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Micro Insurance: Growth in India and Across Global scenario

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Abstract

Insurance is fast emerging as an important strategic tool even for those who earn a very low-income, engaged in wide variety of income generation activities, and who remain exposed to variety of risks mainly because of absence of cost-effective risk hedging instruments. In the past, insurance as a prepaid risk managing instrument was never taken as an option for the poor. The poor were considered too poor to be able to afford the cost of insurance premiums. . In India, more than two-third of the population lives below poverty line and therefore importance of micro insurance is undeniable. Though there is a growth in the Micro Insurance but still India has very low Insurance penetration. The main objectives of the study is to study about Micro Insurance market in India, and to analysed the growth of Micro insurance around the world as well as in India. It is glaring to observe that though private insurance companies had indicated a positive growth rate but no. of schemes of L.I.C are incomparable with the private sector insurance companies

KEY WORDS Micro insurance ,low income people.

Introduction

Micro insurance is a combination of two word "Micro" and "Insurance" Micro means small and Insurance means pooling of risk in return of certain consideration . Hence, micro insurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and the cost of risk involved. Low income people can use micro insurance, where it is available as one of several tools (specially designed for low income people in terms of premium, coverage and delivery) to manage their risk.

Micro insurance commonly called as insurance for the poor, has recently drawn the attention of practitioners in developing countries .In common words, micro insurance is the provision of insurance service to low income household, which serves as an important tool to reduce risks for the already vulnerable population.

Basically there are two broad categories of micro insurance often commonly understood – one focuses on extending social protection to the poor in the absence of appropriate government schemes and the other offering a vital financial service to the low income household by developing an appropriate business model that enable the poor to the profitable market segment for commercial co-operative insurer.

Need of the study

2.4 billion People around the world live on $2 a day or less. They face daily hardships like poor nutrition, short life expectancy, poor education, and substandard housing. In the rural there is a death in the family, the cost of a funeral can amount to several months' wages. In rural areas, drought can cause crop failure that brings starvation and even death. Though IRDA had made it made mandatory for all the insurance companies operating in India to launch micro insurance products and the regulation but still its growth is far behind the expectations. This study is an attempt to analyse the growth of micro insurance around the world and growth of public and private sector insurance companies in India.

Objectives of the Study

- To study the growth of micro insurance around the world.
- To study the performance of Public and Private Sector Insurance Companies In India.
- To make a comparative analysis between sample Public and Private Sector Insurance Companies in India.

Micro Insurance in Global Scenario

Micro insurance has been making rapid progress in recent years. New markets are being explored, and new products and operational strategies are being introduced. Governments have started developing a regulatory framework to enable the development of innovative solutions. According to the report of landscape of micro insurance in the world 100 poorest countries (which divide the world in three main region i.e (Asia, America and Africa)the growth of micro insurance are as follows:

Micro insurance in Asia

In 2005 the Asia region covered 67.2 million people, out of which 57.9 million are estimated to be living on less than 2$ per day and the average coverage of this region is only 2.7 but the proportion increased to 4.72% in 2012 and the live covered increased to 1.70392520 people . Earlier the region was dominated by China and India but in 2012 Philippines and Thailand took the top position in terms of total number of lives covered.

Growth of micro insurance in Major countries of Asia

- Micro Insurance in Sri Lanka

In Sri Lanka only a minority of population in the working age group is covered by formal insurance schemes. Regular commercially-motivated insurance policies are unaffordable for the poor. While the insurance industry is still quite small-with a total market penetration of probably less than 10%.It is certainly growing more rapidly than the economy as a whole. An enormous

potential remains to be exploited. In respect of the poor population, the big commercial insurance firms have taken no serious initiatives to provide insurance benefit. This indicates that the vast majority of the poor are not coved by any formal system of insurance companies. In the past decade, various initiatives have been taken for risk management schemes for the poor in Sri Lanka. A couple of NGOs and the Government Poverty Alleviation program '*Samurdhi*' have started to offer micro insurance products to poor communities. One of the project entitle as "*Yasiru*" is a mutual and self-managed insurance scheme for the poorest people living in rural areas of Sri Lanka.

- **Micro Insurance in Bangladesh**

Micro - Insurance responds to the basic insurance needs of the poor, i.e. life, health and property. The *Gono Bima and Grameen Bima* programs are operated by the Delta Life Insurance Company, which is fully licensed and regulated. Delta Life Insurance Company was established in November 1986. Grameen Bima was initiated in February 1988. Initially the aim was to provide the service available to those who most needed insurance (low-income people) and for those who lack the financial resources or security and are unable to leave their family with financial security upon death.

The rapid growth of these micro insurance programs has led to the decision to merge them under one institution, separate from Delta Life Insurance Company. The new institution will be registered as a not-for-profit company.

- **Micro Insurance in China**

Data from China reveals the fact that in the year 2005, 2.8 of low income persons has access to insurance coverage. The Government is actively encouraging micro insurance policies by insurance companies. The micro insurance companies have expanded from 3.8 million insured lives in 2008 to more than 14 million in 2010. In the year 2012 the number of live covered decreased to 11.8 million people and its ratio to 0.89%.

- **Micro Insurance in Nepal**

In 2005 the number of lives covered were only 14, 74, 64 which was increased to 34, 04, 01 lives in the year 2012 [29]. This indicates that the Government and insurance companies are actively participating in increasing the micro insurance penetration.

- **Micro insurance in Pakistan**

In the past the lives covered in the country were only 70,000 but with the passage of time, the country showed a tremendous growth in 2012 by covering 5,344,758 lives[30]. Micro Insurance development programmes are increasing mainly due to the increased populations, the growth of public and private insurers, willing aggregators or distribution channels and most importantly the active role of government.

Micro insurance in America

In 2005 appox. 7. 8 million people were insured. Out of total ratio i.e 1.47% appox.6.7 million people are from two major countries i.e Peru and Columbia. Although Micro insurance coverage

ratio has drastically increased from1.47%in 2005 to 7.14%[31]in 2011 but the paranoma has not drastically changed. Life products remain dominant, although non-credit life coverage is now greater than credit life coverage. Accident coverage has indicated a tremendous growth .In terms of the relative distribution of Micro Insurance, there is a merger since 2005. Of the 11 countries studied in 2005, Colombia, Peru, and Ecuador accounted for 91% of all coverage but in 2011 they accounted for 89% of all coverage in that set of countries. In 2013 ,7.9% of the region population covered by micro insurance A significant number of products were discontinued or altered to attract the mass market but there was limited growth by products that have been continued since they resulted in slow growth in terms of total lives insured in the region, and limited evolution in terms of product diversity The lack of product diversity may derive from the increasing availability of social security programmes throughout the region, which may reduce the perceived opportunities to offer certain Micro insurance policy.

Micro Insurance In Africa

The collected data speaks that the continent has the lowest number of identified micro insurance lives covered .The coverage ratio is only 0.39% .i.e appox.1.6 million of these policy holders are living on less than 2 $per day. In the year 2008 ratio has only increased to 1.79%which is only result of increase of micro insurance penetration in South Africa and North Africa is still deprived of such opportunity .Coverage ratio reached 4.44% in 2011, but it is glaring to observe around 15 countries of this continent are still not covered by micro insurance .

Micro Insurance In India

India is and continues to be a largely credit led market as far as the low income segment is concerned .The absence of wide range of financial services including savings, insurance and pension makes it very difficult for poor people to manage their finances and makes it almost impossible to manage risks. While various attempts were made to address the risk to life by offering life insurance to borrowers and to their spouses; the pioneering collaboration between insurance companies and microfinance institutions degenerated in at least a few cases and become more of an operational risk cover for MFIs. India is one of the foremost countries in the world to have introduced micro insurance regulation.

After the regulations were tightened by IRDA, the life insurance industry has been looking to develop other channels for distribution of micro insurance products, which support them in achieving the target.

The insurance companies that are legally registered with the Govt .and supervised by the industry regulator-IRDA that presently dominate the insurance market in India. Micro insurance is in its infancy stage in the country but growing fast through the activities of the formal insurance companies .Apart from formal insurance companies major crux of Micro insurance provided by Co- Operatives, Community Based Insurance System, NGO'S and small

communities.

In the present scenario, majority of the insurance companies have launched their product in order to comply with the regulation of IRDA. TATA-AIA Life Insurance Company was the first to launch its micro insurance product. According to IRDA report 2014-15 presently there are 52 insurance companies operating in India out of which 24 are in the life insurance business and 27 are in general insurance business.

Growth of Micro insurance in India

In the era of nationalisation of insurance, the market penetration of insurance services in rural areas grew substantially. In 1993, approximately 48% of LIC's customers were from rural and semi urban areas. During the liberalisation period , the insurance regulator was highly concerned about inclusive insurance growth and rural exposure for insurance companies. In order to ensure the compliance of social sector obligation by the existing insurance companies IRDA passed the rural and social sector obligation in 2002

The effect of Rural and Social Sector Obligation, 2002, was encouraging; however, IRDA wanted to unleash the potential of micro insurance beyond the exclusive business motive of attaining rural and social sector obligation. Driven by the rising insurance exclusion on one hand and optimism over the potential micro insurance market on the other, IRDA stipulated Micro insurance Regulation in 2005. Globally, this was a pioneering attempt on stipulating specific regulations for micro insurance.

A new wave of change came with the introduction of Micro insurance Regulation 2005.Recently in 2015 IRDA has revised the regulation of Micro Insurance according to the need and requirement of the policyholders and Insurance companies in order to accelerate the growth rate. Exhibit no.1.1, 1.2 and 1.3 below indicates the growth rate of public and Private Sector Insurance Companies growth rate from 2007-2014 in terms of both premium and no. of policies in case of individual business and in terms of no. of schemes, live covered and premium in group policies.

Individual policies

Year/ Companies	Policies	Public Insurance Companies			Private insurance companies			
		% Change in growth rate of Policies	Premium (in lacs)	% Change in growth rate of Premium	Policies	% Change in growth of Policies	Premium (in lacs)	% Change in growth rate of
2007-08	854615	-	1613.36	-	83153	-	209.74	-
2008-09	1541218	80.34%	3118.74	93.30%	610851	634.6%	537.81	156.41%
2009-10	1985145	28.80%	14982.5	-52.14%	998809	63.51%	839.78	56.14%
2010-11	2951235	48.6%	12305.8	-17.86%	699733	-29.94%	795.09	-5.32%
2011-12	3826783	29.66%	10603.5	-13.83%	793660	13.42%	964.22	21.27%
2012-13	4340235	13.41%	9949.05	-6.17%	695904	12.31%	1018.54	5.36%
2013-14	2205820	-49.17%	8635.77	-13.20%	561339	19.33%	929.29	-8.76%
2014-15	400341	-81.8%	1640.23	-81.70%	416027	25.88%	1249.22	34.43%

Exhibit 1.1: Annual Growth rate of public and private sector insurance companies (Individual policies)

Source: Hand book on Indian insurance statistics 2014-15

Growth of micro insurance policies and premium of public and private sector insurance companies has been comparatively analysed through Annual Growth Rate. The analysis revealed that from 2007-08—2008-09 public sector insurance company (LIC) indicates growth rate of 80 .3% while the growth rate of private companies was 634.61% during the same period which indicates a remarkable growth. In 2008-09-LIC annual growth rate increased but with decreasing rate of 28.08% while the private insurance companies follows a increasing trend with a growth rate of 63.5%. In 2009-10 LIC annual growth rate increased to 48.6% while the private sector insurance companies growth rate decline to 29.94% .LIC Annual growth during year 2010-11—2011-12 continues its declining trend ,while in case of private sector the growth rate also decline to 13.4% and during 2012-13 growth rate of both the companies become negative. Regarding premium, the public sector insurance company i.e L.I.C has follow a negative trend except during 2008-09 while private sector insurance companies indicated negative growth only in the year 2010-11 &2013-14.The Analysis reveals the fact that although both public and private insurance companies policies were increasing but the public sector insurance company, in respect

of no. of policies and premium amount are much higher in comparison to private sector.

Year	Schemes	% Change in growth rate of Schemes	Lives Covered	% Change in growth rate of Lives Covered	Premium (in lacs)	% Change in growth rate of Premium
2007-08	15	-	874901	-	871.23	-
2008-09	14	-6.6%	1498994	71.33%	3326.80	281.85%
2009-10	17	21.42%	1895143	26.42%	1472.09	-55.75%
2010-11	23	35.29%	1983537	4.66%	1719.14	16.78%
2011-12	112	386.95%	750555	-62.16%	1150.67	-33.06%
2012-13	151	34.82%	757450	0.91%	756.89	-34.22%
2013-14	164	8.60%	1291741	-70.53%	1595.23	110.76%
2014-15	62	-62.19%	2531436	95.97%	3366.22	111.01%

Group policies

Public sector insurance company(L.I.C)

Year	Schemes	% Change in growth rate of Schemes	Lives Covered	% Change in growth rate of Lives Covered	Premium (In Lacs)	% Change in growth rate of Premium
2007-08	7583	-	11367126	-	19256.23	-
2008-09	6883	-9.2%	11052815	-2.76%	17268.54	-10.32%
2009-10	5190	-25.5%	14946927	35.23%	22869.72	32.43%
2010-11	5446	4.93%	13275464	-11.18%	13803.67	-39.64%
2011-12	5461	0.27%	9444349	-28.85%	9831.63	-28.77%
2012-13	5325	-2.49%	13223872	40.01%	21045.76	114.06%
2013-14	5292	-1.12%	11887303	-10.10%	12581.45	-40.2%
2014-15	5417	2.36%	20596725	73.36%	28193.80	124.09%

Exhibit no.1.2: Annual Growth rate of public sector insurance company (Group policies)

Private insurance companies

Exhibit no.1.3: Annual Growth rate of private insurance companies (Group policies)

Source: Hand book on Indian insurance statistics 2014-15

In the case of public sector insurance companies no. of schemes, lives covered and premium collection has been decreasing continuously except in 2014-15 when it indicate a growth of 2.36%, in terms of schemes,73.36% in terms of lives covered and 124.09% in terms of premium collection whereas in case of private sector insurance companies the no .of schemes has been increasing but decreased by 62.19% in the year 2014-15.It is glaring to observe that

though private insurance companies had indicated a positive growth rate but no. of schemes of L.I.C are incomparable with the private sector insurance companies.

Conclusion

It is alarming to observe that Indian insurers companies focussed more on high value business. The reason behind such approach is to achieve rapid growth and to cover their comparatively higher operating costs. Insurance inclusion and entering the small premium market was the least of their priorities. Moreover, lack of experience in the rural and low-income segment meant that the insurers were not sure if the variable revenue and projected income from micro insurance could justify the fixed cost of administration and distribution. Low premium micro insurance products, therefore, failed to allure them. Most of the private insurers considered micro insurance only as a necessary obligation rather than a profitable product category. They adopted a "just achieve target" approach in micro insurance, in order to achieve the mandatory numbers.

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