Understanding the Indian Rural Consumer in Context to Life Insurance Product and Services

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ABSTRACT
Life Insurance is one of the fastest growing and emerging markets in India. Insurance penetration in the country is low mainly in rural area. The Insurance Industry has a significance contribution in socio-economic development. A majority of the underprivileged & rural poor society is still not insured and untouched by the benefits of Life Insurance. There is a tremendous scope for developing insurance business in the rural areas where human life and income generating rural assets need more protection. IRDA has acknowledged various reforms and initiatives for the welfare of rural people i.e. Micro-insurance especially designed to provide life insurance benefit to rural and economically backward class of the society. Present study is based on primary data which is collected through paper questionnaire. Randomly selected Respondents (Life Insurance Policyholders) based on Uttarakhand and evaluative research methodology carried out in this paper. Aim of the present study is to examine the opportunities for insurers in the rural market and what would be new strategies to tap the highly underinsured rural area. It’s also an attempt to understand consumer behavior in the insurance sector and identify challenges faced by insurance companies and how to overcome with those challenges.


INTRODUCTION
Insurance Companies are focusing on customer satisfaction through increased customer choice and lower premiums, while ensuring the financial security of the insurance market. Insurance companies are targeting upon the customers by giving them a basket of returns with a mission to make them delight and satisfied. The Insurance sector has obviously started growing at a rapid pace after the sector was opened up. The credit for enlarging the market should however goes to the private sector as they came up with an aggressive market strategy to establish their presence. The Indian rural market has gained significance in the recent times as the overall economic growth of the country has led to an improvement in the living standards of the rural people. The boon of the Green Revolution combined with government initiatives such as subsidies, loan waivers, and minimum support prices and employment schemes have caused an increase in purchasing power. Rural market is dynamic and has stood for centuries on its own. Nobody can ignore rural India which comprises one tenth of the world population. A revolution is sweeping the Indian countryside which has compelled companies to go rural. The rural consumer is discerning and rural markets are vibrant. The Indian rural market with its vast size offers a huge opportunity with 128 million households and the rural population is nearly three times the urban. Rural India has a large consuming class with 41 percent of India's middle-class and 58 percent of the total disposable income. According to a study by Chennai based Francis Kanai Marketing Planning Services Pvt. Ltd. the rural market for FMCG is Rs 65000 crore, for durable Rs 5000 crore, for tractors and agri-inputs Rs 45000 crore and two and four – wheelers Rs 8000 crore. In total a hopping Rs. 123000 crore. The real income of rural households is projected to rise from 2.8% in the past two decades to 3.6% in the next two. Higher incomes and exposure to urban lifestyles have also raised the aspirations of the rural populace, as they strive to improve their quality of life by gaining access to new technologies, products and services.
INCOME DISTRIBUTION IN RURAL AREAS

Table 1: Income Distribution Chart
Rural India consists of 6,385,960 villages that house 742,490,639 people. This figure represents around 70% of the total population of India and 12% of the globe’s population. In fact, as per McKinsey, despite rising urbanization, 63% of India’s population will continue to live in the rural areas even in 2025. Further, the number of consumers earning over $5 a day is projected to catapult from 50 million today to 150 million by 2020.

<table>
<thead>
<tr>
<th>Demographic classification</th>
<th>No of households (m)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Urban</td>
</tr>
<tr>
<td>Rich (income greater than Rs 1m per annum)</td>
<td>4.8</td>
</tr>
<tr>
<td>Well off (income greater than Rs 0.5m per annum)</td>
<td>29.5</td>
</tr>
<tr>
<td>Total</td>
<td>34.3</td>
</tr>
<tr>
<td>% of Total</td>
<td>54.4%</td>
</tr>
</tbody>
</table>

Source: Ministry of Communications & Information Technology, India

Rural market is dynamic and has stood for centuries on its own. Nobody can ignore rural India which comprises one tenth of the world population. A revolution is sweeping the Indian countryside which has compelled companies to go rural. The rural consumer is discerning and rural markets are vibrant. The Indian rural market with its vast size offers a huge opportunity with 128 million households and the rural population is nearly three times the urban. Rural India has a large consuming class with 41 percent of India's middle-class and 58 percent of the total disposable income.

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DEMOGRAPHIC CHARACTERISTICS OF RURAL INDIA
There are 6,39,000 villages in India with a total population of 743 million people, accounting for about 72 percent of India's population. This population, however, is distributed across a large number of villages, where many are sparsely populated. In table 1, is given the distribution of population in villages.

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 a municipality, corporation, cantonment or a notified town area" and "all other places satisfying the following criteria:

a) Minimum population of 5000,

b) At least 75 percent of male working population in non-agricultural pursuit, and

c) Density of population of at least 400 persons per square kilometer. Therefore, an area that does not satisfy the criteria specified above can be considered a rural area.
Table 2: Distribution of Population in Villages in India

Taking on from the above, a habitation is defined as rural if

- It has a population density of less than 400 per sq. Km.
- At least 75 percent of male working population is engaged in agriculture related activities.
- There is, in the location, no municipality or municipal board.

CHARACTERISTICS OF THE RURAL ECONOMY

Income levels in the rural areas have increased over the years. About 67 percent of the rural households had an annual income of less than Rs. 35,000 in 1989-90 whereas by 1998-99, this proportion decreased to about 48 percent. Proportion of households with an annual income of above Rs. 70,000 constituted about 9 percent in 1989-90 and by 1998-99, this proportion had increased to about 27 percent.

MARKETING INFRASTRUCTURE IN RURAL AREAS

Although rural areas offer attractive opportunities to marketers at an aggregate level, about 68 percent of these markets remain untapped mainly due to inaccessibility. Factors such as limited physical access, low density of shops, limited storage facilities, need for a large number of intermediaries in the distribution channel to reach the end customers, and low capacity of intermediaries to invest in business (investments for keeping stock, storage facilities, vehicles for distribution) make the tasks of reaching rural consumers very complex.

FEW INTERESTING FIGURES:

In 2001-02, LIC sold 55% of its policies in rural India.

Of two million BSNL mobile connections, 50% are in small towns/villages.

42 million rural households (HHs) are availing banking services in comparison to 27 million urban HHs.

Rural India buys 46 per cent of all soft drinks, 49 per cent of all motorcycles and 59 per cent of all cigarettes today.

Close to 10% of Maruti Suzuki’s sales come from the rural market.

Hero Honda had 50% of its sales coming from rural market in FY‘09.

Table 3: Product/Service Distribution Chart
CHARACTERISTICS OF RURAL CONSUMER GROUP

A scattered market: The rural market of India is a geographically scattered market. Whereas the urban population of India is concentrated in 3200 cities and towns, the rural population is scattered across 570000 villages. And of them, only 6300 villages, or less than 1.1 per cent have a population of more than 5000 each.

The change can be attributed to several factors such as:

• Growth in income and change in income distribution
• Growth in education
• Enlarged media reach (particularly television)
• Growth interaction with urban communities
• Marketer's efforts to reach out the rural market

REVIEW OF LITERATURE

There are various studies related to Insurance Sector in India and abroad. It was found that the numerous numbers of literatures is available on insurance industry and its various aspects. Few relevant reviews are putting here in the context, they are as follows: Randhey and Ahuja (1999), Says that need for private sector entry has been justified on the basis of enhancing the efficiency of operations, achieving a greater density and penetration of life insurance in the country, and for greater mobilization of long-term savings for long gestation infrastructure projects.

Rao Tripti, D. (2000) stated that Privatization of insurance industry is based on the view that competition would enhance efficiency through increased resource utilization. It would spill over as benefits to the consumers in terms of reduction in premium costs with proper pricing policy and wider choice. Liberalization may also increase the scope of operation of insurance business from limited area to untapped areas like health, crop and unemployment.

Raju Satya R. (2004), Found that the insurance agents, development officers’ employees, executives at different levels should work together to achieve the objectives and mission and also to face the present and future competition as a challenge. The insurance product and services should be designed and offered as per the customer requirements.

Palande et al (2007) found that the Insurance industry is going to witness sea changes in its marketing strategies. The existing and the new insurers will devise different strategies to retain and enhance their market share. It would be done by various methods by bringing in new practices, settings new service standards and creating new benchmarks. Selvakumar & Priyan (2010) found that insurance companies are increasingly taping the semi-urban and rural areas to take across the message of protection of life through insurance cover. Higher level of protection implies that customers are more conscious of the need for risk mitigation, greater security, and about the future of their dependents.

IMPORTANCE OF THE STUDY

The development of insurance industry has been spurred by product innovation, vibrant distribution channels coupled with targeted publicity and promotional campaign by the insurers. Innovations have come not only in the form of benefits attached to the products, but also in the delivery mechanism through various marketing tie-ups both within the realm of financial services and outside. All these efforts have brought life insurance closer to the customer as made it more relevant. The insurance companies are increasingly tapping the semi-urban and rural areas to take across the message of protection of life through insurance cover. The Industry has a significance contribution in socio-economic development of the nation.

PURPOSE OF STUDY

1. To analyze the awareness about insurance policies and purpose of investment in insurance companies.
2. To study which type of insurance policy preferred by the customers and influencing factors for choose insurance companies.
3. To study convenient source for getting insurance policy for common people.
4. To examine the satisfaction about insurance premium policy and opportunities for insurers in the rural market.

TOOLS & TECHNIQUES
A well structured questionnaire and in-depth interview method was used to collect primary data for the analysis purpose. A survey is carried out on randomly selected 104 respondents (Life Insurance Policyholders) who based in Uttar Pradesh. The researcher depends on primary data for the purpose of analysis and Interpretation. Data are presented in the form of tables and diagrams for easy understanding.

RESULTS AND DISCUSSION OF LIFE INSURANCE PRODUCTS AND SERVICES
The level of penetration tends to rise as income increases, particularly in life insurance. At the time of determination of Insurance premium age factor play very crucial role for the insurance companies as well as customers. If age group low then insurance companies charges low premium and if it high then charged higher premium because mortality rate increases according to age. Table 4 shows age groups of the respondents (N=104):

<table>
<thead>
<tr>
<th>Age</th>
<th>No. of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>23-25</td>
<td>28</td>
</tr>
<tr>
<td>26-28</td>
<td>24</td>
</tr>
<tr>
<td>30-33</td>
<td>20</td>
</tr>
<tr>
<td>36-38</td>
<td>16</td>
</tr>
<tr>
<td>44-62</td>
<td>16</td>
</tr>
<tr>
<td><strong>Mean</strong></td>
<td><strong>20.8</strong></td>
</tr>
<tr>
<td><strong>Median</strong></td>
<td><strong>20</strong></td>
</tr>
<tr>
<td><strong>SD</strong></td>
<td>5.215361924</td>
</tr>
</tbody>
</table>

Table 4: Age Group (Source: Surveyed Data.)

Above table 4 depicts the age group divided into four categories 24-25, 26-28, 30-33, 36-38, 44-62. The no. of respondent falling in each category is 28, 24, 20, 16 and 16 respectively. The mean value is 20.8, median value is 20 and Standard deviation of frequencies is 5.215. The data shows that the maximum no. of respondents are falling in first two age group which is 23to 28 (No. of Respondents 52). The Insurance is a matter of security of life, whether senior people in served data is less than younger people that is why the more respondents are falling in first two age groups.

PURPOSE OF INVESTMENT
Investment in Insurance policy fulfilled so many purposes at a time. It may be financial compensation, family safety, tax rebate, risk cover and returns. In surveyed data purpose of investments in insurance company shows table 5.

Table 5: Purpose of Investment (Source: Surveyed Data)

The purpose of investing in surveyed data is divided in five categories tax rebate, financial compensation, family safety, risk cover and maximum return. The number of respondent falling in each category is 48, 4, 12, 56 and 12 respectively. The mean value is 22, median value is 12 and standard deviation of frequencies is 23.832. The data shows that the maximum number of respondent
are falling in first and fourth categories that is tax rebate and risk cover purpose (no of respondents 48 and 56). Financial compensation and family safety is a basic things for insurance purpose, whether the financial compensation, family safety and returns in surveyed data is less than tax rebate and risk cover purpose that’s is why the more respondents are falling in first and fourth purpose groups.

TYPES OF INSURANCE POLICY HAVING BY CUSTOMERS

Everyone gets insurance policy/products according to their needs. Whose evolved in hazardous job the prefer term insurance and who having aim for a time period letter prefer endowment plans. Unit linked insurance plans fulfilling all purposes but it having more cost compare to traditional plans. In surveyed data shown about plans who having by the respondents (N=104):

<table>
<thead>
<tr>
<th>Types of Policy</th>
<th>No. of Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Insurance</td>
<td>48</td>
</tr>
<tr>
<td>Endowment plan</td>
<td>48</td>
</tr>
<tr>
<td>ULIP</td>
<td>28</td>
</tr>
<tr>
<td>Other</td>
<td>8</td>
</tr>
<tr>
<td>Mean</td>
<td>33</td>
</tr>
<tr>
<td>Median</td>
<td>38</td>
</tr>
<tr>
<td>SD</td>
<td>19.14854216</td>
</tr>
</tbody>
</table>

Table 6: Types of Insurance Policy Have (Source: Surveyed Data)

The types of insurance policy having by the respondents in surveyed data is dividing in to four categories term insurance, endowment plan, ULIP and other. The number of respondent falling in each category is 48, 48, 28 and 8 respectively. The mean value is 33, median is 38 and standard deviation of frequencies of respondents is 19.148. The data shows that the maximum numbers of respondents are falling in first two categories which are term insurance and endowment plan (number of respondents 96). Unit linked insurance and other insurance plans are play a very crucial role in this globalised era, whether the ULIP and other plans in surveyed data having by the respondents is less than traditional plans that is why the more respondents falling in first two purposes.

CONVENIENT SOURCE FOR GETTING INSURANCE

In this globalised and competitive scenario getting insurance policies is not a difficult task for any. Anyone who willing to pay premium can take insurance policy by various authority who involved in insurance business as like banks, insurance agents, financial institutions and some websites also providing these facilities.

In below table shows most convenient source for getting insurance policy chosen by respondents.

Table 7: Convenient Source for Getting Insurance Policy (Source: Surveyed Data)

The convenient source for getting insurance in surveyed data is divided into four categories insurance agent, bank, brokers and direct insurance company. The number of respondent falling in each category is 76, 20, 4 and 12 respectively. The data shows that the maximum no. of respondents falling in first source category which is Insurance agent (no. of respondents 76). It is a traditional source of getting insurance policy. Whether the last three categories sources in surveyed data is less than the first insurance agent source. It shows the personal relationship of people and insurance agents is stronger than other sources that is why the more respondent are falling in first Insurance agent categories.
PREMIUM POLICY SATISFACTIONS

Premium of insurance policy which is cost of risk transfer should be appropriate according to risk. According involvement of hazardous element premium increased or decreased. In the surveyed data respondents gave opinion about the satisfaction with the premium policy of the insurance company.

Table 8: Policy Premium Satisfactions (Source: Surveyed Data)

Above figure depicts large number of customers satisfied with the premium policies and services of insurance companies. A very few respondents are not satisfied with the premium policies of the companies because Unit linked Insurance Policies (ULIP) evolved after the privatization of market and ULIP has more cost as administration charges and other hidden costs.

CONCLUSION

It is said India lives in villages. Rural market with 70% of the total population of country offers opportunities and challenges for marketers. The opportunity is to tap vast rural market with right kind of product, price, place and promotion. The challenge is that majority of villages are thinly populated compelling marketers to think about innovative ways to reach rural consumers. Rest during the study and analysis of data, It was found that in post-liberalized-era, government service men of 26-45 age group population are more aware of buying insurance policy for several purposes. Mostly urban educated graduates or post graduate people purchase maximum risk cover plans by insurance companies, as compared to others degree holders. Less number of the Intermediates passed respondents is under insurance covers because they are not able to get suitable products. Although Insurance companies are fulfilling so many purposes of investments & savings at a time, but maximum respondents buy insurance policies for tax rebate and family safety. In the case of other than insurance products customers preferred brand name and location but in Insurance industry customer is preferring quality of insurance product and Services. The insurance adviser’s behavior is also a major factor for influencing customers. During the study it was found, although there are so many insurance distribution channels have grown like banks, financial institutions, corporate agents etc. but even then insurance agents are dominating in case of selling and distribution of insurance products. Large number of customers satisfied with the premium policies and services of insurance companies. It shows brighter future for the customers as well as insurance industry in India.

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