

## **Growth of Insurance in Rural Areas**

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**Abstract:** *Insurance is bought lesser in India by rural population. General insurance is often bought because there are compulsions under the law or from the financiers asking for insurance as collateral security. In the case of life insurance, there is very little compulsion. The tendency is to defer the decision. The possibility of death is ignored by the rural people; however there is more possibility of such misfortune for people lives in rural areas. The rural people never believe that they can succumb to destiny and they think they will live a long and healthy life. The rural population in India is without life insurance cover and this part of the population is also subject to weak social security and pension systems with hardly any old age income security. It is an indicator that growth potential for the insurance sector is immense. Though the Government has taken steps to promote rural insurance, for nearly two decades this field has not made any headway. One of the priorities for forecasting expansion of rural insurance would be identifying of productive potential and specific insurance needs in areas not yet reached by insurer and enhancing cooperation between insurance and rural credit agencies or institutions. The buying behavior of rural consumer is influenced by the income levels and distributions and marketers efforts on promotional activities. The rural customers are risk averse therefore insurance cannot apply the similar methodology that they apply to launch products in urban areas. The paper attempts to examine the current status of rural insurance penetration and to explore the reasons of poor performance of insurance companies in rural India. It covers the key aspects of tapping emerging insurance market in rural areas, and focuses remedies to overcome the challenges in this regard. It analyzes the current distribution models and provides future road map to increase rural share in insurance market. Based on the analysis, the paper tries to give a future forecast of the market that is intended as a rough guide to the direction in which the market is likely to move. Insurance companies can add about Rs. 1000 crore to their net worth from nearly 200 million rural folk that are looking for alternate savings channels for their surpluses provided these come out with innovative schemes at affordable premium, according to The Associated Chambers of Commerce and Industry of India (ASSOCHAM). ASSOCHAM paper on 'Rural India and Its New Investors' adds that insurance companies can lure this investors lot even for Agri, Housing, Personal, Education and Auto loans after these have insured them under its new schemes. Currently, only 8-10% rural households are covered under life insurance schemes and remaining 90% can be targeted for new innovative insurance schemes. According to ASSOCHAM, rural India's income has risen due to shifting of its occupation from agriculture to non-farm agricultural income and it has become an important facet of rural India. This income mainly comes from dairy, food processing and packaging, commodity trading and infrastructure development income. The non-agriculture bases of rural occupation and income have been growing in rural GDP figures that are estimated at 45%.*

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### **I. Introduction**

The life insurance business suffers from high premium and low returns. A normally competitive industry should be able to increase coverage, mobilize large savings, and provide high returns. In countries like U.K. and South Africa, life insurance premiums account for over 50 percent of gross domestic savings (GDS). Insurance in India has been a priority of urban few. Now with numerous companies set to enter, the rural areas are expected to be tapped as well. IRDA has made it mandatory for life insurance to sell 5 percent of their aggregate policies in rural areas during the first year of operation that will be progressively increased by 15 percent by the fifth year. But with gestation period long and investments large new entrants will feel difficult to do it. However the India's life insurance market is booming. From a single company a decade ago to 18 active players today, the market has grown at a healthy CAGR of 24% over the past five years. But most of this growth is coming from the urban areas. The increase in competition is forcing insurance providers to look beyond urban centers and take their trade to the more challenging rural hinterlands of the country, where only 3% of the population have any form of life insurance coverage. The rural India is witnessing a surge of income growth, and the propensity to consume financial products has increased considerably in recent years. With increased urbanization, the rural centers' contribution to the national GDP has come down in percentage but increased

significantly in value. Insurance providers are working overtime to ensure that this additional wealth is effectively channeled.

## II. Factors Affecting Life Insurance Purchase



**Age:** Not surprisingly, the number one factor behind life insurance premiums is the age of the policyholder. If you're young, the chances are that you'll be paying the insurer for years before they ever have to worry about writing your family a check. Consequently, you're better off taking out a policy before it's too late. But that doesn't mean you need insurance right after college if you don't have any financial dependents.

**Gender:** Next to age, gender is the biggest determinant of pricing. Insurance carriers use statistical models to approximate how long someone with a specific profile will be around. The fact is that women, on average, live nearly five years longer than men. And because they're usually paying premiums for a longer period of time than males, they enjoy slightly lower rates. Sorry, guys.

**Smoking:** Smoking puts you at a higher risk for all sorts of health ailments. So if you like to light up, it's a red flag for insurance companies. In fact, it's not uncommon for smokers to pay more than twice as much as non-smokers for comparable coverage. The effect on your pocketbook is another great reason to try and kick the habit.

**Health:** The underwriting process for most carriers includes a medical exam in which the company records height and weight, blood pressure, cholesterol and other key metrics. They may also require an electrocardiogram (ECG or EKG) to check your heart in some cases. It's important to get any serious conditions like high cholesterol and diabetes managed before searching for coverage to ensure a competitive rate. Some companies do offer "no exam" policies, but you can expect to pay more.

**Lifestyle:** Is your favorite pastime racing cars or climbing treacherous mountains? If so, you'll probably have to shell out substantially more for insurance. Any time you engage in high-risk activities, there's an increased likelihood that you'll meet an early end – a big concern for carriers. Some companies also charge more if you have a relatively dangerous profession, such as mining, fishing or transportation.

**Family medical history:** There's not much you can do about your gene pool. However, a family history of stroke, cancer or other serious medical conditions may predispose you to these ailments and lead to higher rates. Carriers are usually interested in any conditions your parents or siblings have experienced, particularly if they contributed to a premature death. Some carriers put more emphasis on your family's health than others, but it's likely to have some impact on your premium.

**Driving record:** It may come as a surprise, but many life insurance companies look at your driving record during the underwriting process. Whether or not they ask about violations on the application, they can access Department of Motor Vehicles records to find out if you've run afoul of the traffic laws. Keep in mind that the last 3-5 years carry the most weight, so if you've improved your driving habits, you may benefit with a more favorable price.

**The Bottom Line:** Your life insurance quote is based on a number of factors, some of which may be beyond your control. When researching life insurance policies, it's important to assess your profile based in part on the above factors, and choose an insurer who is less likely to penalize people in your particular position.

### **III. The Main Challenges**

#### **Awareness and Education:**

The biggest challenge in insurance company is to change its perception as a risk mitigation instrument. This can be done by spreading awareness about how insurance works in principle. According to a report by FICCI-ING Rural Insurance promoted foundation of research, training and education, a high level of awareness about insurance is must. Insurance is largely seen as a risk cover instrument and not much as investment option. Reasons for taking life insurance policies are also common like daughter's marriage, children's education, etc. Respondent of all affluence levels agreed that the benefit of non-life issuance is security of assets, despite its low penetration and mandatory nature.

#### **Documentation and Certification:**

Some of the basic documents provided to the insurance companies by the rural people are age proof, FIR, death certificate, etc. still norms and documentation process should be comparatively simple for the rural areas. Crop insurance, insurance against animal's life etc. needs special attention and simpler yet effective documentation. Customized Product Design and rick faced, the rural population should be customized according to the term of pricing, simplicity in product feature, premium paying option and process requirement.

#### **Distribution Channels for Rural Network:**

The insurance agents play an important role in creating awareness, motivating purchase and rendering other rural insurance services. Agent's contribution in distribution of insurance policies in rural and semi-urban market is significant and remarkable. The new companies need support of at least a limited agent network for their delivery system. Cost effective options exist for leveraging existing rural institutions for delivery of insurance products and services.

#### **Cut Threat Competition:**

Liberalization will create acute competition in the insurance market. Fierce competition to increase volume and market share will continue as more and more players join the race for the greater Indian insurance.

#### **Customer Relationship Management:**

Customer behavior will be influenced by environmental factors as well as intrinsic personal aspirations. The environmental factors are socio economic and demographic factors, inputs of insurance advisors, the company's efforts to manage customer satisfaction and experience.

#### **Distribution of Products:**

Segmentation of markets, selling segment oriented products, focusing on fuller satisfaction of customer's aspiration misstates multiple distribution net works. While the traditional channel of tied up agents or advisors would be the most important distribution channel, insurers should innovate and find new methods of delivering products to customers.

#### **Risk Management:**

With the environment changes in the economic scenario of the country the risk landscape has undergone significant changes. With the opening up of economy and the entry of MNC in almost all sectors, there has been a surge in the income levels, especially in the middle class. The globalization has also resulted in cultural exchanges more than in the past.

#### **Untapped Market Segments:**

It is important to increase the customer base in semi-urban and rural areas which offer a huge potential. The fact that a major chunk of business for LIC comes from these areas stand as a testimony to this indisputable fact. There are difficulties in approaching this segment which will take us back issues of customer education.

**Human Resource Management:**

The insurance market is now filled with players, who are mature, globally prominent and big players in the transnational competitive global competitive insurance market. Each of them has ability to influence the market. The human resource competency will be another big challenge.

**Managing the Regulatory Authority:**

As the competition acute, the customer becomes more vulnerable to the vagaries on market environment. The regulators have a dual responsibility. They has to ensure that the insure adhere to sound insurance principles and practices as well as maintain adequate financial resources to meet their liabilities.

#### **IV. The Future Roadmap**

**Postal Agents:**

The post office has a regular touch with the rural people they develop an acquaintance with these people. The rural people are generally satisfied with services of post office. The Post office is the place where villagers deposit their small savings. Post office agents encourage purchasing saving instruments like Kisan Vikas Patra, Postal Life Insurance, Guarantee recurring deposit etc. The insurance companies may take the advantages of these postal agents to promote purchase of insurance policies against their small savings. The postal agents are recruited by the district saving officer, office of the collectorate and the license is issued to them for three years which is renewable. These agents may be recruited and trained by insurance companies to sell rural insurance products. The government organization such as bank and co-operative bank can play significant role to rendering insurance services in rural areas. These banks has a large database that may be utilize for the purpose of research of rural insurance market and increase sell of life insurance product in rural areas. Another important recourse is NGO that are works in various schemes in the rural areas. The NGO works very closely to the villagers and so they would be really suited for selling insurance products because they work extensively with the rural people. NGO's can also play significant role in educating villagers, providing assistant in purchase, enhancing income opportunities and promoting savings. These post office agents can work as insurance agents as well.

**Government and Non-Government Organization:**

The government organization such as bank and co-operative bank can play significant role to rendering insurance services in rural areas. These banks has a large database that may be utilize for the purpose of research of rural insurance market and increase sell of life insurance product in rural areas. Another important recourse is NGO that are works in various schemes in the rural areas. The NGO works very closely to the villagers and so they would be really suited for selling insurance products because they work extensively with the rural people. NGO's can also play significant role in educating villagers, providing assistant in purchase, enhancing income opportunities and promoting savings.

**Doctors and School Teachers:**

The doctor and teacher have a remarkable respect in rural areas and the image of these people is as service person. The villagers show strong trust on them. They can also work like insurance agents because villagers are ready to listen and follow them. Most of them are working as a rural agent of LIC. The private companies may use these potential for promoting sell. The Gram Pradhan, doctors, teachers, and mandi samiti are also use for the same purpose.

**Unemployed Youth and Youth Clubs:**

The unemployed youth of village are a good resource of distribution of insurance policies. The youth club members are actively involved in welfare activities of villagers. Some of them are part of government programs like pulse polio in spreading awareness to the rural people, this potential may be useful for educating people for benefits of life insurance. Volunteers or paid agents can be selected from youth club for marketing of rural insurance products as they are more suitable to educate and explain the benefits and need of life incurrence to the villagers.

#### **V. Findings**

Insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well-off, but more importantly they are more vulnerable to the same risk. Insurance can help poor people better manage risk and avoid falling back down the poverty ladder when faced with shocks. After reviewing from various articles magazines, research papers, thesis etc. it has become clear that insurance is a key in the process of poverty alleviation. Simply offering credit or savings is not enough to help the poor maintain the gains they have earned. This research analyzed that in spite of intense need the

demand for insurance is very low in India. The BPL people are not aware from insurance in fact they look awful when they were introduced by the term insurance, benefits of insurance etc. The major finding of the research is that the branches of insurance companies were not established in rural areas, there are some branches of LIC is operates but they were also very few in number. Most of the branches established and operates in urban areas but the truth is that rural people needs more protection from various perils because these risks and vulnerabilities push them in more critical condition as compared to urban people. The unavailability of insurance companies in rural areas creates a major gap between the demand and supply of insurance and affects the growth potential of BPL people as well as insurance. This is a very shocking fact that out of 100 respondents only 17 respondents were aware from it and the main reason behind is that the financial illiteracy exists among BPL people. The poor people were financially illiterate that why they were unaware of insurance and remain unaware from all those facilities and services which the government of India provides them. The gap of financial illiteracy badly hampers the growth of insurance and can become the main obstacle, because until they will not aware about they will be unable to enjoy the benefits perceived from it. There are various risks and vulnerabilities faced by poor people which makes them even more vulnerable but insurance companies provides protection cover only for death of family member and illness or sickness of family member i.e., life insurance and health insurance respectively, but 58 they need crop insurance, cattle insurance, disaster insurance, disability insurance, unemployment insurance property insurance and reinsurance. This gap between demanded insurance policies and supplied insurance policies also hampers the growth of insurance. Another major finding is that, the clients were not satisfied with the services provided by insurance companies like claim settlement, application process, behavior of insurance executives etc.

## **VI. Conclusion**

The life insurance companies in India are developing new products but, they fail to penetrate in rural areas where huge market lies. The penetration level of life insurance in India is very low compared to international standards and therefore has tremendous potential for growth. However, the market may be rich in potential, but new companies facing challenges. The villagers' awareness and improved distribution networks are the keys for the market enrichment. Insurer must put appropriate resource to develop the distribution network in order to grasp the potential of the rural market. The alternative distribution channels should explore by the insurance companies especially for private companies. Agents of rural market required proper training and motivated by incentives and more commission etc. In order to capture the rural insurance market, the life insurance companies must develop simple insurance product that is suitable for the rural people. Investment linked insurance product with marginal premium may be good option. The payment schedule of premium may base on suitable time of harvesting since agriculture is main source of income of rural people. To summarize The Road Map of life insurance in rural India is passes through milestones of awareness, affective distribution channels, customized products, low premium, after sale services and quick settlement of claims.

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