Chapter-Five
Performance of LIC in Rural Area

Introduction:

There are more than 5 lakh villages in India with a total population of nearly 80 crore. This represents a vast potential for life insurance business. However, about 25% of them are below the poverty line (BPL) compared to only 7% in the urban areas. For contact people, one has to travel long distances, as modes of travel are extremely limited. Only 60% of the villages are connected with road network. Many other civic amenities are also not available. People from outside find it difficult to visit the rural areas and stay there. The LIC agents also do not like to go and work in the villages. There is a tendency on their part to avoid the rural market, unless compelled by the law or by the IRDA through regulation.

However, there are some indicators that show increasing prosperity in the rural areas. About 1.5 crores households in the rural areas are considered to have an annual income of Rs.50,000/- or above. More than 3,500 branches of commercial banks operate in the rural areas, apart from the banks which are exclusively concerned with agricultural development. The consumption of the various consumer items, like biscuits,
chocolates, soaps, detergents washing powders, toothpastes, motorcycles, T.V. sets, radios, pressure cookers, etc, in absolute number are more in the rural areas than in the urban areas. The FMCG producers feel that the rural market will be the main areas for the growth in future.

The Life Insurance Corporation business from the rural areas has been increasing steadily. In 1997-1998, the business was more than 52% in number of the total LICI’s policies and more than 42% of the total amount of the sum assured. This apart from the business covered under the group schemes in the social sector by the LICI. The awareness about life insurance is not as low as it used to be some thirty years ago. The Life Insurance Corporation had been doing intensive publicity through mobile vans and other traditional as well as non-tradition media. The radio and television broadcasts reach almost event village through community sets. Despite the long distances and the inconvenient infrastructure for travel and staying, the effort may be rewarding. The rural folk are simple people, but not ignorant of worldly matters. If a LIC agent can win their trust, selling insurance would be an easy proposition. He/she can be almost sure that no other agent would be able to make an entry into that village. But, the agent will have to take care and not jeopardize in any manner whatsoever. Policies may not be of big amounts, but, the numbers would be large. The
impact of these policies particularly when the claims are paid would be much more than in the urban areas.¹

**Meaning of Rural areas:**

Unlike in many developing economies, in India there are statutory stipulations as to the amount of insurance business that the insurance companies registered in India have to transact in the social and unorganized sectors. As agriculture is predominant sector of the Indian economy, insurance companies operating in India are required to secure a certain percentage of their business from the rural areas as defined by the Indian Consul report-2001.

The Insurance Regulatory and Development (IRDA) has laid down norms for both the life and general insurance companies operating in India, regarding the percentage of business they are required to underwrite from the rural areas of the country to monitor the progress of rural insurance during the initial stages. The Insurance Regulatory and Development (IRDA) had defined rural area, as any place which meets the following criteria:

1. A population of less than 5,000.
2. A population density of less than 400 per square kilometer.
3. More than 25% of the male working population engaged in agricultural pursuits.
As the definition of the rural areas notified by the IRDA had led to certain difficulties, the insurance community had appealed to the IRDA for reconsideration and to redefine the rural area as defined in the census report-2001.²

**Population of the Aurangabad division:**

The total population of the Aurangabad Division of LIC, India is 8,614,954 of which 6,494,277 or about 75% is rural and 2,120,677 or about 25% is urban

**Table No. 5.1**

**Population of Aurangabad Division of LIC.**

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<tr>
<th>Sr. No</th>
<th>District</th>
<th>Population</th>
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<td></td>
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<td>Total</td>
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<tr>
<td>1</td>
<td>Aurangabad</td>
<td>2,897,013</td>
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<tr>
<td>2</td>
<td>Beed</td>
<td>2,160,000</td>
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<tr>
<td>3</td>
<td>Osmanabad</td>
<td>1,477,656</td>
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<tr>
<td>4</td>
<td>Latur</td>
<td>2,080,285</td>
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<tr>
<td><strong>TOTAL</strong></td>
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<td><strong>8,614,954</strong></td>
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India’s largest government owned life insurance company, Life Insurance Corporation of India (LICI), has set a new target of selling 4 million micro insurance policies this year. In a speech given at the SKOCH Banking, Financial Services and Insurance Summit, the LIC Chairman T.S. Vijayan said that two years ago, the corporation had sold 0.8 million micro insurance policies and this year, planned to increase its sales fivefold. LIC’s micro insurance product, is a life insurance plan, first launched in 2006. Under the plan a minimum coverage of Rs 5,000 and a maximum of Rs 30,000 can be obtained. Minimum premium payments range from Rs. 25 per week to Rs. 250 yearly. According to India Investment Incomes and Savings Survey 2007, by a Noida-based retail finance research firm, insurance penetration in urban India is 47%, while it is only 27% in rural areas. In 2006, LIC entered into a memorandum of understanding (MoU) with the Confederation of NGOs of Rural India (CNRI), an apex body of Non-Governmental Organisations of rural India that has over 4,000 NGOs across the country. The MoU authorized the NGOs that are members of the CNRI to distribute micro insurance to rural areas.

In his speech at the Summit, Vijayan underlined the high-cost of distribution in rural areas, giving the estimated cost of distribution as double the cost of a policy. Along with
suggesting alternative distribution mechanisms such as privately owned that serve as information centers, Vijayan also called for a technology fund to be made available for micro insurance as there is one for microcredit. The LICI was founded in 1956 and as of 2007, it has total assets of USD 165 billion. The summit was organized by SKOCH, a commercial strategy and management consultancy company spread over eleven countries. SKOCH was founded in 1997; and, in India, it extensively works towards ICT (information and communication technology) led development.\(^3\)

**LIC targets to sell 4 million policies in rural areas:**
The Life Insurance Corporation of India (LIC) has set a target of selling four million policies in rural areas in the current financial year. It sold over 5 crore insurance policies last year, of which over 1.1 crore went to rural areas. Speaking at the SKOCH Summit, T.S. Vijayan, Chairman, LIC said that two years ago, the insurer had sold 8 lakh policies through its tie up with the NGOs, micro-finance organisations, co-operative societies and rural banks. "Now that LIC's technology platform is perfected, we are confident of moving out in a big way. Having realized that the key to greater spread will come from creating new distribution avenues, we have set a target of selling more than 4 million policies in the current year," he said. The insurance penetration in urban India is 47 per cent (which means that
almost one out of every two paid workers in urban India is insured), while it is only 27 per cent in rural areas. Vijayan said that one of the challenges faced by the insurers in making their services available in the rural areas is affordability.

The rural and informal sectors are not a homogenous category and are geographically dispersed. So, distribution is very expensive. It has been estimated that if the cost of a policy is Rs 300-400, the distribution cost is double." Vijayan said that additional provisions must be made available to the insurance sector on the lines of a RBI's technology infusion fund for micro-credit and NABARD's micro-credit fund. "A panel chaired by former LIC Chairman, N.M. Govardhan recently recommended new sales channels for retail insurance products with adequate safeguards. Importantly, it broadened the definition of a micro-insurance agency to include rural kiosks and other rural distribution networks. This is exactly what we at LIC are visualising," he added. The rural kiosk can be a revolutionary new point of service delivery. Whether a makeshift stall, or a multipurpose store offering other services. The kiosks, too, are owned by entrepreneurs who need individual risk cover apart from their potential role as micro-insurance agents. One of the strategies is to stimulate demand in the areas that are currently not served at all, he said.\(^4\)
**Rural areas, low-income groups to drive insurance demand**

For smaller players in the life insurance industry, a report by consultancy firm McKinsey and Co. could offer pointers on how to take on behemoth Life Insurance Corp. of India Ltd (LIC), which has 70% of the market. The McKinsey report, titled India Insurance 2012 Fortune Favours the Bold, Untapped market. A villager fills a fuel barrel at a petrol station near Aligarh. The McKinsey report on insurance says rural penetration is likely to rise from about 25% to 35-42% in 2012 as the sector is still in a nascent stage, with players in different stages of development and market presence. The report says that their strategies and business models are largely one-size-fits-all, with reliance on low-margin single-premium policies and unit-linked products, as well as fairly undifferentiated distribution models. This is where the smaller insurers and new entrants can hope to stand out. With 65% of the life insurance business coming from the rich urban class, they can look at rural and low-income group as potential demand drivers. Penetration in the low-income segment in urban India would also rise from 30% to 35-40% by that time. Life insurance companies also seem to agree on this. “We are looking at geographical expansion, both in rural and urban India, to grow in size,” says Gary R. Bennett, Managing Director and Chief Executive Officer, Max New York Life Insurance Co. Ltd. Given the recent rapid increase in disposable incomes, the insurance industry is growing at a fair
clip of 40% in India, and going by the report, the industry size is going to double in the next five years. The report says that total market premiums are likely to more than double during this period from about $40 billion (Rs. 1.6 trillion) to $80-100 billion by 2012. It implies a compounded annual growth rate of 19-23% in new business annual premium from 2007 to 2012. That may appear slow when compared with the current growth rate of 40%; but, considering the larger base, it is one of the highest growth sectors in the financial industry. India’s ratio of life insurance premium to its gross domestic product (GDP) is around 4% against 6-9% in the developed world. But, the report says, it could rise to 5.1-6.2% by 2012, in tandem with the country’s demographic profile. The Indians rank life insurance higher than other investment options for tax benefits and protection will also help, it notes. According to McKinsey & Co.’s associate partner Anu Madgavkar, “apart from rising incomes, three factors would drive growth in the next five years — the emergence of newly bankable households, a better product mix, and growing demand for long-term savings and investment instruments”.

**Indian Insurance Sector ready to tap Rural India:**

Indian insurance industry is anticipated to witness a 500% growth and reach to US$ 60 billion in the coming four years, thanks to swelling demand in semi-urban and rural areas,
reported industry chamber ASSOCHAM. The latter stated that the semi-urban areas would have a share of US$ 35 billion and the urban areas would account for US$ 25 billion in the US$ 60 billion industry.

Life insurance market in semi-urban and rural territories is expected to rise to US$ 20 billion mark in the upcoming four years from the existing value of less than US$ five billion. This is because more semi-urban and rural populace would opt insurance cover for a secure future, said ASSOCHAM. On the other hand, life insurance market in the urban zones is expected to surge to US$ 15 billion. As per the paper, non-life insurance business in the semi-urban and the rural regions would reach to US$ 15 billion by 2010 while the corresponding value for the urban area is US$ 10 billion. Anil K Agarwal, President, ASSOCHAM, reported that a large segment of rural India is still untouched because of long distances, poor distribution and high return costs. The paper disclosed that the life insurance premium in India is just 1.8% of the GDP as against 5.2% in US and 8% in South Korea. A research analyst at RNCOS, who has recently researched a report called 'Indian Insurance Industry Forecast (2007-2009)', says that the progress in the semi-urban and rural areas would largely fuel the growth in the insurance sector. The other factors that would boost the growth in this sector are improving economic scenario, increasing disposable incomes, and rising product demands. The
market research report also focuses on facts and issues critical for today's business environment:

- Global insurance industry scenario
- Indian insurance industry in global perspective
- Segment-wise information on public and private players of the industry
- Growth sectors and factors driving change
- Competitive environment and market leaders
- Key challenges and strategies

The report gives an in-depth analysis on the present and future scenario of the Indian insurance industry. It gives a detailed account of the Indian insurance market, with focus on the key players.

END - RNCOS, incorporated in 2002, provides Market Research Reports for business needs and aims to put an end to information pursuit. “Our expertise in gathering global business information for industry research, corporate training, growth consulting, and business consulting, brings reputed companies and firms to us for business enhancement solutions. We can be one-stop-shop for industry research information and niche market analysis.⁶
What is a claim?

A claim occurs when a person contacts his/her insurance company seeking what he/she is entitled to under a policy of insurance because, for example, the property he/she has insured with that insurance company is lost, stolen, damaged or destroyed. For instance, a person damages his/her car in an accident. He/she has an insurance policy that covers the damage caused by the accident. He/she contacts the insurance company to request it to repair the vehicle or pay for the repairs.

A person, who has paid a premium to an insurance company, to cover a loss, can go to the insurance company and make a claim. If their claim falls within the insurance cover offered by the insurance policy, the insurance company can use the money from the ‘pool’ to pay the claim. Paying the claim is the moment of truth for the insurance company. When an insurance company pays a claim, it is keeping its promise to pay the claims of those who have suffered a loss from the ‘pool’ created by many. Paying claims is what insurance companies do. Making sure enough money is in the ‘pool’ to pay claims should be a main task of an insurance company.
Making a claim:

An insurance claim can only be made if a premium has been paid for an up-to-date insurance policy that covers risk. This means that a person has to contribute to the ‘pool’ before he is eligible to make a claim. Some general steps that may be relevant in making a claim include

- Contacting the police, for instance, if the claim involves theft, a serious car accident or any crime;
- Try to prevent further damage or loss if it can be done safely;
- Contacting the insurance company as soon as possible. Some insurance companies allow certain claims to be made over telephone, meaning there may not be a need to fill out a claim form. It also means that the insurance company can begin processing the claim immediately. However if a claim form needs to be filled out, the insurance company should be able to send a claim form when they are contacted or there may be downloadable claim forms on the insurance company’s website;

Keeping a written record of what happened, as it is easy to forget about some small details that might prove to be important later on. Also, any supporting evidence, such as receipts should be kept.

The insurance policy needs to be read. Insurance policy holders would have received one when they paid their insurance premium. of course, its in everyone’s best interests if
people check what is covered in their insurance policy when they first buy, or renew their insurance. The insurance company may send out a loss or claims assessor to look at and check the claim for the loss or damage. The Insurance Council of Australia has a General Insurance Code of Practice, which sets out rules that insurance companies, that are members of the Insurance Council of Australia, must follow. The General Insurance Code of Practice outlines principles and standards about the insurance claims handling process.

**Types of insurance claims:**

Insurance companies sometimes categories claims into two groups, known in the insurance industry as short tail and long tail. The “tail” refers to the time it takes for the claim to be settled.

**In broad terms short tail claims are generally:**

- claims usually known and settled within a short period of time, usually within 12 months;
- not hard to manage;
- easy to work out the exact amount to be paid out; and
- are often based around property.
In broad terms long tail claims:
• often relate to personal injuries;
• are sometimes not even reported within 12 months, (like the effects of an injury);
• are claims that can take three to four years and sometimes as long as 20 years to settle;
• are harder to work out the final amount to be paid out; and
• are sometimes based around medical and legal outcomes.

Life insurance settlement
When it comes to life insurance settlements for seniors and younger people, the life insurance settlement market is mired with controversy. Not only was the life insurance settlement market more than a century in the making; but also, the market for life insurance settlements would not have originated without a numerous amount of judicial rulings, events and prime individuals.

What is a life insurance Settlement?
The life settlements are a vital development in that they have introduced a secondary market for life insurance for seniors and younger people. Policy owners have easy access to fair market value for their policies, as opposed to accepting lower cash surrender value from the issuing company of life insurance settlements. A life insurance settlement is a financial transaction
in which a policy owner has possession of any unnecessary or undesired life insurance policy which sells the insurance policy to a third party seniors and younger people for more than the cash value presented by the life insurance company. Customarily, with life insurance settlement, the seller receives instant cash for the insurance policy from the appropriate purchasing entity. This normally becomes the new insurance policy beneficiary at maturation. Moreover, the seller is responsible for all the premium payments from the purchase of the life insurance settlement until the death of the seller.

The Growing concept of Life Settlements
Life settlements are an option for senior high-net-worth policy owners, usually aged 65 years or older. Independent research estimates declare that with senior life insurance settlements, approximately 20% of the insurance policies have a market value that goes beyond the cash value offered by the insurance carrier. Many policy owners may lack familiarity with senior life insurance settlements, until suitable financial professional mentions the life insurance settlement options to them. Esteemed proponents such as the United States Representative Bill Gradison, Warren Buffet and a number of media sources including The Time Magazine, The Economist and The Wall Street Journal brought attention to the concept. With a growing number of reports on the senior life insurance settlements, more
experts now believe that educating clients about offering life insurance settlements should fall under the fiduciary responsibility of a consummate financial advisor.

**Life Settlement Transactions:**

Reports on the senior life insurance settlements establish life insurance policy as a transferable property which possesses specific legal rights. One of the rights is to assign the policy as collateral for a life insurance settlement loan. With the life insurance settlement loan, a life insurance settlement should be seriously considered when premiums are too costly, investment projections have not materialized, and an insurance policy is no longer needed.

Senior life insurance settlement companies generally serve as the purchaser in a transaction for life settlement. They are responsible for paying the client a cash amount that's more than the cash surrender value of the insurance policy. The best senior life insurance settlement companies fund many transactions annually and normally hold the seller's policy as what's known as a confidential portfolio asset. The providers are experienced in the valuation and analysis of large-face-amount policies, as well as possess in-house compliance departments to meticulously review financial transactions. Considerably more vital is the fact that they are supported by institutional funds.
Life insurance settlement brokers for seniors and younger people shop an insurance policy to multiple providers in an attempt to search for the best offer. This is much akin to a real estate broker soliciting a number of offers for one's home. A life insurance settlement broker, as a middleman, adds another layer to the financial transaction. This can have the effect of increasing the total cost of the client's financial transaction. It is incumbent on a financial advisor to assist the client in evaluating the offers against a number of criteria including privacy provisions, offer price, stability of funding, and more.

In a life insurance settlement transaction, steps include: The policy owner consults with a financial advisor to sell his or her policy. The client and financial advisor submit the insurance policy for valuation. The client releases medical information. If the insurance policy meets the criteria for life settlements, senior life insurance settlement companies send offers. The client and financial advisor review offers and the client accepts preferred offer. The client and the financial advisor complete the provider's closing package, as well as return important documents. The insurance provider places cash payment in an escrow and submits change of ownership forms to the insurance carrier. Paperwork is verified as funds are transferred to the seller of the insurance policy. The decision in life insurance
settlements to work with a broker is eventually the client's. This is due to financial advisors being able to submit the client's case directly to the senior life insurance settlement companies. Justice Oliver Wendell Holmes wrote "Life insurance has become in our days one of the best recognized forms of investment and self-compelled saving."

What can I expect my life insurance policy to cover?
The life insurance policy coverage refers to the benefits that one can expect from his/her policy. However it depends upon the policy type, the premium amount and the risk involved. One can do research online or an LIC agent will be instrumental in explaining about the coverage of the policy. The article covers

- Life insurance coverage
- Classifications of coverage and benefits
- Best life insurance coverage and benefits
- Coverage available under different permanent insurance policies

The term coverage implies the benefits than an insured is entitled to enjoy in an insurance policy. Some of the factors which decide coverage are the amount of premiums, the duration of policy (which is largely influenced by the financial position of the insured and his requirements from a policy) and the nature of the policy (This refers to the category of life insurance like whole or term) and the risks insured (the insurer
generally charges a higher amount for higher risks and vice versa). Doing a research on life insurance coverage online is the first step to find the coverage offered by individual policies.

**Classifications of Coverage and Benefits:**

Some of the benefits of life insurance are as follows

1. **Single Death Benefits**
   
   This is the most common form of coverage. Most of the insurance policies offer this type of coverage. This is applicable to insurance policies where the insured is a single person. The policy amount is repayable on attainment of the maturity period or on the death of the insured. Some of the policies allow the insured to renew the policy. In such cases the insured may have to pay higher premiums. There are also some policies which only pay money to the dependents in the event of insured's death. In case the insured does not die he has to renew the policies. If he does not choose to renew the policy the policy amount will automatically lapse and the amount will not be repayable.

2. **Double Death Benefits**

   This type of benefits is available to the insurance policies jointly held by two persons. This policy provides death benefits to both of them. The amount becomes payable only after the second person has passed away. However a prerequisite is that the
second insured should continue to pay the premiums after the first person dies. This type of insurance is highly suitable for estate planning. Where the appropriate law in operation allows for unlimited martial deduction and the estate tax can be deferred. The accumulated becomes payable on the death of the second accused. The insurer will make the payment to the tax authorities from the policy amount thereby relieving the dependents of the insured.

**Death Benefits on the First Deceased**

This type of insurance is famous among a group of persons who jointly run a business. The basic objective is to see that the death of a single person does not affect the interest of the others. It is also to make sure that the amount owed by him to the firm is repaid properly. Otherwise his dependents might be burdened. They may have to repay the insured's liability to the partnership firm and as well as take care of their commitments. However this type of insurance is not preferred nowadays because of few reasons. The premiums for this type of insurance policies are too expensive. One is required to comply with lots of formalities for taking this policy. Moreover the industry has witnessed lots of new policies with different coverage in the recent days. So people try to choose something different which enjoys a wide scope than this conventional one.
Reference:
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