International Journal of Research in Economics and Social Sciences (IJRESS)
Available online at: http://euroasiapub.org
Vol. 7 Issue 10, October- 2017, pp. 95~106
ISSN(o): 2249-7382 | Impact Factor: 6.939 |

INNOVATIONS IN INSURANCE PRODUCTS AND SERVICES

Sr. Jasintha V L., Assistant Professor, St. Ann's Degree College for Women,
Mallapur- Hyderabad-500076,
Rev. Dr. Thomas George CMI, Asst. Professor, St. Joseph's College,
Moolamattom, Idukki Dt. Kerala-685591,

Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Innovation in insurance has taken accelerated development in India since 2000. All the insurers in India are busy with new product development. Different customers have different types of insurance needs for life, property and general interest. There are abundant opportunities and pproduct development is the outcome of opportunities available in the market. Insurance is fast emerging as an important strategy even for the low-income people engaged in wide variety of income generation activities and who remain exposed to a variety of risks mainly because of lack of **financial literacy** or perhaps absence of cost effective risk hedging instruments.

In order to meet such needs of rural population, the Insurance Industry has designed several micro insurance products. Micro insurance is a set of market based insurance products and processes designed to address both life and non-life risks faced by the people at the bottom of the socio-economic pyramid. Regulations are being framed by IRDA to safeguard the policyholder's interest and facilitate insurance development.

When we think of innovations in insurance products and services, what comes to our mind are innovations in banking, micro credits and micro finance. It would help the people from low income strata to build their savings, avail credit, insure themselves against **income shocks** and meet emergencies such as illness, accident, loss of employment etc. The need for financial protection is paramount for the underprivileged sections in India. These sections, however, do not actually have any protective financial umbrella, thus insurance can address this need by providing cover to the people across the country that need it the most. Insurance industry, after reform process, has been changed according to the needs of present days.

Key words: Insurance, Income shocks, micro credit, micro insurance and financial literacy

International Journal of Research in Economics and Social Sciences (IJRESS)
Available online at: http://euroasiapub.org
Vol. 7 Issue 10, October- 2017, pp. 95~106
ISSN(o): 2249-7382 | Impact Factor: 6.939 |

INNOVATIONS IN INSURANCE PRODUCTS AND SERVICES

INTRODUCTION

Insurance is a co-operative device to spread the loss caused by a particular risk over a number of persons who are exposed to it and who agree to ensure themselves against that risk. Risk is uncertainty of a financial loss. Every risk involves the loss of one or other kind. **Insurance** is a contract in which the insurer undertakes to pay a certain sum of money to the insured, either on the expiry of a specified period, or on the death of the insured, in consideration of payment of 'premium' for a certain period of time, is known as 'life insurance'. It is typically called '**life assurance'.** The life insurance contract is **a contract of certainty, wherein payment is certainly made**. In the case of general insurance, the event may or may not occur **but in the case of life insurance death will certainly occur**.

Insurance is a form of risk management primarily used to hedge against the risk of a contingent, uncertain loss. It is the equitable transfer of the risk of a loss, from one entity to another, in exchange for payment. **Life insurance serves the purpose of protection as well as an investment contract**. It is a protection contract because it gives protection to assured in the event of death, by making payment of the entire amount of the '**sum assured**'. It is **an investment contract** too, as it gives the assured/investor the advantage of regaining the money with interest and bonus at the end of the policy.

Terming **insurance as a critical component in bringing about financial inclusion**, **Mr G. Srinivasan**, Chairman and Managing Director of **United India Insurance** said, there is tremendous scope for insurance firms in both life and non-life categories. In a growing economy like India's, a large segment of the population remains to be insured. Stating that insurance players have to look at new opportunities, he said one segment of the population that needs to be targeted is those living Below Poverty Line. This segment is highly vulnerable to **financial shocks** and insurance is a must to support it **in times of crisis**, particularly in the aftermath of **natural calamities** and financial burden due to health problems. It was found that:

- Insurance companies have made significant progress in evolving models that are scalable and have innovated in product design, technology, claims processing and public-private collaboration to deliver solutions to the target population.
- Empowering people economically by providing livelihood recovery lending is complementary to other responses, such as insurance in a post-disaster environment.

- The development of specific low-cost health products covering surgeries, critical illness, hospitalization and personal accident insurance has led to better acceptance of the product. The claims ratios in the mass health insurance schemes indicate the success achieved by some of these schemes.
- Both private and public sector companies play an important role in financial inclusion as they have come out with various innovative micro insurance products in different fields.

Objective of the study

1. To make study about the innovative insurance products and services.
2. To know the impact of these innovative insurance products common man's life.
3. To study the various channels used to carry these products and services to the end users.

LITERATURE REVIEW

When we think of innovations in insurance products and services, what comes to our mind are innovations in banking, micro credits, and micro insurance. It would help the people from low income strata to build their savings, avail credit, insure themselves against **income shocks** and meet emergencies such as illness, accident, loss of employment etc. The need for financial protection is paramount for the underprivileged sections in India. **These sections, however, do not actually have any protective financial umbrella, thus insurance can address this need by providing cover to the people across the country that need it the most**. Insurance industry, after reform process, has been changed according to the needs of present days

Income shocks

Income shocks, or sudden and unexpected decreases in household income, can negatively affect the financial stability and well-being of households that experience them—and they are not uncommon. An essential part of poverty reduction programme should be to help the poor manage their risk, and should complement effort to increase the household income. Crime and domestic violence, illness and injury, crop failure, old age, natural disaster, fluctuations in food price and demand for labour constitute such risks. People in the rural area respond to their risk exposure through various means like diversification of assets/sources of income and various types of self-insurance and informal insurance. Whenever and wherever these pre-emptive mechanisms prove inadequate, the households cope with the **shock** by increasing or diversifying labour supply through various means like child labour, selling assets or reducing consumption etc. Shocks will not affect all members of the rural household equally. Women and children are the worst sufferers.

Micro credit

Micro credit is based on the premise that the poor have skills which remain unutilized or underutilized. Observations and experience show that women are a small credit risk, repaying their loans and tend more often to benefit the whole family. In another aspect it's also seen as a method giving the women more status in a socio-economic way and changing the current conservative relationship between gender and class when women are able to provide income to the household. In common meaning Micro credit is "Loan of very small amount". Micro Credit is provided to those individuals that lack collateral, steady employment and a verifiable credit history and therefore cannot meet even the most minimal qualifications to gain access to traditional credit. This group of individuals includes artisans, tiny and small industries, grocers, vegetable vendors, rickshaw pullers, roadside retailers and the like. Other activities include farming, poultry, cattle rearing, piggery, fishery etc.

Micro insurance

Insurance is an important financial service available in today's world as it provides security and safety against the loss on a particular event. The security and safety in turn affords peace of mind, which tends to stimulate to more work done. Micro insurance is the protection of low-income people against specific perils in exchange for regular premium payment proportionate to the likelihood and cost of the risks involved. In other words, it is a set of market based insurance products and processes designed to address both life and non-life risks faced by the people at the bottom of the socioeconomic pyramid. **These products are priced at rates affordable for the intended clients, while being financially viable for sustainability of operations.**

A vast new market was created by customizing low-premium insurance products that insure risks for impoverished people of the world with no prior access to insurance. **The World Bank estimates that one billion people worldwide live in extreme poverty**. This poverty is exacerbated by a lack of financial protection against death and natural disasters. In such a context the micro-insurance market is expected to double in these years.

In the past, insurance, as a pre-paid risk management instrument was never considered as an option for the poor. **The poor people were considered too poor to be able to afford insurance premium. Thus, the need for building up of social safety net especially for the**

poor population groups, has gained importance over the years. Micro insurance is essential to ensure financial support for the large chunk of rural and urban poor population in the country, especially when it comes to insuring their lives or property for a small quantum of premium. Micro insurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc.

Micro insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable to fall back into poverty in times of hardship. When farmers are insured against a bad harvest (resulting from drought), they are in a better position to grow crops which give high yields in good years, and bad yields in year of drought. Without the insurance however, they will be inclined to be more conservative and do the opposite; since they have to safeguard a minimal level of income for themselves and their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather conditions . **IRDA has specified the upper and lower coverage limits of insurance products to ensure that products are actually as per the needs of the intended clients, while ensuring that the insurance companies retain their focus on the 'micro' sector of the insurance industry.**

Financial literacy

Financial literacy is an ability to understand money and how it works – including its management, investment, and expenditure. Being financially sound and aware always works in your favor as it enables you to make choices on investments that can help you double your balance. Even when you are busy with your professional or personal life, putting your money in the right places i.e., the stock market or the money market can help you become more profitable.

As a well-informed and financially literate consumer, one adds to economic stability because well-informed consumers make sound investments which help to inject funds into the economy. In other words, have the capacity to be a lender and not a borrower. It is time to set aside the financial anxiety and take one's bank balance into one's own hands.

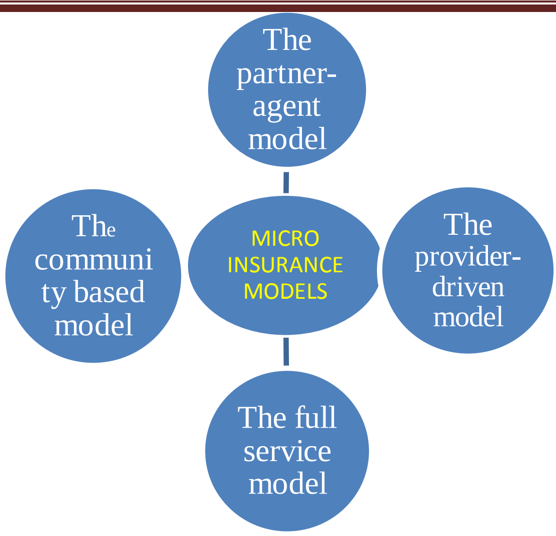
Micro insurance in India

Micro insurance in rural India was encouraged by financing institutions primarily to hedge their own risks while lending to the poor under the requirements of direct lending issued by the Government of India. Hence, the products were developed in a way which mainly addressed the needs of the banks while needs of the poor were met only incidentally. Credit recipients often perceived it as a part of the borrowing cost from banks, and had no understanding about the **concept of insurance or its importance and benefits**. Most of the insurance companies had tie ups with banks, while they did not have any contact with the insured. This resulted in substandard service which created a negative image of the insurance companies.

All these malpractices brought the focus of IRDA on the micro insurance sector in India, which resulted in the issue of Insurance Regulatory and Development Authority (Micro-Insurance) Regulations, 2005. These regulations clearly defined the terms covered in the micro insurance sector and the products that can be offered as "general micro-insurance product" and "life micro-insurance product". Also the term "micro-insurance agent" was defined and covered Non-Government Organization (NGO), or Self Help Group (SHG), or Micro-Finance Institution (MFI) specifically with clearly laid out definitions of each of the above. This inclusion could multiply the pool of agents exponentially, utilizing those already operating in the rural area and hence facilitate distribution of the micro insurance products. **According to IRDA, Micro-Insurance Regulations announced in 2005, micro insurance can be a life or general insurance policy with a sum assured of Rs 50,000 or less and the average ticket size ranges between Rs 500 and Rs 1000.**

One of the greatest challenges for micro insurance is the actual delivery to clients. Methods and models for doing so vary depending on the organization, institution, and provider involved. Dubby Mahalanobis states, one must be thorough and careful when making policies, otherwise micro insurance could do more harm than good. In general, there are **four main methods** for offering micro insurance.

International Journal of Research in Economics and Social Sciences (IJRESS)
Available online at: http://euroasiapub.org
Vol. 7 Issue 10, October- 2017, pp. 95~106
ISSN(o): 2249-7382 | Impact Factor: 6.939 |



1.1- Figure of micro insurance model.

1. The partner-agent model
2. The provider-driven model
3. The full-service model and
4. The community-based model.

Each of these models has their own advantages and disadvantages.

- **Partner agent model**: A partnership is formed between the micro insurance (partner as MFI) scheme and an agent (insurance companies), and in some cases a third-party healthcare provider. The micro insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development.
- **Full service model**: The micro insurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering micro insurance schemes full control, yet the disadvantage of higher risks.
- **Provider-driven model**: The healthcare provider is the micro insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.
- **Community-based/mutual model**: The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer

services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

A general micro-insurance product is any:

- Health insurance contract
- Any contract covering belongings such as
- Hut
- Livestock
- Tools or instruments or
- Any personal accident contract
- They can be on an individual or group basis

A life micro-insurance product is:

- A term insurance contract with or without return of premium
- Any endowment insurance contract or
- A health insurance contract
- They can be with or without an accident benefit rider and
- Either on an individual or group basis

Intermediaries:

Micro- insurance business is done through the following intermediaries:

- Non-Government Organisations
- Self-Help Groups
- Micro-Finance Institutions

1. Category of Products: Endowment/ Savings/ Pension

Under this category, there is life protection, both on survival and death. Pension can also be built into the product. Some Insurers offer accident benefit and permanent disability benefit during the premium paying term only, or for the full term. **The sum is capped between Rs 30,000 and Rs 50,000. A majority of the insurers offer policies under the non-medical scheme and automatic acceptance if size of the group is more than 200 members.** It is possible to offer an automatic cover facility after two years of premium payment. A policy bond is given and administration is done through a micro-insurance agent.

- **Prospects:** While it is popularly sold as an individual policy, Group Endowment is currently being issued by some Insurers for economically weaker sections.
- **Capping:** Insurers are allowing a maturity age of up to 60 years, capping premium payment up to 45/ 50/ 55 years under different modes of premium payment, including monthly payment with the maximum term being 10/ 15 years.

2. Category of Products: Protection (Term insurance)

Life risk with accident benefit is generally being offered under term products. A majority offer accident benefit and some offer permanent disability benefit too under term products.

- **Capping:** No one is paying any Bonus in addition to the sum assured. **The sum assured is capped between Rs 5,000 and Rs 50,000 or is defined as 100 times the annual premium**. Some are giving refund or more than 110% of premium at maturity under term products. Others are not giving any maturity value. Majority are offering under non-medical scheme. Automatic acceptance if size of the group is more than 200 members.
- Most insurers are giving a refund of premium in case of suicide during the first year. Some entertain a refund for Single premium cases only. While majority offer one year term, some are offering 5/ 10 year terms under Group product.
- Insurers offering Individual Term are offering 3/5/10/15 (premium paying term restricted to 10 years) year policies. Majority are allowing different modes of premium payment, including Monthly and Yearly premium.

3. Category of Products: Health

Disability, hospitalization, loss, etc Popular format of Health insurance cover is a fixed sum in case of the hospitalization (Pre, during and Post). Generally, **benefits are 150 Rs/day hospitalization expenses, consultant fee up to Rs 4500/hospitalization, diagnostic expenses up to Rs 4500/hospitalization, transportation expenses Rs 350 per hospitalization**. One overall limit for hospitalization may be defined as Rs 15,000 and overall sum insured for one year defined as Rs 30,000. Group products with discounts offered to the members/clients of MFIs and NGOs and to specific sections of the population (such as all the BPL families in a state). Entire family needs to be covered under one Sum Assured, any number of times.

4. Category of Products: Property

This category is mainly meant for Rural and Urban poor. Making good damage cover/loss/ input costs/ recurring costs due to natural causes/theft/accidents/burglaries/cover against diminished agricultural input/loss due to electrical/mechanical breakdown.

- Key risks faced by low-income households like package cover and crop insurance product.
- Loss to livestock due to death, disease and accident dwellings – Fire policy for dwellings and contents Breakdown of agricultural implements cover for poppy/crops against inadequate/variation in fall/variations in different weather parameters. Limit based risk cover or on case by case basis.
- Actual loss/market value whichever is less is reimbursed in case of Live Stock all indigenous, cross bread animal/birds defined Submersible/non-submersible Pump set up to 25/30 HP defined Building (Structure) / contents (belongings)/both defined.

5. Category of Products: Personal Accident

Under this category low income groups/Kissan Credit card holders/girl child parents/married ladies. Death/Permanent Total Disablement/Total and irrecoverable loss of limb/eye sight Medical expenses during/pre/post hospitalization Percentage of Sum Assured on case by case basis entire family is covered under one Sum Assured any number of times All fees for surgeons/anesthetists/consultants/associated expenses of hospitalization under one Sum insured Parent of girl child /women covered with beneficiary as the girl child/insured women for death/PTD/ Total and irrecoverable loss for a limit. There is flexibility in the regulations for insurers to offer composite covers or package products that include life and general insurance.

Some of the Government sponsored socially oriented insurance schemes are:

"**Jeevan Madhur**" a simple savings related life insurance plan for low income persons was launched in 2006. On surviving to the date of maturity, sum assured is paid along with vested bonus if any. On death of the policy holder, death benefit amount equal to the total premiums payable during the entire term of the policy will be paid along with vested bonus if any

"**Jeevan Mangal**", LIC's second Micro Insurance product, was launched in 2009. It is a term insurance plan with return of premiums paid on maturity, provided the policy is in force. On death during the term of the policy, the sum assured under the basic plan is payable, provided the policy is in force

"**Jeevan Deep**" the third product was launched on Sep.3rd, 2012. This plan provides for a sum assured or risk cover ranging from minimum of Rs 5,000 to maximum of Rs 30,000 with an optional accident benefit rider, together providing for total benefit equal to double the sum assured, on death due to accident, it said. Flexible modes of premium payment have been provided ranging from monthly, quarterly, half-yearly and annually, it said adding a single premium payment option has also been provided.

The above mentioned are only a few of the Govt. sponsored micro insurance products. There is flexibility in the regulations for insurers to offer composite covers or package products that include life and general insurance covers together.

Conclusion

Innovation in insurance products and services is an urgent need of the time. Insurance industry, after reform process, has been changed according to the needs of present days. The poor people were considered too poor to be able to afford insurance premium. In a growing economy like India's, a large segment of the population remains to be insured. Thus, the need for building up of social safety net especially for the poor population groups, has gained importance over the years. Although there are giant steps taken in this regard by the Insurance Industry, our Indian population in unaware of many of the new innovative schemes. Here I should say that a wide range of financial literacy programmes are to be taken up collectively and individually. Only then the insurance industry can reap a good harvest.

References:

- M N Mishra and S B Mishra (2008), Insurance Principles and Practice, S Chand and Company Ltd., New Delhi.
- Jita Bhattacharyya and Sreemoyee Choudhuri(July 2013), "Role of Micro insurance in Protecting low-income people in West Bengal: An Empirical study", The Management Accountant.
- Mahesh Rajgopal (January 2015), "An Analysis of Private Life Insurance Services as perceived by Life Insurance Buyers in Karnataka", Indian Journal of Finance
- https://en.wikipedia.org/wiki/Microinsurance
- https://www.towerswatson.com
- http://www.policyholder.gov.in/Micro_Insurance.aspx
- https://born2invest.com/articles/6-reasons-financial-literacy-important