

OPPORTUNITIES FOR INSURANCE SECTOR IN RURAL INDIA

Vandana Gupta
Rahul Yadav

*Ms Vandana Gupta (vgupta@amity.edu) is a Sr Lecturer at the
Amity Business School, Noida
Rahul Yadav (mr.rahulyadav@gmail.com) is a Final year MBA Student from
the same institution.*

Abstract

Indian Rural Market has wide opportunities for emerging insurance sector. This Research paper is a market scan to seek opportunities of insurance sector in Potential Rural Indian market. This market Research was done in few Villages, near by Bikaner (Rajasthan) to find the opportunities of insurance sector in Rural Indian Market for upcoming years. Since the market has a very large population so research was done in 5 villages and 60 sample size was taken from each village. But on the other side this area has its own issues to deal with.

Issues involved in market research are to check awareness level of villagers about insurance, and to seek scope of growth for insurance sector in Indian rural market. Through this research it was tried to measure scope of penetration for insurance companies in rural market and strategies to promote insurance sector. To capture rural market companies should understand the expectation and actual need of villagers as well as they should understand the emotions of villagers for long term success.

Introduction:

1. Insurance:

The story of insurance is probably as old as the story of mankind. Tendency of a human being to secure themselves against loss and disaster has been from the starting of world. They sought to avert the evil consequences of fire and flood and loss of life and were willing to make some sort of sacrifice in order to achieve security. Though the concept of insurance is largely a development of the recent past, particularly after the industrial era - past few centuries - yet its beginnings date back almost 6000 years as per records. Insurance may be defined as protection of financial assets against unfortunate events. The business of insurance is related to the protection of the economic values of assets. So insurance is a mechanism that helps to reduce the effects of such adverse situations.

Insurance business is divided into four classes:

- Life Insurance
- Fire
- Marine
- Miscellaneous Insurance

Insurance Provides:

- Protection to Investor.
- Accumulation of savings
- Channeling these savings into sectors needing huge long term investment.
- It provides tax benefits, both in income tax and in capital gains To protect your assets and life from perils.
- To reduce risk and damages and also to work against uncertainty.
- To insure economic loss, or to provide safety for financial asset or life.

2. Indian Life Insurance Industry Overview:

All life insurance companies in India have to comply with the strict regulations laid out by Insurance Regulatory and Development Authority of India (IRDA). Therefore there is no risk in going in for private insurance players. In terms of being rated for financial strength like international players, only ICICI Prudential is rated by Fitch India at National Insurer Financial Strength Rating of AAA with stable outlook indicating the highest claims paying ability rating.

Life Insurance Corporation of India (LIC), the state owned behemoth, remains by far the largest player in the market. Among the private sector players, ICICI Prudential Life Insurance (JV between ICICI Bank and Prudential PLC) is the largest followed by Bajaj Allianz Life Insurance Company Limited (JV between Bajaj Group and Allianz). The private companies are coming out with better products which are more beneficial to the customer. Among such products are the ULIPs or the Unit Linked Investment Plans which offer both life cover as well as scope for savings or investment options as the customer desires. Further, these types of plans are subject to a minimum lock-in period of three years to prevent misuse of the significant tax benefits offered to such plans under the Income Tax Act. Hence, comparison of such products with mutual funds would be erroneous.

2.1 Indian Regulatory Development Authority (irda):

In 1999, the Insurance Regulatory and Development Authority (IRDA) were constituted as an autonomous body to regulate and develop the insurance industry. The IRDA was incorporated as a statutory body in April, 2000. The key objectives of the IRDA include promotion of competition so as to enhance customer satisfaction through increased consumer choice and lower premiums, while ensuring

the financial security of the insurance market. The IRDA opened up the market in August 2000 with the invitation for application for registrations. Foreign companies were allowed ownership of up to 26%. The Authority has the power to frame regulations under Section 114A of the Insurance Act, 1938 and has from 2000 onwards framed various regulations ranging from registration of companies for carrying on insurance business to protection of policyholders' interests.

2.2 Role of IRDA:

- Protecting the interests of policyholders.
- Establishing guidelines for the operations of insurers, and brokers.
- Specifying the code of conduct, qualifications, and training for insurance intermediaries and agents.
- Promoting efficiency in the conduct of insurance business.
- Regulating the investment of funds by insurance companies.
- Specifying the percentage of business to be written by insurers in rural sectors.
- Handling disputes between insurers and insurance intermediaries.

3. CHANGING PERCEPTION OF INDIAN CUSTOMERS:

Indian Insurance consumers are like Indian Voters, they are soft but when time is right and ripe, they demand and seek necessary changes. De-tariff of many Insurance Products are the reflection of changing aspirations and growing demand of Indian consumers.

For historical years, Indian consumers were at receiving end. All that got changed with passage of IRDA act in 1999. New insurance companies have come into existence leading to open competition and hence better products for customers.

Indian customers have become very sensitive to Coverage / Premium as well as the Products that is given to them. There are not ready to accept any product, no matter even if that is coming from the market leader, should that product is not serving the purpose. A case in point is ULIP Product / Group Life and Credit Life in Life Insurance segment and Travel / Family Floater Health and Liability Insurance in the Non-life segment are new age Avatar. The new products are constantly being demanded by Indian consumers, which is putting huge pressures on Insurance companies and Brokers to respond.

Now Indian customers are aware of insurance industry and insurance products provided by companies. They have become more sensitive. They would not accept any type of insurance product unless it fulfills their requirements and needs. In historic day's customers looking at insurance products as a life cover which can provide security against any unacceptable events, but now customers look at insurance products as an investment as well as life cover. So today's customers wants good return from the insurance companies. The Indian customer's forms the pivot of each company's strategy.

**Investment of Indian household savings
(as a % in different sector)**

BANK DEPOSITS	39%
CORP. BANKS	2%
SHARES AND DEBANTURES	1%
MUTUAL FUNDS	2%
NBFCs	3%
GOVT. BONDS	13%
INSURANCE	13%
PF/ RETIRE FUNDS	21%
CURRENCY	6%

Source: - www.avivaindia.com (2007-2008)

4. GLOBAL INSURANCE INDUSTRY:

Globally, insurers increasingly are pressured by the demands of their clients. The development of global insurance industry over the past few years was influenced by booming stock markets which enabled considerable capital gains to be made in non life business. Increase in insurers equity capital increased underwriting capacity, while demand did not develop at the same pace, resulting in decrease in insurance policies prices. The stock market boom of the past few years led to demand for unit linked insurance products.

The global insurance industry is growing at rapid pace. Most of the markets are undergoing globalization. Lot of mergers and acquisition are taking place in the insurance world. The rapidity in the industry, technological improvement has resulted in pressures on a few economic parameters. The world insurance industry is at peak of its globalization process.

Global insurance market is increasing by an average of six percent per year since 1990. Insurance companies have collected \$2443.7 billion premium world wide according to the global development of premium volume in 144 countries in 2005. \$1521.3 has been generated as life insurance premium and \$922.7 as non life insurance premium. The US accounted for 35% of global life and non life premium, Japan had global share of 21%, and UK was having 10% of global share.

Life insurance penetration as a % of GDP

United kingdom	8.9%
Japan	9.2%
Korea	7.3%
United states	5.7%
Malaysia	4.6%
India	4.0%
China	2.7%
Brazil	2%

Source: www.indianinsuranceresearch.com

5. OPPORTUNITIES OF INSURANCE IN RURAL INDIA :

The rural market offers tremendous growth opportunities for insurance companies and insurers should develop viable and cost-effective distribution channels; build consumer awareness and confidence. Nearly 20% of all farmers in rural India own a Kissan Credit cards. The 25-30 million credit cards offer a huge data base and opportunity for insurance companies. An extensive rural agent network for sale of insurance products could be established. The agent can play a major role in creating awareness, motivating purchase and rendering insurance services.

Being an agrarian economy again there are immense opportunities for the insurance companies to provide the liability and risks associated in this sector. The Assocham Paper found that the rural markets are still virgin territories to a great extent and offer exciting opportunities for insurance companies. The surest path to success is to judge and measure the requirements of the people correctly and offer a scheme that they would be able to afford.

Insurance companies can add about Rs. 1000 crore to their network 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.

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 base of rural occupation and income have been growing in rural GDP figures that are estimated at 45%.

ASSOCHAM has therefore felt that this is the opportune time for the public and private insurance companies to enter into rural India in a big way by introducing easy premium schemes in life insurance and for agri insurance, auto insurance etc.

To reach the rural investors, the ASSOCHAM has suggested that the insurance companies should interact with local government/development agencies, as well as Panchayats and identify various products for the preparation of the Service Area Credit Plans in the rural areas.

6. Rural Vs. Urban Insurance : Scope for growth :

Rural Insurance programs are designed to cover various risks that affect the rural population and are gaining importance all over the world. India, being one of the fastest growing nations of the world, offers great scope and potential for the insurance programs, Rural Insurance being a frontrunner among them.

Indian insurance market can be broadly divided into urban and rural markets. These two segments are diverse in nature and have distinguished characteristics. The economic growth of these two sectors has however, not been the same. A wide disparity exists between the per capita income and literacy rate, among other things, in these two sectors. From an insurance perspective (both life and general insurance), statistics show that insurance in the rural sector is lower in comparison to its urban counterpart.

In the area of Life insurance, Life Insurance Corporation (LIC) has had a long history of selling policies in the rural areas through its vast agent network. But as these policies are sold entirely by the agent force, the focus on commissions to be earned restricts the profile of products sold to the high-valued, savings-linked policies, which are not affordable for a majority of rural households. LIC tapping the extensive branch network of nationalised banks in deep, miles-from-anywhere locations The critical success factor in succeeding in India's rural markets is the element of trust that a company has to gain from the rural consumer.

The public sector companies have also designed health insurance products like the Universal Health Insurance, but these policies have really not been able to bring under their coverage sufficient number of people. To overcome the shortcomings of the crop insurance product and livestock insurance, a couple of private insurance companies in partnership with distribution channels have been piloting rainfall insurance

The awareness level to be the lowest in respect of insuring agricultural implements, followed by crop insurance and health insurance. The urban segment in India is small as compared to the rural segment. Hence, exploring rural markets poses to be a herculean task to the insurers. A major portion of the rural market has been uncovered although they are also exposed to risks similar to or even higher than their urban counterparts.

With a very high percentage of the population, residing in rural India, which is plagued by high poverty levels and risk-bearing vagaries, rural penetration remains a daunting challenge to most insurers. The ratio of rural Indian population is very high and it has grown insurance needs; therefore, it is a fact that the potential growth of insurance industry lies in the rural market, both for life and general (non-life) insurance.

7. OBJECTIVE OF THE PROJECT

- The Objective of the project is to find out opportunities for insurance sector in potential Indian rural market.
- To understand rural customers' current knowledge, attitudes and practices regarding savings, loans and insurance.
- The basic idea is to figure out extent of growth, explore the nature of improvement and expectation of Rural India from Insurance Industry.

8. RESEARCH METHODOLOGY:

Research is totally based on Primary data. Secondary data used only for the reference. Primary data has been collected by survey and interview in Rural Market. Research has been done in 5 villages near by Bikaner, Rajasthan.

1. Data Source : Primary data & Secondary data
2. Research Approach : Survey
3. Research Instrument : Questionnaire
4. Sampling Plan
 - Sample Unit : Consumers above age 18 years.
 - Sample Size : 200
 - Sampling procedure : Probability sample (Simple Random survey).
5. Contact Method : Personal Interview
6. Area of operation : Villages near by Bikaner

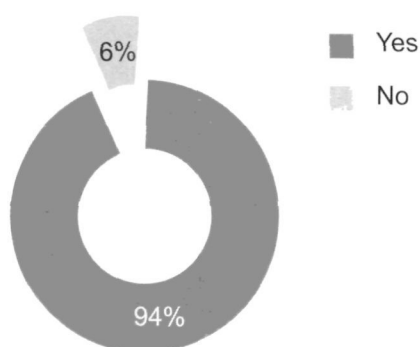
9. Limitations:

- Time limitation
- Research has been done only in Bikaner city.
- Lack of Interest of villagers to respond.
- Possibility of Error in data collection

10. ANALYSIS & FINDINGS:

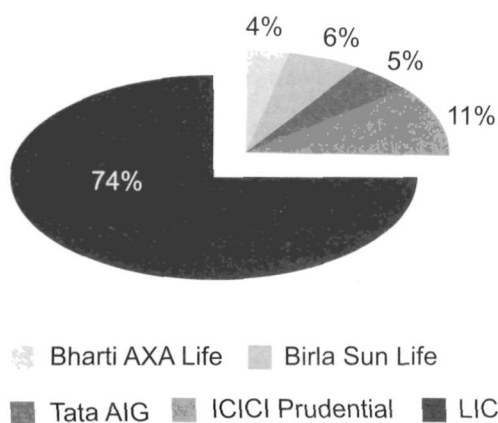
Survey based on the basis of unstructured questionnaire and interview were a major tool to collect information about awareness level of insurance sector and to measure level of opportunities in Indian rural market.

➤ AWARENESS ABOUT INSURANCE AMONG RURAL VILLAGERS :



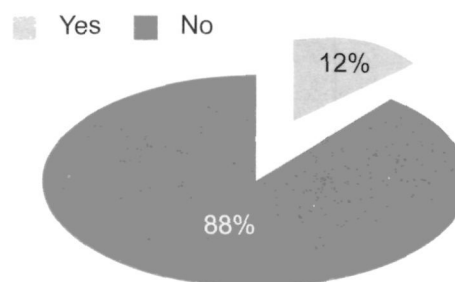
The awareness about Life Insurance is near universal. Most of people in rural India are aware about Insurance sector, but mostly are not aware about the actual benefit and service of Insurance product. They do not have any idea or knowledge about various kinds of insurance options available for them.

➤ AWARENESS ABOUT INSURANCE COMPANIES:-



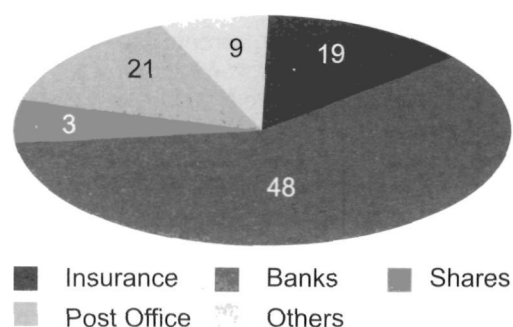
Most of the people in Rural Areas are aware about only LIC, in villages very few people could identify other names of insurance industry. LIC is one of the most oldest and reliable name in insurance industry, but in case of other companies due to lack of promotion and awareness in rural areas people hardly could recognize any insurance company.

➤ RELIABILITY ON INSURANCE COMPANIES:



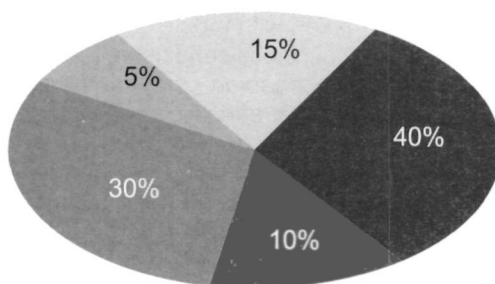
Mostly villagers are lacking reliability factor for private in the rural market due to bad experience of people with insurance companies in the past and also due to irresponsible behavior of some Advisors. Mostly villagers are unable to understand legal terms and benefits of insurance product, and many advisors give incomplete information about products to villagers, just to complete there targets that's why insurance companies are now a days having bad image in customers mind.

➤ FAVOURABLE OPTION FOR INVESTMENT IN RURAL INDIA



Mostly villagers are interested to invest there money in banks and land. Only few villagers feel security about there money in Insurance companies. People are lacking reliability factor for insurance in the rural market. People prefer to invest in Nationalized bank & post office.

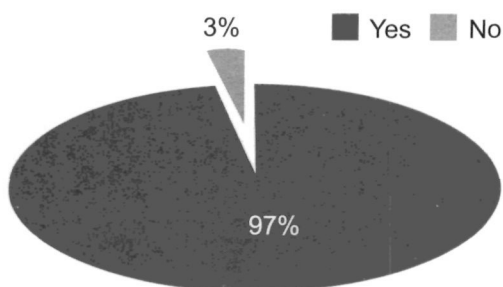
➤ **FAVOURABLE COMBINATION OF INSURANCE PRODUCT FOR RURAL PEOPLE**



■ Life + Agriculture ■ Life + Loan
 ■ Life + Vehicle ■ Life + Cattle
 ■ Life + Health + Accident

As for a villager it is not easy to buy different insurance for different plans, in fact they would be motivated for buying insurance plan, if companies will provide dual benefit in single plan. This study shows that mostly villagers want additional security of health, accident, agriculture with Life.

➤ **NEED FOR ASSISTANCE OR SUGGESTION FOR FINANCIAL DECISION :**



The disposable income of rural people is increasing and they are looking for more secure, reliable consultant. In the survey 63% people were agree that on the facts that they need assistance or suggestion for investment or financial decision and today insurance companies don't provide only insurance, they offer insurance + investment plans.

11. MARKETING STRATEGIES FOR RURAL MARKET:

In today's era Indian customer is knowledgeable and sensitive.. People are looking not just at products, but at integrated financial solutions that can offer stability of returns along with total protection. Insurance experts should understand need of customer and there expectation from insurance companies.

FIRST APPROACH PRODUCT QUALITY :

If companies will focus on product quality and its features then customer would be more confident especially in rural areas.

SECOND APPROACH CUSTOMIZATION OF PRODUCT :

As every villagers have different need like daughter's marriage, cattle or agricultural safety, health, vehicle or many more , so companies should try to provide customized products or try to offer range of products and services according to need of customer.

THIRD APPROACH PUBLIC RELATION :

In rural areas companies should focus on public relations as it is main tool of marketing which will surely work in rural areas. As it will increase bonding and trust between insurance companies and rural people.

12. CLASSIFICATION OF INSURANCE PRODUCT :



- Core Product (Policy)
- Expected Product (Additional Bonafits)
- Augmenled Product (Post Sales Service, Payment Options, Branches)

Core product: In insurance industry the core product is the policy that provides protection to the customers.

Expected product: Because of competition customers start to expect more from an insurance product. Then insurance companies provide some tangible attributes in their product to differentiate from competitors, such as-

- Brand
- Some additional features in existing product
- By providing instruction manual with the policy.

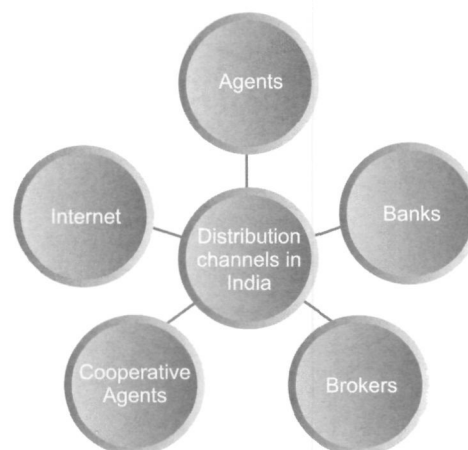
Augmented product: An insurance company can provide different types of services to differentiate their products-

- Post sales services.
- Branches in different places for customers.
- Customer complaint management.
- Payment option convenient to customers.

13. DISTRIBUTION CHANNELS IN INDIA:

Insurance has to be sold the world over. In the Indian market, with their distinct cultural and social ethics, these conditions will play a major role in shaping the distribution channels and their effectiveness. A multi-channel strategy is better suited for the Indian market. Indian insurance market is a combination of multiple markets. Different multi-distribution channels in India are as follows:

- **Brokers:** Financial institutions are known as brokers. They are taking some underwriting charges from the insurance companies to sell their insurance products.
- **Corporate agents:** Insurance companies' tie-up with business houses in other industries to sell insurance either to their employees or their customers.. Such as- Bajaj Allianz tied up with Maruti Udyog.



- **Agents:** The public and private sector insurance companies have their branches in almost all parts of the country and have attracted local people to become their agents.
- **Banks:** Banks in India are all pervasive, especially the public sector banks. Many insurance companies are selling their products through banks.
- **Internet:** In this technological world internet is also a channel of selling insurance. This can be as direct marketing.

14.DISTRIBUTION CHANNEL FOR RURAL MARKET :

Distribution and servicing are two key areas in developing rural business. Valuable data are available on the existence of extensive network built by the rural development agencies, banks, cooperative institutions, NGOs, micro-financing institutions, women's SHGs, youth clubs, panchayats and some industrial houses in rural areas.

15.POSSIBLE RURAL AGENTS FOR DISTRIBUTION CHANNEL :



- **Non-governmental organizations:**
 - A number of NGOs are working in the rural areas to enhance income opportunities, improve living conditions and make available health and education to the villagers.
 - Only these NGOs would be well suited for marketing insurance as they are already familiar with financial transactions and work extensively with the rural poor..
- The post-office agents: Insurance companies can recruit and train these agents for marketing insurance products. The familiarity with financial instruments (savings) will be advantageous to these agents and to the insurance company as well.
- TV cable operator: Cable TV operators are educated and have access to all homes in the village that have a cable connection. He visits the homes at least once a month to collect the subscription for the cable TV. His accessibility to rural homes makes him a potential insurance agent.
- Youth club members: Youth of villages are educated and influencing and seek avenues for generating income for themselves. Leaders of youth clubs can be selected and recruited for marketing insurance products by companies.
- Doctors and school teachers: Registered medical practitioners and teachers are the more educated persons in a village and command considerable respect and influence.

16. CONCLUSION :

1. The rural folks have a strong saving habit-they save about one-third of their income annually.
2. Presentation on Rural Insurance

research by Naren N. Joshi, Chief representative ING Life Insurance.

3. Nearly 20% of all farmers in rural India own a Kissan Credit Card. The 23 million credit cards issued till date offer a huge data base and opportunity for insurance.
4. Rural connectivity through IT. E-choupal of ITC and other similar initiatives are available as additional delivery channels of insurance.
5. Security of income and bulk returns, especially for daughter's marriage and children's education are major persuasions for taking insurance policy.
6. There is huge scope in Rural market for Insurance sector, but companies need to improve their image, especially in Rural Market, as to make feel customer safe and secure.

● **Some of the difficulties in rural insurance markets are:**

- Cost and accessibility
- Lower per capita income
- Seasonality of income
- Migration of population
- Traditional rural psyche to invest in gold and real estate
- Rural need to invest in improvement of agrarian land competes with their financial needs.

17. RECOMMENDATIONS:

The following are the recommendations for Insurance companies:-

17.1 PRODUCT:

- Dual benefit providing insurance products like Plan of Life Plus health, Pension Plus health.

- Less Premium products for rural people.
- More customer oriented product or customized product offers.

17.2 SERVICES:

- Focus on providing better and reliable service to customer.
- Online purchasing of plan.
- Insurance companies should give personal ID and password for individual profile on their website to each of customer, where they can get every information about their Plan like Premium deposit receipt, fund value, market value etc.
- Insurance companies must have a HELP DESK in each Branch, where any customer can come and solve their problems.

17.3 AVAILABILITY:

- Insurance companies should sell their products through Doctors, teachers and sarpanch of panchayats in villages.
- Tie up with hospitals, Education Institution in Rural Areas
- Insurance companies should create more job opportunities in Rural Areas by making them aware about output and learning of this field.

17.4 PROMOTIONAL MIX:

1. Advertising:

Advertisement should give in local newspaper as well as regional channels.

Insurance companies should focus on relationship bonding with their customer in advertisement.

2. Personal Selling:

- Personal Selling is a major tool of

promotion in Insurance Industries, so companies should be more customer oriented. Tele marketing and presentation for individual prospect would be better to promote the brand.

3. Promotions :

- Companies must give sponsorship for various events or participation in some social cause, it would create image of company in customer's mind.
- Company must celebrate festivals and ceremonies with rural villagers and during that lucky draw coupons, rebate can be given to customer.
- Haat, Melas are another option to promote insurance companies in Rural india.

4. Public Relation:

- Insurance companies must take participate in various trade shows and exhibition as event partner. Insurance companies should give some charitable contributions or must organize events like career guidance seminars for youth.
- Insurance companies should take some initiative steps to improve image of insurance companies in mind of villagers by giving them proper guidance and services.

17.5 SUGGESTED STRATEGY MODEL FOR RURAL INSURANCE:

Evaluation Criteria: The model is based on following evaluation criteria:

- Reach
- Influence on target segment
- Trust & reliability
- Business acquisition capability
- Support requirements
- Customer expectation

- Operational discipline

Strategy Model :

According to the geographical structure of area , a strategy model has been developed to promote insurance companies in rural areas. District coordinator should take assistance with block coordinator and that should be connected with possible rural agents, NGO's, Cooperatives, Panchayats, School, hospital, E- chaupal, and E-Bima

E-BIMA :

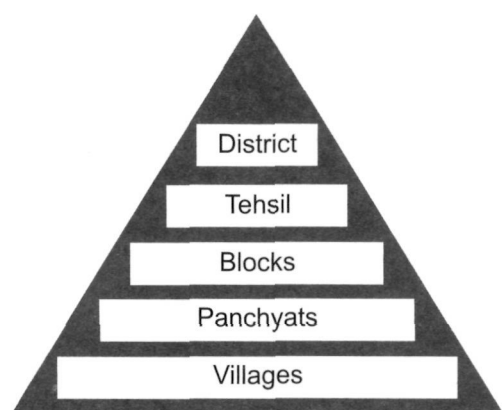
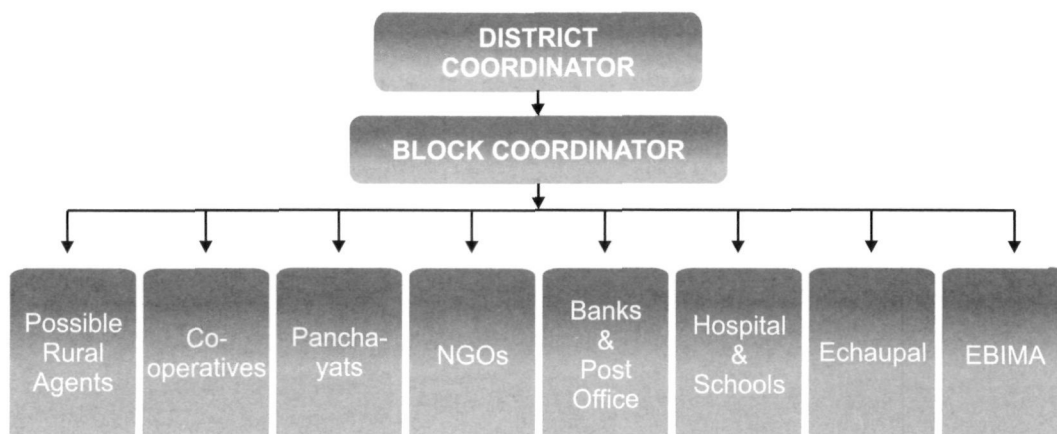
- **Infrastructure**
 - A Van with video audio facility
 - A Computer with a Printer
- **Human Resources**
 - One Driver and two sales cum administrative staff / agent
- **Site and Mode of Operation**
 - Moves Village to Village
 - Parks at Panchayat, Local School , Village Chaupal
 - Visits 2 Villages and one haat a day
 - Works 8 Hours a day

Role:

- Awareness Program
- Relationship Building and Management
- Business Acquisition
- Policy Servicing and Business Retention through Premium Collection facilities.

Other Benefits:

- Support to other Channels for Policy Servicing, Premium Collection, Policy Query Handling, Complaint Handling, Assistance in Claim Processing
- Overcome limitations of channels.



- **KEY FACTOR OF SUCCESS** : Apart from all these above things, Rural People expect few basic things from a insurance company, and only after providing them to customer insurance companies can succeed In Rural India, these are :



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