Analysis of marketing strategies of Life Insurance Company (LIC)

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Abstract: Based on the objectives of this project, information was gathered through published journals and Government reports. These were analyzed to understand the factors that led the government to nationalize the industry and later reverse its decision to bring the entire life insurance industry under its control. the study focused on assessing the top five industry players which are Life Insurance Corporation (LIC). In case of death due to accident (within 180 days) an additional amount equal to Benefit Sum assured will be payable. In case of Total and Permanent disability arising accident an amount equal to accident benefit sum assured will be payable over years in monthly installments. However, the payment of accident benefit will be subject overall limit of Rs.25 lakh under all policies of the Life Assured with the Corporation together. The disability due to accident should be total and such that the Life assured is unable out any work to earn a living.

[Rani, S., Yadav, G. and Yadav, S. **Analysis of marketing strategies of Life Insurance Company (LIC).** *Academ Arena* 2019;11(5):17-20]. ISSN 1553-992X (print); ISSN 2158-771X (online). http://www.sciencepub.net/academia. 3. doi:10.7537/marsaaj110519.03.

Keywords: Life Insurance Corporation, Government, Haryana, India.

Introduction:

Though life insurance in its modern form commenced so late as about the 16th Century. But it has gone faster as compared with all other forms of insurance and today commands the greatest popularity and importance world. The life insurance made its first appearance in England in 16th century, the first recorded evidence in England being the policy on life of William Gibbons on June 18, 1653. Even before this date annuities had become quite common in England and marine insurance had, in fact, made its appearance three thousand years ago.[1] The life insurance developed at "Exchange Alley". The first registered life office in England was the hand in Hand society established in 1696. The famous "Amicable Society" for a perpetual assurance office started its operation since 1706.[2]

Life insurance did not prosper in the United States during the 18th century, because of serious fluctuations in death rate, but soon after 1800 come active interest began to be shown in this enterprise because of the application of level premium plan which had by then been in operation in U.K. for more than a generation. In nineteenth century with construction of death rate table life insurance business progressed tremendously.[3]

Life insurance in its existing form came in India from United Kingdom with the establishment of British Firm, Oriental Life Insurance Company in Kolkata in 1818 started mainly by Europeans followed by Bombay Life Assurance Company in 1823, the Madras Equitable Life Insurance Society in 1829 and Oriental Government Security, Life Assurance Company in 1874. Prior to 1871, native Indian lives were considered more risky and hence were charged a higher premium for coverage. Foreign insurance company dominated in matters of insurance business in India and enjoyed near monopoly for coverage right up to beginning of 19th century.[4] The first Indian Life Insurance Company, the Bombay Mutual Life Assurance Society started its business in 1870. This was first company that charged the same premium on both Indian non-Indian lives. There was a rapid growth of life insurance in India during 1920 and early 1930s.[5]

The first comprehensive legislation was introduced with the insurance Act passed 1938 that provided strict state control over insurance business in the country. This provided an effective check on large-scale frauds that sullied insurance business during the 1930. After independence, the business, if Indian insurance grew at a faster pace as completion amongst the Indian companies intensified. By 1956, 154 Indian insurers, 16 non-insurers and 75 provident societies were carrying on life insurance marred by insolvencies, increasing public district and mainly confined to urban cases.[6,7]

The liberalization of the Indian life insurance sector has been the subject of much heated debate for some years. The policy makers on one hand wanted competition, development and growth of insurance sector, which is extremely essential for channeling the investments in to the infrastructure sector. At the other end the policy makers had also the fear that the insurance premium, which are substantial, would seep out of the country: and thus in the nation's interest, they want to have a cautious approach of opening for foreign participation in this sector.[8]

LIC has just about 100 million policies. This works out to an average of 1.5 policies pre individual. So, only 65 million people are policyholders in India. This translates into just six to seven percent of the Indian population. This clearly shows the low penetration of insurance in India. Currently, it is very difficult to make changes in policies once they are bought. This has to change. Moreover, to make them attractive, insurance policies should be made more people-friendly by launching products such as equity-linked insurance. Such policies can offer higher return to investor.[9]

Materials and methods:

Based on the objectives of this project, information was gathered through published journals and Government reports. These were analyzed to understand the factors that led the government to nationalize the industry and later reverse its decision to bring the entire life insurance industry under its control. the study focused on assessing the top five industry players which are Life Insurance Corporation (LIC). [10,11] The study is therefore based on secondary material available on public domain as well as primary material collected through personal interviews of employees in these firms. However, the results from this study need to be interpreted with some amount of caution. This study aims to conclude whether liberalization has resulted in any changes in the status of the life insurance sector and whether the move has helped to enhance competitiveness within the industry. While it may be difficult to demonstrate substantial changes, one could comment on incremental improvements and trends[12]

Jeevan nidhi plan of LIC:

- Grace Period: A grace period of 30 days will be available for payment of yearly, half-yearly or quarterly premiums and 15 days for monthly premiums.
- 15 – Days Cooling-off period: If policyholder is not satisfied with the "Terms and Conditions" of the policy, return the policy to us within 15 days.
- Paid-up Value: The policy will acquire paid-up value after at least 3 full year's premiums have been.
- Guaranteed Surrender Value: Before the annuity vests, the policy can be surrendered at any time after the completion policy years. For a regular premium policy, the Guaranteed Surrender value provided 3 years ' premiums are paid, and it is 30% of the premiums paid excluding paid in the first year. For a Single Premium policy, the Guaranteed Surrender Value after completion of 3 policy years is 90% of the Single Premium. Any extra premiums for Term Assurance Rider Option, Critical Illness Rider option and Accident if any will be excluded.
- Revival: The policyholder can revive his lapsed policy by paying arrears together with interest within a period of five years from the date of first unpaid subject to satisfactory evidence of health. The rate of interest for this purpose will by the Corporation from time to time. The present rate of interest is 9% pa.
- Options: Accidental Death and Disability Benefit: In case of death due to accident (within 180 days) an additional amount equal to Benefit Sum assured will be payable. In case of Total and Permanent disability arising accident an amount equal to accident benefit sum assured will be payable over years in monthly installments. However, the payment of accident benefit will be subject overall limit of Rs.25 lakh under all policies of the Life Assured with the Corporation together. The disability due to accident should be total and such that the Life assured is unable out any work to earn a living. Following disabilities due to accident are also covered.
- a) irrevocable loss of the entire sight of both eyes or
- b) amputation of both hands at or above the wrists or
- c) amputation of both feet at or above ankles, or
- d) Amputation of one hand at or above the wrist and one foot at or above the ankle. No benefit will be paid in case of accidental death or disability due to accident in case.
  - intentional self-injury, attempted suicide, insanity or immorality or the Life Assured the influence of intoxicating liquor, drug or narcotic, engagement in aviation or aeronautics other than that of a passenger in any air.
  - injuries resulting from riots, civil commotion, rebellion, war, invasion, mountaineering, steeple chasing or racing of any kind,
  - Accident resulted from committing any breach of law.
  - Accident arising from employment in armed forces or military service organization. Term Assurance Rider Option: Term Assurance as optional rider will be available plan. Premiums for this option are payable during the premium paying term and equal to Term Assurance Sum Assured will be payable on death during the policy maximum cover for this rider will be Rs.25 lakh under all policies of the Life Assured Corporation taken together. Critical Illness Rider Option: An amount equal to the Critical Illness Rider Sum optional rider will be payable in case of

diagnosis of defined categories of Critical subject to certain terms and conditions. The maximum covers for this rider will bounder all policies of the Life Assured with the Corporation taken together. If opted for Premium Waiver Benefit, then in case the Life Assured is diagnosed with Critical Illnesses covered under the policy, the total future premiums in respect of will be waived. Sum Assured under all such policies with the Corporation taken not exceed Rs.5 lakh.

o Loan / Assignment: No Loan/Assignment will be available by the Corporation to the policyholders under this.

- EXCLUSIONS: Suicide: This policy shall be void if the Life Assured commits suicide (whether sane or at the time) at any time on or after the date on which the risk under the policy commenced but before the expiry of one year from the date of commencement of risk the policy and the Corporation will not entertain any claim by virtue of this policy except extent of a third party ' s bonafide beneficial interest acquired in the policy for valuable consideration of which notice has been given in writing to the office in which the policy is Serviced, at least one calendar month prior to death. [13]

Jeevan dhara of LIC:

Death Benefit:

On death of the Life Assured during the term of the policy the basic premiums paid, excluding any rider premiums or extra premiums, up to the date of death accumulated with interest at such rates as decided by the Corporation will be payable to the nominee. Currently, the interest rate is 3%, 4% or 5 % if the death occurs within the first 10 years, 20 years or thereafter respectively. [14]

Maturity Benefit:

At maturity the policyholder can encash up to a maximum 25% of the maturity proceeds as a tax-free lump sum. The balance should be compulsorily converted to an annuity at the rates applicable at the time of maturity of the policy. The policyholder has the choice of opting for any one of 5 annuity options. The annuity options available are

(i) annuity payable for remainder of life.

(ii) annuity payable for life with guaranteed period of 5, 10, 15 or 20 years.

(iii) Joint life and last survivor annuity to the annuitant and his/ her spouse under which annuity payable to the spouse on death of the purchaser will be 50% of that payable to the annuitant.

(iv)Life annuity with a return of purchase price on death of the annuitant.

(v) Life annuity increasing at a simple rate of 3% per annum.

Supplementary/Extra Benefits:

These are the optional benefits that can be added to your basic plan for extra protection/option. An additional premium is required to be paid for these benefits.

Surrender Value:

Buying a life insurance contract is a long-term commitment. However, surrender value is available on the plan on earlier termination of the contract.

Guaranteed Surrender Value:

The policy may be surrendered after it has been in force for 2 years or more but before the vesting date. The guaranteed surrender value is 90% of the basic premiums paid excluding the first year's premium. In case of a single premium policy the guaranteed surrender value is allowed after 2 years from the date of commencement of the policy. [15]

Corporation's policy on surrenders:

In practice, the company will pay a Special Surrender Value – which is equal to or higher than the Guaranteed Surrender Value. The benefit payable on surrender reflects the discounted value of the reduced claim amount that would be payable on death or at maturity. This value will depend on the duration for which premiums have been paid and the policy duration at the date of surrender. In some circumstances, in case of early termination of the policy, the surrender value payable may be less than the total premium paid. The Corporation reviews the surrender value payable under its plans from time to time depending on the economic environment, experience and other factors. [16]

Jeevan suraksha-I of LIC:

Statutory Warning:

"Some benefits are guaranteed and some benefits are variable with returns based on the future performance of your insurer carrying on life insurance business. If your policy offers guaranteed returns then these will be clearly marked "guaranteed". If your policy offers variable returns then the illustrations on this page will show two different rates of assumed future investment returns. These assumed rates of return are not guaranteed and they are not upper or lower limits of what you might get back as the value of your policy is dependent on a number of factors including future investment performance." [17]

llustration 1

Age at entry	: 35 years
Policy Term	: 25 years
Premium paying term	: 25 years
Sum Assured	: Rs. 1,00,000/-
Yearly Premium	: Rs. 3,130/-

This illustration is applicable to a non-smoker male/female standard (from medical, life style and occupation point of view) life.

ii) The non-guaranteed benefits (1) and (2) in above illustration are calculated so that they are consistent with the Projected Investment Rate of

Return assumption of 6% p.a. (Scenario 1) and 10% p.a. (Scenario 2) respectively. In other words, in preparing this benefit illustration, it is assumed that the Projected Investment Rate of Return that LICI will be able to earn ***throughout the term of the policy*** will be 6% p.a. or 10% p.a., as the case may be. The Projected Investment Rate of Return is ***not guaranteed***.[18]

iii) The main objective of the illustration is that the client is able to appreciate the features of the product and the flow of benefits in different circumstances with some level of quantification.

iv) Future bonus will depend on future profits and as such is not guaranteed. However, once bonus is declared in any year and added to the policy, the bonus so added is guaranteed.

v) The maturity sum shown in the illustration is to be annuitised. However, the policyholder can opt to take up to one-fourth of the maturity sum as a tax-free lump sum.

Endowment plan of LIC:

This is the most popular form of life assurance since it not only makes provision for the family of the Life Assured in the event of his early death, but also assures a lump sum at any desired age. The amount assured, if not paid by reason of his earlier death, becomes payable at the end of the endowment term when it may be invested to provide an annuity during the remainder of his life or in any other way he may think most suitable at the time.[19]

Suitable For:

Being an endowment assurance policy, this plan is apt for people of all ages and social groups who wish to protect their families from a financial setback that may occur owing to their demise. The amount assured if not paid by reason of his death earlier will payable at the end of the endowment term where it can be invested in an annuity provision for the rest of the policyholder's life or in any other way he may think most suitable at that time.[20]

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5/23/2019