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of the Market : A Study on Birla Tyres
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# Customer Value Management in the Middle of the Market: A Study on Birla Tyres

*Isita Lahiri*[*]

**ABSTRACT:** India is witnessing demographic as well as socio-economic changes in last few decades. People are becoming more realistic and patronizing value for money in their purchasing decision and consumption pattern. This escalating value consciousness leads to expand the middle of the market largely dominated by growing current and next generation young buyers. Therefore, companies require different marketing strategy that enables to improve products or services in evolutionary ways and link competency and resources to undergo shift from product specific advantages to brand specific advantages. Value is determined as a trade-off between benefits or intended customer requirements and costs or sacrifice. The holistic approach is to devise a cost-effective product configuration and position it within the segment's acceptable price range and within manufacturer's acceptable cost range so that both customer and supplier will be mutually benefitted. An attempt has been made in this paper to underpin this need of new approach analyzing Birla Tyres' marketing strategy through evaluation of sales effectiveness in the advent of new paradigm.

**Key Words :** *Customer Value, Value Consciousness, Sales Effectiveness*

## 1. INTRODUCTION

Customer oriented business process inextricably links goods and services through segmentation, targeting and positioning to address customer needs and preferences. In

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the changing demand structure, alignment of marketing operations often requires re-segmentation to redefine customer value. Within the purview of a consistent value profile derived from relative customer importance on each value delivering feature, value excellence is the state of the art of meeting customer's specific requirements. Value assignment to each product/service varies with segmental requirements. Through market research supplemented by marketing information system (MIS) and sales trend analysis company identifies attractive segments. Segment attractiveness depends on demand size and associated value structure in terms of revenue earning and profit realization. To maximize sales and profit company targets strategic segments having potential growth where it effectively utilizes its limited resources. Sales-effectiveness depends on perceived value of a given product compared to competitors operating in the same market segment. Therefore, competitive insights need to reformulate strategies focusing on product mix, quality, service and pricing objectives for a single or multi-segments. Both supply side and demand side strategies are required to fulfill balanced centricity i.e. customer-supplier profitability. Today's and tomorrow's business lexicon will be hinged on matching cost to customer with cost to supplier.

## 2. AUTOMOBILE TYRE MARKET: A SNAP SHOT

Automobile tyre industry, by nature is a risky business proposition in which the products are subjected to dynamic environmental atrocities. This has led customers cautious while selecting tyre brands and emphasizes more on utilitarian aspects that cause them to become value buyers. It is noteworthy that the vast and expanding Indian tyre market is predominantly bias technology. The market is matured enough to deal with technological performance characteristics as well as suppliers' value proposition that has gradually shifted towards value consciousness. The product also has reached the beginning of decline stage in its life cycle. Moreover, over capacity of tyre manufacturers, pile up inventories, price war, and creeping demand of new age steel radial tyres have led customers more demanding and bargaining. All these intrinsic and extrinsic factors have major influence to develop an expanding mid-market value segment. Each segment assigns a specific price structure. Mid-market sets a price zone in which customers aspire more benefits from product features that renders suppliers' lower profitability. It has higher price elasticity and operates with increasing demand. Profit maximization comes from lowering of prices and increased volume sales. Any mistake or incorrect pricing may cause customer switch to competitors. Therefore, the business perspective is always associated with the threat of profit erosion. Moreover, competitive density is much higher. Suppliers' profit realization comes at the cost of customers' total value actualization. In this difficult business realm, it becomes imperative to cater this determining segment in order to stay or survive. Ultimate success results from how it captures share percentage of this vast uprising segment and efficiently lowers down own cost structure through efficient utilization of its capabilities and limited resources. It is evident that highest willingness to pay and increasing market share in tandem provide handsome profit margin.

## 3. REVIEW OF LITERATURE

To counter business dynamism, each organization needs change for change. Green and Wind (1975) suggest that it becomes imperative for organizations to understand the preferences of these consumers which effectively enable them to embark strategies to reach customers. While describing a comprehensive case study made by Stephan et al (2000), proponent of target costing pricing approach on market driven product development, Evans and Berman (2004) state that the approach can help to develop superior product which fully extracts maximum prices from the market and positively affect bottom line. Targeting segment(s) is a paramount issue and objective is to invest available resources in those areas that will create most customer value in term of product functionality or must essentials for the market. Lahiri and Karan (2009) posture organizations to identify and focus on large and growth prospective segments. They require to reconfigure resources and capabilities in order to sustain and grow in bottom line through increase in market share and market capitalization. Therefore, a different business model would be formulated for both customer and supplier benefits satisfying unmet needs of emerging buyer segments. Raju (2010) assigns a holistic approach that ushers implementation of new tools, procedures or technologies to face challenges of changing demands or creation of new business opportunities – a matter of moving from problem state to solved state. In hostile environment or mature industry situation where competition for customers and resources is intense, Eswaran (2010) offers a comparison of competitive tactics adopted by entrepreneurial firms. High tech industries tend to attack their environments adopting a proactive, aggressive, innovative, focused and future oriented strategic posture. While low tech industries adopt a more mechanistic, structured and standardized approach to their environments. The paper has attempted to study the preferences of the mid-market segment with specific reference to a high risk – high involvement product category – automobile bias truck and bus tyre.

## 4. OBJECTIVES

Underlying objectives of this research article are to:

- Measure significant difference or shifting of sales pattern of the identified product between the same periods of year 2008 – 2009 and hence understand the target customers' propensity towards value consciousness.

- Analyze sales-effectiveness of that tyre in compliance with overall growth of respective product category which in turn reflects increase of company's market share.

- Understand customer preference pattern which may help to formulate company's short and long run marketing strategies.

## 5. RESEARCH DESIGN

The research is of analytical type which contains both secondary and primary data. Secondary data is collected from Birla Tyres' in-house monthly national sales commercial report in the period April 2008 – June 2008 compared with the same period of 2009 to analyze company's sales effectiveness. It has also been analyzed to conform sales increase of strategically selected value product 10.00-20 BT 112 tyre with respect to total 10.00-20 product category sales. To reach Conclusion sales data are statistically analyzed by applying the tools:

Test of significance (Z statistic): Understand statistical significance of sales difference of this tyre between two periods as increase in value consciousness of mid-market segment.

ANOVA (Analysis of Variance) : Conclude that the stated two periods must have caused different average sales figures of BT 112, i.e. April – June 2009 sales is more effective than the same period of year 2008.

Primary data have been collected by marketing survey conducted at Barrackpore and contiguous BT road zone, Kolkata and Kalyani area, West Bengal, India – considered as an important trucking zone. The study has been carried-out in January - February 2009. About 200 fleet owners are randomly selected as representative sample. To understand impact of value consciousness on brand preference, Z test of proportion with respect to population mean has been carried-out.

## 6. ANALYSIS AND INTERPRETATION

### 6.1. Secondary Data Analysis

### 6.1.1. Test of Significance

Null Hypothesis: The researcher likes to find out whether 326.53% sales increase of BT 112 brand in April – June 2009 over April – June 2008 is from sampling variations and does not represent real and significant differences of sales-effectiveness resulting from customer preference (value consciousness) and expanding middle market segment. Null hypothesis is tested at 5% significance level to reach conclusion.

From Table 2:

Average sales in the period April – June 2008 (x) : 1.892

Average sales in the period April – June 2009 (y) : 8.07

Standard deviation ($\sigma_x$) : 1.1621

Standard deviation ($\sigma_y$) : 2.924

Estimated standard error of mean ( $s_x$ ) : 0.520

Table 1: Sales Rate of 10.00-20 BT 112 vs. Total 10.00-20 Tyre Category Sales Rate

### Year 2008 zone wise national sales (X 1000 )

| Zone | April 2008 | | May 2008 | | June 2008 | | Average | Average |
|---|---|---|---|---|---|---|---|---|
| | BT112 | Total | BT112 | Total | BT112 | Total | BT 112 | 10.00-20 |
| | sales | 10.00-20 sales | sales | 10.00-20 sales | sales | 10.00-20 sales | sales | total sales |
| East | 1.4 | 22.4 | 1.15 | 18.0 | 1.3 | 22.4 | 1.3 | 20.93 |
| Central | 2.4 | 14.6 | 1.8 | 9.2 | 2.65 | 18.8 | 2.3 | 14.2 |
| North | 1.4 | 23.15 | 1.0 | 17.7 | 1.6 | 33.37 | 1.33 | 24.86 |
| South | 3.8 | 12.5 | 2.9 | 9.8 | 4.5 | 17.1 | 3.73 | 13.13 |
| West | 0.94 | 10.45 | 0.62 | 7.73 | 0.8 | 13.3 | 0.8 | 10.5 |

### Year 2009 Zone wise National Sales (X 1000)

| Zone | April 2009 | | May 2009 | | June 2009 | | Average | Average |
|---|---|---|---|---|---|---|---|---|
| | BT112 | Total | BT112 | Total | BT112 | Total | BT 112 | 10.00-20 |
| | sales | 10.00-20 sales | sales | 10.00-20 sales | sales | 10.00-20 sales | sales | total sales |
| East | 7.0 | 28.65 | 6.7 | 27.6 | 7.8 | 30.56 | 7.17 | 29.0 |
| Central | 12.0 | 28.35 | 11.24 | 28.7 | 13.42 | 30.8 | 12.2 | 29.3 |
| North | 9.5 | 46.8 | 9.8 | 51.5 | 10.46 | 52.45 | 9.92 | 50.25 |
| South | 5.2 | 17.0 | 5.17 | 17.2 | 6.3 | 20.85 | 5.56 | 18.35 |
| West | 4.9 | 20.3 | 5.7 | 21.5 | 5.93 | 24.2 | 5.5 | 22.0 |

### Table 2: Study of Sales Effectiveness of 10.00-20BT 112 Brand: 2008 vs. 2009

| Zone | Average sales of 10.00-20 BT 112 vs. Total 10.00-20 tyre category sales | | | |
|---|---|---|---|---|
| | April – June 2008 | | April – June 2009 | |
| | 10.00-20 BT 112 | Total 10.00-20 tyres | 10.00-20 BT 112 | Total 10.00-20 tyres |
| East | 1.3 | 20.93 | 7.17 | 29.0 |
| Central | 2.3 | 14.2 | 12.2 | 29.3 |
| North | 1.33 | 24.86 | 9.92 | 50.25 |
| South | 3.73 | 13.13 | 5.56 | 18.35 |
| West | 0.8 | 10.5 | 5.5 | 22.0 |
| Total | 9.46 | 83.62 | 40.35 | 148.9 |
| Average ($\bar{X}$) | 1.892 | 16.724 | 8.07 | 29.78 |
| Increase of 10.00-20 BT 112 sales = ( 8.07 - 1.892 ) / 1.892 = 326.53% (Brand preference) | | | | |
| Increase of 10.00-20 tyre category sales = ( 29.78 - 16.724 ) / 16.724 = 78.07% (product category growth rate) | | | | |

Estimated standard error of mean ( $s_{\bar{x}}$ ) : 1.3076

$S_{\text{difference}}$ : 1.4073

Level of significance : 5%

Appropriate test statistic : $Z_{(Cal)} = ( 8.07 - 1.892 ) / 1.4093 = 4.39$

$Z_{(Critical)}$ at 95% confidence level = 1.96

Interpretation: As calculated value of Z (4.39) is greater than the critical value (1.96) at 5% significance level, the researcher rejects null hypothesis. They accept that 326.53% sales increase of BT 112 of April – Jun e 2009 over the same period of year 2008 is real and statistically significant in terms of sales- effectiveness due to customer shift towards more value delivering tyre brand i.e. expansion of value conscious mid-market segment.

### 6.1.2. ANOVA

Null Hypothesis: Observing important difference (Table 3) between two sales averages represented by two columns with respect to total sales average of both periods, the researcher would like to test if the difference is statistically significant. So, the null hypothesis is that average BT 112 sales of the period April – June 2008 (1.98) and April – June 2009 (8.07) only represent sampling variations from overall average sales (4.98), not real differences in sales-effectiveness of the two periods. The researcher uses 95% confidence level to establish the stated hypothesis.

## Table 3: Sales Test of 10.00-20 BT 112 Tyre Brand

| Average Sales Rate | | | |
|---|---|---|---|
| Zone | Period:<br>April – June 2008 | Period:<br>April – June 2009 | Total |
| East | 1.3 | 7.17 | 8.47 |
| Central | 2.3 | 12.2 | 14.5 |
| North | 1.33 | 9.92 | 11.25 |
| South | 3.73 | 5.56 | 9.29 |
| West | 0.8 | 5.5 | 6.3 |
| Total | 9.46 | 40.35 | 49.81 |
| Mean | 1.98 | 8.07 | 4.98 |

Analysis of Variance Summary:

| Variation component | Variation | Degree of freedom | Estimated variance |
|---|---|---|---|
| Between columns | 92.7405 | 1 | 92.7405 |
| Unexplained | 39.6367 | 8 | 4.9546 |
| Total | 132.3772 | 9 | |

Appropriate test statistics: $F_{(cal.)} = (92.7405 / 4\text{-}9546) = 18.72$

The critical value of F for 1 d.f. in the numerator and 8 in the denominator is 5.32 with 95% confidence level. Since calculated F statistic (18.72) is much higher than the critical value, the researchers reject null hypothesis and conclude that the differences observed in the two column means compared to total mean are statistically significant and not due to sampling variation i.e. April – June 2008 and April – June 2009 periods must have caused different average sales.

### 6.2. Primary Data Analysis

To study the recent tyre purchase (within two months) and preferred brands to be purchased for the next fitment, the following segmentation has been done (Table 4):

(1) Users of heavy load/premier tyres
(2) Users of moderate load /mileage tyres
(3) Users of under load /economy tyres

Table 4: Market Segmentation on the Basis of Customer Benefit

| Purchase of preferred brands | Numbers of respondents | Percentage (%) |
|---|---|---|
| Users of heavy load / premier tyres | 32 | 16 |
| Users of moderate load / mileage tyres | 132 | 66 |
| Users of under load / economy tyres | 36 | 18 |
| Total | 200 | 100 |

$H_0 : \mu \leq 0.5$ ( proportion of users prefer purchase of moderate load – higher mileage tyres exhibiting greater value in terms of performance).

$H_1 : \mu \geq 0.5$

Appropriate test statistic: Z test of proportion

Level of significance $(\alpha) = 0.05$

$P = 132/200 = 0.66$

$Z\ cal = (P - \mu) / \sqrt{}P(1 - P)/n$

$= 0.16 / \sqrt{}0.66 \times 0.34 / 200$

$= 4.78$

$Z_{(Critical)}$ at 5 % significance level = 1.96

Interpretation: Since the calculated value (4.78) is more than the critical value (1.96), null hypothesis is rejected and since the population mean is greater than 0.5, it is concluded that majority of respondents prefer moderate load/mileage tyre purchase. Therefore, the number of respondents purchasing moderate load/mileage tyres is not the same as that of purchasing heavy and under load tyres. Among tyre brands moderate load/mileage tyres have more influence and maximum impact on purchase decision as they are expected to offer more value to their usage. It means brand promises and brand positioning are important critical success factors to influence tyre purchase decision.

## 7. FINDINGS

- Average sales rate of 10.00-20 BT 112 in April – June 2009 shows stiff rise (326.53%) over average sales rate in April – June 2008 period. This indicates greater sales- effectiveness of BT 112 brand among company's entire product mix.

- Efficacy of increased sales rate is verified by test of significance which conforms statistically significant sales effectiveness of BT 112 in the period April – June 2009 over the same period of year 2008.

- National (divided into five zones) sales rate analysis of BT 112 between the stated two periods using ANOVA shows that change of customer taste and preference must have caused statistically different sales figures in the two periods.

- Market survey presents that 66% of respondents prefer moderate load /mileage tyre to premier and economy tyres. This is tested by Z proportion of population which conforms survey results statistically significant. Customers are clustering in a larger proportion to the higher value delivering brand.

Secondary and primary data analysis indicate demand shift towards value product i.e. 10.00-20 BT 112 which customers perceive as more beneficial and reliable at decent price. Marketing survey also reveals that a larger proportion of end users are inclining towards the product in terms of quality, performance, benefits and price. This increasing mid-market (value buyers) is a great marketing concern. Strategies and operations must be set to attract this rapidly ramifying segment. 326.53 % sales increase of BT 112 within one year interval with respect to 78.07% of 10.00-20 product category sales increase is the major area of brainstorming. This critical input gives rise to a change or shift of demand pattern that within 10.00-20 product category, BT 112 brand has taken the driver seat i.e. more overlap with customer needs and preferences compared to other brands in the product mix.

## 8. CONCLUSION

Recognizing the new market realities, selection of 10.00-20 BT 112 tyre to satisfy mid-market segment conforms marketing strategy. Its sales-effectiveness is validated by upward shift of demand pattern. But some important points are derived from analysis to review present marketing and pricing strategies. The marketers should opt for further cross sectional and longitudinal market research to understand and operationalize company's inner forces in the light of external opportunities and threats. To avail the growth opportunity of domestic tyre market, the company requires more aggressiveness to increase market share and hence earn more profit. Objective evidences of lesser growth rate of 10.00-20 product category (78.07 %) sales with respect to BT 112 brand (326.53%) unveil company's defensive approach or weaknesses in marketing operations. Product category sales are constrained by cannibalization or whirlwind sales of BT 112 which has engulfed other products in its own category and does not reflect in compliance with market growth direction. As preventive measures, strategists may initiate market re-segmentation and drive 10.00-20 category sales increase which will simultaneously create more rooms for uprising BT 112 sales. In this respect, setting up flanker brands of BT 112 can boost 10.00-20 product category sales. Business in middle of the market is a challenge to balance company and customer profitability. Ironically, value consciousness is intensifying and sets market direction. Understanding market trend by market analysis calls for formulating a competitive, flexible and long run business model that to be collinear with customer requirements and satisfaction. Depending on the product class, it may require much time to readjust resource allocation for efficient utilization. A competitive containment strategy reduces gap and initiates quick response to market. It minimizes market uncertainty and risks of resource wastage. This research article provides the direction of business activities and steers to formulate an effective strategic model that caters burgeoning mid- market segment emphasizing precise and persuasive value proposition. •

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# FDI in Multi-Brand Retail in India: Prospects and Challenges

*Ashim Paul*[*] *and Tanupa Chakraborty*[**]

**ABSTRACT:** The Indian retail industry has made a remarkable progress in recent years and now it is one of the most dynamic industries in India. India has already placed itself among the global retailers as an attractive investment destination through single-brand retail trading that generated cumulative Foreign Direct Investment (FDI) inflows valuing US$ 69.26 million from April, 2000 to June, 2011 (FICCI). This is the scenario of Indian retail industry when FDI is allowed up to 51 percent in single-brand retail business only and not in multi-brand retail. With the government planning to allow FDI up to 51 percent in multi-brand retailing and increase FDI limit up to 100 percent in single-brand retail business as well, the Indian retail industry is expected to look structurally different in the near future. As much has been debated on the viability of allowing FDI in multi-brand retailing in India, a modest attempt has been made in this paper to discuss the existing situation, future prospects and challenges of the retail industry in India with a keen focus onto multi-brand retail trading and FDI role therein.

**Key Words :** *Organized Retail, Multi-brand Retailing, Back-end Retail Infrastructure*

## 1. INTRODUCTION

Till date, foreign direct investment (FDI) is allowed only up to 51 percent in single-brand retail trading but not in multi-brand retailing in India. With India planning to have more foreign investments in this sector by allowing foreign players to invest up to 51 percent

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in multi-brand retail, supermarkets, malls, discount stores, department marts, etc. are expected to flourish in India, where many national and international brands of a single product can be offered to the customers under a single roof. This may lead to a greater competition as well, as global players, like Wal-Mart, Carrefour and Tesco, etc. may find it easier to open stores in India and offer a variety of product items directly to the Indian customers. Such an initiative is expected to make Indian retail industry much more organized and competitive in the near future. As per the study made by Federation of Indian Chambers of Commerce and Industry (FICCI) in 2010, almost 95% of Indian retail industry is composed of and ruled by the unorganized or traditional retailers who own counter-stores, street markets and roadside shops, etc., while on the other hand, organized retail occupies only 5% of the total retail industry in India. As observed by FICCI, since the Indian retail industry suffers mainly from fund constraint and is dominated by the unorganized sector, India is planning to welcome FDI in its retail sector to a large extent – 51 percent in multi-brand retail and 100 percent in single-brand retail, to encourage more competition and more foreign investments by bringing in more foreign giants into this sector. This is likely to change the scenario of retail business in India as many national and international companies, who have not yet entered this sector, shall plan to invest or start up projects, recognizing the short-term and long-term benefits of retail business in India. Pantaloon Retail, Shoppers Stop, Pyramid Retail, Reliance Retail, Birla Retail, Mahindra Retail, Bharti Retail, etc., to name a few, are the players who have been ruling Indian retail industry over the years. And after the change in FDI limits, many foreign players, like Carrefour, Wal-Mart, Tesco etc., who have already shown their keen interests in Indian retail sector previously, can take part in Indian retail trading business more effectively. Moreover, increasing urban population, changing life-style, favourable demography, and increasing disposable income, etc. will certainly be the key drivers for a more advanced and organized retail trading environment in India and thus help in modernizing this industry a lot. Baskaran (2012) in her study revealed that India should move on three fronts: first, the government has to proactively assist traditional retailers in competing successfully with the organized retail by modernizing themselves; second, remove the domestic regulatory and inter-state movement restrictions on retail; and third, allow foreign entry into multi-brand retail in order to modernize Indian retail industry. The study conducted by the Indian Council for Research on International Economic Relations (ICRIER) in 2008 estimated the growth of Indian retail industry and concluded that the total retail business in India will grow at 13 percent annually from US$ 322 billion in 2006-07 to US$ 590 billion in 2011-12. Of this, the unorganized retail sector is expected to grow at approximately 10 percent per annum with sales rising from US$ 309 billion in 2006-07 to US$ 496 billion in 2011-12, while the organized retail, which constituted a low four percent of total retail in 2006-07, is estimated to grow at 45-50 percent per annum and attain a 16 percent share of total retail by 2011-12.

The above statistics indicate that the organized retail sector in India has a lot of potential for growth and can set itself on a higher growth trajectory, if given the opportunity to harness more FDI into the sector. Nevertheless, there are equally greater apprehensions of foreclosing competition to traditional, small, unorganized Indian retailers due to the entry of many foreign players in the Indian retail market. So to throw some light on this contentious issue, this descriptive paper aims at exploring the opportunities and challenges of FDI in multi-brand retail trading in India and enumerating its effects on Indian retail industry. Accordingly, the remainder of the paper is organized as follows. Section 2 sketches the scenario of retail trading in the context of Asia and evaluates the position of India in this regard. Section 3 discusses the structure, evolution and growth of Indian retail industry and the FDI provisions on multi-brand retailing in India. Section 4 deals with the future prospects and challenges of multi-brand retailing in India, while Section 5 concludes the study of prospects and challenges of Indian retail sector especially in connection with the FDI role in multi-brand retailing.

## 2. EXPANSION OF RETAIL TRADING BUSINESS IN ASIA AND POSITION OF INDIAN RETAIL INDUSTRY

A.T. Kearney, the US-based global management consulting firm, prepares annually a report on retail expansion worldwide and ranks the countries accordingly. These annual reports give a clear view of the countries who are engaged in the retail business over the years. For predicting and analysing the retail growth of the concerned countries, A.T. Kearney uses an index, known as Global Retail Development Index (GRDI). This Index analyzes some retail-specific variables to identify emerging market investment opportunities throughout the world. The GRDI is unique because it identifies the most successful retail markets in the world and those that offer the most potential for growth in the future. Accordingly, the following table tries to explore the status of, especially, the Asian countries in terms of scope and opportunities of retail business over 2007 – 2011 period.

Table 1 is a summarised version of rankings held by the Asian countries on the basis of their performances in the concerned industry on some given parameters. The above rankings are based on the overall GRDI scores as gained by the Asian countries annually. In this context, it should be mentioned that the GRDI score is a composition of four main performance indicators. These indicators are market attractiveness for retail industry, country risk, market saturation and time pressure. A.T. Kearney prepares the GRDI score sheet annually and ranks the countries engaged in retail business accordingly. In the Table 1, only those Asian countries, which are dominating the retail business worldwide, are included and their global ranks from the year 2007 to 2011 are incorporated to show specifically how India is competing in Asia, as well as in the global context in the field of modern retail business. Srilanka and Kazakhstan have been included in the GRDI list for the first time in 2011, but India, China, Philippines, Indonesia, Vietnam and Malaysia are the countries which have been representing Asia almost every year in the GRDI list, as shown in the Table 1.

In the Asian context, the competition is mainly between India and China. As India's retail industry is aggressively expanding itself, great international giants are getting interested in investing in Indian market. And as a result, the GRDI score for Indian retail business for

2010 and 2011 seem to be more consistent in comparison to that of the last few years, as shown in the Exhibit 1.

Table 1: Global Retail Development Index for Asian Countries (2007-2011)

| Country | Global Rank 2007 | Global Rank 2008 | Global Rank 2009 | Global Rank 2010 | Global Rank 2011 |
|---|---|---|---|---|---|
| India | 1 | 2 | 1 | 3 | 4 |
| China | 3 | 4 | 3 | 1 | 6 |
| Philippines | 23 | 26 | 25 | 22 | 18 |
| Indonesia | 24 | 15 | 22 | 16 | 16 |
| Srilanka | - | - | - | - | 20 |
| Kazakhstan | - | - | - | - | 15 |
| Vietnam | 4 | 1 | 6 | 14 | 23 |
| Malaysia | 8 | 13 | 10 | 17 | 21 |

Data Source: A.T. Kearney

Note: Srilanka and Kazakhstan entered in the GRDI list for the first time in 2011.

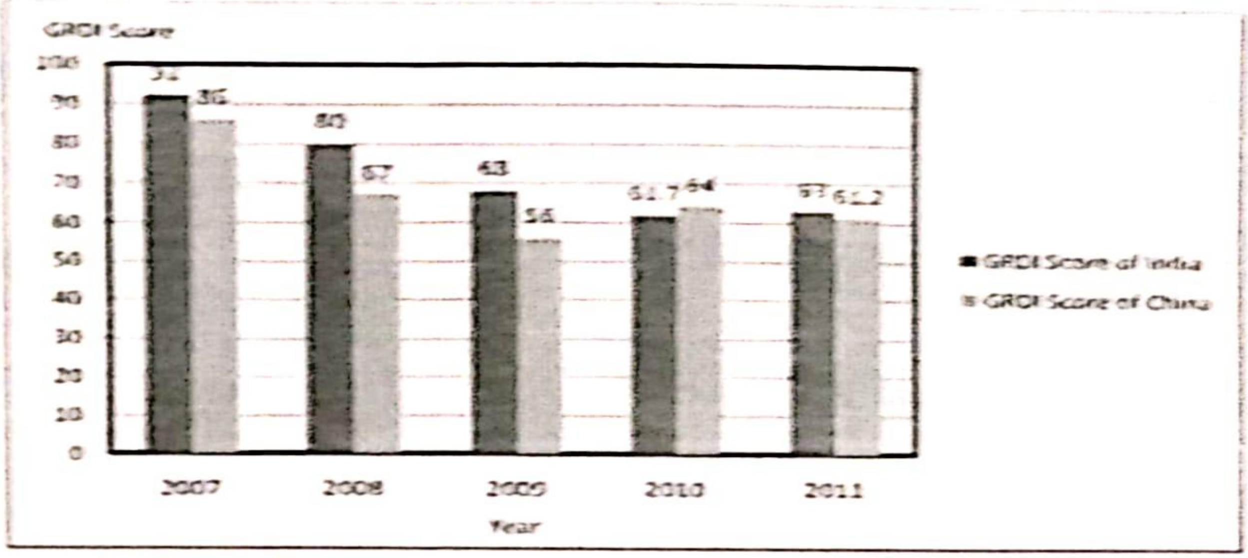
During 2007 and 2008, the GRDI Scores of India and China were 92, 86 and 80, 67 respectively (Kearney 2007, 2008). In the year 2009, India occupied the 1st position with GRDI Score 68 in the group of 30 selected countries worldwide, while China stood at 3rd position scoring only 56 (Kearney 2009). In the following year i.e. 2010, India came down to 3rd position with 51.7 GRDI score and China, having made some improvements over last year, got the 1st position with GRDI score 64 (Kearney 2010). In the year 2011, though India and China both lost their previous positions and occupied 4th and 6th positions in the GRDI list with 63 and 61.2 points respectively (Kearney 2011), yet India is in a bit of advantageous position in comparison to that of China because in 2011 India stood at 4th position by losing its 3rd position from 2010, whereas China, which ranked 1st in 2010, has lost its position significantly in 2011 and got the 6th rank in the GRDI list for 2011. So, both the countries must have to think and develop proper strategies to retain and improve their world ranking in retail trading business for ultimately improving Asia's position internationally in the context of retail trade.

## 3. RETAIL TRADING IN INDIA AND ROLE OF FDI IN MULTI-BRAND RETAILING

This section has been divided into two sections. Section 3.1 examines the evolution and growth of Indian retail trading business, while section 3.2 deals with the provisions regarding FDI in multi-brand retail in India.

Scanned by CamScanner

**Exhibit 1: GRDI Scores of India and China (2007-2011)**



Data Source: A.T. Kearney

### 3.1. Evolution and Growth of Indian Retail Industry

This part has been segmented into four subparts – evolutionary phases, growth in market size, structure and change in customers' perception, in order to provide a clear picture of retail business in India. The discussion follows accordingly.

#### 3.1.1. Phases of Evolution of Retail Trading in India

The evolutionary phases of Indian retail industry may be diagrammatically represented as shown in Exhibit 2:

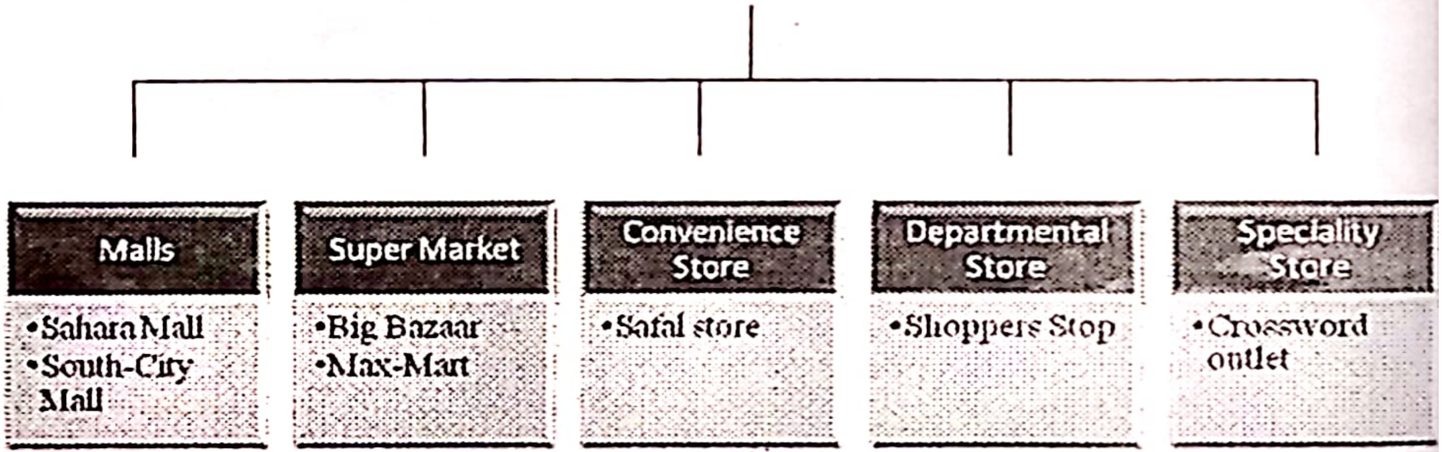
i) Emergence phase (Pre 1990s)

This is the initial phase of Indian retail evolution when the concept of family owned small retail shop was gaining consensus and the retail trading business seemed to be emerging in India. Different local manufacturers started selling their products through their own small shops to meet basically the local demands. They started retailing some household products of daily use and thus retail business was coming into existence in India.

ii) Concentration and Conceptualization phase (1990-2005)

During this period, retail trading concept was gaining pace in India as different players, who did not enter this sector previously, now started finding interest in this market. Domestic players started retailing grocery and other household products. Apparels were introduced in retail format for the first time in India during this phase. Each and every retailer was trying operating in Indian retail market through departmental stores, super markets, speciality stores, malls, convenience stores, etc. Apart from these, some small family owned outlets, E-tailers, etc. are also taking part in the Indian retail market as well. Pantaloon, Trent, Shoppers Stop, Reliance Retail, etc. are operating retail business through department stores, while Aditya Birla Retail, K.B. Fair Price Shop, etc. are the biggest giants in the format of convenience stores. E-Zone and Viveks are playing significantly in the consumer electronics sector, while Crossword and Odyssey are focusing on books, entertainment and gifts through specialty stores. Super market form of retail stores where various product lines of numerous products can be displayed and sold together is also in existence in Indian retail market. The joint ventures of Bharti-Walmart in cash-and-carry retail, Future Group-Clarks international collaboration in footwear segment, and Tata-Tesco venture in hypermarket format are successfully operating retail business in India. This structure of Indian retail industry is being highlighted in Exhibit 4 more clearly.

**Exhibit 4: Structure of Indian Retail Business**



The retail structure, as shown in Exhibit 4, is quite popular in Indian context. However, with the implementation of the new schemes for opening up of FDI in multi-brand retail and increasing FDI limits for single-brand retail business in India, new scope and opportunities for Indian retail industry can arise as multi-brand retailers, like Wal-Mart, Carrefour and Tesco, as well as single brand players, like Nike, Apple, etc. are expected to enter this sector with more amount of foreign capital and more variety of products. This trend will also help the individual Indian retailers, like Haldiram, Raymond, Titan, etc. to add value to their own product lines and make the present structure of the retail sector look more organized.

### 3.1.4. Change in Customers' Perception

Indian consumers seem to have become much more choosy and classy regarding their taste and preferences. They are now being highly influenced by the modern shopping styles. They want the retailers to offer more variety and range of products of different brands. Consumers have now become much more conscious about their life-style and are thus creating demand for a more competitive and organized retail market. They are now highly connected with the modern advertising world through radio, television and internet, and therefore find it easier to know the latest design or life-style prevailing in the most advanced countries. And most importantly, they are now ready to give the best price for the best product due to their increased disposable income. Thus, the entry of a number of multinationals under the new FDI limits in multi-brand retailing shall become easier, and will certainly play a crucial role in Indian retail market in the years to come in meeting consumer choices and preferences.

### 3.2. FDI Provisions on Retail Trading in India

In November 2011, the Government of India has proposed a plan to allow FDI in multi-brand retail trading up to 51 percent and 100 percent FDI in single brand-retail. It announced its implementation in September 2012, resting the full discretionary power with the States to decide on its implementation. The Department of Industrial Policy and Promotion (DIPP), India, in this context, has recommended some strict policy regulations which are discussed below.

- FDI up to 100 percent in cash and carry wholesale business will be maintained through the automatic route.
- The new FDI limits for multi-brand retail and single-brand retail will be up to 51 per cent and 100 percent respectively.
- The retailers must have to procure 30 percent of their goods from the small and medium sized Indian suppliers.
- With the prior approval from the state government, the retailers can open up their stores in cities with a population size of more than 10 lakh, and their retail competition policy must recline within the purview of the concerned state laws and regulations.
- Multi-brand retailers must have to fetch a minimum investment of US $ 100 million, of which 50 percent is to be invested in back-end infrastructures, like cold storage chain, new warehousing projects, refrigeration, transportation, etc.

## 4. PROSPECTS AND CHALLENGES OF FDI PROVISIONS

The main reason that prompted the Indian government to allow new FDI limits in multi-brand retailing may be the overwhelming popularity of retail trading over the past few years. The government may have visualized a bright future for multi-brand retailing in India because, now a days, retail trading has made its existence felt in almost every product category of social life. Retail trading offers almost everything from consumer products, durables, furniture and fittings, accessories, luxury products to the electronic appliances as well. So, allowing FDI in multi-brand retailing may add value to the Indian retail business by bringing in a higher amount of foreign capital and offering a wide range and variety of similar product categories under the single roof. But there are some negatives too which, if turn into reality, will cause the nation a substantial loss. With the new FDI norms, big foreign companies are certain to come and since they mean business, there is a possibility that they might grab a handsome share of retail profit in their pocket, and their pie becoming bigger day by day will ultimately drive away the Indian players from the market. Therefore, keeping in view the various factors such as interests of the domestic retailers, competition from the big multinationals, etc., the government has imposed certain restrictions in the new FDI policy on multi-brand retailing, like minimum investment criterion in the back-end infrastructure, caps on scale and the like as well. These steps are expected to take home the following advantages.

i) Improvements in the retail chain

Organized retail is gaining importance quite rapidly in India. The minimum investment provision, as decided in the new FDI norms, on infrastructure building will certainly pave the way for more organized retailing in the near future in India. It will add value to the total supply chain as well because, with such increased amount of foreign investments, basic facilities, like warehousing, processing, storing, etc., which are the backbone of retail business, can be improved a lot.

ii) Direct linkage with manufactures

The government proposed that the foreign players would have to purchase at least 30 percent of their goods and services from the small and medium sized Indian suppliers in order to open up stores in the convenient places. Thus a direct linkage with the domestic manufactures is expected, and this would likely yield sufficient returns to the small Indian manufacturers as well.

iii) Employment generation

The retail Industry in India is the largest among all other industries, which alone contributes over 10 percent to the country's gross domestic product (GDP) and creates around 8 percent of the total employment. Thus, the recent step to allow FDI in multi-brand retail trading in India will surely encourage this retail market to expand further thereby helping this industry to create more and more employment opportunities.

iv) Huge inflows of foreign capital

Until now, FDI is allowed only in cash and carry wholesale and single-brand retail in India, but the recent proposal of allowing FDI in multi-brand retail will certainly generate more amount of foreign capital from the international retail giants, which can be utilized and channelized in a broader and effective way for further organizational development of the Indian retail industry.

v) Scope for research and development

There are ample opportunities for the Indian retailers to learn the various retail policies, practices, formats and skills that are being followed worldwide from the international players, who are expected to arrive with more equipped and advanced policies and new product categories to compete in the Indian retail market. Thus Indian retailers can reap benefits from their foreign competitors and use these experiences in modernising themselves.

However, some challenges are bound to come along with the above prospects. So, the Indian retail industry should plan the appropriate measures well in advance to avoid the following shortcomings which may arise in near future in the Indian retail market.

vi) Shortage of skilled manpower

India has enormous problem of skilled manpower in the organized retail market. With new regulations and policies, more organized formats of retailing are expected to come. Multinationals, with huge amount of capital and skilled manpower, are expected to compete in the Indian retail market. Therefore, to develop skilled human resource base in Indian retailers, retail training opportunities in the areas of merchandising, supply chain management, store keeping, etc. are to be encouraged nationally.

vii) Lack of policy regulation

Policies, if not implemented properly, are of no good and yield no benefit at all. Thus a strong regulatory set up is needed to control and take care of the new FDI regulations, and address and remove grievances, if any, properly in .the years to come so as to regulate and standardize the Indian retail market.

viii) Lack of space

Lack of proper places for setting up retail stores is another major challenge for India. A multi-brand retail shop should be established in such a place which is well connected, sophisticated and centrally located, but such places are hardly available in India and require huge initial investments. So some initiatives for basic infrastructural developments, like water, electricity, transport, etc. on the part of the local and state bodies are inevitable.

ix) Fund constraint

Indian retail industry mainly suffers from fund constraint. There has been a dearth of investment in the basic infrastructure of retail mechanism in India. The new FDI code, with some conditions for basic infrastructural developments of Indian retail sector, is certainly throwing some light on this issue. But a lot more initiatives and strategies for basic infrastructural development need to be taken, which calls for huge fund requirements.

x) Influential involvement of intermediaries

Involvement of intermediaries in the supply chain sometimes creates a huge gap between the manufacturer and the final consumer. In India, small manufacturers are often deprived of their due shares because of strong existence of a number of intermediaries in the supply chain. The influential roles played by different intermediaries should thus be minimized through strict norms and regulations in the Indian retail market so that both

Indian manufacturers and retailers are in a win-win situation and are able to withstand severe competition from international giants when they enter the Indian retail market through the new FDI route.

### xi) Unhealthy competition and threat of unemployment

With the new FDI policy, many foreign giants are going to enter the Indian retail market. This would certainly bring in more foreign capital, but more foreign investments would also bring in more competition and the Indian retail market is still underdeveloped to face such a challenge. So to keep pace with the upcoming changes, Indian retailers must have to be well prepared, otherwise the new FDI policy may create unhealthy competition and lead to huge unemployment by eliminating the small domestic retailers from the retail chain. For the overall growth of the Indian retail industry, competition among the domestic and foreign players are indeed needed, but care should also be taken so that the foreign giants can, in no way, gain monopoly power through their expertise, investments and strategies over the domestic retailers.

Thus these are the problems which may arise in future in the Indian retail sector. Accordingly, appropriate strategies to counter such problems at an early stage are to be framed so that this initiative of allowing FDI in multi-brand retail in India emerges as a right and profitable choice.

## 5. CONCLUSION

Retail trading seems to be growing rapidly and playing a significant role at every step of our life today. Almost all the developed and developing economies throughout the world are now trying to explore the retail industry as an efficient economic contributor. With such exploration of retail trading, e-marketing and e-shopping are becoming popular and gaining momentum. People now a days need not stand in a queue in front of a retail store, or even visit physically there to get their desired product. With e-marketing and e-shopping in vogue, all they need to do now is to visit the company's website on their personal computers (PCs) and click on the required product, among the large number and variety of brands displayed on the computer screen. All these are making daily life easier, faster and worthwhile. But e-marketing can cater to only a handful of population who can afford, access and use a personal computer and an internet connection. Being a developing nation, India has thus decided to allow FDI in multi-brand retail in order to be a part of the global retail trading and facilitate e-marketing as well. But, at the same time, it is also true that the implementation of the new FDI norms is likely to be subject to a large number of challenges which may be difficult to remove. The stiff challenge that India faces today is from the domestic retailers, who perhaps rightly think that allowing foreign players to invest and compete in the domestic retail market may hinder their business, as with huge amount of investments, the foreign giants will take away the major share of Indian retail profit. Therefore, the issue is quite sensitive and requires collective harmony and consensus of the domestic players. The restrictive measures announced by the Indian government, like limiting foreign equity ownership, prescribing minimum investments in the back-end infrastructure by the foreign giants, etc. are a step in the right direction to give a boost to the domestic retailers' sentiments. Besides, taking further steps to overcome operational bottlenecks while grabbing opportunities, arranging training courses to strengthen the inherent competitive skills of the domestic retailers, and organizing seminars and workshops to educate the masses and form a broad consensus about the viability of FDI in multi-brand retailing in India may ease the implementation of the new FDI policy. Thus, given the potential of the Indian retail industry to contribute to the country's GDP, the recent step to allow FDI, albeit with certain conditions, in multi-brand retail trading in India will surely encourage many international players to take part in the Indian retail trading thereby helping this industry to become the next boom story in India. •

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# Detariffing and Its Impact on General Insurance Industry in India

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**ABSTRACT:** The Indian insurance industry passed through tremendous changes since 1999. Following the open market policy of the Government, private insurers made an entry into the industry in the year 2000, and thus the public sector general insurers' monopoly was removed. The next major decision of the Government of India in the non-life insurance sector, was detariffing. Tariff denotes regulated premium rate with specific wordings of coverage, rules and regulations under an insurance contract. On the contrary, detariffing indicates that the insurance companies would be allowed to fix the premiums for the insurance products they offer based on their own analysis and perception of the risk involved in each case without governmental regulation. It is argued that decades of tariff-regulated market and rule-based underwriting deprived Indian General Insurance Industry of an opportunity to develop. The visible benefits of reforms in the insurance can be seen in the form of more players, variable product choices, increased premium, introduction of new intermediaries and improved service parameters. However, there is also a possibility of fierce price-war that may endanger the viability of the insurance companies. That is something which the Indian insurance industry probably cannot afford to bear at this stage. Thus, detariffing in its wake has brought its own challenges. In this context, to ensure the smooth transition towards detariffed market, IRDA has laid down sufficient checks and controls on various critical aspects, like underwriting, rating support, policy terms and conditions, corporate governance and role of Tariff Advisory Committee. This paper tries to assess the impact of detariffing in Indian perspective.

**Key Words :** *Detariffing, General Insurance, IRDA*

## 1. INTRODUCTION

Tariff is a discipline for the insurers to act on definite terms and conditions and on a set of uniform rates for accepting particular risk with specific wordings of coverage, rules and

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regulations to be mentioned under an insurance contract. On the other hand, detariffing denotes that the pricing of insurance policies are left to the individual insurance companies concerned, to decide and offer, based on their analysis and perception of risk (Krishnan 2005). The insurers assess the risks themselves before pricing the risk rather than depending on a manual prepared by external body such as Tariff Advisory Committee. Pricing, setting terms and conditions and product development are the crucial areas of freedom which the insurers enjoy as a result of detariffing. Moreover, detariffing eliminates the cross subsidy that is prevailing between the profit making and loss making segments and pave way for prudent scientific pricing of the risks.

In India, the non-life insurance industry witnessed tumultuous time, seen never before. With the momentous opening up of Indian insurance industry in the beginning of this century, the non-life sector of insurance has shown rapid growth with public and private general insurance players competing with each other to increase their market share and consolidate their position. When the intensity of competition was at its highest, the regulator brought in deregulation of pricing of those segments, hitherto controlled by tariffs. The markets witnessed steep fall in the prices of some segments. Before the dusts were settled, detariffing knocked at the door which acted like a double-edged sword. Since the existence of tariffs is considered contrary to the open market concept, the general insurers and other stakeholders were advocating removal of tariff. On the other hand detariffing invites cut throat competition. It provides a great opportunity to exhibit their real strength and efficiency in the open market environment which is the result of long awaited autonomy in product innovation. It was argued that Indian general insurance industry was being deprived of an opportunity to develop sound underwriting practices and professional risk management policies in the decades of tariff regulated market and rule based underwriting. However, the key requirements for success in this highly competitive open market are prudent underwriting policy, adequate risk management policy, appropriate processes and true corporate governance. To ensure the smooth transition towards detariffed regime, IRDA has laid down sufficient checks and controls on critical aspects, like Underwriting, Rating Support, Policy terms and conditions, Corporate Governance and role of Tariff Advisory Committee (TAC).

The paper is divided into six sections. Section 1 on introduction has already been discussed. Section 2 tries to find out the background of detariffing. Section 3 gives the roadmap. Section 4 discusses role of the regulators and management in detariffed scenario, Section 5 analyses impact of detariffing on the performance of general insurers, and Section 6 offers conclusion.

## 2. BACKGROUND OF DETARIFFING

Section 64U of the Insurance Act, 1938, provides for the establishment of TAC to control and regulate the rates, advantages, terms and regulations to be offered by insurers in respect of general insurance business. Mandatory Tariffs were recognized for the first time in 1950. Basically the TAC was entrusted with the role of arriving at product prices across several classes of the insurance business. In India about 70% of the market (property other than Mega Risks, Engineering, Motor and W.C) were tariffed i.e., policy wordings and minimum rates are fixed and each company is free to quote the guide rate or higher. As a result, even after privatization, premium was collected based on a pre-fixed rate-chart – both 'good' and 'Bad' risks within a category pay the same premium rate. Hence, the tariffed market disturbed the fundamental component of liberalization i.e., free market, quality underwriting and open competition.

All insurers (Public or Private) keep an eye on profitability. Fire, Engineering, Motor (OD and TP) and WC still continued as Tariff Business. Fire premium rates remain at artificially high rates in India for a considerable time. So fire portfolio was always leading to super-profits for insurers and cross subsidization of other loss-leading portfolios, like Health and Marine Insurance. On the other hand, Motor portfolio is not adequately priced. Therefore, Tariff regime made the following negative effects such as:

1. Cross subsidization of products
2. Good customers paid for bad ones and better managed risks paid the same premium as their bad counterparts
3. Underwriting skills of the insurers were smothered
4. Complete lack of quality data

Opening up of the insurance sector invites the competition which results in better customer services coupled with other benefits in the form of more players, variable product choices, increased premium growth, introduction of new intermediaries and improved service parameters. But these benefits will be really materialized only when market forces determine the price rather than any regulatory body. This view is subscribed by Milton Friedman, the Nobel Prize-winning economist of University of Chicago. He believes that private competition produces better results than government intervention.

The entry of private sector players in India has contributed towards the significant growth in the domestic market. Though the domestic gross premium registered a 15 per cent compounded annual growth rate (CAGR), general insurance penetration in India is still below 4% as compared to 8% worldwide, providing a vast potential to be tapped. It is perceived that detariffing will usher the growth of product innovation in the industry and thereby will penetrate the market to the level of world average. In view of this, IRDA intended for orderly and smooth transition towards detariffed market.

To start with, detariffing of marine cargo w.e.f 1st April 1994 was a nightmarish experience. Since then Market has become more mature. Thereafter, Marine Hull (w.e.f 1st April 2005) could not shake the market to that extent because the overall portfolio of Marine Hull was small (well within 2.5% of the GDP).

It is argued that detariffing will bring change in industry structure and bring newer avenues for growth in Indian Insurance market, where all insurers are free to decide the premium rates based on their in-house guidelines of pricing. Thus insurer and insured both will be benefited.

## 3. ROADMAP OF DETARIFFING

Detariffing process has two distinct aspects. Firstly, the change on pricing with existing policy terms / conditions and secondly, change of policy including policy wording, terms, tariff rules and regulations.

**Table 1: Detariffication Roadmap (1994-2007)**

| | | |
|---|---|---|
| AVIATION | AVIATION | AVIATION |
| LIABILITY | LIABILITY | LIABILITY |
| PA & HEALTH | PA & HEALTH | PA & HEALTH |
| MARINE CARGO | MARINE CARGO | MARINE CARGO |
| MARINE HULL | MARINE HULL | MARINE HULL |
| FIRE | FIRE | FIRE |
| ENGINEERING | ENGINEERING | ENGINEERING |
| MOTOR OD | MOTOR OD | MOTOR OD |
| MOTOR TP | MOTOR TP | MOTOR TP |
| 1994 | April 2005 | January 2007 |

▨ Tariffed

☐ Detariffed

The Insurance Regulator IRDA, to implement the process, has taken up full initiative for the preparatory phase of the said challenging task initiation for transition towards tariff free regime. On September 23, 2005, it circulated a road map to detariffing through circulation and web information in details to all general insurers to follow and remain fully prepared for de-tariff regime w.e.f. January, 2007 on its right earnest for orderly and smooth transition from a tariff regulated market to a free pricing regime. IRDA's roadmap stipulates that December 31, 2006 will be the last day for administered price regime. In a nutshell, these guidelines emphasize the importance of improved internal capabilities and procedures and need for sophisticated actuarial/statistical analysis for rating of risks. This also indicated the time schedule, detailed out the basic ground preparatory work to be attended by the insurers, particularly in the matter of preparation of internal guidelines by the respective insurers, both state owned and private, latest by 30th September 2006 for due approval by the regulator. In view of this the insurers started to gear up themselves for almost last two years with all the resources at their command to take the benefit of the situation of the tariff free regime from the very initial stages of its commencement. At this backdrop, the long-awaited and much-discussed/debated non-tariff regime started with effect from 1st January 2007. In the first place which was initiated from 1st January 2007 allowed the insurers freedom in pricing all policies except Motor TP policies. Tariff restrictions were no longer binding and the insurers were permitted to structure the premium rates on the basis of the guide tariffs filed by the individual insurance companies. However, the insurers were not permitted to vary the coverage, terms, conditions, wordings, warranties, clauses, and endorsements in respect of covers till the second phase. In the second place of detarrification which was scheduled to commence from 01.04.2008 finally took off partially from 1st January 2009. On November 6, 2008, the IRDA issued guidelines for relaxation in terms and conditions of coverage of erstwhile tariff classes of business in Fire, Engineering, Motor (OD) and Industrial All Risk (IAR) which were effective from 1st January 2009 (IRDA Journal 2009).

### 3.1. 'File & Use' Guidelines

The draft outline of 'File & Use' for the non-life products as prepared by the IRDA at the initial stages was finally consolidated with the assistance of Tariff Advisory Committee (TAC) and the Final Guidelines on 'File & Use' requirements were issued on 28th September, 2006 after giving due importance on the comments and responses from all the stakeholders. The guidelines appearing now supersede all previously issued guidelines on "File and Use" and are issued under the authority of Section 14(2)(i) of the IRDA Act, 1999 and section 34(1)(c) of the Insurance Act, 1938. These 'File & Use' Guidelines are effective from 01.11.2006.

The requirements of IRDA as per the 'File & Use' Guidelines are as under:

1. Design and rating of products must always be on sound and prudent underwriting basis and should provide clear and transparent cover that is of value to the insured;
2. All literature to the product should be in simple language and should follow a similar sequence of presentation as far as possible, for easy understanding the public, all technical terms should be sufficiently clarified for understanding by laymen;
3. The product should be genuinely an insurance of an insurable risk with a real risk transfer. Alternate Risk Transfer or financial guarantee business in any form will not be accepted;
4. The insurance product should comply with the requirements of the IRDA (Protection of Policyholders Interests) Regulations, 2002;
5. Insurers should use similar wordings for describing the same cover or the same requirement across all their products, such as clauses on renewal of insurance, basis of insurance, due diligence clause, cancellation clause, arbitration clause, etc.;

6. The pricing of products should be based on support of appropriate data and technical justification;
7. The terms and conditions of cover shall be fair between the insurer and insured;
8. Margins built into rates shall be consistent with the experience of the insurer in respect of commission, expenses of management, contingencies and profit; and
9. Insurer should confirm that it has taken necessary steps to ensure that competition will not lead to unprincipled rate cutting and other improper underwriting practices.

## 4. ROLE OF THE REGULATORS AND MANAGEMENT IN DETARIFFED SCENARIO

The objectives of regulation and supervision of the insurance sector would primarily consist of the protection of the interests of policyholders and enhancing the industry's role in supporting economic growth and the stability of the financial system. In view of the freeing of rates in all sectors of insurance and to control the adverse effects of volatility in the aftermath of detariffing, there needs to be stringent enforcement of Regulations. But the transition to non-tariff competitiveness should not disturb the tenor of orderly conduct of business by strict monitoring and rigorous enforcement of prudential norms by all concerned. It is proposed to have intensive monitoring of performance of companies and their solvency ratios. Therefore, it is expected to note the deviation of performance from plan through frequent inspections and should not spare anyone if it finds any deviations being practiced which can prove to be detrimental to the overall interests of the industry.

### 4.1. Role of Insurance Regulatory and Development Authority (IRDA)

As mentioned earlier, in this scenario, collection, compilation and analysis of sums insured, premiums and claims data with full information on risk categories and hazard factors became a necessity. To make this effective, the financial examination of the insurance companies is already on cards and procedures are being finalized at IRDA. This not only includes more intensive monitoring of performance of companies and their solvency ratios, but also strengthening of the self-regulatory mechanisms such as insurance councils and sound corporate governance at respective company levels. Greater underwriting prudence, control over expenses and improvements in claim management systems are the key value drivers for success of insurers in the aftermath of detariffing.

### 4.2. Role of Tariff Advisory Committee (TAC)

Tariff Advisory Committee, which was working under the overall supervision of IRDA to control and regulate the rates, terms and conditions that may be offered by insurers in respect of general insurance business before abolition of tariffs, except for marine-cargo (Hull recently detariffed) and various personal lines of business, will at present function as a National repository for insurance data. It is expected that TAC will concentrate on technical matters of general insurance and will play a crucial role in reviewing the industry's performance and appraising IRDA and other General Insurers of its findings/reports.

### 4.3. Importance of Corporate Governance

As the role of regulator changes to a more restricted one, corporate governance at the company level becomes the most important component determining that the insurer has the necessary strategy and the top management will to ensure a smooth shift to a non-tariff regime. According to the roadmap introduced by IRDA the underwriting philosophy of the company has to be finalized by the Board of Directors and there lies the importance of good corporate governance. Good corporate governance will determine all underwriting directions keeping in mind the best industry practices, ethical customer service parameters that offer necessary guidance against unfair practices, set benchmarks on disclosures and transparency, lay down prudent rating standards, and norms for risk acceptance and limits of authority at various levels.

### 4.4. The Insurer needs to do the following to face the stiff competition and ruthless or aggressive marketing

Under the harsh competitive market, falling premium income without a concomitant reduction in claims is likely to bring down the profits of insurance companies initially. In turn, their solvency ratios and, consequently, their international ratings would affect their reinsurance placements and underwriting capability. Conversely, customers must also be on their guard to keep an eye on the financial health of their insurance company to avoid bankruptcy, which is a common phenomenon in the international market. Following are the checklists that must be done by the non-life insurance players to face the stiff competition:

1. Judge the market behaviour that can effect solvency of the insurers;
2. Change of mindset of all involved in insurance market;
3. Adapting to the new business environment and working, with intermediaries;
4. Pricing befitting to survival in the market;
5. Product innovation to suit market requirement ;
6. Reduction of response time;
7. Remaining competitive, especially in profit making segments;
8. Consistent data capturing on multiple parameters and data accuracy;
9. Regular data transfer to corporate office to form data base;
10. Appreciation of underwriting factors and information;
11. Study the company guidelines and be up-to-date;
12. Inspection of all important risks for correct risk analysis;

13. Competitive pricing in the post detariffing regime;
14. There is need to create capacities for new emerging risks, like IT related frauds, terrorism and to minimise the dependence on reinsurance pricing (based on international claim experience).

## 5. IMPACT OF DETARIFFING ON THE BUSINESS ACTIVITIES OF NON-LIFE INSURANCE COMPANIES

According to a CRISIL study of 14 public and private sector non-life insurance companies, underwriting losses will increase after detariffing. CRISIL also expects the core business operations of industry players to remain unprofitable over the medium term in the post detariff regime. Mr. Kamesh Goyal, chief executive officer of Bajaj Allianz General Insurance, said to an interview to The Economic Times (July 4, 2006), "This has been the experience world over. Underwriting profits have dipped every time a country migrated from a tariffed regime to a detariffed one. China, Australia, Germany and Italy are glaring examples of this. Prices as well as underwriting profits dipped immediately after these markets were detariffed." The tables given below (Table 2) shows that Indian experience is also not an exception from this.

**Table 2: Segment-wise Premium Underwritten (within India) by Non-life Insurers (Rs. Crore)**

| Segment | 2006-07 | | 2007-08 | |
|---|---|---|---|---|
| | Amount | % of Total | Amount | % of Total |
| Fire | 4132 | 16.59 | 3459 | 12.43 |
| Marine | 1628 | 6.54 | 1799 | 6.47 |
| Motor | 10697 | 42.95 | 12685 | 45.59 |
| Health | 3319 | 13.29 | 4894 | 17.59 |
| Others | 5129 | 20.63 | 4986 | 17.92 |
| Total | 24905 | 100.00 | 27823 | 100.00 |

Source : IRDA Annual Report 2007-08

Table 2 shows that premium collection in Health has increased in 2007-08 from its level in 2006-07. Health premium contribution to the total in 2007-08 was 17.59 per cent of the total premium in 2007-08 as against 13.33 per cent in 2006-07. Motor and Health portfolios together constituted 63.18 per cent in the total premium as against 56.28 per cent in 2006-07. Marine segment contributed the least at 6.47 per cent in 2007-08.

## Table 3: Company-wise Gross Premium Underwritten within India and Market Share

| Company | Premium (Rs.Crore) | | Market Share (In per cent) | |
|---|---|---|---|---|
| | 2006-07 | 2007-08 | 2006-07 | 2007-08 |
| NATIONAL | 3814.42 | 4007.23 | 15.32 | 14.40 |
| NEW INDIA | 5017.20 | 5276.92 | 20.14 | 18.97 |
| ORIENTAL | 3928.52 | 3808.14 | 15.77 | 13.68 |
| UNITED | 3498.77 | 3739.56 | 14.05 | 13.44 |
| **Public** | **16258.91** | **16831.85** | **65.28** | **60.49** |
| ROYAL SUNDARAM | 598.20 | 694.41 | 2.40 | 2.50 |
| RELIANCE | 912.23 | 1946.42 | 3.66 | 7.00 |
| IFFCO-TOKIO | 1144.47 | 1128.15 | 4.60 | 4.05 |
| TATA AIG | 710.55 | 782.64 | 2.85 | 2.81 |
| ICICI LOMBARD | 2989.07 | 3307.12 | 12.01 | 11.89 |
| BAJAJ ALLIANZ | 1786.34 | 2379.92 | 7.17 | 8.55 |
| CHOLAMANDALAM | 311.73 | 522.34 | 1.25 | 1.88 |
| HDFC CHUBB | 194.00 | 220.60 | 0.78 | 0.79 |
| FUTURE GENERALI | 0.00 | 9.81 | 0.00 | 0.04 |
| UNIVERSAL SOMPO | 0.00 | 0.48 | 0.00 | 0.00 |
| **Private** | **8646.59** | **10991.89** | **34.72** | **39.51** |
| **Total** | **24905.50** | **27823.74** | **100.00** | **100.00** |

Source : IRDA Annual Report 2007-08

The general insurance companies have underwritten a total premium (Table 3) of Rs.27823.74 crore in 2007-08 as against Rs.24905.50 crore in 2006-07 exhibiting a growth rate of 11.72 per cent. The four public sector insurers have underwritten a premium of Rs.16831.85 crore in 2007-08 as against Rs.16258.91 crore in 2006-07 registering a growth of 3.52 per cent. The comparatively lower growth rate for the public insurers needs to be seen in the light of their high base. Whereas, the premium underwritten by 10 private sector insurers in 2007-08 was Rs.10991.89 crore as against Rs.8646.59 crore in 2006-07 exhibiting a growth of 27.12 per cent.

The general insurance industry has added Rs.2918.27 crore in premium during the year 2007-08, of which public insurers contributed Rs.572.94 crore and the private insurers Rs.2345.32 crore. The increase in premiums was witnessed across all the public sector companies except Oriental. New India has added the highest premium of Rs. 259.72 crore followed by United India and National Insurance at Rs.240.79 crore and Rs.192.81 crore respectively. Oriental Insurance has shown a decline in its premium by Rs.120.38 crore. All the private insurers have reported increase in premiums during 2007-08. Reliance has added premium of Rs.1034.19 crore, and registered a growth of 113.36 over the previous year. Bajaj Allianz has added Rs.593.58 crore followed by ICICI Lombard with Rs.318.05 crore added to their earlier premium levels.

The private insurers are increasing their market share over the past few years (Table 3). In 2007-08, the private insurers had a market share of 39.51 per cent which was higher than 34.72 per cent in 2006-07. As a consequence, there has been a decline in the market share of the public insurers to 60.49 per cent in 2007-08 from 65.28 per cent in the previous year. Despite the decline in the market share of the public sector insurance companies, the volume of premium underwritten by them has increased over the previous year reflecting the expansion of general insurance market. This growth in the volume of business needs to be viewed in the background of 2007-08 being the first full year of complete detariffing of the general insurance. Among the public sector insurers, New India had the largest market share at 18.97 per cent in 2007-08, lower than its market share of 20.14 per cent in the previous year. Oriental Insurance, National Insurance and United India Insurance had market shares at 13.68 per cent, 14.40 per cent and 13.44 per cent respectively as against 15.77 per cent, 15.32 per cent and 14.05 per cent in the previous year.

Though the net worth employed in the industry being Rs 18,000 crore, the Table 4 shows that total underwriting losses incurred by the public and private sector insurers during the year 2007-08 increased to Rs.3899.49 crore from Rs.2557.54 crore in 2006-07 in a year span, since the market was detariffed in 2007. Moreover, as cross subsidy between the profit making segment such as Fire Insurance and loss making segments such as Health and Marine Insurance could not be possible due to abolition of regulated tariff where rate of premium of Fire Insurance was artificially high than that of Health and Marine Insurance. The public sector insurers during the year 2007-08 have incurred underwriting losses to the tune of Rs.3300.59 crore as against Rs. 2451.12 crore in 2006-07. As a percentage of net premium, the underwriting losses have increased to 23.81 per cent in 2007-08 from 18.83 per cent in 2006-07. This ratio ranged between 2.19 and 28.55 per cent across the private insurance companies (2007-08). In 2006-07, this ratio was in the range of 1.43 to 12.53 per cent. For the public sector insurers the ratio of underwriting losses to net premium (2007-08) ranged between 17.55 and 31.58 per cent (14.38 and 30.80 per cent in 2006-07).

**Table 4: Gross Premium Underwritten within India, Underwriting Loss and Net Profit (Rs. in Crore)**

| Company | Gross Premium | | Underwriting loss | | Net Profit | |
|---|---|---|---|---|---|---|
| | 06-07 | 07-08 | 06-07 | 07-08 | 06-07 | 07-08 |
| New India | 5017.20 | 5276.92 | (652) | (844) | 1460 | 1401 |
| National | 3814.42 | 4007.23 | (546) | (922) | 421 | 163 |
| UIIC | 3498.77 | 3739.56 | (731) | (853) | 529 | 631 |
| Oriental | 3928.52 | 3808.14 | (522) | (681) | 497 | 7 |
| Total | 16258.91 | 16831.85 | (2451) | (3300) | 2907 | 2205 |
| Pvt. Sector | 8646.59 | 10991.89 | (107) | (599) | 230 | 61 |
| Total | 24905.50 | 27823.74 | (2557) | (3899) | 3137 | 2266 |

Source: IRDA Handbook

A significant increase in underwriting losses was observed (Table 4) across all the four public sector insurers, causing a concern. The underwriting losses of National Insurance were 30.54 (19.73 in 2006-07); followed by New India at 17.55 (14.38); United India 31.58 (30.80) and Oriental Insurance at 23.67 (19.40). It may be mentioned that the underwriting losses of National Insurance has roughly doubled from Rs.546.17 crore in 2006-07 to Rs.921.90 crore in 2007-08. New India reported underwriting profits in the Fire Segment; Oriental and National reported underwriting losses in all three segments – Fire, Marine and Miscellaneous as against profits in Fire Segment in 2006-07; United India too reported underwriting losses in the three segments as in the year 2006-07. All the private insurers, except the new entrants Future Generali and Universal Sompo, registered profits in the Fire Segment in 2007-08. In the Marine and Miscellaneous segments, all the private insurers reported losses in 2007-08. In the previous year, only Royal Sundaram reported a profit of Rs. 1.17 crore in the Marine Segment.

The private sector insurers have also registered an increase in underwriting losses from Rs.106.42 crore in 2006-07 to Rs598.90 crore in 2007-08. These losses constituted about 8.37 per cent of the net premium underwritten in 2007-08 as against 2.28 per cent in 2006-07. In effect, all the companies have reported an increase in underwriting losses during the year 2007-08.

Public sectors contributed to the loss by Rs.1840 crore and the private sector by Rs.440 crore causing dwindling of net profit of the industry after taxes to Rs.960 crore from Rs.3137 crore two years earlier. This depicts a staggering loss and can be attributed hugely to detariffing.

The general performance of non-life insurance companies has also been affected due to detariffing. The performance of the insurers in the stock market is affected and taxation issues have affected the bottom-line. The fall in the bottom line by Rs.1350 crore in 2008-09 is a serious reflection of the total performance of the insurers.

In spite of temporary setback due to transitional effect of detariffing, according to world experience the insurance industry will bounce back to the normalcy through better risk management, expansion of market and innovation of new products.

## 6. CONCLUSION

Complete detariffing will not only transform the industry from a regulated to a competitive environment, it will enable better allocation of resources, resulting in wealth creation for the individual, the community and the country as a whole. Customers will get an opportunity to select a good product at a competitive price and at the same time will be benefited from a much wider choice of products in the baskets of various insurers. The customers need to ensure that product being bought is the one they are looking for and also need to check coverage/perils granted to them and the exclusions imposed on their insurance policy vividly in each case. The insured should not only go for the chipset cover but look for the credibility, experience and standing of the insurance company and as well as the strength/ indemnity limit of the policy issued to them. Detariffing can prove to be advantageous to all as it is expected to encourage scientific rating and adoption of better risk management practices; eliminate cross-subsidization leading to independent pricing for each line of business; develop innovative practice and generating customer-friendly options for the policyholders; and encourage policyholders to invest in claim controlling and loss minimizing, etc. Detariffing is also expected to bring substantial market expansion and focused penetration together with technology upgradation and fine-tuned to international standards. New and innovative products would make their presence felt, along with improved focus on customers and better service on global standards. Tariff and liberalisation are antithesis of each other. We cannot continue to remain under a tariff regime for long. Therefore, the adoption of the policy of detariffing is the right step to take the industry to the next level of maturity so that we do not lag behind internationally and the industry is accepted and respected globally. •

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# Linkage between Poverty, Livelihood and Environment: Evidences from Borabaribara Santhal Village, Garhbeta II Block, West Medinipur

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ABSTRACT: The link between environment and other economic attributes is highly complex and region specific be it a plain, watershed, basin or forest. Environment and economy are so intricately interconnected and interdependent that economic wellbeing cannot be studied in isolation as productivity is the result of human action on stocks drawn from nature. The whole scenario becomes even more complex when we try to understand the role of tribal population who exploit nature, for livelihood due to embarrassing poverty and in turn constant pressure on environment minimizes their sources of livelihood resulting in poverty. Thus, the tribals are trapped within a vicious circle of misery. This paper would try to focus on the poverty and livelihood issues of Santhals dwelling in forest of West Medinipur.

Key Words : *Poverty, Environment, Livelihood, Vicious Circle, Degradation*

## 1. INTRODUCTION

West Bengal is the home of many tribal groups like Santhals, Toto, Mundas, Loadhs, etc., who mainly dwell in inaccessible geographical locations like hills, forests, valleys. But more than the geographical location economic situation of these adivasis are

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deplorable as they stay in the midst of acute poverty, deficient nutrition, scarce employment, chronic diseases, persistent illiteracy and deteriorating natural resources. Borabaribara village is a glaring example of the deplorable condition of the Santhals living here. Since environment is the only source of livelihood for these tribes, exploitation of the forests is a compulsion for the santhals. However, the excessive exploitation of the forest and its resources beyond its natural regeneration capacity has brought with it acute poverty and chronic misery. Lack of education and remoteness from the civilized world has made matters worse. They are cheated and economically exploited by middlemen. Many policies have been framed, but implementation of the policies is still very sluggish.

## 2. LITERATURE REVIEW

Agarwal (1985) focuses that women spent greater time in collection of natural resource which takes a toll on her body and mind. Women give very less time on nutrition, health and education of their children. Acharya (1997) focuses on the intrinsic relationship between women and nature. He also opines that since women depend mainly on nature for their livelihood in rural areas, any degradation of nature curtails her interaction with nature. Dasgupta (2003) tries to establish the "Poverty-Environment-Poverty" nexus with his inverted U-shaped relation. Mukherjee and Chattopadhyay (2005) in their study has argued that alternative livelihood can reduce the propensity of tribals to cling to the forests. Gupta and Guha (2007) argued how environmental degradation creates uneven burden for the females. Depletion of natural resources affects the availability of fuel, fodder and other products. According to Kadekodi (2007), there is a relationship between population growth and environmental degradation which is further related to enhancing poverty. Increasing poverty has a negative influence on the environment and the deterioration of natural environment minimizes the options of livelihood.

## 3. PROFILE OF SANTHALS

According to the District-wise Scheduled Tribe Population Distribution, Census 2001, West Medinipur ranks the fourth highest district in tribal population after Jalpaiguri (18.87%), followed by Purulia (18.27%), S. Dinajpur (16.12%) and West Medinipur (14.87%). Out of the 4406794 scheduled tribe population of West Bengal, West Medinipur's scheduled tribe population is 772177 and 14.87% of West Medinipur's population are of tribal origin.

Santhals are considered as one of the rich tribal groups. Majority of them dwell in West Medinipur District in West Bengal. The santhal tribes are situated in a scattered fashion in the pristine sal forests of this district. Their increasing growth rate has resulted into heavy pressure on land and natural resources of the forest making these areas fragile and ecologically deplorable. Santhal Tribes constitute almost 54% of total schedule tribe population of the state. Medinipur comprises the highest Santhal population of 13,33,107 in West Bengal. Table 2 shows the total population of all the districts of West Bengal and the percentage of ST population in each district

### Table 1: Total Population, Population of Scheduled Tribes and their Proportions to the Total Population

| District/State/Country | Total Population | Scheduled Tribe Population | % of ST Population |
|---|---|---|---|
| West Medinipur | 5193411 | 772177 | 14.87 |
| West Bengal | 80176197 | 4406794 | 5.50 |
| India | 1028610328 | 84326240 | 8.2 |

Source: Census 2001

### Table 2: District-wise Scheduled Tribe (ST) Population Distribution: 2001 Census

| District | Total Population | ST Population | % of ST |
|---|---|---|---|
| West Bengal | 801761979 | 4406794 | 5.50 |
| Darjeeling | 1609172 | 204167 | 12.69 |
| Jalpaiguri | 3401173 | 641688 | 18.87 |
| Koochbihar | 2479155 | 14246 | 0.57 |
| Uttar Dinajpur | 2441794 | 124865 | 5.11 |
| Dakhin Dinajpur | 1503178 | 242317 | 16.12 |
| Maldah | 3290468 | 227047 | 6.90 |
| Murshidabud | 5866569 | 75953 | 1.29 |
| Birbhum | 3015422 | 203127 | 6.74 |
| Bardwan | 6895514 | 441832 | 6.41 |
| Nadia | 4604827 | 113891 | 2.47 |
| 24 Parganas(N) | 8934286 | 198936 | 2.23 |
| Hooghly | 5041976 | 212062 | 4.21 |
| Bankura | 3192695 | 330783 | 10.36 |
| Purulia | 2536516 | 463452 | 18.27 |
| Purba Medinipur | 4417317 | 26504 | 0.60 |
| Paschim Medinipur | 5193411 | 772177 | 14.87 |
| Haora | 4273099 | 19168 | 0.45 |
| Kolkata | 4572876 | 9810 | 0.21 |
| 24 Parganas(S) | 6906689 | 84766 | 1.23 |

Source: Census 2001

At Borabaribara total population is merely 131, male population is 71 and female population is 60. Males outnumber females in this village. Scheduled caste population is non - existent in this village. Santhal Tribe is the dominant group here leaving in a state of complete isolation from rest of the world.

**Table 3: Total Population, Schedule Caste Population, Schedule Tribe Population at Borabaribara**

| Total Population | Total Male Population | Total Female Population | Total SC Population | Male SC Population | Female SC Population | Total ST Population | Male ST Population | Female ST Population |
|---|---|---|---|---|---|---|---|---|
| 131 | 71 | 60 | 0 | 0 | 0 | 131 | 71 | 60 |

Source: Village Directory of Pschim Medinipur, 2001

## 4. RESEARCH DESIGN

### 4.1. Study Area

Borabaribara village is a santhal dominated village of total area being 37 hectares. People are located amidst the dense forest of sal trees in West Medinipur. Shilabati is a perennial river that flows through West Medinipur, originating from Chotanagpur plateau criss-crossing this area. While in the forest across the Shilabati the Santhals reign in the remoteness, which is rich in resources. These tribals reside in the interiors of the dense forest – their sole possession. They reside in the most deplorable situation of unending poverty and endemic jaundice and malaria. Fluctuation of climate, alternate flooding and drought makes livelihood further complicated.

### 4.2. Data and Methodology

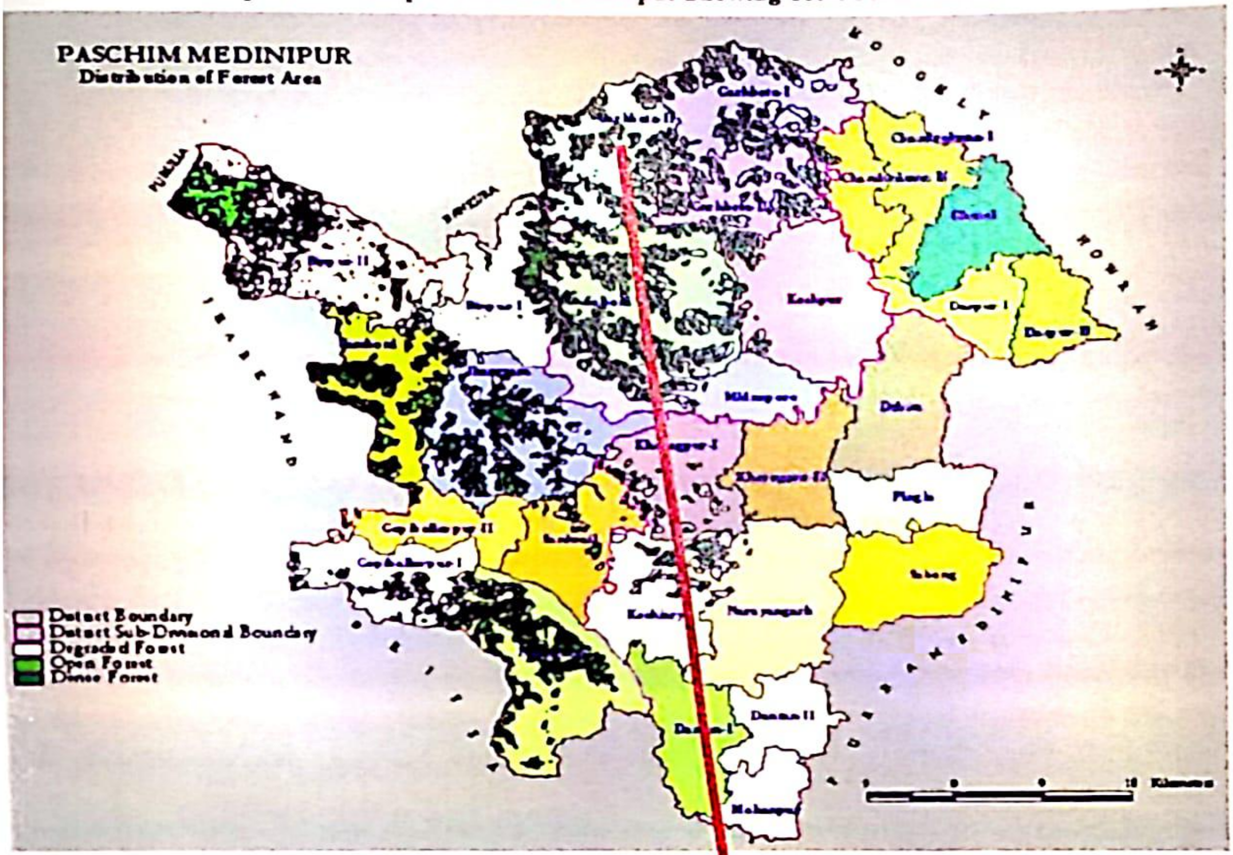
The data for the study has been gleaned from various sources, like Census of India, State of Forest Report, 2001, Local Gram Panchayat, NREGA office, Local Hospital, Etc. Door to door survey has been conducted with the help of schedules. Focused group discussion was also carried out.

## 5. SURVEY FINDINGS AND ANALYSIS

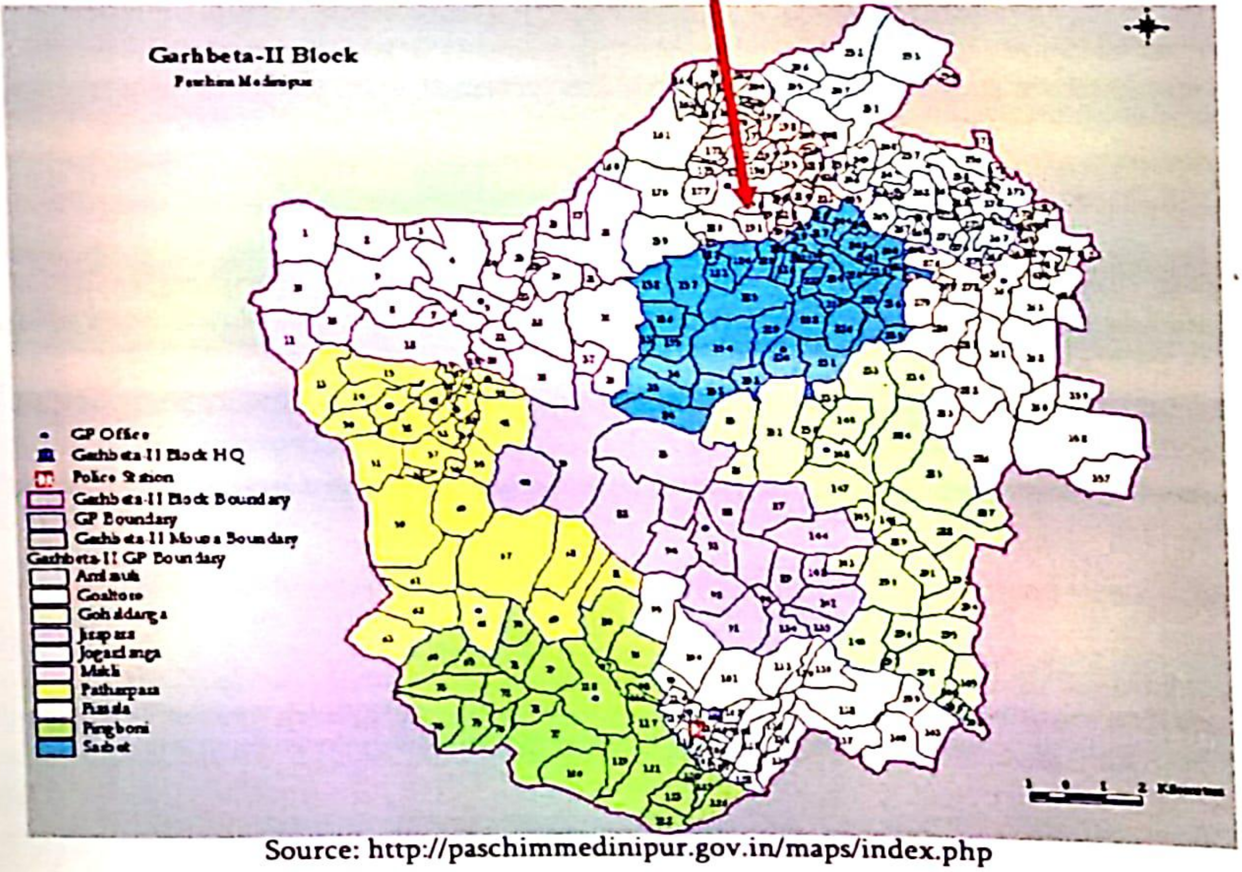
### 5.1. Sources of Livelihood

The santhals of Borabaribara village are completely dependent on agriculture as the major source of livelihood which accounts for 85% of total household income. The households derive their income from very narrow range of sources thanks to jagged development. Wages and salaries has always been perceived as the reliable source of income of any household but

**Map 1: Block Map of Paschim Medinipur Showing Total Forest Cover**



**Map 2: Garhbeta II Block Map showing the Study Area Borabaribara at Amlasuli Gram Panchayet**



Source: http://paschimmedinipur.gov.in/maps/index.php in this village Santhals cultivate to sustain and feed their family members and remunerative income is unimaginable for them. There is also dearth of household business which could contribute in the overall family income as the men are reluctant in performing any occupation except cultivation and livestock ranching. However, some Santhal families recently have started small businesses, like making artifacts, match-boxes, leaf-dishes, which has proved to be rewarding and contributes to 18% of their total income.

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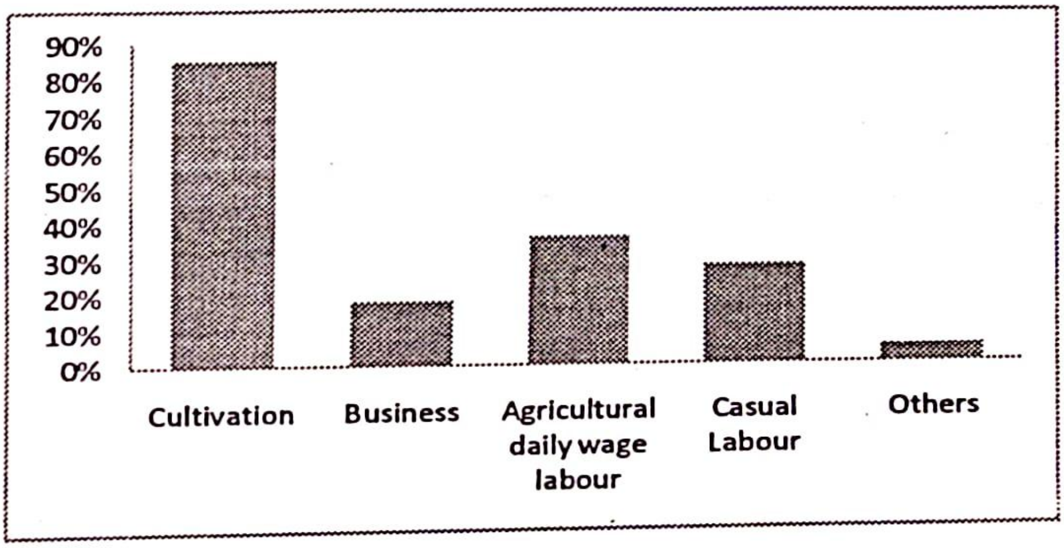
Rest of the income is drawn by selling forest products by the females. Income from property, dividend and pension are absent. Since agriculture is affected by the seasonality of climate more than a quarter of the household (28%) work as casual labours at building sites, hospitals, etc. and these wages account for 36% of household income during slack period. Although majority of the Santhals have managed to acquire some pieces of land, some Santhals have no land of their own and work as agricultural daily wage laboures on vested lands. Absentee landlords have hindered the regular flow of wage of these Santhals. Small landholdings have restricted productivity on these lands. Government support can prove to be an income supplement for the Santhals like 'old age and widow pension' but none of the tribals has been assisted till date with such government support.

### 5.2. Agricultural Income and Wages

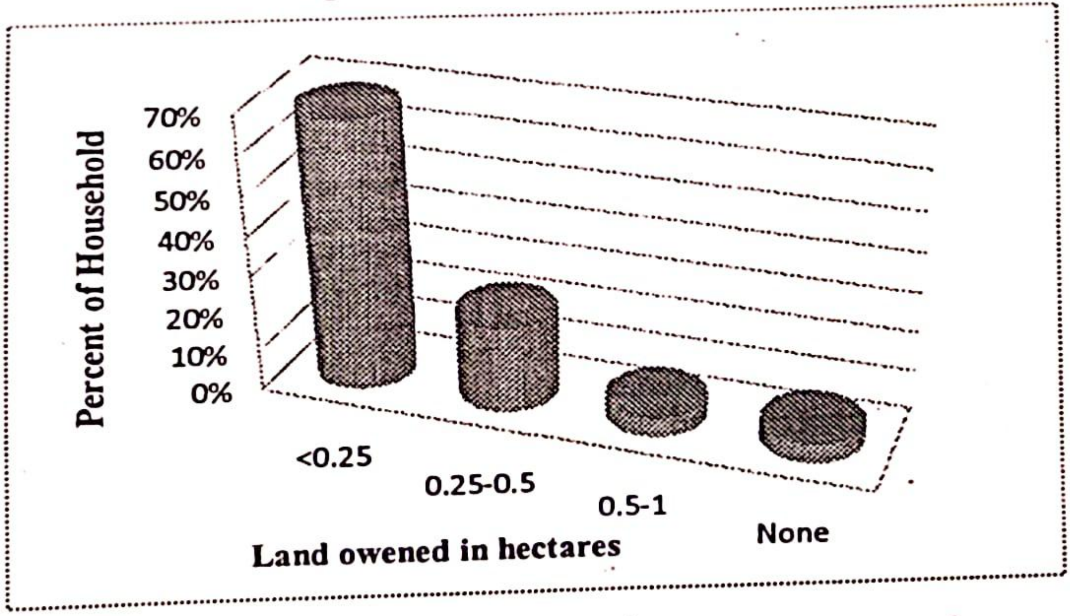
Agriculture is the principal sector offering employment and subsistence to rural and tribal households of West Medinipur which has been identified as an agro climatic zone of lateritic soil. Santhals of this particular village sustain on cultivation on a sedentary basis. They practiced shifting cultivation and hunting in the past but gradually they have switched to settled form of cultivation. The income levels here are relatively low from farm income and livestock rearing. One of the inevitable reasons for the same is small land size. Santhals have cleared small tracts of land by sheding of trees in the forest for cultivation leading to massive deforestation and extinction of some rare species. The land holdings are undersized for cultivation and even less than 1 hectare. They do not have any legal ownership of land. The Santhals live with the fear of displacement from the forests that has sustained them from time immemorial as huge tract of forest are under the forest department's authority. Vulnerability of these tribals are paramount due to lack of irrigation. Irrigation often increases yield and enhances multiple cropping but the only source of irrigation water here is monsoon, which often delays or fails due to its erratic behaviour resulting in crop failure. Electricity has not yet stepped in this village; therefore, electric water pump still remains unattainable option to the Santhals.

**Fig 1: Percent of Household Drawing Income from Various Sources**



Source: Primary Survey

**Fig 2: Size of Land Holding**



Source: Primary Survey

## Photo 1: Vegetables Grown at Borabaribara

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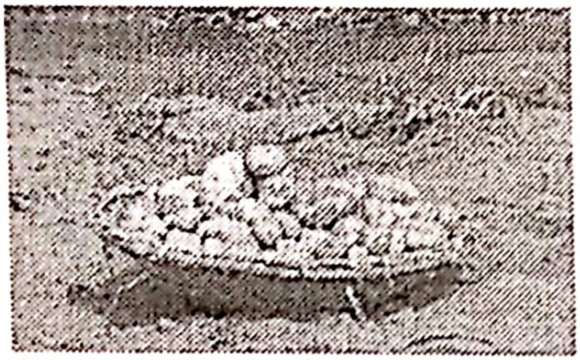
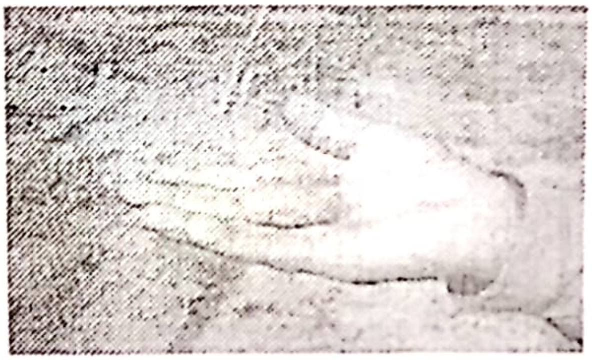
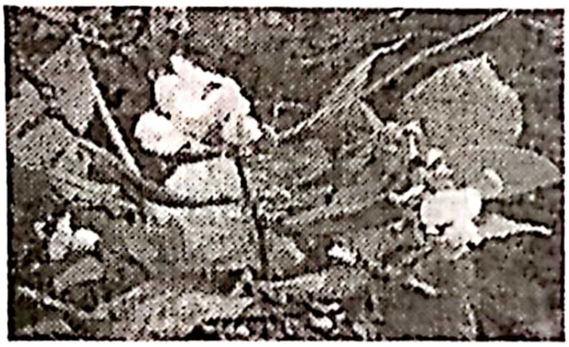
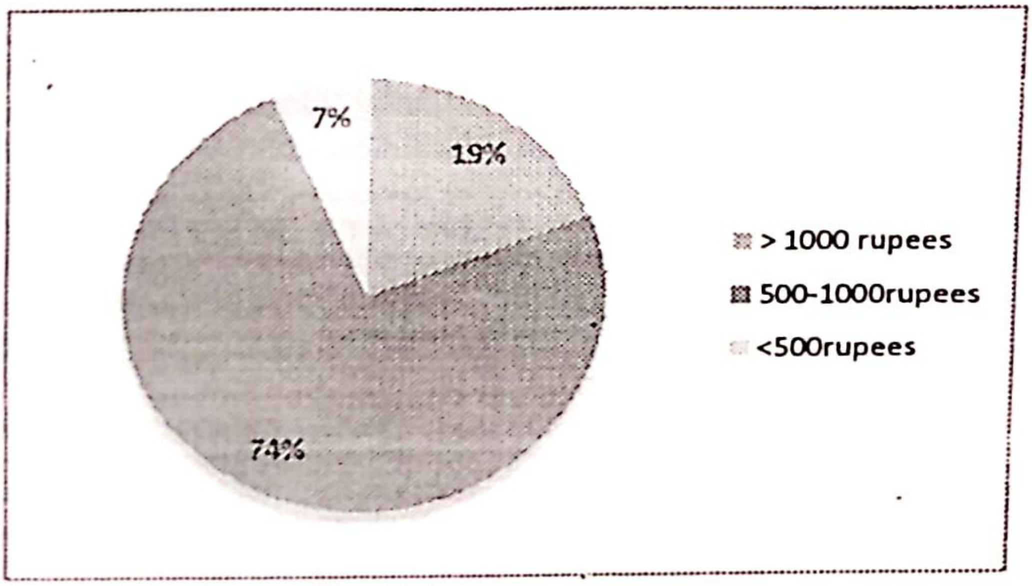
|  |  |
| Tribals are paid only Rs.10 for one sac of potatoes. | Kundri is sold for Rs.5 per kg while its market price is Rs.25 per kg. |
|  |  |
| The cultivation of green beans are hampered due to lack of irrigation facilities and poor quality of seed though this plant has the property of fixing nitrogen in the soil. | Cabbages are sold at Rs.2 while its market price is Rs.10-12. Cabbages are affected by insects. Government do not provide any insecticide at a subsidised rate. |

80% percent of the santhals here prefer multiple-cropping, like rice, cabbages, kundri, beans and potatoes. These vegetables are sold to the mahajans at the roadside market.

They are paid Rs.2 for one cabbage, its market price being Rs 10-12. For collecting one sac-full of potatoes from the field, the agricultural labourers are paid Rs.10. Hence, children are also engaged to accompany the adults to collect maximum number of potatoes possible and earn at least Rs.50 a day. As the civilized world is becoming mechanized, the manually working tribals are becoming marginalized. During lean season, some tribals working as casual labours at construction sites receive payment on hourly basis and not daily basis. The average monthly income of santhals in this village is Rs.1000 which they earn by selling agricultural and forest products.

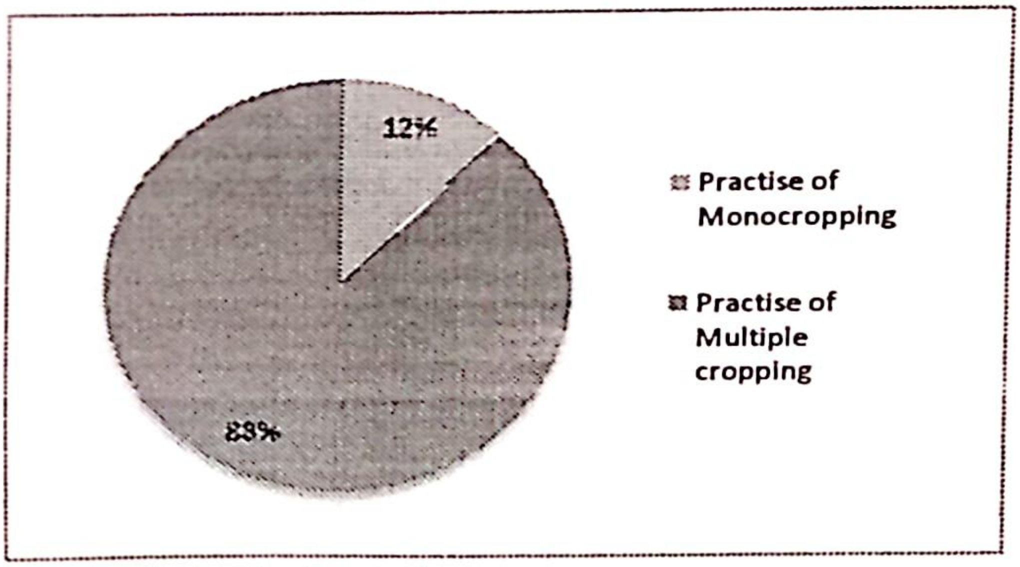
Santhals also depend on non-timber forest products, like wild mushrooms, medicinal plants and honey on which the forest department exercise control. Seeds are not provided at all or it is provided after the sowing season. Another means of livelihood is collecting leaves from forest and drying them. These leaves are bought by the mahajans at Rs.2 per sac for making food plates made of leaf. However, the mahajans do not provide the tribals with plate making machines as the cost of plates will be more than leaves.

Fig 3: Monthly Income of Household



Source: Based on Primary Survey

Fig 4: Type of Cropping

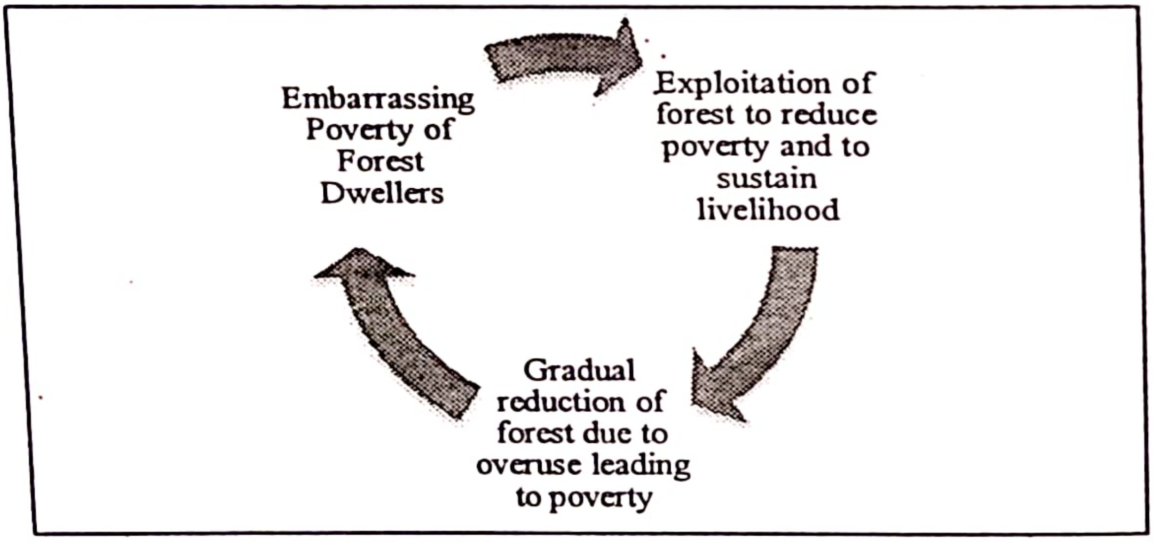


Source: Based on Primary Survey

### 5.3. Tribal Poverty and Environment

Poverty is both a cause and effect of environmental degradation. Environmental dilapidation has emerged in this village due to chronic and appalling poverty as the natural resources are being used against their natural regeneration capacity (Dasgupta 2003). This is posing threat to life sustenance of the santhals of this village. As there is minimal attempt of development at agricultural and social level, the resource exhaustion will continue in the future. The land use base is deteriorating with passing years due to excessive pressure on forest cleared land (Kadekodi 2007). Due to lack of alternative livelihood sources, the population here is deeply dependant on land for agriculture and forest products. Intensive cultivation of land has resulted into high incidence of land erosion. Fertile lands of the forest are constantly losing its fertility leading to deterioration of the quality of agricultural products. Santhals of this village are forced to cut trees for timber and fuels. Consequently massive deforestation has cropped up. This situation leads to dire poverty and destitution of the santhals here. Vulnerabilities of the santhals are due to inequalities of education and income from the urban counterpart. Poverty augments due to excessive pressure on forest land for cultivation and forest products which gives less returns. 90% of the population lives below poverty line. Although all the santhals here are provided with voter card, none of them have BPL card.

**Diagram 1: Vicious Circle of Misery of Santhals at Borabaribara**



### 5.4. Proposed Regional Strategies for Enhancement of Livelihood Based on Natural Resource

In spite of abundance of natural resources, Borabaribara village is one of the poorest villages of Medinipur district. The poverty in this village also exhibit poor socio-economic indicators. The tribes of this village rightly fall within the preview of 'Have nots' class of Marxian Model where they are exploited and the lions share is enjoyed by the middlemen and mahajans. Considering these, strategies for alternative livelihood and release of burden over forest might break their vicious circle of misery.

For the purpose of suggesting alternative livelihood strategies, the entire village can be divided into four zones based on three criteria:

1. Availability of Forest Products. → Core area of village
2. Availability of agricultural land in total land → Outer area of village
3. Irrigation Coverage

Zone A- This zone is characterized by agricultural land with potential for irrigation coverage. This area has the possibility of agricultural intensification through superior water control strategies and agricultural diversification. Creation of farm ponds will help in ground water recharge. Agricultural intensification can be done by provision of small dug wells, connectivity of irrigation canals with Shilabati River. This will provide supplemental irrigation to paddy resulting in enhancement of paddy crops and higher income for tribals.

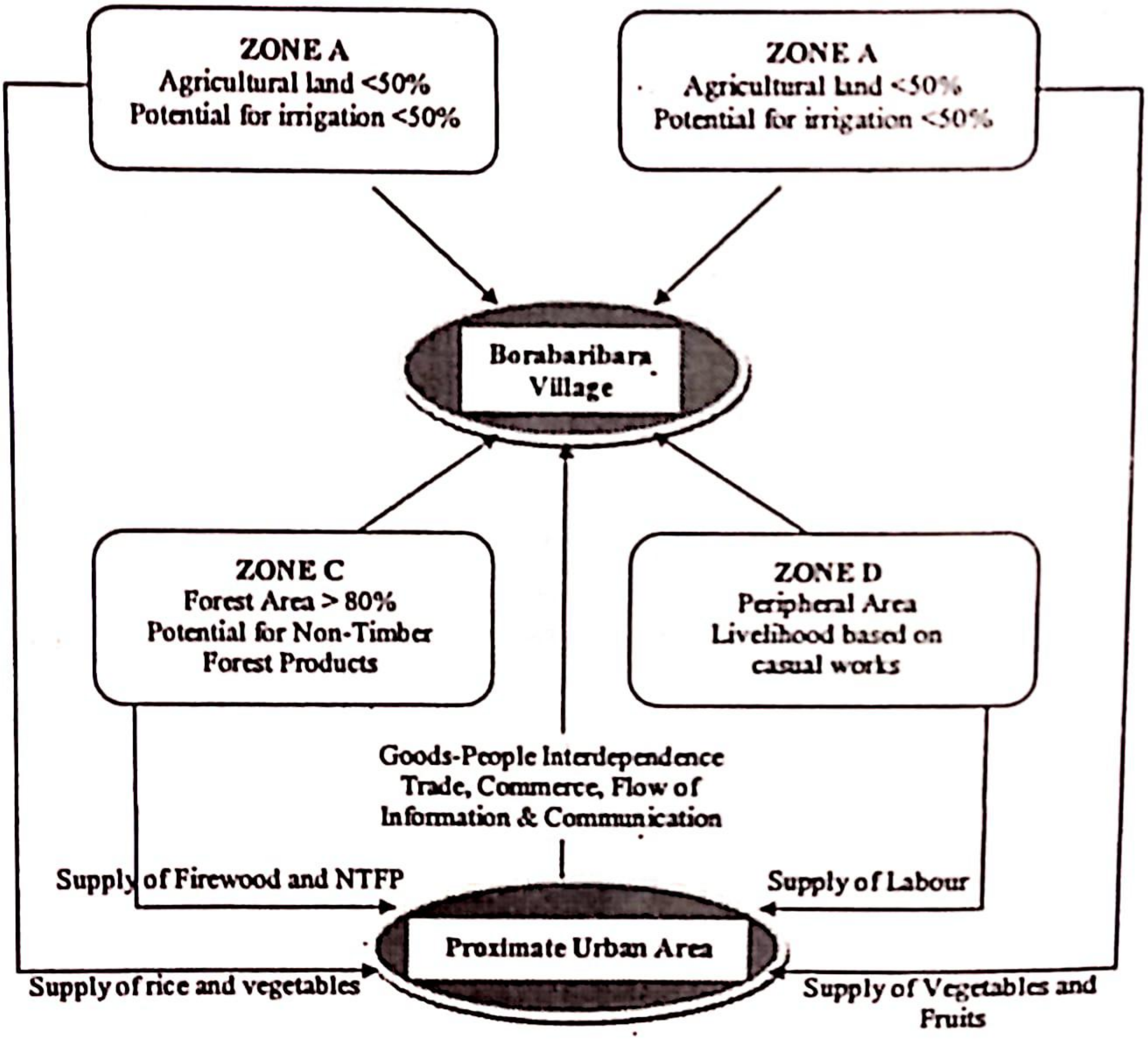
Zone-B- This zone of the village suffers from low irrigation coverage and hence low yield. Here agriculture can be improved by rain water harvesting methods, construction of low seepage farm tanks, shallow wells and deep wells. Fruit trees can be alternatively grown with vegetables.

Zone-C- This region is mainly the forest dominated area. The forest resources can be utilized for livelihood. Besides the agricultural productivity, forest products acts as an income supplement. Initiatives should be taken from Government and local NGO's for sustainable collection of Non-Timber Forest Products (NTFP), processing of the products and Packaging which might provide alternative livelihood sources to these inhabitants. This zone can prove to be highly potential in terms of marketing of NTFP and will also ensure tribal women's empowerment. Community Institutions, Self Helf Groups, Co-operatives and Government should involve to assist the tribals in trade of multiple NTFP to the consumer market.

Zone-D- This zone is the peripheral area of the village and at close proximity to the urban area. During slack periods of cultivation, the tribals can be provided with 200 days work, absorbed in various projects of NREGA, roads and highways construction, building sites, construction of canals and check dams, etc. These alternative employments will reduce over-independence on agriculture and forest products.

Diagram 2 explains the greater linkage between tribal area and proximate urban area. A planned strategy for alternative sources of livelihood, sustainable land use, irrigation coverage, variation in crop cultivation and migration of labour will reduce the poverty and remoteness of the tribals in this village and enhance commercialization, flow of communication, exchange of goods, technology and cultural traits.

**Diagram 2: Hypothetical Model showing Regional Strategies of Livelihood at Borabaribara and Linkage with Proximate Urban Area**



### 5.5. Environmental Degradation and Implication on Santhal Women

The impact of environmental degradation is profound on women. Tribal women bear the brunt. As poverty and environment degrades, status of women depletes. Acute poverty causes deterioration in living standards of women (Acharya 1997). Even in this tribal society women are subjected to various socio-economic discriminations like property rights, nutrition and education. In this village the males outnumber females. Females cannot have rights on land; they did not get any share on landed property. Santhal women are compelled by their poverty to penetrate into the interiors of the forest to get firewood. 84% of the women are physically abused by their male counterparts. On the nutritional scale also the females and children are the sufferers. Over 20% of the pregnant women are engaged in sedentary activity. All the deliveries occur at home. 78% of the women feel the hospital is too far, 70% of them face restriction from families and find the charges of delivering at hospital to be too costly for them. These women become susceptible to environmental degradation which means meager food intake. Women have the double work burden and perform all domestic works apart from cultivation and gathering forest products (Agarwal 1985). Most female children work as child labours.

Fig 5: Major Causes of Delivary at Home

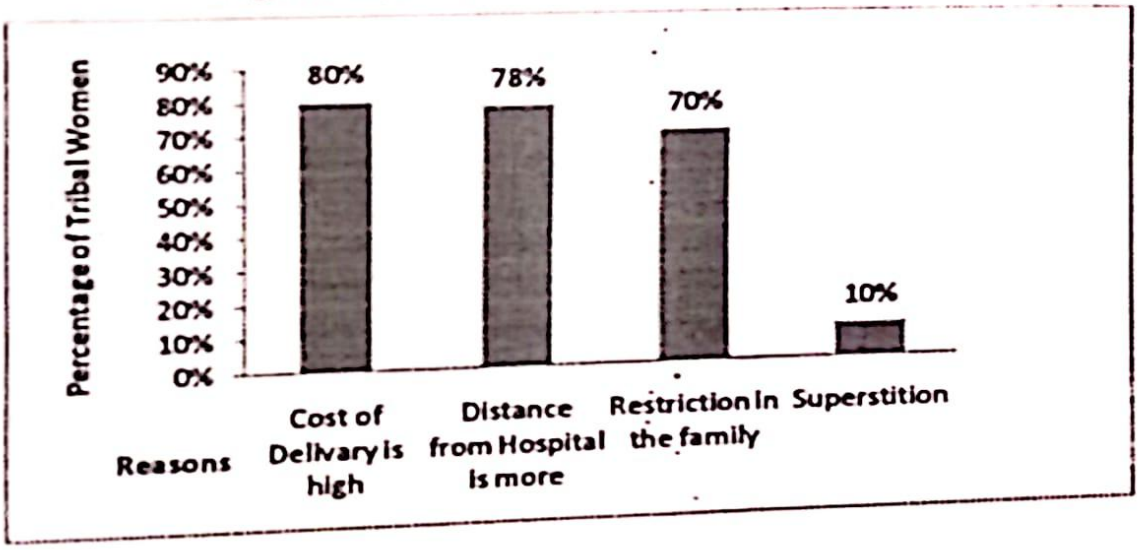
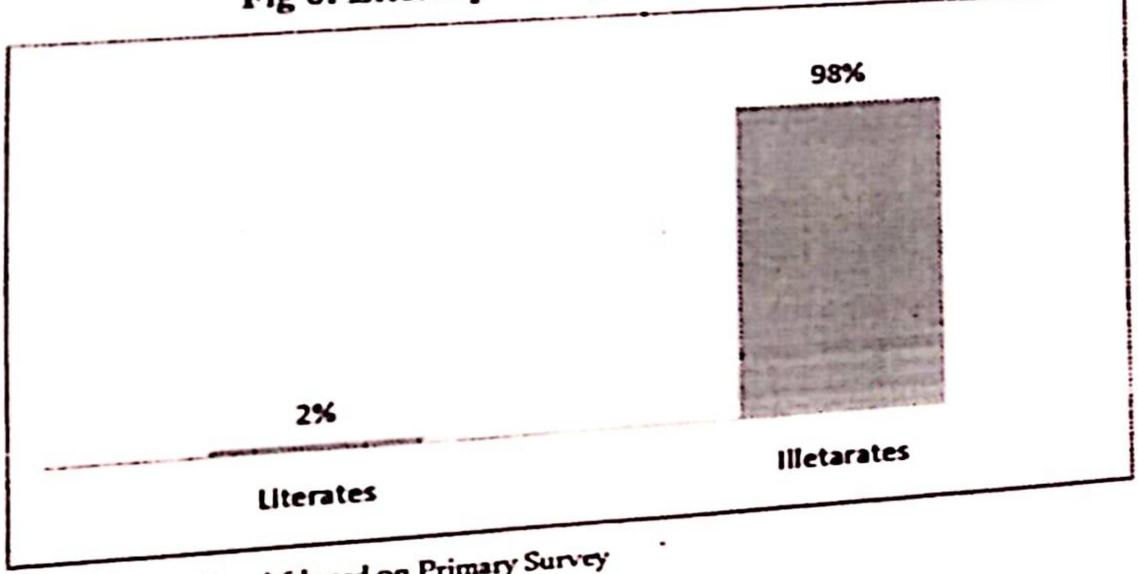
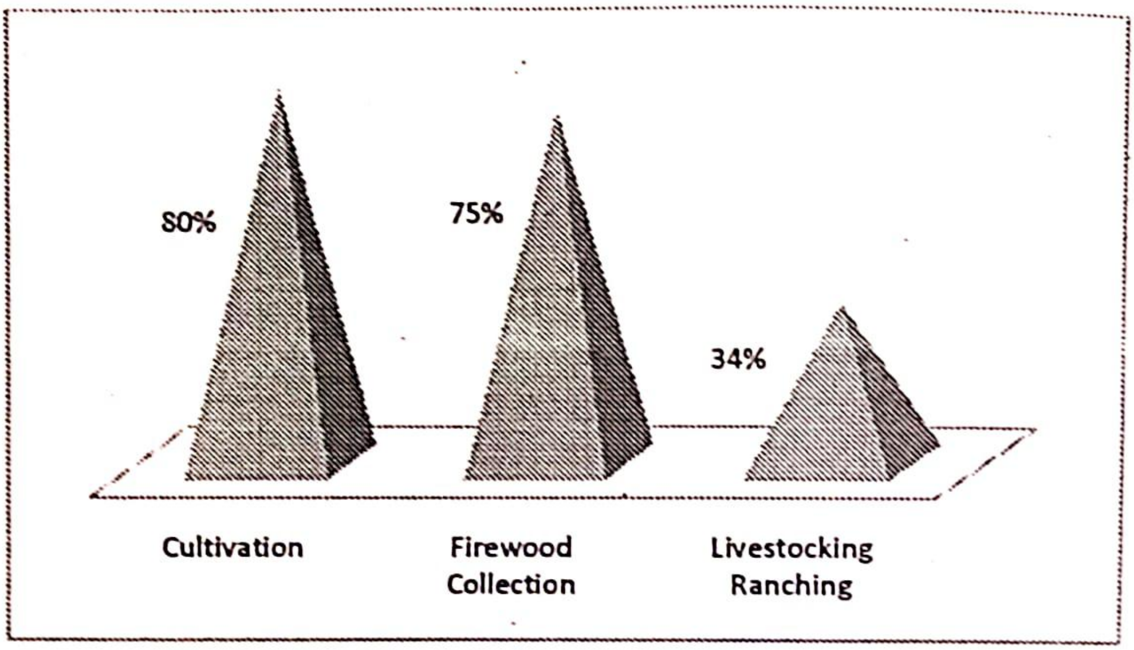


Fig 6: Literacy among Santhal Women



Source: Fig. 5 and 6 based on Primary Survey

Fig 7: Nature of Work Performed by Tribal Women



Source: Based on Primary Survey

Almost 8 to 10 hours are spent by females in household activities. Females often spent time in animal grazing, fetching water, collecting fodder and fuel. With degradation of environment and increased poverty women have to spend much more time in these tasks which takes a toll on their body and mind. Deterioration of physical environment leads to increasing burden of work on women (Gupta and Guha 2007). Tribal women at Borabaribara have to undergo labour intensive works besides performing all the domestic duties.

## 6. RECOMMENDATION

The vulnerability of tribals of Borabaribara is severe but sincere efforts can change their miserable situation. Generation of employment on a regular basis is the need of the hour. This can be done by reclamation of waste land and its equitable distribution among tribals. (Ranjan and Upadhyay 2009).

Too much dependence on forest land and trees will have to be reduced. Alternative forest based activities, like honey and wax collection, basket making, rope making should be encouraged. These products must be properly marketed.

Adequate power and participatory role must be ensured so that the tribals can protect the forest simultaneously while extracting resources from it. Once the tribals are aware of the necessity of protecting forest and sustaining its products, depletion of forest resources will be minimized to large extent.

Awareness will be generated if tribals become literate. Literacy will help them to take alternative jobs reducing the burden on forests. Moreover their propensity to cling to traditional methods and superstition will be lessened.

## 7. CONCLUSION

The Forest Rights Act (FRA) was passed by Indian Parliament in 2006 – sixty years after Independence. However, the question that needs to be asked is whether the FRA really seeks to provide and recognize the rights of tribals on the forests where they live or it is symbolic rather than being materialistic. In the Act, however, tribals have been criticized for exploitation of the forests. The FRA seems to be a pro-poor reform but whether its implementation is pro-poor or not is still a matter of concern.

It is an established fact that development process has always neglected the tribal population and their livelihood issues. Development has failed to percolate in this tribal habitat vis-a-vis the santhals has failed to acknowledge the contemporary techniques due to lack of knowledge and hostility towards the civilized world. This condition has left a lopsided impact on the economic wellbeing and sources of income of the santhals of this village. Paucity of employment has compelled the santhals to degrade the environment beyond its regeneration capacity which is evident from massive deforestation, inappropriate agricultural practices and loss of soil fertility. Deforestation has affected the economy of the tribal household and its impact on women's health and welfare. Therefore, it is imperative for Government in framing policies which can strike a balance and ensure all round development. Development of modern techniques in agriculture will provide economic stability to these people and social expansion will help them to be literate and be aware of the necessity of preserving nature – the priceless resource. ●

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