

CHAPTER - I

INTRODUCTION

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1.1 Insurance

Insurance is a device which reduces the cost of loss or effect of loss caused by variety of risks. It accumulates funds to meet individual losses and provides safety and security for untoward losses.

1.1.1 Life Insurance

Life insurance is a contract for payment of sum assured to the insured or the nominee. The policyholder gets an amount during maturity or at specified dates at periodic intervals or the nominee in the event of death. The obligation on the part of the policyholder is the payment of fixed amount known as the “premium” periodically to the corporation. Life insurance is a process by which certainty for uncertainty is ensured. In short, life insurance is the outcome of the economic growth and development of any nation which is accepted as a method to safeguard financial uncertainties caused by untimely death.

1.1.2 Scope of Insurance in India

Insurance is an alternative option for investment but people are not aware about its advantages. It also serves as an excellent tax saving mechanism. It is said that by buying life insurance, customers buy peace of mind. Life insurance products carry tax benefits converting the accumulated funds into productive assets. The insurance sector has opened up for private insurance companies with the enactment of Insurance Regulatory Development Authority (IRDA) Act, 1999. A large number of companies are competing under both general and life insurance.

Some of the major players in life insurance sector are Life Insurance Corporation (LIC) of India, Max New York Life Insurance, SBI Life Insurance, Bajaj Allianz, ICICI Prudential, HDFC Standard Life, MetLife Insurance, Birla Sun Life Insurance, etc. Various types of instruments and policies are coming up in the market to attract more clients. Most of the population of India is not insured, hence there is

lot of scope in this sector and a number of companies are planning to enter as the government has increased the Foreign Direct Investment cap to 49 per cent. The insurance sector is spearheading towards development and there are number of deciding factors. Some of them are:

Untapped potential: India's insurance sector has shown tremendous growth during the last decade. This has triggered the entry of many foreign companies and they have invested in domestic insurance companies, following the Government of India's regulations which raised the foreign equity from 26 per cent to 49 per cent for the life as well as non-life insurance sectors.

Distribution channels: The role played by different players in the insurance sector is crucial as it has an impact on the effectiveness and cost of diverse distribution strategies.

Focus on financial inclusion: The government's policy towards insurance should be inclusive in nature so as to cover even the lower strata of population.

Consumer needs and preferences: Product innovation, marketing strategies, distribution channels, publicity and promotional campaigns are the thrust areas focused by the insurance companies so as to attract the customers.

1.1.3 Conceptual Framework

Performance

Performance refers to the execution time of an actual implementation of the architecture. It has to be evaluated in order to reach the final targets and goals. In order to evaluate the performance, definite goal and objectives have to be set up first.

Evaluation

Evaluation is a method of assessing and identifying how far an activity or an operation of an organization has progressed. Performance evaluation is a must in order to find out the loopholes in the functioning and working of any activity. It also widens the scope of improvement. Thus performance evaluation is a measure of assignment based on authentic tasks such as activities, exercises or problems.

1.2 Need of the study

The introductions of New Economic Policy and consequent financial sector reforms have brought drastic changes in the structure of the service sector in general and the insurance sector in particular. The formation of Insurance Regulatory and Development Authority (IRDA), partnership with insurance business and banking business, and the introduction of micro-insurance have given new thrust to this sector. This sector hitherto owned by the LIC of India and other general insurance companies of the Government of India has been opened to private partners. All these trends have increased the competition both in life and in non-life insurance business, which resulted in more choices for consumers. The performance of LIC which was the sole player with virtual monopoly for four decades in life insurance sector plays a leading role towards the growth of the industry and expected the overall success of the economy. It is, therefore, necessary to study the performance of LIC of India as it has entered into the second decade of competition after the liberalization policy regime. Hence, it becomes imperative to evaluate the performance of LIC of India during the post-liberalization period.

1.3 Statement of the problem

The liberalization was aimed at pushing economic growth through reforms. The policy opened up the country to global economy. The life insurance market was opened to private insurance companies because of lower penetration percentage, lower level of density, lower level of customer satisfaction and many more factors. It was believed that LIC has not focused on wide range of products, which are innovative and customer friendly, but to meet competition, it needs to reformulate them and put them before the customer, in a lucrative manner. It has been 17 years, i.e., nearing two decades since opening up of insurance sector to private players, but not much of the studies have highlighted the performance of LIC in terms of productivity, profitability, efficiency and customers satisfaction which was the prime objective of the reforms in the insurance sector. Hence, the study is aimed at evaluating the performance of LIC of India during the post-liberalization period on various key determinants.

1.4 Objectives of the study

The following are the important objectives of the present study.

1. To understand the evolution of insurance sector and the progress of LIC of India.
2. To analyze the overall performance of LIC of India during the post liberalization period.
3. To assess the business performance and financial performance of LIC of India.
4. To analyze LIC of India's position among its competitors with regard to its size of business.
5. To analyze the policyholder's satisfaction towards LIC of India.
6. To provide suggestions for outstanding performance of LIC of India.

1.5 Hypothesis of the study

To analyze the overall Performance of Life Insurance Corporation, the researcher has segmented two aspects. One is to measure the business performance and financial performance of LIC and the other is to know about the Policyholder's satisfaction towards LIC of India, since measuring financial and business performance alone may not be sufficient for evaluating the performance of LIC. In this regard, the researcher has framed the following hypothesis which is to be tested.

Hypothesis to be tested for measuring the business performance and financial performance

- LIC is highly competitive than the private insurance companies operating in India.
- Performance of LIC is determined by its profit earning efficiency.
- LIC has exhibited high degree of operational efficiency.
- LIC is considered as efficient in managing its Life Fund.

Hypothesis to be tested for Policyholder's satisfaction towards LIC of India

- There is no significant difference between the gender of the respondents and level of satisfaction on LIC.
- There is no significant difference between the marital status of the respondents and level of satisfaction on LIC.
- There is no significant difference of opinion between the level of satisfaction based on the monthly income group of respondents.
- There is no significant difference of opinion between the level of satisfaction based on the educational qualification of respondents.
- There is no significant difference of opinion between the level of satisfaction based on the source of information about LIC.
- There is no significant difference of opinion between the level of satisfaction based on the information provided by LIC agents.
- There is no significant difference of opinion between the level of satisfaction based on influencing factors in choosing LIC policies.
- There is no significant difference of opinion between the level of satisfaction of respondents based on preferences towards LIC policies.
- There is no significant difference of opinion between the level of satisfaction of respondents based on the reasons to switch from LIC to other insurance companies
- There is no significant difference of opinion between the level of satisfaction of respondents based on the preference of other insurance policy.

1.6 Scheme of Chapters

The thesis is organized into six chapters

- CHAPTER 1: The first chapter on Introduction includes need of the study, statement of the problem, objectives of the study and scheme of chapters.
- CHAPTER 2: The second chapter deals with the review of past studies relevant to performance of life insurers of India.
- CHAPTER 3: The third chapter presents research methodology consisting of sources of data, period of study, profile of the selected area, selection of samples and tools of analysis.
- CHAPTER 4: The fourth chapter deals with the importance of Indian Insurance Industry and LIC of India.
- CHAPTER 5: The Fifth chapter includes the data analysis and interpretation which are categorized into Part I and Part II
- CHAPTER 6: The sixth chapter contains the brief summary of findings, suggestions and conclusion.