Rural Insurance: Issues, Challenges & Opportunities

Ramesh Chindam
Lecturer, Mahboobia Panjetan Degree College, Warangal – 506 002.
Email: chrameshugcnet@gmail.com Mobile: 8328501022

ABSTRACT

Insurance occupies an important place in the complex modern world since risk, which can be insured, has increased enormously in every walk of life. This has led to growth in the insurance business and evolution of various types of insurance covers. The insurance sector acts as a mobiliser of savings and a financial intermediary and is also a promoter of investment activities. It can play a significant role in the economic development of a country, while economic development itself can facilitate the growth of the insurance sector. In many developed countries, citizens are to a certain extent protected by social security schemes provided by the government. These schemes offer financial aid to citizens who are eligible on grounds of unemployment, old age, sickness, disability, etc. The social security scenario in India is quite different, having traditionally been the responsibility of the family or community. However, with industrialization, urbanization, breakup of the joint family system and weakening of family bondage, it has become necessary to provide social security arrangements that are institutionalized and regulated by the state rather than the society.

KEYWORDS: Insurance Sector, Insurance Regulatory Development Act (IRDA), Rural Sector, Micro insurance

Introduction

The business of insurance is related to the protection of the economic value of the assets. Every asset is expected to last for a certain period of time during which it will provide the benefits. After that, benefit may not be available. Insurance is a mechanism that helps to reduce the effects of such losses. It promises to pay to the owner or beneficiary of the asset, a certain sum if loss occurs.

Indian Insurance Market – History

Insurance has a deep-rooted history in India. It finds mention in writings of Manu (Manusmrithi) Yagnavalkya (Dharamshastra) and Kautilya (Arthasashtra). The writings talked in concern of pooling of resources that could be redistributed in times of calamities such as floods, fire, epidemics and famine. Ancient Indian history has preserved the earliest traces of insurance in the form of marine trade loans and carrier's contracts. 1818 saw the advent of Life Insurance business in India when Oriental Life Insurance Company began its operations in India. General Insurance was however a comparatively late entrant in 1850 when Triton Insurance company set up its base in Kolkata. The process of opening up the insurance sector was initiated against the background of Economic Reform process, which commenced from 1991. For this purpose, Malhotra Committee was formed during this year who submitted their report in 1994 and Insurance Regulatory Development Act (IRDA) was passed in 1999. Resultantly Indian Insurance was opened for private companies and Private Insurance Company effectively started operations from 2001.

Indian Insurance Market- Present

The insurance sector was opened up for private participation in 2000. For years now, the private players are active in the liberalized environment. The insurance market have witnessed dynamic changes which includes presence of a large number of insurers both life and non-life segment. Most of the private insurance companies have formed joint venture collaborating well-recognized foreign players across the globe. There are now 24 insurance companies operating in the Indian market – 23 private life insurers and 1 –public life insurance company .With many more joint ventures in the offing, the insurance industry in India today stands at a crossroads as competition intensifies and companies prepare survival strategies in a detariffed scenario.

Review of Literature

Selvakumar & Priyan (2010) found that insurance companies are increasingly taping the semi-urban and rural areas to take across the message of protection of life through insurance cover. Higher level of protection implies that customers are more conscious of the need for risk mitigation, grater security, and about the future of their dependents. Insurance sector has been evolving and improving its underwriting and risk management abilities.

G. Prabhakara (2010) in his studies revealed that there is a change in the insurance industry with the role of privatization and so many new products have been introduced to the market. He also emphasized the importance of spreading the rural and social insurance with reference to IRDA obligations.

K. Nagaraja Rao (2011) in his study an attempt was made how entrepreneurial ideas can help develop viable alternatives in mass rural coverage and help in inclusive growth of the rural people. The results indicated that the insurers and the agents are using "yesterday's techniques for today's problems". It is highly imperative to take a second look and equip agents with entrepreneurial skills. Innovation and application of new methods are key for spreading the message of life insurance to the nook and corner of India.

Dr Madhurima Lall (2011) tried **to** examine the opportunities for insurers in the rural market and what would be new strategies to tap the highly underinsured rural area. She also understood the consumer behavior in the insurance sector and identified challenges faced by insurance companies and how to overcome with those challenges.

Altaf Ahmad Dar (2012) conducted a study on awareness of insurance in rural areas with respect to Kashmir valley and concluded that insurance companies can promote saving both government and private companies by building a relationship of trust. The middle and low socio-economic groups are a potential market to be tapped, as they are ready to spend a reasonable amount as premium payable per annum. To develop a viable life insurance scheme, it is important to understand people's perceptions and develop a package that is accessible, available, affordable and acceptable to all sections of the society.

The research review identifies the gap between growths of insurance in rural markets with privatization of insurance sector. It tries to put an attempt of changing rural markets and untapped rural markets as an opportunity for so many private insurance players.

Objectives of study

This paper studies the insurance scenario in rural areas. And also studies the different policies offered by various insurance companies to reach the rural poor. The data have been collected from the secondary sources like various journals, books, Bulletins, and reports of insurance companies IRDA and other agencies, which are related to the study.

Rural insurance in India

Under the provisions of sections 32–B and 32–C of the Insurance Act, 1938, insurance companies are obliged to provide such percentages of business as may be specified by the IRDA, for persons in the rural sector or social sector, workers in the unorganized or informal sector, for economically vulnerable or backward classes of the society and other categories of persons, as may be specified by the IRDA. The IRDA has, in pursuance of the provisions of the above two

sections of the Insurance Act, issued the (Obligations of Insurers to Rural or Social Sectors) Regulations, 2000, which lays down that every insurer transacting general insurance business, shall underwrite business in the rural sector, to the extent of at least 2% of total gross premium in the first financial year, at least 3% of gross premium in the second financial year and 5% of the gross premium in the third and further financial years. The obligations include insurance for crops.

The Rural sector has been defined as any place which, as per the last census, has a population of not more than 5000, density of population of not more than 400 per square kilometer, and at least 75% of the male working population engaged in agriculture.

The Government of India has launched various programmes for the benefit of small farmers, marginal farmers, agricultural laborers, etc. Since 1980, all these programmes have been integrated into Integrated Rural Development Programme (IRDP) which is funded by the Central and State governments on 50:50 basis. The objective of the programme is to provide, to the target group of rural families, a package of assistance comprising of income generating assets, working capital, etc. through subsidy, institutional credit, etc. Special insurance schemes are framed to protect the beneficiaries of IRDP projects. Under these policies, the rates of premium are lower and claims procedure is simplified. Whenever, the word ‘scheme’ is used hereafter, it refers to these special policies. Insurers will evolve appropriate strategies and plans to meet these obligations.

The census of 2001 shows that the rural sector in India comprises 72% of the population and generates 26% of the GDP. Thus, the rural sector is important both politically and economically. Naturally, rural insurance has been emphasized since the nationalization of life insurance business. The government followed a three-pronged strategy for life insurance. Firstly, it targeted the rural wealthy with regular individual policies. Secondly, it offered group policies to those who could not afford individual policies. Thirdly, for the very poor, it offered government-subsidized policies. For non-life insurance in the rural sector, the government has actively pursued specific strategies such as crop insurance and the insurance of farm implements such as tractors and pumps. It was noted in the section on regulation that, after five years of operation, every private sector life insurance company has to achieve a certain proportion of their business in the rural sector. It is a variable and rising proportion, with at least 15% of business in the rural sector after five years. For the Life Insurance Corporation of India (LIC), the requirement is 18%.

What exactly is meant by the rural sector?

The term “rural sector” is confusing because not all government bodies use the same definition.

Several distinct definitions (which are relevant for the insurance sector) have been used in the past.

• The Reserve Bank of India (RBI) defines four different entities. All definitions apply to the population size. The only relevant factor is the number of people living in a well-defined geographical boundary. Thus, the density of the population or the activity of the population is of no relevance for the definition of the RBI. The entities defined by the RBI are as follows.

(1) A given geographical area is called rural if it has less than 10,000 people.

(2) A given geographical area is called semi-urban if it has more than 10,000 but less than 100,000 people.

(3) A given geographical area is called urban if it has more than 100,000 but less than 1,000,000 people. (4) A given geographical area is called metropolitan if it has more than 1,000,000 people.

• The Census of India recognizes two areas: urban and rural. The only category it explicitly defines, however, is urban. Thus, the definition of a rural area is by default whatever is not covered by the definition of an urban area.

The census of 1991 defined an urban area as an area that has all of the following three characteristics: (1) a minimum population of 5,000; (2) at least 75% of the male workers engaged in non-agricultural pursuits; and (3) a population density of at least 400 persons per square kilometer.

• Under the "Obligations of Insurers to Rural Social Sectors" of the Insurance Regulatory and Development Authority Act, 1999, the IRDA defines the rural sector as follows. "Rural sector" Shall mean any place as per the latest census which has: (i) a population of not more than 5,000; (ii) a density of population of not more than 400 per square kilometer; and (iii) at least 75% of the male main working population54 is engaged in agriculture.

According to the Census definition, the area will be classified as rural. However, according to the IRDA definition, it will be classified as urban. This has resulted in pragmatic problems for insurers planning to fulfill the rural sector obligations.

Rural Policies

Rural policies comprise the insurance of:

- Various livestock, e.g., cattle, sheep, goat, etc.
- Sub-animals e.g., silkworm and honeybee.
- Plantation and horticultural crops, e.g. rubber, grapes, etc.
- Property e.g., agricultural pump sets, etc.
- Persons e.g., gramin accident.

Emerging Rural Insurance Market in India

Development of insurance market is complete only on its reaching all the sections of society. In order to ensure that all insurance companies take forward their business operations to the rural lands and also with the aim of bridging the demand supply gap in rural areas and to ensure even spread of insurance business amongst all geographical sections of the country, mandatory norms were introduced to cover rural and social sector population in the year 2002. Rural areas and occupations that come under social sector were pre defined and insurance companies are required to fulfill these norms.

Some Popular Rural Life Insurance Products of Various Companies are as Follows:

Jeevan Madhur (LIC): This policy has covered nearly 13.5 lakh lives in rural areas. It is a simple savings related life insurance plan where you may pay premiums regularly at weekly, fortnightly, monthly, quarterly, half-yearly or yearly intervals over the term of the policy. The premium chosen by you shall be subject to the minimum and maximum sum assured of Rs. 5,000/- and Rs. 30,000/- respectively payable on death and maturity under this plan.

Suraksha Kavach (ICICI): Suraksha Kavach is different from Surkasha in that it is sold exclusively through Micro Finance Institutions (MFIs) when a customer avails of a loan. The primary goal of Suraksha Kavach is to pay off the outstanding loan amount in the event of the policyholder's death; thereby safeguarding the financial future of his or her family members. This policy can be availed in single premium modes only. The policy is assigned to a lending institution that becomes the beneficiary and provides the policyholder with a cover for the loan amount.

Sumangal Bima Yojana (Tata AIA): A micro insurance policy in which the policy holder pays premium for 10 years and get cover for 15-years. Upon survival until maturity, the policy returns 100% of the premiums paid by the policyholder during the term of coverage. To encourage saving from individuals who prefer getting periodic returns, Tata AIA Life brings an insurance plan that goes hand in hand with regular savings. Tata AIA Life Sumangal Bima Yojana, a non-participating limited premium payment money back plan, gives guaranteed returns* at specified intervals during term of the policy besides an insurance cover for 15 years. Apart from these, they have Ayushman Yojana, Sampoorna Yojana and Navkalyan Yojana schemes in micro insurance sector.

Bima Dhan Sanchay (Birla Sun Life Insurance): This plan provides the security of life insurance cover and guarantees the refund of premiums paid by you on maturity. Apart from providing the security of life insurance, cover also guarantees the refund of premiums paid by you on maturity. This plan is simple and convenient with no medical tests and minimum documentation. They have also designed 'Bima Kavach Yojana' plan keeping in mind the paying capacity and the needs of the rural population. They are working in close coordination with the Aditya Birla Group Units and various N.G.O's, located across India to provide the rural insurance services to the rural population.

Max Vijay (Max New York Life): Max Vijay is a unique product, which combines the benefits of life insurance, savings and gives you complete flexibility for making subsequent premium payments. A plan, which gives coverage for life long for a minimum premium amount of Rs1000, Rs 1500 and Rs 2500 especially, designed for the farmers and lower income group people concentrated in rural areas. The policy does not lapse as long as there is sufficient amount in the policy account.

Role of Rural Agents to Market Insurance Policies

The following categories of persons could be identified as potential agents; their competency to sell insurance products has to be ascertained by companies:

Postal Agents

The post-office sells savings certificates such as Kisan Vikas Patra, National Savings Certificate and generates recurring deposits through postal agents. These agents are recruited by the district savings officer, Office of the Collect orates, and given a three-year renewable license. 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.

Doctors and School Teachers

Registered medical practitioners and teachers are the more educated persons in a village and command considerable respect and influence. Villagers also trust them. Many of them have worked as agents for LIC, post-office and other financial institutions. As these persons are well educated, they can be easily trained under the IRDA curriculum and appointed as insurance agent by the private agencies.

TV Cable Operator

The Andhra Pradesh Government has, in one of its income generation opportunities for the youth, extended a loan of up to Rs 40,000 to set up satellite cable TV connections and to select number of educated unemployed youth. Cable TV operators are educated and have access to all homes in the village that have a cable connection, that is, about 400 households in villages with a population of more than 5000. 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

The youth clubs in the villages of Andhra Pradesh are active and are in activities such as starting a library, digging village ponds, processing official documents for villagers, organizing rural sports events, and cultural shows to ensure better quality of life in the village. They are also part of government programmes where they get involved in spreading information and awareness on health and sanitation, government schemes and assist in government health camps. These youth are educated and seek avenues for generating income for themselves. Leaders of youth clubs can be selected and recruited for marketing insurance products by companies.

Drivers of Rural Insurance Development

- **Demand side**

The main economic drivers for general insurance are growth in income, savings and education. The same drivers apply in the rural sector. A survey was conducted by Forte Group in 2003 of 1172 rural households to examine the characteristics of insurance-buying households in the rural sector.

- **Supply side**

There are two critical elements to success on the supply side of insurance in rural areas:

Products that are suitable for the rural population and an adequate distribution mechanism the development of rural insurance products should have the specific needs and capacity of the rural population in mind.

Firstly, the income pattern in rural areas is different from in urban areas. Specifically, income follows crop cycles. There are two main crops during a calendar year. Thus, in many parts of rural India, a semi-annual payment of premiums is preferred. However, this pattern of income is not universal across all regions. Therefore, policies have to be region-specific. Secondly, the general buying capacity is lower in the rural areas. Consumer goods have been marketed very successfully in the rural markets by lowering the "unit size". For insurance products, this means selling life insurance with a lower minimum face value. Thirdly, the level of education is lower in the rural areas. Therefore, simplified products would be preferable for most customers. Fourthly, verification of age and fixed address may be cumbersome in t he rural areas. Using wider age bands for life insurance policies would simplify the procedure. A number of insurance companies are already following one or more of these avenues. Traditional agents are still the most effective means to penetrate rural areas, although the use of bank branches is on the rise. There is a great variation in rural distribution of insurance among life insurers.

Conclusion

Rural markets are still virgin territories to a great extent and offer exciting opportunities for insurance companies. The government should encourage more focus on rural areas in providing awareness about insurance products. 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. Therefore, Micro insurance products should be designed for rural areas population and social sector under privileged people according to their needs and income. Innovative schemes at affordable premium have to be designed and should be more feasible. Endowment plans should be easily access to the customers and try to reduce the mortality charges because average age has been increased. With respect to rural market penetration in village areas there are number of groups which are still untapped by the insurance company. Efforts have to be made by private players to reach the broad categories. Insurance companies should be more transparent, reduce the administration charges & minimize hidden cost as much as possible. Finally Insurance company should be provide quality products, better services, clarity in terms, discloser of hidden charges if any and minimum guarantee of the invested funds .

References

1. Selvkumar, M., & Priyan, Vimal J. (2010). Indian Life Insurance Industry: Prospect for Private Sector. *The Journal of Insurance Institute of India*, XXXIV(1), 52-57.
2. Prabhakara, G. (2010, July –December). The Evolution of Life Insurance Industry in the last decade (2000 –2010). *The Journal of Insurance Institute of India,* XXXVI.
3. Rao, Nagaraja K. (2011, June). Reaching Rural Masses through insupreneurship: A Study With Reference To Life Insurance in India. *JBFSIR,* 1(30).

4. Lall, Madhurima. (2011, December). An empirical study of life insurance product and services in rural areas. *International Journal of Multidisciplinary Research*, 1(8).
5. Dar, Ahmad Altaf. (2012, December). Exploration of Awareness of Life Insurance:- A Study Rural Areas of Kashmir Valley. *International Journal of Business Management &Research (IJBMR)*, 2(4), 21-28.
6. www.google.com
7. IRDA Annual Reports