

A Comparative Analysis of Investor's Risk Perceptions towards Public & Selected Private Life Insurers in Jabalpur District of Madhya Pradesh

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Abstract

The deregulation of the Indian Insurance market, low insurance market penetration and the anticipated potential of the Indian insurance industry make it an attractive opportunity for private entrants. With the progress of IRDA reforms and enactment of IRDA act 1999, liberalization of the insurance market in India gave entry to many private insurers, resulting in drastic changes in respect to people's choice of companies. With the expansion of the market, insurance penetration and density of the country have been improves, leading to a competition within the companies in terms of policies sold, collection of premium income, first premium income, market share, settlement of claims and others. In India life insurance is regarded as more than a mere risk cover and is considered an important avenue of investment. Indian investors therefore, evaluate the past track record and risk potential of an Insurer before taking a policy investment decision. In this paper an attempt has been made to analyze the investors' risk perceptions towards public and private life insurance companies in India with special reference to Madhya Pradesh. The study has been conducted with the help of a structured close-ended questionnaire which was administered to 200 potential investors who have already made investment in life insurance policy. Necessary statistical tools such as percentage and ranking method have been used for the purpose of data analysis and comparison. The study expects to reveal that although a number of private insurance companies have entered the Indian life insurance market, but Life Insurance Corporation of India still seems to be the first choice for many of the investors due to its strong brand image and the perceived safety that is associated with it.

Keywords: Investors, Life Insurers, Insurance Reforms, Liberalization, De-regulation, Competition, Insurance penetration.

1. Introduction:

The Insurance Sector has witnessed many structural transformations and significant positive changes after liberalization in year 2000. Earlier insurance meant just the Life Insurance Corporation of India (LIC), only the company to serve the entire Indian life insurance market. But now today, people having the alternative and opportunity to select need based products from a variety of policies offered by different private life insurance companies. Every human being has the tendency to save, as protection against risks, losses or future events. Insurance is one form of saving. In India, although the savings rate is high, people prefer to invest either in gold

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or fixed assets in the hope of appreciating value. Hence the insurance sector is still virtually untapped in India. Life insurance provides financial protection to an individual or family against a loss arising out of happening of an uncertain event such as sudden accident or death (Mathew, 2003). A person can avail this protection by paying premium to an insurance company. Premium is collected by insurance companies which also act as trustee to the pool. Any loss to the insured in case of happening of an uncertain event is paid out of this pool. It works on the basic principle of risk-sharing. Both LIC and private life insurers are regularly updating their products, improved insurance services to lure and retain customers and expanding distribution channels with an aim to spread insurance benefits to each and every corner of the country. In this context, the present study has been undertaken to understand the role of investor's and extent to which risk perception of an investor affects the policy purchasing decision. The paper has been divided into four parts namely: introduction, research methodology, data analysis & Interpretation and end portion deals with findings and conclusion.

2. Literature Review:

Murugan (2009) in his article has evidently explained the impact of globalization on insurance industry in India. The introduction of private players in the industry has added colors to the dull industry. The initiatives taken by the private players are very competitive and have given immense competition to the on time monopoly of the market LIC. The market share of LIC has been gradually declined after the entry of private and foreign insurers, but the industry has witnessed significant growth after globalization and liberalization of the industry.

Debasish (2004) in the paper titled "Exploring Customer Preference for Life Insurance in India-Factor Analysis Method". He made analysis and explores the various factors which customer takes into consideration while purchasing life policies and also determine the extent to which these factors are considered by the customers.

Uma, Selvanayaki & Shankar (2011) based their article titled 'A Survey of Life Insurance Customer's Awareness, Perception and Preferences' on the survey of 100 customers of life Insurance policies, carried out in Coimbatore. It throws light on various aspects related to customers' awareness, perception and preferences pertaining to life insurance. The primary objectives of this survey were to find preferences of customer's towards various life Insurance policies, factors influencing choice of life Insurance policy and awareness about life Insurance brands.

Tripathi (2009) in his dissertation report on 'A comparative analysis of LIC and Private Insurance Companies', says that the main objective of the study is to compare the performance of LIC and private life insurance companies. The study was analytical and based on secondary data sources. Comparison between LIC and private insurers has been done on the basis of size, growth, productivity and grievances handling mechanism

3. Statement of the Problem:

Insurance is Social security measures, across all over the world playing a major role. As compare to advanced countries the penetration rate of life insurance in India is even today is below average and huge Indian population is without life insurance cover. In recent years the sector is opened for foreign insurance players along domestic private participation with a limit of 26% of ownership. The misconception about insurance, lack of awareness and expectation of high returns in short period are the major constraints and thus large chunk of the society is not reached by life insurance companies in India. LIC of India was a monopoly corporation from 1956

onwards to 1999, later on realized by the policymakers and Govt. that one company alone cannot insure lives of all Indians. Henceforth, the sector was allowed for private participation. As of today, there are 24 private life Insurance companies and majority of them are giving tough competition to the LIC with their aggressive marketing approach and better customer services and other benefits. As limited numbers of studies in India are conducted to assess the investor's risk behavior, these studies are unable to create required awareness on investors mind set. Hence the present study is designed to with an intention to compare and analyze the behavior of the investors on public and private life insurance companies in Jabalpur district of Madhya Pradesh.

3.1 Justification of the Study:

Jabalpur often called as Sanskaardhaani is a city in the Mahakaushal region of state of Madhya Pradesh in India. It is the largest urban agglomeration in Madhya Pradesh and the 38th largest urban agglomeration in India as per the 2011 census statistics. Total population of Jabalpur is 24,60,714 as per latest figures released by Directorate of Census Operations in Madhya Pradesh. This shows an increase of 14.39 percent in 2011 compared to figures of 2001 census. The district population comprises of 41.53% rural population and 58.47% urban population. Average literacy rate for Jabalpur district is 82.47 percent and a variety of industries contributes greater economic value to the district. In spite of the presence of LIC and many private life insurers, the total insured population of the district is very low. The present study attempts to find various factors and extent to which they influence investors' risk perception and buying behaviour towards investment in LIC and private life insurers. Further, the findings and suggestions of the research would help in improving insurance awareness, insurance penetration and realignment of marketing strategies to effectively meet the changing needs of investors.

3.2 Objectives of the Study:

1. To compare and analyze the investors risk perception on various aspects towards LIC and selected private life insurers of Jabalpur district.
2. To determine the factors those influence the selection and policy purchase decision.
3. To see whether the market growth of LIC has been affected by the entry of private life insurers or not.
4. To provide suggestions to improve life insurance business.

4. Research Methodology:

The research is both exploratory and descriptive in nature and relies on both primary and secondary data. Secondary data collected from among the available sources such as journals, magazines, website, brochure of the companies' etc. Ten years data from 2001 to 2010 is taken in to consideration for the research and market survey was conducted during January 2012 to June 2012, among 200 individual investors of LIC and selected life insurance players i.e. ICICI Prudential life insurance, SBI life insurance, HDFC Life Insurance and Bajaj Allianz life insurance company ltd. of Jabalpur district, Madhya Pradesh state. A convenience sample of 200 investors comprising of 100 respondents of LIC and 100 respondents of selected private life insurers has been selected for the present study. Sample has been taken from all the branches and a close ended structured questionnaire was prepared and administered to ascertain their perceptions. The important variables used for comparison include purpose of investment, factor influencing selecting and purchase of life insurance policy, type of policy preferred, and policy and investment related attributes..

5. Data Analysis & Discussion:

Socio-Economic Characteristics of Investors

The below consolidated table no. 5.1, represents the demographic factors of the respondents. Majority (41%) of the respondents with life insurance investment falls in the age group of 30-40 years and out of 200 respondents, a large (48.5%) percentage of respondents are salaried employees. There is a domination of males in life insurance business and majority (84%) of the respondents with life insurance policy are married and fall in the income group between Rs. 1,00,000 to Rs. 3,00,000. In addition, 39.5% respondents are graduates followed by postgraduates and professional degree holders.

Table 5.1 Demographic Factors of Respondents

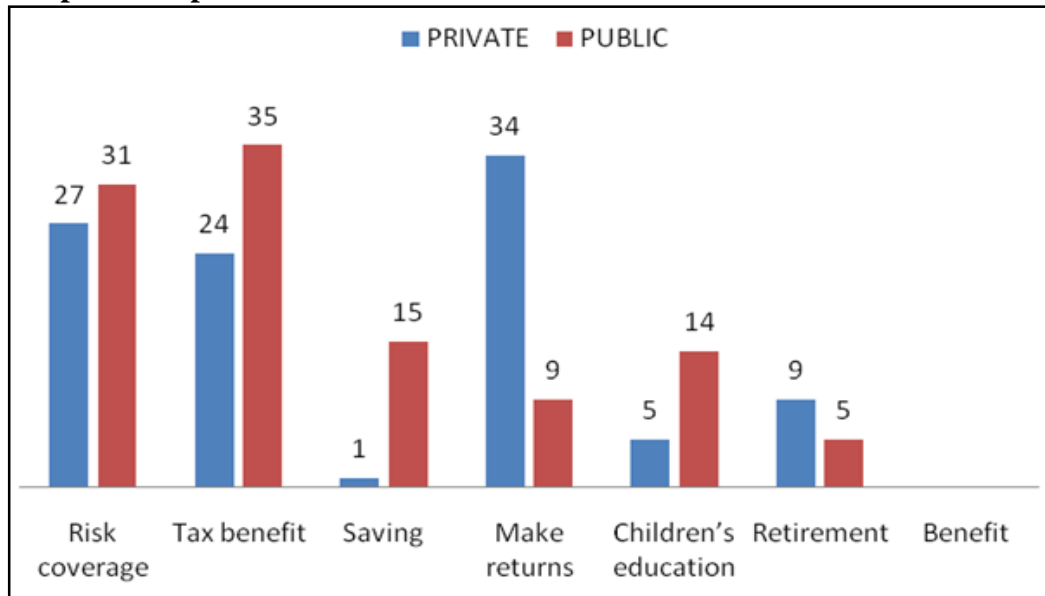
Demographic factors	No. of Respondents	Percentage	Demographic factors	No. of Respondents	Percentage
Age			Annual Inc.		
Below 30	39	19.5	< Rs. 1 lakh	21	10.5
30-40	82	41	Rs. 1-3 lakh	71	35.5
40-50	51	25.5	Rs. 3-5 lakh	68	34
Above 50	28	14	> Rs. 5 lakh	40	20
Total	200	100	Total	200	100
Occupation			Education		
Salaried	97	48.5	Below Graduate	46	23
Professional	19	9.5	Graduate	79	39.5
Private/Business	39	19.5	Post Graduate	49	24.5
Agriculture	16	08	Professional degree	26	13
Others	20	10	Total	200	100
Total	200	100			
Gender			Marital Status		
Male	163	81.5	Married	168	84
Female	37	18.5	Unmarried	32	16
Total	200	100	Total	200	100

5.2 PURPOSE OF LIFE INSURANCE INVESTMENT

There could be any motive of people behind investing in a life insurance policy. The main purpose of life insurance is the risk cover of one's life.

Table 5.2 Purpose of life insurance investment

Variables	Private	(%)	Rank	Public	(%)	Rank
Risk coverage	27	27	2	27	27	2
Tax benefit	24	24	3	30	30	1
Saving	01	01	6	15	19	3
Make returns	34	34	1	09	09	5
Children's education	05	05	5	14	14	4
Retirement Benefit	09	09	4	05	05	6
Total			100			100

Graph 1: Purpose of life insurance investment

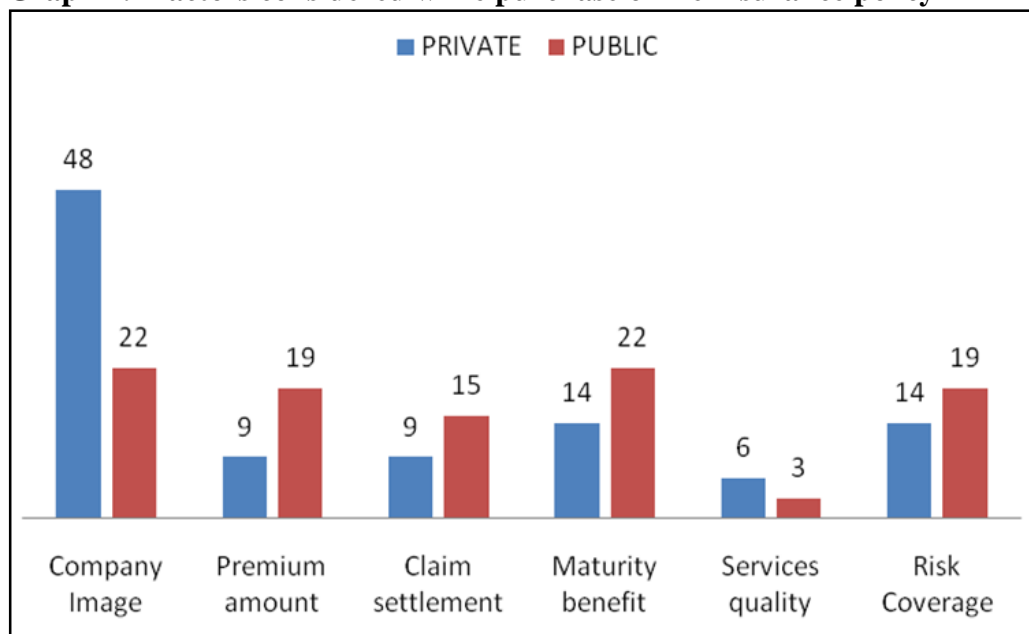
Interpretation: There are several reasons for which people buy a life insurance policy and it differs from investor to investor. As can be seen from the table no. 5.2 and graph no. 1, among the surveyed people majority (35%) of the LIC respondents invest in life insurance for tax benefits followed by risk coverage, saving, and children's education with 31%, 15%, and 14% respectively. On the contrary, majority (34%) of the private company policy holding respondents invest in life insurance for getting higher returns which is followed by risk coverage, tax benefits, and retirement purposes with 27%, 24%, and 9% respectively. Thus, it can be inferred that tax benefit is the main reason behind investment in public owned company LIC whereas getting high returns is the main purpose of policy buyers of private insurers. Insurance schemes which are basically risk coverage instruments have been marketed as tax saving as well as wealth accumulation instruments. Keeping this in mind, insurance companies should devise policies which provide effective risk coverage rather than focusing on the tax benefits and also encourages them for long term investment in insurance.

5.3 FACTORS CONSIDER WHILE PURCHASE OF LIFE INSURANCE POLICY

Life insurance investment decision greatly depends on the nature of the investors. There are many features which influenced investors at the time of policy buying decision.

Table 5.3 Factors considered while purchase of life insurance policy

Variables	Private	(%)	Rank	Public	(%)	Rank
Company Image	48	48	1	22	22	1
Premium amount	9	9	3	19	19	2
Claim settlement	9	9	3	15	15	3
Maturity benefit	14	14	2	22	22	1
Services quality	06	06	4	03	03	4
Risk Coverage	14	14	2	19	19	2
Total			100			100

Graph 2: Factors considered while purchase of life insurance policy

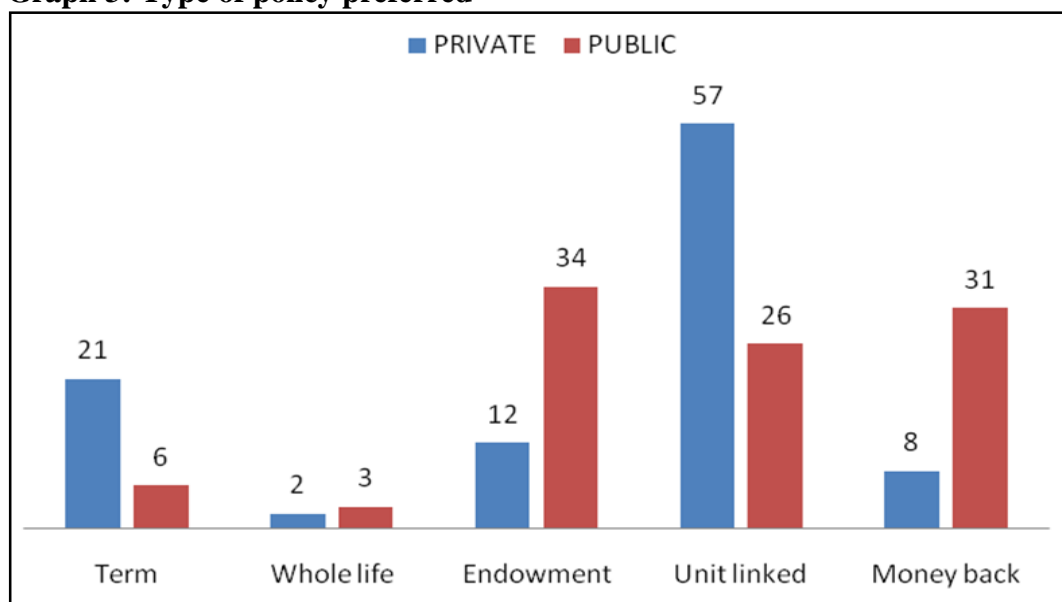
Interpretation: Table no. 5.3 and graph no. 2 show the results when the investors were asked to rank the features considered while purchasing life insurance policy in order of their preference as 1, 2, 3, 4, 5 and 6. A majority of the LIC respondents (22%) considers company image and maturity benefits as the most influencing factors in policy buying decision, followed by 19% of the respondents influenced with premium amount and risk coverage which is followed by claim settlement and services quality with 15% and 3% respectively. On the other side, a majority of the respondents having policies from private companies (48%) considers company image as the most influencing factor in policy buying decision, followed by risk coverage and maturity benefits with 14%, followed by claim settlement and premium amount with 9%. Hence it can be seen that image of the company is the most influencing and dominating feature which both LIC and private sector investors consider while purchasing life insurance policy.

5.4 Type of Policy Preferred

A wide array of insurance products is being offered by LIC and private insurance players. The products range from pure Term Assurance Plans to Unit Linked Insurance Plans, which are relatively new entrant in the market.

Table 5.4 Type of policy preferred

Type of policy	Private	(%)	Rank	Public	(%)	Rank
Term	21	21	2	06	06	4
Whole life	02	02	5	03	03	5
Endowment	12	12	3	34	34	1
Unit linked	57	57	1	26	26	3
Money back	08	08	4	31	31	2
Total		100			100	

Graph 3: Type of policy preferred**Interpretation:**

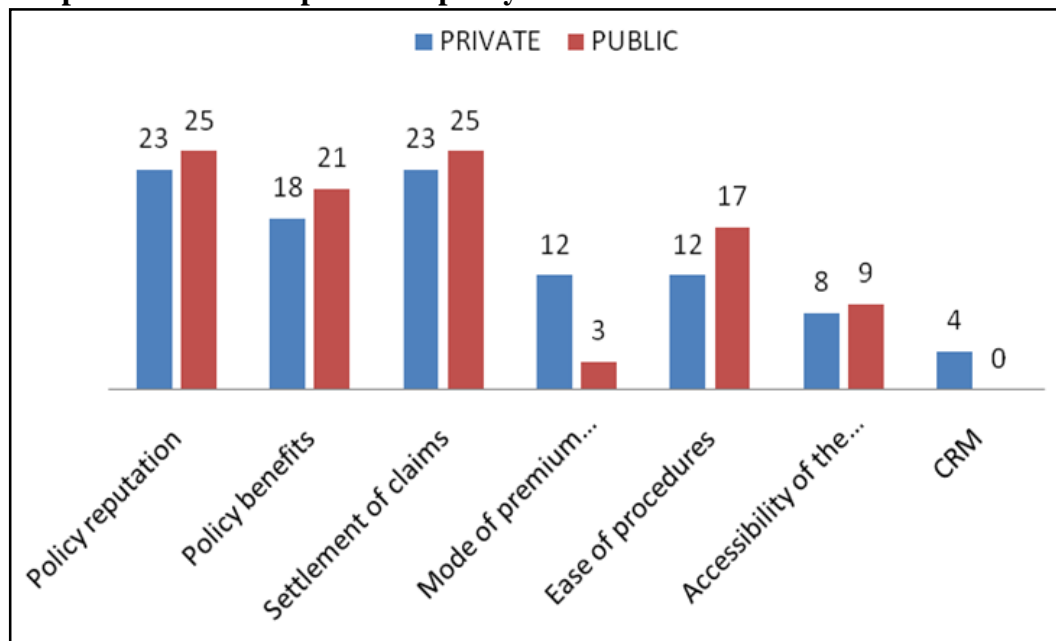
There are various types of life insurance policies with customized features and value additions catering to the needs of specific target segments. It is inferred from the table 5.4 and graph no.3, that majority of the LIC respondents (38%) preferred Endowment policy, followed by 31% and 26% respondents prefer money back and Unit linked plans and the rest 6% and 3% prefer term and whole life policies, respectively. On the contrary, majority of the private players' respondents (57%) prefers Unit linked policy, followed by 21% and 12% respondents preferring term policy and endowment plans respectively and the rest 8% and 2% prefer money back and whole life policies, respectively. Thus, it can be concluded that among many plans available, the most preferred one among the masses is Endowment policy of LIC and Unit linked policy of private life insurers. Nowadays, ULIP plans are widely preferred by the investors as they serve multiple purposes—give high returns, tax benefit, life insurance, critical illness cover and have admirable flexibility for paying premium amount.

5.5 INVESTOR'S OPINION ON POLICY RELATED FEATURES

There are many attributes linked with insurance products such as policy benefits, maturity benefits, premium charges, mode of premium payment, ease of procedures, claim settlement etc.

Table 5.5 Investor's opinion on policy related features

Features	Private	(%)	Rank	Public	(%)	Rank
Policy reputation	23	23	1	25	25	1
Policy benefits	18	18	2	21	21	2
Settlement of claims	23	23	1	25	25	1
Mode of premium payment	12	12	3	3	3	5
Ease of procedures	12	12	3	17	17	3
Accessibility of the service provider	8	8	4	9	09	4
CRM	4	4	5	0	0	6
Total			100		100	

Graph 4: Investor's opinion on policy related features

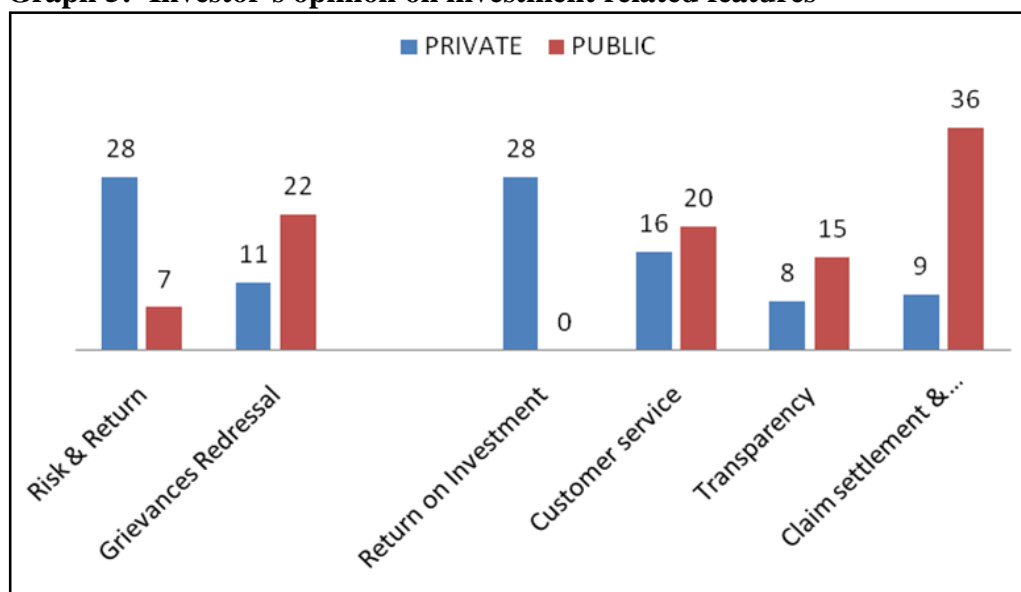
Interpretation: It is clearly shown by the table no. 5.5 and graph no. 4, when the investors were asked to rank their opinion on policy related features in order of their preference as 1, 2, 3, 4, 5 and 6; a majority of the LIC respondents (25%) gave top rank to policy reputation and settlement of claims followed by policy benefits (21%), ease of procedures (17%), accessibility of service providers (9%), mode of premium payment (3%) which were ranked as 2nd, 3rd, 4th and 5th respectively. Whereas, the investors of private life insurance companies ranked policy related features such as policy reputation and settlement of claims, policy benefits, ease of procedures and mode of payment, accessibility of service providers, CRM as 1st, 2nd, 3rd, 4th and 5th respectively. Therefore, it shows that policy reputation and claim settlement features are the main consideration for investors before buying policy from LIC or private insurers.

5.6 Investor's Opinion on Investment Related Features

Investors perception on insurance companies evaluated based on the investment related features such as risk & return, grievances handling machinery, ROI, customer service, transparency and reliability etc.

Table 5.6 Investor's opinion on investment related features

Features	Private	(%)	Rank	Public	(%)	Rank
Risk & Return	28	28	1	07	07	6
Grievances Redressal	11	11	3	22	22	2
Return on Investment	28	28	1	0	0	5
Customer service	16	16	2	20	20	3
Transparency	8	8	5	15	15	4
Claim settlement & Reliability	09	09	4	36	36	1
Total		100			100	

Graph 5: Investor's opinion on investment related features

Interpretation: It is clearly seen from the table no. 5.6 and graph no. 5, when the investors were asked to rank their opinion on investment related features in order of their preference as 1, 2, 3, 4, 5 and 6; a majority of the LIC respondents (36%) gave first rank to reliability & claim settlement followed by grievances handling machinery (22%), customer service (20%), transparency (15%) and return were ranked as 2nd, 3rd, 4th and 5th respectively. Whereas the investors of private life insurance company ranked investment related features such as risk and ROI, customer service, grievances redressal, reliability and transparency as 1st, 2nd, 3rd, 4th and 5th respectively. Thus most of the investor perceives LIC is the reliable, good in terms of claim settlement and handling grievances whereas private insurers are giving more returns on investment and provide better customer services than LIC.

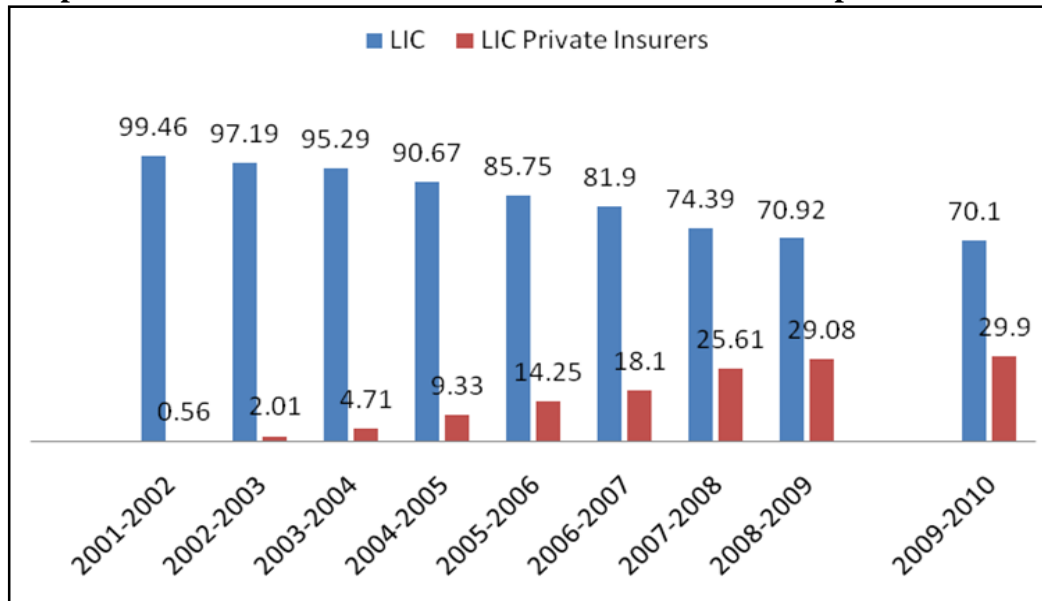
5.7 Market Share

The total share of company in the market is called market share. One of the important criteria to measure company's competitive strength and position in the market.

Table 5.7 Market Share of LIC & Private Insurance Companies

No. of Years	LIC	Private Insurers
2001-2002	9.46	0.56
2002-2003	7.19	2.01
2003-2004	5.29	4.71
2004-2005	0.67	9.33
2005-2006	5.75	14.25
2006-2007	1.90	18.10
2007-2008	4.39	25.61
2008-2009	0.92	29.08
2009-2010	0.10	29.90
Total	00	100

(Source: IRDA Annual Report 2009-10)

Graph No. 6 Market Share of LIC & Private Insurance Companies

Interpretation: The above table no. 5.7 and Graph no. 6, shows that, after privatization the market share of LIC has come down to 70.10 % in 2009-10 from 99.46% in 2001-02. Since liberalization and opening up of the sector, the market shares of private insurers have been gradually increased from 0.56% in 2001-02 to 29.90 in 2009-10. With aggressive marketing and meeting International quality standards the private companies have provided strong competition to the market leader LIC and taken away some of its market share. However, even today LIC has captured maximum market share and still in a dominant position with its improved products, better customer services and huge trust of people on it.

6. Findings:

1. Majority (30%) of the respondents invested in LIC for the purpose of getting tax benefits and 34% respondents invested in private life insurers for making returns.
2. Company image is the most influencing factor for investors of both LIC and private insurers while investing in life insurance policy.
3. Majority (34%) of the respondents has shown a preference towards Endowment policy of LIC and 57% respondents of private insurers were found to be inclined towards Unit linked policy of private insurers.
4. In policy related attributes, settlement of claims and policy reputation ranked first in case of both LIC and private investors.
5. In investment related attributes, LIC investors gave first rank to reliability and claim settlement process whereas private investors gave first rank to risk & return on investment.
6. LIC continues to dominate the life insurance market even after the entry of many private insurers because of its goodwill, huge customer base and great trust of people on it.
7. There is a considerable difference in risk perception of investors in insurance products of LIC and private insurance companies.
8. Market growth of LIC has been affected by the entry of private life insurers.

7. Suggestions:

1. LIC has a strong presence in life Insurance market and to retain its market leader status the LIC needs to acquire more competitiveness in terms of product innovation, customer awareness, customer services and technology.
2. To achieve greater insurance penetration, the healthier competition has to be intensified by both the sectors and they should come up with new innovative products and also make improvement in the quality of services.
3. People are aware of the private life insurers but still many hesitate to invest. Therefore it is important to create trust and confidence among the investors that private insurance is a safer option for investing through greater transparency in the system.
4. The main objective of life insurance company is to provide insurance against life risks. Hence private insurers should encourage selling more number of long term investment policy rather than short term unit linked products.
5. Lengthy and complex procedures at the time of claim settlement process should be reduced and need to introduce an effective mechanism in evaluating the requirements and designing products according to the changes in the market.
6. Private insurers require to shift their focus from urban to rural areas where majority population are poor and uninsured due to lack of awareness and inability to pay high premium rates.
7. Effective policy and action should be taken against parties involved in insurance fraud to safeguard the interest of the policyholders.

8. Conclusion:

Several changes have taken place since opening up to private players in 1999. Earlier insurance was perceived mainly as a tax saving device but after liberalization and privatization, the life insurance awareness among the people have been significantly increased. Private players with their aggressive marketing strategy, advanced technology, foreign expertise and better customer services make this industry attractive for every social segment. LIC was the only company in Indian life insurance business till 1999 and today facing tough competition with the existing and new private insurer which has resulted downfall in the market share of LIC. LIC is an old brand and majority people continue to buy policy from it because of security and trust on the brand. Whereas, the situation is quite different in case of private life insurance service providers where even aware and educated people hesitate to invest because of having less faith due to evidence of many insurance frauds and misleading information given at the time of policy selling. India is a land of large population and even today a major portion of country's population is without any risk coverage. Therefore, the present economic situation calls for a collaborative approach where both LIC and private players can come together and increase market penetration and efficiency through innovative products, quality customer services and ethical conduct of business.

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