EXPLORING THE RURAL MARKETS IN LIFE INSURANCE BUSINESS IN INDIA: THE EXPERIENCE OF LIC

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Abstract: *The size of rural population of India is about 833.1 million which constituted 68.84% of total population. Sustained and conscious efforts have been made to carry the message of life insurance to the rural areas, especially in the backward and remote areas, resulting steady growth of new business from these areas. In this backdrop, the main objective of the paper is to explore the opportunities and the challenges involved in capturing the rural markets in life insurance business in India. The Life Insurance Corporation of India (LIC), the market leader and also a public sector giant, has been extending coverage to economically weaker sections of the society through various social security group schemes targeting masses and non-conventional groups in the unorganised sector. However, the Indian life insurance industry has to address many challenges in an effort to increase the market penetration and density. This paper highlights the role to be played by LIC in tapping the potential rural markets in the country. One of such challenges confronting the life insurance industry today in the country is to generate the required level of awareness about the benefits of insurance to the people particularly living in semi-urban and rural areas.*

Key words: *Life insurance, Micro insurance, Rural and urban, Private players, LIC*

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1. INTRODUCTION

India lives in villages. Out of the total of 1210.2 million people in the country, the size of rural population is 833.1 million which constituted 68.84% of total population, according to the Census 2011. During 2001-2011 the rural population increased by 90.4 million, and the number of villages increased by 2,279. The majority of world's rural population lives in rural India. With its vast size and widespread array of consumers, the marketers of financial products such as life insurance have been exploring the opportunities to understand and penetrate into rural markets.

The life insurers in India had underwritten 11.3 million policies in the rural sector, out of 44.1 million new policies underwritten by them in 2012-13. The Life Insurance Corporation of India (LIC), a public sector giant, had underwritten 25.44% of their new policies and private insurers had underwritten 26.99% of their new policies in the rural sector (Saraswathy, M. 2014). Approximately one-fourth of India's population lives in 6,38,365 villages spread over 32 lakh square kilometers. According to the National Council for Applied Economic Research (NCAER) study, there are almost twice as many 'lower middle income' households in rural areas as in the urban areas (Majumdar, Ramajuj 2007).

2. LITERATURE REVIEW

Patki, V.V. (1988) discusses the problems of selling life insurance in the rural areas and gives many suggestions to penetrate into the rural market. He suggested the participation of the players in village fairs, use of audiovisual methods, and educating the merits of the life insurance to the villagers.

The Malhotra Committee (1993) highlights the importance of the rural branch postmasters who enjoy a position of trust in the community. They have the capacity to canvass life insurance business within their respective areas. Accordingly, the Government of India accepted the recommendation and permitted Postal Life Insurance to extend its coverage to the rural areas to transact life insurance business with effect from 24.3.1995, mainly because of the vast network of post offices in the rural areas and low cost of operations. The Department of Posts within a short span of time, made a very positive impact on the rural populace. As on 31st March 2015, there are more than 23.51million Rural Postal Life Insurance policies in India (RPLI).

Muralitharan (2004) deals with the emerging distribution channels in the insurance sector in India He further examines the different distribution modes such as brokers, Bancassurance and internet, and also their potential contribution to the growth and development of the insurance industry.

Jawaharlal (2009) observes that it is not entirely on account of poverty in the rural areas that there is a lopsided growth in insurance business. If tackled properly, there is vast potential to be tapped. Sadhak (2009) argues that marketing of life insurance is not a mere selling. It involves trust building, identification of financial knowledge gap and personalised service content strategy. The approach, the product and the distribution needs to have a different look than that followed for the urban market.

Gyanendra Singh L and Jyoti Kumar NVR (2013) in their study points out that in Mizoram, the rural and urban ratio of LIC policyholders during 2009-10 was 14:86, and in the first half yearly report from April to September, 2010 the ratio was 20:80 indicating that only 17.21 per cent of the total NOPs during the period was from rural policyholders of Mizoram, much below the national average of 23.83. Rural India offers tremendous growth opportunities for insurance companies.

3. OBJECTIVE AND METHODOLOGY

The main objective of the study is to explore the opportunities and the challenges involved in capturing the rural markets in life insurance business in India by the Life Insurance Corporation of India (LIC), the market leader and also a public sector giant in the country, with reference to Mizoram, a small tribal state of India's North-east.

The study relied upon the data collected from secondary sources. The Annual Reports of LIC and the Annual Reports of the Insurance Regulatory and Development Authority (IRDA) constitute the major sources of secondary data. Other sources of secondary data include *Insurance Chronicle* journal published by the ICFAI University, *Insurance Times*, e-resources, reports from the Insurance Institute of India, LIC house magazines, business magazines and newspapers. In addition, data relating to the concerned insurance companies were collected by visiting their offices and by personally interacting with the managers and agents in Mizoram.

4. RESULTS AND DISCUSSION

Rural marketing: an opportunity or obligation?

There is no official definition of what constitutes a rural area. However, an urban area is defined as per the Census of India as "all places with municipality, corporation, cantonment or a notified town area" and "all other places satisfying the following criteria: (a) a minimum population of 5000, (b) at least 75% of male working population in non-agricultural pursuit, and (c) density of population of at least 400 persons per square kilometer."

According to the IRDA Annual Report 2000-01, rural area is defined as a place where the population is not more than 5000; population density not more than 400 per sq km; and at least 75% of male working population is engaged in agriculture. The following norms are laid down as a specified percentage of businesses to be done in the rural sector:

In respect of a life insurer five per cent in the first financial year; seven per cent in the second financial year; 10% in the third financial year; 12% in the fourth financial year; 15% in the fifth year; of total policies written direct in that year (IRDA Annual Report 2000-01).

Sustained and conscious efforts have been made to carry the message of life insurance to the rural areas, especially the backward and remote areas in India. As a result, there has been steady growth of new business from these areas.

According to the Associated Chambers of Commerce and Industry of India (ASSOCHAM), the insurance companies can add about Rs. 1000 crore to their net worth from nearly 200 million rural folk that are looking for alternate savings channels for their surpluses, provided these come out with innovative schemes at affordable premium. However, the Assocham's paper on *Rural India and its New Investors* adds that currently only eight to ten per cent rural households are covered under life insurance schemes and the remaining 90% can be targeted for new innovative insurance schemes. Rural India offers tremendous growth opportunities for insurance companies (ASSOCHAM 2011).

Insurers should look upon rural insurance as an opportunity and not as an obligation. A smaller bundle of innovative products in tune with rural needs and perceptions and an efficient delivery system are to be developed in order to penetrate the vast rural markets. In rural India availability and accessibility determine volumes and market share because people usually purchase what is available and accessible. Establishment of micro branches and appointment of specialised insurance agents in rural areas help insurance to make a dent in vast untapped rural insurance market (Das and Ravindra, 2004).

Adi Godrej, chairman, Godrej group, aptly pointed out that "The rural consumers are discerning and the rural market is vibrant. At the current rate of growth, it will soon outstrip the urban market. The rural market is no longer sleeping but we are. Villages are the heart of India. Approximately 75% of India's population (equaling 12.2% of the world's population) lives in 6,38,365 villages spread over 32 lakh square kilometers… But the rural market is not homogenous across the country. Creating a new customer is critical for both small and large companies. Maintaining profitable growth is only sustainable by creating and recreating new space, new markets and new value."

LIC's experience in rural marketing

In the case of LIC, in 2004-05, it stipulated that the percentage of policies issued in the rural sector for the year should not fall below the quantum of insurance business done in the accounting year ended 31st March, 2002. The insurer complied with its obligations in this regard. In addition, the number of lives covered by the insurer in the social sector was more than those covered in the year 2001-02. LIC has been extending coverage to economically weaker sections of the society through various social security group schemes targeting masses and non-conventional groups in the unorganised sector. Insurance coverage is also provided to the underprivileged through a separate fund created by the government. Subsidies for the insurance cover are provided for power loom workers, handicraft artisans and handloom weavers. Subsidies are also provided to the Aanganwadi workers/helpers and unorganised labourers. Under the Shiksha Sahayog Yojana, scholarships are offered to children whose parents are covered under the Janashree Bima Yojana (IRDA Annual Report 2004-05).

Sustained and conscious efforts are being made by LIC to carry the message of life insurance to the rural areas, especially the backward and remote areas. As a result, there has been steady growth of new business from these areas. As shown in Table1, LIC's new business from rural areas amounted to Sum Assured (SA) of Rs. 60,971.85 crore under 74,66,484 Number of Policies **(**NOPs) representing 23.65% and 21.21% share of policies and Sum Assured respectively during the financial year 2005-06 (LIC Annual Report 2005-06). In the year 2006-07, LIC's new business from rural areas amounted to SA of Rs.68,497.21 crore under 88,50,386 policies representing 22.60% and 23.16% SA and share of policies respectively (LIC Annual Report 2006-07).

Table1

Marketing of LIC in rural India

Year	NOPs	SA (Rs. in crore)	% of NOPs	% of SA
2005-06	74,66,484	60,971.85	23.65	21.21
2006-07	88,50,386	68,497.21	23.16	22.60
2007-08	90,43,413	59,694.44	21.67	24.06
2008-09	87,14,662	73,354.97	24.28	18.81
2009-10	1,02,49,643	78,895.11	26.39	18.43
Total	44,32,45,588	3,41,413.58	119.15	105.11
Average	8864917.6	68282.72	23.83	21.02

Source: Compiled from *LIC Annual Reports*.

Note: Percentage of NOPs and SA was given in the annual reports.

The new business from rural areas amounted to SA of Rs.78, 895crore under 1, 02, 49,643 policies representing 26.39% and 18.43% share of policies and SA respectively during the financial year 2009-10 (LIC Annual Reports 2009-10).

As noted, according to a study conducted by the National Council for Applied Economic Research (NCAER), there are almost twice as many 'lower middle income' households in rural areas as in the urban areas (Chaudhary 2010). The Indian rural market has demonstrated a strong savings culture and thus presents a huge opportunity for insurers. Simple products and cost effective distribution are essential for a successful rural foray. Given the brand equity, visibility, credibility and wide reach the LIC enjoys, tapping the unexplored markets will not be difficult for LIC to tap the vast rural market effectively by using its huge sales force. As noted, according to sections 32B and 32C of the IRDA Act, it has been made obligatory for life and non-life insurers to undertake a certain percentage of business in the rural market (Pathak and Singh, 2005).

In Mizoram, a small tribal state in India's North-east, the rural and urban ratio of the LIC policyholders during 2009-10 was 14:86, and in the first half yearly report from April to September, 2010, the ratio was 20:80, signifying that only 17.21 per cent the total NOPs during the period was from rural policyholders of Mizoram, much below the national average of 23.83 per cent (Table 2).

Table 2

Performance of LIC in rural and urban Mizoram

Year		NOPs	Total NOPs	S.A. (Rs.in cr.)	FPI (Rs. in cr.)	Total FPI (Rs. in cr.)
2009-10	Rural policies	503 (14.05)	3579	5.03 (13.35)	1.71 (11.39)	15.02
	Urban policies	3076 (85.95)		32.67 (86.65)	13.30 (88.61)	
1.4.10 to 15.9.10	Rural policies	277 (20.37)	1360	2.49 (16.50)	0.51 (5.19)	9.84
	Urban policies	1083 (79.63)		12.59 (83.49)	9.33 (94.81)	
Average	Rural pol.	(17.21)	-	14.93)	(8.29)	-
	Urban pol.	(82.79)	-	85.07)	(91.71)	-

Source: Compiled from *LIC, Mizoram* office records.

Note: NOPs = Number of Policies; SA= Sum Assured; FPI = First Premium Income;

Number in parenthesis shows the percentage of total policies.

The rural Mizoram accounted for only 18.25% of absolute volume during 2010-11. Hence, there exists a vast potential for life insurance products in rural areas of Mizoram.

Creation of markets in rural areas

In their study, Gyanendra Singh L and Jyoti Kumar NVR (2013) made the following observations in respect of the performance of LIC in capturing the rural markets in India with reference to Mizoram:

Micro Insurance (MI) was designed to serve low-income people and business not served by typical social or commercial insurance schemes. MI policies have been sold through a distribution channel comprising of NGOs, SHGs, microfinance institutions, non-profit associations, corporate agents, brokers, and non-profit societies including companies registered under Section 25 of the Companies Act and business correspondents for banks and government agencies who have been appointed as MI agents by LIC. The MI vertical channel has total strength of 7,906 microinsurance agents with 53,847 specified persons trained by LIC as on 31st March 2010. By the end of March 2010, there were 8,676 individual MI agents in India of which 91% of them belonged to LIC and the rest of MI agents worked for private insurers.

The only branch of LIC in Mizoram finds it difficult to serve the customers across the state. The customers from remote areas have been facing problems in respect of payment of premiums and availing other services provided by LIC.

LIC in Mizoram is less bothered all about customer relationship management. Only recently they started reminding customers about the renewal of premiums. The private players, on the other hand, make a courtesy call in time to remind the customers about the renewal of premium and also as and when necessary, some advisors or marketing officers even personally go and collect premium from their customers. Private players keep in touch with the customers through mobile telephonic and e-mail contacts. The key to effective market discipline lies in public disclosure and customer education. Informed and educated consumers are often the effective means of enforcing commercial discipline. An informed customer is in a position to avail of better services, and has faith in the industry, thereby facilitating penetration and growth (IRDA Annual Report 2004-05).

One of the important challenges confronting the life insurance industry today in the country is to generate the required level of awareness about the benefits of insurance to the people particularly living in semi-urban and rural areas. The Government of India have also introduced many special products aimed at the rural markets like Jan Shree Bima Yojana, Universal Health Insurance Scheme, Aam Admi Bima Yojana, Crop Insurance, etc. for the benefit of poor and needy populace in the country (Mukherjee, P. 2010). Insurance companies are usually need-driven and have an aggressive selling philosophy. Life insurance industry in India has to address the following challenges in an effort to increase the market penetration and density. In this connection the market leader, LIC, has to play a significant role in tapping the potential markets especially in semi-urban and rural areas:

- The main challenge before the life insurance industry is to develop a technology that would enable it to access and efficiently use the database of bank customers.
- Professionals and experts in the industry are in short supply. Manpower requirement has increased manifold.
- Attractive pay packages in corporate sector are leading to high levels of attrition. Attraction and retention of the talent is a major challenge.
- India being a vast country and with huge population, is posing a challenge to the life insurers in terms of expansion of the market and insurance inclusion.
- Designing of products for the people of various economic strata is a daunting task.
- Microinsurance and financial inclusion is a major challenge especially for banking and insurance industries in the country.
- With the entry of new financial products (e.g. ULIPs and Retirement plans), customers are expecting higher returns and many other benefits while investing in

financial products. In the changing competitive environment, it would be a challenging task for the life insurance industry to confine to selling its core benefits of the products only, that is, risk coverage.

- When stock markets are volatile, can the life insurance companies overcome the turbulence? Are they equipped to tide over the storm?
- One of the key drivers of the Indian economy has been the dramatic increase of the urban population. Urban India today is already more populous than the United States. By 2025, it will exceed the current population of the European Union. With the growing urbanisation, rising aspirations of people and more disposable income, the insurance firms need to be proactive and innovative in tapping such a huge potential.
- Apart from this, the real potential lies in the rural India where prosperity is on the rise. 'Go Rural' should be the slogan for life insurance business in India, especially for the market leader, LIC.

5. CONCLUSIONS

The penetration level of the existing insurance players in the rural market is not satisfactory. The Government of India should take all necessary steps to ensure the reach of insurance to masses. As for meeting their rural and social obligation, the insurance companies are now increasingly tapping the semi-urban and rural areas to spread the message of protection of life and property through insurance cover. Presence of private players in micro insurance sector is negligible. In Mizoram, in 2011, at the time of conducting this study, there were seven life insurance companies including the established player LIC. All the players have their branch office in the state capital, Aizawl. The remaining seven districts do not have any branch office of these companies. A few other private life insurance companies are already in operation through bancassurance or a few of them are yet to open a branch office in Mizoram. Regulatory norms of compulsory social obligations will enhance the rural coverage at affordable and reasonable prices. Otherwise, this is a vast potential and virgin market, which competitors will surely like to capture.

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