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A Study on Rural Customer's Behavior towards the Insurance Products (Genesis of Insurance Industries in India)

Prof. Ashish Kumar Srivastava

Department of Commerce,
DDU Gorakhpur University, Gorakhpur

Abdul Jadid

(Research Scholar)
Department of Business Administration
DDU Gorakhpur University, U.P., India

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Abstract

The Indian economy has been among the fastest growing economies of the world for over a decade with annual sustained growth rate of 7-8 percent of GDP. The life insurance market has seen an upward surge and the business have achieved an average growth rate of almost 40 percent after privatization in the year 2000. The opening of the insurance sector to private participation has generated considerable interest in this sector within and outside India. Though the reforms in the insurance sector came only at the end of the last decade, the process of change has been extremely smooth and now insurance industry is thriving with the public and private sectors competing with each other on a level playing field and this process has resulted in expanding the coverage, deepening the penetration and spreading the awareness about life insurance into the rural sector. The insurance industry has grown tremendously with increasing growth rates of industrialization, infrastructure, and savings rate and capital formation. India is on the threshold of rapid economic and social change.

Keywords: Genesis of Indian Insurance industries, Factors effecting life Insurance, Marketing in life Insurance products in Rural Sector, and Socio-economic impact on purchasing behavior.

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Introduction

The study of human history reveals man's universal desire for security. Earlier societies relied on family and tribe cohesiveness. Economic prosperity had brought in the element of transfer of risk which required insurance of some form. United Nations Conference on Trade and Development in its annual convention has, recognized insurance sector as a central element of the trade and development matrix and one of the key pillars of the financial sector. Insurance is a financial means by which individuals are exposed to a specified contingency contribute to a pool and if suffered from any of the covered events, they are individually paid.

It is to be seen that in a population of 1.21 billion people in India, the number of lives insured is only about 15 per cent. With such huge untapped population base, the importance of insurance is unquestioned and emphasis needs to be driven towards imparting education and sharing knowledge. For a robust growth and deep penetration of insurance business, the key to success lies in dissemination of information and learning. In mature insurance markets, it has been seen that there is a strong commitment to insurance education, leading to better understanding and requirement assessment. It has been proved through various research studies that higher the educated greater would be the understanding the need for insurance protection. The Insurance Regulatory and Development Authority (IRDA) together with the industry participants are working hard to improve awareness about insurance and its importance to the society at large. The latest Swiss report reveals that the life insurance penetration in India is 4.7 per cent. The total premium underwritten by the life insurance sector in 2009-10 was Rs. 2,65,450 crore as against Rs. 2,21,785 crore in 2008-09 exhibiting a growth of 19.69 per cent (10.15 per cent in 2008-09). With an annual growth rate of 15- 20 per cent and the largest number of life insurance policies in force, the potential of the Indian insurance industry is huge. According to the government sources, the insurance and banking services' contribution to the country's gross domestic product (GDP) is 7 per cent out of which the gross premium collection forms a significant part. Increase in country's GDP signals an increase in income levels with the result, it is expected that insurance penetration shall also increase. The higher a country's income, the other things being equal, the more it will spend on all types of insurances. Thus, for India where some 200 million citizens are

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believed to be in the middle and upper income range, insurance demand is likely to surpass all conservative estimates. It is bound to take off with rising awareness towards the need for insurance.

Genesis of Indian Insurance Industry

Life Insurance in its modern form came to India from England in the year 1818. Oriental Life Insurance Company started by Europeans in Calcutta was the first life insurance company on Indian soil. All the insurance companies established during that period were brought up with the purpose of looking after the needs of European community and the Indian natives were not insured by these companies. However, later with the efforts of eminent people like Babu Muttylal Seal, the foreign life insurance companies started insuring Indian lives.

But, Indian lives were treated as sub-standard lives and heavy extra premiums were being charged on them. The Bombay Mutual Life Assurance Society heralded the birth of first Indian life insurance company in the year 1870, and covered Indian lives at normal rates. Starting as Indian enterprise with highly patriotic motives, insurance companies came into existence to carry the message of insurance and social security through insurance to various sectors of society.

Bharat Insurance Company (1896) was also one of such companies inspired by nationalism. The Swadeshi movement of 1905-1907 gave rise to more insurance companies. The United India in Madras, National Indian and National Insurance in Calcutta and the Co-operative Assurance at Lahore were established in 1906. In 1907, Hindustan Co-operative Insurance Company took its birth in one of the rooms of the Jorasanko, house of the great poet Rabindranath Tagore, in Calcutta.

The Indian Mercantile, General Assurance and Swadeshi Life (later Bombay Life) were some of the companies established during the same period. Prior to 1912, India had no legislation to regulate insurance business. In the year 1912, the Life Insurance Companies Act, and the Provident Fund Act were passed. The Life Insurance Companies Act, 1912 made it necessary that the premium rate tables and periodical valuations of companies should be certified by an actuary.

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But, the Act discriminated between foreign and Indian companies on many accounts, putting the Indian companies at a disadvantage. The first two decades of the twentieth century saw a lot of growth in insurance business. From 44 companies with total business-in-force was Rs.22.44 crores, it rose to 176 companies with total business-in-force to Rs.298 crores in 1938. During the mushrooming of insurance companies many financially unsound concerns also floated which failed miserably. The Insurance Act 1938, was the first legislation governing not only life insurance but also non-life insurance to provide strict state control over insurance business. The demand for nationalization of life insurance industry was made repeatedly in the past, but it gathered momentum in 1944 when a bill to amend the Life Insurance Act 1938, was introduced in the Legislative Assembly. The country has witnessed over 135 years of privatization followed by more than four decades of nationalization and finally liberalization.

In fact, India has the unique experience of insurance commencing its journey in the private sector, followed by a period of total government monopoly and eventually a liberalized environment where both public and private sectors can Co-exist and help in spread of the message of insurance to a wider audience in the country.

Insurers deal with people who are their policy holders, beneficiaries, claimants, intermediaries and even employees. The government since inception perhaps has exercised more control over the business of insurance than any other business activity. Even when this business was in the hands of private players prior to 1956, regulatory control was exercised exclusively at the state level. The Insurance Act of 1938 is a testimony to the conduct of insurance business in the country and was followed even after nationalization of insurance sector by the monopoly players. Insurance being 'people business' requires extensive legislative, regulatory and on-going political attention. The reasons for framing regulations in insurance are primarily on account of large number of people being affected by it, the 'security via a promise' concept wherein insurers promise to make good the loss on the happening of an insured peril which can take place on a future date and the imbalance of bargaining power between the small policyholder on one hand and a large corporate on the other. Insurance also plays a vital role in the economic fabric of the country necessitating framing of prudent regulations so as to protect the interest of holders of insurance policies.

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Factors effecting life Insurance

Indian insurance industry is witnessing dramatic changes in terms of a slew of new products and services, new channels of distribution along with the noticeable shift in consumer preferences. The insurance market is in continuous state of flux as the impact of socio-economic changes like greater urbanization, increasing job mobility, growth of the services industry, weakening of the traditional family structure with the impact of globalization, are becoming visible. There are various factors which influence demand of life insurance products. Previous international research studies have identified several factors which are increasingly becoming relevant in the context of Indian market.

Economic factors like prices of insurance, government tax, the general economic environment, income, inflation and interest rates are also determines the purchase behavior of the customers. The demographic environment also influences the choice amongst consumers. Ageing population, household structure, education, industrialization and urbanization and factors related to individual's social environment like culture and society also contribute towards increased demand for insurance products. Enhancing internationalization of insurance market has brought in positive dividends for the Indian insurance industry. Capital inflows from abroad have strengthened the financial capacity of insurers which has increased product development and enhanced market innovations. There is an abundance of life insurance products which cater to the changing demands of Indian consumers. The globalization and internationalization of Indian insurance market has increased the product awareness amongst Indian consumers. Indian consumer is willing and ready to adopt innovative products which provide solutions to modern day concerns.

The current insurance market in India holds tremendous promise for growth owing to its total size, number and a very low penetration level. The poor reach of insurance in the country and the complete numbers make India an attractive destination with tremendous potential. The family size in India has reduced over the past decade due to continuing increase of urbanization. An extended family appears not to be common; and family economic support thus has weakened. In particular, with an ageing population, the governments will need to encourage working people to set up more financial provision for their old age and hence the importance of life insurance products has realized. Life insurance

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was earlier sought, as a means to provide for family, in the event of the untimely death of an insured. Now the fear of dying early is less; but the fear of living longer in old age, without adequate financial means is more, requiring one to look at life insurance in a new light.

Importance of Life Insurance

Insurance provides financial protection for individuals, families, and businesses. Insurance assists in making savings possible and helps to furnish a safe and profitable investment. This encourages thrift, minimizes worry and increases personal initiatives. Life insurance is also helpful in reducing the financial burden on state. Insurers can accumulate money to be invested in the public and private sectors and thus create source of financing for new business, new home owners, and for farmers and their equipment. The burgeoning insurance market in India has been able to generate considerable interest and awareness among people. Insurance field is creating new vistas for attracting talent and in this process has reduced unemployment. Within the national economy, two measures are used to define insurance. One is insurance density which is average annual per capita premiums within a country and the other is insurance penetration which is a ratio of yearly direct premiums written to gross domestic product. India is ranked at 31 among the countries in terms of insurance penetration.

Marketing in life Insurance products in Rural Sector

Increase in purchasing power of rural masses in recent past has fuelled lot of interest in rural India. Comprising more than 70 per cent of the total consumers in India and annual market potential in excess of Rs 1230 billion, rural India is being charmed by novel ways and means. According to a survey conducted by Mckinsey in 2008, rural India with a population of 630 million (approximately) would become bigger than total consumer market in countries such as South Korea or Canada in another 20 years and it will grow at least four times from its existing size. The rural market is not homogeneous. As mentioned earlier 70 per cent of India's population lives in villages. As per the National Council for Applied Economics Research (NCAER) study, there are as many 'middle income and above' households in the rural areas as there are in the urban areas.

At the highest income level, there are 2.3 million urban households as against 1.6 million households in rural areas. The individual sections of this market are not too big,

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although the overall size is large. There are geographical, demographical, statistical and logistical differences. Positioning and realities regarding the potential of each of these market segments differ and lie at the very core of forming the strategy for the rural markets. Key risks such as illness, death, natural catastrophes, and loss of property, would confront the rich and the poor alike, but their economic impact on the low income population is much greater that can rapidly erode their hard earned income and make them deplorable again. And for over 70 per cent of Indian population living in villages, these shocks are known to be frequent resulting in depleted household resources, loss of income and assets, increased indebtedness and quite often untreated health problems. While commercial insurers have managed to reach several million households in the urban areas their outreach as far as rural and marginalized population goes, has been very limited for a variety of reasons. Inculcating a habit among the rural masses to insure the assets, the lives and the health of their families have remained an indefinable goal. Each segmented market, including its specialist needs, values and beliefs, and a particular manner of responding to the stimuli that insurers need to learn. Most of them have led their lives without insurance till now. The concept of insurance itself is new to them. The rural masses, therefore, need a conviction that buying insurance is more worthwhile to them.

Need to Understand Rural Markets

The value and belief systems of the rural people are different from urbanities. The target for insurance selling should not merely be regarded as a program to sell insurance covers but must be regarded as a movement to inculcate the habit of buying insurance on the growing levels of rural income in the future.

The insurance products to be sold must be acceptable and must be useful alternatives to current sources of need, the premiums must also be affordable to the rural masses. As the marketing process and selling the product are new, there must be several nearby information and service centers that could provide information on the products, prices and claims services of insurers. These requirements are fundamental to the marketing process of an insurer, for developing a rural entrenchment.

Socio-economic impact on purchasing behavior

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Socio-economic characteristics of the insured respondents using descriptive statistics. It also discusses about the analysis of variance, multivariate analysis of variance, testing the relationship and significant difference among demographic variables, sum insured, and preference of insurance sector and reason for insuring their lives. Similarly chi-square analysis is also employed to elucidate the relationship between the socio-economic characteristics and perception about life insurance sources of awareness, number and type of policies obtained, mode of purchase, among the life insurance policy holders of the rural areas. The descriptive analysis shows the socio-economic categorization of respondents with the level of sum insured. Classification of respondents with various socio-economic characteristics is also clearly examined with the help of descriptive statistical analysis. One-way analysis of variance was applied to identify the variation between demographic profile of the customers and factors influenced to buy life insurance policies.

Socio-Economic Characteristics and Level of Sum Insured

(1) Gender and Total Sum Insured

Gender determines the risk perception attitude of individuals which drives their desire for protection. In the context of customer behavior towards life insurance products, gender plays a significant role in influencing the purchase decision.

(2) Marital Status and Total Amount of Sum Insured

Marital status plays a important role in the consideration of purchase of insurance policies. Married persons are more responsible to their family as they have to take care of their family members even after his demise. Hence, the marital status of the rural customers is an important aspect in shaping their purchase behavior.

(3) Educational Status and Total Sum Insured

Education creates awareness and desire for better standard of living. Such awareness and motivation are the major determining factor in behavioral dimensions towards the purchase of life insurance policies.

(4) Reasons of Awareness about Life Insurance

The reasons for lack of awareness about micro insurance policies. Among the customers of LIC 47.81 per cent opined that the agents do not introduce the product, followed by 24.76 per cent said that there is no advertisement. And 23.81 per cent said that they have

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reference from the other policy holders about micro-insurance. A least percentage (3.62 per cent) of respondents opined that all the factors like agents' failure to introduce, lack of advertisement, no reference, cause the lack of awareness about micro insurance policies. A high percentage (25.14) of respondents opined that the lack of advertisement was a reason for being not aware of micro insurance policies. The chi-square analysis also shows that there is no significant relationship between the sector and reasons for the lack of awareness about micro insurance policies.

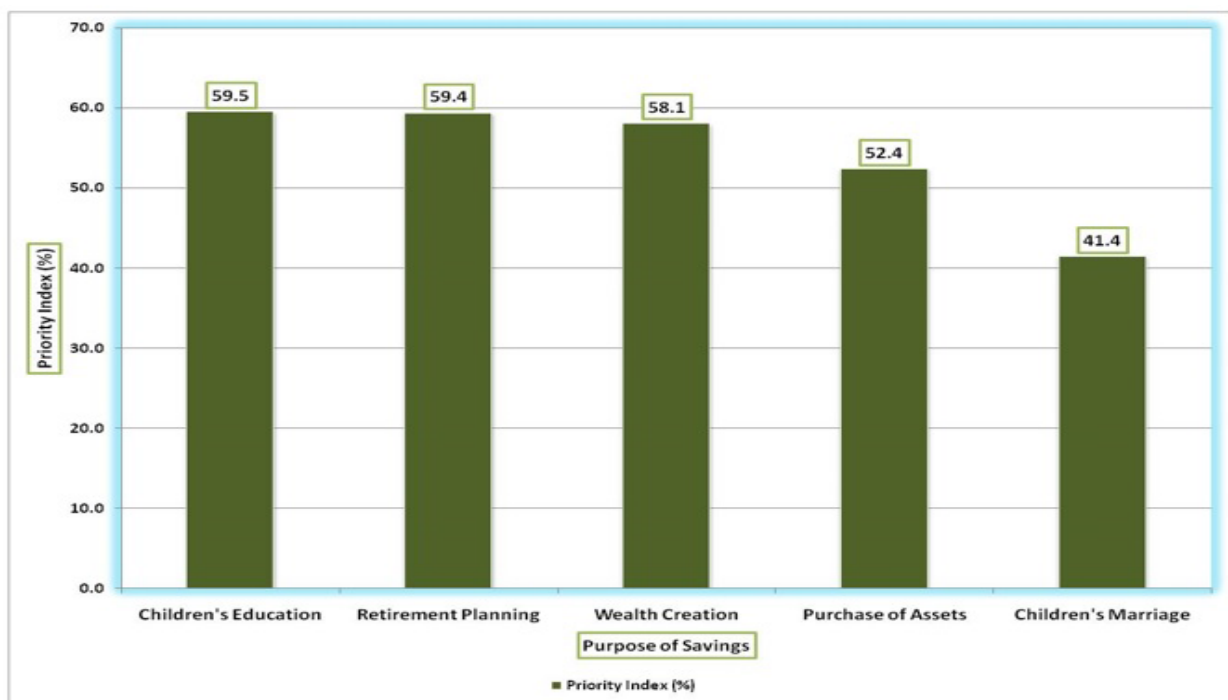


Fig: Difference purpose of savings which initiates awareness of micro-insurance

Conclusion

To substantiate further, socio-economic variables which have significant differences between them are identified and the relationship confirmed through the posthocbonberroni test. In the light of the analysis, it is suggested to concentrate on the groups which have significant relationship, through the attractive products that meet the expectations of the particular segments. The descriptive statistics shows that the agents secured more than 50 per cent business of the private life insurers. But this channel needs to be strengthened by appointing more agents of different occupational categories.

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Comparing the agent strength of LIC, the private insurers are very weak in the rural areas. By recruiting the agents of same occupation and locality will be convenient to the policy holders for approaching service and also the agents can easily convince the prospect towards their products. Followed by the agents, the reference through friends and relatives was successful in securing 32 per cent business of the private insurers. This word-of-mouth referrals need to be strengthened to promote the rural business. The frequency analysis shows that the young aged respondents (19-35 years) constitute 73.1 per cent among the private sector customers. This shows the strength of the private life insurers that these customers are going to stay with them for a longer period of time.

Hence, it is suggested to promote the products which are yielding installment benefits to these segments in order to meet the expenses of their career development, children's education and their marriage. The educated segments of the society are slightly having higher confidence over the private insurers. This need to be further strengthened through repeated advertisements on the credibility of the private life insurers. The descriptive statistics shows that the employees of private sector enterprises constitute the maximum customers base to the private life insurers followed by the farmers. These segments are attracted because of the marketing initiatives taken by the private life insurers through the agency model. The service provides who obtained the right to sell the products of the private life insurer has secured maximum business with the help of their local reputation.

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