



**MARKETING INNOVATIONS FOR INCLUSIVE GROWTH – A STUDY OF LIC OF INDIA**

**Mr. Dhananjay Singh**

**Asst. Professor, Department of Marketing,  
IMT Hyderabad, Hyderabad**

**ABSTRACT:**

India accounts for 16% of the world population, but only about 1.68% of the world insurance market. In terms of insurance penetration and density, the figures are even more disappointing. Though life insurance sector was opened to private players in the year 2000 with the prime objective of taking insurance to the large disadvantage rural masses of India, the results have been disappointing. Insurance Regulatory & Development Authority of India (IRDA) has prescribed certain rural obligations on all life insurance companies. These regulations are however being followed as obligations only. Life insurance firms in India do not focus on rural markets as servicing costs are high. The unavailability of life insurance products for rural population breeds insecurity and inhibits growth and initiative. However Life Insurance Corporation of India (LIC) has brought in many product and process innovations to address insurance needs of rural masses. This paper is an attempt to study marketing and service delivery innovations of LIC in the last decade (2000 -10) to reach rural hinterland of India.

The product and process innovations have helped LIC of India realize new businesses amounting to sum assured of Rs. 1,08,948.28 crore under 1,21,24,879 policies representing 32.76 % and 23.17 % share of policies and sum Assured respectively completed during the financial year 2010-11. The paper recommends innovations like Multi-Level-Marketing, introduction of hybrid products, to ensure wider social coverage and thereby inclusive growth.

**KEY WORDS:** LIC, Innovation, Life Insurance, Inclusive Growth, Life Insurance, Rural.



## **INTRODUCTION:**

Life insurance is a protective tool and an instrument for mitigation of the risk. Risk emanates from various sources and is associated with all economic activities. The wheels of economic life are propelled by the sound life insurance mechanism operative in any country. Life insurance is a social security tool and the need of insurance is felt more for the deprived and below poverty line people. Rural India promotes and sustains the life links of the economy. Government of India has initiated schemes like Swarna Jayanthi Shahari Rozgar Yojana, Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS) for the economic benefit of deprived classes. Many of the above schemes directly attack poverty while the rest promote asset creation. The role of the insurer is vital in smooth running of the above schemes by providing risk cover. The success of governmental schemes for rural poor will depend on how best the insurance companies design products revolving around each and every economic activity. Insurance companies need to bring in product and marketing innovations meeting different requirements of the customers, else, the society will remain an indebted economy and the assets created through the government initiatives largely remain unsecured.

Mckinsey's 2007 report on Indian life insurance states that by 2012 about 10.3 million household with income greater than Rs 2 lakh will control more than 22 percent of rural consumption. Further, rural India will not be one market. Pockets of attractive rural market will emerge in certain parts of India. Players will need to understand their needs, design products to match them and create distribution models to reach a highly fragmented consumer base cost effectively.

LIC of India has initiated product and marketing innovations to reach the rural masses for inclusive growth. The marketing and product innovations have helped LIC of India realize new businesses amounting to Sum Assured of Rs. 1,08,948.28 crore under 1,21,24,879 policies representing 32.76 % and 23.17 % share of policies and Sum Assured respectively completed during the financial year 2010-11. This paper is an attempt to study marketing and service delivery innovations of LIC of India in the last decade to reach rural hinterland of India. In the end, the paper recommends a few innovations like Multi-Level Marketing, introduction of hybrid products, to ensure wider social coverage and thereby inclusive growth.

## **THE IMPORTANCE OF MARKET RESEARCH IN THE INSURANCE SECTOR:**

Money making is biggest economic activity in the present day world and all physical and mental activities of the modern man are diverted in making money. The idea is that economy and the men behind the economy, pursue efforts to make, multiply and maximize money. Therefore, there is need to protect the activities from impending risks. The insurer needs to innovate and link each

economic activity to an insurance product and therefore there is need to study the exact needs of the various sections of the society and offer customized insurance solutions.

According to C. S. Rao, ex-chairman of IRDA, research in insurance remains a neglected area and there is need for a concerted effort to develop and define areas of focus for research in tune with the requirements of the industry. Research focus is mandatory to make tangible gains in the near future in terms of value addition and meeting industry expectation at large. The moot question is whether insurance companies have undertaken market research to ascertain the operational and financial functioning of all the schemes to design products matching each of the schemes. This require decentralized planning and decentralized market research since different State governments have different schemes for artisans, craftsmen, agricultural labors, rickshaw pullers, bidi workers etc. In the existing system, the overburdened operations manager is asked to collect certain amount of customer feedback on a daily basis. The targets are often linked to service index metric that forces the operations manager to submit dubious forms. Even when research is undertaken seriously it is only to assess customer service related issues. There is no focus on product related enquiries. Administering a uniform questionnaire for both urban and rural areas does not serve the purpose since the rural market for life insurance is different from urban market in terms of needs, requirements, income levels and distribution, and penetration of media. There are only a few offices of a life insurance company that maintain branch economic profiles depicting the profile of the customers, the nature of industries, the labor conditions, employment statistics, occupational variations, risk profile of the different customers, the life insurance needs, and the data related to insurable population and the insured population.

Process innovations and hybrid products are critical for the needs of the customers, particularly rural people. For perfecting process innovation and devising hybrid products, a strong market research is very much necessary. Ruth Vargas Hill and Maximo Torero observe the need to develop insurance products that complement financial products currently used by the households in many parts of the developing world. When well developed, borrowing and saving can be an efficient way for households to manage risks they face. Without insurance, however, these financial products are also at risk. It is hard to develop credit markets in contexts of high risk; asset stocks become depleted and ineffective in times of repeated shocks.

Table 1 below looks at the statistical data of rural credit in India. The table indicates that loans given out by the government are on the rise over the past few decades.

**Table 1: DIRECT INSTITUTIONAL CREDIT FOR AGRICULTURE AND ALLIED ACTIVITIES - TOTAL (Short-term and Long-term in Crores of rupees)**

Year	Loans Issued				
	Co-operatives	State Governments	SCBs	RRBs	Total
1970-71	744	74	.	.	<b>818</b>
1971-72	769	99	15	.	<b>883</b>
1972-73	958	177	21	.	<b>1156</b>
1973-74	877	91	219	.	<b>1187</b>
1974-75	1039	78	274	.	<b>1391</b>
1975-76	1187	82	405	2	<b>1675</b>
1976-77	1431	82	508	16	<b>2037</b>
1977-78	1444	98	569	44	<b>2155</b>
1978-79	1621	119	800	101	<b>2641</b>
1979-80	1821	133	975	.	<b>2928</b>
1980-81	2029	144	1263	.	<b>3436</b>
1981-82	2479	153	1496	168	<b>4296</b>
1982-83	2717	188	1225	222	<b>4352</b>
1983-84	2938	185	1858	263	<b>5244</b>
1984-85	3154	241	2461	310	<b>6167</b>
1985-86	3674	354	2729	402	<b>7159</b>
1986-87	3701	210	3332	477	<b>7720</b>
1987-88	4710	478	3526	483	<b>9198</b>
1988-89	4873	275	3813	420	<b>9381</b>
1989-90	5407	292	4282	647	<b>10628</b>
1990-91	4819	359	4676	335	<b>10188</b>
1991-92	5797	339	4806	596	<b>11538</b>
1992-93	6484	389	4960	698	<b>12530</b>
1993-94	8484	377	5400	752	<b>15013</b>
1994-95	9876	407	7408	1083	<b>18773</b>
1995-96	12483	554	9274	1381	<b>23692</b>
1996-97	13254	668	10675	1748	<b>26345</b>

1997-98	14159	858	11537	2103	<b>28656</b>
1998-99	15099	420	14663	2515	<b>32697</b>
1999-00	25678	520	16350	2985	<b>45534</b>
2000-01	27295	487	16440	3966	<b>48187</b>
2001-02	30569	443	18638	4546	<b>54195</b>
2002-03	34040	.	25256	5879	<b>65175</b>
2003-04	40049	.	36203	7175	<b>83427</b>
2004-05	45009	.	48367	11927	<b>105303</b>
2005-06	48123	.	80599	15300	<b>144021</b>
2006-07	54019	.	115266	20228	<b>189513</b>
2007-08	57643	.	113472	23838	<b>194953</b>
2008-09	58787	.	160690	26499	<b>245976</b>

**Source:** <http://www.rbi.org.in>

Every loan that is sanctioned is a liability in the event of the demise of the bread earner before the loan is repaid. Insurance companies have products for loans taken for house construction and to cover the life of the loan takers. Some housing loans have inbuilt insurance provision to recover housing loans but when it comes to rural credit the life insurance companies are found wanting. Why it is that rural credit is largely ignored by the insurance companies? Having rural credit will address the following points:

- Relieve the borrower’s family of the burden of repaying the remaining loan.
- Cover the loss that the government/ bank may incur upon the demise of the borrower.
- Debt dies with the debtor but the asset created out of debt survives with the survivors.

**LIC’S PRODUCT AND PROCESS INNOVATIONS FOR THE RURAL PEOPLE:**

Most of the life insurance companies follow ‘one size fits all’ strategy with respect to their product and market interventions. Products projected in urban India are also sought to be sold in rural areas. LIC of India has understood the need to customize products and has exclusive products for rural customers. For example the new Jana Raksha policy addresses the specific needs of agriculturists who depend on vagaries of monsoon. The product has a feature that if premiums are not paid for three years, the policy will not be considered as lapsed for the purpose of death claim settlement provided at least 2 yearly premiums have been already paid by the customer.



LIC of India is using information technology (IT) for process and service innovations. LIC of India is the second largest user of computer systems next only to SBI (State Bank of India) in service sector. In the last three decades since the adoption of IT, LIC of India has been able to mechanize majority of its operations including underwriting, loan processing, revival processing, and surrender settlement and all maturity claims. All (2522) offices of the LIC of India are interconnected and majority of service functions can be had at any branch center since 2006. LIC has started operating Satellite offices in rural and semi-rural areas with minimal staff to have its visibility in the rural market. LIC has created a huge data warehouse for its 23 crore plus policy holders and created a unique customer folio numbers for all its policyholders. This helps LIC of India view the customer profile at the click of a mouse. The customer folio number is further being used to disseminate information of plethora of its products suiting to the customer profile.

LIC of India has developed and perfected claim intimation procedure. An auto list of claims payable for the entire year is generated in each of its 2522 branches at the beginning of the year itself. An additional auto list with additions and deletions is generated three months in advance at the policy servicing department for sending auto generated letters. On receipt of requirements (policy bond) at least a month before the due date, a registered letter is sent and entrusted to the agent. Vigorous follow ups are made until the policy bond are received and claims are settled a month before due date. For all survival benefits up to Rs 2 lakh, a hassle free settlement without calling for the basic requirements of policy bond and discharge voucher has been put in place. For death claims, all non-early claims that arise after 2 years from the date of acceptance of risk are settled immediately on the strength of abridged claimant form (Claim form A) and death certificate. For any repudiation of claim, LIC of India writes a detailed letter to the claimant stating the reason for repudiating the claim. The insurer is mandated to provide the address of claims review committee for appeal in case the claimant prefers an appeal. On receiving the appeal, the review committee (consisting of zonal officials and the retired judges of District Court or High Court) once again goes through the claim papers and reviews the decisions of the lower office. If the claim is still not payable, the claimant is given the option to appeal to the Chairman. The repudiations are however very low. The processes explained above have been put in place to ensure trust in the minds of the customer.

LIC of India has also set up a customer grievance redressal as mentioned below:

**1. Grievance Redress Forums:**

- Branch Level:** Branch Manager (In Charge)  
**Divisional Level:** Manager (CRM) or Marketing Manager.  
**Zonal office:** Regional Manager (CRM)

**Central office:** Executive Director (CRM).

The designated officers will be available on all Mondays in their respective chambers between 2 to 4-30 pm to attend and redress the customer grievances.

**2. Policy Holders Councils:**

In all 109 Divisions of LIC, Policy Holders Councils (PHC) has been established. Three policy holders of the respective jurisdictional area interact with the Divisional Management Committee (DMC) on consumer concerns.

**3. Zonal Advisory Boards:**

These are the replicas of policy holders' councils at zonal level attending to the consumer concerns and interacting with Zonal Management.

**4. Consumer Affairs Committee at Central Office:**

The committee is constituted by eminent consumer activists and members of the public and they discuss various areas of consumer interests at the Central Office Forum.

**5. Citizen's Charter:**

LIC of India set up the Citizen's Charter in November 1997 and revised it in 2003 with a view to proclaim its commitments to the policy holders. The Charter reiterates its commitments to customers and the standards for general procedures, the standards of policy servicing, the standards for easy access to information and standards for fairness in dealing with customers.

LIC of India has brought in the above interventions to instill trust in the customers.

**OTHER SERVICE INNOVATIONS:**

The time limit from the date of proposal to the date of issue of policy has been reduced drastically. LIC has openly declared its Citizen's Charter to enable the customers to verify the service standards of the institution. LIC has unique and exclusive claims concession schemes which are not available with any other life insurance company. Liberal and timely settlement of claims generates good will among the public. LIC has relaxed rules with regard to early claims as follows:

- If the policy has run at least for 2 years and death of the customer occurred within 3 months from the date of the first unpaid premium, full sum assured with bonus, if any is paid to the claimant by recovering the unpaid premiums for the policy anniversary.
- If the policy has run for at least 2 years and death of the customer occurred within 6 months from the date of the first unpaid premium, half of the sum assured is paid without bonus.

- If the policy has run for at least 2 years and if death of the customer occurred within 12 months from the date of the first unpaid premium, notional proportionate paid up value is paid to the beneficiary.

The above three relaxations are referred as relaxations under Chairman guide lines and settled as ex-gratia claims. These liberal provisions help in the settlement of many cases which otherwise would be declined. The above process innovation reinforces customers trust with the company.

LIC is the only life insurance company in India that has 'Branch Profiles' at each rural branch to know the black spots (where there is no presence of any agent of any company). The 'Branch Profiles' of LIC have been put in place to assess the potential vis-à-vis the achievements. Branch Profiles help LIC in allocating sales budgets in tune with the potential of the area. The agricultural statistics, the income available, the size of the family, the complexity of needs of the household, the credit borrowing of the households are all taken into consideration to decide the potential of that area.

#### **DISTRIBUTION INNOVATIONS:**

Some of the LIC's distribution innovations on rural marketing front include the adoption of villages by way of Bima Grams, Madhur grams, Bima schools as mentioned below

- **Bima Grams:** A village in which at least 75% of the households boast of at least one policy each is honored as 'Bima Gram' by LIC of India. A big function is conducted in the presence of all villagers and village elders, photographs taken, speeches made and a grant of Rs 25,000 is given out for the purpose of common utility program like digging a bore well. A hoarding is prominently put at the entrance of the village that it is a 'Bima Gram'.
- **Madhur Grams:** LIC of India launched a micro insurance product, Jeevan Madhur in 2006 with premium as low as Rs 100/- per month. In less than 2 years of its launch, nearly 13.5 lakh lives were covered in rural areas. A village in which 75% of the households take this policy, the village is declared as 'Madhur Gram'. LIC of India started declaring villages as MADHUR villages and in between 1stSept, 08 to 31stMarch, 09, it declared 122 villages as Madhur Grams.
- **Bima Schools:** To inculcate life insurance consciousness among children, LIC of India launched Bima Schools. If 25 students of a particular school take children specific policies, the school is declared a 'Bima School' and Rs 2500 is given for the benefit of the school.

#### **OTHER INNOVATIONS:**

The branches of life insurance companies are located in urban and semi urban areas. India has more than 6 lakh villages and the people of these villages either depend on their agents or go to the nearest town centers to pay renewals. For easy process of collection of premiums insurance

companies can tie up with banks that can collect premiums on behalf of the company and remit the daily collection in one stroke to Life Insurance Company. LIC has a prototype of this model called as '**Collecting Bank Scheme**'. In this the premiums collected by bank are remitted on the same day and the branch accounts department keeps a track for each collection by bank by verifying the counterfoils received from the bank and issue premium receipts. Rural people have accounts in banks and they can pay premium at the banks. LIC has authorized its development officers to issue temporary receipts to the rural people on the spot to facilitate cash collections. This helps the ordeal of visiting the offices by the policy holders. LIC has robust tracking system of temporary receipts in order to ensure that this facility given to customers is not made use of for temporary pecuniary gains by the development officers. The above model helps rural consumers in paying premiums easily.

LIC in liaison with Government of India has launched social schemes like Janashree Bima Yojana, Shiksha Sahayog Yojana and Aam Admi Bima Yojana for the people below the poverty line. Janashree Bima Yojana, Siksha Sahayog Yojana and Aam Aadmi Bima Yojana are subsidized by government of India and administered by LIC of India are popular among all villagers.

#### **RECOMMENDATIONS:**

**Multi-level marketing (MLM):** LIC can introduce MLM concept to promote its policies in rural areas. When policies are sold on the Internet without taking the Agents' confidential report, why not sell the policies on MLM front? The commission that is normally paid to agents can be saved and can be utilized for distribution to all the customers down the line. This will act as a motivating factor and also serves as a marketing strategy for rural penetration.

**Replicating micro insurance models from other countries:** Product bundling is the major feature of micro insurance. In this model several related items like, arranging credit, after sales service, covering insurance etc are bundled together. African Life (Insurance Company in South Africa) entered the HIV/AIDS- ridden low end market by developing a product in which the family, rather than the individual, was the insured unit. All Lanka Mutual Assurance Organization's (ALMAO) has a funeral policy which covers up to 9 people including parents in law. Life Insurance Corporation in India can take these models and design different products for different needs of the people. 'Premium Holiday' products, 'Seasonal Premium' payment policies, Comprehensive Policies covering life and general insurance needs, policies covering life and credit needs, policies covering family needs even after death risk and such other innovative products need to be designed and positioned for each target segment. LIC can also think of designing products with combination of micro credit, micro savings and micro insurance. For this, linkages with micro finance organizations may be

thought of on the lines of banks assurance. Insurers may also think of collaboration with co-operative banks and develop financial products with in-built insurance element.

LIC needs to understand that what is needed by customers is emotional security laced with economic security. Product design has to address the emotional and economic needs of all segments of customers. 'One size fits all strategy' will not work and there is need to start thinking at micro level for macro benefits.

#### **CONCLUSIONS:**

LIC however, has initiated a few innovations in marketing and service delivery systems in order to spread the message of life protection in rural areas. Product innovations include the launch of an exclusive rural product called New Jana Raksha and popularization of Bimagrams, Madurgrams and Bima Schools. The innovations on technology front include e-collection of premiums, collection through select ATMs, and introduction of rural Kiosks, electronic reminders, and Interacting Voice Recording Service (IVRS). Innovations in service delivery systems include the collection of premiums through the 'Collecting Bank Process' and 'Temporary Receipts'. The marketing of life insurance through Regional Rural Banks and Micro insurance through NGOs are innovations on the service delivery and distribution front.

LIC of India in liaison with Government of India has launched social schemes like Janashree Bima Yojana, Shiksha Sahayog Yojana and Aam Admi Bima Yojana for the people below the poverty line. According to the former President of India, Late.Dr.A.P.J.Abdul Kalam, security in any facet of life is the primary prerequisite that impels an individual and the society to push forward to get to the heights of social and economic prosperity. Feeling of insecurity would totally dampen any enthusiasm to move forward and would certainly act as a negative factor inhibiting growth, and nipping enterprising initiatives in the bud. Life insurance marketers need to have a thorough market research to understand the economic activities across the spectrum, the needs that emanate out of the activities and the emotional and economic aspirations of the people. One size can never fit all especially in the context of the regional and economic variations across the length and breadth of this vast country. If India is to realize its potential as an economic super power, the rural sector has also got to grow on par with urban sector and life insurance companies can certainly play a very important role by insuring risk taking abilities of the large rural masses of India.



**REFERENCES:**

- Abdul Kalam, 2006, "Speech on the eve of LIC Golden Jubilee Celebrations"
- Churchill, Craig, 2006, "Protecting the Poor- A Micro Insurance Compendium", p no 136.
- Hari Narayan, J, 2012, IRDA Journal, April, 2012
- McKinsey & Company, 2007, 'Report on Indian Life Insurance- Fortune Favors the Bold' p.9
- Mishra, K.C., 2007, "Indian Life Insurance Industry, Challenges and Opportunities", Yogekshema, September, 2007, p. 14
- Rao, C.S., 2007, "Reforms in Insurance Sector", A.D.Shroff Memorial Lecture, p.2
- Vargas Hill, Ruth & Tororo, Maximo., 2009, "Innovations in Insuring the Poor" published in Vision Institute of International Food Policy Research Institute (IFPRI), p 2.