

A Study On The Preferences Of LIC Policy Holders Towards Acquisition Of Policies

**M. P. Pandi Kumar*

***Dr. V. Manickavasagam*

INTRODUCTION

The process of globalization facilitated the entire country to serve the populace in a better manner through the invasion of Structural, Legal and Financial reforms. The process of globalization has been tunneled through many stages of liberalization, in order to cater to the needs and demands of the entire country. This process of liberalization warrants many public sector undertakings to imbibe the structural changes in their fold of operations to the tune of changes in the market structure, from monopoly to perfect competition. During the process of liberalization, LIC was one of the organizations to register the changes through Malhotra committee recommendations. Though LIC is the only corporation having 52 years of insurance expertise and 11 lakh agents, it also needs to render insurance services not only to the tune of an insurance regulator, but also according to the modern practices of new entrants in the insurance industry. It is an order of the day for LIC to bring forth changes in the policy- not only in marketing the insurance schemes, but also to register the views and opinions of prospects and policy holders during the moment of sale. Since inception of LIC, the insurance market in India was driven by sale of policies out of the efforts of agents rather than purchase from the policy holders.

STATEMENT OF THE PROBLEM

The invasion of new entrants in the insurance industry has paved the way for drastic changes in the product line of LIC as well as dragged its market share due to an active competitive role played by the former (new entrants). The declining trend of market share of LIC is obviously understood from the Table-1 from the year 2004-05 to 2007-08.

Table .1: Market Share of New Business of Life Insurance Corporation of India (2004-05 to 2007-08)

MARKET SHARE OF NEW BUSINESS OF LIC IN INDIA (2004-2005 TO 2007-2008)		
Market Share (In percentage)		
Financial Year	New Policies	First Year Premium
2004-05	91.5	78.07
2005-06	89.08	71.44
2006-07	82.83	74.18
2007-08 (Upto 29th Feb08-provisional)	73.05	63.53

It can be understood from the following press release that LIC of India had recorded continuous downward trend in its market share over the other players in the industry:

In the first quarter, our market share went down to 49 per cent, then brought some new products ... We have taken corrective steps for it. I think we will be able to get that. So, going forward, we are looking at 60 per cent market share." LIC Chairman T S Vijayan told PTL.

The declining market share of LIC may be due to many factors of influence, but the only one predominant force is the behavior of prospects towards the acquisition of policies. Even after the promulgation of Malhotra committee recommendations in Indian insurance industry through IRDA regulations, the policies are sold by the channels of the insurance players in the industry but not bought by the prospects to the tune of their own preferences. This study aims

**Sr. Grade Lecturer, PSG Institute of Management, PSG College of Technology, Peelamedu, Coimbatore, Tamil Nadu.*

Email : rajpanikumar@gmail.com

***Professor, Department of Corporate Secretaryship, Alagappa University, Karaikudi, Tamil Nadu.*

Indian Journal of Finance • June, 2010 35

to identify the various avenues which are availed by the prospects towards the acquisition of policies rather than sale by the channels in order to overcome the short comings under the policy administration of LIC. The above citation of T.S Vijayan, Chairman LIC highlights that LIC strives forward to maintain its market share through a variety of products. LIC is the only one corporation under life insurance business as well as under the umbrella of public sector undertaking, which invests more and more in the infrastructure sector, which not only develops the standard of living, but also uplifts the economic development. The market share of life insurance business is normally revealed out of the amount of premiums collected viz single, non-single, renewal, etc., which highlights the strength of an insurance corporation over the other players. The greater the market share, the greater is the percentage of surpluses after meeting the claims of the policy holders to the tune of “SUM OF LARGE NUMBERS PRINCIPLE”. The sharing of benefits with the policy holders through profit sharing and contribution to the economy are vested with a collection of premiums, which depend upon the behavior of acquisition towards the policies.

REVIEW OF LITERATURE

Raman and Gayatri (2004) have observed during the research on “Customers' Awareness Towards New Insurance Companies” that 53 percent of policyholders belong to the age group of below 30 years.

Sharma Ravi Kumar (2005) identified that 93.86 percent of the respondents considered the insurance policies indispensable for risk protection.

Namasivayam et al (2006) studied that the socio- economic factors are responsible for the purchase of policies. They concluded that the age, educational qualifications and sex of the policy holders are insignificant but income and occupation level are significant.

OBJECTIVES OF THE STUDY

1. To study the policy holders' preferences towards acquisition of policies.
2. To identify the gender, age, qualification, income differences during the acquisition of policies.
3. To enlist the ways and means to promote more policies through purchase rather than sale.

RESEARCH METHODOLOGY

PRIMARY DATA

The primary data were collected from the policyholders who acquired the life insurance policies with reference to Madurai Dist, Tamil Nadu. The primary data were collected through a structured interview schedule from 201 policy holders of Madurai Dist immediately after the pilot study.

During the research, 201 policy holder responses were examined and finally analyzed to penetrate the problem.

Due to absence of the standard factors of preference towards policies by the holders, an exclusive list of preferences was devised and studied.

SECONDARY DATA

For studying the behavior of LIC policy holders towards acquisition, the data had been collected from various websites and the journal of insurance times, the Insurance Chronicle, the journal of IRDA etc.

TOOLS OF ANALYSIS

The collected data were analysed through SPSS 11.5 with the help of following tools of analysis -viz Mann Whitney, Kruskal Wallis and Weighted Average Methods.

CLASSIFICATION OF THE LIC POLICY HOLDERS

The policy holders of LIC are classified on the basis of Age, Sex, Qualifications, Income and Occupation in order to examine their response towards the acquisition of policies.

In addition to the above classification, the preferences of the policy holders towards acquisition of policies are the following:

- 1) Coverage under the Personal life risk.
- 2) Coverage under the life risk of family members.
- 3) Coverage under the risk of lender.

- 4) As an investment.
- 5) Coverage of the Son's or Daughters' Education / marriage.
- 6) Coverage of the income short fall during the ageing.
- 7) Reduction of Tax burden and
- 8) Coverage of the health needs .

The enlisted factors were ranked by the 201 respondents, which were examined through the weighted average methodology and the following are the factors considered by the policyholders according to their preferences during the acquisition of policies .

Table-2: Rank Of The Factors Of Acquisition

SR.NO	FACTOR TOWARDS ACQUISITION	WEIGHTED AVERAGE	RANK
1)	Coverage under the Personal Life risk	39.611	1.
2)	As an investment	30.1944	2.
3)	Reduction of Tax burden	30.1667	3.
4)	Coverage under the life risk of family members	30.0833	4.
5)	Coverage of the Son'/Daughters' Education or Marriage	21.9444	5.
6)	Coverage of the income short fall during the ageing	18.2222	6.
7)	Coverage of the health needs	16.3611	7.
8)	Coverage under the risk of lender	14.6667	8

It is very well understood from Table-2 that the very first factor towards the acquisition of insurance policies is the coverage of the personal life risk. The second most preference by the sample of policy holders is consideration of insurance policy as an investment vehicle. The most important consideration by the majority of policy holders is the reduction of tax burden as the third factor of preference. The factors such as coverage of health needs and coverage of the risk of lender are given least priorities than the others.

AGE WISE CLASSIFICATION

Table-3: Age Wise Classification Of Respondents

Age Classification	Frequency	Percent
Less than 20 yrs	5	2.5
21-40 yrs	121	60.2
41-60 yrs	69	34.3
Above 60 yrs	6	3.0
Total	201	100.0

It is clearly evidenced from Table-3 , that 60.2% of the policy holders belong to the age group between 21-40 years. The next bigger age group among the sample is 34.3% from the bracket between 41 and 60 years.

It is imperative to study the age factor influence during the acquisition of policies by the policy holders.

Null Hypothesis (Ho): There is no significant difference between the age groups in acquiring the life insurance

Table-4: Kruskal Wallis Test Between Age Of The Policyholders And Factors Of Acquisition

Factors of Acquisition	Chi-Square	Degrees of freedom	Asymptotic Significance
Personal life risk cover	5.302	3	.151
Life risk cover for the family members	13.604	3	.003*
Cover the risk of lender	5.233	3	.156
As an investment	13.215	3	.000*
Son's or Daughter's marriage or education	19.792	3	.000*
Income short fall during ageing	3.763	3	.28
Reduce tax burden	3.186	3	.364
To cover health needs	9.234	3	.026*

*Significant difference at 5% level

policies by the LIC policy holders.

Alternate Hypothesis (Ha): There is significant difference between the age groups in acquiring the life insurance policies by the LIC policy holders.

From the table -4, it is obvious that coverage of personal life risk ,coverage of the risk of lender, income short fall during the ageing and reduction of tax burden are insignificantly different among the various age groups of LIC policy holders , but the following are significantly different viz life risk coverage of the family members , insurance policy as an investment ,son'/daughter's education or marriage and cover towards health needs.

GENDER WISE CLASSIFICATION

Table-5: Gender Wise Classification

Gender	Frequency	Percent
Male	107	53.2
Female	94	46.8
Total	201	100.0

Table-6: Man Whitney Test -Gender Of The Policyholders And Factors Of Acquisition

Factors of Acquisition	Man-Whiteny U	Wilcoxon W	Z	Asymptotic Significance
Personal life risk cover	3528	9306	-4.007	.000*
Life risk cover for the family members	4840.5	10618.5	-.467	.639
Cover the risk of lender	4082.5	8547.5	-2.372	.018*
As an investment	4642.5	9107.5	-.958	.338
Son's or Daughther's marriage or education	3565.00	8030.00	3.609	.000*
Income short fall during ageing	4229.5	10007.50	-2.004	.045*
Reduce tax burden	4475.5	8940.500	-1.424	.154
To cover health needs	4163.5	9941.5	-2.167	.030*

*Significant Difference at 5% level

From the Table 6, it is inferred that the gender differences are insignificant on the life risk cover for the family members, insurance policy as an investment and reduction of tax burden, but the following factors viz personal life risk coverage, coverage of the risk of lender, son's/daughter's marriage or education, income short fall during the ageing and to cover the health needs are pegged with gender differences during the acquisition of policies. Among the sample, 71 male respondents have considered the personal life risk cover over the 37 female respondents as a priority in acquiring the policies. It really highlights the significant gender differences in opting for personal life risk cover towards the acquisition of policies . The factor of acquisition towards the insurance policy viz to cover the risk cover of family members is insignificantly different due to little gender differences between the options of various ranks by the two different sets of people.

QUALIFICATION WISE CLASSIFICATION

Table -7 discloses that 61.7% of the policy holders are ailing from the qualification segment of postgraduate degree holders. The second highest group of policy holders among the population is that of undergraduate degree holders

Table-7: Qualification Wise Distribution Of Policyholders

Qualification	Frequency	Percent
Less than HSC	4	2.0
UG	56	27.9
PG	124	61.7
Others	17	8.5
Total	201	100.0

amounting to 27.9%.

To identify the differences among the policyholders towards the acquisition of policies with reference to their qualifications, the Kruskal Wallis test is applied.

Null Hypothesis (Ho): There is no significant difference between the policy holders' towards the acquisition of policies with reference to their qualifications.

Alternate Hypothesis (Ha): There is significant difference between the policy holders' towards the acquisition of policies with reference to their qualifications.

Table-8: Kruskal Wallis Test Between Qualification And Factors Towards Acquisition

Factors of Acquisition	Chi-Square	Degrees of freedom	Asymptotic Significance at 5% level
Personal life risk cover	4.526	2	.104
Life risk cover for the family members	4.357	2	.113
Cover the risk of lender	7.815	2	.020*
As an investment	4.314	2	.116
Son's or Daughter's marriage or education	2.637	2	.268
Income short fall during ageing	1.148	2	.563
Reduce tax burden	6.856	2	.3
To cover health needs	.803	2	.669

*Significant difference

Table- 8, shows that the coverage of the risk of lender and reduction of tax burden are significantly different among the policy holders with reference to their qualifications. The other factors of acquisition towards the policies are insignificantly different among the policy holders.

OCCUPATION WISE CLASSIFICATION

Table-9: Occupation Wise Classification

Occupation	Frequency	Percent
Engineer	6	3.0
Medical practioner	10	5.0
Chartered Accountant	7	3.5
Chartered Secretary	3	1.5
Lawyer	3	1.5
Business	32	15.9
Industrialist	3	1.5
Salaried	128	63.7
Retired	9	4.5
Total	201	100.0

Table -9 divulges that 129 policy holders are from the group of salaried class, which amounted to 63.7% of the respondents. The policy holders from the group of chartered secretary and lawyers are 1.5% each, which accounted for the lowest percentage among the sample towards the factor of acquisition of policies.

To study the differences among the policy holders towards the acquisition of policies with reference to their nature of occupation, the Kruskal Wallis test was applied .

Null Hypothesis (Ho)= There is no significant difference between the occupation of the policy holders towards the factors of acquisition of policies.

Alternate Hypothesis (Ha)= There is significant difference between the occupation of the policy holders towards the factors of acquisition of policies.

From the table -10, it is clearly outlined that the policy as an investment is the only factor having significant difference among the occupation of the policy holders .The other factors are insignificantly different among the policyholders with reference to their nature of occupation.

Table-10 : Kruskal Wallis Between Occupation Between The Factors Towards Acquisition

Factors of Acquisition	Chi-Square	Degrees of freedom	Asymptotic Significance at 5% level
Personal life risk cover	3.595	8	.892
Life risk cover for the family members C	6.357	8	.607
Cover the risk of lender	11.970	8	.153
As an investment	16.007	8	.042*
Son's or Daughters' marriage or education	13..789	8	.087
Income short fall during ageing	6.590	8	.581
Reduce tax burden	9.037	8	.339
To cover health needs	7.385	8	.496

*Significant difference

SALARYWISE CLASSIFICATION

Table-11: Salary wise Distribution of Policyholders

Salary	Frequency	Percent
Less than Rs.1 lakh	57	28.4
Rs.1 lakh-Rs.2Lakh	57	28.4
Rs2.Lakh-Rs.3Lakh	59	29.4
Rs.3 Lakh-Rs.4 Lakh	14	7.0
Rs.4 Lakh-Rs.5 Lakh	8	4.0
Rs.5 Lakh	6	3.0
Total	201	100.0

From table -11 , it is clear that the sample of policyholders are distributed mainly between the following three income groups viz less than Rs.1 lakh ,Rs.1 lakh - Rs.2 lakh and Rs.2 lakh- Rs.3 lakh, which amounted 57% ,57% and 59% of the respondents respectively.

To study the differences in between the income groups of policyholders towards the acquisition of policies, the Kruskal Wallis test is applied.

Null Hypothesis (Ho) = There is no significant difference between the income group of the policy holders towards the acquisition of policies.

Alternate Hypothesis (Ha) = There is a significant difference between the income group of policyholders towards the acquisition of policies.

Table-12: Kruskal Wallis Between Salary Of The Policyholders And Factors Of Acquisition

Factors of Acquisition	Chi-Square	Degrees of freedom	Asymptotic Significance at 5% level
Personal life risk cover	14.278	5	.014*
Life risk cover for the family members	8.771	5	.119
Cover the risk of lender	13.314	5	.021`*
As an investment	40.691	5	.000*
Son's or Daughter's marriage or education	31.524	5	.000*
Income short fall during ageing	37.156	5	.000*
Reduce tax burden	32.451	5	.000*
To cover health needs	10.312	5	.067

From Table -12, it is found that the coverage of health needs and life risk cover for the family members are insignificantly different among the income group of policy holders , but rest of them are significantly different due to the amount of their salaries.

FINDINGS AND SUGGESTIONS

- According to the 201 collected responses, the personal life risk cover as an investment and reduction of tax burden are given as 1st, 2nd and 3rd ranks by the policyholders towards the acquisition of policies.
- Among the factors that are responsible for acquisition of policy, the cover for income short fall during old age, cover for health needs and cover for the risk of lender are ranked as 6th, 7th and 8th by the policy holders with least priorities.
- This study reveals that no significant differences among the various age groups of policy holders towards the acquisition of policies viz personal life risk cover, cover the risk of lender, income short fall during the ageing and reduction of tax burden due to 190 policy holders are falling between two different age groups viz 21 yrs-40ys and 41 ys -60 yrs.
- The personal life risk cover is a factor with insignificant differences among the age, qualification and occupation of the policy holders towards acquiring the life insurance policies.
- The life risk cover for the family members is insignificantly different among the policy holders irrespective of groups viz sex, qualification and occupation due to 107 male policyholders, 180 policyholders from both PG & UG.
- This study underlines the importance of making an investment as a second rank through acquisition of policies by spotting the significant differences among the age, occupation and salary group of policy holders. The investment style is limited to the tune of age, occupation and salary of the policy holders. The literacy level facilitates the policy holders to realize the importance of investments through the acquisition of policies which could be identified through insignificant differences among the various qualification group of policy holders, but the salary is the source for making an investment which is significantly different from one income group to another.
- This study highlights that the reduction of tax burden is insignificantly different among the qualification and salary group of policy holders due to their literacy level to bring down the tax liability as well as lesser income brackets. The policy holders who are in the income bracket of less than Rs.1 lakh, acquired the policies only in order to mainly cover the life risk of family members but not with the intention to reduce the tax burden.
- The cover through health needs is different from one group to another under the classification of age and sex towards the acquisition of policies. The policyholders under the age group of 41yrs -60 yrs and above 60yrs warrant health cover rather than the other age groups.

SUGGESTIONS

The vibrant insurance industry is inevitable not only for the economic development of the country like India, but also to cover the life risk of the populace through the collection of premiums; which eventually pave way for the industrial development through the investment practices of LIC.

The study has identified certain areas in the life insurance products, where improvements are required and the following suggestions are to be made for this purpose. The introduction of insurance reforms through Malhotra committee drastically grabbed the attention of leading insurance players across the globe to join hands with Indian players in order to promote effectiveness as well quality in the services of life insurance companies to policyholders through innovative products. The prime concern of IRDA now -a- days from the insurance companies is better service at lesser cost through innovative products. To overcome the competitive pressure from the private entrants, LIC should introduce effective products through structured segmentation, to grab the interest of existing policy holders.

Under segmentation, LIC should promote more life insurance products for lower income brackets in which the prospects are aspiring for life risk coverage, which could be carried out through 810 NGOs. To reach the rural areas, LIC should make an attempt on the insurance products for farmers and farm workers where insurance penetration has to be enhanced. According to census 2005, there are more than 6.38 lakh villages in India, which could be further outreached through weekly collection of premiums through the establishment of Single Man Branches.

Having identified the significant differences under the age, occupation and salary of the policy holders, LIC of India should launch more close ended schemes rather than open ended schemes e-g Jeevan Astha, which was recently launched, attracted overwhelming responses due to limited time period of 10 years as well as guaranteed return option in order to fulfill the investment drive of the policy holders. LIC has recently developed and introduced a money back scheme with short term feature of 12 years - which is especially designed to cater the needs of prospects who are looking for a periodical return out of the invested money.

Having disclosed the need of tax reduction, LIC should device an insurance scheme more particularly to cater to the

needs of salaried and business policy holders who are falling under the income tax bracket of above Rs.1 lakh. It is expected to introduce tax saving schemes- more particularly to reduce the tax liability with close ended features for the period of five years , during the months of December and January of every financial year. The design of insurance product should take into consideration of the following sections of the Income Tax Act 1961 viz 80C,80 CCC, 10 A,10 D,10DD, etc .

LIC along with the public sector banks should create awareness among people on risk coverage of the lenders . The banks and financial institutions now- a- days require the customers to avail the insurance schemes along with the amount of loans and advances granted , in order to evade the default risk of the customers . This is a mooted point for LIC of India to coin a new product to evade not only the default risk of lenders, but also to safeguard the well being of the family members after the sudden demise of the insured, who is nothing but the bread winner of the family. In relevance with the interest of both the banker and the customer , LIC should coin insurance products for customers' housing loans in order to reduce the default risk as well as to enhance the morale among the insured during the repayment of loans and advances

The state owned entities are offering smart cards for the consumption of oil products at their retail outlets in order to facilitate the owners of automobiles which are on road. By tying up with the companies of oil distribution , an exclusive insurance product could be introduced to facilitate the process of collecting the premiums on time with reference to lapsation ration.

CONCLUSION

It is the order of the day for LIC of India to introduce novelty schemes to the tune of preferences not only on traditional but also modern products of insurance , which will facilitate it to become the No.1 insurance company by market share and attract more prospects in India .

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