RURAL INSURANCE VIS-A-VIS RISK MANAGEMENT

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Abstract- Insurance is the business of indemnification of the loss suffered by the beneficiary. Insurance business can be broadly classified into life and non life insurance business. Insurance deals with the business of offering risk management solutions either in an Individual's life or two categories i.e. 1) Risk of early death and 2)Risk of living longer. Life insurance industry has developed a range of products to address these risks and life insurance business works on basic tenet of "Loss of one shared by many "We live in a risk world-forces that threaten our financial well- being constantly surround us and are largely outside our control some people experience the premature death of their near and dear ones, loss and destruction of their property from both man and natural disasters. Risk management is generally regarded as a method of managing property and liability loss exposures, and it is a rarely associated with life and health insurance of individuals as a method of managing personal loss of exposures. This is not called for, inasmuch as risk management provides a framework that can be used to analyze almost all types of loss exposures, including life and health. The far-reaching significance of risk management approach to individual life insurance in the complex, post-industrial, and post-modernist society can hardly be exaggerated. In this paper an attempt is made to study the risk management and rural insurance and to study the awareness of rural insurance in India.

Index Terms- Insurance, Risk Management

I. INTRODUCTION

India lives in villages and about fifty per cent of the 5.76 lakh villages of the country are situated in different terrain characterized by poor socio-economic conditions. Development of rural areas has been one of the paramount concerns of India's successive Five Year Plans. A strategy to tackle poverty was adopted in the various plans as the benefits of general development programme had proven unsuccessful for the eradication of the poverty of the masses1. Insurance is the safeguard against probable danger. Insurance can be bought against a particular event for its possible occurrence. It is a prevarication tool used as a preventive measure against future losses. This device is applied for minimizing or managing the future contingent risks. It is a mode of financially managing instrument through which a person gets the benefit of insurance coverage for a particular event. Therefore, a person buys future contentment and pleasure living through insurance. Rural Insurance refers to the safeguard against probable danger involved in rural activities. Rural activities where insurance coverage is required refer to agricultural operations, raring of livestock, health-related problems etc. The fundamental aim of this article is to empower the people to act on their own behalf and reestablish their livelihoods in a culture of peace. As such, this paper seeks to address the human security needs of the targeted communities in the areas of public safety, coexistence and reconciliation, health, education, training, employment and institutional support. Accordingly, the paper focuses on rural & agriculture insurance for economic, human security in rural India. Insurance is the business of indemnification of the loss suffered by the beneficiary. Insurance business can be broadly classified into life and non life insurance business. Insurance deals with the business of offering risk management solutions either in an Individual's life or two categories i.e. 1) Risk of early death and 2)Risk of living longer. Life insurance industry has developed a range of products to address these risks and life insurance business works on basic tenet of "Loss of one shared by many "We live in a risk world-forces that threaten our financial well- being constantly surround us and are largely outside our control some people experience the premature death of their near and dear ones, loss and destruction of their property from both man and natural disasters.

II. RISK MANAGEMENT

Risk management is generally regarded as a method of managing property and liability loss exposures, and it is a rarely associated with life and health insurance of individuals as a method of managing personal loss of exposures. This is not called for, inasmuch as risk management provides a framework that can be used to analyze almost all types of loss exposures, including life and health. The far-reaching significance of risk management approach to individual life insurance in the complex, post-industrial, and post-modernist society can hardly be exaggerated. To cite a classic instance, the most devastating terrorist attack ever against the World Trade Center in New York on September 11. 2001. Resulted in a catastrophic loss of life and property values3. The Terrible Tuesday factor would have thrown thousands of families into financial disaster but for the modern, sophisticated methods of risk management through insurance. Traditionally, risk management has been synonyms with annual budgeting for insurance premiums and hedging. This has been especially true in Indian

environment and the corporate risk manager has the sole responsibility of negotiating insurance contracts. In a recent international research programme, conducted with a view to understanding the future market for risk management, had little to say, by way of explanations, as to how in practice they would operatinalise their grand risk management ambitions. Whatever an individual's attitude towards risk may be, if he/she is to maximize his/her welfare, the first step must be to identify and evaluate the risks to which he/she is, or may become, exposed. Risk management, as a set of techniques for surviving loss, comes in more or less five norms. First, we can restrict our decisions to those over whose outcomes we have some control, thereby managing the probability of loss. Second, we can diversify in order to reduce the consequences of loss. Third, we can insure as a collective method of diversification. Four, we can change our minds and evade a commitment before all is lost. The only other method available to us is to refuse to play when the risks are unacceptable5.

III. RURAL INSURANCE IN INDIA

The Indian insurance industry seems to be in a state of flux while there has been a perceptible change in the market dynamics since liberalization and economic reforms, a considerable amount needs to be done for future growth and development of the market in an orderly and sustained manner. Notwithstanding the strong improvement in penetration and density in the last 10 years, India largely remains an under-penetrate market. The market today is primarily dependent on push, tax incentives and mandatory buying for sales. There is very little customer pull, which will come from increasing financial awareness along with increasing savings and disposable income. Till then the stakeholders will have to strive for product simplification increasing transparency of cost and pricing, effective distribution and improving customer servicing to drive sales. In the long run the insurance industry is still poised for a strong growth as the domestic economy is expected to grow steadily, leading to rise in per capita and disposable income, while savings are expected to be stable.

Farming is a risky business. For example, arable farmers are exposed to meteorological events, such as hail, storm, drought, frost, heavy precipitation, excessive heat, and crop diseases such as brown rot, which may result in potential damage to crops. In dairy farming, epidemic diseases, such as FMD (foot-and-mouth disease) and BSE (bovine spongiform encephalopathy), cause severe economic losses. Rural Insurance programs are designed to cover various risks that affect the rural population and are gaining importance all over the world. India, being one of the fastest growing nations of the world, offers great scope and potential for the insurance programs; Rural Insurance being a frontrunner among them. Indian insurance market can be broadly divided into urban and rural markets. These two segments are diverse in nature and have distinguished characteristics. The economic growth of these two sectors has, however, not been the same. A wide disparity exists between the per capita income and literacy rate, among other things, in these two sectors. From an insurance perspective (both life and general insurance), statistics show that insurance in the rural sector is lower in comparison to its urban counterpart. In the area of Life insurance, Life Insurance Corporation (LIC) has had a long history of selling policies in the rural areas through its vast agent network. But as these policies are sold entirely by the agent force, the focus on commissions to be earned restricts the profile of products sold to the high-valued, savings-linked policies, which are not affordable for a majority of rural households. In the case of general insurance, two types of products that are more recognizable in the rural context are crop insurance delivered by public sector insurer – General Insurance Company (GIC) and Livestock Insurance. The delivery of the above products has been mainly restricted to beneficiaries of various Government-sponsored schemes and there has been little active participation by the insurers to deliver these products on a larger scale. The public sector companies have also designed health insurance products like the Universal Health Insurance, but these policies have really not been able to bring under their coverage sufficient number of people. To overcome the shortcomings of the crop insurance product and livestock insurance, a couple of private insurance companies in partnership with distribution channels have been piloting rainfall insurance. A major distribution channel that is being explored by insurance companies is to tie up with Micro Finance Institutions (MFIs).

IV. RURAL INSURANCE PRODUCTS

Following are some of the products available in rural area:

1. Health Insurance
2. Personal Accident Insurance
3. Critical illness Insurance
4. Tractor / Commercial Vehicle / Motor / Farm Inputs Insurance
5. Micro Insurance
6. Combined / Composite Product Insurance
7. Weather / Input Based Crop against Act Of God perils
8. Cattle Insurance

The rural market in India, constituting 742 million people, is by far the largest potential market in the world. The annual rural household income of Rs 56,630 (as per NCAER, IMDR 2002) coupled with changing rural aspirations in consumption patterns and lifestyles unfolds tremendous opportunities for rural marketing. However, some of the issues that seem to be hindering large-scale advent in the rural markets are

lack of understanding of rural customer, inadequate data on rural markets, poor infrastructure, low levels of literacy and poor reach of mass media.

The insurance sector, per se, also did not make much headway in the rural sector. The insurance market in India, liberalised in 2000 with the advent of private insurance companies in November 2000 has not expanded in real terms beyond the urban domain. The penetration of insurance in India is pitifully low and if we aim for the modest target of insurance premium becoming 5% of GDP, insurance companies need to look at newer market segments rather than fight for a share in the same pie.

There exists a vast potential in the rural areas where more than 70% of our population lives. But it is common perception and belief amongst the insurance companies that it is expensive to do business in rural areas. Most companies are focusing only on meeting regulatory requirements from rural areas and don't see them as commercially viable rural business opportunities, waiting to be exploited.

V. INTERESTING FINDINGS

In order to study rural insurance position in the country a survey of 100 respondents was conducted in Nanded city of Maharashtra state. Following questions were asked during the survey.

1. Are you aware about life insurance/ motor and accident insurance?
2. Are you willing to buy insurance product?
3. Have you purchased insurance product?
4. Do you feel that insurance products are associated with risk?
5. Are you happy about the services rendered by Insurance company?
6. Do you feel that insurance market is vibrant?
7. Do you feel that insurance companies are taking collaborative efforts to protect the interest of the policy holders?
8. Do you feel that IT and telecom revolution India has not bypassed the rural sector?

The study brought forth revealing data. The rural folks have a strong saving habit—they save about one-third of their income annually across the three income segments studied. What was stunning was that the respondents, even those residing in backward areas, were quite conversant with insurance. The Indian rural market for insurance is not entirely an uninformed market. Almost 93% of the respondents were aware of life insurance; while 61% were aware of motor and accident insurance. Around 36% of them had bought some insurance or the other and another 38% of these policyholders had intention to buy more. A little over half (51%) of all the respondents had intentions of buying insurance products. Out of the non-policy holder respondents 62% intended to buy. If these numbers are extrapolated over the macro level, rural population being 910 million, the potential market could be of mind-boggling proportions. 90 % of the respondents are of the opinion that risk is associated with insurance business. 45% respondents are happy about the services rendered by the agents/ insurance company. Our research clearly indicates that the rural market is a vibrant market and holds tremendous potential for growth of insurance business, particularly because of the strong saving habit. While the industry would certainly be much heartened by the promising prospects in the rural sector, the real challenge for them would still be the distribution and delivery systems. Here again research has come up with valuable data about the extensive network built by the rural development agencies, the banks, the cooperative institutions, the NGOs and some industrial houses in the rural sector. Insurance companies would therefore be well advised to work out collaborative arrangements with these institutions to mutual advantage. These institutions, having spent huge amounts for creating the infrastructure, will be happy to collaborate and recover some of the costs. Insurance companies would be saving on huge potential investments that may be required to build up dedicated distribution and delivery systems and leverage the existing network at marginal costs. This indeed is a 'win-win' situation.

CONCLUSION

The important observation of this study is that the ongoing IT and telecom revolution in India has not bypassed the rural sector. The rural folks are reasonably technology-literate and are not averse to its use in their day-to-day activities. The state governments have also done their bit by inducting technology in their interface with them. This would certainly help in integrating the rural-urban markets. The channels finally identified for distribution of insurance products were the panchayats, district cooperative banks, agriculture & dairy cooperatives and the agents. The study detailed operationalisation of these channels along with a comprehensive cost analysis to clearly highlight the viability of going to the rural markets. Therefore, there exists an immense opportunity to explore the rural potential with all its complexities and variables and meet the challenge of developing the insurance business in this sector, in tandem with its considerable economic growth. Says Godrej Soaps' Adi Godrej, "The rural market is not sleeping any longer. The industry is at an inflexion point and despite the signs of stress there is a silver lining. The insurance industry stands at the threshold of moving toward a stable position delivering stable profitable growth." Most players will now look to reassess the entire business model from product, pricing, risk management, acquiring rural customers, distribution, claims and fraud management and a realistic pace of growth. The industry is also likely to witness consolidation as and when the regulator finalizes the guidelines for mergers and acquisitions.

The stakeholders should work toward maintaining a favorable environment for stable growth, increasing the penetration of insurance to rural and underpenetrated areas and increasing the contribution to the economy.

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