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EMERGING TRENDS IN LIFE INSURANCE MARKETING IN INDIA

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Abstract

The Life insurance industry in India dates back to 1818, when a British firm Oriental Life Insurance Company opened its office in Kolkota. By mid 1950s, 154 Indian insurers, 16 foreign insurers, and 75 provident societies were operating in the country. In 1956, the management of these companies was taken over by the government of India. Life Insurance Corporation of India was formed in 1956 through the LIC Act, 1956.
***Keywords**: Life Insurance, policyholders, insurable risks, General insurance, Fire insurance, Social insurance*

Evolution of Insurance

The Code of Manu that was in force during the Reign of Cholas in South India shows that there was the practice of marine insurance carried out by traders in India with those in Srilanka, Egypt and Greece.

As the European civilization progressed, welfare practices also became more refined. With the discovery of new lands, sea routes and the consequent growth in trade, medieval guilds took it upon themselves to protect their member traders from loss on account of fire, shipwrecks and the like.

Insurance is “a contract for reducing losses from accident incurred by an individual party through a distribution of the risk of such losses among a number of parties.” The definition goes on to say: “In return for a specified consideration, the insurer undertakes to pay the insured or his beneficiary some specified amount in the event that the insured suffers loss through the occurrence of a contingent event covered by the insurance contract or policy. By pooling both the financial contributions and the ‘insurable risks’ of a large number of policyholders, the insurer is typically able to absorb losses incurred over any given period much more easily than would the uninsured individual”

Types of insurance

I. Classification on the basis of nature of insurance
   (a) Life insurance
   (b) Fire insurance
   (c) Marine insurance
   (d) Social insurance
   (e) Miscellaneous insurance
II. Classification from business point of view
   (a) Life insurance

(b) General insurance

III. Classification from risk point of view
  (a) Personal insurance
  (b) Property insurance
  (c) Liability insurance
  (d) Fidelity guarantee insurance

Evolution of Life Insurance

Marine insurers were the first insurers of life; they started insuring the life of master and crew of the ship and the merchants. The early life insurance policies were issued for short duration and relief was given to the widows for a certain period.

Life Insurance Industry in India

The insurance sector in India has come back to the square one from being an open competitive market to nationalization and back to a liberalized market once again.

A brief history of the Indian life Insurance sector

The business of life insurance in India in its existing form started in India in the year 1818 with the establishment of the Oriental Life Insurance Company in Calcutta. Some of the important milestones in the life insurance business in India are:

1912: The Indian Life Assurance Companies Act enacted as the first statute to regulate the life insurance business.

1928: The Indian Insurance Companies Act enacted to enable the government to collect statistical information about both life and non-life insurance businesses.

1938: Earlier legislation consolidated and amended to by the Insurance Act with the objective of protecting the interests of the insuring public.

1956: 245 Indian and foreign insurers and provident societies taken over by the central government and nationalised. LIC formed by an Act of Parliament, viz. LIC Act, 1956, with a capital contribution of Rs. 5 crore from the Government of India.

1993: The Indian government constituted the “Malhotra Committee” to suggest reforms in the insurance industry

1994: “Malhotra Committee” submitted its report, with recommendations for opening the insurance sector to private players, improving, service standards and extending insurance coverage to larger sections of the population.

1999: the Insurance Regulatory Development Act was passed in the Indian Parliament and the door was opened for private companies with foreign equity

The life insurance industry in India dates back to 1818, when a British firm Oriental Life Insurance Company opened its office in Calcutta (now Kolkata), followed by Bombay Life Assurance company in 1823. By the year 1956, 154 Indian insurers, 16 foreign insurers and 75 provident societies were carrying on life insurance business in India. During that time the business was concentrated on urban areas and limited to upper income group people.

The president of India declared an ordinance on 19.01.1956 taking over management and control of business of Life Assurance in India including foreign business of Indian insurers and Indian business of foreign insurers and then nationalized on 01.09.1956 when the Life Insurance Corporation of India was formed by an act of parliament. More specifically, the main aims of nationalization were:

1. To spread insurance to rural areas;
2. To encourage public savings to finance the Five-Year Plans;
3. To provide complete security to policy-holder;
4. To prevent malpractices, misuse of powers and positions, etc.;
5. To avoid wasteful efforts in competition and conduct the business with utmost economy;

The need for reforming the industry was felt in the early 1990s for providing better coverage to the Indians and to increase flow of long-term financial resources to finance the growth of infrastructure. In 1993, the Indian government constituted the "Malhotra Committee" to suggest reforms in the industry. The committee submitted its report in 1994, with recommendations for opening the insurance sector to private players, improving, service standards and extending insurance coverage to larger sections of the population

In 1999, the Insurance Regulatory Development Act was passed in the Indian Parliament and the door was opened for private companies with foreign equity So far fifteen private players have been granted license to conduct life insurance business in India.

Liberalization and entry of private players

The need for reforming the industry was felt in the early 1990s for providing better coverage to the Indians and to increase flow of long-term financial resources to finance the growth of infrastructure. In 1993, the Indian government constituted the "Malhotra Committee" to suggest reforms in the industry. The committee submitted its report in 1994, with recommendations for opening the insurance sector to private players, improving, service standards and extending insurance coverage to larger sections of the population. So far thirteen private players have been granted license to conduct life insurance business in India.

Life Insurance the Sunrise Industry in Service Sector

The growth in the service economy is widely recognized and increasingly contributes to the economic development of many regions. Services make up the bulk of today's economy not only in United States and Canada where they account for about 70% of the gross domestic product (GDP), but also in other developed industrial nations and developing nations. Life Insurance sector is the most vibrant sector in the service industry.

Trends in Life Insurance Marketing

The two major trends we can observe in life insurance sector are

1. CRM initiatives
2. Bancassurance way of distribution

CRM initiatives

Customer Relationship Management is a strategy used to learn more about customer's mood and behaviors in order to develop stronger relationship with them. It can be used to build a loyal customer base and as a result the brands marketed by the company will grow in strength by leaps and bounds.

With the competition getting tougher, to survive Customer Relationship Management appears to be a promising way to not just survive but to grow and excel. LIC of India is quick on its heal, now you can know about your policy, calculate premiums and do a host of activities on LIC's web site.

1. Payment of Premium and Policy Status on Internet
2. Information Kiosks
3. Information Centers
4. Interactive Voice Response System (IVRS)

CRM Initiatives of Private Insurance Players

Allianz Bajaj had entered into contract for two months with Shopper's Stop. According to the contract, every Shopper's Stop outlet had an Allianz Bajaj Kiosk that provided information about policies in order to attract customers. Similarly, Tata AIG entered into an agreement with Westside to set up information kiosks in all its outlets in order to attract people's attention.

ICICI Prudential launched the 'TruLife Club' for its high value policy holders as a part of its marketing strategy. Through TruLife Club, the company offered a wide range of health-related products, health and fitness equipment and membership in gyms, health resorts and clinics in India. The policy holders with RS. 0.50 million or more were included into the club.

Bancassurance way of distribution

Three fourth of the Indian Insurable population is still untapped. One of the main reasons for this is the poor distribution strategy of Life Insurance Corporation of India. It depended entirely on individual agents to distribute products and the need for developing an alternative channel was not realized, since it was a monopoly market before liberalization.

In the competitive scenario to survive and excel in the market, insurance companies are looking for newer avenues and strategies. On the distribution front Insurance companies are going beyond the traditional channel of selling their offering through agents. A couple of years ago, the only way of distribution of insurance products was through Agents. Still the agents continue to be the major distribution channel, now a number of novel unconventional channels are being used to reach consumers. Some of emerging channels are bancassurance, brokers, the internet and direct marketing.

The concept “Bancassurance”, which originated in France, has proved successful in several countries around the world Besides France, bancassurance has been a success in Portugal and Greece. In the UK, its is not such a success is limited as severe restrictions on what banks getting into insurance selling, bancassurance is only about decade old in the US, and is expected to be a huge success in India too

Bancassurance is the term given to the distribution of insurance products through the bank branches. It is not a revolutionary concept, cross selling – the strategy for using the established, entrenched distribution network for one product to market other new products is an age old practice in consumer goods marketing. Banks and insurance companies have taken a leaf out of the book of consumer goods marketers

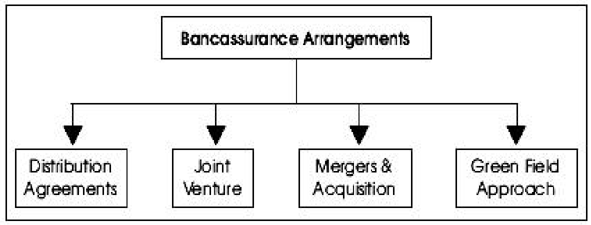
It is a win-win-win situation; for bankers insurance distribution helps to increase the fee-based earnings to a considerable extent, for Insurance companies this helps to lower the distribution costs, for customers this helps to fill the void between them and the less known newer private insurance companies because of their well established and long cherished relationship with their bankers.

In India there are around 65000 branches of banks and approximately each branch caters to around 15000 customers. These banks possess vital information about the financial needs and savings preferences of their customers. For insurance companies this becomes an untapped and successful mode of distribution. Banks with their brand image and existing customer relationship are the best market for selling of insurance products. Research has shown that consumers trust banks more than insurance companies. It is up to the insurance companies to utilize this trust factor.

The regulator of insurance sector Insurance Regulatory Development Authority, permitted Indian banks to sell insurance polices on 2002. Cross selling is the name of the game. It is not a revolutionary concept, cross selling – the strategy for using the established, entrenched distribution network for one product to market other new products is an age old practice in consumer goods marketing. Banks have taken a leaf out of the book of consumer goods marketers (V.V. Ravikumar 2006)

The modus operandi is either through commission basis or through joint ventures between insurance companies and banks. Bancassurance appears to be a win-win-win game, benefiting bankers, insurance companies and the customer.

Bancassurance can be done through four different arrangements (Vineet Aggarwal, 2004).



In distribution agreement bank signs a distribution agreement with an insurance company, and according the agreement the bank will act as the appointed representative of the insurance company. The investment to be made by bank for this distribution arrangement by the bank is low. In case of joint venture, a new company is floated by an existing bank and insurance company to sell insurance products. In merger and acquisition a bank acquires an insurance company or an insurance company acquires a bank. In green field approach, a bank or group of banks start an insurance company from the scratch.

SBI Life Insurance Company is the first private life insurance company to break even since privatization. Bancassurance has been cost-effective and helped the company make profits for the first time. SBI Life products are now being sold in over 6,500 branches of the State Bank Group - around 1,500 branches are selling individual policies and another 5,000 group products. Bancassurance is SBI Life Insurance Company's key distribution channel, contributing over 43 per cent to the total premium, at Rs 470 crore for the financial year ended March 31, 2006. This year the company plans to increase that to 50 per cent. (Radhika Menon, 2006)

Conclusion

With the fresh blood injected into the system the life insurance sector is very vibrant. The customer is the ultimate winner at the end of the day. The Players are using CRM, Bancassurance and other initiatives to win and retain customers. It is too early to judge about the winners and losers. But it is exiting to watch a new sunrise industry shine up.

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