insurance penetration there is in a market, the more its people are likely to take risks and develop economically.

From an individual’s point of view, it is very important that the precise life insurance needs be carefully assessed. If he is an unmarried young man with parents not depending on him, then he has one form of insurance need. If he is a married person with one kid and the only earning member of the family, his need is different. If he is a successful professional in his middle age, his insurance need is again completely different. But, every one has life insurance needs because, depending on the specific nature of liabilities and future responsibilities, the nature and quantum of risk may vary, and do so continuously. A person's insurance portfolio is hence to be regularly reviewed either by the person himself or by a consultant. As a common person is expected to pursue his own professional interest, it is necessary to depend on the knowledge and skill of a trained financial counselor/advisor in the matter of reviewing and determining the risks.

However, in our country, life insurance is hardly sold on the basis of such scientific principles. Till recently, insurance was more of a "push" product, with agents selling such policies that maximized commission earnings.

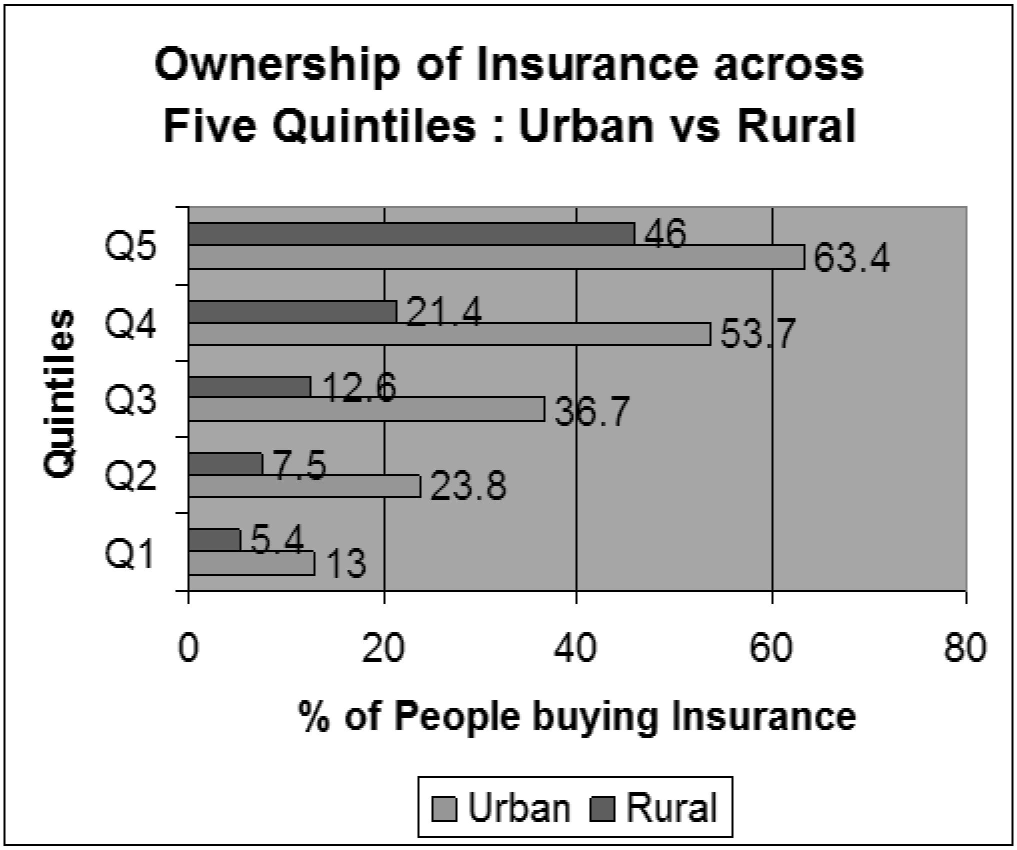
In India, insurance is not just a risk management tool. Here, insurers are acting more as mobilisers of contractual savings than as providers of risk management solutions. In India, insurers in general and LIC in particular act as major financial intermediaries and contribute to the development of savings and capital markets. In fact, savings in life insurance constitutes 19.5% of India's household financial assets (RBI Annual Report, 2008-09). The corresponding figures in some other developed countries are 29% in UK, 23% in France, 19% in Germany and 18.1% in Japan. Indians, in general should be keeping more of their financial assets in life insurance because unlike developed countries, our country does not have any social security system and there are far more uncertainties here in life than in developed countries.

In our country, people buy life insurance policies also to save on the incidence of income tax. A lot of salaried class people buy insurance policies in the months of February and March mainly to reduce burden of income tax and this is one reason why over 50% of insurers' business comes in the last two months of each financial year.

Which types of people tend to prefer life insurance more? According to the Financial Protection Survey, the people who are more educated, more prosperous and own more consumer durables tend to buy life insurance more. About 58% of people who have completed college education, own at least one life insurance policy. On the other hand, only 26% and 13% of the people with secondary school education and primary school education respectively own insurance policies. Among the illiterates, only 9% are covered by life insurance. Average sum assured per Indian household is a dismal Rs.27,951/-. Among the insured households, this average comes out to be Rs.1,14,450/-. We all know that even this sum is hardly enough to take care of all the yearly expenses of an average Indian family. If we set aside the concept of Human Life Value (HLV) at a particular age and just see whether the proceeds of an insurance policy can take care of a family for at least five years, still we must say that the majority of Indians are grossly under-insured! Although some insurance is surely better than no insurance, the purpose of life insurance is not served by taking policies that carry so little value in real life. It is clear that Indians take insurance policies more as a long term savings tool or a tax savings tool or may be as a tool to get some access to the stock market (in case of ULIP policies) and getting a risk cover is only incidental to all these.

As mentioned, wealthier Indians are buying more insurance policies, although need for insurance is no less among the not-so-rich and the poor households of the country. Although there are special plans launched by LIC and some private insurers also for the poor people of India and although microinsurance is gaining popularity in rural India, the fact remains that most of the poor Indians continue to live without any insurance cover. According to the Financial Survey, among the top 20% families (in terms of Income) of urban India (labeled as Q5), 63.4% own insurance. Among the Q5 of rural India, only 46% own insurance. For all the five quintiles, rural people show less interest in buying insurance than their urban counterparts. This is clear from Chart-1 below.

### CHART 1: OWNERSHIP OF INSURANCE (RURAL VS URBAN)




* Chart-1 Source: MAX-NCAER Financial Protection Survey, 2007

Why is it that so many people in rural areas and also in urban areas are so apathetic to life insurance. The reason is that Indians are still not reasonably financially literate. Indians, especially rural Indians, do not know which financial instruments are right for them. Worse, there are not enough people who can give them advice on the basis of analysis of their needs. The result is that Indians still believe in putting money in bank deposits and other traditional assets. They have tremendous faith in the instruments of the past generations.

As said earlier, one more interesting fact that was revealed in the Financial Protection Survey was that the Indians who owned more consumer durables, actually owned insurance policies. 90% of insured households owned television sets whereas only 54% of non-life insurance owners owned television sets. Again, 66% of insureds owned two wheelers whereas 26% of non-insureds had two wheelers. This is a remarkable finding. This means, insurers can do a lot of data-mining to find out people who own consumer durables and concentrate on them.

Earlier, there was widespread belief that insurance penetration in the country was low because of low level of income. The experience of insurers and also the Financial Protection Survey suggests that it is not income alone that determines the demand for life insurance. There are some other important issues, including macroeconomic factors as well. Life insurance penetration depends on the rate of inflation, the rate of interest and the rate of growth of population also. A higher rate of inflation raises the cost of living and a lot of people feel discouraged to buy life insurance policies. A rise in interest rate makes competitive savings instruments more attractive and people tend to avoid buying life insurance products, as they do not generally have high Internal Rate of Return. In our country, life insurance is projected not just as a risk management tool but as a long-term savings tool and also as a tax saving tool and now as capital appreciation tool (in the form of ULIPs). This is the reason why products launched by insurers have to compete with Fixed Deposits, PPF, NSC, mutual funds and even capital markets. When an agent meets a prospect, he has to explain a lot why it is not possible for a life insurer to provide returns that are routinely available in other instruments. When a policy matures, still a lot of customers grumble about why one's money has fetched a return lower than a bank FD or NSC. A customer never calculates the percentage of return provided by the insurer in case of premature death of the life assured. When a person gets nothing at the end of the term of a term-assurance plan, he feels highly dejected. Little does he appreciate that he enjoyed a very high level of risk cover for the whole term at a very low cost. This is one of the reasons why Indians are not too comfortable with pure term assurance plans. Asians in general and Indians in particular are heavy savers. Indians like to save as much for their children's education, marriages etc as they do for their old age.

Now, let us see what types of insurance products are more popular in the countries where insurance markets are pretty developed. The table given below shows the split of business in percentage terms for each of the developed markets.

**TABLE 2 : PRODUCTS PREFERRED IN DEVELOPED MARKETS (IN PERCENT)**

| Country | Savings Products | ULIPs | Individual Pension Products | Group Pension Products | Risk Products | Others |
|---|---|---|---|---|---|---|
| US | 14 | 3 | 35 | 31 | 15 | 2 |
| Canada | 17 | 1 | 25 | 29 | 28 | - |
| UK | 10 | 20 | 25 | 34 | 11 | - |
| France | 66 | 20 | 1 | 12 | 1 | - |
| Germany | 53 | 10 | 26 | 5 | 6 | - |
| Italy | 63 | 36 | 0.5 | - | 0.5 | - |
| Japan | 38 | - | 23 | 16 | 23 | - |

* Source: Swiss Re Sigma, 2009

It is clear from the above table that buying behaviour of the customers in developed markets is significantly different from that in Indian market. Except Italy, no other market mentioned in the table shows too much preference for ULIP products. Again, apart from Italy and France, all other markets sell quite a good percentage of pure-risk products. Savings products are popular everywhere. So people of even the richest countries of the world are putting so much of their money on low-return insurance policies. They are surely rational enough to take such decisions!

In India, on the other hand, ULIP products are accounting for 40% of total premium underwritten by industry. For the private insurers, ULIP contributed about 87% of total premium! Clearly, private insurers are selling less of insurance and more of investment related schemes. The relatively wealthier Indians are now looking more for an access to capital market and the ULIPs launched by all insurers are welcomed heartily by the market. In fact, a lot of people prefer to enter the capital market through mutual funds and ULIPs as they believe this is a less risky proposition. Most of the policyholders find ULIPs a very transparent mechanism! Insurers are happy to sell this product because in such products, the requirement of solvency margin is low and the risk of asset allocation is borne by the policyholder. Profit from new business premium is higher in ULIPs than the traditional insurance products. Agents find it easier to sell such products. Even LIC is selling less of savings related products these days and want to collect Rs.25, 000 crores through Wealth Plus. It earned most of its income last year by way of selling single premium Jeevan Aastha plan with guaranteed returns. The market is now very much return conscious. Although the industry as a whole grew by 10.15% last year, it is still doubtful whether insurance is well understood even by the educated elites of the country and whether the insurers are doing enough to promote customer education.

## WHY PENETRATION IS SO LOW

From the discussion made in the previous section, it is now quite clear why insurance penetration is still low in India. In thus section, I would discuss the main factors contributing to low penetration.

**Apathy towards Insurance**: No one can deny that insurance penetration is low in India. Why is it low? From the foregoing discussions, we can say that the main reason is the lack of financial literacy in general and apathy towards insurance in particular. In a country that still has 30% of its population illiterate and more than 300 millions still living below the poverty line, the general level of financial literacy can not be expected to be high. Furthermore, Indians in general still believe in saving in the way the people of earlier generation saved. Till the attainment of independence, insurance was mainly an urban phenomenon. LIC was formed in 1956 and the objectives were clear from the very beginning. Its job was to spread life insurance to every nook and corner of the country. LIC was to achieve this objective by making insurance linked savings adequately attractive. The responsibility of LIC was also to maximize mobilization of people's savings so that people's money could be utilized heavily for nation building activities. LIC played its role successfully for about 44 years before the industry was opened up again to the private insurers.

LIC did its best to spread the concept of insurance among all sections of the society. LIC created awareness across the country and made special efforts to reach out to the rural masses of the country through innovative means. It provided services found satisfactory by the urban and rural customers alike. It created a brand image, which was very important for an insurer to sustain its growth. LIC is a trusted name today among all Indians. But LIC was after all a public sector monopolist. It was felt that a public sector monopolist could not offer too many choices to the customers and could not be expected to take further initiative in developing untapped market. Further, it was felt that professionalism was lacking among the employees and agents of the organization.

It was expected by experts that the privatized insurance industry would be a better vehicle of customer education on insurance and a large proportion of the insurable population would soon be brought under the protective umbrella of life insurance. Ten years have elapsed since insurance sector was opened up and we all know that a huge portion of the insurance market is still untapped. This is because people in general still are not sure whether they really need life insurance and even if they do need it, for how much. People do not hesitate to put money in banks and post offices. But most people still hesitate to buy a life insurance policy even when they are convinced of its merit. In our country, a peculiar kind of fatalism is associated with life insurance and that is the reason why life insurance never got the patronage it should have got.

I believe, insurers have never done enough to spread education on insurance. They speak about the worth of an insurance policy mostly when they want to sell a product. But the country needs pure education on insurance. The concept of insurance should be clearly explained in school textbooks. Officials in civil service should educate people about the merit of life insurance. People should be able to assess, on their own, which type of policy is suitable for them and for how much amount. IRDA has a role to play in educating people on life insurance and it is heartening to note that IRDA is finalizing an insurance awareness campaign in which they will educate people about the importance of life insurance through mass media and free literature to be circulated among special sections of the people.

In our country, insurers are coming up with products on the basis of felt customer needs. But, while analyzing these needs, insurers are hardly making a serious research among the people who are supposed to buy the products. Insurers still think that "aggressive" marketing practices, innovative advertising and large-scale recruitment of agents can earn more business. While all these are necessary, there has to be serious effort also to make people understand that insurance is an essential thing in life, like air and water and that there can be really no substitute to life insurance.

**Product development capabilities have not been upgraded:** Although insurers, especially the private insurers, are using a variety of channels today, the products are not tailor made to suit the channels. Many life insurers today have no clear understanding of the exact values such products are creating and the channels they are using to market them. An insurer needs to understand the value driver of a product and the distribution channel. If necessary, they may have to change some features of the product and even the commission structure associated with the product. To make a product successful in terms of sales and value creation, there should have been better integration of actuarial skills with marketing and channel management skills.

**Alternative Channels are not properly used:** Alternate channels, especially corporate agents including banks and brokers, can enable the insurer to gain access to some niche markets. Bancassurance has given the benefit of financial convergence to insurers of Europe and many emerging Asian markets. Unfortunately, Indian insurers have been able to achieve very little from alternative channels. Although all insurers have tied up with banks and are also selling products through banks, this has not been able to increase insurance penetration significantly. Insurers in general failed to make proper use of alternative channels in general and bancassurance in particular. Insurers have failed to work too intimately with the banks and most of the business secured through banks can be called "low hanging fruits".

**Insurers feel, more the agents, greater should be the business**: There is no gainsaying the fact that an insurer needs a lot of agents since insurance is basically sold, hardly ever bought. But, penetration cannot be improved just by increasing the number of agents. It is now found that whatever number of agents is recruited every year, an equal number of agents is leaving the industry. So, it is not enough to recruit lakhs of agents every year; the insurers have to train them and motivate them so that they can become true professionals. Selling insurance in the competitive market is not an easy job. Moreover, the prospective buyers are much more informed now. An agent has to know not only the products his company is marketing, but also that of other companies as well. He should also be knowledgeable about other saving and investment instruments available in the market. He should be able to assess the need of the prospects and guide him about the products that are suitable for him.

When one buys insurance, one expects that he will continue to get the services of the agent for a long time. A lot of commitment towards the profession is required on the part of a life insurance agent. Not only he should possess some basic soft skills, he should also be honest in his approach. He is the first line underwriter of the insurer. He is also the financial advisor of his clients. Only a reasonably mature and patient person can aspire to be a successful life insurance agent. In this profession, it may not be simple to become rich overnight. One has to constantly sharpen his skill and knowledge, demonstrate superior time management and be persevering. For all this, agent has to get quality training from the insurer. Again, not everyone can be a trainer. A person who knows the business of selling insurance intimately and who has a penchant for developing the abilities of an agent can be a trainer.

Insurers have to do a lot of work to design a proper training module for the agents. An agent is the only representative of the insurer for a customer and if he does something that affects the interest of the customer, not only the policies cease to be in force and the agent ceases to exist in the industry, the image of the insurer is seriously affected in the market. Most of the agents today do not seriously understand their role and insurers are not bothered about the quality, attitude and integrity of the agent so long as the agent brings some business. Since most life insurance agents are not true professionals, they are unable to explore the new markets and also unable to sell products that may not fetch great commission but can be of great use to the insuring families.

**An insurer is not just a seller of insurance policies**: It is commonly said by some insurers that an insurance company is nothing but a marketing organisation. What they mean to say is that there is hardly any role of an insurer other than selling insurance policies and all other activities of an insurer are of secondary importance. Actually, marketing is a very big concept. What most people mean to say is that if someone manages to sell policies, he should be considered a great asset of the company. We know from our experience that selling is not everything in an insurance company. An agent can sell some policies in the month of March and that can even get him a high rank and recognition in the branch. The sales manager and the Branch Manager can get promotions on the strength of all this 31st March completions. But, if many of the policies lapse without acquiring paid up value and quite a number of them result into early death claims, what is the value of the agent who brought these proposals? The loss to the insurer is monumental. The agent may quickly leave the industry after giving the branch and the sales team a very bad name.

Insurers tend to put too much importance on sales. While sales is an essential function of any business organisation, an insurer has to give equal importance to selling the right policies, underwriting of proposals, servicing of policies and expeditious settlement of claims. That LIC is still the market leader in spite of various shortcomings is not just because LIC policies have government guarantee but also because LIC has created trust among the common people of India across the length and breadth of this country. This did not happen overnight. LIC’s employees and officers have been providing great services to generations of policyholders. In case of individual death claims, LIC’s outstanding claim as on 31/03/09 was only 2.21% as against 7.75% of the private insurers as a whole. Again, LIC repudiated only 1.33% early death claims as against 9.97% of private insurers. LIC's dealings with the policyholders are known to be fair and above board.

An insurance organisation cannot attain greatness merely by concentrating on opportunistic selling. It needs to have experts in the fields of Actuarial Science, Investment of Life Fund, Information Technology and Human Resource practices. It must also have senior people in the form of strategists. An insurer needs to have a very strong market research team. To be successful in the market for a long period, the insurer has to play a commendable role in Corporate Social Responsibility. Only very few of these functions can really be outsourced. Success in the field for an insurer depends primarily on the quality of services and brand image. And these two things have to be built up painstakingly. Unfortunately, Indian insurers are always worried about business and market share only and it seems they have no time for other functions.

**Insurers are neglecting rural/social sector:** At this moment, there is no doubt that the insurers, especially private insurers, are not catering to the needs of the rural and social sector in any significant way. As was mentioned earlier, 73% of the people in rural areas are well aware about life insurance. Rural market consists of about 800 million people and no insurer should neglect this segment. Rural incomes are rising and the way the country is developing economically, the rural sector cannot remain too backward in terms of per capita income for a long time. As per the provision of IRDA, all insurers have to bring at least 25% of their business from the rural sector and have to cover at least 20 lakh lives of the social sector every year. Although almost all insurers (with the exception of LIC which failed to reach the target in rural sector) achieved the target in 2008-09, we all know that their operation and concentration are confined to urban areas only and the insurers in general do not find rural market lucrative. This is a major reason why insurance penetration is low in India.

A large part of the rural areas consists of people with low income. There are about 30% of population living below the poverty line. About 80% of rural households have an annual income less than Rs.81,000. These people need insurance no less than the people living in metro cities and enjoying good standard of living. In fact, these people need insurance more, as in case of the premature death of the breadwinner, the family will face acute financial difficulties almost immediately. The problem with this group of people is that their income suffers from irregularity, seasonal fluctuation and many other factors beyond their control. They cannot really be covered by formal plans of insurance offered by the insurers. But that does not mean there is no way to arrange for some risk-transfer mechanism for them.

As we all know, microinsurance can bring them under insurance cover. Transaction costs are reduced in microinsurance by getting the business through NGOs, SHGs etc. the margin for insurance may not be too high under such arrangements but such schemes have been found to be economically viable. If an insurer has to make its presence felt in a big way, it has to do something for the economically vulnerable sections of the society. So far, this has not happened to the desired extent. Insurers have failed to see the bigger picture. They have mostly done what they were forced to do, by IRDA norms. The business procured through microinsurance in 2008-09 is summarized below:

*"It has always been my belief that a man should do his best, regardless of how much he receives for his services, or the number of people he may be serving or the class of people served."*

*- Napolean Hill*

### TABLE 3 : NEW BUSINESS UNDER MICRO INSURANCE IN 2008-09

| Insurer | Individual | | Group | | |
|---|---|---|---|---|---|
| | Policies | Premium in lakhs | Schemes | Lives Covered | Premium in lakhs |
| LIC | 1541218 | 3118.74 | 6883 | 11052815 | 17268.54 |
| Private | 610851 | 537.81 | 14 | 1498994 | 3326.8 |
| Total | 2152069 | 3656.59 | 6897 | 12551809 | 20595.34 |

* Source: IRDA Annual Report, 2008-09

From the table, it is found that all the private insurers together contributed to only 15% of individual microinsurance sales and about 18% of group microinsurance sales. One thing is to be borne in mind. Today's microinsurance buyers will be tomorrow's high value customers. It is important for an insurer to take a long-term view rather than a short-term view guided by immediate profitability. Even LIC has not done enough in designing innovative microinsurance products. It has just two microinsurance plans – Jeevan Madhur and Jeevan Mangal. Insureres should have launched many more innovative microinsurance products for the rural/social sector.

**There should be more of co-opetition**: There should be more co-operation among insurers alongside the competition. The insurers have to do some work together to change the basic attitudes of people towards insurance. There should also be some uniformity in the format of proposal forms, grace period, claim settlement procedure etc. There will be a huge insurance market here very shortly and that will benefit all insurers.

## WHAT INSURERS CAN DO TO RAISE INSURANCE PENETRATION

We have discussed some of the factors that are responsible for the present unsatisfactory level of insurance penetration. On the basis of the foregoing discussions, we can suggest what insurers can do to clear the roadblock. The objective is to increase insurance penetration for the industry as a whole. We shall take up the factors that inhibit insurance penetration and would suggest what insurers could do to increase penetration for the industry.

## CUSTOMER EDUCATION

We find that Indians in general are saving minded and that middle and upper middle class Indians save a high proportion of their income in various forms. India's Gross Domestic Saving is 37.7% of GDP. According to the MAX-NCAER Financial Protection Survey, 81.4% Indians do some amount of savings on a regular basis! Since there is no social security system in the country, people are very much saving oriented. People primarily save for emergencies as also for the education of their children. People spend very little on life insurance, pension policies or health insurance policies.

There should be education for both the prospective customers and the current customers. There are a lot of prospective customers who can afford to buy life insurance but have not been properly told about the importance of life insurance. When an agent tells a prospect about insurance, the agent is actually more interested to sell insurance policy that fetches a high commission. The prospect ultimately may think that insurance is a product of low merit and that is why the insurer's representative has come to his residence to sell a product. This can definitely happen in places where financial literacy is low. In rural and semi urban areas, people are likely to believe someone who has a proven track record. If someone from a reputed NGO or some people's representative or a civil servant speaks positively about life insurance, a lot of people will feel confident to buy life insurance. So, insurers have to talk to such influential people and request them to advise people to buy life insurance. But that does not mean, an insurer should not do anything directly in promoting customer education. They can take part in rural festivals, fairs and special occasions and should also set up rural camps to spread the message of life insurance. The emphasis should be more on making people understand insurance and less on selling insurance policies. Let the people understand insurance and show interest in buying insurance policies.

In urban areas, people are much more aware of the value of insurance. Only, there should be more websites and magazines dedicated to helping people understand the more difficult concepts associated with life insurance.

There should be different kinds of customer education programme for existing customers. The objective is to reassure customers that by taking insurance policies, they have taken a very correct decision and they must keep the policies in force by paying premia in time. Insurers have to be regularly in touch with the customers for the first few years of the policies because policies generally lapse during this period only. Customers need to be apprised of the features of products and services available. Many customers do not fully know about policy conditions. Many of them, especially those living in rural areas do not know much about alternative channels for payment of premia. If these basic things are made known to them, they will buy the right policies through the agents and they will also use the latest services that the insurers have developed for them. Policyholders have to be contacted by the officials of the insurer also. LIC's Relationship Renewal Programme was aimed at strengthening relationship with old customers and it was a great success. Insurance is a matter of trust and the insurer can make itself trustworthier by contacting the customers through its employees. While the number of customers is huge, meeting some of them at least can enable the insurer to feel the pulse of the customers and also to respond to many of the genuine queries of the customers.

## RECRUITMENT AND TRAINING OF AGENTS

Insurance industry has nearly three million tied agents today. Nearly half the agents are owned by LIC, others by the private insurers. This is a huge number. Managing such a huge sales force is an onerous responsibility for the insurers. When LIC started its journey in 1956, insurance was mostly an urban phenomenon. Rural people had little awareness about insurance. Even urban people did not take insurance too seriously. So, a lot of men and women in cities and countryside took up insurance agency. They took up the agency mostly as a part-time job and not really as a career. There was more of amateurism than professionalism on the part of most of them. Yet, many among them understood their jobs properly and became successful agents and it was these agents who really spread the message of life insurance in the country. But the number of such agents was still not too much as compared to the market size. Life insurance was also sold through agents who had little knowledge on products and financial market. The productivity of most of the agents was low, attrition was high and yet business came through all types of agents.

The emphasis was more on "Land Grabbing". It was thought that insurance selling was basically a number game. But this strategy is not likely to work in the present scenario. Today, people have a lot of choice before them and they are much more knowledgeable also. In the urban areas, people are well acquainted with the financial products available in the market and are also reasonably affluent and sophisticated. What they are looking for is an agent who can play the role of a financial advisor. The agents who will approach them must have some reasonable level of education and sophistication. Now, the kind of 100 hour training a person needs to acquire the IRDA licence is not enough to put the person in the market that consists of highly informed customers eager to know more complicated aspects of the products. So, the insurer has to set up adequate training facilities for their agents and the faculties need to be dedicated professional people. LIC has recently launched a training programme called PROT (Post Recruitment Orientation Training). This is an advanced level training for new agents and the agents are learning a lot of practical things here. Such type of quality training is required for new agents.

In rural areas too, more qualified agents are needed. On an average, the level of financial literacy may be lower there and customers may buy what the agent suggests but if they find that they have been sold a wrong product they will stop continuing the policy and also start avoiding the agent and also the insurer. A lot of mis-selling is taking place there and as a result people are losing faith in the insurer. When the investment products are being sold, quite often an unduly rosy picture is put before the prospects and the risks of making such investments are not properly explained. In fact, ordinary agents are not at all the ideal advisors so far as marketing ULIPs are concerned. The agents can sell such policies only when they fully understand the technicalities involved in such products.

It is found that a lot of tied agents are aged people and they have lost interest in learning the new rules of the game. They are moving around their old customer base and are hardly able to explore niche segments of the market. Such people are hardly productive in the present circumstances and cannot be expected to do much for the insurers. Insurers also have a large number of housewives and retired people. These agents too, are adding little value to the insurers. Such agents were in large numbers at Japan and South Korea and they have now been phased out. The developed insurance markets have a very high proportion of professional agents trained in presentation and communication skills and sound product knowledge. India should also have professional tied agents, with other distribution channels like bancassurance, brokers etc catering to the needs of special market segments.

More and more young people with higher than average educational and cultural background should be recruited. In Germany, insurers recruit agents from varied professions. They even have doctors as life insurance agents! This model enables the agents to penetrate the specific segments in a better way. Again, tied agents should be given standardized training across the country so that the customers know what to expect from the agents of a particular insurer.

## OTHER IMPORTANT OPERATIONAL AREAS

We have already mentioned that Indian insurers think they should be primarily be engaged in selling activities and the best talents should be used in sales related activities only. The fact however is that marketing success depends to a large extent on the quality of servicing, brand image and the capacity to innovate. Indian insurers still feel insurance can be sold by using various “push” tactics and that there can be no alternative to “aggressive marketing”. This has been proved false because the recent surveys show that the customers are looking for a well designed and administered service package as much as they look for a great product. Insurers tend to neglect servicing aspects and that is the reason why IRDA issued Protection of policyholders Regulation, 2002. But insurers must provide better services in their own interest.

We find that the insurers do not pay as much attention to market research, training, data-mining and transparent HR practices. As a result of this, they tend to neglect special areas such as underwriting, actuarial work and datamining. They send their worst people to the internal training centres. The result is that there is talent shortage in major operational areas now. According to a recent McKinsey report, there is shortage of effective managers as well. The insurers are really not investing enough towards creating talent in various areas of their operations. For example, very few insurers are sending their executives to top business schools for doing some MDP programme. LIC has started sending its executives to IIM-Ahmedabad for a rigorous one-year full time course. This is a step in the right direction. The insurers have not yet been able to create right corporate culture to attract best talent available in this country. There is no system of coaching/mentoring for creating management bench. The worth of a manager is still judged only by the First Premium Income (FPI) earned by his unit.

An insurer needs people who are good at motivating their teams to bring FPIs in large volumes. It also needs great underwriters to classify the proposals and charge appropriate premia from the customers. The insurer also needs people who can service the policies for a period of 20 or 25 years or even beyond! The insurer needs people who can walk that extra mile to serve the customer in need. The insurer has also to become a good HR practitioner. Human touch is very important in a service industry and unless the employees feel that their organization is caring to them, they will not be that much caring to the customers. The insurers can engage some consultant to conduct Employee Satisfaction Survey, which can readily tell them the level of "Employee Engagement" in the organization.

Insurers also have to carry out market research and data mining. They already have huge database with them. They must learn how to use the database to their advantage. The data speaks a lot about the behaviour of the customers. The insurers have to understand that and then use suitable measures to retain the customers and also cater to the many other insurance needs of the customers. By studying the behaviour of the customers, an insurer can modify the system and marketing practices also. Similarly, market research is a pre-requisite for marketing success. Indian insurers are not too known for conducting research. But this is indispensable. Without market research, no product can be launched these days. Without market research it is very difficult to keep track of changes in customers' behaviour, income patterns, growth of customers, degree of needs and wants etc. As the market has become demand driven, a lot of market research has to be carried out on a regular basis. Technology is now available to make this job of the insurer simpler.

## RURAL/SOCIAL SECTOR

Rural and Social sector is very big in this country. It consists of about 740 million people of the country. So, no insurance market can exist in this land without addressing this vast segment. Yet, only about 25% of insurers' business (number of lives) came through rural/social sector in the last financial year. According to RBI Report, 2008-09, the share of rural consumption has been varying from 55% to 60% of total household consumption of the country. Again, as per the estimates of MAX-NCAER survey, average annual income of an urban household is Rs.95,827 as against Rs.51,922 for a rural household. But expenses on an average are much higher in urban areas. So insurance penetration must have been much higher in rural areas. Insurers have to devise strategies that can enable them to do business in the rural sector profitably.

The above mentioned figures suggest that the rural sector is not too poor to afford life insurance. They require products suitable to their needs. If insurers do not set up their offices there, they may find getting into the rural market to be difficult in future, when rural incomes will further go up. The problem in rural market is that it is not homogeneous. The market is fragmented and there are many sub segments. Insurers have to employ agents who know local conditions and problems well. LIC did that through its Rural Career Agents scheme. LIC also sells special plans like New Janaraksha Policy, which takes into account the typical uncertainties faced by the rural Indians. LIC's Bima Gram scheme helps the infrastructure development of those villages that display considerable amount of insurance mindedness by buying some minimum number of policies.

In the social sector, it is difficult to sell high value products. The insurers have to sell innovative microinsurance products there. LIC has two microinsurance policies for this sector. It needs to bring out many more. The distribution model has to be different for social sector. To reduce distribution cost, insurers have to tie up with microfinance institutions, NGOs, SHGs etc. These bodies have to act as corporate agents. Life insurance for this sector has to be sold as a mass consumption product. SBI-Life has adopted an innovative process for selling microinsurance. They have appointed many Regional Rural Banks (RRBs) as corporate agents and then given extensive training to a group of employees of the RRBs. These employees are now equipped to sell microinsurance to groups of people belonging to social sector. This type of innovation is required in marketing life insurance in social sector of the insurance market.

## CHANNELS OF DESIGN

Distribution Channels play an important role in enhancing insurance penetration. Tied agents played a vital role in the monopolistic era of insurance industry. But, they may not be too effective now, in some financial niche segments of the market. Insurers should allow them to work in segments where people have much less financial awareness. So, in the rural and mofussil areas, they can still function well. But, customers of some segments of the urban areas look for special services and also sophistication from the distribution channel. Corporate agents including bancassurance is the ideal distribution channel in so far as marketing insurance to financially niche segments is concerned. Brokers can also be very effective for such segments. For financially aware customers, direct marketing can be used. But, bancassurance is surely the most promising channel.

Bancassurance is the channel for the future. All developed markets as well as the emerging markets are using this distribution channel very successfully. Bancassurance account for 62% and 60% of insurance premium earned in France and Italy respectively. Among Asian markets China, Taiwan, South Korea and Hongkong are now able to bring 34%, 34%, 40% and 38% of their premium income respectively, through this channel. In India, bancassurance brings some business these days (8.41% of total) but it can generate much more. The following table shows business brought through various channels by LIC and private insurers in 2008-09.

**TABLE 4: NEW BUSINESS PREMIA OF LIFE-INSURERS SHOWN CHANNELWISE INDIVIDUAL & GROUP COMBINED**

**(In Per Cent)**

| Insurer | Agents | Corporate Agents | | Brokers | Direct Selling | Referrals |
|---|---|---|---|---|---|---|
| | | Banks | Others | | | |
| Private | 47.44 | 19.19 | 9.54 | 1.96 | 21.87 | 8.05 |
| LIC | 76.9 | 1.56 | 0.55 | 0.37 | 20.63 | 0.03 |
| Total | 65.45 | 8.41 | 4.04 | 0.99 | 21.11 | 3.14 |

***** Source : IRDA Annual Report 2008-09

It is clear from the above table that bancassurance is very much underutilized. There can be win-win situation between an insurer and a bank. As banks' spreads are thinning continuously in respect of traditional products, banks want to cross-sell financial products by leveraging their existing distribution strength. This is known as "Universal Banking". The people of this country have tremendous trust in banks. Such bancassurance products can be conceived of, which are substitutes to normal bank deposits. Banks will find them easier to sell. But the real strength of the banks is that there are a lot of affluent customers. Insurers can train the employees of the banks how to sell high value products like ULIPs etc to such customers. As people save in banks for children's higher education, many of the insurers' children's benefit plans can be sold through banks.

Integration between banks and insurance companies are taking place everywhere. Banks are opening insurance companies. Insurers are doing banking business. A bank and an insurer are becoming strategic partners. Everything is possible and can ultimately give customers a multi-dimensional package of products and services. Financial convergence will help customers to get all types of financial services like banking, insurance and security services, under one roof. As the distribution cost under bancassurance model is estimated to be about one-fourth of the cost of distribution through tied-agents, insurers will be able to lower their expense ratios quickly. So insurers have to seek all possible co-operations from the banks they have tied up with. Apart from the present corporate agency model, insurance products can be sold through the referral model, in which banks refer an interested customer to the insurer. A better method is "Wrapper Model" under which a bank sells insurance wrapped around its savings or loan products.

Insurers have to make the banks understand that they can earn risk-free fee-based income. Insurance selling depends on a vast distribution network and it is very expensive to create a countrywide presence by opening branch offices. In fact, the private insurers have also understood this and they are already doing much better than LIC in the matter of using the potential of bancassurance channel. But, LIC must also use this channel profitably. Since they are the market leader, their efforts can increase insurance penetration very fast. In fact, if LIC has to move to the next stage of growth, it has to use more sophisticated channels like bancassurance and brokers since the quality and productivity of their tied agency force are both quite low on an average. There are 65000 bank branches in India and more than 300 million bank customers. LIC can use these infrastructures given the fact that it already enjoys a huge trust and confidence among all sections of the populace.

Insurers should also use bancassurance more intensely because they can involve the bank people in designing and developing products for the customers. They can give more focused training to a generalist sales force working from the premises of the banks. Bank employees are accustomed to sell over-the-counter products. In insurance certain other complicated things like medical and financial underwriting are involved. But there is no reason why the bank people will not be able to learn new jobs given the fact that they are reasonably educated and curious people. The bank employees can do a better job than most other channels because unlike other channels, the bank employees will not depend solely on commission as a source of income. This will prompt them to sell more appropriate policies to the customers. One more advantage is that the insurer can assess the risks in a better way, as the bank people mostly know the customers.

Before using the channel more extensively, there has to be I.T. integration of the databases of the insurer and its bancassurance partner. Right now, banking and insurance products are sold on stand-alone basis. But this needs to be changed. Again, sometimes a bank may ask for special concessional rate of premium for the customers. If that is allowed, channel conflict can arise. Insurers will have to tackle these issues in future.

The private insurers today are using "referrals" as a distribution channel. For the healthier growth of the insurance industry, the use of this channel should be kept at the minimum. The respective channel members of "referrals" have very little stake in the long-term growth of the insurers and therefore, unlike other channels, the members of these channel hardly take any care to bring good lives to the insurers.

## PRODUCT DEVELOPMENT

Product development is considered as a key to creating and capturing growth opportunities. There is hardly any product that is suitable for all segments of the market. The product development cannot be an actuarial exercise only. Characteristics of the individual channels and segments have to be taken into consideration. Again, what the insurers feel about the segment is not the main thing. The question is whether the market is ready to accept the product. This is also known as Customer Perceived Value (CPV). A lot of research is required before the product is launched. Test marketing has to be done among some people of the target segment. Sometimes, some special sentiments of people can be given due importance in the product. Prudential (UK) launched an investment-linked policy in South Korea in 2007. The name of the Fund was "Vietnam Fund". Customers became emotional with the name and the product was a huge success. The South-East Asian life insurance market is growing at a rapid pace now mainly because of segment-specific product development. Insurers have developed microinsurance products for economically weaker sections and they have also developed "Takaful insurance" for the large Muslim population of the region. The "sharia compliant" Takaful insurance has been warmly accepted by 200 million Indonesians. These are examples of how products are to be developed keeping in mind the social, cultural and religious sentiments of a market.

Again, the insurer has to determine the profitability of the product launched. Some of the guaranteed addition products launched by LIC had to be withdrawn because the premium would otherwise have been inadequate to meet the contractual obligations. An insurer has to see whether the price of the benefits is adequate to meet the claims. This is especially needed in case of complicated products involving uncertain outcomes of a lot of macroeconomic variables.

An insurer has to understand the potential of a channel in selling a product and then prepare the commission structure in respect of the product. The insurer must also know the value drivers of a product. In respect of certain plans like Jeevan Pramukh of LIC, the value driver is the high sum assured and banks can sell such products to their affluent customers. For ordinary endowment and term assurance plans, value driver is the volume of sales and the insurer has to be sure whether the market segment is ready to buy the product in large numbers. Again a lot of market research is necessary, to understand the mood of the market.

Indian insurers take unusually long time in developing a product. If the insurer is sure that a certain type of product can earn business success when launched immediately, it must be able to complete all stages of product development very fast so that the opportunity does not go away.

Before launching a product for a segment, the insurer has to see the past data in respect of performance of similar kind of product in that segment. As insurers have huge databases, they can discover a lot of facts. If a high proportion of term assurance policies get lapsed in in a certain segment, it may mean that this type of policy may not be suitable now for the segment. Perhaps, a few years later, customers of the segment will be enlightened enough to appreciate the worth of such a product.

For the rural sector, a totally different set of products have to be developed. Rural people may be in a position to pay premia during particular seasons of the year. For them, products with features of Seasonal Premium Payment (SPP) may be launched. Again, there may be some products, which have provision to pay money back installments at some particular festivals or other special occasions. Research conducted by FORTE in 2004-05 revealed that rural people generally prefer to have a single policy containing death and accident benefits plus provision of getting loan and health insurance benefits. They will also be happy if the same policy contains crop insurance cover and property insurance cover as well. Insurers should be able to tie up with the general insurance companies for developing such multi-purpose products for the rural people.

## LAND TO BE MADE READY FOR A GOOD HARVEST

Everyone wants good harvest from his land. But to get that, one has to make the soil adequately ready. Cultivation includes all mechanical measures to loosen, turn or mix the soil such as ploughing, tilling, digging, hoeing and harrowing. This will improve the soil's capacity to retain water, its aeration, capacity of infiltration etc. Fertiliser of optimum amount has also to be added to the soil before sowing the seeds. Unless these measures are taken, it is not possible to get good harvest. Every insurer longs for great sales and market share. But, unless one does the groundwork well, the desired results are not likely to come.

To increase insurance penetration, customers have to be prompted to buy more life insurance at a given level of income and they have to buy additional insurance as and when their incomes go up. To increase penetration, uninsured people have to be motivated to buy insurance. For all this to happen, an insurer has to devote time, energy and money to do certain important things. It needs to invest its resources on customer education, training of manpower, creation of right corporate culture and engaging in sound market research to know the customers intimately. Unless these are done, no great result can be forthcoming. Just by toiling in the market for the whole day and adopting "aggressive" marketing policy, the products will not be sold in desired numbers. Insurance is not such a product, which everybody is waiting to buy. At least, such is not the state of financial literacy in this country now.

Insurance is not a consumer product. It is not like a washing machine or a refrigerator. In respect of a consumer product, a customer knows within a few days whether the product is good or not. This is not so in the case of life insurance. When a person buys a policy, she does not know whether all policy conditions and risk factors have been fully explained to her. She does not even know whether the insurer will deliver the promised service at the moment of truth. Why should she then buy? She will buy on the strength of a faith that the insurer is dependable. All insurers have to earn this faith by dint of good services and brand image.

The present insurers will shape the future of the Indian insurance industry. If they want insurance penetration to increase, they have to do a lot of groundwork for the market. The market is still not mature. Responsibility rests on them to make it matured. After that, there will be space for all insurers to grow. It is nice to see the scoreboard moving, for a batsman in a cricket match. But the scoreboard will move for one who is strong in fundamentals and application. Tendulkar does not check the scoreboard every time he takes a run. The applause of the spectators tells him that he has reached another milestone. Similarly, the emphasis of insurers now has to be on patient and sincere application of resources, energy and skill for the long-term benefit of the market. After that, the result will surely come. In the words of a great Indian sage, "one who knows how to wait patiently does not have to wait long".

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***– Nirjhar Majumdar***

***Member of Indian Insurance Institute, Kolkata***

***"A man's excellence is like that of water; It benefits all things without striving; It takes to the low places shunned by men. Water is akin to Tao. . . . In all the earth nothing weaker than water, Yet in attacking the hard, nothing superior, Nothing so certain in wearing down strength: There is no way to resist it. Note then: The weak conquer the strong, The yielding outlast the aggressors."***

***- Lao Tse***

# THE PHILOSOPHY OF LIFE INSURANCE

***D. Gopalakrishna***

*Why fear death? It is the most beautiful adventure in life.*
*- Charles Frohman*

*As we look forward to new dimensions and shapes that life insurance would take in future, it is necessary to also look back – from where have we come; Does the concept of life insurance have any roots in the ethos of Indian social life. This article may provide some useful perspectives on these questions*

The object of insurance is to mitigate suffering in the event of an unforeseen contingency. To achieve this end, the principle of co-operation is employed, the loss suffered by a few being distributed over the community at large. Long before the business of insurance became established as a commercial enterprise the germ of the idea made its appearance. The growth of the idea to an institution of the size and importance of the life insurance business today is the result of a long period of evolution.

In India, insurance has a deep-rooted history. It finds mention in the writings of Manu (*Manusmrithi*), Yagnavalkya (*Dharmasastra*) and Kautilya (*Arthasastra*). These writings talk in terms of pooling of resources for re-distribution in times of calamities such as fire, floods, epidemics and famine. This was probably a pre-cursor to modern day insurance. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carriers' contracts. Insurance in India has evolved over time heavily drawing from other countries, England in particular.

The early development of insurance was spasmodic and usually in fields other than life insurance. Some contingencies might happen any day; but death and its consequences are matters somewhat different and beyond one's control. One could provide for one's dependants by accumulating wealth; but though this method was often unsatisfactory, the alternative notion of insurance did not cross the minds of people in those days.

Insurance of life has so much historic value. Our forefathers, who were averse to thinking about death as an insurance risk, did not have the same objection when it came to making arrangements for a proper and decent burial. They believed that a peaceful departure from this world was necessary to secure peace and happiness in one's next birth. Insurance against death was regarded, and has been regarded till very recently, as lack of belief in God and his goodness. Such thinking was not conducive to the growth of the life insurance institution. Thus, life assurance appeared to conflict with spiritual and philosophical ideas that were thousands of years old, and the notion of an individual providing for his/her dependents on his/her death was most disturbing.

By and during the 19th century, Indians were generally becoming aware of the benefits and utility of life insurance, though there was widespread apprehension that insuring one's life meant courting death. In the local languages of India, life insurance was often described as 'Registration for Death'. Thus, despite the inimitable advantages that insurance offered to the people, its path in our country has not been smooth, given the manifold prejudices born out of conservatism, illiteracy, shyness etc. With the completion of the various Five Year Plans of Republican India, the general prosperity of the people has improved. Post nationalization, the Insurance industry in India has also grown at a rate consistent with the prosperity of the nation.

In India, religion has played an important role in the lives of the Hindus. The institution of **Dharma** or **Charity** in a sense underlies the structure of Hindu religion, and in fact, of all religions. The concept of **Dharma or Charity** implied that every worker help his neighbour during difficulties and even meant that one ate his or her food for the day only after finding a needy person to feed. Temples, by virtue of endowments made by kings, had a lot of wealth available for catering to specific needs. There were supplemented by voluntary contributions too, where necessary. We find these prevalent even today, in many villages, especially in South India.

A person belonging to any religious belief may have the desire to contribute to charity but he/she may not have the wherewithal to do so. Life Insurance can help and enable such people to do so in their humble way. The policyholder contributes in the shape of premiums without knowing that he is helping those unfortunate families who lose their breadwinner quite prematurely. Life Insurance is a cooperative venture among people exposed to the risk of death, for sharing that risk whenever it takes place.

The invaluable uses of life insurance are amply established. The protection of the family's independence is the first and major use of life insurance. Establishment of a family, in most instances, brings a degree of dependence upon its head. The element of family dependence gets intensified with the birth of children. In most families where the father is sole earner, the sudden and premature termination of his life may bring want and even destitution, where once there was plenty. To forestall such a contingency, life insurance performs one of its most important functions. Nor is dependency limited to wife and children. Aged parents have every right to expect assistance from their children if they are in need. In the case of the dependant aged, the process of readjustment is frequently far more difficult than of a dependant wife and children following the death of the producer. Employment is frequently out of the question for the aged. In the case of the wife and children, drastic readjustment of living standards may be necessary, but following such readjustments, a normal mode of living is then possible.

Apart from the value of life insurance to individuals, its social value is reflected in benefit to the community at large. Insurance, as all men now agree, is the greatest blessing that modern times have bestowed upon mankind. It enables man to leap over the barrier of death; to overcome the grim fear that his loved ones may some day have to depend on the charity of others; it enables him to project himself into the future and in a real sense, even if he dies, to live again. The immortality that comes to a man who has insured his life for the protection of his widow and children is certain evidence of a mental and spiritual development that ought to make man rank high in the future world. The institutions that furnish this great service to the masses of the people, also encourage thrift, remove anxiety, destroy fear of the future and create a sense of self-respect. They have also ushered co-operation for social upliftment that has not seen precedence at any time in the history of the world.

Thus, from the point of family, insurance has much significance. Family is an important social unit, the very keystone of society. If this view of the family is accepted, life insurance emerges as an important factor, contributing to the stability and continuance of the family, as we know it. Life insurance tends to increase the sense of responsibility of the individual, and offers a scope for the exercise of those qualities of foresight and solicitude for one's family. The man, who enters married life, without considering not only the probabilities, but also the possibilities, finds himself encumbered with responsibilities which he can not transfer to others, and which will continue to be a source of anxiety in the future. Life insurance is one of the agencies, which improves the mental, moral and/or material circumstances of citizens, raises the condition of the community of which they are members, thus benefiting the State. Thus, it promotes the welfare of the society by properly protecting the social unit - the family.

Life insurance deals with the hazards of life. In contrast, general insurance deals with hazards to property. Property is that tangible or intangible asset, which is created by the person who is a living being. A strange, yet common, phenomenon may be discussed here. When approached to insure a car against all possible hazards, the owner does not hesitate much, but when asked to insure his/her own life, because of which the car has come to be owned by him/her, he/she not only wants to postpone the decision, but often avoids talking about it. Life is so precious that to even think about its possible loss is frightening. To talk about it is bad, and to discuss it in the presence of the family is unwelcome. In this connection, an episode from the great epic, Mahabharata, may have relevance. The Pandavas were roaming the jungles, having lost all in a gamble with the Kauravas. When Draupadi felt thirsty, Sahadev, the youngest of the Pandavas, went to fetch water. When he did not return, Nakul went and he too did not return. Arjun and Bhim, the other brothers, followed. But none came back. Yudhishtir was worried, and he himself went to look for his brothers. On reaching a pond, he found his four brothers dead on its bank. He went near the pond to drink water, when he was stopped by a voice from heaven. "O Yudhistir," the voice said, "Do not drink the water before replying to my question. Your brothers have died because they did not obey my order." Yudhistir, the wise, wanted the question to be asked. Thus the Yaksha asked:

"*Kimascharyam kah* ? (in Sanskrit). When translated in English, it means: "What is the most astonishing thing in life?" This was one of the several questions asked, but the only one relevant to our subject. The answer that Yudhistir gave runs as follows:

"*Ahanyahani Bhootani Gachhantih Pravishanti Yamalayam Shesah Sthawarmichhanti Kimascharyam Atahparam*" (in Sanskrit). When translated in English, it means: "Through day and through night, people die and enter the abode of Yama, the God of Death. But those who are left behind think themselves to be immortal. What can be more astonishing than this?" There is truth in the saying "All men think all men mortal but themselves!" Death is a sublime theme of reflection---it is a natural phenomenon. Therefore, one should not grieve for what is inevitable and unavoidable, exhorts Lord Krishna (the Supreme Being) in Gita, the 'Song Celestial.'

It is said, "It is the greatest miracle that knowing death to be inevitable, man never thinks of it." (Mahabharata). It is probably God's gift to man that he is not unduly worried about death, for the fear of death would make all planning and economic activities impossible. However, not to be aware of the possibility of death, sometime or the other would make one callous and irresponsible. It is criminal not to think of the possible financial consequences of an early demise on the dependants.

The same theme---transitory nature of human life---continues in a story from the Buddhist Jatakas. Bhagwan Buddha was roaming through villages for propagation of his faith, when a widow approached him with her dead child on her shoulders. She said, "Oh God, I have lost my child, please give him back his life. He is the only support of my old age and I cannot live without him." Bhagwan Buddha expressed his full sympathy with her, but said that he was helpless, that life is transitory, that death is an irreversible process, and that she had to live without him. This was not acceptable to the widow. She went on insisting that the child could become alive, if only Bhagwan Buddha wanted. As Buddha failed to bring home the eternal truth of life, he asked her to bring a fistful of mustard from any home from a nearby village. The condition he laid down was that it must be brought from a house, which had never been visited by death (i.e., nobody has ever died in that house). The widow considered the condition too easy to satisfy, and thus, went to the village to collect a fistful of mustard from a house never visited by death. But to her utter surprise, there was no house in which somebody or the other had not died before. Somebody had lost his father, somebody a husband or a child, or some other near and dear ones. She came back frustrated, fell at the feet of Buddha, and repented for her foolish insistence.

The essence of the story lies in the fact that people strongly believe that death is something which shall befall others, not to oneself. It is like Americans believing that the terrorists can attack Kashmir, but never the affluent Americans. But when it did, all hell broke out. The purposeful mission of life insurance is to bring home the realization that life is ephemeral, that needs shall continue for the family even after the death of the breadwinner, and that provision has to be made for this inescapable eventuality as the legitimate duty for the family. Underneath all life insurance, there is a basic realization that after all, untimely death is a possibility and that life insurance is not only the best way to provide for such an eventuality, but is also the only way to mitigate its financial consequences.

The discussion of the just philosophy of life insurance takes us to the realization of the responsibility factor of the individual towards his family. People who recognize this legal responsibility can never sleep in peace without provision of adequate life insurance. If one lives by himself, without anybody depending upon him, he probably does not need life insurance. For his old age, any form of savings would serve the purpose equally well. Any normal human being like us lives with his/her family, loves his/her wife/husband and children, and is committed to their wellbeing. In fact, we live for them. That inspires us to work harder, climb steeper mountains and achieve higher goals.

Birth and death are the only definite and certain events of life, all other intervening events being uncertain. Uncertainty is the only certainty in life. In our worldly life, wherever there is uncertainty, there is an involvement of risk. The instinct for security against such risk is one of the basic motivating forces determining human attitude, i.e., human behaviour and action. As a result of this quest for security, the concept of insurance must have been born. For the purpose of insurance, the existence of risk is necessary. Risk has been defined as uncertainty. If there is a *certainty* that a loss will occur, there is no risk, and hence there is no insurance. On the other hand, if there is certainty that a loss will *not* occur, here again there is no risk and hence no insurance. Death, people argue, is a certainty and hence violates this principle. That is not so. In life insurance death is not insured. **It is the uncertainty about the time of its occurrence that is insured.** The word "insurance" owes its origin to the word "insure", "ensure" or "assure" which means to secure the payment of a sum of money in the event of loss or damage to either life or property, as per the contract made thereof, but not as per the actual amount of premium or contribution paid. It is not only for contingency reasons, but also for a feel-good factor like security against any risk to life or property. The warranted need to provide insurance or protection against the loss of life and property must have prompted people to make some sort of sacrifice willingly, in order to achieve security through "collective cooperation". In this sense, the story of insurance is probably as old as the story of mankind. It has always been the endeavors of mankind to devise measures of security against financial adversity. Insurance is the result of man's judicious ingenuity in this direction.

## CONCEPT OF COLLECTIVE PROTECTION

The concept of insurance is based on collective cooperation. The early history of life insurance is enveloped in the mists of antiquity. Collective cooperation among people exposed to a particular risk, in order to share that risk, whenever it takes place, which we know as insurance today, is as old as humanity and the dawn of human civilization. The Aryans had evolved a system of village and community life, which gave a measure of protection against the ravages of time, providing sustenance to everyone. Other civilized people of the world had also conceived, independently, the idea of collective protection. A reference is available in the Rig-Veda, as stated by F.J. Mclean in his book, 'Human Side of Insurance'. It has been stated "the Sanskrit term '*Yogakshema'* (meaning well-being) is found in the Rig-Veda and that some kind of communal insurance was practiced by the Aryan tribes in India nearly 3000 years ago. The Vedic Rishis knew about it. Their songs of benevolence contained the term "Yogaskhemam*"* – an idea which has been vivifying the Indian thinking since ancient times." The fact that the State is to concern itself with the welfare of its subjects proves that what we have here in 'Yogakshemam' is something like the idea of a welfare state. Ensuring the Yogakshemam of the subjects is one of the foremost duties of the State. The Manusmriti also supports the system of 'collective cooperation' as practiced by the Aryans.

The Aryan society provided against many eventualities for everyone. The mutual help system of the Aryans started with the birth of the child. The society contributed to add to the comforts and colors on festive occasions, or to lessen the miseries of the widows and other members of the bereaved families where death occurred. Besides, other institutions like village panchayats, temples and charitable institutions also provided protection from the rigors of misfortune to a person and his dependants.

The protection of banyan tree is applied to the family system in India, because there was a special feature peculiar to Indian culture---the institution of joint family, which, for ages, continued to afford complete protection to all its members. The education and marriage of children, the maintenance of old and infirm members of the family, and the widows of the unfortunate who died, were the joint responsibility of all the members of the family. A system resembling self-insurance was thus developed through the family system. It is said that the joint family system is a scheme of mutual helpfulness, a little cooperative society, a miniature labour organization and a diminutive insurance concern. The Hindu society rested on this principle for thousands of years.

So much so, the joint family system was a sort of legalized fortification against insecurity. In a sense, in India, particularly a variety of social security programmes were in existence from time immemorial, but in different complexions. The joint families, with the *Kartha* as the head, the village panchayats and community guilds, the religious and charitable institutions, used to provide assistance to the needy for various risks and calamities that occurred. The social structure in those days, as *Manusmriti* and *Kautilya's Artha Sastra* testify, was evolved and the social codes were designed in order to provide security to all in the community. Thus, the concept of insurance was not unknown in ancient India to the Hindus, who are believed to have the oldest civilization among the nations. Their overseas traders practiced a system of marine insurance. The joint family, a unique system of social organization even today, was a device, par excellence, of social insurance of every member of the family throughout his/her lifetime.

Under the all-pervading shadow of this banyan tree, the members never suffered from want. It was only with the advent of modern ideas of individualism that some members started feeling that their own development was probably being thwarted. Let us imagine, for instance, a case in which one family is dependent on one single individual. His sudden death or incapacity would mean pauperism or beggary for the other members. With the break-up of the joint family system in our country, the problem of protection of the dependants of a breadwinner has become even more acute. Every head of the family needs to, therefore, very carefully plan his/her future in a way such that he/she makes adequate provision for himself/herself when he/she becomes old, incapacitated or disabled, and for his/her dependants in case of his/her untimely death. Thus, the Indian joint family system is a kind of social insurance.

The Hindu joint family was the original cell of security. But, the system of joint family could cope only with limited misfortunes. When larger calamities occurred, appeals were made to the neighbours or guilds, which readily responded. Ancient Indian literature, like the Rig-Veda and the Upanishads allude to this. Security for life, property and freedom from want and misery were provided for in a moderate measure. But, organized form of social security as a statutory measure is of very recent origin. The community culture and the village system, which traditionally took care of social celebrations, and the customary collective support rendered by the community through public contributions such as donations or charity, on occasions such as marriage, death and baptism, used to provide e a grain of support and sustenance for the ill-provided.

To provide 'social justice' to all the people, the Indian Government thought of nationalizing the life insurance industry, which finally took shape on September 1, 1956. The scheme of nationalization was a measure attempted and perfected over a period of years. The nationalization of life insurance business was felt to be a need "in the *public interest*, as a *public utility* and as a *social service*." Explaining the rationale behind nationalization, the then Finance Minister, Sri C.D. Deshmukh said, "Nationalization is justified on many other grounds of **ideology, philosophy and the objective of a welfare state**."

Sarvepalli Radhakrishnan, the then Vice-President of India hoped that the LIC (Life Insurance Corporation) will work for the **ideal of a welfare society,** inspiring confidence in the people and assisting the government to carry out its plan for the economic well-being of our country. The then President of India, Rajendra Prasad said, that the LIC will encourage the habit of thrift among the people and help them to provide against the rainy day. At the same time, it will enhance the resources at the disposal of the government for the economic development of the country."

The motto for the LIC and the designation of a suitable logo was adopted from the last quadrant of verse 22 of Chapter IX of the Gita. It runs as:

"As for those who worship me, thinking of me alone and nothing else, ever attached to me, I bear the burden of getting them what they need/or for getting them what they have not and guarding/protecting for them what they have."

"The context in which the word has been employed as the motto of the LIC, one can interpret this word "Yogakshema" from two different stand points. If looked at from an individual policyholder's point of view, it would appear, it is he who practices Yoga, by working hard, day and night and earning, which he had not done before, while it is that carries on his (policyholder's) Kshema by assuring safety and security. Looked from a collective point of view, of the country as a whole, it is LIC, which practices both Yoga and Kshema. It collects a vast amount of wealth from its innumerable policyholders by way of premium and **ensures the welfare of the whole country**, including, of course, the policyholders by investing and directing the funds in activities, which contribute to the economic prosperity of the country. Looked at from either angle, the ideal of Yogakshema, signifies the willing, well meaning and spontaneous joint partnership between Policyholder and LIC, **for the general well-being of the whole country**" - Saga of Security.

The protective hands of life insurance and assuring continuance of the glow of life (as symbolized by the luminous flame of a lamp) are the insignia of the Life Insurance Corporation of India.

In this background, the gigantic LIC has spread its influence to the farthest reaches of the nation. Its symbol of a lighted lamp, with its two protective hands spreads to the *weakest and poorest sections of our society*, to the toiling masses and their illiterate or semiliterate families.

"In the humblest of homes our flames burns bright" and "Hands that protect, hands that serve," while describing that symbolic logo, are no idle boasts.

After the opening up the insurance industry to private players, the Insurance Regulatory and Development Authority (IRDA) too has exhorted all the players in the insurance industry, to follow the same ideology and philosophy, in the true spirit of its mission of reaching all sections of the population, in fulfillment of the objectives of liberalization of the insurance industry.

***– D. Gopalakrishna,***

***Retd. Sr. Officer, LIC of India, Visakhapatanam***

*"I'm slowly becoming a convert to the principle that you can't motivate people to do things, you can only demotivate them. The primary job of the manager is not to empower but to remove obstacles."*

*- Scott Raymond Adams*

# बीमा में बीमाकर्ताओं द्वारा अनैतिक विपणन अभ्यास

*प्रमोद कुमार वर्मा*

विपणन दृष्टिकोणों में समय–समय पर परिवर्तन होता रहता है। वर्तमान में विपणन में समकेतिक (integrated) दृष्टिकोण का प्रयोग हो रहा है। विपणन कार्यक्रमों के मिश्रण द्वारा उपभोक्ताओं की इच्छाओं की पूर्ति संतुष्टि के साथ प्रसन्न रखने का प्रयास किया जा रहा है क्योंकि उपभोक्ता ही वह धूरी है जिसके चारों ओर सम्पूर्ण विपणन क्रियाएँ निष्पादित की जाती हैं। कम्पनियाँ उपभोक्ता सन्तुष्टि के लिए करोड़ों रूपये खर्च कर रही है यह व्यय तभी अर्थपूर्ण सिद्ध हो सकता है जब कम्पनी उपभोक्ताओं के साथ नैतिक व्यवहार करे अन्यथा अनैतिक विपणन के कारण ही उनमें असन्तुष्टि की मात्रा में वृद्धि होती है। यह देखा गया है कि सफल विपणनकर्ता वस्तु एवं सेवा के विपणन में नैतिकता को प्रथम स्थान देते हैं। प्रस्तुत शोध अध्ययन दो खण्डों में विभाजित है प्रथम– बीमा सिद्धान्त से सम्बन्धित बीमाकर्ताओं का अनैतिक व्यवहार तथा द्वितीय– बीमाकर्ताओं द्वारा अनैतिक विपणन अभ्यास। इस शोध में जिन अनैतिक विपणन अभ्यास सम्बन्धी तथ्यों एवं पहलुओं को प्रस्तुत किया गया है वह अनेक फोकस ग्रुप, बीमाकर्ताओं से साक्षात्कार एवं अवलोकन विधि द्वारा संकलित सूचनाओं पर आधारित है तथा अन्त में अनैतिक विपणन अभ्यास को नियंत्रण करने सम्बन्धी सुझाव प्रस्तुत किये गये हैं। इस अध्ययन के क्रम में सर्वप्रथम नैतिकता/नैतिक (Ethics) को स्पष्ट किया गया है।

नैतिकता/नैतिक (Ethics) में मानव कर्त्तव्य का सिद्धान्त, सदाचार सिद्धान्त का अध्ययन, मानक एवं सिद्धान्त का समाविष्ट जो समाज के व्यक्तियों एवं समूह के व्यवहार को मार्गदर्शन प्रदान करता है, समाज द्वारा सामान्यतः मानक व्यवहार की स्वीकृति किन्तु विधान से परे व्यवहार, जिसे एक समाज न्यूनतम नियम से स्थापित कर सके, इत्यादि को शामिल किया जाता है। विपणन में नैतिकता का अर्थ बेईमानी के साथ निर्गमन पर विभ्रान्त (Misguide) गलत व्याख्या या अर्थ (Misinterpret) तथा मिथ्या निरूपण (Misrepresentation) की स्थितियों से बचाव को नैतिकतापूर्ण विपणन कहा जा सकता है तथा बीमा विपणन में नैतिकता के समाविष्ट में, बीमापत्र सम्बन्धी तथ्यों की उचित प्रस्तुति जो बीमा सिद्धान्तों एवं प्राधिकरण द्वारा निर्मित वैधानिक दिशा–निर्देशों को ध्यान में रखकर विपणन क्रिया को सम्पन्न करना ताकि प्रस्तावक एवं बीमाकर्ता के बीच जो संविदा निर्मित हो वह सर्वमान्य सत्य हो तथा प्रस्तावक (ग्राहक) अनुभव करे की उसे किसी प्रकार से धोखा नहीं दिया गया है यह बीमा विपणन में नैतिकता को प्रकट करता है इसके विपरीत क्रियाओं को अनैतिकता की श्रेणी में रखा जाता है। प्रस्तुत शोध के प्रथम खण्ड में अनैतिक विपणन अभ्यास जो बीमा सिद्धान्तों के विपरीत कार्य करने को प्रेरित करता है। इसमें बीमा के, परम सद्विश्वास (At most good faith), क्षतिपूर्ति का सिद्धान्त (Principle of

Indentity), प्रस्थापन सिद्धान्त (Principle of Subrogation), समाश्वासन (Warranties), आसन्न कारण (Proximate Case) इत्यादि, सिद्धान्तों को प्रस्तुत किया गया है।

## प्रथम खण्ड

**बीमा में परम सद्विश्वास का सिद्धान्त एवं अनैतिकता–** परम सद्विश्वास सिद्धान्त बीमा सम्बन्धी महत्वपूर्ण तथ्यों को समाविष्ट करता है। इस सिद्धान्त के अन्तर्गत बीमित (ग्राहक) की जिम्मेदारी है कि वह बीमित वस्तु से सम्बन्धी सभी महत्वपूर्ण बातों को प्रकट करे। इन तथ्यों में सही आयु का प्रमाण–पत्र, आय की सही जानकारी, यदि पूर्व में किसी बीमारी से ग्रस्त था तो उसका विवरण, परिवार के स्वास्थ्य का इतिहास, कार्य का विवरण, निवास स्थान, बच्चों की संख्या इत्यादि, की जानकारी बीमा कम्पनी (बीमाकर्ता) को उपलब्ध कराई जाए। इस प्रकार बीमाकर्ता का भी कर्तव्य है कि बीमापत्र सम्बन्धी सभी तथ्यों जोखिम आवरण, बीमा की प्रकृति, प्रकार, बीमा में सुविधा, प्रीमियम एवं दावा राशि इत्यादि को बीमित के समक्ष प्रकट एवं स्पष्ट करे। जब दोनों पक्ष निष्पक्ष रूप से बीमा सम्बन्धित जानकारी एक दूसरे को सम्प्रेषित करते हैं तब बीमा का परम सद्विश्वास का सिद्धान्त लागू होता है।

किन्तु सामान्यतः व्यवहार में ऐसा देखने को नहीं मिलता। बीमित अपने व्यक्तिगत विवरण को स्वार्थवश सत्य नहीं बताता जिसे बीमित पूर्व में ही निश्चित कर लेता है जो बीमित के नैतिक पतन को व्यक्त करता है। असत्य, मिथ्या, धोखे के उद्देश्य के कारण बीमित को ही सबसे अधिक हानि बीमित राशि के भुगतान एवं दावा राशि प्राप्त करते समय होता है। कभी–कभी जाँच के कारण दावा राशि को निरस्त या रोक दिया जाता है। बीमाकर्ता (अभिकर्ता) द्वारा जब इस सिद्धान्त के विपरीत बीमापत्रों का विक्रय किया जाता है तो इससे अन्य बीमा विक्रयकर्ताओं को बीमापत्रों की बिक्री में बाधा उत्पन्न होती है तथा इसका प्रभाव बीमा कम्पनियों की साख पर पड़ता है। इसका दुष्परिणाम उस समय देखने को मिलता है जब बीमित बीमाकर्ता के विरूद्ध न्यायालय की शरण लेता है। इन दोनों पक्षों में से गलती किसी की भी हो, समस्या दोनों के सामने उठ खड़ी होती है। विक्रयकर्ताओं द्वारा बीमित को बीमापत्र विक्रय करते समय बीमापत्र सम्बन्धी तथ्यों को तोड़–मरोड़ कर एवं रिटर्न की गारण्टी नहीं देना चाहिए, ऐसे बीमापत्रों का विक्रय नहीं करना चाहिए जिसकी आवश्यकता बीमित को नहीं है। इन तथ्यों पर बीमाकर्ताओं को विशेष ध्यान रखने की आवश्यकता है ताकि इस सिद्धान्त के अनैतिक प्रयोग से बचा जा सके।

**बीमा में क्षतिपूर्ति का सिद्धान्त एवं अनैतिकता–** बीमा क्षतिपूर्ति के सिद्धान्त में बीमित को केवल क्षतिपूर्ति ही की जाती है हानि से अधिक की पूर्ति नहीं की जाती। बीमाकर्ता केवल हानि या बीमित रकम जो भी कम हो उसी का भुगतान करता है उससे अधिक का नहीं। इस सिद्धान्त में बीमाकर्ता बीमित को हानि पर उसे हानि के पूर्व की स्थिति में रखता है। क्षतिपूर्ति सिद्धान्त के कारण ही आज बीमा व्यवसाय जुआ नहीं हो पाया अन्यथा लोग अपनी सम्पत्ति का अधिक मूल्य से बीमा कराकर उसे नष्ट कर बीमित रकम का लाभ उठाते। इसी सिद्धान्त के कारण बीमापत्र में कमी आती है।

किन्तु फिर भी, आज उपभोक्ताओं में नैतिक पतन के कारण इस सिद्धान्त के विपरीत दुष्कृत करने में संकोच नहीं करते। एक दो पहिया वाहन को बीमित ने अपनी गाड़ी को सर्वेक्षण हेतु बीमा कम्पनी को सूचित किया कि मेरी गाड़ी दुर्घटना ग्रस्त हो गई है। सर्वेयर गाड़ी की जांच–पड़ताल करता है और बीमा की रकम लगभग तीन हजार बीमित वाहन को क्षतिपूर्ति हेतु प्राप्त हो जाता है जबकि यथार्थ कुछ ओर था गाड़ी दुर्घटना ग्रस्त नहीं थी। वाहन स्वामी ने अपनी रिश्तेदार के दुकान को दो पहिया वाहन मरम्मत करता था उससे मिलकर दूसरी गाड़ी के टूटे एवं क्षतिग्रस्त सामान को लगाकर बीमा होने का अनुचित लाभ लिया। इस घटना की जानकारी अवलोकन विधि द्वारा हुआ। यदि इस धोखाधड़ी की सूचना बीमा कम्पनी को हो जाती तो परिणाम स्वरूप वाहन स्वामी को कारावास या मुकदमें का दंश झेलना पड़ता। ऐसा कर व्यक्ति दूसरों को भी गलत करने को प्रेरित करता है।

दूसरी ओर, बीमाकर्ता भी इस सिद्धान्त के विपरीत अनैतिक व्यवहार में संलिप्त पाये गये। एक ही वाहन हेतु बीमा प्रीमियम विभिन्न बीमा कम्पनियों द्वारा अलग–अलग वसूल किया जाता है। जब इसके सम्बन्ध में अभिकर्ताओं से कहा जाता है कि इस कम्पनी का प्रीमियम आपकी कम्पनी से कम है तो वे तुरन्त गुणा–गणित के प्रयोग से अपना प्रीमियम दूसरी कम्पनी से कम निर्धारित कर देते हैं और ग्राहक उसी कम प्रीमियम में वाहन का बीमा करता है। किन्तु इसका परिणाम वाहन स्वामी को उस समय दिखाई देता है जब वह गाड़ी की क्षतिपूर्ति का दावा करता है तब उसे एहसास होता है कि जो सुविधा उसे चाहिए था वह वाहन जोखिम आवरण में उपलब्ध ही नहीं था। वह पुनः विचार करता है कि कुछ अधिक प्रीमियम भुगतान कर इन दावों का आवरण प्राप्त कर सकता था। इस प्रकार ग्राहक को कम प्रीमियम का लालच देकर एवं सुविधा की उपलब्धता को गलत बताकर बीमाकर्ता बीमा क्षेत्र में अनैतिक व्यवहार को निपुणता से सम्पन्न कर रहे हैं।

**बीमा प्रस्थापन का सिद्धान्त एवं अनैतिकता–** बीमा में प्रस्थापन का सिद्धान्त प्रत्यक्ष रूप से क्षतिपूर्ति सिद्धान्त से जुड़ा हुआ है। यह सिद्धान्त स्पष्ट करता है कि क्षति या हानि से अधिक बीमा रकम बीमा कम्पनी या किसी अन्य व्यक्ति से प्राप्त होती है तो हानि से अधिक रकम बीमाकर्ता द्वारा वापस लिया जाता है। क्षतिपूर्ति सिद्धान्त को लागू करने में यह सिद्धान्त अपनी महत्वपूर्ण भूमिका निभाता है। बीमा विषय–वस्तु सम्बन्धी हानि की क्षतिपूर्ति करते समय बीमा कम्पनी उस क्षति की पूर्ति करने के बाद बीमित वस्तु के अधिकार, दावा या प्रतिभूति पर अपना अधिकार कर लेता है परन्तु वह केवल भुगतान की गयी रकम तक ही प्रस्थापित कर सकता है, भुगतान से अधिक रकम बीमाकर्ता प्राप्त नहीं कर सकता। इस सिद्धान्त के महत्व को बीमाकर्ता या तो समझते नहीं या प्रशिक्षण के समय उन्हें समझाया ही नहीं जाता। कुशल बीमा प्रशिक्षक की कमी के कारण ही विक्रयकर्ता बीमापत्रों का विक्रय करते समय अनैतिक क्रियाओं का सहारा लेते हैं। बीमाकर्ताओं की धूमिल छवि के कारण ही उन्हें बीमा व्यवसाय के लिए संघर्ष करना पड़ता है तथा ग्राहक भी अपने स्वभाव के चलते (अनिच्छित व्यवहार) आग में घी का कार्य करता है।

**बीमा में समाश्वासन एवं अनैतिकता–** बीमा प्रसंविदा कुछ शर्तों के अन्तर्गत सम्पन्न किया जाता है इन शर्तों को समाश्वासन कहते हैं। समाश्वासन बीमित द्वारा की गयी प्रतिज्ञा या वचन है। इस प्रतिज्ञा के अनुसार बीमित किसी विशेष काम को करने या न करने का वादा करता है यह दो प्रकार का होता है प्रथम– लिखित समाश्वासन तथा द्वितीय– उपलक्षित समाश्वासन (Implied Warranties)। लिखित समाश्वासन बीमा बंध में स्पष्ट रूप से मुद्रित रहता है तथा उपलक्षित समाश्वासन बंध पर लिखे हुए नहीं रहते परन्तु लिखे हुए समझे जाते हैं। जैसे बीमित, बीमापत्र लेते समय स्वस्थ है तो आगे भी बीमित कुछ ऐसा कार्य नहीं करेगा, जिससे उसके जीवन के लिए या सम्पत्ति के लिए खतरा उत्पन्न हो।

किन्तु नैतिक पतन के कारण बीमित, बीमा के आवरण ग्रहण करने के बाद ऐसा कृत करता है ताकि वह बीमा कम्पनी से अनुचित लाभ ले सके। एक ऐसी ही घटना उत्तर प्रदेश में फैजाबाद जिले के बीकापुर ब्लाक के जैतपुर गाँव में देखने को मिली कि एक पिता ने बीमा रकम प्राप्ति के लालच में अपनी ही दो बेटियों की हत्या करवा दिया क्योंकि दोनों के नाम दो–दो लाख रूपये का बीमा आवरण था। किसी व्यक्ति के नैतिक पतन का इससे शर्मशार करने वाला उदाहरण शायद ही मिले। व्यक्ति बीमा आवरण तो लेता है किन्तु उनका सोचना होता है कि बीमा तो ले रखा है इतना ध्यान क्यों दिया जाए। इसी प्रकार का स्वभाव उन कृषकों में देखा गया जिन्होंने फसल बीमा आवरण ले रखा है वे बीमा विहिन फसलों पर अधिक ध्यान देते थे परन्तु बीमित फसलों पर उतना ध्यान नहीं देते। यह समाश्वासन सिद्धान्त के विपरीत व्यवहार है इसके लिए बीमा कम्पनियों को सख्त होना चाहिए तथा दावे की क्षतिपूर्ति करते समय विशेष ध्यान रखना चाहिए।

**बीमा का आसन्न कारण एवं अनैतिकता–** बीमा में किसी भी प्रकार की क्षतिपूर्ति का भुगतान करने से पूर्व हानि के आसन्नकारण (Proximate cause) को ध्यान में रखा जाता है अन्य कारणों को ध्यान नहीं दिया जाता। आसन्न कारण के सही होने पर ही बीमित रकम का भुगतान किया जाता है। हानि के एक या कई कारण हो सकते हैं किन्तु इसके सन्निकट कारणों को ही ध्यान में रखा जाता है। सन्निकट कारण निकटतम कारण को नहीं कहते बल्कि हानि के वास्तविक कारण को कहते हैं। बीमा क्षेत्र में सर्वेयर ही मुख्य निर्धारक होता है किन्तु कभी–कभी बीमित हानि के निकटतम कारणों में हेर–फेर कर उसे वास्तविक कारणों में परिवर्तित कर देता है। यह कार्य सामान्यतः उन्हीं वर्गों द्वारा किया जाता है जो बीमा विषय के जानकार एवं पढ़े–लिखे है। व्यवसायिक वर्गों में भी यह अधिक देखने को मिलता है जो नैतिक पतन का ही उदाहरण है।

सर्वेक्षक भी कभी–कभी अपने पारिश्रमिक के चक्कर में गलत रिपोर्ट बनाने में अधिक कुशल होते जा रहे हैं। सर्वेयर को नैतिकता के सिद्धान्त का पालन करते हुए हानि के अविच्छिन्न (Unseparated) कारण का ही वर्णन अपनी रिपोर्ट में करना चाहिए ताकि वे भी भविष्य में किसी दुर्घटना एवं अपने विरूद्ध किसी जांच–पड़ताल की कार्यवाही से बच सके। बीमा उद्योग में सामान्यतः देखा जा रहा है कि बीमा क्रियाओं में शामिल बीमाकर्ता तथा अन्य कर्मचारी बीमा के मूलभूत सिद्धान्त को भूल

चुके हैं या तो जानते ही नहीं तथा जो जानते भी हैं तो वे इसे व्यवहार में प्रयोग नहीं करते। बीमा क्षेत्र में प्रशिक्षक अपनी महत्वपूर्ण भूमिका निभा सकता है किन्तु बहुत कम ऐसे प्रशिक्षक हैं जिन्हें बीमा विषय की पर्याप्त जानकारी है इस सम्बन्ध में बीमा कम्पनियों को सोचकर कार्य करने की आवश्यकता है।

बीमा कम्पनियों की ओर से कोई भी अभिकर्ता, विक्रयकर्ता, प्रतिनिधि, मध्यस्थ, संस्थान इत्यादि द्वारा बीमापत्रों का विक्रय किया जाता है तो उसे बीमा कम्पनी द्वारा ही किया गया विक्रय माना जाता है अर्थात् उसे बीमाकर्ता ही समझा जाता है तथा विक्रय की गयी बीमापत्र सम्बन्धी किसी भी क्षतिपूर्ति के लिए बीमा कम्पनी उत्तरदायी होता है। प्रस्तुत अध्ययन के द्वितीय खण्ड में जिन विक्रयकर्ताओं, मध्यस्थों, प्रतिनिधियों, संस्थानों इत्यादि को शामिल किया गया है उन्हें बीमाकर्ता ही माना गया है। इन्हीं बीमाकर्ताओं से सम्बन्धित अनैतिक विपणन अभ्यास के कुछ महत्वपूर्ण रहस्यों से यह अध्ययन पर्दा उठाता है।

## द्वितीय खण्ड

**अभिकर्ता–** अनेक प्रकार के विक्रयकर्ता एवं मध्यस्थ बीमा क्षेत्र में निजीकरण के बाद शामिल किये गये इसके बावजूद इन सभी में अभिकर्ताओं द्वारा किया गया कुल बीमा व्यवसाय 80 प्रतिशत से अधिक है। यह तथ्य प्रदर्शित करता है कि बीमा अभिकर्ताओं की पकड़ आज भी इस क्षेत्र में सबसे सुदृढ़ है ये बीमा व्यवसाय के मुख्य स्तम्भ बने हुए हैं तथा इनकी महत्ता को नकारा नहीं जा सकता। फिर भी, आज सेवा क्षेत्र में बीमा व्यवसाय को सर्वाधिक कठिन एवं संघर्ष वाले कार्य की संज्ञा दी जाती है तो इसका श्रेय भी हमारे इन्हीं अभिकर्ताओं को जाता है। अधिकांश अभिकर्ताओं के अनैतिक व्यवहार ने जन–मानस के मन में ऐसी छवि का निर्माण किया है कि लोग बीमा लेने के नाम से ही भागते–फिरते हैं।

सर्वेक्षण के दौरान पाया गया कि अभिकर्ताओं का बीमा सम्बन्धी ज्ञान अपूर्ण एवं अपर्याप्त है। अभिकर्ता बीमापत्र सम्बन्धी कुछ रटी–रटाई पंक्तियों का गाना गाते रहते हैं तथा ग्राहक इनकी कर्कश आवाज को सुनकर कान बन्द कर लेते हैं। इस अध्ययन के सर्वेक्षण में 250 से भी अधिक अभिकर्ताओं के साक्षात्कार से ज्ञात हुआ कि वे केवल जो बेचना चाहते हैं उसी को लेकर परेशान रहते हैं ग्राहक की आवश्यकता क्या है, वह क्या चाहता है, इससे इनका कोई सरोकार नहीं। कभी लक्ष्यपूर्ति का दबाव, तो कभी कमीशन का लोभ, कभी अपने साथी अभिकर्ताओं से पहले ग्राहकों को बीमापत्र दे मारना और खुश होना कि हमने काम कर दिया।

इस अध्ययन के सर्वेक्षण के दौरान सबसे आश्चर्यचकित करने वाला तथ्य सामने आया जिस पर बीमा विनियामक एवं विकास प्राधिकरण तथा बीमा कम्पनियों दोनों को इस सन्दर्भ में विशेष ध्यान एवं नियंत्रण रखना चाहिए। अभिकर्ताओं द्वारा बीमापत्रों की बिक्री माह की किसी भी तिथि को किया जाए अपने कमीशन के लिए अभिकर्ता एवं लक्ष्यों की पूर्ति के दबाव के कारण वे इस पूर्व विक्रय की गयी बीमापत्र को कम्पनी के कार्यालयों को नहीं सौंपते उससे सम्बन्धी प्रस्ताव प्रपत्रों को रोककर रखते हैं। सौ से अधिक बीमा बंध (Bond) का अध्ययन किया गया किन्तु उनमें से मात्र 10 प्रतिशत से

कम बीमा बंध (Bond) के प्रीमियम की देय तिथि शेष बीमा बंध से पृथक थी। 90 प्रतिशत बीमा बंध (Bond) निर्गमन की तिथि सभी माह की 28 तारीख ही थी। ऐसा करने से अभिकर्ता माह के प्रारम्भ में अच्छा कमीशन एकत्र करते हैं। किन्तु इसका सबसे विपरीत प्रभाव बीमाधारियों पर होता है जिन्हें 28 तारीख देय तिथि के 30 दिनों के अन्दर प्रीमियम जमा करना होता है, वह भी अगले माह की अन्त की ही तिथि मिलती है। जिसके चलते वेतन भोगी कर्मचारियों को प्रीमियम भुगतान करने सम्बन्धी समस्याओं का सामना करना पड़ता है। यदि प्रीमियम की देय तिथि माह के प्रथम सप्ताह या उस तिथि को हो जब बीमित ने प्रस्ताव पत्र के साथ प्रीमियम जमा किया तो उन्हें प्रीमियम जमा करना अधिक आसान हो सकता है। यह बहुत ही विचारणीय बिन्दु है जिस पर ध्यान देना ग्राहकों के हित में है तथा उन्हें बीमा खण्डन से भी बचाया जा सकता है।

**विक्रय–प्रबन्धक / विपणन–प्रबन्धक–** बीमा क्षेत्र के निजीकरण के बाद बीमा विपणन पर बीमा कम्पनियों द्वारा विशेष ध्यान दिया जाने लगा। इसके लिए पृथक विपणन विभाग एवं विपणन प्रबन्धक की नियुक्ति होने लगी। इन्हीं विपणन प्रबन्धकों द्वारा बीमा विक्रय हेतु लक्ष्य भी निर्धारित किया जाता है जिसकी पूर्ति शाखा प्रबन्धकों के साथ शाखा विक्रय प्रबन्धकों द्वारा किया जाता है। लक्ष्यों की पूर्ति के लिए इनके बीच अनेक प्रकार की प्रतिस्पर्धा रखी जाती है। इसके साथ ही बीमा के विक्रय–प्रबन्धक एवं शाखा प्रबन्धकों पर लक्ष्य की प्राप्ति हेतु सदैव मानसिक दबाव रहता है जो विक्रय प्रबन्धकों को बीमा बिक्री के लिए अनैतिक व्यवहार करने हेतु प्रेरित करता है क्योंकि लक्ष्यपूर्ति न होने पर कार्यमुक्त करने की धमकी दी जाती है। कुछ विक्रय प्रबन्धकों का तो यहां तक कहते हैं कि इस क्षेत्र में झूठ बोले बिना आप बीमा पत्र की बिक्री नहीं कर सकते।

सर्वेक्षण के दौरान एक शाखा प्रबन्धक से पूछा गया कि आप बीमापत्रों के विक्रय में झूठ का कितना सहयोग लेते हैं तो उनका जवाब था ''बीमा क्षेत्र में इसे झूठ बोलना ठीक नहीं, हम लोग तो अपना कार्य स्मार्ट ढंग से करते हैं और मैं स्मार्ट कार्य करते हुए यहाँ इस पद तक पहुँच सका।'' जिन बीमा कम्पनियों का कार्य ऐसे कर्मठ एवं स्मार्ट प्रबन्धकों के हाथों में है तो उसका व्यवसाय आगे बढ़ने से कौन रोक सकता है किन्तु कितने ऐसे बीमित, जिनके साथ स्मार्ट व्यवहार (झूठ बोलकर) किया गया वे पुनः उसी बीमा कम्पनियों की सेवाएं लेना चाहेगें? बिना झूठ के सहारे कार्य निष्पादित करना ही स्मार्ट कार्य है। यदि बीमा कम्पनियाँ अपने सभी वर्तमान बीमाधारियों से केवल एक मात्र प्रश्न पूछें कि क्या वे पुनः उसी कम्पनी के बीमापत्रों को क्रय करना चाहते हैं? तो स्वयं बीमा कम्पनियों को पता चल सकता है कि बीमा विपणन अभ्यास किस दिशा में कार्य कर रहा है। इसी प्रकार का अनैतिक व्यवहार बीमा मध्यस्थों द्वारा भी चालू है जिसमें दलाल, ब्रोकर, कार्पोरेट एजेण्ट इत्यादि शामिल है। बीमा मध्यस्थों में सूक्ष्म वित्तीय संस्थान एवं स्वास्थ्य बीमा कम्पनियों से सम्बद्ध चिकित्सालयों के अनैतिक व्यवहार को ही प्रस्तुत किया गया है।

**सूक्ष्म वित्तीय संस्थान–** सूक्ष्म बीमापत्रों के वितरण में गरीबों तक बीमापत्रों को पहुंचाने में सूक्ष्म वित्तीय संस्थान

महत्वपूर्ण योगदान दे रहा है। सूक्ष्म वित्तीय संस्थान अपने इस कार्य के लिए बीमा कम्पनी से अधिक कमीशन की मांग करते हैं जो सूक्ष्म बीमापत्र उद्देश्यों के विपरीत है तथा ये बीमापत्र सम्बन्धी सेवा प्रदान करने में अपने ग्राहकों (बीमितों) की उपेक्षा करते हैं। सर्वाधिक चौकाने वाला तथ्य वाराणसी शहर के सूक्ष्म वित्तीय संस्थान में देखा गया कि सूक्ष्म बीमा की परिपक्वता राशि या दावों के भुगतान के सम्बन्ध में संस्थान बीमित का भुगतान उनके द्वारा लिये पूर्व ऋण को काटकर करते हैं। बीमा कम्पनियां भी सूक्ष्म वित्तीय संस्थानों को बीमित धनराशि या दावे की राशि का भुगतान करती है जबकि इसका भुगतान प्रत्यक्ष रूप से बीमित को होना चाहिए। कभी–कभी सूक्ष्म वित्तीय संस्थान इस धनराशि के भुगतान में अनावश्यक विलम्ब करते हैं। सूक्ष्म बीमा संस्थान के इस अनैतिक व्यवहार से बीमितों के मन में रोष पैदा होता है जो बीमा कम्पनियों के हित में नहीं है। बीमा कम्पनियों का यह सामाजिक कर्त्तव्य है कि वे उन्हीं संस्थानों एवं व्यक्तियों को मध्यस्थ नियुक्त करे जो बीमा सेवा की गारण्टी दे तथा जिनके क्रियाकलापों पर बीमाकर्ता निगरानी रख सके।

**बीमा कम्पनियों से सम्बद्ध चिकित्सालय–** बीमा क्षेत्र का निजीकरण होने के बाद से स्वास्थ्य बीमा के क्षेत्र को बीमा कम्पनियों द्वारा एक विशाल सम्भावित बाजार के रूप में देखा जा रहा है तथा भारतीय भी इस प्रकार के बीमापत्र क्रय करने में रूचि दिखा रहे हैं। स्वास्थ्य बीमापत्रों में बहुत से छुपी हुई शर्तें एवं अभिकर्ता द्वारा स्वास्थ्य बीमापत्रों एवं उनकी जानकारी की अपर्याप्तता के कारण ग्राहकों को भी इसे समझने में अनेक कठिनाइयों का सामना करना पड़ रहा है। बीमित स्वास्थ्य बीमापत्र क्रय कर खुश हो जाता है कि उसके मेडिकल खर्चों की क्षतिपूर्ति आराम से बीमा आवरण के माध्यम से हो सकता है किन्तु अभिकर्ताओं द्वारा बीमापत्र की शर्तों को ठीक से प्रस्तुत न करने के कारण उसकी क्षतिपूर्ति नहीं हो पाती क्योंकि वे खर्चे बीमापत्र आवरण के बाहर होते हैं।

इस सम्बन्ध में ग्राहकों का भी उत्तरदायित्व होता है कि वह स्वास्थ्य बीमा क्रय करने से पूर्व क्षतिपूर्ति एवं दावा सम्बन्धी अनेक तथ्यों का गहन जांच करे ताकि उन दशाओं की जानकारी रहे कि कैसे मेडिकल खर्चों की क्षतिपूर्ति प्राप्त कर सकते हैं तथा उन बीमा कम्पनियों से सम्बद्ध चिकित्सक एवं चिकित्सालय कौन हैं जहाँ वह अपना उपचार बिना किसी भुगतान या बीमा सुविधा की शर्तों के अनुसार लाभ प्राप्त कर सकते हैं। स्वास्थ्य बीमा क्षेत्र में देखा गया है कि यदि बीमित अपना उपचार किसी सम्बद्ध चिकित्सालय से कराता है तो अनावश्यक रूप से इनके द्वारा अधिक खर्चों का बिल बनाया जा रहा था किन्तु इस अभ्यास के कारण बीमा कम्पनियां इसकी जांच के लिए अन्य पक्ष प्रशासक (T.P.A.) को नियुक्त किया है ताकि इसे नियंत्रित किया जा सके। बीमा के लगभग सभी क्षेत्र में बीमाकर्ताओं द्वारा अनैतिक विपणन अभ्यास किया जा रहा है। इन सभी को इस लघु शोध में शामिल करना सम्भव नहीं है इसलिए प्रस्तुत बिन्दुओं को ही शामिल किया जा सका।

## अनैतिक विपणन अभ्यास को कैसे नियंत्रित किया जाए

बीमा क्षेत्र में हो रहे अनैतिक विपणन क्रियाओं को रोकने के लिए बीमाकर्ता कुछ महत्वपूर्ण सुझावों को अपनाकर

अपने अन्दर आत्मविश्वास की लौ जलाकर अनैतिक क्रियाओं के अन्धकार को समाप्त कर अपने साख एवं कम्पनी की छवि को अपने प्रतिस्पर्धी की तुलना में बेहतर बनाकर ग्राहकों का विश्वास जीतकर इस प्रतिस्पर्धा में भी अपने कार्य को सरलता से निष्पादित कर सकते हैं।

बीमा विषय का ज्ञान एवं विक्रय कला से निपुण बीमाकर्ता बीमापत्रों की बिक्री आसानी से कर सकता है इसके विपरीत बीमा सिद्धान्तों को ठीक से न जानने के कारण ही बीमा क्षेत्र में बीमाकर्ताओं द्वारा अनैतिक क्रियाओं में संलिप्त होना पड़ता है। इस दोषपूर्ण अभ्यास के चलते ही सम्पूर्ण बीमा बाजार का वातावरण प्रभावित हो रहा है। क्षणिक सफलता के लिए विक्रयकर्ता (बीमाकर्ता) अपने कार्यशैली एवं साख को हमेशा के लिए धूमिल कर लेता है। उन्हें चिन्तन करना चाहिए कि उनके इस व्यवहार से कितने दिनों तक लोगों द्वारा सम्मान एवं लाभ प्राप्त हो सकता है।

बीमा सिद्धान्तों का पालन करने हेतु बीमाकर्ताओं को सभी परिस्थितियों में सत्यता को प्रकट करना चाहिए, हमेशा ग्राहकों को उसी बीमापत्र हेतु प्रेरित करना चाहिए जिससे ग्राहक को मान (value) मिल सके। उसी बीमा पत्र को ग्राहकों हेतु उपलब्ध कराना जिसके विषय में वह पूर्ण जानकार हो, बीमापत्र के सम्बन्ध में दावा सम्बन्धी सभी तथ्य ग्राहकों को स्पष्ट करना चाहिए ताकि ग्राहक बाद में विक्रयकर्ता/बीमाकर्ता को दोषी न ठहरा सके कि तथ्यों को अप्रकट किया गया था। बीमा जोखिम सम्बन्धी मुख्य शर्तों को भी स्पष्ट करना तथा ग्राहक द्वारा किये गये आलोचनाओं को सकारात्मक रूप से स्वीकार करना। यदि ग्राहक अन्य बीमापत्रों के विकल्पों की मांग करता है तो बीमाकर्ता को उन सभी को प्रकट करना किसी एक बीमापत्र के विक्रय पर जोर नहीं देना चाहिए।

एक ही वस्तु के प्रीमियम निर्धारण में बीमा कम्पनियों द्वारा समानता के सिद्धान्त का अनुपालन करना तथा प्राधिकरण को बीमा कम्पनियों हेतु ऐसे दिशा–निर्देश जारी करना तथा प्रीमियम गणना की असमानता को समाप्त करना चाहिए। बीमा कम्पनियों को अपने विपणन रणनीति में लक्ष्य को स्पष्ट करना चाहिए ताकि उसकी पूर्ति को लेकर बीमाकर्ता (विक्रयकर्ता) पर अनावश्यक मानसिक दबाव नहीं रहें। ऐसे विपणन अभ्यास करने वाले विक्रयकर्ताओं को नियंत्रित करने हेतु परिवीक्षक (Monitor) की नियुक्ति करना चाहिए ताकि अनैतिक विपणन व्यवहार को समाप्त किया जा सके यदि बीमा कम्पनियां इस विषय पर विशेष ध्यान नहीं दे पा रही है तो इसके लिए बीमा प्राधिकरण को ध्यान देकर बीमा क्षेत्र में अनैतिक विपणन अभ्यास को नियंत्रित किया जाना चाहिए।

बीमा कम्पनियों को बीमापत्रों के वितरण हेतु केवल उन्हीं मध्यस्थों को वाहिका में शामिल करना जिनके क्रियाकलापों पर कम्पनी पूर्ण निगरानी एवं नियंत्रण रख सके। बीमा मध्यस्थ या विक्रयकर्ता को ग्राहक की आवश्यकता एवं अपनी रूचि के बीमापत्र विक्रय में सन्तुलन बनाना बहुत ही आवश्यक है। सर्वप्रथम ग्राहक की आवश्यकता जानकर ही उसे बीमापत्रों को उपलब्ध करना चाहिए। जानबूझकर ऐसे तथ्यों को प्रकट नहीं करना चाहिए जिससे क्रेता उस बीमापत्र को आवश्यक

समझ ले जो उसके (ग्राहक) हित में ही नहीं है। विपणन निर्णय एवं रणनीतियों से जो भी परिणाम प्राप्त हो उसे स्वीकार करना, स्वयं से प्रतिस्पर्धा करके अपनी कुशलता को बढ़ाना चाहिए। ग्राहकों के मूलभूत मानव स्वभाव का सम्मान करना, बीमाकर्ता को समाज के सभी वर्गों तक बीमापत्रों को पहुंचाना, ग्राहकों को लिंग, जाति, गरीब–अमीर इत्यादि में नहीं बांटना चाहिए। ग्राहकों को ध्यान से सुनना, अधिकांश विक्रयकर्ता यहीं गलती करते हैं कि वे ग्राहकों को कम तथा अपनी बात ज्यादा सुनाते हैं। ग्राहकों की बीमा सम्बन्धी समस्या को दूर करने हेतु हमेशा तत्पर रहना चाहिए तथा बीमा सलाहकार को बीमा विषय का पर्याप्त ज्ञान होना आवश्यक है इन सभी बातों को ध्यान में रखकर बीमा विपणन में अनैतिक अभ्यास को नियंत्रित किया जा सकता है।

अनैतिक विपणन अभ्यास को नियंत्रण करने हेतु बीमा कम्पनियों एवं बीमा प्राधिकरण दोनों को साथ मिलकर आवश्यक कदम उठाना चाहिए। बीमित के हितों की रक्षा तब हो सकता है जब इस क्षेत्र में हो रही अनैतिकता को समाप्त किया जाए इससे स्वतः इसकी अधिकांश समस्याएं समाप्त हो सकती हैं। इस अध्ययन में पाया गया कि बीमित (ग्राहक) अनैतिक क्रियाओं हेतु तभी प्रेरित होता है जब उसे विक्रयकर्ताओं द्वारा ऐसा करने हेतु उत्प्रेरित किया जाता है जिन्हें ग्राहक स्वयं करने की कभी सोच भी नहीं सकता, जिन ग्राहकों द्वारा ऐसा किया भी जाता है तो इनकी संख्या नाम मात्र ही है जिसे नियंत्रित किया जा सकता है। बीमा क्षेत्र में अनैतिक विपणन अभ्यास का प्रमुख कारण अस्वस्थ्य प्रतिस्पर्धा एवं लक्ष्यों की अतिशीघ्र पूर्ति है। इस सम्बन्ध में बीमा कम्पनियों को विशेष रूप से ध्यान रखना चाहिए। सार रूप में कहा जा सकता है कि बीमाकर्ता द्वारा बीमा क्षेत्र में अनैतिक विपणन व्यवहार (प्रचलन) को नियंत्रण करने के बजाय अनैतिक विपणन व्यवहार को ही करना समाप्त करना चाहिए।

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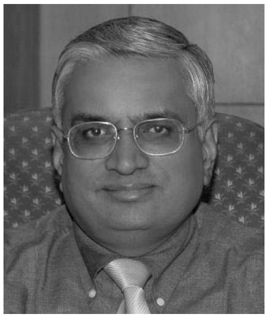
# Presidential Address – 55th Annual Conference of Insurance Institute of India

# Speech of Shri M. Ramadoss, President, Insurance Institute of India at the 55th Annual Conference at Vishakhapatnam on 4th September, 2010



Respected Chief Guest Prof. Satyanarayana, Council members, Secretaries from different associated institutes and other dignitaries,

I extend a warm welcome to all of you to the 55th annual conference of the Insurance Institute of India being held in Visakhapatnam, the city endowed with beautiful beaches, stunning scenic landscape and a rich cultural heritage. Visakhapatnam, or Vizag as it was often called, is the best tourism destination in Andhra Pradesh. From Lakes to cool Beaches, from beautiful Hill Ranges to Caves and Valleys, Visakhapatnam has them all.

We are grateful to the chief guest, Prof. Satyanarayana, Vice-Chancellor, AP Law University for accepting our invitation to be the chief guest and be here with us and inaugurate the annual conference of the Institute. The AP Law University is recognized by the Bar Council of India, New Delhi. It was established in the year 2008 and he is its first Vice-Chancellor. Born on 21st December 1949, Prof. Yamala Satyanarayana did his B.Com., from Bangalore University, LL.B from Delhi University, LL.M of Osmania University and Ph.d of Andhra University, truly from a variety of Universities. He served in Indian Air force from 1968 to 1983. His area of specialization includes Constitutional law, Administrative Law and Tax Laws. He has been in teaching line for 25 years. Received 'Best Teacher Award – 2008' by the Govt. of Andhra Pradesh and 'Best Researcher' award from Andhra University. He has presented several papers, guided many Researchers and Scholars. Attended several seminars. He is a member, Academic Senate, Andhra University and Chairman, Faculty of Law. We are indeed proud to have an apt personality to be our Chief Guest today.

The Insurance Institute of India was established in the year 1955 in the name of Federation of Insurance Institutes, when the insurance industry in the country was much smaller than what it is today. The Institute has witnessed a lot of changes ever since. Subsequent to nationalization of life insurance business in 1956, when Life Insurance Corporation of India came into being, the insurance industry was partially nationalized and became fully nationalized in 1973 when the general insurance business was also nationalized. Federation of Insurance Institutes became Insurance Institute of India in 1987. Again in 2000 the insurance industry was liberalized and we have now public-private participation.

Despite the changes, the Institute remains as the leading educational and examination service provider to the insurance industry in the country for over 55 years. The Institute continued to lead the industry in India. Our core professional qualifications, Associate and Fellowship, remain of vital importance to the industry and we are constantly striving to improve upon our service and quality.

## ACTIONS INITIATED

Recently we have formed different committees for updating and revising Syllabus and Curriculum for the examinations, to reinforce and restructure the training programmes of its College of Insurance and to revamp and introduce changes in its examination systems. We understand that an ongoing process of change is of paramount importance to remain competitive in the changing industry. Technology innovations changed the method in teaching, training and conducting examinations to undergo changes faster than ever before. The Insurance Institute of India is conscious of these changes and taking care to make it one of the best educational providers

The Institute wants to shift from being a mere examination body to various multifarious activities like producing customized courses for the corporate customers. There is a growing demand for education that not only fulfills compliance and regulatory needs and set high standards of employee knowledge and skill, but also includes company specific product content. The Institute is the best-positioned organization to meet the educational needs of the companies and often being called upon to do so. We are trying to capitalize on the demand for better growth of both the insurance industry and the Institute.

## NEW BUILDING OF THE INSTITUTE

The long cherished dream of the Institute of having its own building for its office and College got fulfilled recently. The Finance Minister, Government of India, in the presence of the Chief Minister of Maharashtra, inaugurated the new building at Bandra - Kurla complex, a prestigious address in Mumbai, on 8th June 2010. CEOs of many Insurance companies and other dignitaries were present.. The office of the Institute and College of Insurance has already moved to the new building. Having its own building definitely will help the Institute to undertake many activities, particularly in the training area, because of availability of spacious lecture halls and well furnished hostel rooms.

## PLANS AHEAD

For a professional educational body like Insurance Institute of India, excellence in service is of great importance. It should strive to promote professional standards and be a guiding body to the insurance and financial industries. We aim to be the preferred choice for insurance education and training and therefore, we will ensure that we provide quality and relevant education and training programmes with the right expertise and resources. We are also active in promoting insurance education through strategic collaborations with other renowned international bodies and industry members so as to be in full alignment with the ever-changing needs of the industry.

We are an examining and training body and it is very important that we meet the needs of the insurance industry. No doubt, with over 55 years of its presence in the Country, the I.I.I stands tall among all . As the world has changed in various spheres, we also need to change and adopt modern technology in every walk of its working and delivery mechanism. Expectation of the present generation is for quick action and quick result.

I am glad to inform the members that the I.I.I has already started initiatives in this direction. Our web site is being upgraded and facilities for online registration for examinations, payments, checking results etc have been provided. More importantly, very soon we are planning to have online examinations.

Another important activity towards progress and expansion and also as a strategy for future plan, the Institute proposes to buy land / buildings in major cities to open regional centers. It is high time that we should think of making structural reforms in the Institute. A discussion paper on the agenda of the 55th annual conference is placed on this subject. Members may think seriously on this subject and give a considered opinion. The need for a revised structure is felt necessary now that the activities are expanded as well as to have a sustained growth and control over the affairs of the Institute.

New syllabus for the Licentiate examination will be introduced from November, 2010 examination with new study books. We have introduced a new subject in the Licentiate examination on 'Regulation of Insurance Business' with study book. Pattern of question paper for the Licentiate examination also changed with mixture of subjective type and objective type questions.

## CONTINUOUS PROFESSIONAL DEVELOPMENT

Since I took charge as the President of the I.I.I, I have been advocating that we should introduce Continuous Professional Development Programme, popularly known as CPD. You will find a paper on this subject as one of the items on the agenda of this annual conference for discussion. Other Institutes similar to I.I.I have CPD programmes, which help the members to update their knowledge on what is happening around. This, I feel, is necessary for I.I.I to introduce.

## FINANCIAL PERFORMANCE

The Institute's financial performance during the year shows decline in its revenue as compared to the previous year due to fall of income from examination activities and sale of study books. However, the investment as on 31st March, 2010 showed increase and stood at Rs.506.7 crores as compared to Rs.374 crores as on 31st March, 2009. However, with the new activities undertaken by the Institute, particularly in training and proposed online examination it is hoped the situation will improve in 2010-11.

## ROLE OF ASSOCIATED INSTITUTES

It is disturbing to note that out of 91 associated institutes of the Insurance Institute of India, more than 30 institutes do not function. They do not submit accounts and report their activities to I.I.I., which stands in the way of extending financial and other benefits to such institutes by I.I.I. The list of such non-functional associated institutes includes some major ones. This subject was discussed in the meeting held at Lucknow. Though such institutes could be disassociated, it was suggested to give some more opportunity and try to revive. I am happy to say that our effort was successful in revival of Jalandhar Insurance Institute, which was one of the institutes that were not functioning as per the norms. Through the efforts taken by I.I.I., the institute is now functioning satisfactorily under a new body of members. In this context, we place on record the assistance and support extended to I.I.I by the Senior Divisional Manager, LIC of India, Jalandhar and willingness of the members of Jalandhar Insurance Institute to shoulder the responsibility of running the institute.

We have now taken up the revival of Madras Insurance Institute, a major institute. This institute does not have any elected body since 1996 and no one from the institute was attending the annual conferences. Towards revival of the Madras Insurance Institute, it is proposed to form an ad-hoc committee with the support of CMD of United India Insurance Co. Chennai and Zonal Manager, LIC of India, South Zone. An item is placed on agenda of this council meeting seeking its approval regarding formation of the ad-hoc committee and authorizing it to take appropriate steps to bring the affairs and working of the Madras Insurance Institute to normal. To take appropriate and speedy action on dormant associated institutes, it is also proposed to authorize the President and the Secretary General of I.I.I to take remedial action for revival of such institutes. In this connection it is proposed to pass a Resolution by the Council, which will be taken up at the business session of the Council meeting tomorrow, on 5$^{th}$ September 2010.

## BENEFITS TO THE ASSOCIATED INSTITUTES

As decided in the council meeting held at Lucknow, enhancement of financial benefits by the I.I.I to the associated institutes has been implemented for various activities. The best institute prize amount has been doubled, life membership prize amounts have been increased, prize amount for the essay competitions have been increased, membership subsidy amount has been substantially increased, amount for examination activities have been increased. It is my belief that those institutes performing well can earn well and it is a reality, I see some institutes, though not big, do undertake useful activities. To cite an example, we extended the scheme of 'Insurance Institute of India Accredited Learning Centre' (IIIALC) to the associated institutes. The sole response received was actually not from one of the big institutes. It is sad that none of the bigger institutes responded to the scheme.

While it is our intention to upgrade the associated institutes and make their activities more vibrant, the response is very poor or rather nil. It is again painful that none of the associated institutes showed their interest in conducting International Seminars, National Seminars and Local Seminars, when we gave them an opportunity for the same. The members from the associated institutes may give serious thought on such matters and come forward with proposals to make your institute more important. We can have such members in the working committee who can devote time and labour for the institute's activities. There is no dearth for opportunities; when they do not come on their own, we have to explore and locate them.

## CONCLUSION

Before I conclude my address let me thank the members on the council of the I.I.I, on different committees and sub-committees, examination paper setters, examiners, members of editorial board of the Journal of the Institute and others who are directly or indirectly assisting the I.I.I. in different ways. Without their support and guidance, it would not have been possible for me to discharge my responsibility as President. Sri Sharad Shrivastva, the Secretary General of the Institute has been doing marvelous job to the Institute in his short span of time. We will need your support too in our mission to fulfill the objectives of the Institute.

Let me thank the Chairman of the Visakhapatnam Insurance Institute and the members for the good work done to host this conference here.

~ Thank you.

# Reports,

# News

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# Photo Flashes

# VisakhapatanamViews

# A report on the 55th Annual Conference of Insurance Institute of India held on 4 & 5th September, 2010

The Conference was held on Saturday 4th September 2010 at Hotel Green Park, Waltair Main Road, Visakhapatnam. The conference was inaugurated by Prof. Y. Satyanarayana, Vice Chancellor, AP Law University, Visakhapatnam. Shri M. Ramadoss, President, Insurance Institute of India chaired the Conference. After the traditional welcome to the Chief Guest and other dignitaries, the Chairman of Visakhapatnam Insurance Institute, Shri D. Nageswara Rao, extended a warm welcome to all. In his welcome address, he thanked the Insurance Institute of India for holding this Conference at Visakhapatnam. He briefed in his address the activities undertaken by Visakhapatnam Insurance Institute and hoped that the deliberation in this Conference will benefit many.

The President, Shri M. Ramadoss in his Presidential address welcomed the Chief Guest, Prof. Y. Satyanarayana and other dignitaries to the Conference. He conveyed his thanks to the Chief Guest for accepting the invitation and to inaugurate the Conference. Prof. Satyanarayana, an eminent educationist and the Vice-Chancellor of AP Law University. The President expressed his happiness to have an apt personality as Chief Guest.

The Chief Guest Prof. Y. Satyanarayana in his address conveyed his thanks to Insurance Institute of India for inviting him to be the Chief Guest and to inaugurate the 55th Annual Conference. He started his address complimenting both Visakhapatnam Insurance Institute and the Insurance Institute of India for being in the cause of imparting insurance education across the country. He expressed his happiness to be here in the midst of Insurance experts like Shri M. Ramadoss and other senior personalities from different insurance companies. He shared his experience being a teacher and his understanding on the subject of insurance. Though insurance is a business, but it is different from others because it has social commitment. The chief guest advocated retaining the human rights and living happily is of paramount importance. Being a lawyer, the Chief Guest often quoted in his speech human rights from judicial point of view. Human beings have the rights to live with the dignity. Social and Economic Security are the basic rights which the State has to provide. For providing these securities, the State looks up on different bodies like Insurance Companies, Banks, etc. In his address, the Chief Guest touched upon certain points and provisions in the Constitution of India for providing Social and Economic Security to its people. Citing some of his personal experiences, he projected to the audience how insurance gives protection when a person who has insured retires from active service. He was admired by the amount of awareness on the subject of insurance gained in the recent times as compared to the olden times when insurance was not as popular as it is today. He complimented the Government for this and opined that insurance coverage is really a protecting tool when there is loss of Life, Property, Personal Accident, Etc.

In the present context, Destruction and Damage to personal lives and property are increasing and insurance becomes really important in such situation. He advocated that insurance sector is created for the welfare of the people. He concluded his speech wishing the function to be successful and also congratulating the organizers of the conference at Visakhaptnam, a city known for peace.

Thereafter, the Chief Guest gave away the prizes as under:

| Sr. No. | Name of the Competition | Name | Member of | Topic |
|---|---|---|---|---|
| 1 | S. K. Desai Essay Writing Competition | Smt. Teena Makhija | Delhi Insurance Institute | BANCASSURANCE - SOME REFLECTIONS. |
| 2 | D. Subrahmanian Award Essay Writing Competition | Shri Dilpreet Singh | Amritsar Insurance Institute | A STUDY ON THE DEVELOPMENT HEALTH INSURANCE - ITS HISTORY, CURRENT SCENARIO & THE FUTURE PROSPECTS IN INDIA… |
| 3 | Technical Paper Essay Writing Competition (Life Branch) | Shri Nirjhar Majumdar | Indian Ins. Institute, Kolkata | HOW TO INCREASE LIFE INSURANCE PENETRATION IN THE NEXT DECADE- INNOVATION TECHNIQUES, CHANNELS OF DESIGN & PRODUCTS |
| 4 | Technical Paper Essay Writing Competition (General Branch) | R. Sujatha | Madras Insurance Institute | RELEVANCE OF ENTERPRISE RISK MANAGEMENT |
| 5 | Technical Paper Essay Writing Competition (General Branch) (Consolation Prize) | Deepak Kumar | Indian Ins. Society, Kolkata | ROAD MAP TO CREATING NATURAL CATASTROPHE AND NUCLEAR POOL |

As a part of annual conference and as customary, a keynote address by Dr.Somil Nagpal was presented on '**Evolution and Development of Health Insurance in India'.** Dr. Nagpal, is a medical professional and also an MBA in Financial Management and MHA-Health Care Management from Tata Institute of Social Sciences and a Fellow of the Insurance Institute of India. He has been involved with the Health Insurance sector of India and he is currently with the World Bank, New Delhi as Health Specialist.

Smt. Teena Makhija, a Fellow member from Delhi Insurance Institute and winner of the **S.K.Desai Memorial Essay Competition-2009-10** for her topic on **'Bancassurance - Some Reflections'** made presentation of her paper highlighting the importance of Bancassurance.

Sri Dilpreet Singh of Amritsar Insurance Institute, winner of the **D.Subrahmanyam Award Essay writing competition 2009-10** for his essay on topic **'A study on the development of health insurance-its history, current scenario & the future prospects in India'** made the presentation. In his presentation he highlighted the current Health Insurance scenario, different health insurance plans, Government or state-based systems, Central Government Health Scheme (CGHS) Employee and State Insurance Scheme (ESIS) other Government initiatives.

Sri N.Majumdar of Indian Insurance Institute, prize winner of the **Technical Paper Competition 2009-10 (Life Insurance)** for his essay on **'How to increase life insurance penetration in the next decade - innovation techniques, channels of Design & products'** made the presentation highlighting buying behaviour of Life Insurance in India, reasons for low penetration, what insurers can do to raise insurance penetration.

# PHOTO FLASHES

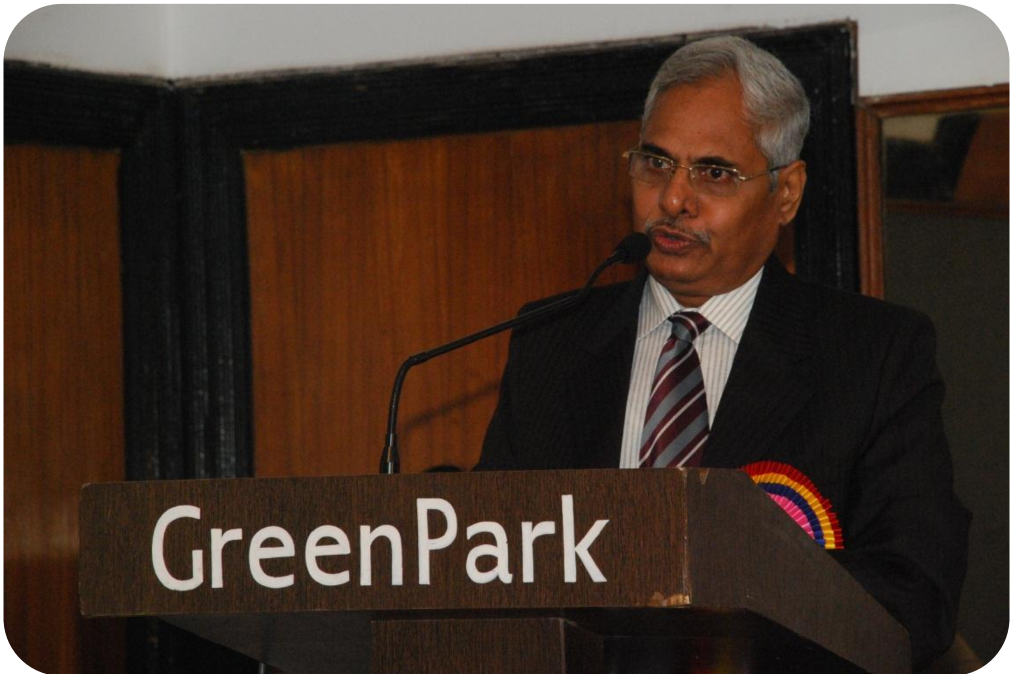
# 55th Annual Conference of Insurance Institute of India


**Chief guest Prof. Y. Satyanarayana, lights traditional lamp**

**Chief guest Prof. Y. Satyanarayana, Vice Chancellor, AP Law University, Visakhapatnam welcomed by Mr. M. Ramadoss, President, Insurance Institute of India**


**Mr. D. Nageswara Rao, Chairman,**
**Visakhapatnam Insurance Institute,**
**Addressing conference**


**Mr. M. Ramadoss, President,**
**Insurance Institute of India,**
**delivering presidential address**




**Chief guest Prof. Y. Satyanarayana,**
**Vice Chancellor, AP Law University, Visakhapatnam**
**addressing conference**

**View of Audience**


**Releasing souvenir**


**Dr.Somil Nagpal MBBS, MHA, MBA, F.I.I.I.**
**presenting keynote address**

Award of S. K. Desai Essay Writing Competition
received by Smt. Teena Makhija, Member,
Delhi Insurance Institute

Award of D. Subramanian Essay Writing Competition
received by Mr. Dilpreet Singh, Member,
Amritsar Insurance Institute


Award of Technical Paper Essay Writing Competition
(Life Branch) received by Mr. Nirjhar Majumdar,
Member, Indian Insurance Institute, Kolkata


President interacting with delegates and observers

# PHOTO FLASHES

# Visit of Delegation from Nigeria

**President of III Mr. M. Ramadoss welcomes the President of Chartered Insurance Institute of Nigeria, Mr. Sunny Adeda and the Director-General, Mr. A.Adepegba**

**The delegates of Chartered Insurance Institute of Nigeria with III officials**

**From left to right:**

**Mr. S.L.Mohan, Secretary-General, General Insurance Council**
**Mr. Praveen Gupta, CEO of Raheja Q.B.E.**
**Mr. V.Krishnamoorthy, Chief Financial Officer, L&T Insurance**
**Mrs. Sushila Venkataraman, Dy.General Manager, General Insurance Council**


**Mr. S.L.Mohan, Secretary-General, General Insurance Council making a presentation on General Insurance Industry in India**

**Mr. Sunny Adeda,**
**President of Chartered Insurance Institute of Nigeria addressing the meeting.**

# Nearer to Nigeria

# Visit of Delegation from Nigeria

A delegation from Nigeria comprising of CEOs and other top level officials from the insurance industry in Nigeria visited the Insurance Institute of India office on $22^{nd}$ October, 2010 and $25^{th}$ October, 2010.

### PROGRAM OF 22ND OCTOBER, 2010

The delegation comprising of 32 delegates visited the Institute office. The delegation was headed by their following officials :

1. Mr. Sunny Adeda, President, Chartered Insurance Institute
2. Mr. A.Adepegba, Director-General, Chartered Insurance Institute
3. Mr. Wole Adetimehin, Dy.President, Chartered Insurance Institute

The following officials represented Insurance Institute of India

1. Mr. M.Ramadoss, President, Insurance Institute of India
2. Mr. M.Raghavendra, Dy.Chairman (Board of Education), Insurance Institute of India
3. Mr. Sharad Shrivastva, Secretary-General, Insurance Institute of India
4. Mr. P.K.Rath, Director, College of Insurance

The meeting started with the welcome speech by the Secretary-General of the Institute followed by the address of the President of the Institute, Presentation by the College of Insurance and concluded with the address by the President of Chartered Insurance Institute of Nigeria.

A presentation by Mr. S.B.Mathur, Secretary-General, Life Insurance Council on the subject of life insurance in India was also organised later in the evening. The following officials represented the Life Insurance Council

1. Mr. S.B.Mathur, Secretary-General, Life Insurance Council
2. Mr. Sandeep Bakshi, CEO, ICICI Prudential Life Insurance Company Ltd.
3. Mr. Kamalji Sahay, CEO, Star Union Dai-ichi Life Insurance Company Ltd.

### PROGRAM OF 25TH OCTOBER, 2010

A presentation by Mr. S.L.Mohan, Secretary-General, General Insurance Council on the subject of general insurance in India was organised for the Nigerian delegation. Following officials represented the General Insurance Council

1. Mr. S.L.Mohan, Secretary-General, General Insurance Council
2. Mrs. Sushila Venkataraman, Dy.General Manager, General Insurance Council
3. Mr. Praveen Gupta, CEO, Raheja QBE General Insurance Company Ltd.
4. Mr. V.Krishnamoorthy, Chief Financial Officer, L&T Insurance

The delegation attended a two-day workshop on Insurance organised by the National Insurance Academy, Pune on $26^{th}$ & $27^{th}$ October, 2010.

The delegation traveled to New Delhi on $28^{th}$ October, 2010 and met Mr. R.K.Kaul, Chairman & Managing Director, The Oriental Insurance Co.Ltd.

The delegation departed for Nigeria on $31^{st}$ October, 2010.

The Institute looks forward to more such events to strengthen ties between the two Institutions and nations.

# Around the Associated Institutes

**Pondicherry Insurance Institute**

On 27th July 2010, Pondicherry Insurance Institute has organized a programme on "Insurance Awareness" for the students of "Bharathidasan Govt. College for Women", Pondicherry. 90 Students have participated in the programme. Below given are the details of topics covered in the programme.

| Sr.No. | Topic | Name of the Faculty | Designation & Office |
|---|---|---|---|
| 1 | Motor Insurance | K. Nagarajan | B.M., National Insurance Company. |
| 2 | Liability Insurance | K. Venkatesan | D. M., National Insurance Company. |
| 3 | Mediclaim, Rural,PA, Health Insurance | R. Venkatakrishnan | B.M., National Insurance Company. |

The meeting was chaired by Ms. D. Shanthi, Principal of College. Welcome address was given by Mr. K. Narayansamy, Hon. Secretary, Pondicherry Insurance Institute.

# EXAMINATION TIME-TABLE

# April / May–2011

**EXAMINATION TIME-TABLE – April/May 2011**
**MORNING 9.30 A.M. TO 12.30 P.M. / AFTERNOON 2.00 P.M. TO 5.00 P.M.**

| Sunday, 8th May, 2011 Morning | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 01 | Principles of Insurance **(9.30 A.M. TO 11.30 A.M.)** | Licentiate - Life & Non-Life, Actuarial Science Examination (N.L.) |
| 31 | Insurance Salesmanship | CIS – Life & Non-Life |
| 26 | Life Assurance Finance | Associateship – Life |
| 46 | General Insurance Accounts preparation and Regulation of Investment | Associateship –Non -Life |
| 54 | Fire Insurance Underwriting | Associateship – Fire |
| 66 | Marine Insurance Claims | Associateship – Marine/Specialized Diploma |
| 79 | Liability and Engineering Insurance | Associateship – General |
| 88 | Marketing & Public Relations | Fellowship - Life & Non-Life |
| S06 | Motor Insurance | Surveyors Examination |

| Sunday, 8th May, 2011 Afternoon | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 14 | Regulation of Insurance Business **(2.00 P.M. TO 4.00 P.M.)** | Licentiate – Life & Non-Life |
| 28 | Foundation of Actuarial Science. | Associateship Life |
| 56 | Fire Insurance Claims | Associateship – Fire |
| 62 | Commercial Geography | Associateship – Marine |
| 69 | Marine Rating and Underwriting | Specialised Diploma |
| 72 | Motor Insurance | Associateship – Miscellaneous/General |
| 89 | Management Accounting | Fellowship - Life & Non-Life -optional |
| 97 | Legal Aspects of Industrial Relations | Fellowship - Life & Non-Life -optional |
| 98 | Advanced Information Technology | Fellowship - Life & Non-Life |
| 99 | Asset Management | Fellowship - Life & Non-Life |
| S01 | Principles & Practice of General Insurance & Survey and Loss Assessment | Surveyors Examination |

**MORNING 9.30 A.M. TO 12.30 P.M. / AFTERNOON 2.00 P.M. TO 5.00 P.M.**

| Sunday, 15th May, 2011 Morning | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 11 | Practice of General Insurance **(9.30 A.M. TO 11.30 A.M.)** | Licentiate - Non-Life |
| 30 | Principles and Practice of Life Assurance | CIS – Life |
| 23 | Application of Life Assurance | Associateship – Life |
| 78 | Miscellaneous Insurance | Associateship – General |
| 52 | General Fire Hazards | Associateship – Fire |
| 65 | Marine Insurance Underwriting | Associateship Marine |
| 82 | Statistics | Fellowship – Life |
| 86 | Risk Management | Fellowship – Non-Life |
| S05 | Engineering Insurance | Surveyors Examination |

| Sunday, 15th May, 2011 Afternoon | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 02 | Practice of Life Assurance **(2.00 pm to 4.00 pm)** | Licenciate – Life |
| 32 | Principles and Practice of General Insurance | CIS - Non Life |
| 25 | Life Assurance Management | Associateship – Life |
| 45 | General Insurance Underwriting | Associateship – Non- Life |
| 90 | Human Resource Management | Fellowship – Life & Non-Life |
| A-2 | Foundations of Casualty Actuarial Science | Actuarial Science Examination (N.L.) |
| S07 | Miscellaneous Insurance | Surveyors Examination |

**MORNING 9.30 A.M. TO 12.30 P.M. / AFTERNOON 2.00 P.M. TO 5.00 P.M.**

| Sunday, 22nd May, 2011<br>Morning | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 22 | Life Assurance Underwriting | Associateship – Life |
| A-1/47 | Foundation of Casualty Actuarial Science | ActuarialScience(N.L.)and Associateship – (N.L) |
| 67 | Marine Insurance | Associateship – General |
| 73 | Personal Accident and Sickness Insurance | Associateship – Non- Life |
| 83 | Group Insurance & Retirement Benefit Schemes | Fellowship – Life |
| 87 | Law & Economics of Insurance | Fellowship – Non-Life |
| S02 | Fire Insurance | Surveyors Examination |

| Sunday, 22nd May, 2011<br>Afternoon | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 24 | Legal Aspects of Life Assurance | Associateship – Life |
| 57 | Fire & Consequential Loss Insurance | Associateship - General |
| 81 | Mathematical Basis of Life Assurance | Fellowship – Life |
| 85 | Reinsurance | Fellowship – Non-Life |
| S03 | Marine Cargo Insurance | Surveyors Examination |

**MORNING 9.30 A.M. TO 12.30 P.M. / AFTERNOON 2.00 P.M. TO 5.00 P.M.**

| Sunday, 29th May,2011<br>Morning | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 21 | Information Technology | Associateship (Life and Non-Life) |
| 55 | Consequential Loss (Fire) Insurance | Associateship – Fire |
| 63 | Marine Clauses | Associateship – Marine |
| 27 | Health Insurance | Associateship (Life and NonLife) |
| 77 | Engineering Insurance | Associateship – Miscellaneous |
| S08 | Loss of Profit Insurance | Surveyors Examination |

| Sunday, 29th May,2011<br>Afternoon | | |
|---|---|---|
| **Sub. No.** | **Subject Title** | **Examination** |
| 51 | Fire Hazards of Specific Industries | Associateship – Fire |
| 61 | Cargo Loss Prevention | Associateship – Marine |
| 68 | Marine Insurance Coverages | Specialised Diploma |
| 71 | Agricultural Insurance | Associateship – Miscellaneous |
| 74 | Liability Insurance | Associateship - Miscellaneous |
| S04 | Marine Hull Insurance | Surveyors Examination |

*According to the time-table, more than one paper may be scheduled for the same time. While submitting the entry form and selecting the subjects, the candidates must satisfy themselves that there is no clash in the time-table for the subjects chosen by them. In the event of a clash, candidates should select a different subject. No refund or carry forward of examination fees is permitted due to wrong or unsuitable selection.*

# Contribution of Articles

***The Institute invites original and quality oriented articles from the members of Local Associated Institutes on insurance and allied Subjects for publication in The Journal. The Articles may be sent by email to journal@iii.org.in with a brief bio-data of the author giving his/her official position with Office Address, Telephone No., Office/Residence/Mobile (indicating his/her membership No. of the Institute). A suitable honorarium will be paid for the articles which have been published in the Journal.***

# Form IV (Rule 8)

Statement about Ownership and Other Particulars about the Journal of Insurance Institute of India as required by Form IV (Rule 8) of the Registration of Newspaper (Central) Rules 1956.

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| 5. | Name and address of individuals who own the newspaper and partners or Shareholders holding more than one percent of the total capital | The Insurance Institute of India is a professional education Institute in the field of insurance education and training, registered under the Societies Registration Act, XXI of 1860 vide Registration No. 128/74 G.B.B.B.S.D |
| | President | Shri M. Ramadoss |

I, Shri Sharad Shrivastava, hereby declare that the particulars given above are true to the best of my knowledge and belief.

Date : 31st December, 2010

Sd/-

SHARAD SHRIVASTAVA

Signature of Publisher