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Rural Insurance

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Abstract: *The rural sector is considered as any place with a population of not more than 5000, and where most of the working population is engaged in agriculture.*

In India 70% of the country's population lives in rural areas, as most of the working population is engaged in agriculture and farming activities and if there is a failed season or crop failure, the lives of farmers are effected directly or indirectly and they end up in financial crisis. The main reason for crop failure is adverse weather conditions or pests. The study demonstrates that 39% of the variation in expected crop failure rates can be explained by soil and climate.

Thus insurance provides the scope to reduce the losses and increases economic security, insurance is mostly city-oriented, while it is true that access of insurance cover depends on the literacy/awareness levels and assured income, but things are happening in the rural areas where human life and there is a tremendous scope for developing insurance sector.

A rural insurance policy gives the farmers a back up to be able to feed their families even in case of mishap, now insurance sector is providing various policies in different fields of rural areas, Thus insurance not only benefits urban population but also the rural people. But only very less percentage of people are aware of this, so government should take initiative to bring awareness among the rural people.

Key words: *Products of rural insurance, Government, need for insurance, economic security, rural areas.*

I. Introduction

Rural area is a geographic area that is located out- side the cities. It is considered as any place with a population of not more than 5000 and with a population density of not more than 400 per square kilometer and where, more than 25% of men are engaged in agriculture. Where agriculture and farming is the primary occupation and the existence of poverty is very high. Some times its so happens where the farmers are unable to produce the food grains due to crop failure or any other reasons, there may be less production of milk because of death of cattle, sometimes there may be any risk happening to the farmer or his family member's health, in such cases they are unable to bare the loss. So insurance is a kind of solution for all such cases. Insurance is a risk transfer mechanism that ensures full or partial financial compensation for the damage or loss caused by events. Insurance is based on trust. Once that is established, its benefits can be better explained. Rural insurance is a form of risk management primarily used to hedge against the risk of a contingent uncertain loss caused by events to the rural people.

II. Need For Study

India is well known for rural areas because more than 70% of the population belongs to rural areas. Most of the rural people are illiterate and they were not aware of insurance. So it is very important to study about rural sector, and bring awareness on insurance accordingly. This study gives basic idea about need, importance and awareness of insurance in rural areas.

III. Litrature Review On Rural Insurance

"Actually between 1979-80 the general insurance scheme introduced a crop insurance scheme (area approach or area yield crop insurance) in 26 areas in Gujarat, 23 areas of West Bengal and 17 areas of Tamil Nadu in collaboration with the State Government and this insurance scheme further has been extended to more areas of many more states. The central goals of this review is to trace the methodological modifications made from time to time in the original crop insurance scheme and identify certain outstanding problems followed by suggesting of provisional solutions. Finally in this paper he suggests that crop insurance scheme should be made compulsory to all borrowing farmers or for a specific section of the borrowing farmers such as the small farmers defined by their (small farmers) credit eligibility. He points out that crop insurance will be integrated with the crop loan insurance and there will be no need to issue separate policy to each insured farmer". (Dandekar; 1985)

"In India widespread crop insurance scheme started by introducing the Comprehensive Crop Insurance Scheme (CCIS) in 1985.The said scheme suffered from a lot of problems-a) high percentage of claims to premium; b) high administrative cost (5-7%) typically; c) mandatory for loan farmers; d) acting as "bank insurance"; e) 22 states/ union territories participate in the CCIS. In order to solve these problems, in 1999 it was replaced by the National Agricultural". (IFTT; 2001)

Kalavakonda and Mahul (2005) analyzed the activity of crop insurance of India's second largest driest state Karnataka and pointed out the weakness in product design, implementation challenges and operational problems. From the analysis they have found that the running crop insurance scheme failure to attain both of its explicit (risk management) or implicit (safety net and containment of both the central and share governments' contingent liability) hypothesis, as a result the insured coverage acreage and number of insured farmer and also the financial activities were not satisfactory. Therefore, they provide a crop insurance design on the basis of cost effective risk management technique. Finally, they provide new ideas to improve the crop 45 insurance scheme and sketch the alternative-crop insurance scheme on the basis of an area –yield approach.

"Effective life micro insurance services required greater awareness levels among the prospective SHG members and clients. He emphasized the need to sensitize the field staff in banks, microfinance institutions, NGOs and insurance companies to recognize the special needs of the rural communities. The author insisted that a comprehensive communication strategy for marketing the concept of rural micro insurance was very much needed. The service provider should also maintain a suitable database of insured/uninsured SHG members based on one's own life micro insurance needs." (Ajit Kanitkar; 2005)

Basaza and et.al (2008) conducted a comparative case study evaluation of two community health micro insurance schemes. They pointed to a series of not mutually exclusive explanations for low take up of these insurances both with respect to demand and supply issues. They found that the potential explanations for low demand may be the insurance scheme's design and operation, insurance principles, community involvement and lack of trust in the management of the scheme.

IV. What Is Insurance?

An agreement or a policy that a person purchases from an insurance company by paying premiums on monthly, quarterly or yearly basis to the insurance company is called insurance.

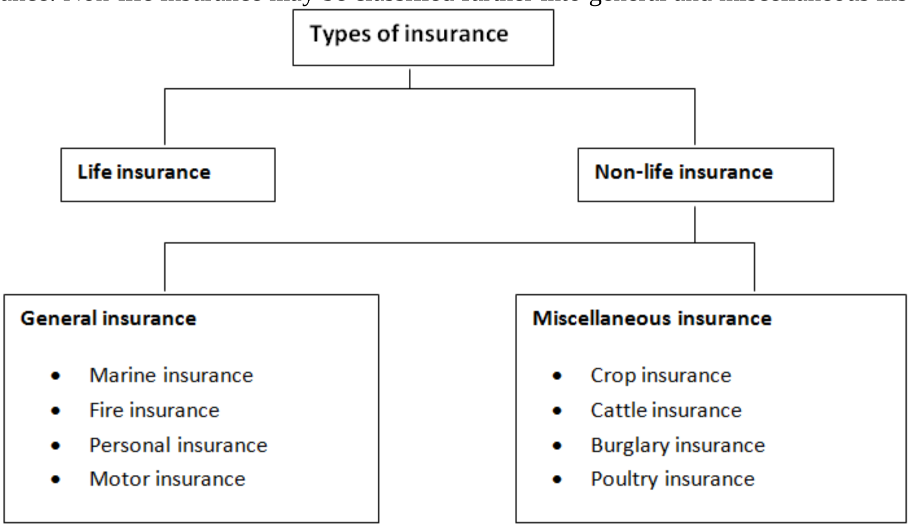
The company protects the police holder or the buyer from any kind of risk or loss that may occur in future, basically it is a risk management scheme by using which the insured person can get protection, against possible eventualities such as financial loss, death, sickness, or loss done to his/her belongings. Insurance is the only financial instrument that helps to manage financial risks smoothly and reduces financial worries.

V. Classification Of Insurance:

Insurance companies offer different kinds of policies to cover several kinds of loses and providing security against various risks. Depending on subject-matter, insurance is classified into two main categories:

Life insurance: Life insurance is the agreement between policy holder and an insurer, where the insurer promises to pay a sum of money in exchange for a premium, upon the death of an insured person.

Non-life insurance: Non-life insurance may be classified further into general and miscellaneous insurance.



VI. Need And Purpose Of Rural Insurance:

The purpose and need of insurance as a method of transferring risk is to provide economic protection against the losses that may due to uncertain events caused by death of cattle, crop failure, floods or any other economic losses. The loss or risk may or may not occur during the operative time of the contract of insurance. People, therefore, opt for insurance purely for the reasons of uncertainties in life. Insurance helps people in reducing tensions, as the quality of being efficient will improve when the tensions and fears of rural people involving the risks are shifted to the insurer and the financial status of farmers and other rural people remains unaffected by the losses caused by the risks insured. Rural working population also enjoys better credit standing as the risks are transferred to the insurance company. Insurance also provides opportunity for investment as life insurance policies provides maximum benefit of protection and investment because the event insured against is sure to happen, thus life insurance investment offers attractive returns. Insurance sector is playing crucial role in tackling the problem of unemployment in the country by offering employment opportunities to many rural educated people. Moreover there are large numbers of rural people who are working as insurance agents. Some rural insurance schemes offering attractive returns on the savings, which helps in increasing regular savings of people, it also provides funds for meeting various needs like children's education, marriage, and so on.

VII. Importance Of Rural Insurance

In a dynamic world like today, economies are changing at a very fast rate; future is extremely uncertain, unpredictable and immeasurable. Obviously there are risks for farmers as well as other rural communities. Insurance is the most important method of handling various kinds of risks and it is universally accepted. Rural insurance provides protection against occurrence of uncertain events like loss due to rain, floods, drought, crop failure etc.

Rural insurance is a device for eliminating risks and sharing the losses. The risk may or may not happen but policy holders pay the premium regularly and share the burden of the loss. Thus, the loss suffered by a person is spread over the whole insured community. It cannot prevent occurrence of risks, but surely minimize the impact of the loss by spreading it over the large number of policyholders.

VIII. Benefits Of Insurance

Insurance is a social device where the policy holders shift specific risks to the insurer. An insured firm can enjoy normal expected profits because there is no need to allocate funds for future contingencies, it can also hope for normal profit margin, he need not maintain large reserves to meet unforeseen or uncertain occurrence of losses. It encourage savings**,** this is true for life insurance, because this policy gets collapsed if the premium is not paid on time. Thus, life insurance is a compulsory form of saving. Policies like old-age pension scheme, education of children provide a sense of security to the poor policyholder, ensuring social welfare. It helps in money supply through collection of premium amounts from all policy holders. These funds narrow down the inflation gap in the economy. It helps in improving credit standing of farmers as the crops and other agriculture assets insured are easily accepted as securities for loans by commercial banks and other financial institutions.

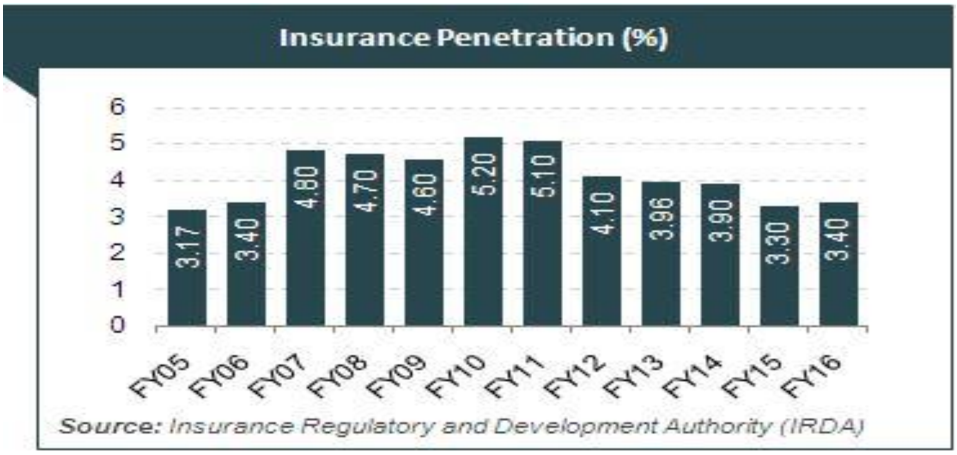
Indian Insurance Industry Overview & Market Development Analysis

Before liberalization, the insurance industry in India has gained significant it is expected to grow to US$ 280 billion by FY2020, by the solid economic growth and higher personal disposable incomes in the country.

There are twenty four life insurance and thirty three non-life insurance companies in the Indian market who compete with each other on price and services to attract the customers and There are two reinsurance companies. Indian Government has approved the ordinance to increase Foreign Direct Investment (FDI) limit in Insurance sector from 26 percent to 49 percent which would further help attract investments in insurance sector.

The Insurance Regulatory and Development Authority (IRDA) recently allowed life insurance companies that have completed 10 years of operations is to raise capital through Initial Public Offerings (IPOs). Insurance products are also covered under the Exempt- Exempt- Exempt (EEE) method of taxation, which translates to an effective tax benefit of approximately 30% on select investments. In 2015, Government introduced Pradhan Mantri Suraksha BimaYojna (PMSBY) and Pradhan Mantri Jeevan JyotiBimaYojana (PMJBY) to bring more people under the insurance cover. Going forward, increasing life expectancy, favorable savings and greater employment in the private sector is expected to boost demand for pension plans.

In August 2017 the Life Insurance industry reported a 19 per cent growth in overall annualized premium equivalent with the help of both private players and Life Insurance Corporation.



Insurance penetration have been reached 3.4 % in FY16 and is expected to cross 4 per cent in FY17.In the Union Budget of 2017, Indian government increased the coverage from 30 per cent to 40 per cent under Pradhan Mantri Fasal Bima Yojna.

IX. Products Of Rural Insurance

Indian insurance companies are providing different kinds of insurance policies to rural population.

Health insurance:

Health insurance policy is the agreement between an insurer and policyholder, in which the insurance company agrees to provide specified health insurance benefit to insured in consideration of a fix price called premium payable either in lump sum or in regular intervals.

Some of the health insurance policies are-

- Bhavishya argogya policy
- Hospital cash daily allowance policy
- Critical illness policy, health guard policy
- Jan argoya bima policy
- Overseas medical policy etc.

Crop insurance:

Agricultural producers purchase crop insurance, who want to protect themselves against loss of their crops due to natural disasters, or loss of revenue due to fall in the prices of agricultural commodities.

Examples-

- Rashtria krishi bima yojna,
- Rainfall insurance scheme for coffee (RISC)
- Bio-fuel tree/plant insurance policy
- Cardamom plant& yield insurance
- Potato crop insurance
- Pulp wood tree insurance policy
- Rubber plantation insurance
- Varsha bima/rainfall insurance
- Coconut palm insurance scheme
- Weather insurance (RABI)

Liability insurance:

Agricultural activities present a number of liabilities that can be financially devastating. Liability insurance helps to offer specific protection against third party claims. Payment under this is not made to the insured, but rather to person who has actually suffered the loss and who is not a party to the contract.

Property insurance:

Property insurance provides insurance against fidelity and insolvency; it covers loss property due to burglary, theft or hose-breaking or any other criminal act.

Cattle insurance:

Cattle insurance plays a very important role in rural sector. It is designed to cover milch cows and buffaloes claves/heifers, stud bulls, bullocks and male buffaloes. In this contract the insurance companies pay an agreed

sum of amount to the assured in the event of death of cattle like bulls, cows, buffaloes and heifers in consideration of a predetermined premium amount.
Pashu dan bima yojna – IFFCO TOKIO has designed to protect farmers from the loss unique cattle insurance policy "Pashu Dhan Bima Yojna".

Earthquake insurance:
This insurance is a type of property insurance that covers damages to the property caused by an earthquake. Because of the practical difficulties involved, most of the policies falling in the category of home insurance, do not covers the damages caused by earthquake. In India, people realized the need of this plan only after facing the wrath caused by catastrophic earthquake that hit in Gujarat few years ago.

Flood insurance:
Flood insurance falls under the ordinary fire or special perils policy in India, while in other countries it is coverd as a part of earthquake related natural perils. It is not very common in India. flood insurance is helps to cover massive losses caused by floods.

Home insurance:
Home is where the heart, where our mind, where our body and also our soul reside. It is a place of peace, warmth and happiness, and a place where we spent most of the time. A home insurance policy is the only way to protect from unexpected dangers. A good home insurance policy not only protects your externally, but also covers the assets and valuable owned by you along with the structure.

Personal Accident Insurance:
This insurance covers death, permanent and partial total disability along with hospitalization cash benefits to cover the rural people.

Tractor / Commercial Vehicle / Motor / farm inputs insurance:
This product specifically designed for catering to rural requirement. If the damage or loss occurred to any vehicles which are engaged in agricultural activities that loss is covered by insurance company.

Poultry insurance:
This provides indemnity to the poultry birds which include broilers, layers and hatchery birds. Indigenous and non-descriptive birds will not be insured. The scheme is applicable to poultry farms consisting of minimum 100 birds under scheme category and 500 birds under non-scheme and under general broilers-100per batch, layers 500per batch and hatching bird's batch of 2000. It provides against death of birds due to accident including cyclone, flood, lightning, strike, riot and civil commotion and terrorism or contracted or occurring during period of insurance. These are some of the rural insurance policies in India and there, are many more policies which serves different rural purposes.

X. Awareness Of Insurance

As insurance is mostly city-oriented, even though most of the insurance companies providing, various kinds of insurance policies for rural sector, but most of the rural working population were not aware of it, illiteracy, low standard of living and poverty are the main problems for lack of awareness in rural areas. The awareness levels are also low due to lack of communication facilities in remote areas. The point was corroborated by the Max New-NCAER survey in the year 2008 which showed that even though most of the Indians are good savers, but they do not undertake financial planning so most of them are financially at risk.

XI. Conclusion

A strong insurance sector is important for a flourishing economy. It is true that insurance provides economic protection against the losses that may incurred due to uncertain events. Insurance gives a peace of mind out of tensions. Efficiencies will improve when the tensions and fears involving the risks are shifted to the insurer. So it is very important to have a insurance policy, not only life, car etc, but also crop insurance, cattle insurance makes the farmers strong even in the time of uncertain events and loses. Now Insurance companies are providing various policies to rural people for several purposes. If the insurance meets all the rural areas in the country definitely we can see the incredible growth and development in insurance sector and also rural sector of the country.

XII. Suggestions

- Government must take the initiative to make rural people aware of importance of insurance.
- Government should also take measures to reduce the problems of illiteracy, poverty which are the main reasons for lack of awareness of insurance.
- The educated people in the rural areas should make some efforts to explain the need and importance of insurance to the farmers.

- Banks must provide loans on property only if it is insured.
- Social media must focus on remote areas to make aware of insurance.
- All the insurance companies should make sure that the advertisements must reach the rural areas.

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