

LIFE INSURANCE POLICE SECTORE: THE RURAL AREAS MARKET CONNECT

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Abstract: Life insurance is bought lesser in Areas 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 sector, there is very low 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 better and healthy life. The rural population in Areas 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 caliber for the insurance sector is excess. 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 importance for forecasting elaborate of rural insurance would be identifying of productive potential and specific insurance needs in areas not yet reached by insurer and growth cooperation between insurance and rural credit agencies or institutions. The buying behavior of rural consumer is influenced by the income levels and distributions and sectorers efforts on promotional activities. The rural customers are risk avoider therefore insurance cannot apply the similar rules 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 Areas. It selected the key aspects of misuse emerging insurance sector in rural areas, and focuses sulation to overcome the challenges in this regard. It analyzes the current distribution models and provides future road map to increase rural share in insurance sector. Based on the analysis, the paper tries to give a future forecast of the sector that is intended as a rough guide to the direction in which the sector is likely to move.

Index Terms: Rural Life Insurance, awareness and distribution channels, product customization

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 foe 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.

The life insurance sector is a large development of Indian economic in globalization effect of economic development employment service provided in large scale. For the Life Insurance Corporation of India (LIC), the requirement is 18%. The rural market in India, constituting 742 million people, is by far the largest potential market in the world. The annual rural household income of Rs 56,640 (as per NCAER, IMDR 2002) coupled with changing rural aspirations in consumption patterns and lifestyles unfold tremendous opportunities for rural marketing. but, some of the challenges that seem to be hindering large-scale advent in the rural markets are lack of understanding of rural customer, low sources on rural markets, poor infrastructure, low levels of literacy and poor reach of mass media and transported problem . The rural life insurance distribution modals is a slow work of rural market it is a success of working in the modals is life insurance company effort and rural people provided a knowledge in extra effort rural areas. It is future analysis India's per capita GDP growth in rural areas regions has grown at a Compound Annual Growth Rate (CAGR) of 6.2 per cent since 2000. The Fast Moving Consumer Goods (FMCG) sector in rural and semi-urban India is expected to cross US\$ 20 billion mark by 2018 and reach US\$ 100 billion by 2025@.

OBJECTIVE

- To go through the concept of life insurance market in rural areas.
- To suggest the corrective measure to overcome the challenges of awareness and distribution channel life insurance sector in rural areas.
- To review the Customer perception of Product customization.

RESEARCH METHODOLOGY

The present study is based on secondary sources for collecting facts and figures relating to topic under research. Secondary data includes previously published literature, books, articles, journals, and specialized life insurance periodicals and various websites, information provide the basis for. Building up the theoretical and conceptual framework of the study.

LITERATURE REVIEW

Indian life insurance industry is one of the most technologically advanced industries with vast network of branches empowered by strong life insurance systems, their wide range of product and effective distribution channel

capabilities. However, regulatory, structural and technological factors are significantly changing the life insurance environment throughout the world. One of the most important factors that is motivating the growth of the Indian insurance institution is the liberalization.

Patki, V.V. (1988), in his article “Rural Marketing”, discusses the problems of selling life insurance in the rural areas and gives many suggestions to penetrate the rural market. The suggestions are participation in village fairs, using audiovisual methods, and explaining the merits of the life insurance to the villagers, etc.

Kalra, R.K. and Garg, D.K. (1999) observe that successful marketing of life insurance policies is dependent on a combination of good communication and promotional strategies of the insurance companies. They find that the major problems associated with marketing of LIC policies in rural areas include illiteracy, lack of awareness, and negative attitude towards saving and low purchasing power. It is suggested that the LIC should design future strategies so that the customers are able to overcome all the anxieties they have regarding life insurance. It should make the customers aware of the various policies being provided, the benefits of having a policy, and the drawbacks of not having a policy. This would help create a desire in the customers to buy an insurance policy.

Appi Reddy and Narasimha Murthy¹⁸ have attempted to examine the marketing practices followed by LIC in rural areas and problems involved in providing the services. The organization appoints development officers with responsibility in a specified territory (Tryst with Trust) and special promotional efforts like field publicity vans, film shows, exhibitions etc., are insisted. Only 4.55 crore people have been insured against the insurable population of 21 crores (AppaRoa) in spite of consistent efforts. The problems encountered are among 7 segments, agriculturists are not identified, and schemes are not available to suit lower and irregular income groups. Some policies are low cost plans without profit like BimaSandesh. Lastly, the rural people felt that buying policy is costly and it added additional problems

ANALYSIS

• Life Insurance Market in Rural Areas

The insurance sector, per se, also did not make much headway in the rural sector. The rural insurance market in India, liberalised in 2000 with the advent of private life insurance companies in November 2000 has not describe in real terms beyond the urban domain. The penetration of insurance in India is pitifully low and if we aim for the modest target of insurance premium rate becoming 5% of GDP, insurance companies need to watch at newer market sector rather than fight for different companies in the same pie. There involve a vast potential in the rural areas where more than 70% of our population lives. But it is common human belief amongst the life insurance companies that it is expensive to do business in rural areas. Most companies are focusing only on meeting regulatory availability from rural areas and don't see them as commercially viable rural business opportunities, waiting to be exploited. Some problems of the questions tormenting the insurance marketers specially the ones in the private sector are: Is the Indian rural market for insurance great promise or a great challenge A potential magic or a mirage A mere regulatory work or a great opportunity How is the rural market defined Are rural operations cost-effective Is it commercially wise to make huge investments to making a rural distribution modal and delivery system We at the Foundation of Research, Training & Education in Insurance (FORTE) thought it would be a great help to the industry if these issues were addressed.

- **Factor 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	1.50
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	25.50	62.50	12.50
Office Environment	25.50	62.50	12.50
Post Purchase Services	23.80	63.80	12.50
Usefulness	22.50	63.00	12.50
Administrative Procedure	22.50	80.00	7.50

Source : LIC Annual Reports

- **Challenges of awareness and distribution channel**

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 demonization 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 to 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 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

- **Product customization**

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.

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 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 trust can be used to motivate the people. Some social welfare schemes can also be combined with insurance product 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 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.

FINDINGS & CONCLUSION

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 formers 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 heath 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.

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