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Rural Insurance in India – A Study

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Abstract: *Gandhi on perspective on human security: A humane world where people can live in security and dignity, free from poverty and despair, is still a dream for many and should be enjoyed by all. In such a world, every individual would be guaranteed freedom from fear and freedom from want, with an equal opportunity to fully development his or her human potential.* Almost 93% of the respondents were aware of life insurance; while 61% were aware of motor and accident insurance. Around 36% of them had bought some insurance or the other and another 38% of these policyholders had intention to buy more. A little over half (51%) of all the respondents had intentions of buying insurance products. Out of the non-policy holder respondents 62% intended to buy. If these numbers are extrapolated over the macro level, rural population being 910 million, the potential market could be of mind-boggling proportions. 90 % of the respondents are of the opinion that risk is associated with insurance business. 45% respondents are happy about the services rendered by the agents/ insurance company.

Key words: *human security, infrastructure, potential, Rural sector*

Introduction

Indian Insurance market is the 19th largest globally and ranks 5th in Asia.The public sector Insurance companies have continued to dominate the insurance market.Rural sector offers a huge business opportunity for insurance companies.Savings ratio is a healthy 30% of income across all socio economic segments. Awareness about Insurance is required in rural areas. 27% of rural populations already have an Insurance policy. 51% of all respondents have expressed intention to purchase an Insurance policy.There are total of 124 million rural households.Nearly 20% of all farmers in rural India own a Kissan Credit Cards. The 23 million credit cards issued until date offer a huge data base and opportunity for insurance.

Flexibility in Premium payments is important.Security of income and bulk returns, especially for daughter’s marriage and children’s education are major persuasions for taking life policy in rural areas.While individuals are undecided about purchasing insurance from private players, members of different groups are favorably disposed to purchasing group insurance through a private player vetted by the group... Herd mentality...Safety in numbers.Rural India, contributing to 70% of the total population in India, is a largely untapped market. Reports highlight the opportunities for insurance products in rural India as well as the current challenges.Rural development is a part of economic development. Even economic development is a part of totaldevelopment and it cannot be equated with 'Total development of society'. The overall concept of development isan interaction of 'Economic and non-economic forces'. The concept of economic development is not theEstablishment of industries alone but is much more than the 'acquisition of industries'. It is the 'upward movement,of the entire social system'. The concept of economic development is something much more than economicgrowth.

'Development is taken to mean growth plus change'. Rural development is, not separate from theconcept of economic development and they cannot be termed as two different concepts. E-choupal of ITC and other similar initiatives are available as additional delivery channels of insurance in rural areas. 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.

Review of Literature

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.

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.

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.

Objectives

- To analyse the Insurance Scenario in Rural areas.
- To analyse the Risk Management.
- To study the coverage under various Rural Insurance Schemes.
- To offer few suitable conclusions and findings.

Collection of Data: The data have been collected from secondary and primary sources. Secondary data covered from various journals, books, Bulletins, and reports of insurance companies, IRDA and other agencies, which are related to the study.

Insurance Scenario in Rural areas

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 unorganised 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 emphasised since the nationalisation 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-subsidised 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%.

Risk Management

Risk management is generally regarded as a method of managing property and liability loss exposures, and it is a rarely associated with life and health insurance of individuals as a method of managing personal loss of exposures. This is not called for, inasmuch as risk management provides a framework that can be used to analyze almost all types of loss exposures, including life and health. The far-reaching significance of risk management approach to individual life insurance in the complex, post-industrial, and post-modernist society can hardly be exaggerated. To cite a classic instance, the most devastating terrorist attack ever against the World Trade Center in New York on September 11. 2001. Resulted in a catastrophioc loss of life and property values[3]. The Terrible Tuesday factor would have thrown thousands of families into financial disaster but for the modern, sophisticated methods of risk management through insurance.

Traditionally, risk management has been synonyms with annual budgeting for insurance premiums and hedging. This has been especially true in Indian environment and the corporate risk manager has the sole responsibility of negotiating insurance contracts. In a recent international research programme, conducted with a view to understanding the future market for risk management, had little to say, by way of explanations, as to how in practice they would operatinalise their grand risk management ambitions. Whatever an individual’s attitude towards risk may be, if he/she is to maximize his/her welfare, the first step must be to identify and evaluate the risks to which he/she is, or may become, exposed[4].

Risk management, as a set of techniques for surviving loss, comes in more or less five norms. First, we can restrict our decisions to those over whose outcomes we have some control, thereby managing the probability of loss. Second, we can diversify in order to reduce the consequences of loss. Third, we can insure as a collective method of diversification. Four, we can change our minds and evade a commitment before all is lost. The only other method available to us is to refuse to play when the risks are unacceptable[5].

Coverage’s under Various Rural Insurance Schemes

Cattle policy prescribed by the agreement provides indemnity for death due to

(a) Accident (inclusive of fire, lightning, flood, inundation, storm, hurricane, earthquake, cyclone, tornado, tempest and famine)

(b) Diseases contracted or occurring during the period of this policy.
(c) Surgical operations
(d) Riot and strike

Conclusions

Creation of awareness about Insurance in rural areas. Attract peoples in rural areas through the schemes. Penetration in rural would be attainable only if the organizations keep in mind the psyche of rural consumers, the cultural and social dynamics and above all cater to the diverse yet unique requirements of this segment. Covering all perils as listed in basic policy and death due to disease excepting diseases caused by bad management and/ or which are due to nutritional deficiencies. 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 labourers, 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 areframed to protect the beneficiaries of IRDP projects.

Finally, agents play major role in Rural Insurance business.

Findings: In order to study rural insurance position in the country a survey of 100 respondents was conducted in Warangal city of Telangana state.

Following questions were asked during the survey.
1. Are you aware about life insurance/ motor and accident insurance?
2. Are you willing to buy insurance product?
3. Have you purchased insurance product?
4. Do you feel that insurance products are associated with risk?
5. Are you happy about the services rendered by Insurance Company?
6. Do you feel that insurance market is vibrant?
7. Do you feel that insurance companies are taking collaborative efforts to protect the interest of the policy holders?
8. Do you feel that IT and telecom revolution India has not bypassed the rural sector?

The study brought forth revealing data. The rural folks have a strong saving habit—they save about one-third of their income annually across the three income segments studied. What was stunning was that the respondents, even those residing in backward areas, were quite conversant with insurance. The Indian rural market for insurance is not entirely an uninformed market. Almost 93% of the respondents were aware of life insurance; while 61% were aware of motor and accident insurance. Around 36% of them had bought some insurance or the other and another 38% of these policyholders had intention to buy more. A little over half (51%) of all the respondents had intentions of buying insurance products. Out of the non-policy holder respondents 62% intended to buy. If these numbers are extrapolated over the macro level, rural population being 910 million, the potential market could be of mind-boggling proportions. 90 % of the respondents are of the opinion that risk is associated with insurance business. 45% respondents are happy about the services rendered by the agents/ insurance company.

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