

## AN INVESTIGATION IN THE STAGNANT SALE OF NEW POLICIES BY LIC: SETTING A RESEARCH AGENDA

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### ABSTRACT

*“Life insurance is never bought; it is sold,” goes the old axiom on selling insurance. Whether it is India or the USA, sales of life insurance in recent times have taken a southward turn. This is a puzzle. With the population, GDP, and Per capita income rising, with no changes in the tax sops (80C), with no major change in risk associated with life and in fact a favorable demographic change, if the sales of new life insurance policies sold by LIC has dipped from its peak of around 40 million per year to almost 20 million per year, then it is a mysterious case. This paper tries to set out an agenda for major research investigating the possible reasons for the decline in the sales of new policies by LIC over the last five years.*

**Keyword:** LIC, Life Insurance, IRDAI, New policies

### 1. Introduction

LIC advertisements for example posted in the Times of India on 1st September 2018, has always claimed that it has been serving for

generations. The claim of LIC that it is serving generations is a bit difficult to agree with. Numbers compiled from IRDAI annual reports for the last 16 years reveal the following:

**Table 1: Number of new policies sold (in lakhs)**

Year	LIC	Private	Total	% LIC	% Private
2003-04	269.68	16.59	286.27	94%	6%
2004-05	239.78	22.33	262.11	91%	9%
2005-06	315.91	38.71	354.62	89%	11%
2006-07	382.29	79.22	461.51	83%	17%
2007-08	376.13	132.62	508.75	74%	26%
2008-09	359.13	150.11	509.24	71%	29%
2009-10	388.63	143.62	532.25	73%	27%
2010-11	370.38	111.14	481.52	77%	23%
2011-12	357.51	84.42	441.93	81%	19%
2012-13	367.82	74.05	441.87	83%	17%
2013-14	345.12	63.60	408.72	84%	16%
2014-15	201.71	57.37	259.08	78%	22%
2015-16	205.47	61.92	267.39	77%	23%
2016-17	201.32	63.24	264.56	76%	24%
2017-18	213.38	68.59	281.97	76%	24%
2018-19	214.04	72.44	286.48	75%	25%
CAGR	-2%	10%	0%	-2%	10%

(Source: Annual reports of the IRDAI)

The bottom line (CAGR) doesn't really support what LIC is claiming – that it is serving generations. It had served older generations - that is true. But the latest breed doesn't seem to have found that connect with LIC. Rather they have tilted towards the private players.

### 2. IRDAI Mission and the problem

One of the missions of IRDAI is to bring about speedy and orderly growth of the insurance industry (including annuity and superannuation payments), for the benefit of the common man and to provide long term funds for accelerating growth of the economy. The numbers in Table

Life insurance policies are not really showing a speedy and orderly growth. In particular, numbers of the last 3 years are a matter of concern. From a peak of around 40 million new policies sold in 2009-10, it has taken almost a 50% hit in 2018-19 with just around 20 million new policies sold. Neither is this growth speedy nor orderly as intended by the IRDAI. The problem is that this decline is not supported by any major economic or demographic factors. The population continues to grow and so does the GDP and per capita. The Income Tax benefit under 80C continues to be there as well. Further, there is nothing noteworthy to suggest that risk to life has reduced. On the other hand, the number of deaths due to road accidents continues to rise year-after-year. As per Indian Express (2017), the number of road accidents in India in 2016 was 480,652, down from 501,423 in 2015. But the deaths rose to 150,785 from 146,133 in the same period. Data for the previous two years (data.gov.in) show that the number of road accidents in 2013 was 486,476 and those in 2014 were 489,400. All this then leads us to a puzzling situation about the sharp decline in new life insurance policy sales. Interestingly enough this phenomenon is not restricted to India alone. Peter R. Orszag (2018) has reported the state of life insurance in the USA under the heading "The decline of life insurance is a mystery - The share of Americans with life insurance has fallen to less than 60%, from 77% in 1989." In 1965, Americans purchased 27 million policies, individually or through employers. In 2016, a population that was more than 50% larger still bought only 27 million policies!

### 3. Need for a major research

Major research is required to unfold this mystery of declining new policy sales by the LIC. It is expected to take a close look at the advertising strategy of LIC, in particular, to find out if it is missing something big. The younger tech-savvy generation of India operates in a dynamic and versatile environment. It has a quick-fix mindset. Value propositions, risk perception, risk protection, and such related aspects are thought of quite differently by youths of modern India. The

research should dig and find out variables that are relevant in today's context. It should find out if a print advertisement copy is just being "cut-pasted" on the internet as well. Its findings will definitely help LIC and IRDAI to catch a really big market segment – the younger generation of today – who are as many as 50% of the population. As per population pyramid.net (2020), 52.60% of the total population of India in 2020 is in the age group 0-29. The proposed research not only should aim at looking into the problem, but it should also try and identify factors that matter the most in today's context for marketing and advertising by LIC. If the problem is left unresolved then LIC will continue to sell around just 20 million policies every year when the potential actually is tremendous.

### 4. Review of Literature and the basis for the research

Peter R. Orszag (2018) has tried to figure out the causes for loss of share by life insurance in the US. Quoting a couple of studies that have failed to explain the reason he has literally given up the puzzle. In fact, he has conceded - "That only makes the puzzle harder to solve." Correlating sales of life insurance with life expectancy, the writer states that if one considers the life expectancy among the low-income earners, it has actually declined. And yet the number of policies sold has not gone up. He has only guessed that perhaps the lower-income group people cannot afford a life policy. Trying to understand the pricing of the life policies he has observed that "Most individual life insurance policies require a medical exam. If the health of lower earners is deteriorating relative to that of higher earners, the price of life insurance for them will rise disproportionately. And if life insurance companies put more weight on the risks to life than the individuals do, they'll end up with policy pricing that's unattractive to lower earners." He has further observed that even though fewer people are buying life insurance, those who do are buying more valuable policies. The entire article doesn't mention anything about the marketing and advertising strategy and which is why it is of interest to us

to examine this aspect in the Indian context. Thus, we set the first research objective and question for the proposed research as under:

***RQ1 – What role has marketing and advertising to play in the declining sales of new policies in the Indian context?***

Aparna Ramalingam (2013) has quoted Industry watchers stating that life insurance majors have not come up with path-breaking products in the last couple of years.

Dave Hanley (2017) has taken a dig at the conventional approach to selling life insurance in the US. He has said – “The old industry adage that life insurance is “sold, not bought,” is proving true through its decline. The historical insurance sales approach – an army of captive and independent insurance agents providing a consultative sale to customers—is becoming more and more ineffective over time. Today only 26 percent of Americans own their own life policies. Why is that?” He has made a very pertinent observation which very much applies to Indian markets as well. “The average age of a life insurance agent in the US is 59, and agents tend to sell within five years of their own age. This leaves the bulk of millennials and even GenX potential customers without the advice, education, and handholding that their insured predecessors have had. This gap leaves young families, who most desperately need the protection, underinsured, and in a state of potential poverty if tragedy strikes,” he has said clearly pointing out that the millennials and GenX potential customers are being missed out.

CII & Ernst & Young (2013) in their report have brought out the need for the adoption of alternate distribution channels by the Insurance Companies. “The internet penetration in India has been on the rise, whereby the increased number of people have access to the internet both through computers as well as through mobile phones, including the population in tier-2 and tier-3 cities,” said the report emphasizing the need for making effective use of the internet and online channels.

Based on the above literature we set the second research question as to under:

***RQ2 – Is the advertising by LIC in sync with the perception of the youth of today’s generation?***

The report of the CII & Ernst & Young quoted earlier also states that there is a huge potential for the insurance industry in India. “The demand for insurance products is likely to increase due to the exponential growth of household savings, purchasing power, the middle class, and the country’s working population. The working population (25–60 years) is expected to increase from 675.8 million in 2006 to 795.5 million in 2026. Increased incomes are expected to result in large disposable incomes, which can be tapped and the insurance sector in particular,” it says.

IBEF (2018), in its report on the Insurance sector, has forecasted that “The future looks promising for the life insurance industry with several changes in the regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. The overall insurance industry is expected to reach US\$ 280 billion by 2020. Demographic factors such as growing middle class, young insurable population, and growing awareness of the need for protection and retirement planning will support the growth of Indian life insurance.”

Tushar Dhara (2017) writing for News18.com has expressed a highly optimistic view of the insurance industry. “The Indian insurance market is a huge business opportunity waiting to be harnessed. India currently accounts for less than 1.5 percent of the world’s total insurance premiums and about 2 percent of the world’s life insurance premiums despite being the second most populous nation. The country is the fifteenth largest insurance market in the world in terms of premium volume, and has the potential to grow exponentially in the coming years,” he has said.

In the light of the highly bright prospects for the insurance industry the 3rd research question is framed as under:

***RQ3 – What kind of changed advertising strategy will help LIC to click with the***

*modern-day customer and potential customers of the future?*

**5. Objectives of the proposed study**

The agenda for the proposed major research can try and achieve the following objectives:

1. To find out the role of marketing and advertising in particular in not arresting the declining trend in sales of new policies by LIC,
2. To critically examine the advertising by LIC in the context of the needs of the youth of today's generation and
3. To come out with an alternative advertising strategy for LIC that will be in sync with the perception of the youth of today and tomorrow.

**6. Research Methodology for the proposed research**

The proposed research can test the following hypotheses:

***Hypotheses***

Ho1 – There is no role of marketing and advertising in particular in not arresting the declining trend in sales of new policies by LIC

Ha1 - There is a role of marketing and advertising in particular in not arresting the declining trend in sales of new policies by LIC

Ho2 - The current advertising by LIC is in sync with the needs of the youth of today's generation

Ha2 - The current advertising by LIC is not in sync with the needs of the youth of today's generation

Ho3 – The alternative advertising strategy for LIC will not work

Ha3 – The alternative advertising strategy for LIC will work

***Research Instrument***

A structured questionnaire should be used for gathering primary data from a sample of around 400 respondents as per standard sample size tables like Krejcie and Morgan (1970). The questionnaire should be divided into 3 parts:

Part I – Role of marketing and advertising in the decline in sales of new policies

Part II – Review of current advertising by the LIC

Part III – Opinion on the proposed advertising strategy

Each part should consist of multiple-choice questions seeking responses to relevant different variables and factors. There should be questions based on extensive use of images and videos showing life insurance advertisements.

The survey questionnaire should have the following features:

1. It should be electronic and very easy to use because of answering responses from either pop-up lists or tick-box options,
2. It should use the DK (Don't Know) filter option to give comfort to the respondents and also ensuring that valid and genuine responses are collected,
3. It should make extensive use of images and videos to make things more live and interesting.

The questionnaire should be validated for reliability through tests like Cronbach's Alpha.

***Sample***

The sample size should be 400 respondents in the age-group 20-40. It is a standard practice to take a sample size of 400 for large populations. The sample should be drawn from metros and other major urban centers like Pune, Bangalore, etc. The rationale behind choosing this particular set of sample is as under:

1. They represent the current and likely potential for LIC with good income and hence a higher risk of loss of income due to loss of life,
2. They represent a niche market from the middle and upper-class segment with good spending power and this class is steadily on the rise in India,
3. They also represent the tech-savvy generation with special risk concerns, buying behavior, risk appetite, value propositions, etc. It is this class of today that is a replica of tomorrow's major segment for life insurance. Those in the

metros and other major cities are a prototype of what tomorrow's major population would be following.

### **Statistical techniques proposed for data analysis**

Advanced statistical techniques like PLS-SEM should be used to identify the causal relationship between key variables/factors, including significant latent relationships if any.

### **7. Conclusion and expected research outcomes**

The old insurance selling axiom goes like this – “Insurance is never bought; it is sold.” Undoubtedly, marketing and selling efforts are there, but the current numbers negate their

effectiveness. Something major is wrong, given the drastic decline in the new policy sales in the last 5 years. Things need to be corrected. It is strongly felt that advertising done by LIC needs scrutiny to find out if it is really catching the pulse of the youth who are a major market segment today. The proposed research is expected to reveal the problems with the current marketing and advertising philosophy of LIC if any. Further, it is expected to provide vital data from the potential customers on their perception of insurance in general and vis-à-vis those that LIC is trying to address. Finally, the study should suggest an advertising strategy that would be sensitive to the expectations of today's and tomorrow's generations.

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