

MANAGEMENT, BUSINESS AND ECONOMICS BEHIND LIFE INSURANCE INDUSTRY

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Abstract: Insurance plays an increasingly important role in every nation's financial sector. The management, business strategies and economics of the insurance industry have significant impact on individuals and the economy as a whole due to increase of urbanization, mobility of the population, and formalization of economic relationship between individuals, families and communities. In this paper, management system, business policies and strategies along with the economic policy of Life Insurance Corporation (LIC) of India distribution system are studied.

Keywords: business, economics, life insurance, management

INTRODUCTION

Life insurance products encourage long term savings and the re-investment of substantial sum in private and public sector projects. Because insurance products offer a means of disciplined contractual saving they have become effective as instrument for encouraging substantial amounts of savings.

The LIC Advanced loans to the five sectorial authorities of an amount of Rs.2114.88 Crores in 1993-94. The housing and urban development corporation was given the largest amount of loan (44.97 percent) followed by State Electricity Board/Electric Power Corporation (30.65 percent). The year wise loan advances have shown a fluctuative trend varying between Rs 3972.6 Crores and Rs.2124.88 Crores. The major beneficiary during the period 1993-94 to 2002 – 2003 was Housing. The loan advanced to these sectorial authorities was to the tune of Rs 12414.35 Crores during the period 1993-94 to 2002-2003. Electricity was the second major beneficiary as the loan advanced to this sector amounted to Rs 9321.53 crores during the period under study.

MANAGEMENT SYSTEM OF LIC OF INDIA

Since LIC is a public sector Organization having economic development in its agenda, designing an organization structure that ensure achievement of business and welfare objectives assumed significance. The LIC of India during several decades of its existence brought in many changes in its organizational system to make it more effective in performance. "The organizational set up of LIC has been a subject of frequent review in examination by various committees appointed by the parliament [1].

The Administrative Reforms Commission and expanses committee 1968, Naidu Committee 1971 Thapar Committee 1974 Ramanathan Committee 1977 S N Vaidya Committee 1978-79 (Committee of Actuaries) and Malhotra Committee 1993-94 have reviewed various aspects relating to the organizational system of LIC and suggested improvements. As a result LIC could modify its organizational system from time to time.

It is studied that there is one Central Office located at Mumbai, responsible for the development of strategy and overall management of the activities of the corporation. The market of LIC is divided into seven zones namely. Northern Zone, North Central Zone, Central Zone, Eastern Zone, South Central Zone, Southern Zone and Western Zone

A Zonal office was established in each zone for managing and coordinating the operations of the Corporation in the respective zonal area. Each zone was further divided into divisions and divisional office was established in each division. At the gross root level Branch Offices were established under each division. The Corporation established 100 divisional offices and 2048 Branch Offices spread over various parts of the Country.

Business Plans

The business objective of any firm is to satisfy its Customers' needs profitably, and in this the marketing's role is to find out what the needs are, whether they are being met, and how to meet them better. Therefore, Services marketing is the managerial process of ensuring that the organization offerings are serving Customer needs [2]. The offering i.e., the product, is the basis for marketing activity.

A product is anything that can be offered to a market for attention, acquisition, use and consumption that might satisfy a want or need. It includes physical objects, services, persons, places, organizations and ideas [3].

The data relating to total sum assured and bonuses declared by LIC during 1993-94 and 2002-2003 are studied. The total sum assured and bonuses was to the tune of Rs. 2,08,619 Crores in 1993-94. The amount was gone up to Rs 9,56,675 Crores in 2002-2003. Thus, the total sum assured and bonuses increased by 458.57 percent during the period 1993-94 and 2002-2003. The highest growth rate over previous year was recorded in 2001-2002 year (25.73 percent) and lowest growth rate was in 1998-99 (14 percent) year. The share of the sum assured and bonuses within the country was more than 99 percent and the share of the same outside the country was less than 0.5 percent.

The details relating to premium income of LIC during 1993-94 to 2002-2003 are studied. The premium income which was Rs.8804.38 Crores in 1993-94, increased year by year to reach Rs 48,255.31 Crores in 2002-2003. In other words the premium income of LIC increased by 548.08 percent during the period 1993-94 and 2002-2003. The highest growth rate over the previous year in premium income was recorded in 2000-2001 and the lowest growth rate was record in 1994-95 (16 percent). During the period 1993-94 to 2002-2003 the share of policies within India in the premium income varied between 99.45 percent and 99.78 percent. The share of the policies outside India varied between 0.22 percent and 0.54 percent. It can be seen further that the share of the premium income outside India slid downwards during the period 1993-94 to 2003-2004. With the progressive increase in mobilization of savings, the corporation is now in an enviable position of being the largest single investor in the country [4].

The details relating to claim settlement operations of LIC during 1993-94 and 2002-03 are studied and it is shown that the number of claims intimated was 34.6 lakhs for an amount of Rs 3374.07 crores in 1993-94. The number of claims intimated increased year by year to reach 96.53 lakhs in 2002-03 recording an increase of 178.99 percent. The amount of claims recorded a steep raise to reach Rs 16979.86 crores in 2002-2003. The no. of claims outstanding at the end of each year varied between 0.22 lakhs and 1.83 lakhs during the period 1993-94 to 2002-03. The amount towards claims outstanding varied between Rs 171.5 crores and Rs 432.01 crores during the period. Thus the performance of LIC in settlement of claims can be considered impressively.

LIC of India could attract substantial number of new policies during the period under study. The data relating to new business on individual insurance (excluding annuities) are studied. The total number of new policies in the category of individual insurance (excluding annuities) was 107.38 lakhs in 1993-94. There were additions every year and therefore by the end of 2002-03 the number of new policies increased to 242.79 lakhs. The sum assured relating to new policies was to the tune of Rs 42012.90 crores and by the end of 2002-03 the sum assured of the total business has gone up to Rs 179811.17 crores. On the similar lines the annual premium receivable has gone up from Rs 2519.86 crores in 1993-94 to Rs 12524.22 crores in 2002-03. This research further reveals that the lion share of the new business is from within the country and the new business generated outside India represents only a minor share.

The data relating to new business progress under group insurance excluding group superannuation scheme are studied. The new schemes under group insurance could attract 9.94 lakhs new members with an assured sum of Rs. 2382.77 crores in 1993-94. The new members added are not consistent during the period under study as it varied from 9.94 lakhs and 24.91 lakhs (2002-03). The sum assured also was fluctuative as it varied from Rs 2382.77 crores and Rs 16707.57 crores. Besides attracting members to the new schemes the group insurance could attract new members to the existing schemes also. The new members added on to the existing members of the schemes varied between 3.73 lakhs and 12.08 lakhs per annum during the period under study. The sum assured also varied between Rs 2104.5 crores and Rs. 923.32 crores during the period under study.

Economic Policies

Pricing is an essential and one of the most important decision areas of marketing. It is a medium for exchange of value between a seller and a buyer. It is a factor that influences the decision making of the consumer in relation to purchase. It determines market demand. Products or services may be matched with markets, but only when buyers or a seller may propose a price, but it does not become one until accepted by the other [5].

The pricing of a public utility service like life insurance is a key managerial function and it differs substantially in complexity and function from the pricing of the services of a private commercial undertaking. Several services use different terminology to denote price. For educational institutions it is tuition fees, for professional organizations it is fees, in banks it is interest and service charge, for

transporters it is fare, for bridges and highways it is toll, for libraries and clubs it is subscription. It is commission to brokers, rent to landlords, tariffs to utilities and hotels, premium to insurance companies and so on [6].

The LIC is following traditional pricing approaches. The dynamic changes in the market are not reflected in the LIC pricing policy. The committee on reforms in insurance sector made the following recommendations for incorporating changes in pricing system of LIC.

The first year and renewal cost ratios should be brought down to 60% and 11%, respectively. For this purpose, LIC must take steps to appreciably improve the productivity of its employees and streamline its systems and procedures. Computerization of its entire range of operations is crucial for controlling costs, reducing policy lapsation and improving customer service. Needless to say that existing computer facilities in LIC should be optimally utilized.

The minimum sum assured on a life policy was fixed at Rs 1000 in 1956. It has been raised during the year 1994 to Rs 5000 under 'Endowment' and 'Jan Raksha' plans and Rs 10,000 for 'Money Back' and other plans. Considering the cumulative inflation since 1956 and the present average sum assured per policy of Rs36,000, the committee recommends that the minimum sum assured should be Rs 15,000 under endowment and whole-life type of plans, and Rs 25,000 for 'money back' type of plans which are usually preferred by the relatively better off proponents.

The prime factor that influences the price decisions of insurance is changed business risk. The risk is classified based on various parameters and tariffs will be divided on various policies. In view of the complexity in determining prices and managing prices, the Tariff Advisory Committee (TAC) was constituted as per the Insurance Act amended in 1968. The Tariff Advisory Committee (TAC) consists of the chairperson of IRDA [7] who will be the chairman of the TAC, a senior officer of the IRDA who will be the vice chairman, not more than 10 members representing of Indian Insurance Companies and four representatives of insurers incorporated or domiciled outside India but registered in India. The rates, terms and conditions, rules & regulations of all the policies offered by the insurance companies will have to be as regulated by TAC. Unless exempted specifically for any class of business for such time as may be specified the rates, terms etc., determined by TAC are binding on all insurers. Every decision of the TAC is valid only after and to the extent that, it has been verified by the IRDA [7]. TAC can verify documents and other books of the insurer to verify the accuracy of information supplied

by the insurer. TAC, by the powers entrusted to it, can have reliable data on the experience of the insurer to judge the rates fixed by them whether suitable to the Indian Market Conditions.

CONCLUSIONS

The management in insurance organization keeps the economic development as an agenda. The organization system of the Life Insurance Corporation (LIC) has been studied in-depth. The LIC of India during several decades of its existence brought in many changes in its organizational system to make it more effective in performance. Business services are inseparable; they cannot be separated from the person or the seller. From a marketing stand point inseparability frequently means that direct sales is the only possible channel of distribution and a seller service cannot be sold in very many markets. The pricing of a public utility service like life insurance is a key managerial function and it differs substantially in complexity and function from the pricing of the services of a private commercial undertaking. The powers relating to premium are being given to the Advisory Committee for control and regulate the rates and terms. The most important factor in the determination of premium rates is the assumed rate of interest which is generally related to yield on life fund. In 1970-71, the gross yield earned by LIC on its life fund was 6.25% and by 1992-93 the yield had risen to 11.56%. The present level of pre-emption of investment of life fund in Government Securities and directed sectors to the extent of 75% takes away much of maneuverability from LIC in exploiting the capital market to the optimum.

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