

# Rural Insurance in India

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Opportunities and Challenges  
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**IndiQuest Research**

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## Executive Summary

The boom in the Indian economy has increased the overall standard of living of its citizens. While India's urban regions have prospered, rural India, considered to be more focussed on agriculture and comparatively less developed, has also benefited from the economic growth. The country's growth has modified the dynamics of rural India, which unlike the past, is not completely dependent on agriculture. Previously, the ratio between those involved in agriculture and in other occupations was 75:25 in rural India. At present, this ratio is estimated to be in the range of around 50:50 to 60:40. This translates to approximately 50-60 percent of the rural population being involved in occupations besides agriculture such as horticulture, aquaculture, water harvesting etc. Also, contradicting tradition, the rural second generation have the option of white-collar jobs in nearby towns, which have developed at a quick pace. This has resulted in a growing middle class with a monthly income in rural India – a radical change from the past where income was entirely dependent on the monsoon, cropping season, and so forth. These developments have resulted in a definite growth in the prosperity level of rural India.

Historically, household savings rate in India has been high; in 2006, almost 82 percent of households at the all-India level saved some part of their earnings.

- The urban regions led with 88 percent while 78.5 percent of rural households saved some part of their earnings.
- A Max-NCAER India Financial Protection Survey conducted in 2008, revealed that rural and urban households had an average income of INR 51,922 and INR 95,827, respectively in 2004-05.
- After deducting expenditure, surplus income for rural households was at 22 percent while urban households' surplus income stood at 28 percent.
- Of the surplus income, around 10-15 percent was invested in financial instruments (except bank deposits) in both, urban and rural India.

In 2006, majority of rural households preferred depositing their money in banks. On the other hand, almost 42 percent preferred not to invest and kept their earnings at home. Only one percent of the total rural population preferred purchasing insurance policies, indicating the vast potential in the Indian hinterlands for the insurance sector.

India's prosperity was triggered by a number of reforms introduced by the Government. In 1999, the Indian insurance sector was liberalised, which together with overall economic growth, has also grown. According to the Insurance Regulatory and Development Authority (IRDA), if India's economic growth rate remains around seven percent, the insurance sector would grow in double-digits. The country's insurance sector up to November 2009 has grown by 15 percent.

Post regulation, the insurance sector has grown from INR 108,485 crore (USD 21.71 billion) in 2000 to INR 239,306 crore (USD 47.89 billion) in 2007, increasing at the rate of 120 percent; while overall premiums sustained an average growth rate of 11.96 percent. The contribution by way of insurance premia rose from 1.2 percent (1999) to 4.1 percent (2006) of the country's GDP. As of February 2008, the penetration of insurance in India as a percentage of gross domestic product (GDP) stood at 4.8 percent, of which life insurance accounted for 4.1 percent and non-life insurance, 0.6 percent.

Despite the global recession, according to RNCOS, the Indian insurance industry is expected to record robust growth in the next few years, owing to the large population and vast untapped market as the level of insurance penetration is low.

Along with a wide range of triggers for growth, the report attempts to provide information and address questions such as:

- What is the market-size of the Indian insurance market?
- How is Indian insurance segmented? What is the market size?
- What are the opportunities in the sector?
- What are the challenges?
- Details of the industry-related regulation.
- Details of current players in the Indian insurance industry.
- Demographic information of rural India.

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