

PERCEPTION OF LIFE INSURANCE POLICIES IN RURAL INDIA

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ABSTRACT

In spite of awareness about insurance in India, rural India still lacks in terms of availability of various financial products especially the risk products like insurance. Rural insurance statistics still indicates a significantly low penetration and poor density even after the privatisation of insurance sector in 1999. Rural India offers a tremendous scope for insurers where the protection of human life and income generating assets is a matter of concern. Regulators have also tried to impose rural insurance obligations for the insurance companies. This paper examines the present state of affairs of rural life insurance in India and attempts to explore the issues and challenges which led to poor penetration of rural life insurance markets. A field survey in Aligarh & Agra Region of the rural customers has been conducted to examine their perception and attitude towards buying life insurance products. This paper also summarize the rural insurance marketing practices by life insurance players in India and offers suggestive remarks for capturing the rural potential and lastly this paper discuss about micro-insurance & its challenges in short details which is an opportunity as well as a responsibility.

Keywords: Rural Insurance, Penetration, Marketing Strategy, Perception, Micro-Insurance.

INTRODUCTION

Rural India and Socio-Economic Conditions

More than 75% of India's populations live in rural areas. Yet against any human indicators the performance of rural India lags far behind urban India. There are tremendous inequalities in terms of educational achievements, employment opportunities, purchasing power, health and its attributes including, infant mortality, maternal mortality, general morbidity, economic security in terms of assured income opportunities and so on. Rural India has hardly 31% hospitals and 27% medical personnel. Barely 25% of the rural population has access to clean drinking water. 97% of them have no sanitation facility. One can well imagine the poor quality of life and its expectancy under these conditions. India today is in the middle of that phase of socioeconomic transition in which population explosion and increasing migration to town are resulting in breakdown of the traditional family as a social support unit. At the same time there is increasing integration of rural and urban economies. Several studies, especially that of the National Center for Applied Economic Research (NCAER) has shown that the need for goods and services in rural India match that of urban India. In fact, contrary to the general belief, there are sufficient resources as well as willingness to spend among the rural population for quality services. The service sector in the rural areas is expanding as fast as in the urban areas. Diversified financial services have many takers in rural areas, among the small as well as big earners, for each have their specific needs. The rural credit

dynamics point out that though the formal sector, i.e. banks, etc., has penetrated well into the rural areas, the extent of informal credit mechanisms and its depth is still, more extensive. Their deep-rooted linkages with rural poverty and indebtedness are well researched. Several Empirical studies show that formal credit access is more for the well to do segments and in relatively developed rural areas. Easy accessibility is the most important factor in determining the popularity of the informal credit systems among the rural people. Further, the transaction costs in terms of time are minimal, although costs are destructively high in terms of interest. In such a scenario, “the need now is to set up a framework and arrangements which encourage people to make provisions for their own financial security”. Everyone deserves protective provision to meet instant or unexpected need for extra money: premature death of the breadwinner, saving for old age, medical and disability needs. Savings and Insurance are two such financial services that can take care of the financial security needs of the population. Social security is an essential requirement of social justice. Some Indian States have shown that it is possible to make a successful attempt to improve accessibility to the rural population to improve their lot through various social schemes. There are lessons to be learnt from the successful stories of – the Nutrition program of Tamil Nadu, the employment schemes of Maharashtra and Gujarat, the public distribution system in Andhra Pradesh and land reforms in West Bengal. The results of these schemes do indicate the enormous potential in peoples’ participation in development. Insurance becomes the ‘critical’ input for a more secure present as well as future of individuals and families. Insurance and especially Life Insurance is a unique service that everyone needs. Those who do not have much definitely need to protect the little they have, and those who have the resources, need ‘more of the same’.

Products from Life Insurance-a way of Ensuring Economic Security

It is an accepted fact that any person values more, the service that comes at a cost than that which comes free. When people are made partners in programs of social security they will utilize them much more effectively. Life insurance is a definite social security intervention mechanism that has not been recognized adequately, especially in the context of the needs of rural India.

Illness is one major factor that contributes to human deprivation and economic insecurity. It affects both the patient and his dependents. Further, it makes the community around him that much vulnerable to disease, if the effected is not in a position to prevent or cure him in time. This leads to more insecurity. Hence, it is both in the interest of self, as well as the community to insure oneself. Insurance can truly be a direct link between macro economic needs of the country for productive resources by capital accumulation and micro need for better and secure life of the individual.

LIC claims that over 51 % of its new policies are sold in rural areas. “The impetus on rural thrust can be further visualized from the fact that nearly half of LIC’s agents are from rural areas and over half of its branches are in no facility areas.”But the well known but not admitted fact is that, in LIC the classification of business secured is on the basis of residency of the Agent than the residency of the insured population in rural areas. It is only rural Postal Life Insurance that really covers rural population.

Life Insurance in Rural Channels & It’s Perception

At present 8-10% rural households are covered under life insurance schemes and remaining 90% can be targeted for new innovative insurance schemes. About 200 million rural populations out of 700 million have the surplus money to save money to their available option post offices and a few limited commercial banks rural extension counters. With the majority of the population still residing in rural areas, the development of rural insurance will be critical in driving overall

insurance market development over the longer term. There is a need to create a broader awareness about life insurance in all geographic areas in India through specific collective campaigns. This is an important precondition to developing insurance and increasing penetration. Awareness is lacking not only in rural areas, small towns and among the less educated persons. Even in urban areas, vast segments of population seem to have erroneous perception or impression which needs to be corrected. Before proceeding to rural channels we try to give concepts of perception.

Rural Customer Perception of Life Insurance

Customer awareness or perception as a concept is of universal concern for all economies of the world. In the context of a booming Indian economy and unprecedented growth being witnessed by Insurance industry - especially life insurance -, it would be interesting to examine this concept in depth.

Perception is defined as "the process by which an individual receives, selects, organizes, and interprets information to create a meaningful picture of the world". Perception is the process by which an individual selects, organizes and interprets information to create a meaningful picture of the world. Individuals act and react on the basis of their perceptions, not on the basis of objective reality. Hence, for a marketer to know the customers' perception is more important than their knowledge of objective reality. What consumers think about a product, and what it actually is affects their actions. Individuals make decisions and take actions based on what they perceive to be reality is very important to marketers to understand the whole notion of perception and is related concepts, so they can more readily determine what factors influence consumers to buy.

Selective perception process

Stage Description

- Selective exposure consumers select which promotional messages they will expose themselves to.
- Selective attention consumers select which promotional messages they will pay attention to.
- Selective comprehension consumers interpret messages in line with their beliefs, attitudes, motives and experiences.
- Selective retention consumers remember messages that are more meaningful or important to them.

Low penetration of insurance in India, as else where, has varied explanations, economic and sociological. One basic factor that puts a brake on growth is low propensity to consume: low propensity for life insurance, not necessarily because of considerations of affordability nor because of inadequate range of insurance products and services. The major determining factor is lack of awareness of life insurance per se. And this phenomenon is not confined to rural and semi rural segments of society: it pervades urban populace as well. Surprising, isn't it- but true. Customer's awareness is the mainspring of demand creation which runs the wheels of industry – any industry for that matter. To this 'demand' curve, suppliers and service providers respond, by making available to consumers what they want, meeting their needs and expectations. This is the way two usages 'customer needs' and 'customer satisfaction' emerged and these later travelled to domains of 'customer delight' and 'customer happiness'. Customer's awareness, thus, becomes the genesis for business entities. For life insurers to initiate, expand, grow and sustain by responding to larger and larger volumes of demand emerging with greater awareness, and

setting in place supply chain management. For life insurers to penetrate significantly and forge ahead in the emerging market, enhancing customer awareness becomes the prime focus of all activities.

Improvement for Perception

Life insurers, both in public sector and private sector, should appreciate this 'moment of truth' so to say and electrify their energies and resources intelligently to bring about greater rural customers awareness as a basic facilitator and an important constituent of business strategy. This will create synergy all across the organization. It should be appreciated that Consumer awareness provides a new frame of reference for value creation as also an opportunity for innovation. It is time to think out of 'In box' and adopt novel strategies and measures to foster awareness.

Launch awareness movement through various convenient people-oriented programmes.

Through media, corporate publicity, rural camps and popular communication channels including Radio, TV, and Publicity Vans;

Awareness of products and services through visuals that trigger curiosity and manifest in terms of desire and later sale-purchase transactions;

Beyond these stages, to take up awareness of other aspects such as product, price, quality, service, convenience, status, pride, joy and ease;

Campaigns to educate rural and semi urban masses on the need for security that protects their livelihood, security for produce and belongings and create feel-good feelings;

Engage NGOs with proven credentials and rural intermediaries.

There is excellent opportunity in the insurance industry to employ access-based positioning by targeting the rural insurance sector. For rural marketing, the insurance organizations are looking forward to the advisors with thorough knowledge of products and local language and who have an ability to work very hard. They also must be well versed in the art of public speaking and having excellent public relations with the local/state government and municipality officials. The players in rural markets are now exploring new distribution channels like a tie-up with the Micro Finance Institutions (MFIs). The FOTRTE research found out that there is an extensive network built by the rural development agencies, the banks, the cooperative institutions, the NGOs and even some industrial houses in the rural sector. They have advised the insurance players to work out collaborative arrangements with these institutions for a mutual advantage. Moreover, Self Help Groups, youth clubs and cooperative societies can be utilized for the group insurance policies too. Besides this, to extend its services to rural areas, LIC is looking forward to increase its satellite branches specifically in rural areas. Presently, it has 24 satellite centers nationwide. The channels for distribution of insurance products in rural areas are the panchayats, district cooperative banks, agriculture & dairy cooperatives, and of course the Agents. Since no player is using these channels for effective rural reach, it can well be said that the rural market is not sleeping any longer; the insurance players are. The NGOs based in rural areas and cooperatives are helping the new players get a foothold in the rural market. These channels have the potential to make the difference as they enjoy the trust of the people. ICICI Prudential Insurance and HDFC Standard Life Insurance have partnered with NGOs to sell some low cost insurance in rural areas.

In summary get into such massive efforts to reach out to all and sundry, a new phenomenon will emerge to their delight viz., opening up promising avenues for 'creation of new markets' – the basic fundamental and prerequisite for sustainable growth. Market dynamics will rule and unfold a stage through a process of evolution 'new value creation' – the sum total of all innovations.

Emerging Rural Life Insurance Market

Presently, India is globally the fifth largest life insurance market in the emerging insurance economies, and its insurance market is growing at 32–34 per cent annually.

According to a report, 'Insurance in Next 2 Years', by ASSOCHAM, in May 2008, the insurance sector size was estimated at US\$ 12.8 billion, and it is likely to see an unprecedented growth of 200 per cent, touching US\$ 51.2 billion by 2009–10. Rural India may offer a business opportunity worth US\$ 23 billion for the insurance companies if the segment can be wooed with innovative saving schemes at affordable premiums.

Out of 78 per cent households having awareness about life insurance in rural India, only 24 per cent were policy owners. India's untapped rural market holds tremendous growth opportunities for life insurance companies with business worth US\$ 231.67 million for insurance firms. According to international consultancy firm Clint, the rural life insurance market will grow to a potential of US\$ 1.9 billion by 2015 from the current US\$ 487 million.

Another opportunity lies in offering low-interest personal loans to the rural population. To tap this market, microfinance institutions (MFIs) are now using mobile phone technologies to augment the reach of micro-financing in rural India. India is fast emerging on the world map as a strong economy and a global power. The country is going through a phase of rapid development and growth. All the vital industries and sectors of the country are registering growth and thus, luring foreign investors and life insurance sector is one of them.

With a huge population and large untapped market, insurance happens to be a big opportunity in India. The insurance business (measured in the context of first year premium) grew by 47.93% in 2005-06, surpassing the growth of 32.49% achieved in 2004-05. However, insurance penetration in the country continues to be low.

Insurance penetration or premium volume as a share of a country's GDP for the year 2005 stood at 2.53% for life insurance and 0.62% for non-life insurance. The level of penetration tends to rise as income increases, particularly in life insurance. India, with its huge middle class households, has exhibited potential for the insurance industry. This has made international players to look at the Indian market. Moreover, saturation of markets in many developed economies has made the Indian market all the more attractive for global insurance majors.

The total life insurance premiums market in India could grow from Rs 16, 8600 Crore (Nearly US\$ 42.85 Billion, Rs 1 = US\$ 0.0254146) in 2006-07 to Rs 1,230,000 Crore (Nearly US\$ 312.6 Billion, Rs 1 = US\$ 0.0254146) by 2010-11.

The total non-life insurance premium is expected to increase at a CAGR of nearly 24.7% for the period spanning from 2007-08 to 2010-11.

Rural Health insurance is poised to become the most coveted business for non-life insurers in the next three years after motor insurance. A booming life insurance market has propelled the Indian life insurance agents into the top 10 country list in terms of membership to the Million Dollar Round Table (MDRT) an exclusive club for the highest performing life insurance agents.

FINDINGS, SUGGESTIONS & RECOMMENDATIONS

Insurers should innovating new products with unique features having some multipurpose benefits at the same time which could create an appeal to the customers, for example a Insurance policy in which products can give benefits to insured person and nominee also and at the same with safety and security and as per their religion as in case of Muslim's customer where they looks for "halal investment". In case of premium, premium of products should not be too high. Marketer

should follow the strategy of 'Good quality products and services in lower premium category for rural customers'.

It was seen that generally customers like to visit insurer's office in case of private life insurance companies as rural customers generally prefer LIC products because of old mind-set of Government or non-government, so need to update rural customers about Operations and structure of Private life Insurance companies.

Regarding promotion, insurer must build up unique imagery appeal for their insurance products through creative advertisement. More intense research works should be initiated, studying the specific needs and attributes sorted by the rural customer for different kinds of product categories. Focus should be given on improvement of services given by the rural agents.

Insurer should spread more awareness and relax the product complications to make it easier to understand. Charges of the insurance companies should be kept low. More personalized follow up by the companies instead of sending couriers for information because of rural areas about their investment and all updates. More branches should be opened in semi-urban areas or rural areas. Finally, the largely underserved rural sector holds great promise for both life and non-life insurers. To unleash this potential, insurance companies will need to show long-term commitment to the sector, design products that are suitable for the rural population and utilize appropriate distribution mechanisms. Insurers will have to pay special attention to the characteristics of the rural labor force, like the prevalence of irregular income streams and preference for simple products, before they can successfully penetrate this sector. Innovative products, smart marketing, and aggressive distribution have enabled fledgling private insurance companies to sign up Indian customers faster than anyone expected. Indians, who had always seen life insurance as a tax saving device, are now suddenly turning to the private sector and snapping up the new innovative products on offer.

CONCLUSION

There is low level of awareness and understanding of life insurance products, and more generally, of the operation of life insurance companies in rural customers. There is confusion in the minds of customers between life insurance, general insurance, health insurance, and some investment products (such as endowment products).

However, the Indian insurance industry continued to face various problems such as low penetration (only 22% of the insurable population were insured) and low premium to GDP ratio (of 1.3). Growth was also hampered by the existing customer perception that life insurance was a tax saving tool. Another problem was that the entry of many players had cluttered up the market. The trend of insurance companies shifting from a product-focused view to a customer-focused one has been developing recently as insurance products become increasingly hard to differentiate in fiercely competitive markets. Insurance companies in India are consequently directing their strategies towards increasing customer satisfaction and loyalty through improved service quality both for rural or urban markets. It is becoming desirable for insurance companies to develop a customer centric approach for future survival and growth. The awareness has already dawned that prompt, efficient and speedy service alone will tempt the existing customers to continue and induce new customers to try the services of the company and with the increasing demands from different customer insurance sector has become competitive. Customers are becoming increasingly aware of their expectations, and demand higher standards of services, as technology is enabling them to make comparisons quickly and accurately. Their perceptions and

expectations are continually evolving, making it difficult for service providers to measure and manage services effectively.

In spite of urbanization in India, rural India still lacks in terms of availability of various financial products, especially the risk products like insurance. Insurance of rural India is still indicating low penetration levels and poor densities. The situation has not changed post privatization in 1999. The Insurance Regulatory and Development Authority (IRDA) have by guidelines, imposed rural insurance obligations on every insurance player. But, the imposition of these guidelines has not improved the rural penetration. The private players lack penetration levels in the rural market. The situation of Life Insurance Corporation of India (LIC) is better because it has been in existence for decades.

With increase in population and income there is a wide scope in insurance sector. Insurance sector provides some security to the customers for any type of mis-happening. In this sector, IRDA plays an important role and time to time gives important guide lines to various companies. Still, LIC plays an important role and has maximum share in this sector. Recently banking sector has also moved towards insurance sector since they would get better dividends than the commission they would get by entering into partnerships with other major insurance market players. Union Bank, Federal Bank, Allahabad Bank, Bank of India, Karnataka Bank, Indian Overseas Bank, Bank of Maharashtra, Bank of Baroda, Punjab National Bank, and Dena Bank are planning to enter in this sector. Among private sectors Max New York insurance company plays a vital role. There are various factors that affect the consumer buying decision and also influence consumer thinking when they are planning to invest in insurance scheme. Most of the customers show their interest in life insurance having higher risk coverage and also for good return with safety. The roles played in perception of life insurance policies in rural market by members of the family varies with knowledge parameters as well as with the typed of products and sometimes with the company name also. While a number of psychological variables are useful in obtaining into consumer's perception towards buying life insurance policies in rural areas. The insurance company name also plays an important role in purchasing. Since no insurer player is using proper channels for effective rural reach, it can well be said that the rural market is not sleeping any longer; the insurance players are!

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