



Underdevelopment of general insurance: Understanding consumer side

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Abstract

The general insurance market in developing countries is generally weak. In India, the condition is more pathetic. The insurance sector in India is far behind that of the other countries including developing nations and the general insurance of the country is specially insignificant. Though the development of insurance largely depends upon the development of the county this study is an effort to understand the reasons of comparative underdevelopment of non-life sector from consumer side.

Keywords: India's general insurance, underdevelopment of general insurance, causes of underdevelopment

Introduction

India is a country where the general insurance business was started after the life insurance in contradiction of the fact that the first life insurance policy was written by a marine insurer [Mehr 1966] ^[3]. Since its inception the general insurance is backward and ignored in the country. At present, the general insurance business is more advanced than that of the developing countries in general. The general insurance in India has been underdeveloped throughout the period. Even today the state of general insurance in the country is not satisfactory. The development of insurance sector largely depends upon the development of the country. Though the growth of the general insurance is associated with the other macroeconomic indicators of the country [Sadhak 2009] ^[4]. There may be other reasons specifically related to the underdevelopments of the general insurance of the country. This study tries to dig out the same.

Underdevelopment of Non-Life Insurance Industry after Privatization

After the privatization of the insurance industry the general insurance of India has shown some sign of growth and development. Many new companies have entered into the market. There are 29 general insurance companies registered in India (2015) including; GIC a public sector company doing exclusively reinsurance business, Agriculture Insurance Company of India Limited, an specialized public sector insurance company, Export Credit and Guarantee Corporation (ECGC) of India a public sector company catering export guarantee and other four public sector general insurance companies. Therefore, seven general insurance companies belongs to public sector and rest twenty-two from private sector. Private sector includes four standalone health insurance companies as well. Other developments have also surfaced. Insurance Information Bureau (IIB) has been established, price detariffication has been undertaken, specialized health insurance companies have started their operation. But, general insurance penetration (general

insurance premium as percentage of (GDP) and general insurance density (general insurance premium per capita in the country) is generally lower in India.

Table 1: Insurance Density and Penetration in India

	Insurance Density (In US \$)	Insurance Penetration
2001	2.4	0.56
2002	3.0	0.67
2003	3.5	0.62
2004	4.0	0.64
2005	4.4	0.61
2006	5.2	0.60
2007	6.2	0.60
2008	6.2	0.60
2009	6.7	0.60
2010	8.7	0.71
2011	10	0.70
2012	10.5	0.78
2013	11	0.80
2014	11	0.70
2015	11.5	0.72

Source: Adapted from IRDA Annual Reports Various Years

In India, both insurance penetration and insurance density was very low but in case of non-life it was even much lower than life insurance at the time of privatization. US, Canada, Chilly, Mexico, Russia, Brazil, Germany all spent more on non-life insurance and less in life insurance. But in many developing countries including India the general insurance industry were looking far behind [Sigma 2000] ^[1]. The general insurance penetration was just 0.54 and the general insurance density was \$ 2.4 only in 1999. We can imagine the under Development of the India's general insurance sector with the fact that in the same year general insurance penetration in all other countries were greater than that of India including Nigeria. India's general insurance penetration was lowest. In the same year the general insurance density in India was also lowest, not higher than none and just equal to Nigeria [IRDA 2002] ^[2].

We may conclude from the table no 1 that there is some improvement in the general insurance penetration of the country whereas general insurance density has changed significantly during the period. In spite of this growth there general insurance business remains backward. We therefore try to explore so reasons behind this underdevelopment.

Causes of Under Development of General Insurance Sector

The primary or the main objective of this study is to find out the reason responsible for the low demand of the general insurance policies. As we have already discussed that general insurance covers concepts everything except life. The scope of the general insurance is much wider. Therefore the study has targeted the small businesses involved in retailing and providing services to the consumers. The study has left the health insurance, motor insurance and household insurance. It has targeted only the small business generally involved in retailing, wholesaling and providing the services. Many works has already been done on the household and farm insurance. Health insurance has also been hot cake for last few years. The study has targeted the Aligarh in Uttar Pradesh. This study is an attempt to know that why the small business are not looking at insurance as an option for risk coverage.

Profile of Aligarh District

Aligarh district of UP has a total area of 3700.4 Sq km. District lies on the plane of rivers Ganga and Yamuna. The prestigious Aligarh Muslim University is situated in at Aligarh. Aligarh is in administrative district of UP. The district is situated towards the south-east of Delhi. Its shares the common boundary with Bulandshar in North Etah in east and Mathura in West and Hathras (Mahamayanagar) in South. Aligarh till 18 century was known by the name of kol or Koli but when British occupied the land in sept. 1803 the present district came into existence. Presently Aligarh tehsil is also known as Kol. About 1/3 population is muslims and its famous for Aligarh Muslim University, where students from all the part of world, particularly form muslims countries come for learning. It is situated 130 Km. from Delhi on GT Road and take 3 hours by bus from Agra and from New Delhi. Tourists come to Aligarh to visit Jama Masjid and Aligarh fort. Locks and brass, articrofts are manufactured in Aligarh District. The locks of Aligarh is so famous that it developed a new city known as Tala Nagari. The district even exports brass and hardware items to different countries.

The Aligarh district is a part of Central Ganga Plain of the state covering an area of 3700.4 sq km. The district is bounded by river Ganga in the west and the river Yamuna in the east. The entire district falling in Upper- Ganga doab represents flat topography. The irrigation in the district takes place through Upper-Ganga and Lower Ganga Canal network system Page 4 of 16 and tube wells. About 85% of the district area is under active cultivation. About 79% area of net sown area (398600) is irrigated both by surface water (Upper Ganga& lower Ganga Canal network system) and ground water through shallow and moderately deep tube wells. Basic Information

Aligarh District of surface water irrigation is 15% while that of ground water is 85%. The economy of the district mainly depends upon Agriculture the district receives a normal rainfall of 708 mm with 46 rainy days experiences sub-tropical climate. The district is mainly drained by river Ganga & Yamuna and their tributaries.

Research Design and Approach

This study may be classified under problem identification category under the broader category of market research as it tries to identify the causes responsible for the reluctance of the consumer in buying a general insurance cover. This study provides an insight and understanding of the problem. Here the reasons which are relatively responsible for non-demand, means the barrier in the growth of the general insurance are being identified and ranked to overcome the problems for better growth of the general insurance sector. It tries to read out the mind of the consumer for deeper understanding of the consumer. So that a greater penetration can be achieved. A primary survey of businesses was undertaken in the District of Aligarh of the state of Utter Pradesh covering the district headquarter (the city of Aligarh) and three small towns around Aligarh in the district i.e. Kahir, Iglas and Atrauli. The study does not collect samples from the rural areas and concentrates only in the urban and semi urban areas. The rural areas has been left because that is out of the scope the current study.

Sample Design and Collection of Data

As the objective of the study is to understand the reason of low demand of general insurance for the protection of the loss the study tries to know the same with the help of questionnaire administered on the target population. The study targets the retail business and service sector firms like restaurants and hotel in Aligarh city. The target population is all the retailers of Aligarh city and retailers and service providers of the towns selected who are involved in sale of goods and providing services. These includes shopkeepers i.e. general merchants, grocery, superstores, clothiers, tailors and drapers and service providers like restaurants, beauty parlour etc. The study targets the whole city. Representative business has been selected as per the convenience because of lack of the availability of complete list and time constraints.

The study has taken a sample of 200 respondents involved in many businesses whose businesses were not insured in the city of Aligarh and the selected town. The data have been collected through survey method by using personal interview and questionnaire administered on the owner/manager of the business. With the help of personal interview and questionnaire reliable response was expected to collect.

Analysis and Interpretation

The analysis and interpretation of the study can be summarised in the following section in tabular form. The study has collected response from the retails involved in number of businesses in the area defined. The response collected from the target population has been divided on the basis of their income and the educational background.

Classification of the Business

Table 2

Businesses	No of Respondents
Agency Retailer	19
Grocery	53
General Store	31
Hardware	08
Medical Store	06
Hotels and Restaurants	9
Beauty Parlour	01
Private Offices	12
Other Small Retailers	61

Annual Income

Table 3

Annual Income	No. of Respondents
1-5 Lac	35
5-10 Lac	42
10-15 Lac	64
15-20 Lac	43
More than 20 Lac	16

Company Initiative

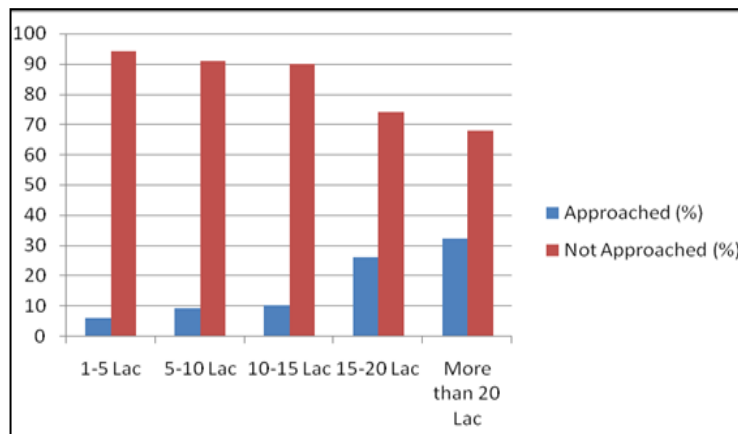


Fig 1

Affordability

Table 7

Annual Income	They say they can afford (%)	They say they can't (%)
1-5 Lac	12	88
5-10 Lac	15	85
10-15 Lac	39	61
15-20 Lac	52	48
More than 20 Lac	56	44

Educational qualification of the owner

Table 4

Literate	38
High school	43
Graduate	84
Professionally Educated	35

Investment in Stock Market

Table 5

Awareness	Respondents
Invested at least once	68
Never Invested	132

Distribution by Annual Income Approached by the insurer/agents

Table 6

Annual Income	Approached (%)	Not Approached (%)
1-5 Lac	6	94
5-10 Lac	9	91
10-15 Lac	10	90
15-20 Lac	26	74
More than 20 Lac	32	68

Affordability

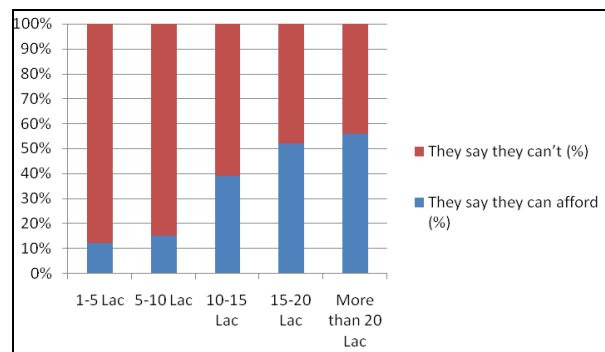


Fig 1

Awareness

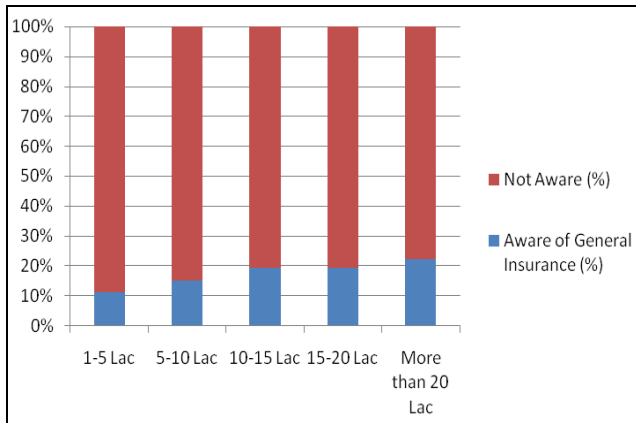


Fig 2

Suitability of existing general insurance plan

Table 9

Annual Income	Find no suitable plan (%)	Did not Explore (%)
1-5 Lac	01	99
5-10 Lac	03	97
10-15 Lac	06	94
15-20 Lac	06	94
More than 20 Lac	09	91

Suitability

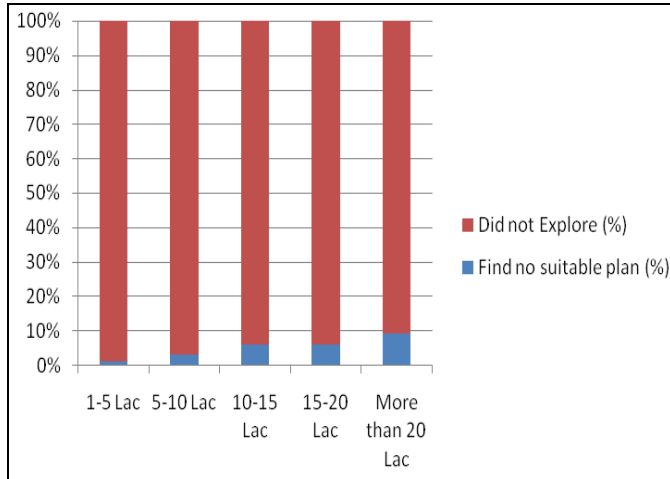


Fig 3

Not facing high risk

Table 10

Annual Income	They believe they are not facing high risk (%)	They believe they are facing high risk (%)
1-5 Lac	18	82
5-10 Lac	21	79
10-15 Lac	28	68
15-20 Lac	35	65
More than 20 Lac	30	70

Risk Perception

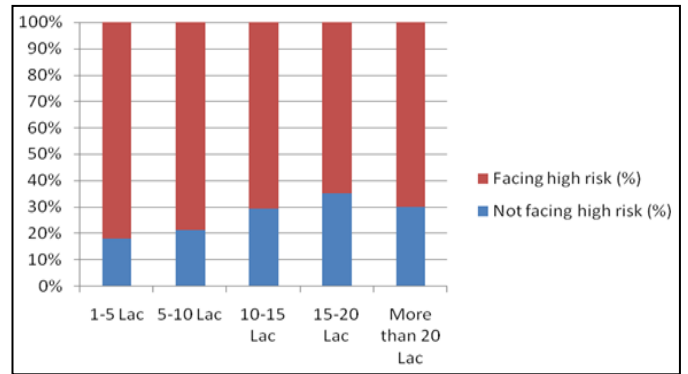


Fig 4

Past Experiences about general insurance of the respondents

Table 11

Annual Income	Because my relative/friend has had experience (%)	No such experiences	Relative/Friend experience Does not matter
1-5 Lac	12	76	12
5-10 Lac	17	55	18
10-15 Lac	06	56	38
15-20 Lac	09	42	49
More than 20 Lac	08	53	39

Experience of General Insurance

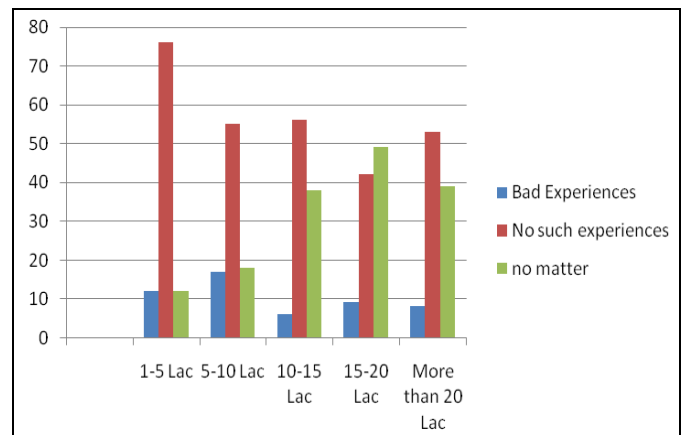


Fig 5

Trust on Insurance Companies

Table 12

Annual Income	I do not trust insurance companies	I am doubtful	I trust insurance companies
1-5 Lac	31	63	6
5-10 Lac	34	54	12
10-15 Lac	39	43	18
15-20 Lac	31	57	12
More than 20 Lac	36	54	10

Trust

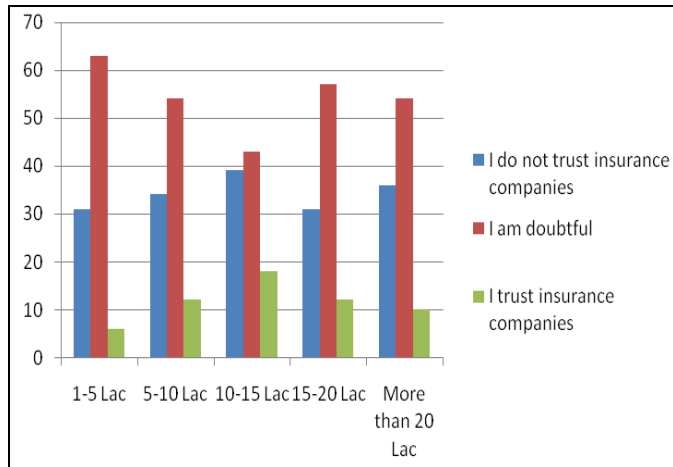


Fig 6

Cost Perception

Table 13

Annual Income	I found insurance Expensive (%)	Expense does not matter (%)	Can't say (%)
1-5 Lac	02	06	92
5-10 Lac	09	05	86
10-15 Lac	12	12	76
15-20 Lac	10	12	78
More than 20 Lac	18	20	62

Cost Perception

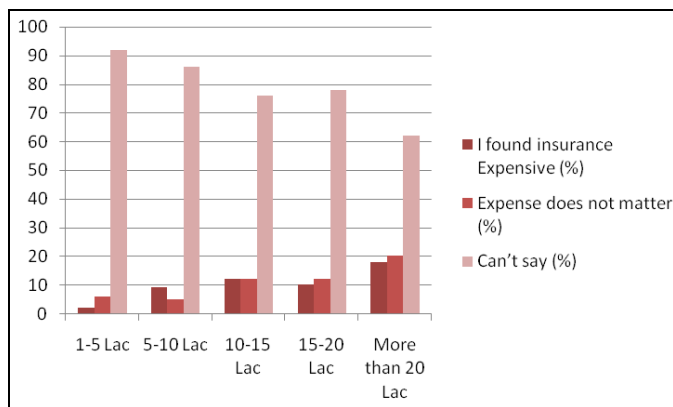


Fig 7

Value Perception

Companies take hard earned money and do not give value

Table 14

Annual Income	Yes	No	Can't Say
1-5 Lac	4	4	92
5-10 Lac	6	9	85
10-15 Lac	10	12	78
15-20 Lac	14	16	70
More than 20 Lac	11	17	72

Value Perception

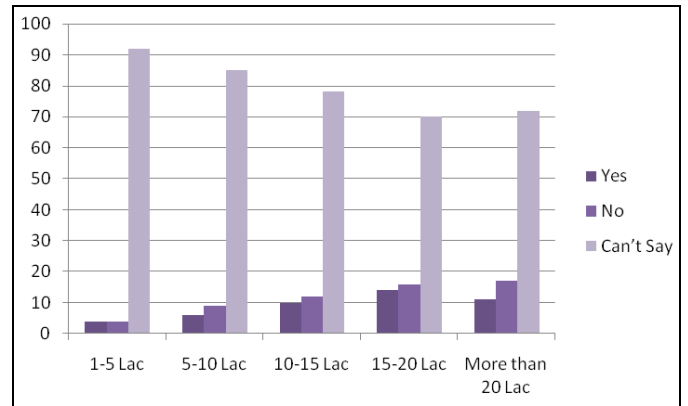


Fig 8

Conclusion

By analysing these responses of the target population we can conclude that there is a positive bearing of income on the purchase and sale of general insurance policies. The responses collected from small businessmen across the industry show that there is overall lack of trust and lack of awareness. In addition to that they are less approached by the general insurers and their representative and even if they are approached many a time they are not approached with a suitable plan.

The study revealed that a considerable number of people are of the opinion that they can afford a general insurance policy. These responses vary across income group showing more affordability with positive changes in income. The study also shows that these small retailers are not approached by the insurers for general risk insurance coverage. They are very much unaware of general insurance and its various aspects and at this level of awareness is very much deciding in the creation of demand of a general insurance policy. Large number of these people have not explored for a plan which can be suitable for them. Yet there are people who have not found suitable plan to cover the risk associated with their business. The important thing is that these businessmen understand that risk is associated with the business and they do not feel secure from these risk whether arising out of the risk involved in daily routine or the risk specifically arising out of the nature of business they carry. But even then they are not covered with a suitable general insurance policy. Past experiences of general insurance are also important. When asked about experiences they say that either they or their relative do not have any bad experience or such experiences do not matter to them when buying insurance plan. But there are people who say that they or their relative or friends have some sort of bad experiences and these experiences matter to them.

When it comes to the trust of the insurance company people have different perception. There are large number of people who are doubtful about the insurance companies and only few trust the insurance company. Yet there are considerable numbers of people who do not trust these companies. There are small number of people who are of opinion that the insurance cover is not expensive, but most of the people believe that these insurance covers are expensive. On the other

hand the majority of the people are not clear about the cost perception of the companies. In the same way majority of the people are also not clear about the value perception yet few believe that the insurance companies are not giving value. It may be concluded that there is problem at every stage from having a suitable plan to trust of the companies.

Suggestion

- The companies must create awareness about the general insurance by different means
- There is a need of more extensive selling effort
- In some cases the companies need to develop suitable plans for the small retailers so that this segment can be targeted with more effectiveness
- There is a specific need of grievance redressal general and a specific need of making the claim settlement mechanism more effective and efficient.

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