3. Review of literature
CHAPTER 3
REVIEW OF LITERATURE

3.1 REVIEW OF LITERATURE RELATED TO INSURANCE INDUSTRY

3.1.1 Insurance – New Initiatives

The insurance sector in India is nearly 150 years old. It is now in the third phase of its existence (Mony S V, 2005). The first phase was the long-growth phase before the two nationalizations in 1956 and 1971 of life and general insurance respectively. At that point of time, there were more than 200 life insurance companies and 108 general insurance companies. Several overseas insurers were operating in India through branches. In the second phase, the entire sector became a state monopoly. In the third phase, the industry has seen several private players competing with large public sector insurers. Several large global insurers operate in India through joint ventures. In the short time since the market was opened up, a comprehensive set of legislative instruments has been introduced. All the private players are promoted by corporates with financial strength and commitment supported by reputed global insurers with long-standing business track record.

During the year 2003-04, the life insurance industry saw a growth rate of 10.48% in terms of first year premium income and 12.83% in terms of new policies sold. (Krishnamurthy, 2005). The size of the market for 2003-04 was Rs.187.10bn worth of first year premium with 28.6mn policies.

The private insurance companies – operating from a smaller base – have achieved a staggering growth rate of 153% and 101% in terms of first year premium income and number of policies respectively. The 13% contribution of the private players within the third completed year of opening up the sector is the most significant variable that the market has thrown up in 2003-04.
Despite a 13% first year premium income contribution, the private players have only been able to garner 6% of the policies. (Krishnamurthy, 2005). This clearly indicates that the average size of the premium per policy sold by a private insurer at Rs.11320 is significantly higher than the corresponding figure for LIC (Rs.4293).

3.1.2 Potential

Indian economy is among the most under-insured markets in terms of spread and penetration while the insured population being only 70mn people (Palande, Shah, and Lunawat, 2003). Krishnamurthy (2005) also sees lot of opportunities in India, as by 2010, almost 54% of the population would be in the 18-35 years age bracket. This segment is the ideal target audience for an entire range of ‘cradle to grave’ insurance plans from pure protection to endowment, children’s endowment and moneyback plans, to whole life and pension plans. The evolving change in this key demographic variable along with the significant increase in the middle class segment of the Indian society will augur well for the future and would throw up enormous business opportunities for the life players.

3.1.3 Rural Indian Market

With a rural population equal to just under 2.5 times the population of the entire United States as of the 2000 Census, the potential consumer base is quite astounding in rural India. This is the one, which has caught the attention of many MNCs to tap the market. But to their dismay, the success in India’s rural markets for these MNCs has been mediocre at best as the rural Indian market exhibits altogether a different buying behaviour. They spend money, live and use products differently than the customers where most multinational corporations originate (Prahalad and Lieberthal, 2003). Understanding the characteristics that make the people and the market in rural India unique can help corporates to enter this market with success.
Seventy percent of India’s population or approximately 700mn plus people live in rural areas. (Moorthi Y L R, 2002). Pradeep Kashyap (2005) puts this figure at 742mn rural consumers living in nearly 6.4lakh villages. As of the 2000 census, this equates to just under 2.5 times the population of the US. With an average income equivalent to $42 per month ($504 per year), rural Indians have a very low disposable income (Kripalani, 2002). Most rural home have minimal storage space and no refrigeration. Very few people own or have access to cars. As a result, rural Indian purchasing habits tend to be of an ‘earn today, spend today’ mentality. Rather than buying in bulk which would mean paying more for a large quantity upfront, rural Indians tend to buy what they need for short segments of time. (Dawar and Chattopadhyay, 2002). In addition to the fact that income levels are low, rural incomes also vary greatly depending on the monsoons. When a monsoon hits, this devastates the livelihood of the most rural consumers because they are dependent on agricultural work for income. Corporations are also affected because this makes it difficult to predict demand. (Kannan S, 2001). Kashyap (2005) also opines that the rural consumers are fundamentally different from their urban counterparts and different rural geographies display considerable heterogeneity. Lower levels of education in the rural sector (approximately 60% of the population lies below the middle education bracket) poses great challenge to the marketers of products and services. Natalie Ross et al., (2005) opine that low literate consumers get their needs met through many ways. Low literacy levels are associated with a range of negative outcomes. Adkins and Ozanne, (1998) identify problems encountered by low literate consumers ranging from choosing the wrong product to misunderstanding pricing information. Similarly Viswanathan, Rosa and Harns (2003) found that low literates experience difficulties with effort versus accuracy trade offs when making purchase decisions.
Jae and Delvecchio (2004) suggest low literate consumers experience substandard product choices because of an overdependence on peripheral cues in product advertising and packaging. Alternatively, Sandlin (2000) envisions low literate consumers as competent adults who leverage their considerable life skills and experience, get their needs met, and critically assess and challenge the market place. She cites Mogelonsky’s (1994) findings that consumers with less than a high school education were more likely to seek product information than college educated consumers.

Similarly, Fingeret (1982) and Sandlin (2001) report that low literate adults perceive themselves as shrewd and practical as opposed to literate consumers who only possess ‘book learning’. This kind of different schools of thoughts calls for an extensive study to understand the rural buyer behaviour in products and services.

3.1.4 Potential for services

Kripalani (2002) reports that, apart from consumer products, even services like cellular and insurance are growing in rural India. Many organisations in insurance sector are quite bullish about the booming business in villages of less than 5000 populations. The opportunities are not without challenges. As the Indian rural market is well diversified, the onus is on the marketers to understand the rural consumers buying behaviour in terms of popular 4Ps of marketing – Product, Price, Place (Distribution) and Promotion (Communication) which would facilitate formulating combative strategies to tap the rural market

3.1.5 Product & Price

Increasing awareness about the concept of insurance and types of products is a condition precedent to penetration of insurance.
Anecdotal evidence and empirical observations indicate that awareness of insurance has improved substantially (Mony S V, 2005). Kashyap (2005) also confirms the same that insurance awareness in the life sector is extremely high. This is attributable to the effective campaign launched by IRDA and the combined impact of sustained wide-ranging publicity by all insurers. Inspite of the awareness, seventy percent of the Indian insurance market is still dominated by endowment and monyback plans and the consumer still perceives insurance as a saving device. Recent surveys show that consumers still favour insurance policies as a savings tool and a tax saver rather a protective instrument. What is equally interesting is that the two most prominent barriers to insurance are lack of liquidity and the fear of consumers that their money may get locked in. the same notion is getting reflected in rural markets also. It is the savings linked or premium back policies that are more acceptable among villagers. An earlier study commissioned by Ficci-ING Foundation of Research Training and Education in Insurance concluded that a strong saving habit even in low-income households and a high awareness of insurance indicated a fertile ground for a vibrant market (Harjeet Ahluwalia, 2003). Besides it is necessary to restructure the products with lower premium limits, so as to make them more affordable to rural folk. Nani Javeri (2004) feels that the rural consumers prefer products, which give return on their investments and provide lump sum cash at the time of need. According to Deepak Satwalekar (2004), policies, which are simple and convenient, are likely to be popular in the years to come. Products those are easy to understand and do not require medical tests and extensive documentation would do well in rural areas.
A study done by MART in rural pockets shows that the perceived benefits of buying a life policy range from security of income, bulk return in future, daughter’s marriage, children’s education and good return on savings in that order. The tax benefits do not figure as a key reason for buying insurance.

The private players find good support among the urbanites, which has led them garnering a market share of 13% within a short time. Sudarsana Reddy (2005), in his study on “Customer perception towards life insurance companies’ policies with reference to Bangalore city”, observes that almost all the respondents feel that there is no risk and no need to worry about their money since all the private insurance companies are under the regulations of IRDA. But in rural market, the scenario is different. The study by MART points out that private companies have a huge task of creating awareness and credibility among the rural populace. Kashyap adds that the perception that the money wouldn’t be safe in the hands of private insurance companies remains in rural market. The study by FORTE also explicitly acknowledges that rural folk are suspicious of private players and are unconvinced about their genuine intent.

3.1.6 Place/Distribution

The wide dispersed geographical nature of rural market warrants an extensive distribution network to cover the maximum number of villages. Insurance purchase is essentially done through the agents. That legacy set by LIC with its nearly 1 million agents force has spilled into the privatized age also. Deepa Venkatraghavan (2004) through Economic Times Intelligent Group (ETIG) survey reports that on an overall basis, 93% of the policyholders have made their purchase through insurance agents.

\[^{13}\text{FORTE study on Rural Insurance, Business India, Dec22, 2003 – Jan4, 2004, p92-93}\]
She also adds that the agents’ role is not restricted to just effecting the sale contract for the customer on behalf of the insurance company. The policyholders view him as a friend, philosopher and guide influencing their policy purchase decision. The ETIG survey also affirms that the agent continues to remain the single point of contact between the insurance company and its client base. According the survey, about a fourth of the agents offer a rebate to their customers (Rebate is when the agent shares his commission with his customer to goad him into buying a policy – which is illegal).

Considering the apprehensions of rural populace about the credibility of the private players, Kashyap (2003) suggests that the private companies could utilize different delivery systems like banks, regional rural banks, post offices and co-operative banks among others. Kashyap also threw up the innovative idea of using the extensive network of SHGs who follow the Grameen bank model (in Bangladesh) to take insurance to the rural market. Multichannel distribution has begun to permeate the insurance industry in other parts of the world also. According to Power et al (2000), the sale of insurance products through bank distribution channels – bancassurance – is well entrenched in Europe, where banks sell more than 20% of the life insurance. In France, banks’ share of life insurance sales exceeds 50% and accounts for more than $1 billion in yearly profits. In UK, the Post Office has made its debut in distributing home insurance products as the research conducted by Millward Brown (2002) in UK shows that more than 80% of the consumers consider the Post Office a more trustworthy brand than Marks & Spencer and British Gas in United Kingdom.
The study by Ficci-ING FORTE in India also recommends the use of banks, co-operative institutions and SHGs for selling insurance more effectively. Many organisations have already tied up with various banks (private as well public) to take their products to the target segment. Some of the organisations like HDFC Standard Life, SBI Life and ING Vysya are trying to sell their products through their parent organisations like HDFC Bank, SBI and Vysya Bank – a strategy popularly known as Cross Selling. Shibo Li et al., (2005) opine that the sequential purchase of multiple products or services from the same provider can enhance the relationship with the provider, raise switching cost associated with a move to a new provider, lower uncertainty about additional product purchases, and, in some cases, ensure proper technical compatibility with products that the consumer already owns. (Kamakura, Ramaswami, and Srivastava 1991; Kamakura et al., 2003). The existence of sequentially developed demand for naturally ordered products offer substantial opportunities for companies that carry multiple products and services to cross-sell other products and services to their existing customer base.

Apart from the bancassurance, some of the organisations are trying their hands by roping in non-governmental organisations (NGOs) or voluntary organisations to sell insurance products. The recent announcement by Reserve Bank of India to permit co-operative banks and regional rural banks to conduct insurance business on a referral basis may be a shot in the arm for the players in the industry to have a wider reach in the rural market.

3.1.7 Promotion/Communication

Radhika Menon (2005) reports that Chintamani, the mascot of ICICI Prudential Life Insurance Company, has become a household name. Citing ACC Nielsen’s Brandtrack 7, she claims ICICI Pru enjoys a brand recall of 92% next to LIC’s 97%.
With the liberalization of the insurance market, building a separate brand proved to be an urgent task for all the majors. Now, most private players have 50-70% of their ad spend skewed in favour of television. Marketing budgets have been soaring for the past 3 years in an attempt to position the products in a unique way. Few organisations have also roped in eminent celebrities as brand ambassadors to beat the clutter. For instance, TATA AIG Life has roped in two celebrities as brand ambassadors – Naseeruddin Shah for the product Nirvana Pension and Harsha Bogle for MahaLife to connote credibility and respect. Sejung Marino Choi et al., (2005) observe, “Using celebrities to promote the products is a popular advertising technique around the world. Many successful individuals from a variety fields; ranging from entertainment to sports, cuisine, business and politics are often elevated to celebrity status. Mass media are saturated with images of and information about celebrities, and as a result, celebrity figures enjoy high profiles, idiosyncratic qualities, and glamorous images in the eyes of the public (Giles 2000; McCracken 1989). With its ability to penetrate the busy clutter of advertising spots, draw consumer attention, generate high recall rates, create and differentiate product images, and generate sales and profits, celebrity endorsement has proven to be a valuable strategy (Agrawal and Kamakura 1995; Erdogan 1999; Gabor, Jeannye, and Wienner 1987; Kaikati 1987; Mathur, Mathur, and Rangan 1997). The celebrity phenomenon is not limited to any particular country and appears to be universal. Past research also observes the prevalence of the celebrity endorsement strategy in many other countries (Cutler, Javalgi, and Lee 1995; Erdogan, Bager and Tagg 2001; Lin 1993; Shapiro 2001).”
Again, LIC has been the pioneer in tapping the rural market through various promotion and communication avenues like puppet shows, participation in village fairs and exhibitions, wall paintings and rural mobile vans to spread the reach (Preeti Mehra, 2001). Some of the organisations have earlier made an attempt to promote their products by offering insurance covers of small value as a promotional offer along with the FMCG products. The effectiveness of such promotional campaigns is yet to be reported.

All the communications and extended services are aiming at creating customer satisfaction thereby resulting in positive word of mouth (which is considered to be a powerful marketing tool in rural markets) about the organisations. Christian Homburg et al., (2005) feels customer satisfaction has become an important focus of corporate strategy. Recent research supports the notion that there is a positive relationship between the customer satisfaction and financial performance. (e.g., Anderson, Fornell, and Rust 1997 ; Reichheld and Sasser 1990 ; Rust and Zahorik 1993). In an important study, Anderson, Fornell, and Lehmann (1994, p63) analyse this link on data obtained from the Swedish Customer Satisfaction Index, and they find that “firms that actually achieve high customer satisfaction also enjoy superior economic returns”. Other studies find that satisfied customers can increase profitability by providing new referrals through positive word of mouth (e.g., Mooradian and Olver 1997).

3.2 REVIEW OF LITERATURE RELATED TO RURAL MARKETING

3.2.1 Research in rural marketing

It’s just a last few years since the corporate majors have turned their eyes towards the rural market. For decades together, the concentration has been only on the urban market turning a blind eye to the rural market.
Though various reasons could be attributed to this phenomenon, the lack of research data with reference to the rural markets and rural consumers’ buying behavior is often cited as the major deterrent.

All the marketing research agencies have been focusing on urban and semi-urban markets as the research process is simpler and feasible enough when compared to that of rural markets. The rural market still remains a ‘black box’ for urban marketers, who having no previous exposure to rural India, do not understand the behavior and practices of the rural buyers – what motivates them to buy, who influences them or where do they shop. And again those who ventured into unknown territory, primarily because of the stiff competition and saturation in urban markets, tried to stick to the tried and tested strategies applied in the urban market. And to their dismay, they find nothing that they had tasted success with earlier, seems to work effectively work in rural India.

There is, therefore, a crying need to understand rural India and its beliefs and practices, to understand the rural consumer and his behaviour. Further, rural India is highly scattered, remote and inaccessible, making data collection more difficult.

**3.2.2 Secondary data research**

There are several secondary sources for rural data, but most of them are centered on demography and are not product related and hence not usable by the marketers. The major sources include:

- Census India
- NCAER – National Council for Applied Economic and Research
- NSSO – National Sample Survey Organisation
- CSO – Central Statistical Organisation
- DRDA – District Rural Development Authority
- Panchayat Offices and
- Rural panels or MR companies like ORG-MARG, IMRB...

3.3 RURAL MARKET RESEARCH INDUSTRY

The Indian market research industry is worth of Rs.4000 Crore out of which less than 5 percent is estimated to be rural. According to ORG-MARG, the rural market research industry is Rs.50Crore size. The size of rural market research industry, though small today, has the potential of becoming big in the coming years as more and more corporate go rural. Major players in rural market research industry are NCAER, IMRB (Indian Market Research Bureau), AC Nielsen ORG-MARG (Operations Research Group – Media Analysis Research Group) and MART (Marketing and Research Team)

3.4 RESEARCH GAP / NEED FOR THE STUDY

Yet some of the above mentioned organizations take up the rural research on a large scale, much of the efforts revolve around the consumer products like FMCGs (Fast Moving Consumer Goods) and consumer durables rather the financial services and insurance products. A key problem area that has confronted the new insurance players has been a surprising lack of operational research into the rural insurance markets. Public sector firms like LIC and GIC were not very concerned about using detailed rural research to develop explicitly targeted rural programmes, at anytime during their monopoly. As a former Executive of LIC puts it, “Any insight that the public insurance firms have for rural policies emanates from institutional experience and instinct rather than the result of research or focused surveys”.

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Mr. Naren N Joshi, Executive Director of FORTE (Foundation of Research, Training & Education in Insurance) also confirms the same, “Some of the issues that seem to be hindering large-scale advent in the rural markets are lack of understanding of rural consumers, inadequate data on rural markets, poor infrastructure, low levels of literacy and poor reach of mass media”.

There arises the need to go for a study in rural markets to analyse the buying behaviour of rural customers with special reference to insurance products.