CHAPTER – IV

ROLE OF LIFE INSURANCE IN SOCIAL AND ECONOMIC DEVELOPMENT
4. INTRODUCTION

Indian economy is the 12th largest in the world, with a GDP of $1.25 trillion and 3rd largest in terms of purchasing power parity. With factors like a stable 6-8 per cent annual growth, rising foreign exchange reserves, a booming capital market and a rapidly expanding FDI inflows, it is on the way of an ever increasing growth curve.

4.1 MARKET SIZE OF LIFE INSURANCE

In 2001, Indian life insurance market size was Rs. 9,70,740 Lakhs. Between 2000 and 2009, it had an increase of approx. 800% and reached 87,10,762 Lakhs\(^1\) in 9 years. The contribution from Private Sector is very significant in this growth, LIC has also played a very vital role. Insurance is one major sector which has been on a continuous growth curve since the Liberalisation of Indian economy. Taking into account the huge population and growing per capita income besides several other driving factors, a huge opportunity is in store for the life insurance companies in India. According to the latest research\(^2\) findings, nearly 80% of Indian population is without life insurance cover and this part of the population is also subjected to weak social security and pension systems and with hardly any old age income security. As per our findings, insurance in India is primarily used as a means to improve personal finances and for income tax planning; Indians have a tendency to invest in properties and gold followed by bank deposits. They selectively invest in shares also but the percentage is very small about 4-5%. This in itself is an indicator that growth potential for the insurance sector is immense.

India is a vast market for life insurance that is directly proportional to the growth in premiums and an increase in life density. With the entry of
private sector players backed by foreign expertise, Indian life insurance market has become more vibrant. Competition in this market is increasing with company’s continuous effort to lure the customers with new product offerings. The market share of private insurance companies now increased to 35-40% range. Even to this day, Life Insurance Corporation (LIC) of India dominates Indian insurance sector but now gradually losing the market grip. There are various factors which are increasing the potential in life insurance market.

4.1.1 MAJOR DRIVING FACTORS

=> Growing demand from semi-urban population
=> Entry of private players following the deregulation
=> Rising demand for retirement provision in the ageing population
=> The opening of the pension sector and the establishment of the new pension regulator
=> Rising per capita incomes among the strong middle class, and spreading affluence
=> Growing consumer class and increase in spending & saving capacity
=> Public private partnerships infrastructure development
=> Desire of innovative & buyer-friendly insurance products
=> Success of Auto insurance sector

4.1.2 EMERGING AREAS

=> Healthcare Insurance & Pension Plans
=> Mutual fund linked insurance products
=> Multiple Distribution Networks i.e. Bancassurance
The upward growth trend started from 2000 was mainly due to economic policies adopted by the then Indian government. This year saw initiation of an era of economic liberalization and globalization in the Indian economy followed by several reforms in Insurance sector that created a perfect roadmap for the success of Indian insurance markets. On the basis of several macroeconomic factors like increase in literacy rate & per capita income, decrease in death rate and unemployment, better tax rebates, growing GDP etc., we estimate that the Indian life insurance sector will grow and set the milestones of success.

4.1.3 LIFE INSURANCE PENETRATION

In India is at present about 4.1% of its GDP, much lower than the developed market level of 6-9%. In several segments of the population, the penetration is lower than potential. For example, in urban areas, the penetration of life insurance in the mass market is about 65% and it’s considerably less in the low-income unbanked segment. In rural areas, life insurance penetration in the banked segment is estimated to be about 40%, while it is marginal at best in the unbanked segment. The total premium could go up to $80-100 billion by 2012 from the present $40 billion as higher per capita income increases per capita insurance intensity. The average household premium will rise to Rs 3,000-4,100 from the current Rs 1,300 as will penetration by the existing and new players. India’s ratio of life insurance premium to its GDP is around 4 per cent against 6-9 per cent in the developed world. It could rise to 5.1-6.2 by 2012 in tandem with the country’s demographic profile.
4.2 INVESTMENT OVERVIEW

According to a figured released by Life insurance council in September 2008 life insurance industry was the largest investor in the Indian equity markets, ahead of foreign institutional investors and mutual funds. While the net inflow from life insurance companies into equity stood at Rs 55,000 crore till March 31, 2008, foreign institutional investors and mutual funds invested Rs 53,403 crore and Rs 16,305 crore respectively. Even for the five-month period from April to August for year 2008, the insurance industry was the largest investor in the equity markets, having made net investments worth Rs 20,000 crore during the period (when foreign institutional investors have been net sellers).

Indian life insurance companies are the stabilising factor in the capital markets, channelising retail investments into equity markets. The total assets managed by the life insurance industry has gone up to approximately Rs 10,00,000 crore till August this year 2009, from Rs 8,47,000 crore in 2008. The infrastructure investment also increased to Rs 90,200 crore.
The average Indian now spends 6 times as much on life insurance as what he/she did nine years ago when the industry was yet to be opened up for private participation. The finding came up in the course of an insurance roundtable discussion organised by the Life Insurance Council, the apex body of the life insurance companies. The life insurance premium contributions per capita have jumped from Rs 280 in 1999-2000 (pre-liberalisation) to Rs 1,510 in 2006-07.

4.2.1 GLOBAL POSITION
Indians are also setting aside a greater percentage of their income on life insurance when measured as a percentage of GDP. Contribution by way of insurance premium has shot up from 1.2 percent to 4.1 percent of the GDP during the same period. Interestingly, insurance penetration in the US stands at 4 per cent of the GDP. But some of the participants pointed out that India still has some distance to cover in improving penetration. The US which ranks poorly in GDP terms has a stronger social security system with the Government spending much more on the average American. India is, however, ahead of China where insurance accounts for just 1.7 per cent of the GDP. In other developed markets such as the UK and Japan, insurance penetration stands much higher at 13.1 per cent and 8.3 per cent of the GDP, respectively.

According to data collected by the Life Insurance Council, the life insurance industry has made a huge leap across several other parameters in the liberalized era. The growth in insurance premium collections has spelt an opportunity for the equity market. The industry’s investment in the equity
market stood at Rs. 1,50,000 crore and the assets under management were at Rs. 6,00,130 crore as on March 31, 2007.

Raising capital, however, remains a constraining factor for the industry since Foreign Direct Investment Regulations limit the foreign joint venture partner from increasing its stake beyond 26 percent. The capital requirement in India was higher than international standards and that it was a constraint on the growth of companies. At present, life insurers have to follow a blanket formula and maintain a solvency margin of 150 per cent. Solvency margin means the excess of assets an insurance company is required to maintain over its liabilities.

**4.2.2 FOREIGN DIRECT INVESTMENT**

Insurance sector in India has attracted over 540 million dollar of FDI and is poised for tremendous expansion. As on March 31, 2009, the entry of foreign partners has resulted in attracting more than $600 million FDI. The private companies have created a niche for themselves; they have been able to increase their share in the insurance market in competition with their counterparts in the public sector. As per the current regulation, foreign entity is allowed equity up to 26 percent in the sector. Currently there about 20 foreign partners are floating money in Indian market and more are making their minds. The government wants to increase the cap to 49 percent, but its communist allies oppose such a move.

Though the growth in recent years has been significant in the sector, India is far behind the world averages and ranks 78th in terms of insurance density and 54th in terms of penetration. Inviting investment in the sector, India offers a stable investment climate as well as a huge market with a growing middle class.
Although Japanese insurance companies account for one-fifth of the total life insurance premium in the world, they have been slow to expand internationally as most companies were going through a consolidation phase locally. The crash in interest rates to near-zero levels in Japan had made it difficult for insurance companies to generate surpluses to cover costs. Financial sector juggernaut LIC of India is now on the look out for a potential buy abroad. The company is planning to use its massive cash reserve to finance the acquisition of a company in the New Zealand and Australia markets. If approved, LIC would become the second public sector financial institution, after State Bank of India, to acquire a company abroad. For LIC, a buyout of an insurance company Down Under could make sense, as it has already established its presence in some of the Oceania markets, like Fiji. The plan would, however, require prior passage of the amendments to the LIC Act, to enable the company to raise its paid-up capital from Rs 5 crore to Rs 100 crore, at par with private insurers. The government plans to amend the Act passed in 1956 to give more flexibility to the largest insurance company to expand its footprint.

### 4.3 SOCIAL SECURITY

It is an obligation of the State to make provisions for social security. In fact, the subject has been included in List III of the seventh schedule of the Constitution of India as “Social Security and Social Insurance”. Further, Article 41 of the Directive Principles of State Policy called upon the State to make provision for public assistance in the case of, sickness, accident, disablement and other cases of undesired event. The various laws, passed by the state for this purpose involve the use of insurance, compulsory or voluntary, as a tool of social security. The Employees State Insurance Act,
1948 provides for the Employees State Insurance Corporation to pay for the expenses of sickness, disablement, maternity and death and for the maintenance of hospitals, dispensaries, etc. for the benefit of industrial employees and their families, who are insured persons. The scheme operates in certain industrial areas as notified by the government.

Insurers play an important role in the social security schemes sponsored by the government. Examples are the Solatium Scheme, the Personal Social Security Scheme and the Hut Insurance Scheme. The Crop Insurance Scheme is a measure with considerable social significance. The Scheme benefits not only the insured farmer but also the community directly and indirectly in terms of maintaining agricultural production and rural employment and contribution to economic growth. All the rural insurance schemes, operated on a commercial basis, are designed ultimately to provide social security to the rural families. The insurance industry has devised special insurance schemes, at subsidized rates of premium, to cover cattle and other livestock for the beneficiaries of IRDP and various other government sponsored programmes and financial institutions. Apart from this support to government schemes, the insurance industry itself offers on a commercial basis, insurance covers which have the ultimate objective of social security. Examples are: Janata Personal Accident, Jan Arogya, Bhavishya Arogya, Raga Rajeshwari Mahila Kalyan Yojna etc.

4.3.1 SOCIALLY ORIENTED INSURANCE SCHEMES
The Social Security Fund (SSF) was set up in 1988-89 for providing social security through group insurance schemes to the weaker and vulnerable sections of the society. Different group insurance schemes for the approved
occupations belonging to these sections are being subsidized from this fund. These schemes now provide a sum assured upto Rs. 5000/- on death with accident benefit of Rs.25,000/-. There are 24 approved occupational groups belonging to these sections of the society as given below:

**Table 4.1**

**List of 24 Approved Occupational groups**

<table>
<thead>
<tr>
<th>Occupations</th>
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<tbody>
<tr>
<td>1. Beedi Workers</td>
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<td>2. Carpenters</td>
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<td>3. Brick Kiln workers</td>
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<tr>
<td>4. Fisherman</td>
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<tr>
<td>5. Cobblers</td>
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<tr>
<td>6. Handicraft artisans</td>
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<tr>
<td>7. Hamals</td>
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<tr>
<td>8. Handloom and Khadi weavers</td>
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<tr>
<td>9. Handloom weavers</td>
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<tr>
<td>10. Leather and Tannery workers</td>
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<tr>
<td>11. Lady Tailors</td>
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<tr>
<td>12. Physically Handicapped Self Employed Persons</td>
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<tr>
<td>13. Papad workers attached to ‘SEWA”</td>
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<tr>
<td>14. Rikshaw Pullers/Auto Drivers</td>
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<td>15. Primary Milk Producers</td>
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<td>16. Salt Growers</td>
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<tr>
<td>17. Safai Karmacharis</td>
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<tr>
<td>18. Urban Poor</td>
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<tr>
<td>19. Tendu Leaf Collectors</td>
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<tr>
<td>20. Seri Culture</td>
</tr>
<tr>
<td>21. Forest workers</td>
</tr>
<tr>
<td>22. Powerloom workers</td>
</tr>
<tr>
<td>23. Toddy Tapers</td>
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<td>24. Hilly Area women</td>
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JANASHREE BIMA YOJANA

In pursuant to Government’s announcement in the Budget 2000-2001, LIC launched a new scheme of Group Insurance namely, ‘Janashree Bima Yojana’ on 10th August 2000. The scheme provides for life insurance protection to the rural and urban poor persons below poverty line and even persons marginally above poverty line provided they belong to identified occupational group. Persons between the age 18 years and 59 years are eligible. The groups will be identified and notified by LIC in consultation with State Government/ Nodal Agency. The minimum membership of the group should be 25. The scheme provides for cover of Rs.30,000 on natural death of the member, Rs.75,000 on death / total permanent disability due to accident and Rs.37,500 on partial permanent disability due to accident before attaining age 60 years. The premium per member is Rs.200 out of which 50% premium is borne out of the Social Security Fund and the balance 50% premium is paid by the member or Nodal Agency or State Government.

The Nodal Agency pays the amount initially at the time of submission of the proposal and subsequently on each annual renewal date. The Nodal Agency shall mean the Panchayats, NGOS, Self Help Groups and any other institutionalized arrangements. During the period since its introduction LIC has identified and approved 20 new groups for their eligibility in addition to 24 occupational groups approved under Social Security Schemes.
Table 4.2
List of 20 new Eligible groups

<table>
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<tr>
<th>Occupations</th>
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<tbody>
<tr>
<td>1. Food stuffs as Khandasari/Sugar</td>
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<td>5. Leather products</td>
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<td>7. Rubber &amp; Coal products</td>
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<tr>
<td>9. Toys manufacture</td>
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<tr>
<td>11. Transport drivers association</td>
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<tr>
<td>13. Rural Poor</td>
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<tr>
<td>15. Fire crackers workers</td>
</tr>
<tr>
<td>17. Aanganwadi workers and helpers</td>
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</tbody>
</table>

SHIKSHA SAHAYOG YOJANA (SSY)

In pursuant to the Government’s announcement in the Budget 2001-2002, LIC launched the Shiksha Sahayog Yojana for the benefit of children of members of Janashree Bima Yojana. The scheme provides for the scholarship of Rs. 300/- per quarter without any additional premium for availing the supplementary benefit of scholarship.

4.4 MICRO-INSURANCE

Micro-finance refers to small savings, credit and insurance services extended to socially and economically disadvantaged segments of society. In the Indian context terms like "small and marginal farmers", "rural artisans" and "economically weaker sections" have been used to broadly define micro-
finance customers. The recent Task Force on Micro Finance has defined it as "provision of Insurance, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas, for enabling them to raise their income levels and improve living standards".

4.4.1 MICRO-INSURANCE PRODUCTS
The Micro Insurance Regulations, 2005 provides a platform to distribute insurance products which can be afforded by the rural and urban poor. Life Insurance Corporation has introduced an insurance plan “JEEVAN MADHUR” for people with low income capacity. Jeevan Madhur is a simple savings related life insurance plan wherein premiums are payable regularly at weekly, fortnightly, monthly, quarterly, half-yearly and yearly intervals. On surviving to the date of maturity payment of maturity sum assured is paid along with vested bonus if any. On death of the policyholder an amount equal to total premiums payable during the entire term of the policy will be paid along with vested bonus if any. On death arising as a result of accident an additional amount, equal to death benefit sum assured shall be available during the term of the policy. If at least two full years premiums have been paid in respect of this policy, any subsequent premium be not duly paid, full death cover shall continue from the date of First Unpaid Premium (FUP) for a period of two years or till the end of policy term whichever is earlier.

AAM AADMI BIMA YOJANA (AABY)
AABY was launched on 2nd October, 20078 to provide insurance to the head of the family of rural landless household against natural death as well as accidental death and partial/permanent disability. The Scheme also
envisages an add-on benefit of providing scholarship up to a maximum of two children of the beneficiary studying between 9th to 12th Standard at the rate of Rs. 300/- per quarter per child. The annual premium payable per member is Rs 200 of which 50% shall be paid by the Central Government and the remaining 50% by the State Government. Taking into account the annual cost to the Central Government, a sum of Rs. 1000 crore has been placed in a Fund that will be maintained by LIC. This will take care of the premium share of Government of India. A separate fund of Rs 500 crore has been created out of the Government of India’s share of LIC valuation surplus for meeting the expenditure on the add-on benefit of granting scholarship to the children of the beneficiaries. The scheme is being operated by LIC of India.

**VARISHTHA PENSION BIMA YOJANA (VPBY)**

VPBY meant for senior citizens aged 55 years and above was launched on 14 July 2003. Under the scheme the pensioner gets an effective yield of 9% per annum on the investment. The difference between the effective yield of 9% paid to the pensioner and that earned by LIC is compensated as subsidy to LIC by the Government of India.

**4.4.2 DEMAND OF MICRO FINANCE SERVICES**

Due to its large size and population of around 1000 million, India's GDP ranks among the top 15 economies of the world. However, around 300 million people or about 60 million households, are living below the poverty line. It is further estimated that of these households, only about 20 percent have access to credit from the formal sector. Additionally, the segment of the rural population above the poverty line but not rich enough to be of interest to the formal financial institutions also does not have good access to
the formal financial intermediary services, including savings services. A group of micro-finance practitioners estimated the annualised credit usage of all poor families (rural and urban) at over Rs 45,000 crores, of which some 80 percent is met by informal sources. This figure has been extrapolated using the numbers of rural and urban poor households and their average annual credit usage (Rs 6000 and Rs 9000 per annum respectively) assessed through various micro studies.

Credit on reasonable terms to the poor can bring about a significant reduction in poverty. It is with this hypothesis; micro credit assumes significance in the Indian context. With about 60 million households below or just above the strictly defined poverty line and with more than 80 percent unable to access credit at reasonable rates, it is obvious that there are certain issues and problems, which have prevented the reach of micro finance to the needy. With globalization and liberalization of the economy, opportunities for the unskilled and the illiterate are not increasing fast enough, as compared to the rest of the economy. This is leading to an irregular growth in the economy thus increasing the gap between the haves and have-nots. It is in this context, the institutions involved in micro finance have a significant role to play to reduce this disparity and lead to more equitable growth.

4.4.3 DEMAND FOR INSURANCE SERVICES

The demand for insurance services, though not very well expressed, is also significant. This comes from the fact that not only incomes of microfinance customers low, but are also highly variable. Insurance for the poor is needed for assets such as livestock, pumpsets and Crop. There are various type of risk attached with these and as well as life also.
4.4.4 RISKS FACED BY RURAL HOUSEHOLD

The risks faced by rural households may be broadly classified as those related to life and livelihoods. Those risks that would fall under the livelihoods are the ones, which would be under the domain of general insurance companies in Indian context. The major livelihood risks that are faced by a rural household are:

1. Risks to Agricultural activity
2. Risks to agri-allied activities like risk to livestock
3. Risks to assets used in non-farm activities

While the risk to agricultural activity may be mainly from natural factors like inadequate rainfall, this activity also faces certain market risks like price risks. Those engaged in non-farm activity too are prone to risks affecting the farm activity as the rural economy is still dominated by agrarian activity. Therefore in order to address risks affecting various livelihood activities, a combination of tools like risk mitigation/minimization (through better pest management practices, disease prevention etc) and risk management through financial instruments like insurance and derivatives are required. Health/death risks faced by rural people is not only unbearable for the rural household because of expenses involved for diagnosis and treatment, but also loss of wages to the entire family as typically all members of rural household even at very old age are engaged in economic activity for living. This problem is further compounded by the fact that rural places have very poor health infrastructure coupled with low awareness levels on health.
4.4.5 LIFE INSURANCE IN RURAL MARKET
In the area of Life insurance, Life Insurance Corporation (LIC) has had a long history of selling life insurance policies in rural areas through its vast agent network, 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. Besides this, from time to time LIC has launched some group life insurance policies under various government schemes. But these policies have failed to bring under their coverage significant number of lives. With the opening up of the insurance sector to the private players, and rural and social sector business obligation imposed by IRDA, the rural sector has seen a launch of several individual and group insurance products by the private players. These products are characterised by low levels of coverage and very low premium rates. Some policies are:

1. Group life insurance products that covers all credit customers.
2. Group life insurance product that covers all the savings and deposit a/c holders of Grameen Banks.
3. Pure term insurance products for individuals which prevents from the liability of loans.
4. Premium return term product for individuals.
5. Savings linked product for individuals.

4.4.6 INITIATIVE BY PRIVATE PLAYERS
Aviva Life Insurance launched ‘Grameen Suraksha’, a micro-insurance rural term insurance plan for BASIX^9 customers. This traditional term plan has been developed with the objective of giving the rural policyholder maximum benefits.
‘Grameen Suraksha’ is designed such that it reduces the burden of the policyholder to pay premium year after year. Instead, under this plan, the policyholder pays premium for a period of just two years and then avails the term benefit for 5 or 10 years.

Aviva have been associated with BASIX since 2002 and they are working together in the micro insurance arena. With the launch of Grameen Suraksha for BASIX customers, company is planning to increase their reach and provide the benefits of life insurance to maximum number of people in rural and social sector. Aviva India has covered close to 900,000 lives in the social sector in association with BASIX and other micro insurance organizations.

Bajaj Allianz Life Insurance has launched three micro insurance plans--"Alp Nivesh Yojana", "Bima Kavach Yojana" and "Jana Vikas Yojna" in West Bengal. With premiums as low as Rs 15 a month, the minimum assured amount ranges from Rs 5000 to Rs 50,000 and would be available for individuals between 18 and 60 years of age and a maximum cover up to the age of 70. The Bima Kavach Yojana was the most economical term insurance policy with return of premium on maturity and guaranteed surrender value. There are also additional benefits including accidental death benefit & accidental permanent total/partial disability benefit. Jana Vikas Yojna is a Life Cover with Maturity Benefit of 125 per cent of the single premium payable on survival till the end of the policy term and guaranteed surrender value.

4.4.7 SIZE OF CURRENT MARKET

The market for micro insurance in India is estimated to be between 342 million dollars to 448 million dollars for life insurance. Insurance companies are more interested in low impact risks, which have a low frequency. But the
poor want all the high frequency risks to be covered like snake bites, a fall from a tree, falling into a well, riots and fires, rather than accidents from a motor vehicle. This causes a mismatch between the priorities of the potential client population and the traditional thinking of trained insurers. There are also high transactional costs in serving the poor due to remoteness and data maintenance. The variable income of the poor was another factor that discouraged insurance companies from getting into micro insurance. Convincing insurance companies that insuring the poor could be a win-win situation is a very difficult task.

Figure 4.2 Comparison between Urban & Rural India on few parameters

There are several challenges for insurance companies going down market. These include lower literacy levels and a lack of awareness about how insurance works. Industry specialists point out that there is a greater possibility for adverse selection in micro insurance. Some say that moral hazard is also a significant issue in micro insurance, especially in agricultural insurance. Insurance gives an economy at the macro level,
resources that can be invested over the long-term, which could be a selling point for micro-insurance.

According to a UN Development Programme (UNDP) report\textsuperscript{11}, The government should exempt micro-insurance from payment of service tax to make products cheaper and encourage penetration of insurance services in low income rural and social sectors. The service tax of on premiums adds to the price of insurance.

To help keep premiums low for rural poor, government could consider waiver of service tax on micro-insurance products for a limited period. According to a report, 'Building security for the poor: Potential and prospects for micro-insurance in India', by Anuradha K. Rajivan\textsuperscript{12}, “Micro-insurance sector has the potential to generate a business of two billion dollars (over Rs 8,000 crore) in the next two-three years in India. The report suggested partnership of insurance companies with micro-finance institutions for providing such products to the rural populace according to their specific needs.

Insurance products made for the urban population cannot be suitable for their rural Population. They may need insurance for a single tree or insurance against snake-bite, the things that affect them more frequently and directly, The report suggested pooling of data between insurance companies and the government as ‘building and sharing claims histories can help in aligning pricing decisions with actuarial calculations, thereby reducing price’. The report added an investment of 1.65 million dollars would be needed to develop the micro-insurance business and tap the growth potential.
MINIMAL TARGETS FOR SOCIAL SECTOR/RURAL AREAS
In the figure we can see the level of penetration (4% of population) in rural areas is very low compare to urban areas (25% of population). The premium collection is in percentage of GDP in rural areas is only 0.7 % compare to urban areas which is 2.6% of GDP. IRDA is now pushing insurance companies to scale up their exposure to the rural and urban poor, by increasing their "rural and social obligations." Reach of agents (very low) is a significant reason in above context.

SOCIAL SECTOR
The "social sector" includes the unorganized and informal sectors roping in the economically vulnerable or backward classes in rural and urban areas. The social obligations which were 5,000, 7,000, 10,000, 15,000, 20,000 and 20,000 for the first, second, third, fourth, fifth and sixth financial years, respectively have now gone up to 32,500, 40,000, 47,500 and 55,000 lives from the seventh to the tenth financial years. According to Life Insurance Council, micro-insurance policies issued by insurers would now qualify under rural and social obligations.

RURAL SECTOR
When the insurance sector was liberalized, insurance companies were required to sell 7 percent, 9 percent, 12 percent, 14 percent, 16 percent and 16 percent of their policies in rural areas in the first, second, third, fourth and fifth and sixth financial years, respectively as per the IRDA regulations, 2002. This has now been increased to 18 %, 19 %, 19 %, and 20% in the seventh, eighth, ninth and tenth financial years, respectively.
STIFF TARGETS
The targets are slightly hard for the public sector insurer, Life Insurance Corporation of India. "The Corporation has to write 24 per cent of its policies in rural areas in 2007-08 and 25 per cent in 2008-09 and 2009-10, respectively. Under the social sector, LIC has to cover 20 lakh lives during 2006 to 2010. For private insurance companies, collecting policies from rural areas has been particularly tough.
In the case of `rural', the regulation talks about the number of policies while with `social' it is the number of lives. So, for social obligations, company can do group policies and easily meet the requirement but with rural obligations, it can write one policy which may affect 50,000 people but it will count as only one policy.
Most insurers have tie-ups with NGOs, micro-finance institutions, self-help groups and brokers for marketing in the rural areas.
In the above figure we have examples of some life insurance companies who have achieved more than fixed targets in the fiscal year 2008.

On micro insurance, IRDA observes that there is considerable scope for using the platform of micro-insurance to qualitatively enhance the level of compliance with the rural and social sector obligation. All micro insurance policies may be reckoned for the purpose of fulfillment of social obligations by an insurer. These new rules, according to IRDA, will be useful in benchmarking the performance of insurers in meeting the obligations of rural and social sector against the minimum requirement stipulated under the regulations. The idea of rural and social insurance is to shield the rural poor and socially backward classes from unforeseen mishaps. It is being defeated as insurers are either selling policies to rich rural folk or are keeping them underinsured with covers that provide meager value on sum assured.

A policy with a sum assured value of Rs 5 lakh if sold to some one staying in rural India is termed rural cover and is accounted under rural/social insurance under the present norms. Similarly, insurers also sold covers with sum assured values as low as Rs 1,000 or Rs 2,000 to meet the obligation. Social products, on the other hand, cannot offer a sum assured beyond Rs 30,000 for general insurance covers and health covers for individual and family floaters. For term insurance and personal accidents, the maximum will be Rs 50,000 per person if it is a social policy. Insurers will also have to adhere to the minimum requirements stipulated for rural policies. Micro insurance will now be considered part of the rural/social policies. Interestingly, IRDA has now asked insurers to regularly keep it updated with the number of policies insurers have sold.
GROUP INSURANCE APPROACH
While the group is very much being explored by many insurance companies to offer insurance services, it very gets restricted to groups where members have taken credit from an institution. The down side of this arrangement is that those customers who do not have credit requirements get left of insurance coverage. Therefore there is a need for insurance companies to design products for groups in rural areas where Life Insurance can be offered as a stand-alone service without necessary bundling with credit. This would allow getting a large size of rural population under insurance coverage through the simplicity of group products.

4.4.8 SUPPLY OF INSURANCE SERVICES
The supply of insurance services to the poor has been increased substantially over the 2000, and there are a large number of low premium schemes covering them against death, accidents, natural calamities, and loss of assets due to fire, theft, etc. However, the usage is limited by low awareness among the poor.

RURAL SECTOR: STILL TO LOOK AFTER

- Rural market is currently underserved as compared to urban sector.
- Improved reach will be an avenue for growth.
- Micro insurance is a fuel for effectiveness.

Figure 4.4: Level of supply of insurance in rural sector

Penetration 4 % population
Reach of agent 0.25/1000 people
Premium GDP 0.7% (1800/ capita)
In the above figure we can observe the level of supply of life insurance. There are only 0.25 agents behind 1000 villagers. Means 1 agent is advising about 4000 person. Therefore there is need to increase the sales force in the rural area especially for private players to fulfill the gap between demand and supply.

4.4.9 LEGAL AND REGULATORY FRAMEWORK FOR MICRO-INSURANCE

To help insurance penetration in rural areas, the Insurance Regulatory and Development Authority (IRDA) has announced micro-insurance regulations to cover risks of lives, crop, huts, livestocks and tools at an affordable cost. The regulations will allow life and general insurers to tie up for offering a combined policy. The IRDA has allowed insurers to issue policies with a maximum cover of Rs 50,000 for general and life insurance under its new micro-insurance regulations. Insurers have to take IRDA’s prior approval for launching micro-insurance products through the “file and use” mode. For group health insurance, the maximum cover is Rs 30,000 pa. For personal accident policies the maximum Rs 50,000 PA and is open to 5-70 age group. In case of life micro-insurance products, the cover amount for term insurance is between Rs 5,000-50,000 for a minimum term of five year and maximum 15 years. The entry age for this product is kept at 18-60. Endowment insurance policy provides cover for Rs 5,000-30,000 for a minimum five years and maximum 15 years for people aged between 18 and 60. An insurer can collect the premium for both life and general insurance components directly from the consumer or agents. Recognizing the need to involve NGOs, self-help groups, micro-finance institutions to distribute such products, IRDA has allowed acting as micro-insurance agents along with
certified insurance agents and brokers. A micro-insurance agent can sell policy of only one life insurer and a general insurer.

**4.4.10 DISTRIBUTION OF SERVICES IN RURAL AREAS**

It’s not possible for all insurance companies to open their branches at each part of the country. Therefore they are collaborating with different Micro finance agencies which are well established in rural areas.

**Micro-Finance Institutional Structure:** The different organisations in this field can be classified as "Mainstream" and "Alternative" Micro Finance Institutions (MFI).

National Agricultural Bank for Rural Development (NABARD), Small Industries Development Bank of India (SIDBI), Housing Development Finance Corporation (HDFC), Commercial Banks, Regional Rural Banks (RRBs), the credit co-operative societies etc are some of the mainstream financial institutions involved in extending micro finance. Alternative Micro Finance Institutions: These are the institutions, which have come up to fill the gap between the demand and supply for microinsurance and credit. MFIs were recently defined by the Task Force as "those which provide Insurance, credit and other financial services and products of very small amounts, mainly to the poor, in rural, semi-urban or urban areas for enabling them to raise their income level and improve living standards." The MFIs can broadly be classified as:

- NGOs, which are mainly engaged in promoting self-help groups (SHGs) and their federations at a cluster level, and linking SHGs with banks, under the NABARD scheme.
- NGOs directly lending to borrowers, who are either organised into SHGs or into Grameen Bank style groups and centres. These NGOs borrow bulk funds from RMK, SIDBI, FWWB and various donors.
- MFIs which are specifically organised as cooperatives, such as the SEWA Bank and various Mutually Aided Cooperative Thrift and Credit Societies (MACTS) in AP.
- MFIs, which are organised as non-banking finance companies, such as BASIX, CFTS, Mirzapur and SHARE Microfin Ltd.

Some of the leading alternative microfinance institutions in this segment are SEWA Bank in Gujarat, which also runs federations of SHGs in nine districts; ASSEFA and its Sarva Jana Seva Kosh Ltd, the and ASA in Tamil Nadu: SHARE, BASIX, CARE and MACTs in AP promoted among others by the Cooperative Development Foundation (CDF); MYRADA in Karnataka, which has promoted Sanghamitra, a company of its village savings and credit sanghas; PRADAN which has established a large number of SHGs and federated them under Damodar in Bihar, Sakhi Samiti in Rajasthan and the Kalanjiams in Tamil Nadu (the last now run by DHAN Foundation); ADITHI in Bihar has established Nari Nidhi, a federation of women’s groups; PREM in Orissa has done the same through the Utkal Mahila Sanchay Bikas; the Rashtriya Gramin Vikas Nidhi which runs credit insurance, and savings programs in Assam and Orissa, on the lines of the Grameen Bank, Bangladesh, as does SHARE in AP, ASA in Tamil Nadu and RDO in Manipur.

MFIs and other rural intermediaries have the unique advantage of access to the doorstep of the rural customer. In this process they not only have a good opportunity to capture the customer requirements but also a grasp of the process issues involved in taking these products to the doorstep. It would be
necessary for Insurance companies to look at these channel partners not merely as distributors in the traditional sense, but as partners whose domain knowledge can contribute to the product development process. This would ensure that the products coming out from insurance company have a closer fit to the channel feasibility and customer requirements.

While the regulator does not allow the same company to offer both life and general insurance products, it is inconvenient for the rural customer to approach different companies for different insurance products. Therefore it is necessary that different companies collaborate to offer complementary risk mitigation services. MFIs and other rural intermediaries can be the channel to offer these services so that the rural customer can get all his services from a single point.

**ORIENTATION FOR SMALL PILOTS**

The public institutions in the country have shown a tendency to go for large scale launches of social/rural insurance products, with huge budgets, for products and concepts that have not been tested strictly earlier. A case in point would be the Universal Health Insurance launched by the government. Sometimes the magnitude of scale and the social good intended, take away the attention required to fine-tune the process requirements, for the success
of such products. While such large scale projects do offer their own set of insights, it would also be useful if apex public institutions in the country can show an appetite for smaller pilots with low budgets, where complete attention can be paid to design and fine-tune processes so that they can be scaled up successfully. Any new product or services needs perfection and that is possible only on incorporation of sound learning from initial experiences particularly in the process of offering such services.

Grass-root organizations are in a good position to conceive and pilot various rural insurance products. But the cost of testing new concepts is beyond the financial capacity of most such organizations. As the benefits of such experiments will be a learning resource for the entire sector, there is an opportunity for collaboration so that the resource requirements for testing new products and concepts can be adequately met. Today many MFIs are actively engaged in delivering insurance services to their customers in collaboration with various insurance companies. As the customer profile of all these MFIs is similar, sharing of experience between the various MFIs and Insurance Companies on their rural insurance products would help to spread the benefits to more number of rural customers.

DATA BANK DEVELOPMENT

As data on rural insurance experience in still very marginal, there is a need for sharing and archiving data on experiences in rural sector, which will contribute to the development of better-designed products in the future. The regulator could play an active role in setting up such an entity, which will maintain all such data, which is accessible to institutions involved in design of rural products.
The rural customer segment, its location and its requirements are significantly different from that of the urban-market. The regulator can look at providing the right regulatory environment where micro-insurance companies can be set up with complete focus on meeting the insurance needs of the rural sector. The investments in such companies can come from Insurance Companies, MFIs and other competent entities, which will bring the respective domain expertise required for delivering rural insurance.

THE PROBLEMS ASSOCIATED WITH MAINSTREAM MFIS
To enable the reach of micro finance or insurance services to the needy, the problems associated with the legal, regulatory, organisational systems and the attitudes should be addressed to and the desired changes brought in these, to make them more effective. The mainstream financial institutions are flush with funds and have access to enormous amounts of low cost savings deposits. Indeed, the poorer the region, the lower the credit deposit ratio – most of the eastern UP, Bihar, Orissa and the North-East have Credit Deposit ratios of 20-30 percent. Thus while banks are physically present in rural areas and offer concessional interest rates, rural producers are not able to access, with the result that the rest of the deposits are finding their way into the financial sector.

4.5 CHALLENGES IN RURAL AREAS
Apart from huge potential there are several challenges in the rural sector. Some of them are:

4.5.1 AWARENESS AND EDUCATION:
There is major challenge for insurance companies and policy makers to increase the awareness levels among rural population, so that they may view insurance policies as a risk management tool. Traditionally rural households
have addressed their risk protection in various forms: from the joint family, investing in gold, land and other assets. Most insurance polices that rural customers are familiar with have been sponsored or subsidized by the government, the legacy of this past is that rural people do not fully see insurance as a risk sharing mechanism through contributions in premium. There is need for sufficient investment by both private and public institutions to bring about a change in the perception of Insurance as a risk mitigation instrument and enhance the awareness levels on various insurance products and how they work in principle.

4.5.2 DOCUMENTS FOR CERTIFICATION

For effecting and servicing various insurance contracts a variety of documents are expected to be provided by the customer to the insurance company. On account of their low awareness levels and also lack of documentation systems in public institutions for issuing various documents, rural people face a peculiar disadvantage of not processing even some very basic documents required for taking insurance policies. Below are listed a few such cases:

A. AGE PROOFS

Most rural people do not have a formal age proofs that are demanded by insurance companies. A common kind of age proof that may be available with good number of people is the Voter Identity issued by the Government. Unfortunately, the quality of information captured on these Voter IDs is found not up to standard and therefore is not accepted as a standard age proof by some Insurance Companies. If we are to seriously look at extending Life Insurance on a large scale in rural areas, it will be necessary to provide
B. DEATH CERTIFICATE
Currently there is no standardization of how a death certificate is issued uniformly across the country. Some insurance companies have difficulty in accepting death certificates issued by other than municipal authorities and revenue departments. For rural people the most feasible way to get a death certificate is from the Gram Panchayat. The regulator should clarify to the industry to give sanctity to the death certificate issued by Gram Panchayat. Some times the insurers insist for cause of death, which is possible only if an advance medical test is conducted.

C. FIRST INFORMATION REPORT (FIR)
In claims that involve an accident, all insurance companies insist on submission of a FIR report registered with the Police. In the rural context the access to police stations is quite remote to many places and perception and experience of rural people is such that accessing a police station only invites more hassles to them. In view of this, insurance companies should be willing to substitute an FIR with a declaration from community members in cases where it is convenient to get an FIR.

4.5.3 PRODUCT CUSTOMIZATION
Most products being offered today to rural market are very often urban products, offered to the rural market with some tweaking in features. Very often this may not be the right way to go about selling rural products, as the requirements of rural customers can be very different from that of the urban
customer. The product needs specific design in terms of pricing, premium payment options and simplicity in product features and process requirements.

Customers in rural areas do not have direct access to Insurance companies, in order to remit small premiums amounts in cash to the insurer directly. The alternative available for them is to remit cash to the insurer through banking instruments like Cheques or Demand Drafts. But this option is unlikely to be helpful to rural customers as very few have bank accounts to use these instruments and also the banking infrastructure in rural areas is grossly inadequate. Therefore there is a need for the regulator and the insurance companies to work on a process, which allows rural customers to remit premium to insurance companies in a convenient and cost effective manner. An alternative would be to route the premium through distribution channels like micro-insurance companies, which have the capacity to handle small, and multiple cash transactions in villages.

4.5.4 REMUNERATION OF EXPENSES FOR DISTRIBUTION AND SERVICING

It is well known that cost of delivering micro-finance services is very high. This is a result of the combination of small and multiple transactions, with the customers scattered over a wider geography. The current regulations on compensation for insurance distribution have a cap on the commission’s payable, which does not necessarily cover the cost of selling and servicing policies in rural areas. There is need to de-regulate the commissions payable on various kinds of policies, especially for the rural sector. This would allow the insurance companies to ensure that at least the transaction costs of
selling and servicing of rural insurance policies are recovered by the distribution partners. This would be absolutely essential to ensure that rural policies are sold and serviced actively.

Traditionally all research and design of rural products has been weighed down by thinking on what will be minimum premium amount that rural customers will be willing to pay for various policies. The result of this has been that most products have been designed with very low premiums that do not adequately cover the actuarial cost of covering the risk, leave alone the cost of delivery and servicing of the product. This has only helped to meet in the short term the regulatory requirement imposed on the insurance companies to do a certain minimum number of policies in rural areas. But as a consequence of this method of pricing, there is little incentive for either the insurance company or the distributor to sell these policies in large numbers and do the needful servicing. Therefore there is a need to design products that are priced in such way that there is enough interest for customers and also for the insurance companies and distributors to sell the products on a large scale.

4.5.5 LAPSATION OF POLICIES

In India, traditionally life insurance business has been seen more as a savings and tax-reduction instrument rather than as a major risk protection tool. In the rural context it has got translated into a mere savings instrument, with very little risk coverage. The time bound contracts in insurance policies are such that, there is every chance of lapsation of these policies if the customer cannot pay the premium in a timely manner. These results in, not only the loss of risk coverage, but the loss of a significant part of the savings
made by the customer. The probability of this happening in rural areas is very high as the incomes of rural household are unpredictable and varying. This is on account of the agrarian economy of the rural areas, which is subject to the risks of nature (like inadequate rainfall) quite frequently. Thus the current life insurance policies, primarily designed for the urban market, are to the disadvantage of rural market, where the customers stand to loose both their savings and risk protection. There are reports\textsuperscript{14} which indicate that LIC itself has wiped up about 100 crores in lapsed polices form rural Andhra Pradesh alone in the past two years. Hence there is need to motivate Life Insurance companies to sell pure risk products actively and also make the savings liked products more flexible and fair to rural customers keeping in view their fluctuating income patterns. The regulator can also look into improving this situation, by ensuring that Life Insurance Companies do a certain minimum number or percentage of pure risk policies in their overall portfolio.

Today most of the regulatory activity is directed in general at the whole market, which is still dominated by the urban and commercial insurance business. Some of these regulatory directions while addressing the regulatory requirements of the larger market may sometimes actually work to the disadvantage of developing the rural market. Therefore it is essential for the regulator come out with separate regulations, which would propel the development of insurance services for the rural sector.

\textbf{4.5.6 PRODUCT CHALLENGES}

Currently there is not much differentiation of products for urban and rural markets. The products have been designed as “one size fits all”. This needs
to be relooked. The product designers have to understand the needs of the target population and design accordingly, and for that they need to understand the psyche of the people. Risks faced by the social sector and rural sector can be broadly classified into life related and livelihood-related. Risks related to life would include Life insurance, Personal Accident insurance and Illness/Health insurance. Risks related to livelihood would include Livestock, Agriculture and Property insurances. It would be advisable initially to offer products covering these risks. One major road block insurers face in these types of insurances would be absence of historical and empirical data or if the data exists, unreliable data. This results in higher premium for the customers which would then result in failure of the product. The pricing should be done keeping in mind the buying power of the community and should leverage on the law of large numbers. It would make more sense insuring a large group than a single individual. Further, the viability should be looked on a long term basis of minimum three years instead of making profit in the first year itself. The insurer should instead concentrate on building the data and gain experience in administering such policies. It is always advisable to start on a pilot project basis and then replicate it on a larger scale based on experience. This will give them an advantage to tap the huge untapped rural and social sector market. The terms and conditions of the policy should be simple to understand and with minimum exclusions. Insuring large numbers would preclude the risk of anti selection and to include more risks like pre existing diseases in case of group health insurances.

4.5.7 MARKETING AND DISTRIBUTION CHALLENGES

India is a large country with wide geographical disparity. Reaching the target clients can be a major challenge. Further, community based insurance
schemes work largely on trust. Similarly, the premium being very small, the collection and distribution expenses end up being larger than the premium itself. This problem can be mitigated to a large extent by tying up with intermediaries who have considerable presence and influence in target areas. Cooperatives/NGO’s/Microfinance institutions can make good distributors of insurance policies. The insurers can leverage on their strengths and reach; and can also train them to sell their products. They can also help in capacity building of the rural and social sector target population. Training of intermediaries and their representatives is critically important as there is always scope for mis-selling. For eg: Critical illness policy may be sold as normal health policy. Bundling of insurance products with other products can also be explored and will give critical mass and reach.

4.5.8 UNDERWRITING CHALLENGES

In the absence of historical/empirical data, the underwriters find it very difficult to accept or reject proposals. What loading to be charged or what discounts to allow is a perennial problem facing them. The thumb rule would be to go for large groups to avoid anti selection. In the absence of past claims data, similar projects can be taken as reference for pricing. Past experience of insurance companies who have already ventured into this territory may also be considered. Hence a first hand market experience would be advisable for the underwriters.

4.6 PENSION SCHEMES

The industry sees itself as best suited to provide pension plans to all the sections of the society. It has become an increasingly attractive option with the current demographic scenario wherein the young generation does not subscribe to provident funds. The New pension’s scheme designed by
government provides old age income security and the effort of Pension Fund Regulatory and Development Authority’s (PFRDA)\(^1\) in this direction is indeed praise worthy. There is a need to have such architecture, which would be able to attract maximum subscribers. This would be fundamental to the success of new pension scheme.

As rightly emphasized by the PFRDA, Customer indeed is the king pin of this system. The system therefore needs to be built in most customer friendly manner. Pension' is an advise-based product and hence the most desirable system should have link between the customer and fund manager. These two pillars should be placed as close as possible. This is essential for the product to be sold first and then to retain the contributor in the system through regular contact and advise. Customer deposits funds to be managed for a long term while the fund manager manages the fund in the most beneficial manner so that optimum returns are generated till the age of retirement, backed by good risk management. The farther apart the two pillars are kept, the greater the difficulty to run the system effectively, to the loss of the member.

One of the key objectives of the NPS is to lower the overall costs for the participants. Existing entities such as Life Insurance companies who have been transacting pension business for a long time have already achieved economies in costs and are also able to provide composite services. Their efficiency levels are high, costs are contained and they have a performance record. It is therefore, suggested that the existing life insurance entities as such should be allowed to function as a Pension Fund Manager in the NPS with of course a clear distinction between the two businesses. These entities can use their existing infrastructure, including fund managers, branch
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networks, service personnel and IT support - which can be effectively deployed for the pensions business as well.

If an existing entity is allowed to operate business under NPS also, apart from the existing lines of businesses, suitable segregation in the form of `firewalls' need to be put in place. Even in the current pensions and annuity business of Insurance companies, there is separate accounting and separate asset management for products so the assets are clearly ring-fenced and all transactions are separately tracked and managed. The same structure can be replicated for the Pensions business.

Further, given the finite number of skilled fund managers, same team of fund managers can be used for both Life and Pensions business, of course with suitable safeguards such as clear order for purchase of the security. This will help in cost saving and optimization of resources and systems.

According to the figures released by the Life Insurance Council, around 35 percent of the new business premium collected in 2007-08 was for pension plans.

In the changing paradigms of business management in the twenty first century, corporate social responsibility emerging as a major issue and as this subject is debated globally, it is likely to emerge a guiding principle for corporate in the future. There is a pressing social & economic need to provide insurance to the poor. IRDA has already imposed rural and social obligations on all insurance companies and rightly so. However, there are huge weaker sections that cannot avail of conventional insurance and their need for security becomes corporate responsibility. LIC through its managed social security schemes has provided cover to about 1 crore such families. Yet, this is only 20% of the total of 5 crore plus such families. Thus insurers
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have to come up with schemes that are socially meaningful and an alternative to state provided social security schemes. According to The Associated Chambers of Commerce and Industry of India (ASSOCHAM)\textsuperscript{16}, insurance companies can add about Rs. 1000 crore to their networth 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. The issues here are many. The insurance companies have to work in close liaison with the central and state governments so that target groups are identified and they agree to fund a portion of the premium. Here implementation is the key and all insurance companies should come together to create a greater awareness and see it as a means of fulfilling their corporate social responsibility.

Conclusion: Finally concluded that India has achieved a significant level in terms of Business growth, percentage of GDP and Market reach. But we can see the market reach is mainly urban area centric. Still private companies have to show effective growth in rural areas. Rural and social sector life insurance should not be approached as a legal or statutory requirement, but as a business opportunity. With proper safeguards, this sector can contribute immensely to the top line as well as bottom line. There is strong need from Insurer and government side to treat rural insurance as a part of main business and formulate the policies that can fulfill the loopholes in the existing rural market.
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