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Growth of Insurance in Rural Areas

[1]Akshay Deep Kalal, [2]Naveen Goud Gajja
B. Com Computers, Bhavan's Vivekananda Degree college , Phone: 9032102757, akshaydeep2504@gmail.com
B. Com Computers, Bhavan's Vivekananda Degree college, Phone: 7032067568, Naveengoud8197@gmail.com

Abstract: *This paper examines the present state of rural insurance in India and attempts to explore the causes which led to poor penetration of rural life insurance markets. It also analyses the rural insurance marketing practices of private life insurance players in India and offers suggestive remarks for capturing the rural potential.*

I. Introduction

Rural areas in our country are marked with agriculture and farming as the core occupation. Apart from these, other income generating sources like poultry farming, cattle rearing, bee culturing and fish culturing also have their place. Despite of having many income sources, profits for the rural population are highly unpredictable, the reason being many factors impacting their 'produce'. In case of agriculture and farming, the production rate is precarious due to the constant changes in the climatic conditions that affect the crop. Even non-agriculture income sources like poultry, cattle etc., may not give the expected outcome because of the effect of failing health due to epidemic or endemic diseases. In such cases securing his assets financially will reduce bumps of losses of a farmer, which is possible only by "insurance". Extending the insurance policies and services to the rural areas will not only benefit the farmers, peasants and artisans but can also expand the business of the insurance companies burgeoning their profits.

Need For Study

Main objective of the research is to have an analysis of life insurance industry in Rural areas. To accomplish this objective, it has been divided into five:

- To study awareness of people about insurance and its schemes.
- To determine reasons behind opting for an insurance.
- To know the most preferred policy suitable for their needs.
- To determine customers perception towards private insurance companies and their expectation form private insurance companies.
- To study the types of benefits provided by insurance services to the rural population.

II. Literature Review

Ramanathan, K.V. (2011) research has resulted in the development of a reliable and valid instrument for assessing customer perceived service quality, awareness level, and satisfaction level of customers towards life insurance industry.

Selvavinayagam K and Mathivanan R (2010) article has revealed that the competitive climate in the Indian insurance market has changed dramatically over the last few years. At the same time, changes have been taking place in the government regulations and technology.

Shivanand H. Lengti (2009) in his article "Insurance Disputes in India" revealed that the insurance consumers have the option to select the appropriate authority and forum. It may be the insurance ombudsman or the consumer councils, to settle their disputes.

Patil, P.B. and Thakkar, P.N. (2007) article "Impact of Disinvestment on Banking and Insurance Sector" revealed that an intense competition among the insurance companies has led to better services being provided by customer satisfaction can be known from the customer retention ratio.

Classification Of Insurance

Based on today's life style, the list of types of insurance is increasing day by day. The main types of insurance policies available in the market are:

- Life Insurance: In this policy, the insurance company pays in case of the demise of the policy holder or at the time of the maturity of the policy. A new policy has been launched by insurance companies in which you will be covered under the insurance policy even after the maturity of the policy.
- Property Insurance: This insurance helps you to prevent the losses against theft, fire, burglary or any natural calamity like earthquake, floods, etc., based on the points mentioned in the policy.
- Health Insurance: It consists of a package of several types of insurance related to health. For example, medical insurance is one of the major part of health insurance however in most of the cases, dental issues are not covered in this policy. So, there is another Dental Insurance policy which covers dental problems and is also a part of health insurance. The sub category of health insurance also involves the injuries or accident at workplace insurance benefits.
- Auto Insurance: Any monetary loss due to accident of a vehicle is covered under this policy. Sometimes the expenses in the medicines for treating injuries and all other medical expenditure are also covered.
- Credit Insurance: This type of insurance pays the loans of the policy holder in case of any accident of the policy holder or job loss or death.
- Third Party Insurance: This type of insurance covers damages caused by you (first party) to others (third party).

Apart from these above-mentioned insurance policies, there are many other types of insurance policies in the market (and the list keeps on increasing) that are related to these policies.

Factors affecting insurance:

Market size:

1. The market size in the rural areas are smaller than to the urban regions.
2. In addition to this, lower population also is a hindrance to the growth of insurance companies in the rural India.
3. However, having a light on the present statistical situation reveals the fact that how the insurance companies can easily penetrate the rural markets and can exercise the situation, adding it to their profits.
4. The number of lives covered under Health Insurance policies during 2015-16 was 36 crore which is approximately 30 % of India's total population. The number has seen an increase every subsequent year as 28.80 crore people had the policy in the previous fiscal.
5. During June 2016 to May 2017 period, the life insurance industry recorded a new premium income of Rs1.87 trillion. The life insurance industry reported 9 % increase in overall annual premium equivalent in April-November 2016.

Investments: The following are some of the major investments and developments in the Indian insurance sector.

1. Having investments gathered from public interests, and receiving funds from foreign insurance companies can reduce the expenditure of Indian insurance companies which will aid them to extend their full-fledged services for the overall rural development.
2. New India Assurance filed the prospectus for Initial Public Offering (IPO) in which it will sale a total stake of 14.56 % to raise around Rs.7000 crore and it plans to use the capital raised for supporting growth of its business and maintaining solvency levels.
3. New York Life Insurance Company, the largest life insurance company in the US, has invested INR 121 crore in Max Ventures and Industries Ltd for a 22.52 % stake, which will be used for investing in new focus areas of education and real estate.
4. Aviva Plc, the UK-based Insurance company, has acquired an additional 23 % stake in Aviva Life Insurance Company India from the joint venture (JV) partner Dabur Invest Corporation for Rs.940 crore (US$ 141.3 million), thereby increasing their stake to 49 % in the company.

Government Initiatives: The Union Budget of 2017-18 has made the following provisions for the Insurance Sector:

1. The Budget has made provisions for paying huge subsidies in the premiums of Pradhan Mantri Fasal Bima Yojana (PMFBY) and the number of beneficiaries will increase to 50 % in the next two years from the present level of 20 %. As part of PMFBY, Rs.9000 crore (US$ 1.35 billion) has been allocated for crop insurance in 2017-18.
2. The Budget has attempted to hasten the implementation of the Digital India initiative. As people in rural areas become more tech savvy, they will use digital channels of insurers to buy policies.

Road Ahead: The future looks promising for the life insurance industry with several changes in regulatory framework which will lead to further change in the way the industry conducts its business and engages with its customers. Insurance Penetration mark is expected to cross 4 % mark in the year 2017 as it has shown a continuous increase in the year 2014 and 2015 with market penetration rate of 3.3 % and 3.44 % respectively.

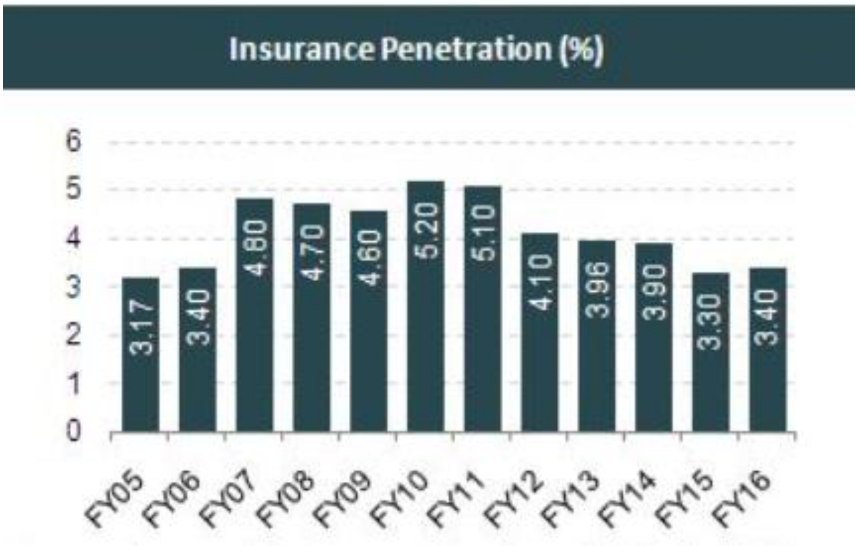

Figure 1: Insurance penetration FY05 - FY17.
Source: Insurance Regulatory and Development Authority – Sectoral Report

Interpretation

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. 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 Government of India has launched various programs for the benefit of small farmers, marginal farmers, agricultural laborers, etc. Since 1980, all these programs have been integrated into Integrated Rural Development Program (IRDP) which is funded by the Central and State governments on 50:50 basis. The objective of the program 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.

Expansion of insurance companies to rural areas of India: Insurance in rural areas can be availed both to non-agricultural and agricultural assets. Rural policies comprise the insurance of:

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

Non-agriculture insurance:

1. Cattle Insurance - The word ‘Cattle’ for the purpose of the market agreement refers to the animals like Milch Cows, Milch Buffaloes etc., whether indigenous, exotic or cross bred, within the age limit indicated. Cattle policy prescribed by the agreement provides indemnity for death due to accident (fire, lightning, flood, inundation, storm, hurricane, earthquake, cyclone, tornado, tempest and famine), diseases contracted or occurring during the period of this policy, surgical operations and riot and strike.

2. Sheep and Goat Insurance - The policy provides indemnity (sum insured or market value, whichever is less) against death of sheep and goats due to accident (including fire, lightning, flood, cyclone, famine, strike, riot and civil commotion) or disease occurring or contracted during the period of insurance. The exclusions are the same as under the cattle insurance policy. These relate to willful neglect, intentional slaughter, theft, etc.
3. Poultry Insurance - 'Poultry' for the purpose of the market agreement refers to layers, broilers and parent stock (exotic and cross-bred only). The agreement prescribes age limits and minimum number of birds to be insured. The policy provides indemnity against death of birds due to accident (including fire, lightning, flood, cyclone, storm, earthquake, strike, riot, act of terrorism) or disease contracted or occurring during the period of insurance. Some examples of exclusions are - transit by any mode of transport, improper management, loss/death due to natural mortality, non–specified or unknown diseases or reasons.
4. Aqua Culture Insurance - The insurance scheme under the agreement is applicable to licensed farms, in accordance with the Government notification, growing Brackish–Water shrimp or Fresh–water prawns by adopting extensive or modified extensive or semi intensive system only. The insurance covers only total loss or destruction of shrimp or prawns due to summer kill, pollution (from external source only), poisoning, riot and strike, malicious acts of third parties, earthquakes etc.

Rural Insurance Claim Procedure: If the insured animal dies, the policy holder must immediately intimate the news to the insurer. He/she must also provide the insurer with the duly–filled claim form, Death Certificate from a qualified veterinarian, Post-mortem examination report (if the company requires it), Ear Tag of the animal and must make sure that the value of the animal has been established as required.

Agricultural Insurance: Stretching out the insurance services to the rural population benefits both the farmer and the insurer. Foreseeing this advantage, the Government of India also has extended its hand by initiating several schemes through these insurance companies.

National Agricultural Insurance Scheme (NAIS): A Central Sector Scheme, is being implemented in the country since Rabi 1999-2000, as a part of risk management in agriculture with the intention of providing financial support to the farmers in the event of failure of crops because of natural calamities, pests and diseases. The scheme is available to all the farmers – loaner and non-loaner. Loaner farmers are covered on compulsory basis in a notified area for notified crops whereas for non-loaner farmers scheme is voluntary. The Scheme envisages coverage of all the food crops (cereals, millets and pulses), oilseeds and annual commercial or horticultural crops, in respect of which past yield data is available for adequate number of years. The premium rates are ranging between 1.5% and 3.5% (of sum insured) for food and oilseed crops. In the case of commercial/horticultural actuarial rates are being charged. Under the scheme, at present, 10% subsidy in premium is available to small & marginal farmers. It is a yield guarantee scheme operating on "Area approach" basis. The implementing States/UTs can notify any unit area of insurance i.e. block, Mandal, tehsil, circle, gram panchayat etc. keeping in view the availability of past yield data and capacity of the State to undertake requisite number of Crop Cutting Experiments (CCEs). The State Government/UT Administration is required to notify areas or crops well in advance of each crop season and issued the necessary notification or instructions to all financial institutes. Provide past yield data and conduct the required number of Crop Cutting Experiments (CCEs) in each notified area for assessment of crop loss.

Table 1: Financial progress of schemes X Five Year Plan & XI Five Year Plan: (Rs.in crores)

Year	B.E.	R.E.	Actual Expenditure
X Five Year Plan – 1500.00			
2002-03	300.00	254.99	254.99
2003-04	315.00	637.93	637.93
2004-05	350.00	541.65	350.00
2005-06	550.00	750.95	749.55
2006-07	550.00	635.37	634.37
XI Five Year Plan – 3500.00			
2007-08	500.00	718.88	718.88
2008-09	644.00	694.00	694.00
2009-10	644.00	1419.00	1419.00
2010-11	950.00	2662.00	950.00
2011-12	550.00	330.82	2660.00

Source: agricoop.gov.in/sites/default/files/NAIS

Pradhan Mantri Fasal Bima Yojana (PMFBY): The Fasal Bima Yojana launched by our government is a major step in this direction. In 2016-17, they were allocated Rs.5500 crores. This scheme has received an additional impetus with the government allocating Rs.9000 crores for the scheme. "The coverage of this scheme will be increased from 30 % of cropped area in 2016-17 to 40 % in 2017-18 and 50 % in 2018-19" said Arun Jaitley in the Budget speech.

The sum insured under this Yojana has more than doubled from Rs.69000 crore during kharif or summer sowing season in 2015 to Rs.141625 crore in 2016. Farmers have been paid Rs.13240 crore in arrears during 2016-17.

More than 1 million farmers have been given cover under this scheme, making India the third largest agriculture insurance market in the world after US and China.

The scheme, approved by the Cabinet in January 2016, has a uniform premium of 2 % to be paid by farmers for all Kharif crops and 1.5 % for all Rabi crops. For commercial and horticultural crops, the farmers' premium is 5 %. The rest of the premium is paid by the government.

Companies that offer Rural Insurance are:

Following is a list of bodies that offer Rural Insurance in India. This is not a complete list, but merely an indication of the options that one has when it comes to Rural Insurance:

1. HDFC Life
2. ICICI Lombard
3. Cholamandalam Investment & Finance Company Limited
4. IndusInd Bank Limited
5. Dharmapuri District Central Co-operative Bank
6. Central Bank of India
7. Ministry of Labor, Govt of India

Table 2: District-wise crop-wise Sum Insured for the year 2017-18 (Rs. /ha)

District	Wheat lrring.	Wheat unlrrig	Rape-mustard	Gram	Cumin	Fennel	Isabgul	Onion
Kutch	44500	18000	30000	24000	50000	-	32000	45000
Banaskantha	21000	13500	25000	15000	30000	16500	13500	18000
Patan	40000	15000	30000	20000	40000	35000	26000	18000
Mehsana	40000	15000	30000	20000	40000	35000	26000	-
Sabarkantha	37000	-	25000	20000	11500	30000	25000	15500
Aravalli	37000	-	25000	20000	11500	30000	25000	15500
Gandhinagar	44000	25000	30000	24000	40000	35000	26000	-
Ahmedabad	44000	25000	26000	24000	34000	24000	-	-
Surendranagar	47000	27000	32000	30000	42000	25000	42000	52000
Morbi	47000	27000	32000	30000	42000	25000	42000	52000
Rajkot	34000	19000	31000	25000	29000	-	29000	46000

Source: Government of Gujarat, Agriculture & Co-operation Department, GR N0: PFB-102016-875-K.7, Sachivalaya, Gandhinagar

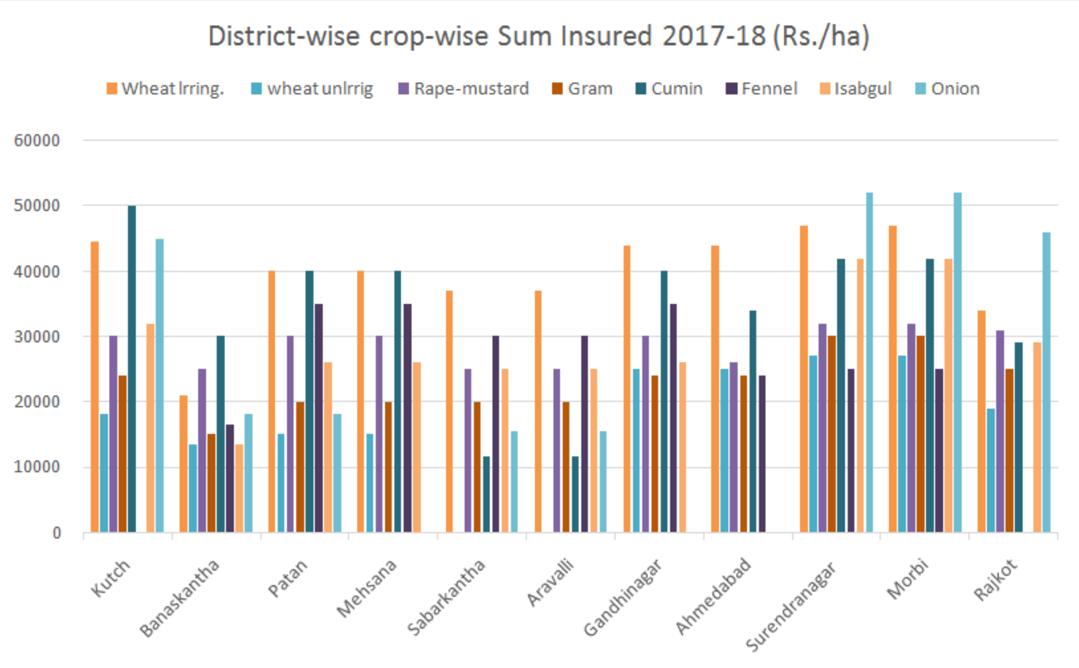

Figure 2: District-wise crop-wise Sum Insured 2017-18 (Rs. /ha) from Table 2.

III. Suggestions

Quality of the service experience is heavily dependent on staff customer interpersonal relationship. Companies need to treat their employee well if customers are to be served well by their employees.

To understand the prospects for insurance companies in rural India, it is very important to understand the requirements of India's villagers, their daily lives, their peculiar needs and their occupational structures.

The rural market offers tremendous growth opportunities for insurance companies and insurers should develop viable and cost- effective distribution channels, build consumers awareness and confidence.

IV. Conclusion

The penetration level of the existing insurance players in the rural market is not commendable. The reasons as analyzed from primary and secondary data for low penetration in rural areas are listed below. To boost volume of business, the insurance companies are resorting to big ticket policies. Sale of low ticket policies in rural areas is not given importance. Except LIC of India, no other company has exclusive rural centric products. Physical presence of at least satellite branch ensures trust. But more than 79% of branch offices of life insurance companies are in urban areas. Private players' presence in micro insurance sector is negligible. Rural customers do not trust private players as much as they trust LIC of India. This limits their maneuverability in rural areas. Agents, who are instrumental in selling in rural areas, feel that the products of insurance companies are not rural customer need based. In their perception, companies are not evincing interest in rural areas. This brings out the vast potential market available for the insurance players. For this purpose, insurance players can increase the awareness level of the insurance products to the rural consumers, evolve products acceptable in the rural market and promote rural agents to ensure trust among the customers. Satellite branches in rural areas can be opened to promote the insurance concept in rural market. Marketers thus can plan the strategies to enter and establish their presence in rural market that has huge opportunities.

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