

# LIFE INSURANCE MARKET: THE RURAL INDIA CONNECT

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## ABSTRACT

*Life 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 head way. 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 avoider therefore insurance cannot apply the similar methodology that they apply to launch products in urban areas. The paper is an attempt 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.*

**Keywords :** Rural Life Insurance, awareness and distribution channels, product customisation

## 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.

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## FACTORS AFFECTING LIFE INSURANCE PURCHASE

The purchase of life insurance is affected by the variety of factors. The major factors that affect life insurance purchase in the country are premium charged for the policy, income earned by the people, inflation, aging population, education, household structure and industrialization and urbanization. Cultural perceptions also play a significant role in influencing the need of life insurance. For instance, in India, life insurance products are sought primarily as savings instruments, and this is consistent with a high culture propensity to save. Besides the above the country's political and economic stability also influence demand of insurance. An unstable political condition depresses insurance demand because

citizens cannot fully trust insurance companies' promises, as laws may be unenforceable.

The rural customer preferences for life insurance products indicates that the consistency of income is the first consideration, second is the provision for old age and then after living of spouse and others. The rural customer considers safety of invested funds as the most important issue when purchasing life insurance product, and the claim settlement and assistance in policy management in other issues that affect the decision of purchase. This is obvious because rural customer has limited income and less money available for the investment. The rural customer expects hassle-free claims and dispute settlement process and hence the agents are also an important aspect of rural marketing for insurance companies.

**Table 1 Factors Affecting Purchase of Insurance**

Variable	Response in Percentage		
	Very Important	Important	Not Important
Safety of Invested Funds	41.30	57.50	1.30
Claim Settlement	36.30	58.70	5.00
Assistance	28.80	65.00	6.30
Agent's Behavior	25.50	62.50	12.50
Affordability	25.00	62.50	12.50
Office Environment	25.00	62.50	12.50
Post Purchase Services	23.80	63.80	12.50
Usefulness	22.50	65.00	12.50
Administrative Procedure	12.50	80.00	7.50
<i>Source : LIC Annual Reports</i>			

## THE MAIN CHALLENGES

The main cause behind less popularity of life insurance policies among the rural masses is lack of awareness, motivation and timely settlement of the claims. The real situation is that the claims are settled after a long time of the mis-happenings, sometime even after few years of the tragedy. The lack of immediate help currently acts as demotivation factor for the people. They hesitate in giving their hard earned money to the insurance companies as premium. Despite the schemes being launched for

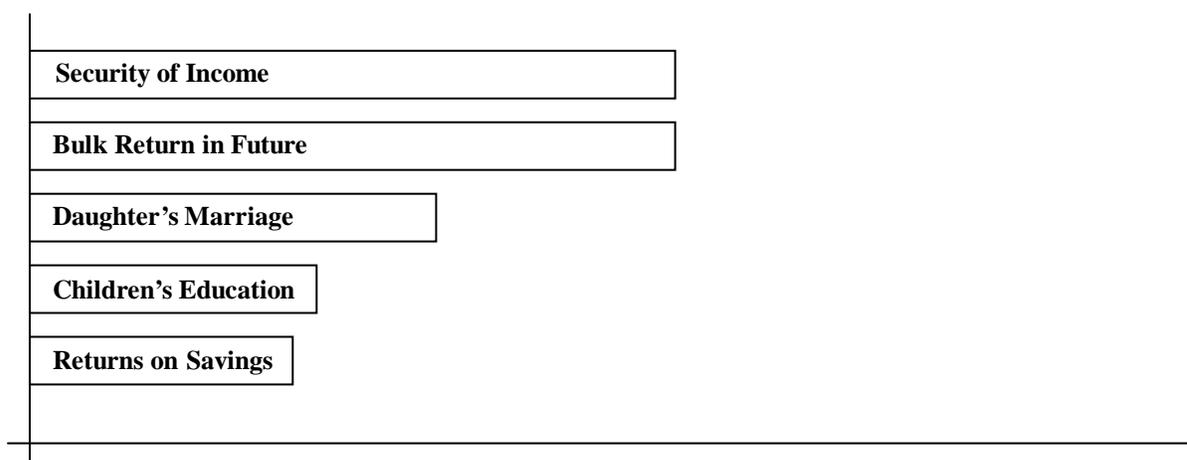
the social upliftment of the society, but the premium is at the heir end for that concerned group. The involvement of the local bodies and local people can help the government too see the true picture of the society. There are following main challenges in selling life insurance policies in rural areas.

### 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 (figure 1)



**Figure 1 Perceived Benefits of Taking Life Insurance Policy**

*Source: Reconstructed from FORTE - A Collaboration between FICCI and ING Insurance*

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 Risk Faced by Rural Household

Life and livelihood risks are the risks faced by rural households. The major livelihood risks faced by the households are :

- Risk of agriculture activity and allied agriculture activities like livestock;
- Risk to assets used in non-farm activities ; and
- Health risk.

Therefore, to meet the risk affecting various livelihood activities, a combination of tools and suitable products those minimize the risk through customized insurance products. The product customization according to the requirement of the rural needs is the foundation key. Product offered to

the rural population should be customized according to the term of pricing, simplicity in product feature, premium paying option and process requirement.

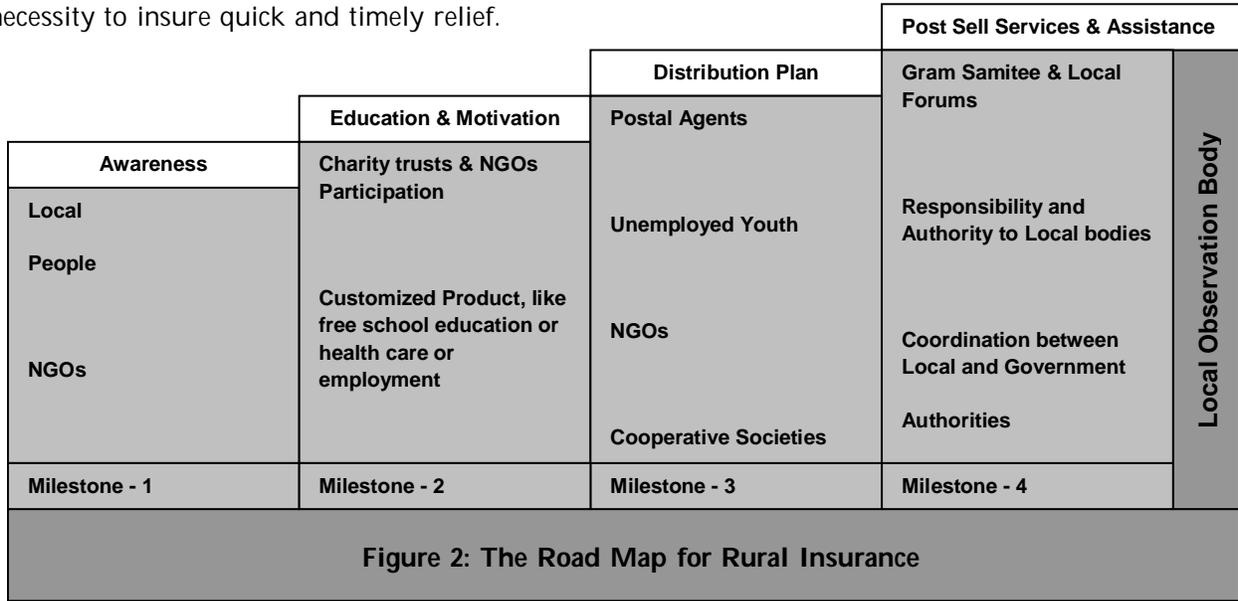
### Distribution Channels for Rural Network

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.

### THE FUTURE ROADMAP

The action plan is the key. Truly motivating factor for the rural population will be low premium and easy installment schemes. The government will have to play important role here, the subsidized policies need to be introduced for few products. It will defiantly increase rural share in insurance market. Rural areas need to be managed at local level or district level bodies. The companies should assure quick and timely relief and release of the funds for the same. People from NGOs, teachers and doctors at local level can be utilized to assess the damage and accordingly funds can be released. Coordination between local and government authorities is a

necessity to insure quick and timely relief.



In the above figure major milestones of the road map are 1) Awareness 2) Education & Motivation 3) and 4) Distribution Plan. The objectives of each milestone are shown in white boxes at the top, that can be achieved through the people and bodies that are mentioned in the boxes just below these boxes.

The rural insurance sector has the potential but the proper awareness among the rural people is the primary requirement for capturing rural insurance market. They need to be informed about all types of insurance policies available for them. Especially the group insurance and insurance need small investments. Social awareness can be spread through the local volunteers, community centers, local government and non-government organizations. Another important factor is motivating people to purchase insurance. This can be best performed by the local people and authorities. NGOs and charitable trusts can be used to motivate the people. Some social welfare schemes can also be combined with insurance products in order to motivate like free reduction and mediation at less cost.

**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. 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 have a large database that may be utilized 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 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. NGOs can also play significant role in educating villagers, providing assistance 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 insurance to the villagers.

### FINDINGS & SUGGESTIONS

- Some type of agent network is must. As insurance customers rely on personal interactions and a need a high level of service that can be very well maintained by these types of rural agents.
- The distribution channel need to be improved and new ideas and people are need to be discovered those can work as an insurance agents. The Gram Pradhan, doctors, school teachers, mandi samiti etc. may be good agents for this purpose.
- Villagers have high trust in banks and post office and they seems it as safe institutions to invest their hard earn money and any tie up with these bodies may enhance the credibility of insurers and their agents. Due to good bonding, these institutions are highly trusted by the rural population, even with access to smallest villages.
- The various rural forums like Choupal and Gram Panchayats and Tahseels also may play significant role because that are means of regular meetings at the village. The block and district level forum can be used for promoting and motivating group insurance.
- The cooperative banks and other cooperative societies may provide a robust platform to sell insurance as these societies are forums that deals with finance matter. The opportunity can be find in selling small-investment and high risk cover policies such as accidental policies.
- The hospital doctors may motivate the villagers to purchase Health insurance that cover hospital expenditure of short term disease such as mother and baby care expenses.
- The customized products specially design for farmers certainly motivate to purchase life insurance and increase in sell of life insurance policies. For example general insurance of crops may be incorporated as a rider with the life insurance etc. It required the proper research and discussion.
- The subsidized schemes like Rural Group Life Insurance Schemes (RGLIS) must be motivated and advertised. These types of subsidized schemes must be introduced for very poor individuals with low premium. Subsidy provides by governments under these schemes.
- Cooperative Insurance Fund may be created from surplus fund of LIC and government participation, as similar to, Army Group Insurance Fund and Naval and Air Force Life insurance Funds.
- The linking of agriculture risk and health risk with life insurance may be a good idea for the purpose of positive motivation.
- The NGOs working in this area are really less in numbers. More NGOs need to be encouraged.
- Some observing authority at Panchayats or Tahseels level must be established to look after speedy settlement of claim and to provide needful assistant in documentation at the time of purchase.

The above points are in reference of Future Road Map discussed in section 5.1, but obviously the ideas are not limited to the converge of this article.

### 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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