

MICRO INSURANCE: AN ESSENTIAL PANACEA FOR SOCIO-ECONOMIC TRANSFORMATION

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Abstract

With a population of 1.2 bn, India is the second-most populated country in the world. Though, in recent years, strong GDP growth has been experienced, yet percentage of persons living below poverty remains is too high, especially among the 70% of the population that resides in rural areas. In decade of 50, Government of India nationalized insurance industry and liberalized in 1999 to allow private insurers. Since then insurance premiums have grown rapidly. India is unique in that the government plays a proactive role in providing insurance to the very poor (those below the \$1/per day threshold) through various social security programmers and subsidized insurance schemes. Therefore the micro insurance market in India should largely be regarded as the low-income population living on less than \$1/day.

The paper discusses the issues and concludes that 'broad' social- economic transformation in Indian low-income market which creates enormous scope and need for micro insurance which has an important role in interrupting risk and vulnerability among the chronic poor.

Key words: *Micro insurance, Low income, Need, socio-economic, transformation*

Micro-insurance is the tool of financial inclusion developed to alleviate poverty and low-income people from specific perils. Micro insurance includes all principles of insurance in general, but products and services are designed to view the requirements of financially and socially backward people who are situated at the bottom of the pyramid.

Micro insurance is featured by low coverage limit, low premium and typical risk pooling. The marketing of micro insurance products are designed to reach low income group effectively.

“Micro insurance is the protection for the low -income population against specific dangers in exchange for regular payments of proportional premiums to the probability and costs of the involved risks.” **1**

Micro-insurance is therefore designed with the objective of protecting poor people and also designed with the environment that surrounds them, their needs, and possibilities. It is necessary that the product is developed for people ignored by traditional insurance markets.

By helping low-income households manage risks, micro-insurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. If governments, donors, development agencies and others working for the welfare of the poorer community are serious about combating poverty, insurance has to be one of the weapons in their arsenal.

The chief players involved in micro-insurance in Indian market are:

- Insurance Companies; (e.g., LIC, TATA AIG Insurance, SBI Insurance, & Bajaj Allianz etc.)
- Micro - Finance Institutions; (e.g., Asmitha microfinance Ltd., SKS microfinance Pvt. Ltd., Grameen Kota, Sadhana microfinance society, Microcredit foundation of India, & Micro Save, etc.)
- Non-Governmental Organizations (NGOs);
- Banking Institutions
- Central/State Governments;
- Co-operative Societies;
- Village councils (Panchayatsamitis);
- Employers’ Organizations;
- Health Providers & various other third parties related to health insurance

MICRO-INSURANCE HISTORICAL BACKGROUND

“Government of India and certain NGOs started the micro-insurance scheme in India. Although the reach of these insurance schemes is limited only to the 10 million individuals but there is a huge potential seen in the near future. The overall market is estimated to reach Rs. 250 billion by 2008 (ILO 2004)”.

“For micro-insurance facilities to be available to the poor, the IRDA has divided the poor block of people under the two broad categories which are:

a) RURAL SECTOR

b) SOCIAL SECTOR

And there are the obligations set by the IRDA to be fulfilled in both of these sectors. These obligations are:

- The rural obligations are in terms of certain minimum percentage of total policies written by life insurance companies and, for general insurance companies, these obligations are in terms of percentage of total gross premium collected.
- The social obligations are in terms of number of individuals to be covered by both life and non-life insurers in certain identified sections of the society.

In order to fulfill all these requirements of IRDA all the insurance companies have designed products especially for the poorer sections, rural sections and also for the low income group. These insurance companies in collaboration with the nodal agencies have been able to cater to the low-income segment of the economy. These nodal agencies which organize the poor, impart training, and work for the welfare of the low-income people play an important role both in generating both the demand for insurance as well as the supply of cost-effective insurance.

DIFFERENCE AMONG MICRO INSURANCE AND TRADITIONAL INSURANCE

Table 1

Basis	Traditional Insurance	Micro Insurance
Target Market	<ul style="list-style-type: none"> • High and medium income individuals • Market is largely aware of insurance benefits 	<ul style="list-style-type: none"> • Low income individuals • Extremely limited Insurance awareness/knowledge
Product Design	<ul style="list-style-type: none"> • Multiple coverage and features • Risk-based pricing driven by multiple parameters; good data 	<ul style="list-style-type: none"> • Simple product design with easy-to-understand features • Community or group pricing;

	quality	limited actuarial data
Marketing and Distribution	<ul style="list-style-type: none"> • Employ conventional channels including agents, banks, internet • Insurance sold by licensed intermediaries 	<ul style="list-style-type: none"> • Innovative distribution with multiple tie-ups • Usually sold as combined product through micro finance institutions
Underwriting	<ul style="list-style-type: none"> • Comprehensive underwriting; large sum assured • Complex language with multiple exclusions and terms and conditions 	<ul style="list-style-type: none"> • Simple underwriting practices; Small sum assured • Simple policy language with minimal or no exclusion
Administration	Regular payment paid by cheque, direct bank debit, credit card	Irregular premium payments, by cash or bundled with other products
Claims Handling	Comprehensive process; detailed documentation	Simple and quick claim turnovers process; limited documentation
Asset Management	As per regulatory norms or investment rules of the risk- carriers.	As per regulatory norms or investment rules of the risk- carriers.

(Source: Sigma report2010:- micro insurance-Risk Protection for 4 billion people)

NEED OF THE STUDY

Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well-off, but more importantly they are more vulnerable to the same risk. Usually, the poor face two types of risks – idiosyncratic (specific to the household) and covariate (common, e.g., drought, epidemic, etc.). To combat these risks, the poor do pro-active risk management – grain storage, savings, asset accumulation (especially bullocks), loans from friends and relatives, etc. However, the prevalent forms of risk management (in kind savings, self-insurance, mutual insurance) which were appropriate earlier are no longer adequate.

Thus, in this paper an attempt has been made to know the importance of micro insurance that how it is helpful in socio- economic transformation of low income people.

GOVERNMENT AND PRIVATE COMPANIES INITIATIVES

A complete list of Micro-insurance products currently available in the market is provided below in table 2:

Table 2: Micro Insurance Products Currently Available To the Companies			
Financial Year	Name of Insurer	Name of the Product	Remarks
2017-18	Bajaj Allianz Life InsuranceCo. Ltd.	Bajaj Allianz Jana Vikas Yojana	Single Premium Life Insurance
2017-18	Bajaj Allianz Life InsuranceCo. Ltd.	Bajaj Allianz Saral SurakshaYojana	Term Assurance
2017-18	Bajaj Allianz Life InsuranceCo. Ltd.	Bajaj Allianz Alp Nivesh Yojana	Endowment Plan
2017-18	AVIVA Life Ins. Co. India Pvt.Ltd.	GrameenSuraksha	Term Assurance
2017-18	Birla Sun Life Insurance Co.Ltd.	Birla Sun Life Insurance BimaSuraksha Super	Life Insurance
2017-18	Birla Sun Life Insurance Co.Ltd.	Birla Sun Life Insurance BimaDhanSanchay	Endowment + LI
2017-18	ICICI Prudential Life InsuranceCo. Ltd	ICICI PruSarv Jana Suraksha	Term Assurance
2017-18	ING Vysya Life Insurance Co.Ltd.	ING VysyaSaralSuraksha	Life Insurance
2016-17	Life Insurance Corporation ofIndia	LIC's JeevanMadhur	Endowment + LI
2019-20	Life Insurance Corporation of India	LIC's JeevanMangal	Term Assurance

2018-19	Met Life India	Met Vishwas	Single Premium Term Assurance
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Shakti	Group Micro Insurance
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Super Suraksha	Group Term Assurance
2006-07	TATA AIG Life Insurance Co.Ltd.	Ayushman Yojana	Single Premium LI
2006-07	TATA AIG Life Insurance Co. Ltd.	Navkalyan Yojana	Term Plan
2006-07	TATA AIG Life Insurance Co. Ltd.	Sampoorn Bima Yojana	Endowment + LI
2008-09	TATA AIG Life Insurance Co. Ltd.	Tata AIG Sumangal Bima Yojana	Limited Payment Money Back
2007-08	Shriram Life Insurance Co. Ltd.	Shri Sahay	Li
2007-08	Shriram Life Insurance Co. Ltd.	Sri Sahay (AP)	Li
2008-09	IDBI Fortis Life Insurance Co.Ltd.	IDBI Fortis Group Microsurance Plan	Group Micro Insurance
2008-09	DLF Pramerica Life Insurance Co. Ltd	DLF Pramerica Sarv Suraksha	Group Term Micro Insurance
2008-09	Star Union Dai-ichi Life Insurance Co Ltd.	SUD Life Paraspar Suraksha Plan	Group Micro Insurance

(Source: IRDA website)

OBJECTIVES OF THE STUDY

1. To find the awareness of micro insurance among the people living at the bottom of the pyramid.
2. To find the customer need and preference of various products of micro insurance.

- To estimate the minimum amount of premium which poorest group of society agrees to pay.

RESEARCH METHODOLOGY

This paper is based on both primary and secondary data. A questionnaire/ schedule has been prepared to know the awareness, need of Micro insurance among poor people and find out the minimum amount of premium they are ready to pay. Primary data have been collected from weaker section of the society of Agra City through structured questionnaires/ schedule conducted among 500 respondents. Out of 500, 135 did not give any response. 58 questionnaires were incomplete and not included in study. For analysis 163 who were not aware about micro insurance have been left out.

Secondary data have been collected from various official sites i.e., www.irda.org.in, www.adl.com/microinsurance, www.microsave.org and <http://www.ilo.org> etc. The study has been carried out from June to August 2021.

ANALYSIS OF DATA:

Table3

Profile of Respondent	
Occupation	Percentage of respondent
Shoe Workers	38%
Petha Workers	24%
Gate Keepers	16%
Auto &Riksha Pullers	22%
Annual Family Income	
Income (Rs.)	Percentage of respondent
Less than 15000	12%
15000-30000	46%
30000-45000	31%
Above 45000- Below 60000	11%
Size of Family	

No. of Family members	Percentage of respondent
2	4%
3	5%
4	27%
5	32%
6	26%
More than 6	6%

(Source: Survey Analysis)

Table 3 is showing the respondents profile all of the respondents are daily earners, chosen randomly, with age more than 25 years. Maximum respondents are shoe workers and Petha workers, some of them are college, Hostel and banks gate keepers. Major portion of respondents belongs to income group 15000-30000; only 11% respondent's family income is more than 45000 thousands as there is more than one earner in their family.

Table 3 also shows, most of the respondents are married having one or two children. 32% of respondents have family of size 5, 27% and 26% of respondents live in a family of 4 and six respectively.

Table 4: Respondent Awareness About Micro Insurance	
Awareness	Percentage of respondent
Yes	47%
No	53%
Investment in Any Insurance Policy	
Have Policy	Percentage of respondent
Yes	43%
No	57%

(Source: Survey Analysis)

From table 4 is clear that majority of respondent are unaware about micro insurance (53%) and till now not invested in any insurance policy (57%). Only 47% respondents are aware and 43% have insurance policy.

Reasons	Percentage of respondent
To fulfill the basic needs	31.04%
Deal with emergencies like illness, flood, death etc.	43.28%
Improve standard of living	25.64%

(Source: Survey Analysis)

Table 5 displaying that maximum percentage of respondent taking micro insurance so that they can easily deal with emergencies like death, illness i.e., 43.28% where as to fulfill the basic needs is the second most reason for taking micro insurance by low income people.

The table 6 is showing the two things together the most reliable source of taking micro insurance and the most preferable insurance company by respondents.

Table 6

Most Reliable Sources of Taking Micro Insurance	
Sources	Percentage of respondent
Public Insurance companies	34.67%
Private Insurance Companies	21.86%
Self Help Groups	8%
Co-operative Societies	10.13%
Post Office	12.34%
Others	13%
Most Preferable Insurance Company By Respondents	
Companies	Percentage of respondent
LIC	32.12%
TATA AIG	14.23%
BAJAJ	12.32%
SBI	12.3%
ICICI	9%
HDFC	14.03%

Other	6%

(Source: Survey Analysis)

Most of the respondents rely on public insurance company followed by private insurance companies contributing about 56.53% as their reliable source of taking micro insurance and then post office i.e., 22% whereas co-operative societies and others contribute about 23.13% for total respondents whereas self-help groups have just 8% showing that self-help should be formed in Agra as we know that self-help groups have played a very significant role in the south India for helping low income people.

From Table 6 it is also clear LIC of India is the utmost preferable company by customers because it's a public sector company and low income people generally trust government. Therefore they mostly go for public sector Company instead of private.

Table 7: Amount of Premium Respondent Willing to Pay Towards Micro Insurance		
Amount of Premium Per annum	Number of respondents	Percentage of respondent
75	14	4%
80	68	20%
85	148	44%
90	107	32%
Mean = 85 & Standard Deviation = 4.14		

(Source: Survey Analysis)

It is inferred from the table 7 that 44% of total respondents agree to pay micro insurance premium up to 85 per annum whereas 32% respondents are willing to pay premium 90 per annum belong to low income group. On an average people are ready to pay Rs 85 per annum as premium.

Table 8: Micro Insurance a Tool to Eradicate Poverty

Options	Percentage of respondent
Yes	59%
No	23%
Can't say	18%

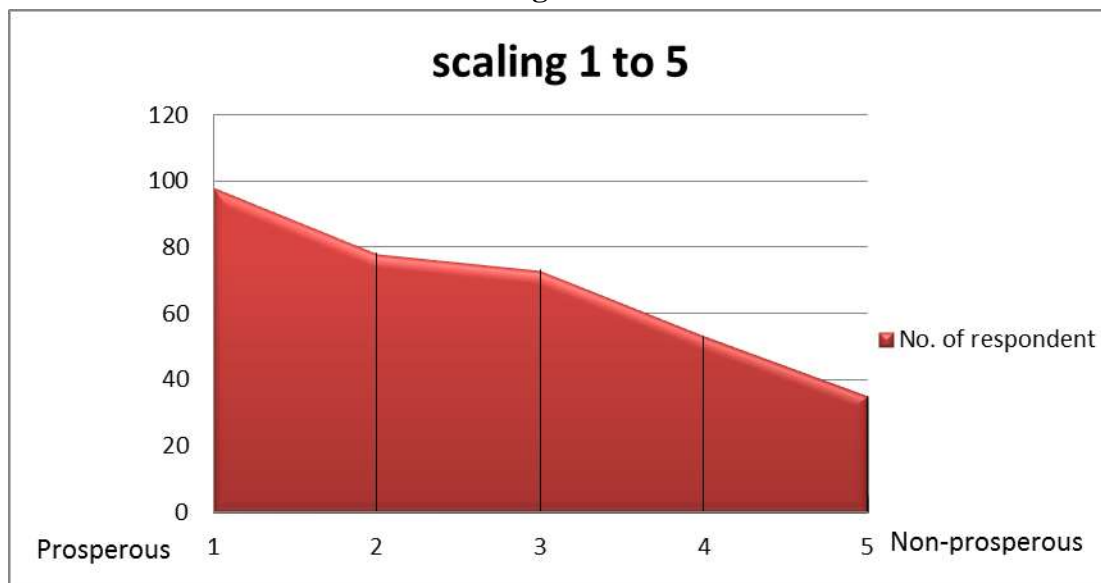
(Source: Survey Analysis)

Most of the respondents feels that micro insurance will help to eradicate poverty i.e. 59% of the respondents as it have helped them to earn their livelihood where as 23% says no and rest were not able to make their judgment on this issue.

Table 9: Anticipated Future of Micro Insurance							
Prosperous	Scale	1	2	3	4	5	Non-prosperous
	Number of respondent	98	78	73	53	35	

(Source: Survey Analysis)

Figure 1



(Source: Survey Analysis)

The Table 9 and figure 1 displays that the future of micro insurance in Agra is going to be prosperous as most of the respondents are between the scaling rates of 1 to 2 i.e. about 176 out of 500 respondents.

FINDING

- Maximum of respondents were daily earners their income varies from season to season, in their peak seasons they earn 200-300 per day but in off season their earning decreases significantly, those respondents who were salaried people get monthly salary ranging from 3000-5000 per month.
- Most of respondents are married having one or two children. 34% of respondents have family of size 5, 27% and 28% of respondents live in a family of 4 and six respectively. Those families which have five or more than five members; they generally live in combined family and these families have income level more than five thousand per month.
- Most of the respondents have heard about insurance but they are totally unaware of Micro insurance, they believe depositing their money in bank or post-office is more profitable than putting money in insurance; also ease of withdrawing money from bank and post-office makes their investment more liquid.
- Only 43% respondents have invested in insurance policy, all of them belong to income level of more than RS.45000 Per annum out of which 2 have invested their money only for one and 3 years only and they stopped giving premium for their insurance due to some problems and all of them invested in LIC's policy.
- After explaining those about need and benefits of insurance respondents want to invest in insurance policy to deal with emergencies, to fulfill basic necessities of life but lack of knowledge and awareness about micro insurance stop them from investing. Many of them told that they don't need insurance as there is very low chance of something happening to them. In spite of they are more vulnerable to risks; negligence and ignorance of risk for their health or life also prevent them from investing in insurance.
- Maximum of respondents choose government companies rather than private insurance firms as they think they are cheaper, reliable and ease in claiming insurance money.
- Most of the respondents have taken micro insurance from LIC i.e. about 32.12 % followed by TATA AIG which is about 14.26% whereas ICICI, Bajaj and SBI insurance are not being regarded as better source for taking micro insurance in Agra.

- Majority of the individuals have the capacity to pay premiums towards insurance. On an average they have capacity to pay Rs. 85 per annum per head. This indicates that there is enormous scope for the insurance companies to innovate micro insurance products which should be affordable by the poor.
- An appropriate premium has to be devised which suit the pocket of the poor. This will be done by offering micro insurance products to this sector of society.
- About 59% of the total respondents say that, it will help to remove the poverty so it can be seen as tool to remove poverty from Agra.

SUGGESTIONS

- People should be made aware about Self-Help Groups and various steps should be taken by various Private and Public banks to form Self Help Groups among masses.
- Various NGO's should come forward to help poor people by helping them to provide micro insurance at low premium rates so that they can deal with risks and shocks.
- People's reliability over Local-money-lenders should be tried to decrease as they exploit poor and making them fool.
- There should be MFI's such as SSK working in South India, which is not only working successful but also main reason for the success of micro insurance in South India and also there is a need to establish a council of micro insurance representatives, regulator and government. This body should meet on a regular basis to discuss the issues and strategies to develop the sector. This body can also help to develop regulations. It could help facilitate the sharing of information between insurers.
- Most MFIs and insurance companies are willing to start life insurance schemes since it is easy to design and operate and its fund generation prospect is good; but actual need in the market is for quality health care, agriculture & assets etc therefore they should also focus on this.
- Low income people have fluctuations in income patterns and flow. Premium collection should consider these fluctuations, and should coincide with maximum flow and minimum variations. Also it could be integrated with saving or loans so that it eases out the pressure for money at the people's side.

CONCLUSION

This field of micro insurance is just emerging and through it has number of issues at all the three levels- people, Insurance companies and MFI's, this sector has big potential. More innovation in product design, processes and practices is bound to happen as the sector evolves and expand. The survey confirmed results of qualitative research that needs for microinsurance among poor and vulnerable households in Agra are very high. These needs are much more accentuated among lower income group. Given that micro insurance is an unknown service for majority of Agra people, the effective demand declared by survey households is substantial. The market development projections show that the market for all three microinsurance products (health, life, property) is prospective in short-term.

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