

## ***Penetration of Life Insurance in Rural India***

By D.C. Khansili

### **Abstract**

The purpose of this paper is to facilitate the attempts of Private Life Insurance Companies in reaching to Rural India. Accepting the attempts of private life insurance companies to reach Rural & Social sectors of India, initially under encouragement given by the provisions of IRDA (Obligations of Insurers to Rural or Social Sectors) Regulations and lately on voluntary basis, the paper has been divided into the following sections:

- Introduction
- Myths about Rural India
- Attempts of Government of India for upliftment of Rural India
- How Private Insurance Companies are reaching to Rural India
- Study on Rural Insurance Market by Forte
- How IRDA helped the Life Insurance Companies to reach to Rural India
- Conclusion
- Acknowledgements

### **1. Introduction**

The aim of Government of India may not be achieved fully regarding opening up of Insurance Market to private sector unless & until the benefits of liberalization in Insurance sector reach the Rural India. After opening up of insurance market in 2000 and barring the rural and social obligations under IRDA regulations the focus of Life Insurance companies remained primarily in urban areas. But lately the life insurance companies have started making their presence felt in Rural India and IRDA has also helped in this regard under their developmental role by bringing Micro Insurance Regulations.

### **2. Myths about Rural India**

**2.1.** Despite of much publicity from Government of India there are still some myths about Rural India, which Life Insurance companies shall have to verify at their end at various parameters. The apprehension of losing initial capital put for setting up of Life Insurance Business in rural areas should be removed first. The attempt to reach the Rural India should not be half hearted. The Life Insurance Companies should satisfy themselves on following counts on economic front:

- Has the World Bank's policies led to unprecedented economic growth in the 1990s and thereafter?
- Are higher percentages of people lifted out of poverty under the free market?
- Has India's rising economic tide lifted all ships?
- Has the information technology boom in India benefitted the rural area?
- Will the Green Revolution save India from hunger once again?
- Has the trade liberalization benefitted farmers?
- Does the India's economic reform of public services target the poor more efficiently?
- Has Economic reform helped more Indians eat better?
- Will economic liberalization lead to better economic opportunities for women?
- Are the problems caused by economic liberalization temporary?

2.2. On socio cultural issues the Life insurance companies should satisfy themselves how different the new rural India is from Urban India.

### **3. Attempts of Government of India for upliftment of Rural India**

3.1. The Prime Minister, in his address to the Nation on June 24, 2004 promised a "New Deal" for rural India. This New Deal is not only essential for rural development and welfare, but also essential for achieving sustained overall annual growth of 7-8 per cent and generating employment.

3.2. Honourable Finance Minister, Mr. P.Chidambaram spoke in his Budget speech that the agriculture sector requires massive investments. Such investments have to be through credit-enabled private investment and enhanced public investment. He also emphasized for need to use fiscal instruments to boost investment in agriculture

3.3. He added that plans are afloat to double the flow of agricultural credit in three years. Comprehensive policy on agricultural credit was announced on June 18, 2004. The policy has been received well and will be fine-tuned, if necessary.

3.4. Government has entrusted the implementation of the credit policy to the public sector and private sector banks, the regional rural banks (RRBs) and the cooperative banks. Each RRB has a sponsor bank. Each sponsor bank shall be squarely accountable for the performance of RRBs under its control. RRBs that adopt a new governance standard and that abide by the prudential regulations will qualify for receiving funds from the Government for their restructuring.

3.5. The third arm for delivering farm credit shall be the cooperative banking system. Unless cooperative banks are healthy and creditworthy, it would not be possible to reach credit to every farmer in need of credit.

3.6. The Accelerated Irrigation Benefit Programme (AIBP) introduced in 1996-97 has been reviewed. Out of 178 large and medium irrigation projects that were identified, only 28 have been completed. The programme has been restructured. Truly last mile projects that can be completed by March 2005 will be given overriding priority, and other projects that can be completed by March 2006 will also be taken up in the current year. Next year we shall move the goal-post to March 2007, the year after to March 2008, and so on. A sum of Rs.2800 crore has been given to the AIBP this year.

3.7. The Rural Infrastructure Development Fund (RIDF) has been provided a corpus of Rs.8000 crore during 2004-05.

3.8. To overcome the biggest crisis - crisis of water- that the world will face in the 21st century, Government of India has decided to restore the water bodies in Rural India. Government will launch the National Water Resources Development Project and complete it over a period of 7 to 10 years. Funds to tune of 3000 crore per year shall be provided.

3.9. NABARD will lend the money for water harvesting on easy terms and no margin money will be charged from the borrower. Government will provide a 50 per cent capital subsidy through NABARD, and the estimate for the scheme is Rs.100 crore.

3.10. Floods are perennial in States like Assam, West Bengal, Bihar and Uttar Pradesh. The Brahmaputra Board has prepared a plan for anti-erosion and flood control works in the Brahmaputra and Barak valleys. A programme of flood control and anti-erosion will be launched in the current year. A similar programme is being implemented in the Ganga-basin States of Uttaranchal, Uttar Pradesh, Bihar, Jharkhand and West Bengal. Rs.30 crore has been allotted in the current year and additional funds will be provided to keep pace with the progress of works.

3.11. The time has come to encourage our farmers to diversify into areas such as horticulture, floriculture and oilseeds. The Anand model has been a great success in milk and milk products. Government proposes to launch a National Horticulture Mission. The goal is to double horticulture production from the current level of 150 million tonnes to 300 million tonnes by 2011-12.

Oilseeds is another critical area where farmers shall be encouraged by promoting superior seed-technology and through an appropriate policy of price support. Last year, we produced 25 million tonnes of oilseeds.

3.12. The Indian Council of Agricultural Research (ICAR) is a beneficiary of the R & D scheme under which every commercial rupee earned by ICAR, incrementally, is matched by another rupee from the Budget. Besides, ICAR receives funds from the Technology Development Board in respect of projects that are commercially viable. Agricultural research is being expanded rapidly to new frontiers such as bio-technology, vaccines and diagnostics. There is a special focus on farming in drylands and unirrigated areas. The allocation for 2004-05 is Rs.1000 crore (which is an increase from Rs.775 crore in BE 2003-04).

3.13 The Small Farmers Agri-business Consortium (SFAC) was set up in 1994 which started functioning from 1998, its corpus stands at a meagre Rs.10.95 crore. The MS Swaminathan Research Foundation identified 13 districts where there is a huge potential for agri-businesses and an appetite for investment of nearly Rs.170 crore. The Ministry of Agriculture has initiated action to improve the governance of SFAC, including the appointment of a banker as the chief executive.

3.14 The risk mitigation is an important aspect for rural mass. The Agricultural Insurance Company (AIC) was incorporated in December 2002. The National Agricultural Insurance Scheme (NAIS), which insures the yield or crop, is in operation since Rabi 1999-2000. A pilot scheme insuring farm income (as opposed to crop) was launched in 19 districts across 12 States, which is further extended. Weather insurance scheme was introduced on a trial basis in 20 rain gauge stations.

#### **4 How Private Insurance Companies are reaching to Rural India?**

4.1. Private Life Insurance Companies have started reaching to Rural India. They are coming with the innovative ideas of reaching to rural mass, which are cost effective as well. Few ways are given hereunder:

- Well-trained village extension workers (VEW) are an ideal launch pad for the rural business.
- Units of the joint venture group are being added to the network in the states. entering into tie-ups with some of the largest NGOs across India, e.g.

SEWA, BASIX, Dhan Foundation, MYRADA, Pradan, Prayas. Some are entering with micro finance agencies like Spandana and Cashpor.

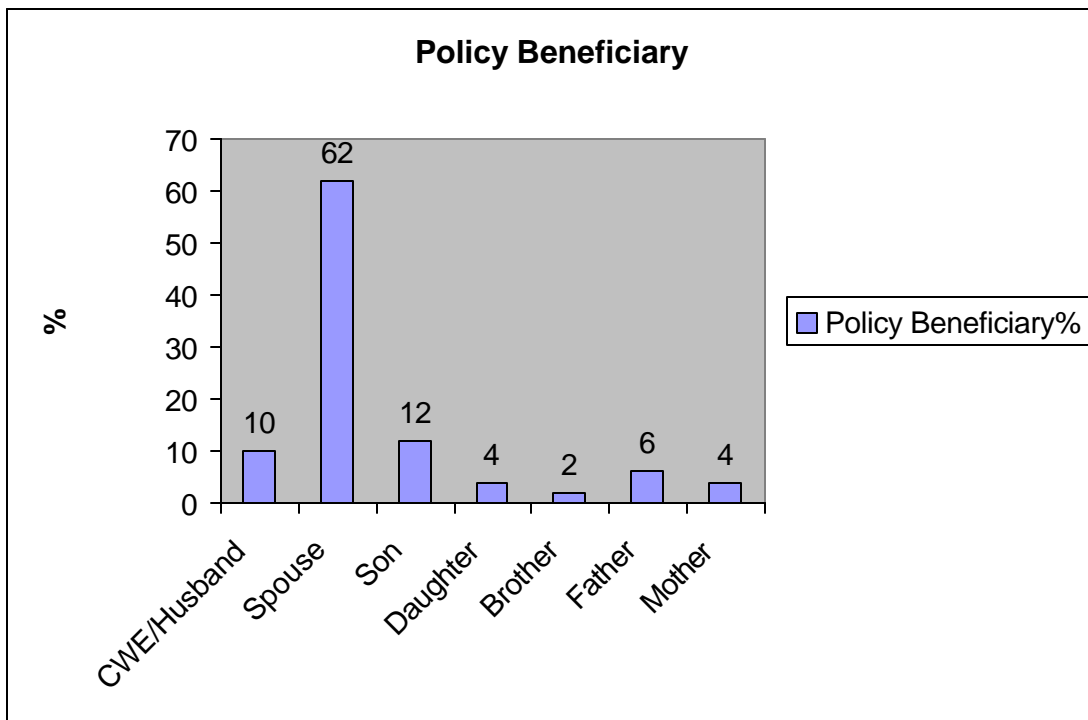
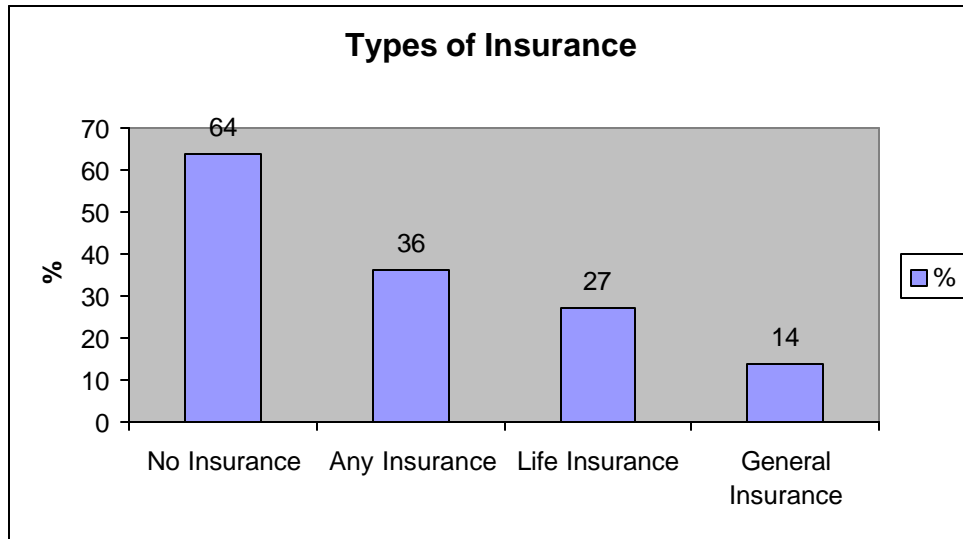
- Rural strategy has been initiated and branches are identified to implement its rural strategy.
- Rural agency managers are being appointed in these locations to recruit insurance advisors to sell life insurance policies.
- Savings products are more popular and there is acceptance for unit-linked products as well.
- Recruiting women with some level of education and decent communication and leadership skills by providing them 100 hours of insurance and product training so that they are transformed into agents of change.
- Need to understand the rural debt trap and micro finance so that irrelevant policies and relatively higher premium policies are not sold to even to the rural rich.
- Understanding the need of micro-insurance, which can play a significant role in providing access to credit that enhances income-earning opportunities, and deliver savings services that build up resources for utilisation in case of emergencies. It is believed that long-term micro-insurance strategies, covering the different risks that poor people are exposed to, can be one of the answers to sustainable social-uplift programmes in the developing world, especially in situations where citizens lack a state sponsored social-security net.
- Joining hands with 'micro-finance institutions', which provide small loans that have to be repaid in short periods of time and are essentially used by low-income individuals with few collateral assets.
- Understanding the separate products and their pricing, distribution, internal processes and promotions than aimed for Urban India.
- Understanding Rural India by holding discussions with organisations working in rural areas and with low-income individuals to formulate its micro-insurance strategy.
- Need to understand the importance of implementing projects for landless, daily-wage labourers in different states.
- Rural community insurance groups are formed which sell policies, collect premiums and settle claims for rural communities in which they reside. In return they earn commissions for the services they render. The service is cost effective for those at the receiving end and it delivers a livelihood opportunity to those rendering it. With a critical mass of micro-insurance relationships, the community-enterprise infrastructure can be used to provide a variety of products and services to the target market.
- Vans are moving in rural area, which are fitted with television and VCD for regular selling and other promotional work in the villages. They play vernacular movie on insurance and its relevance to the target market.
- The insurance companies are providing computer and Internet training to women.
- A new portal is being launched which is aimed at policyholders, sales people and others. This may be cost effective as it reduces constant traveling unnecessary for the women.
- Allowing alternative earnings to such women who had no option but to work in the fields as labour on hourly wages. Thus it is changing their lives completely.
- Exploring opportunities to market its products through rural channels such as farmer training centres, welfare trusts and fertilizer distributors.

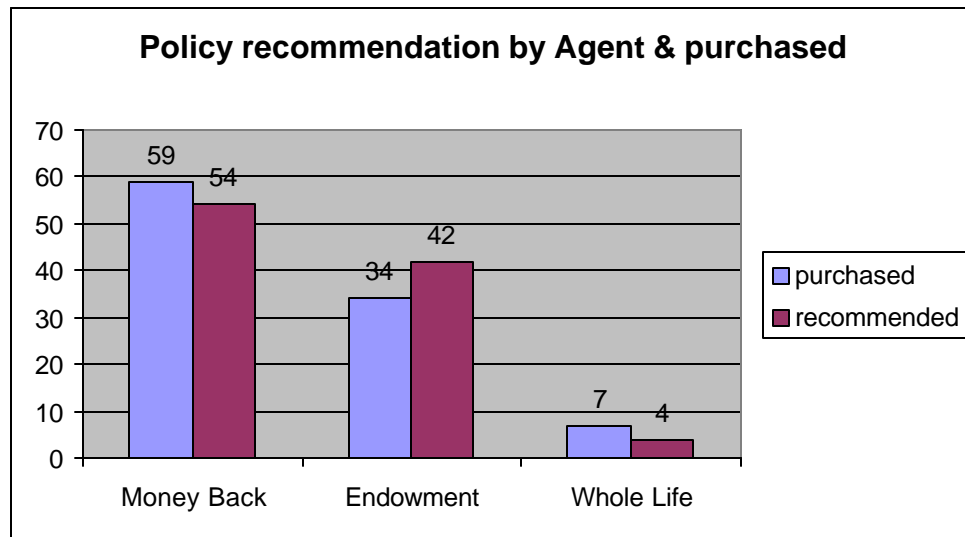
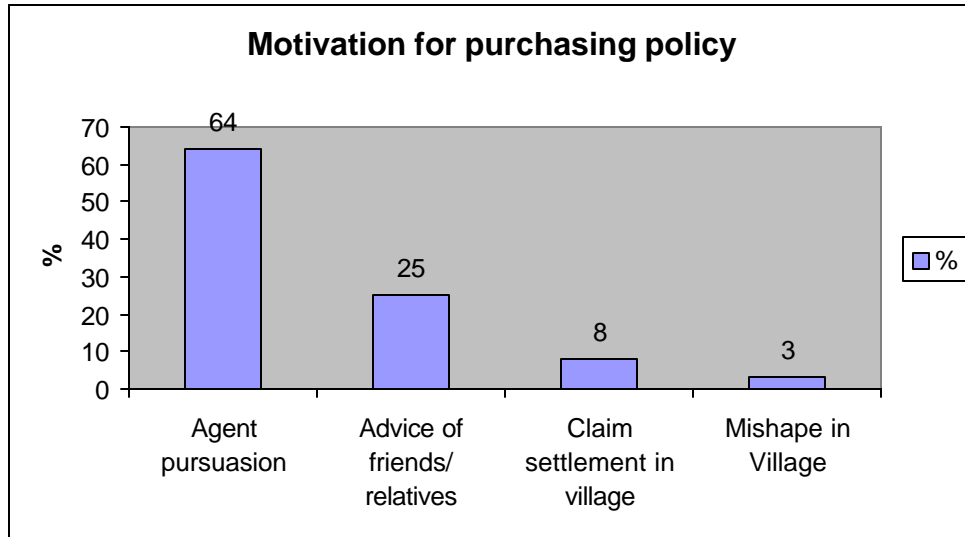
- Some are tying up with cooperative banks.

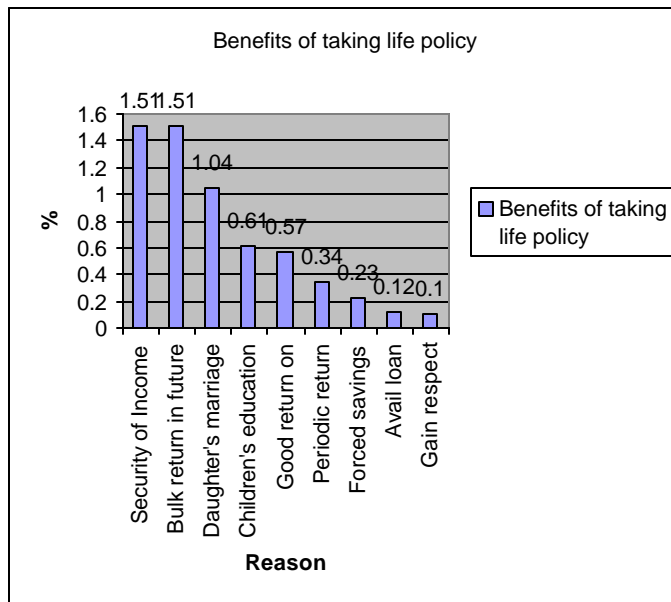
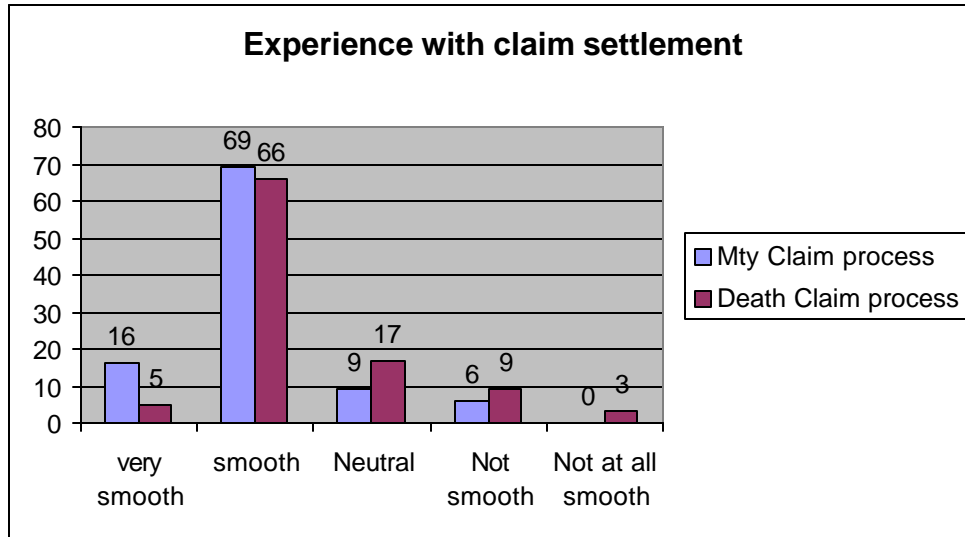
#### **4.2. Further**

- The rural market is vibrant and holds tremendous potential for growth of insurance business, particularly because of the strong saving habit.
- It is worth highlighting the existence of a continuum of economic activity between rural and urban areas. Intermediate settlements, such as important villages, *kasbas* and *tehsil* towns play a key role in the process of rural-urban economic integration. Several towns are essentially overgrown villages of the past and have continued to retain their essential rural character. These towns have, indeed, proved critical to rapid economic growth of the rural areas in their hinterland as they provide them significant marketing and financial support.
- As per the Department of Post's Annual Report 2001-02, 1, 55,279 post-offices, including 1, 38,756 in rural areas, India has the largest postal network in the world. On an average, a post-office serves an area of 21.17 sq. km. and a population of 6614. Post offices sell postal life insurance and its agents are having sales experience as they sell KVP, NSC, RDs etc.
- Cable operators has a reach in villages,
- Youth club members have a say in rural matters,
- Doctors and Teachers are trusted by villagers,

5. Study on Rural Insurance Market by Forte







## 6. How IRDA helped the Life Insurance Companies to reach to Rural India

6.1 IRDA vide their IRDA (Obligations of Insurers to rural or social sectors) Regulations, 2002 made it mandatory for Insurance Companies to do minimum amount of business in rural and social sectors. IRDA thereafter continually monitored that all insurance companies comply the regulations. The Life Insurance companies brought special products in individual and group form to meet the obligations in respect of number of lives and premium amount.

6.2 IRDA recently has come with IRDA (Micro Insurance) Regulations, 2005. The provisions of the regulations as regards to Tie Up between Life Insurer and non-life Insurer, restriction on minimum and maximum amount of cover, term of policy, remuneration/ commission etc. are aimed to understanding the needs of the rural mass of this country.



## **7. Conclusion**

The up coming of the Farmer Malls, sale of flat TVs in rural areas, Government rural policies and environment created for KUSHHAL rural India, etc. tell much that this is high time to reach Rural India by Life Insurance Companies. People like Vinod Khosla, the co-founder of Sun Microsystems and the general partner of Kleiner Perkins Caufield & Byer feels that the time has come for them to contribute back to society, particularly those in the rural India.

## **8. Acknowledgement:-**

I acknowledge that this article is just compilation of facts and figures which I got from different sources including –

- Indian Budget speech by Honourable Minister of Finance, Sh. P.Chidambaram,
- Publications of different Life Insurers in India & FICCI on rural life insurance, Shining India Policy Brief No. 10,
- On line interview of Mr.Vinod Khosla, the co-founder of Sun Microsystems
- Study on Rural Insurance Market by Forte,

I also acknowledge the simplicity of the policyholders of my then first remotest possible office of LIC, which I relish even after 25 years, and particularly a luggage lifter in small market, who used to pay his quarterly insurance premium on first day of the quarter and as the first policyholder of the day. If the first day of the quarter fell on Sunday or any holiday he used to come next working day pleading he could not deposit the premium on 1<sup>st</sup> as it was Sunday or holiday. Despite of my assurance that he could have deposited the premium by 28th of this month as his due date was on 28th yet it would not give solace to him. No doubt I used to get up from my seat to welcome this small investor in my three-year tenure in that branch.

**Insurers-** please treat these innocent policyholders with courtesy and understanding that their money is hard earned and they do not tolerate bluff.

**About the Author:**

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Author has put 20 years plus service in LIC of India, and about 4 years of service in Insurance Regulatory & Development Authority (IRDA) as Deputy Director (Actuarial). Currently he is working for Aviva Life Insurance Company India Pvt. Ltd. for past one year and responsible for preparation of Actuarial Report & Abstract, Appointed Actuary Report, Financial Condition Report and experience analysis.

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