Introduction

Evaluation of Insurance

In ancient world the first methods of transferring or distributing risk were practiced by Chinese and Babylonian traders as long ago. Chinese merchants travelling treacherous river rapids would redistribute their wares across many vessels to limit the loss due to any single vessel's capsizing. The Babylonians developed a system which was recorded in the famous Code of Hammurabi, 1750 BC, and practiced by early Mediterranean sailing merchants. If a merchant received a loan to fund his shipment, he would pay the lender an additional sum in exchange for the lender's guarantee to cancel the loan should the shipment be stolen.

The Sumerian civilization, known for its highly developed business practices, could provide relief to travelers and traders when they were exposed to threats like robbery and piracy. By 2000 BC, the Babylonians, as well as the ancient Hindus, were familiar with the essentials of Bottomry or Respondentia as indicated by the provisions in the Code of Hammurabi and Manu.

The Romans formed Collegia, an organization to provide money for funeral celebrations, which included elaborate and costly burial ceremonies. A member paid an entrance fee and periodical payments, and the collegia provided an assured fund for decent burial.

Insurance owes its existence to 17th century England. In fact, it took shape in 1688 at a rather interesting place called Lloyd’s Coffee House in London, where merchants, ship-owners and underwriters met to discuss and transact business.

Brief History of Insurance in India

In India, insurance has a deep-rooted history. It finds mention in the writing of Manu (Manusmriti), Yagnavalkya (Dharmasastra) and Kautilya (Arthasastra). The writings talk in terms of pooling of resources that could be re-distributed in times of calamities such as fire, floods, epidemics and famine. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loan and carriers’ contract.

Insurance activity in its modern form started in 1818. A British company, the Oriental Life Insurance Society was formed to afford relief to the distressed relatives of Europeans. The company treated Indian lives as sub-standard and charged extra premium. This company however failed in 1834. In 1829, the Madras Equitable had begun transacting the life insurance business in Madras presidency. 1870 saw the enactment of the British Insurance Act and in the
last three decades of the nineteenth century, the Bombay Mutual (1871), Oriental (1874) and Empire of India (1897) were started in the Bombay residency. This era, however, was dominated by foreign insurance offices which did good business in India, namely Albert Life Assurance, Royal Insurance, Liverpool and London Globe Insurance and the Indian offices were up for hard competition from the foreign companies.

In 1914, the Government of India started publishing returns of Insurance Companies in India. The Indian Life Assurance Companies Act, 1912 was the first statutory measure to regulate life insurance business. In 1928, the Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about both life and non-life business transacted in India by Indian and foreign insurers including provident insurance societies. In 1938, with a view to protecting the interest of the Insurance public, the earlier legislation was consolidated and amended by the Insurance Act 1938 with comprehensive provision for effective control over the activities of insurers. The Insurance Amendment Act of 1950 abolished Principal Agencies. However, there were a large number of insurance companies and level of competition was high. There were also allegations of unfair trade practices. The Government of India, therefore, decided to nationalize insurance business.

An ordinance was issued on 19th January, 1956 nationalizing the Life Insurance sector and Life Insurance Corporation came to existence in the same year. The LIC absorbed 154 Indian, 16 non-Indian insurers as also 75 provident societies – 245 Indian and foreign insurers in all. The LIC had monopoly till the late 90s when insurance sector was reopened to private sector.

In 1993, the Government set up a committee under the chairmanship of R N Malhotra, former Governor of RBI, to propose recommendations for reform in the insurance sector. The committee submitted its report in 1994 wherein, among other things, it recommended that the private sector be permitted to enter the insurance industry. They stated that foreign companies should be allowed to enter by floating Indian companies, preferably a joint venture with Indian partners. Following the recommendations of the Malhotra Committee report, in 1999, the Insurance Regulatory and Development Authority (IRDA) was constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as statutory body in April, 2000.
Indian Insurance Sector

The Insurance Sector is a colossal one and is growing at a speedy rate of 15-20%. Together with banking services, insurance services add about 7% to the country’s GDP. A well-developed and evolved insurance sector is a boon for economic development as it provides long-term funds for infrastructure development at the same time strengthening the risk taking ability of the country.

In Insurance industry, there was a growth rate of 24% in the first three quarters of 2011-12 in gross premium collected. The Indian Life Insurance industry has emerged as the mainstay of entire insurance space with Rs. 2.10 trillion (US$58.7 billion) and has registered remarkable growth with over 35 crore life insurance policies in force. According to the data collected by IRDA, the 24 life insurance player’s premiums collected in Apr-Dec 2011 stood at Rs. 71,953.54 crore (US$ 14.59 billion) while industry sold out about 27.24 million policies during the period.

Meaning of Insurance

E. R. Hardy Ivamy, based on the decision in the Prudential Insurance Company Inland Revenue Commissioner (1904 2 K.B. 658), considers ‘the contract of insurance to mean a person called Insurer undertaking to return for the agreed consideration, called the Premium, to pay to another person, the Sum Assured, a some of money or its equivalent, on the happening of specific event.

Lord Bunyon has provided a workable definition which is often quoted for life insurance contracts. ‘A contract of life insurance is that in which one party agrees to pay a given sum on the happening of a particular event contingent upon the duration of life in consideration of the immediate payment of a smaller sum or certain equivalent periodical payments by another.

Insurance is an instrument under which individuals, businesses, and any other organizations or entities, in exchange for payment of a sum of money, are guaranteed compensation for losses resulting from certain specific conditions’.

The party bearing the risk is known as the 'insurer' or 'assurer' and the party whose risk is covered is known as the 'insured' or 'assured'.

According to the U.S. Life Office Management Inc., “Life insurance provides a sum of money if the person who is insured dies whilst the policy is in effect”
Conceptualizing Insurance Consumer Behavior

The Concept of Insurance is an integrated derivative of two concepts – the concept of Insurance and the concept of Consumer Behavior. The concept of insurance, a form of risk management where the risk of certain loss is transferred to another subject against a certain payment called insurance premium, exhibits the relationship between two parties – the insured and the insurer. In the context of this relationship, the essence of the insurance is defined as the obligation of exchanging the consumer’s risk with the financial and psychological safety provided as an insurance service by insurer.

According to Michael R. Solomon & Nancy J. Rabolt, consumer behavior is the study of processes involved when individual or groups select, purchase, use, or dispose of products, services, ideas, or experiences to satisfy needs or desires. Schiffman & Kanuk highlight issues of consumer decision making including their considerations when purchasing and consuming products and services. The notion that consumer behavior is process of consumer decision making is similarly supported by Loudon and Della Bitta.

Various definitions given by various authors including the above mentioned ones; let us conclude that consumer behavior is a path in which consumer decisions get formed. It is a process compose of stages requiring the optimal combination of resources that are available to the consumer in a certain situation (time, finances, efforts and possibly other).

As possible definition of insurance service consumer can be defined as “it is the mental considerations and physical actions of the insured which are directed so as to satisfy the needs for insurance service consumption and to solve the problems related with the search, evaluation, choice, purchase, consumption and refusal of certain insurance services.

Insurance Consumer behavior is the behavior which is based on one’s endeavor or refusal to consumer insurance service. This behavior is reflected by the whole of the insured’s considerations, decisions and actions that are related with the satisfaction of needs for insurance services. In broad sense, the concept of insurance consumer behavior can be explained as a continuous sequence of elements of the decision process when satisfying one’s insurance needs. This can be illustrated by a model suggested by, Aurelija Ulbinaite, Marija Kucinskiene, and Yannick Le Moullec, provides the understanding of insurance consumer behavior.
(The model of insurance consumer behavior proposed by, Aurelija Ulbinaite, Marija Kucinskiene, and Yannick Le Moullec.)