"A Study of Customer Preference on Private Life Insurance Company with special reference to Srinagar City"

Dr. SAMREENA TARIQ

Jammu and Kashmir Bank Employee

Abstract:

The insurance industry in India has seen an array of changes in the past one decade. The year saw an upraise in the Indian insurance sector as major structural changes took place with the ending of the government monopoly and the route of the Insurance Regulatory and Development Authority (IRDA) Bill lifting all entry restrictions for private players and allowing foreign players with some entry restriction and limits on direct investment ownership. With the fast changing liberalization, globalization and privatization policies, the changing and growing needs and demands of people have made the insurance industry more competitive. Both public and private players now offer greater choice in terms of products and services. They also make valuable efforts to create awareness about the benefits and significance of insurance although there is still a blocking point among the people.

This paper analyzes and rates all the life insurance companies by analyzing certain variables, the effect of privatization and measuring the customer perception, purchase behavior and consumer awareness regarding the life insurance industry.

Key Words: Consumer Preferences, Life Insurance, customer perception, purchase behavior and consumer awareness, privatization, policy awareness.

INTRODUCTION:

Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium. An insurer is a company selling the insurance. The insurance rate is a factor used to determine the amount, called the premium, to be charged for a certain amount of insurance coverage. Risk management, the practice of appraising and controlling risk, has evolved as a discrete field of study and practice.

The insurance industry is in the growing stage in India, which is evident from private life insurance companies. The function of insurance is to spread the loss over a large number of persons who are agreed

to cooperate each other at the time of loss. The risk cannot be averted but the loss occurring due to certain risk can be distributed amongst the agreed persons. They are agreed to share the loss because the chances of loss, i.e., the time, amount, to a person are not known. Anybody of them may suffer loss to a given risk, so, the rest of the persons who are agreed will share the loss. The larger the number of such persons, the easier the process of distribution of loss. In fact, the loss is shared by them by payment of premium which is calculated on probability of loss .

DEFINITIONS:

- According to the **Prof. D.S. Hansell,** "A social device providing financial compensation for the effects of misfortune, the payments being made from the accumulated contributions of all parties participating in the scheme".
- As per **Dr. W.A. Dinsdale**, "Insurance is a device for the transfer of risks of individual entities to an insurer, who agrees, for a consideration (called the premium), to assume to a specified extent losses suffered by the insured".
- As per **Prof. John H. Magee**, "Insurance is a plan by which large number of people associate themselves and transfer, to the shoulders of all, risks that attach to individuals".
- As per **Riegel R and Miller J.S.,** "Insurance is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed".
- According to **E.R. Hardy Iwamy**, "Insurance is a contract whereby one person, called the "insurer" undertakes, in return for the agreed consideration, called the premium, to pay to another person called the assured a sum of money or its equivalent, on the happening of a specified event".
- **Prof. Allan L. Mayerson:** "Insurance is a device for the transfer to an insurer of certain risks of economic loss that would otherwise be borne by the insured".
- **Professor Robert Mehr** : "Insurance is a special device for reducing risk by combining a sufficient number of exposure units to make their individual losses collectively predictable. The predictable loss is then shared proportionately by all those in the combination".
- **J.B. Maclean:** "Insurance is a method of spreading over large number of persons a possible financial loss too serious to be conveniently borne by an individual".

- **Riegel R and Miller J.S :** "Insurance is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed".

In the light of the above definitions, we may, therefore, define insurance, as a cooperative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to insure themselves against that risk. The loss is shared willingly by contributing a small amount towards a common fund[2] .

FUNCTIONS OF INSURANCE:

Following are the main functions of insurance:

- The main function of insurance is to provide certainty of payment against the occurrence of sudden loss arising due to happening of uncertain event. Thus insurance removes uncertainty. The function of insurance is primarily to decrease the uncertainty of event[3] .
- Insurance also provides protection against the probable chances of loss. The time and amount of loss are uncertain and at the happening of risk, the person will suffer loss in absence of insurance. The insurance guarantees the payment of loss and thus protects the assured from sufferings. Although insurance cannot check the happening of risk but can provide for losses at the happening of risk and thereby creates security to the insured[4] .
- Insurance involves sharing of risk which implies that insurance spreads the financial losses of insured members over the entire community by compensating the unfortunate few from the funds built up from the contribution of all members.
- The insurance provides capital to the business houses and industrialists by way of lending the funds to them or making contribution to their share capital. In other words, the funds accumulated by insurance companies by way of premiums are invested in productive channels. • The insurance minimizes the worries and miseries of losses arising due to death of insured or destruction of property. The carefree person can devote himself in a better manner towards the achievement of objectives which results in enhancing his efficiency and rapid economic growth.

SOCIO-ECONOMIC SIGNIFICANCE OF INSURANCE Socio-economic benefits of insurance are incalculable. Some of its benefits are as follows:

Benefits of insurance

1. Insurance policy is a suitable way for providing for the future of most of the people who find it difficult to save and accumulate funds for the evening of their lives.

2. Insurance plays an important role in the expansion and promotion of foreign trade.

3. Insurance helps in spreading education.

4. Insurance companies accumulate large funds which they held as custodians and out of which claims and losses are met a large portion of such resources are invested in various securities and social welfare purposes.

5. Confidence building and removal of fears from the minds of businessmen and individuals against sudden losses, is a job done by the insurance.

6. The spreading of the financial losses of insured members over the entire community in an equitable manner by compensation of the unfortunate few from the funds built up from the contributions of all members is done by the insurance.

7. It helps businessman in facing the competition and in expanding the size of business units.

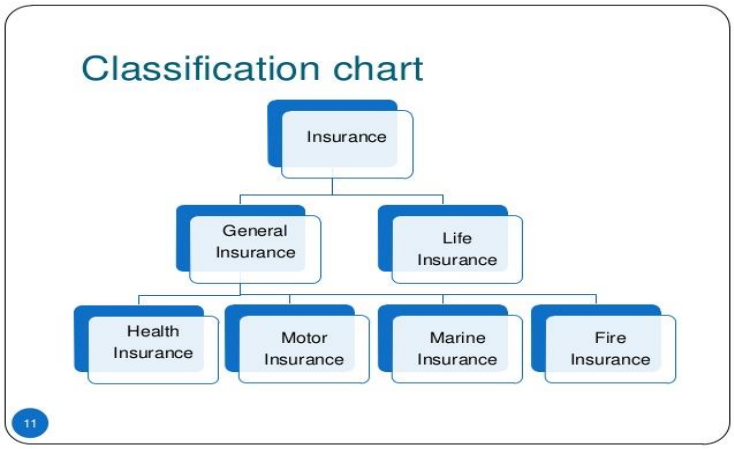
8. Insurance has considerable effect on the reduction of losses due to the loss prevention measures of the insurers.

9. Insurance is an item of invisible exports and contributes significantly to the balance of trade. 10. Insurance also increases the credit of a man as money can be easily borrowed on the security of goods and property insured against fire or sea perils or on the basis of a life policy.

11. Insurance takes care of some of the social problems which beset a modern civilized society. 12. Insurance accelerates the process of economic growth in various ways. By providing for events which may be anticipated, the insurance acts as a stabilizer of economic growth.

KINDS OF INSURANCE

Insurance can broadly be categorized as follows:



- **A General Insurance:** is a contract that offers financial compensation on any loss other than death. It insures everything apart from life. A general insurance compensates you for financial loss due to liabilities related to your house, car, bike, health, travel, etc. The insurance company promises to pay you a sum assured to cover damages to your vehicle, medical treatments to cure health problems, losses due to theft or fire, or even financial problems during travel. Simply put, a general insurance offers financial protection for all your assets against loss, damage, theft, and other liabilities.
- **Life Insurance :** Life insurance is the most popular insurance whereby the Insurance Company agrees to pay a specified sum of money to the insured, on the expiry of a certain period of time or on the death of the insured person, whichever is earlier. Thus life insurance relieves the widow, children and other dependents from the hardships of utter poverty, in case death of the bread-winner takes place. Life insurance combines two elements simultaneously element of protection and element of investment. Element of protection provides the safeguard against the risk of early death by replacing the income of the deceased. Thus, if a person dies before the policy matures for payment, Life Insurance Company undertakes to pay the assured sum to the representatives and dependents of the deceased. It, therefore, extends the hand of protection to those who are left without support and help due to the sudden and premature death of their breadwinning. Element of investment implies that the small sums paid to the insurance company by way of premium over

a long period of 10 to 20 years grow into a large sum and are paid back to the policyholder after the expiry of the term. In other words, if an insured person live up to the maturity of the policy, the insurance company undertakes to replace income to him and to his dependents in the evening of one's life, when he is unable and unfit for physical hard work. Though, the protection aspect is present in other forms of insurance like fire and marine, the investment aspect is lacking in these forms. Thus life insurance is the only avenue that offers both the protection and investment benefits.

OBJECTIVES:

- To know customer preference regarding insurance company.
- To study various benefits of life insurance.
- To analyse the company image amd brand image in market.
- To take necessary steps to increase sales

RESEARCH METHODOLOGY:

The research is exploratory in nature; it focuses on Literature review, News Papers, Journals, websites and the other reliable sources.

REVIEW OF LITERATURE:

Dr. P.K. Gupta (2000), in the article named "Exploring Rural markets for Private Life Insurance Players in India" has tried to examine the present state of affairs of rural life insurance in India and attempts to explore the causes, which led to poor penetration of rural life insurance markets for which a survey of 2000 sample of rural customers was been conducted to examine their perception and attitude towards buying life insurance products. The study bought out interesting facts to lights like rural households with head of the family more educated but with less family income are more likely to purchase a life insurance policy than those with better social security but lesser education & rural customers consider safety of invested funds as the most important factor in buying a life insurance followed by claims settlement and assistance in policy purchases. On the distribution side the research stated that a firm belief among the insurance companies is that agents are best suited for tapping the rural segments. But the research concluded that the keys to success in insurance penetration in rural areas for private players are accessibility, reasonably priced products, effective communication and after-sales service.

Alok Mittal and Akash Kumar (2003), in their study "An Exploratory Study of Factors Affecting Selection of Life Insurance Products" have attempted to identify the factors which are affecting the consumers in taking into consideration before selecting a life insurance product and determining the extent to which these factors are taken into consideration for choosing life insurance products. The study highlighted that consumers take into consideration factors like product attributes, customer delight, payment mode, product flexibility, risk coverage, grace period, professional advisor, and maturity period as important before making a decision on selection of a life insurance product but most important factors which are of vital importance was product attributes, and the least important was maturity period.

William H.Greene, and Dan Segal (2004), in their research "Profitability and Efficiency in the U.S. Life Insurance Industry" have discussed the relationship between cost inefficiency and profitability in the U.S. life insurance industry. The life insurance industry is mature and highly competitive, and cost efficiency may be the main driver of profitability. The authors derive cost efficiency using the stochastic frontier (SF) method allowing the mean inefficiency to vary with organizational form and the outputs. In addition, the estimation of the cost efficiency measure takes into account the underlying accounting concepts. This study suggests that cost inefficiency in the life insurance industry is substantial relative to earnings, and that inefficiency is negatively associated with profitability measures such as the return on equity.

T.Venkateswara Rao (2004), presented a paper titled "Alternative Distribution Channels in India" in Global Conference of Actuaries. This research points out that a distribution channel means a set of interdependent organizations involved in the process of making a product or service available for use or consumption by the consumer by creating place utility & the value of having the products where the customer wants them, when they want them. The research said that in Distribution in Life Insurance requires the intermediaries. The current insurance market depends heavily on Individual Agency channel but it concluded that Alternative distribution channels can give competitive edge for the Insurers, a statistics of Alternative Distribution channels of LIC suggest that corporate agencies including banks are garnering 82% and the rest 18% is coming from Brokers & Over time bancassurance may get at least 20% distribution share in life insurance market.

Sinha and Tapen (2005), in their research article "The Indian Insurance Industry: Challenges and Prospects" have stated that India is among the most promising emerging insurance markets in the world. But out of total insurance premium market in India particularly life insurance currently makes up 80% of premiums. The research also highlighted that when India undertook to open the domestic insurance market to private-sector and foreign companies since then, 13 private life insurers and eight general insurers have joined the Indian market. But speaking about major hurdles this research spoke on the obsolete regulations on insurance prices which have to be replaced by risk-differentiated pricing structures. . Furthermore it said that both the life and non-life insurance sectors would benefit from less

invasive regulations. The author also suggested that Price liberalisation will be needed to improve underwriting efficiency and risk management and the Private insurers will have a key role to play in serving the large number of informal sector workers

Cummins, Tennyson and Weiss (1998) studied the relationship between mergers and acquisitions, efficiency, and scale economies in the US life insurance industry. They estimated cost and revenue efficiency over the period 1988 to1995 using Data Envelopment Analysis. The Malmquist methodology 39 was used to measure changes in efficiency over time. They found that acquired firms achieved greater efficiency gains than firms that have not been involved in mergers or acquisitions. Firms operating with non-decreasing returns to scale and financially vulnerable firms were found to be acquisition targets. Overall, mergers and acquisitions in the life insurance industry were found to have a beneficial effect on efficiency.

Cummis, Tennyson, and Weiss (1999) used the Data Envelopment Analysis to examine the relationship among mergers and acquisitions, efficiency, and economies of scale in the US life insurance industry over the period 1988 to 1995.They found that acquired firms achieve greater efficiency gains than firms that have not been involved in mergers or acquisitions.

Mahlberg (1999) included 36 life insurers of Australia and 118 life insurers of Germany for the period of 1992 to 1996 to find out technical efficiency. The study revealed that the technical efficiency of Australia was greater than Germany but at the same time inefficiency was found in both the countries.

Cummins (1999) examined pure technical and cost efficiency of US life insurers spanning 1988 to 1995 by using Data Envelopment Analysis approach. The study found that efficiency scores in insurance were relatively low compared to other financial service industry and brokerage system was most efficient.

Carr,Cummins,Regan (1999) analyzed cost efficiency as well as revenue efficiency of 66 life insurers of US by using Data Envelopment Analysis approach. The result showed that exclusive dealing insurers were less efficient than non-exclusive dealing or direct writers. The study also found that dealing insurers should focus on fewer product lines.

Peter Drucker (1999) admitted that by providing financial protection against the major eighteenth and nineteenth century risk of dying too soon, life insurance became the biggest financial industry of that century.

Baltelsmit and Bouzouita (1998), in their paper, examined the relationship between profitability and market structure in automobile insurance and tests for the existence of a positive relationship between concentration and performance. The data for the study pertained to the period 1984 to 1992. The results showed a significant positive impact of concentration on profitability for combined liability and physical damage lines in private passenger automobile insurance. These results differ from previous studies using state level data from the previous decade but confirm. **Rao (1998),** in his paper, examined the efficiency

of the LIC, in physical and financial terms. Insurance, being essentially a service industry, a distinct set of criteria (both, physical and financial) had been developed to evaluate its overall efficiency. There has been a significant improvement in the physical performance of the LIC. But the financial performance in terms of profitability had not been up to the expected level. However, given the constraints of statutory regulations and government control, coupled with a highly cost-prone rural business, the financial performance may be considered as satisfactory, although there is a considerable scope for improvement. The LIC should vigorously try to improve its operational efficiency to benefit the policyholders and to compete in a liberalized environment.

Verma (2000), in her thesis, evaluated the performance of the GIC and its subsidiary companies over the years, throwing light on the probable effects of the various insurance sector reforms on the future development of General Insurance in the country.She also studied the origin, aims and functions of the corporation and its product development. The study was based on the published and primary data. The techniques like trend analysis, averages, graphs etc. were used to analyse the quantitative data. The study found that the GIC along with its subsidiaries has emerged not only as a strong insurance institution but also as an influential institutional investor in the financial market of India due to large amount of funds at its disposal. It made investment with the objective of safety and maximization of return. The underwriting results showed losses in about all the years except 1993-94. Despite the rise in premium income, the profit position had not improved due to rise in expenses, commission and net incurred claims at a higher rate than the growth premium income. The study suggested that GIC should bring reform in pricing the General Insurance contracts and use information technology for better management, customer service, efficiency and competitiveness.

Rudolf (2001), in his paper, examined the key factors and latest trends determining profitability in the major non-life insurance markets. The study focused on the non-life insurance markets of the group of seven countries (G7) mainly for the period 1996 to 2000. To analyse the profitability, investment results and underwriting results were compared between countries and across lines of business and to analyse the drivers of profitability, return on equity was decomposed into its main components namely underwriting results and investment income. The results indicated that only Germany and Japan did not have negative underwriting results and return on equity was high in UK, moderate in Canada and US, and low in France and Germany. The study found that underwriting result and investment yield are negatively correlated. The research suggested that due to uncertain prospects for investment results, the insurers must focus on underwriting results to achieve greater profitability.

DATA ANALYSIS AND INTERPRETATION

Table No. 1: Awareness of customers regarding following private life insurance companies

Players	Frequency of Respondents	Percentage of Respondents
Bajaj Allianz	39	24.375
ICICI Prudential	34	21.25
Met Life	52	32.5
HDFC Standard Life	21	13.125
Others	14	8.75

Table No. 2: Respondents preference to get insured in private insurance company

Players	Frequency of Respondents	Percentage of Respondents
Bajaj Allianz	39	24.375
ICICI Prudential	35	21.875
Met Life	44	27.5
HDFC Standard Life	26	16.25
Others	16	10

Table No. 3: Expectation of customers from private life insurance companies

Responses	Frequency of Respondents	Percentage of Respondents
Good services	31	19.375
Cheaper premium	56	35
Better plans of insurance	30	18.75
Speedy settlement of claims	38	23.75
Others	5	3.125

Table No. 4: Customer's opinion in the services rendered by private life insurance companies

Responses	Frequency of Respondents	Percentage of Respondents
Very Poor	12	7.5
Poor	34	21.25
Average	46	28.75
Good	39	24.375
Very Good	29	18.125

Table No. 5: Insurance plan preferred by customers in private life insurance companies

Players	Frequency of Respondents	Percentage of Respondents
Child Care	28	17.5
Cash Care	20	12.5
Pension Plan	27	16.875
Endowment Plan	16	10
Risk Care Plan	30	18.75
Flexi Plan	26	16.25
Others	13	8.125

Table No. 6: Amount of premium customer's can pay for life insurance policy

Players	Frequency of Respondents	Percentage of Respondents
Less than 10,000	27	16.875
10,000–40,000	52	32.5
40,000- 80,000	35	21.875
80,000-120,000	30	18.75
More than 120,000	16	10

Table No. 7: Things which motivate customer to invest in insurance sector

Players	Frequency of Respondents	Percentage of Respondents
Security	37	23.125
Rate of return	30	18.75
Company profile	24	15
Tax Benefit	42	26.25
Others	10	6.25
None	17	10.625

Findings:

1. Most of the customers are aware of products offered by private life insurance companies.
2. Most of the customers are of opinion that service from private life insurance companies is good.
3. Most of the customers are of opinion that private life insurance companies is rendering a better service.
4. Most of the customers are willing to pay premium of 10,000- 40,000.
5. Most Customers are of opinion that the services rendered by private life insurance companies are average followed by good.
6. Things which motivate customer to invest in insurance sector are Tax benefit and security
7. Customers Expectation related to Cheaper premium and Speedy settlement of claims are higher for private life insurance companies

Conclusion:

In many ways the entry of private players has marked a second coming for the sector. Within three years, the sector has undergone a makeover offering the market more choice, better service, quicker settlement, tighter regulations, and greater awareness. Furthermore, from this study, the author strongly believes that the purchasing decision of the consumer depends on quality, accessibility and promptnesss of services, which may lead a company acquire the top rank with a huge market share.

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