A Conceptual Frame work of Indian Life Insurance Industry: An Epitome

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Abstract: This article discusses the conceptual frame work of Indian life insurance industry and also outlines role of marketing in service sector, Long term care in insurance and Customer Relation Management.

INTRODUCTION

Insurance is pooling of risks, which is exposed to various risks in our daily life. Nobody can predict or foresee the calamity he may suffer in future. One may take precautions against such risk, but the risk can’t be eliminated. A risk involves loss. Not all, but most of the losses can be expressed in terms of money. A person exposed to so risk incurs a loss. If loss is huge he may not be able to bear it alone. However, it will be better if a device or system is developed to provide help to those who happen to suffer a loss. Such a device is ‘insurance.

Insurance is a co-operative device, any one incurred loss that risk has to be spread over a number of persons, who are contributed they are members in that risk pool. In the contract of insurance, the insurance company undertakes consideration in form of premium, to make good faith towards insured against a specified risk such as accident or death. Thus, there are two parties to an insurance contract; (i) insurer/assuror/underwriter and (ii) insured/assured/beneficiary. The agreement between the insured and insurer is called insurance policy. The property, which is insured, is the subject matter of insurance. The insurance policy will be taken for loss against arising uncertain for property or death of person.

Ours is an era of uncertainty and life is full of surprises. It is the sum total of tensions and apprehensions regarding the future uncertainties. Wherever there is an uncertainty, there is a risk. The risk can’t be avoided. It has got multi-faceted dimensions and involves huge losses. No one can accurately predict the uncertainty. Life styles have changed rigorously and along with these changes, the uncertainties of lives of individuals have also increased. The choice to handle and manage these uncertainties of life lies purely with the individuals and it is their basic responsibility.

The history of our Indian culture reveals that joint family system provided financial cushion and also protection when an unfortunate incident occurred to an individual in the family. The industrialization process of our country resulted into the division of the joint family system into nuclear family units and the support of the joint family system completely disappeared.

The domain of insurance solves one of the significant problems of a rational human being by building up a corpus for an uncertain future. The purchase of a life insurance policy is one such planned and systematic decision of the individual to minimize or if possible, even to eliminate the loss of risk arising out of uncertainty. This gives him protection economically and also provides peace of mind as his family is sure to get relief from financial stress and strain.

The Indian society is largely traditional. The life insurance industry in India has not been given due importance as life insurance is considered only as a negative thinking of ‘widow’s money’ when the bread-winner of the family is no more. The industry is associated purely with an inauspicious event. The insured feels that paying insurance premium to the insurers is real. But, receiving claim proceeds from them is only a distant contingent. Hence, our population can’t take insurance in a positive manner. But, at present, it is considered a positive instrument by many for creating assets and wealth during long-period to the insured.

Insurance, generally, operates on the premise of uncertain future and as such its promotion and development depends mostly on the ability of insurers in assessing the real uncertainties of life of the insured. Insurance provides payment for unexpected losses for individuals, family and business firms, allowing their activities to continue smoothly despite unfavourable and unfortunate events.
The business which affects all walks of life is insurance business. Insurance is a business which works on confidence. It is not only a handmaid of commerce but a basic service needed by the society. It is to be made available to every person. Thus, confidence on insurance is to be restored and cultivated by the insurer. An insurer’s reputation is evaluated mainly on his ability to fulfill his promise when the insured needs it.

The life insurance industry also plays an important role in the mobilization of household and corporate savings and promoting investment activity. This industry provides for efficient and productive allocation of capital resources, thus facilitates growth and development of an economy. India is a nation with large population and a larger share of this population is living below the poverty line. Hence, insurance is an important issue to our economy.

The life insurance industry in India, with LIC and 22 private sector players, has been playing a major role in performing some insurance functions to the society, especially to the larger masses. The industry supplements the Government’s efforts and takes over the national character. It is a major vehicle in contributing to productivity, providing employment, supporting societal development, establishing infrastructure besides providing financial protection against uncertainties of individuals.

CONCEPT

The subject matter of insurance is the life span of human being. “Life insurance commands the greatest popularity and importance in the insurance world because the life is the most important property of the society or an individual”. “The basic premise of insurance is to protect the few against the heavy financial impact of anticipated misfortune by spreading the loss among the many who are exposed to risk of a similar nature”.

Insurance is an effective financial instrument wherein the customers pay a smaller amount to the insurer in the form of premium for meeting a larger uncertain loss that would exist if they have not taken insurance. Insurance has neither prevented losses nor reduced the costs of losses. But, the principle of insurance states the loss of few is shared by many.

The Oxford English Dictionary defined insurance as “the act of securing the payment of a sum of money in the event of loss or damage to property, life, etc. by payment of a premium or premiums”. The term insurance may also be defined as “a social device providing financial compensation for the consequences of adversities, the payments being made from the accumulated contributions of all parties participating in the arrangement. The essence of insurance thus, is collective bearing of risks as it involves pooling of risk”. It is also a social instrument or mechanism in which economic security and social protection are provided to people and also to corporates.

Insurance is a mix of promise and service. It is a promise to be made to the insured to fulfill a stated obligation in future as per the conditions laid down in the insurance policy. It is also a service rendered by the insurer when the need arises to the insured. Hence, the survival of life insurance industry depends mostly on utmost good faith of the insured.

Insurance is generally categorized into two groups i.e., life and non-life insurance. Life insurance provides financial protection to the insured against the risk of uncertain and unpleasant things that occur. Non-life insurance provides protection to the insured against accidents, property damage, burglary and other liabilities. Insurance is made available to the public through insurance contracts or policies. There is no possibility of partial loss in the life insurance policies. Hence, all policies are purely full cash payment policies. If an unfortunate event occurs, the insurer has to pay the sum assured of the policy. But, there is a partial loss in case of property and liability insurance.

Insurable interest is necessarily to be needed to the validity of an insurance contract. If there is no insurable interest, the contract becomes void and unenforceable. However, the cessation of an insurable interest does not affect the validity of the insurance contract where an insurable interest existed at the time the policy was issued.

Previously, life insurance was considered purely a tax saving device and compensating the inauspicious event. But, at present, it is elevated to the position of a product of a combination of both investment and risk cover. If the insurance facility is not available to the individuals, families and business organizations, they have to maintain relatively larger sums of money to meet their assumed
risks. This amount is in the form of idle cash or may be invested in highly liquid and low-interest carrying securities. This means an inefficient use of capital. Hence, insurance provides for the optimal utilization of the available capital.

ORIGIN

The origin of the life insurance scenario is as old as the history of human civilization. There was no direct reference to insurance. But, many indirect references were found. “Life insurance in India can be traced back to the Vedas. A form of community insurance was prevalent around 1000 BC and was practiced by the Aryans. Some societies were found in the Buddhist period to help families build houses, protect widows and children”. It also found mention in the writings of Manusmrithi, Dharmaasatra and Arthasastra.

The concept of insurance was also born at ‘Lloyd’s Cafeteria’ in England where most of the sailors and ship-owners refreshed themselves. For compensating the losses incurred to the ships in the high seas, a coalition was formed amongst ship-owners and they pooled up larger sums of money. Later, this idea initiated the development of large scale business of personal, property and liability insurance.

Insurance in modern form originated in the Mediterranean during the 13th century. The earliest references to insurance have been found in Babylonia, the Greeks and the Romans. Marine insurance is the oldest form of insurance followed by fire insurance”.

The two great economic waves in human history were the Renaissance and the Industrial Revolution. The insurance mechanism in India had not been able to match the waves in equal measures as compared with the other developed nations of the world.

In United States, there were three broad categories of insurance, i.e. life insurance, health insurance and liability insurance. The United States had traditionally dominated the world insurance market. The insurers supported loss prevention agencies and provided inducements for individuals and companies to engage in loss prevention and loss reduction activities. Premium credits were often given for smoke alarms, fire sprinklers and drivers’ training programmes. Experience-rating credits were common to some lines of commercial insurance. But, life insurance did not prosper during the 18th century due to wide fluctuations in death rate. After 1800, some active interest was seen in developing insurance business.

The life insurance was also existent in England. The policy of life of William Gybbons on June 18, 1633 was the recorded evidence of life insurance. Even before this, the annuities were found common in England. The first registered life office was the ‘Hand-in-Hand Society’ which was established in 1696. With the advent of industrial revolution, the miscellaneous insurance like accident insurance, fidelity insurance, liability insurance and theft insurance took the present shape in the country. Lloyd’s Association was the main insurance institution. The scope of non-life insurance was becoming wide with the development of the societal needs.

INDIAN LIFE INSURANCE SYSTEM

The life insurance system in India has been progressively evolutionary through a number of phases in its nearly 200 years of history. The institutions providing life insurance services had been an integral part of the Indian insurance system. The evolutionary development of life insurance industry in India went through many different phases moving from private market to nationalization and from nationalization to liberalization.

Early Period and Pre-Independence

The first insurance company was started in 1818 at Calcutta. Later, the Bombay Mutual Life Insurance Society was also commenced its business in 1870. Some other European life insurers came to India to cover the European lives. They also covered the Indian lives of a higher income group, that too, at a higher level of premium. This exercise of the foreign insurers greatly humiliated Indians and as such patriotic Indians felt the need for Indian insurance companies to serve Indian Public.
Later, the impact of Gandhiji’s Swadeshi Movement was felt in the insurance circles with the increasing support of clients to domestic companies. The Indian Mercantile Insurance company was started purely with indigenous capital. The number of insurance companies also grew with time. As there was no legal framework to control or monitor the insurance business, the business did not develop appreciably. There were many instances that during this period, private insurance companies used to give rebate on premiums paid in order to induce policyholders to insure themselves as much as possible. They also struggled hard for giving as good a return as possible to the policyholders on the money invested by them in buying life insurance policies. Several complaints and frauds were noticed during the period from 1920 to 1930 which disturbed significantly the insurance business in India. The business was mostly guided and governed by the provisions of the British Acts.

The starting of regulation over the insurance business was taken place only with the enactment of the Indian Life Assurance Companies Act, 1912 and the Provident Fund Act, 1912. In 1914, the Government started publishing returns of insurance companies in India. Later, a new Indian Insurance Companies Act was enacted in 1928. But, the first comprehensive enactment was the Insurance Act of 1938 which provided strict state control over insurance business. The Insurance Act of 1938 which came into force from 1st July, 1939 was a landmark to the conduct of insurance business in the country and was followed even after nationalization of insurance sector by the monopolistic players and also after liberalization. The importance of the Act was that the whole business was brought under a unified system of control and regulations. By 1938, there were 176 insurance companies operating in the country.

Under the provisions of the Insurance Act, 1938, the Government had established the Institution of Controller of Insurance along with a separate department to supervise and regulate insurance business in the country. The headquarters of this Department were located in Kennedy Cottage, Simla. As the regulator, the Controller of Insurance, was located in a far away place and he was not adequately staffed to monitor and supervise the well-dispersed industry.

By 1947, 50 per cent of premiums in life insurance sector were controlled by the domestic industry sector. This sector was developed in competition with foreign insurance sector which was predominantly represented by British Insurance Companies, whose contribution to the development of insurance expertise in Indian-sub continent markets must also be duly recognized.

Post-Independence and Nationalization

After Independence, the business of Indian insurance grew at a faster pace as competition amongst Indian companies intensified and as the non-Indian insurers were dislodged by Indian Life Companies. Despite the strides by the Indian companies, the insurance business remained an urban phenomenon. There was an immense scope for further spread of life insurance in the country. Moreover, this limited development was marked by many malpractices involving misuse, and frequent liquidation of insurance companies. This shook public confidence and also deprived policyholders of their savings and security.

In the 1950s, things were very different. Though prudential norms were introduced, the life insurance industry was operated in a casually regulated environment and operated on a varied basis. Some companies were doing famously well, making profits and serving their customers properly. But, there were many others who were on the verge of sickness and incurring losses. However, the Government was also pursuing public programmes that needed captive funding and saw the life insurance industry, with its heavy amount of life funds, as a good source.

The Insurance Amendment Act, 1950 abolished principal agencies. There were a large number of insurance companies and the level of competition was high. There were also allegations that many companies resorted to unfair trade practices.

Life insurance business during this period was slow and restricted mostly to urban areas and upper class population. The insurance needs of the population in rural areas and low networth individuals were completely neglected. Insurance was considered only an unfulfilled dream to many and the concept of nationalization was thought off by the Government.
Nationalization of the life insurance business in India was also an outcome of the Industrial Policy Resolution of 1956 which created a policy framework for extending State control over at least seventeen sectors of the economy, including life insurance.

On the eve of the nationalization of life insurance in India, the then Prime Minister, Pandit Jawaharlal Nehru advocated that the nationalization of life insurance is an important step in our march towards a socialist society. Its objective has to serve the individual as well as the state. The life insurance has to spread rapidly throughout the country and to bring a measure of security to people.

The then India’s Finance Minister Shri C.D. Deshmukh asserted that the nationalization of life insurance sector was done only as an economic priority. The majority of the small and medium-size life insurance companies which developed in Indian market during the British regime were financially weak and likely to collapse in time to come. It was, therefore, necessary to consolidate the entire life insurance business under the control of a public sector Life Insurance Corporation of India.

To this effect, an ordinance was promulgated by the Central Government on 19th January, 1956. Later, a Bill was introduced in Parliament and was passed into an Act in 1956. It received the assent of the president on 1st July, 1956. Life insurance business was nationalized in 1956 with the merger of 245 private life insurance companies i.e. 154 Indian, 16 non-Indian and 75 provident societies.

All the 245 companies lost their identity and were merged into the LIC from 1st September, 1956 on which day the Life Insurance Corporation of India came into being. The LIC took over the assets of all these companies. The Corporation began its operations with 5 Zonal offices, 33 Divisional offices and 212 Branch offices.

After nationalization of the insurance organizations, the Controller of Insurance moved from Simla to New Delhi and became a part of the Union Ministry of Finance. As a result, the ownership role of the Government on the insurance front came to the forefront rather than the previous regulatory role.

The policies of the Indian insurance sector were in tune with the macro-economic norms of mixed economy subject to the predominant public sector control of the Nehruvian Social Welfare State Model influenced on the one hand by the models of liberal welfare states from Western Europe and U.K. and on the other by the state control planned economy of USSR.

In 1971, another historical event took place in the political and economic development of India. The then Prime Minister Mrs. Indira Gandhi’s Government took the decision of turning India’s mixed economy into the Socialist Republic of India. Mrs. Indira Gandhi also mentioned that Life Insurance is an ideal form of saving, both from the direct interest of individual and from the interest of the nation. LIC has done notable work in promoting the saving habit. The Indian life insurance system during this period mainly catered to the needs and obligations of the planned economy based on mixed economic system wherein the public sector LIC occupied a monopolistic position in life insurance business. The major historical events of the Indian life insurance system which created a base to the present well-structured and well-organized life insurance industry are given in Table 1.1.

<table>
<thead>
<tr>
<th>Year</th>
<th>Major Historical Event</th>
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<tbody>
<tr>
<td>1870</td>
<td>Bombay Mutual Life Assurance Society started its business.</td>
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<tr>
<td>1912</td>
<td>The Indian Life Assurance Companies Act was enacted as the first statute to regulate the life insurance business.</td>
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<tr>
<td>1914</td>
<td>The Government started publishing returns of insurance companies in India.</td>
</tr>
<tr>
<td>1928</td>
<td>The Indian Insurance Companies Act was enacted to enable the Government to collect statistical information about life and non-life insurance business.</td>
</tr>
<tr>
<td>1938</td>
<td>Earlier legislation was consolidated and amended by the Insurance Act, 1938 with the objective of protecting the interests of the insuring public.</td>
</tr>
<tr>
<td>1950</td>
<td>The Insurance Amendment Act, 1950 abolished Principal Agencies.</td>
</tr>
</tbody>
</table>
1956 245 Indian and foreign insurers and provident societies were taken over by the Central Government and the insurance business was nationalized. LIC was formed by an Act of Parliament, i.e. LIC Act, 1956

1968 The Insurance Act was amended to regulate investments and set minimum solvency margins. The Tariff Advisory Committee was also set-up.

1983 An Amendment Bill to the LIC Act, 1956 was drafted to split the LIC. Different Committees constituted by the Government were not in favour of the split.

1997 Government of India cleared proposals for giving greater autonomy to LIC.

Source: i. Annual Reports of LIC

Though the nationalized industry strengthened its network and profitability position due to its monopolistic character, the lack of competition made the industry to low consumer awareness, low levels of insurance penetration, high cost of insurance products, delayed delivery of service and stagnant customer servicing.

Despite, the Corporation in its long career as a monopoly has passed through several phases of development. The success of the organization was benchmarked with the growth of other segments of the financial services industry. A cursory glance at Table may provide a view of life insurance business in India during the last ten-year period of pre-liberalization. It showed an increase in the number of offices from 1,651 to 2,048 during the period. But, there was no increase in the offices established by the Corporation during 1998-2000 due to the ambiguity and uncertainty relating to the implementation of the reforms in the insurance sector in future. The Corporation did not take any initiative to establish new offices when there was no clear opinion on the efficacy of these reforms. There was a simultaneous increase in the number of policies and also the sum assured of the LIC. But, only a small increase was registered in later years of the period due to the impact of the same reason.

### Table

<table>
<thead>
<tr>
<th>Year</th>
<th>No.of Offices</th>
<th>No.of Policies (Rs.in lakhs)</th>
<th>Sum Assured (Rs. in crores)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990-91</td>
<td>1,651</td>
<td>455.1</td>
<td>1,18,651</td>
</tr>
<tr>
<td>1991-92</td>
<td>1,774</td>
<td>508.6</td>
<td>1,45,929</td>
</tr>
<tr>
<td>1992-93</td>
<td>1,906</td>
<td>566.1</td>
<td>1,77,268</td>
</tr>
<tr>
<td>1993-94</td>
<td>2,008</td>
<td>608.7</td>
<td>2,07,601</td>
</tr>
<tr>
<td>1994-95</td>
<td>2,021</td>
<td>654.5</td>
<td>2,53,333</td>
</tr>
<tr>
<td>1995-96</td>
<td>2,024</td>
<td>708.8</td>
<td>2,94,336</td>
</tr>
<tr>
<td>1996-97</td>
<td>2,023</td>
<td>776.7</td>
<td>343,018</td>
</tr>
<tr>
<td>1997-98</td>
<td>2,046</td>
<td>849.2</td>
<td>3,98,959</td>
</tr>
<tr>
<td>1998-99</td>
<td>2,048</td>
<td>916.4</td>
<td>4,57,435</td>
</tr>
<tr>
<td>1999-2000</td>
<td>2,048</td>
<td>1,013.00</td>
<td>5,34,589</td>
</tr>
</tbody>
</table>

Source: Annual Reports of LIC

### Economic Liberalization and Financial Sector Reforms

“The process of financial globalization and liberalization is going on in full swing throughout the world. Even the hard-core Communist Countries and States are opting for liberalization process, leaving aside their socialist principles as day-by-day, its continuation was becoming a burden to their exchequers”. The process of globalization began in 1970s and has got momentum in 1990s is of considerable value to India. This has brought challenges for the Indian business and more particularly to the banking and insurance sector.
In line with the liberalization measures announced during the 1980s, the Government announced a New Industrial Policy on July 24, 1991. This policy deregulates the Indian industrial economy in a substantial manner. The major objectives of the new policy are “to build on the gains already made, correct the distortions or weaknesses that might have crept in, maintain a sustained growth in productivity and gainful employment and attain international competitiveness”.

The process of economic reforms was initiated in India by the Government of Shri P.V. Narasimha Rao in 1991 with the announcement of a number of measures for liberalizing the economy. Among the more important reforms are the financial sector reforms. The other reforms are – trade and capital flows reforms, industrial deregulation and disinvestment and public enterprise reforms.

Financial sector reforms were identified as the backbone of economic reforms and the then Finance Minister, Shri Manmohan Singh, set up Committees to explore what was right and wrong with various parts of the sector and suggest road maps to reforms.

The Committees were set-up for the banking industry headed by former RBI Governor, Shree R.Narasimham, and for the non-banking financial sector headed by Dr.A.C.Shah, a former CMD, Bank of Baroda.

When the new Industrial Policy was implemented in 1991 by the then Union Government, things started quickly and with a rapid pace. The Indian economy and also industry had undergone significant and rapid transformation, moving away from state controlled to competitive market economy. The Banking and insurance industry had changed rapidly in the changing and challenging economic environment throughout the world.

India embarked on transforming its regulated economy into an open market economy by launching reforms – both economic and financial – in 1991. The resultant growth from the reforms created jobs that provided the poor into gainful employment by providing more economic, social and community activities.

“A conceptual issue of economic liberalization entails on modernizing industries system by removing unproductive controls encouraging Private and foreign investment and integrating Indian economy with the global economy”.

In the first stage which began in July, 1991, the reforms were directed at the gradual reduction in the statutory pre-emption of resources of banks, rationalization of the interest rate structure and the prescription of the prudential norms. These measures were taken to support the objective of reforming the Indian financial sector in order to improve the allocative and financial efficiency of the banking system and put in place a diversified and competitive system which would support the development and growth of the real sector of the economy.

The second stage of the financial sector reform programme in India was set to witness significant operational and financial improvements. The reform process had placed the commercial banks under increasing pressure to improve their performance, including the quality and content of their banking business. Demand for traditional banking services was gaining sophistication and was rapidly growing for new services.

The Gulf crisis in the late 1990 sharply accentuated macro economic problems. There was also political instability in the country. All these developments together eroded international confidence in the Indian economy and, as a result, the country’s credit rating in the international capital market declined steeply.

The reforms in India lacked normative perspective. They were characterized by an ideological overload. They appeared to have imitated the fashions or trends aboard. There was also a widespread feeling that they were not spontaneous. They were dictated by external bodies. In this connection, it was worth noting that many analysts in the US described the process of financial reforms in developing countries like India as the ‘Americanization of Finance’.

The financial sector in our country was in the process of change with the objective of the overall growth of the economy. The insurance sector, as every-one knew, constituted a very important and vital financial intermediary for the growth of an economy. The negotiations on Financial Services in the context of the ‘General Agreement on Trade in Services’ (GATS) were concluded in December, 1997. The largest component of the services sector as included in the financial sector was insurance.
This brought in new opportunities and challenges for the Indian insurance business due to the structural changes in the financial market and also technological and economic changes. New entrants into the life insurance market made the insurance service highly competitive and innovative.

**Risk Management:** An outline of Risk Management is not out of place in any discussion on Insurance Management. In fact, insurance forms the last and most important chapter of a wide subject called ‘Risk Management’.

**The Process of Risk Management consists of the following stages:**

- Risk Identification
- Risk Evaluation
- Control-Avoidance and Reduction
- Risk Financing-Retention, Combination and Transfer.

The multidisciplinary nature of Risk Management requires information inputs from all the functional areas of the organization. Therefore, a team best does the task of identifying and evaluating risks from the organization rather than an individual.

Risk Control including avoidance and reduction clearly falls within the ambit of ‘Corporate Safety Policy’. Protection of property and personnel through effective Risk Control measures, assumes great significance, particularly in the light of the ‘Opportunity Costs’ due to occurrence of a risk (i.e., Accident). Risk Financing has developed into an important technique of effective risk management, whereby the costs and benefits of various alternatives are analyzed before arriving at the final decision of ‘Risk Transfer’ i.e., Insurance.

**Role of Marketing in Service Sector:** There are four elements of marketing mix are: Product, Price, Place and promotion for marketing of products. These combinations are used in order to arrive at the marketing strategy. For service elements are – people, physical evidence and process. A brief discussion of these elements is presented in the following paragraphs.

**Product:** The most important issue in the service product understands what benefits and satisfaction the customer is seeking from the service. The marketing of services can be a success only if there is a match between the service product from the customer’s viewpoint and supplier’s viewpoint. To find this match, as a manager one would have to analyze the service at the following four levels:

1. The customer benefit concept;(insurance/Risk)
2. The service concept; (easy recovery/payment of premium)
3. The service offer, and (range of services offered/insurance policies available)
4. The service delivery system (loans, claims etc.).

In marketing of services, one may have to market not just one service but also a range of services. One would meet to take decisions on the length and breadth of the range of services, the manner in which they complement and support each other, and how well they face up to the competitor’s offering.(Tata-AIG products). The service or services which one offers must be targeted at a specific market segment. The target market segment must have a definite need for the service.

**Pricing:** In the case of products, the term “price is used for all kinds of goods, but in the case of services different terms are used for different services. In insurance it includes coverage for risk. The two methods, which a service organization may use to determine prices, are cost-based pricing and market-oriented pricing. The pricing tactics that are generally used to services are:

1. Differential or flexible pricing
ii. Discount pricing  
iii. Diversionary pricing  
iv. Guaranteed pricing  
v. High price maintenance pricing  
vi. Loss leader pricing; and  
vii. Offset pricing.

Generally, life insurance products are differential pricing or flexible pricing as the policies or products offered depends on customer age, income, and paying requirement and purpose (like tax saving/risk coverage).

**Promotion:** The fundamental difference to be borne in mind while designing the strategy for services is that the customer relies more on subjective impressions rather than concrete evidence because of the inherent intangible nature of services. Secondly, the customer is likely to judge the quality of service on the basis of the performer rather than the actual service. Thirdly, since it is difficult to sample the service before paying for it, the customer finds it difficult to evaluate its quality and value. Hence, for marketing services one must design a promotion strategy, which helps the customer overcome these constraints. Out of the promotional mix, the marketer uses personnel selling tool as insurance is a highly involved product and moreover, it is a rational buying decision of the consumer.

**Distribution:** The most important decision element in the distribution strategy relates to the issue of location of the service so as to attract the maximum number of customers. The other characteristic of services, which affects the distribution strategy, is the fixed location of services such as universities, restaurants, hospitals which necessitates the customer to go to the service location rather than vice-versa.

The second decisional variable in the distribution strategy is whether to sell directly to the customers or through intermediaries. In case of services, which are inseparable from the performer, direct sale is the only possible way of reaching the consumer. In case of other services such as hotels, airlines, insurance etc., they may operate through middlemen. This aspect of alternate channel is discussed below in the study.

The third decision variable in the distribution strategy is how to provide the service to maximum number of customers in the most cost-effective manner. The fourth trend in distribution of services is that of franchising.

**People:** People constitute an important dimension in services because of their role both as performers of service and as customers. People as performers of service are important because, “A customer sees a company through its employees. The employees represent the first line of contact with the customer. The firm must recognize that each employee is a salesman for the company’s service”. The importance of customers in services stems from the fact that most services imply active and involved customer-organization interface. Customers are important because they are also a source of influencing other customers.

**Physical Evidence:** There may be two kinds of physical evidence - Peripheral Evidence and Essential Evidence. Airline ticketed, cheque book, receipt for a confirmed reservation in a hotel are examples of peripheral evidence. Here, it can be an insurance certificate.

**Process:** In a service organization, the system by which one receives delivery of the service constitutes the process of delivery function and can be compared to that of Operations Management in a manufacturing unit. But in Service there is no clear-cut input or output. Rather, it is the process of adding “value or utility” to system inputs to create outputs which are useful for the customers. A manager would be interested in optimizing deficiency of delivery process without sacrificing the quality aspect.
References: