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A Study on "Micro Insurance in India"

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Abstract

While the poor people are the most vulnerable to risks, the majority of them have to manage risks with their own means they are compelled to borrow from informal markets at very high rates of interest, getting trapped in the vicious cycle of poverty. Very few have access to formal insurance and depends on informal mechanism to cope with shocks. It is surprising that despite such compelling needs of risk management, the poor do not seek insurance coverage. In India, 90% of the population does not have any kind of social security, and insurance still remains a 'to be sold' rather than a 'to be bought' product. With the liberalization of the Indian economy in the 1990s, and the government's stance of inclusive growth, the Insurance Regulatory and Development Authority Act was passed in 1999, and the insurance sector was opened for the private sector. Subsequently, micro insurance regulations were introduced in 2005. With these government initiatives to provide risk coverage to the poor, there has been a significant increase in insurance penetration and density in India. These regulatory measures have not only brought positive changes in the provision of social security to the poor, but have also brought a paradigm shift in the attitude of insurance providers. Earlier, the insurance providers had to provide micro insurance products to meet mandatory social sector obligations imposed by the regulator; now, it is seen as a profitable opportunity. Main objectives of this paper are to study distribution Model and Diversity of Micro-insurance Products for Micro Insurance and to study the Challenges faced by micro insurance Company and current scenario of Micro Insurance in India.

Key words: Micro insurance, current scenario, Challenges and Diversity.

INTRODUCING MICROINSURANCE

What happens when a poor family's breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That's where "micro insurance" comes in. Micro insurance is specifically designed for the protection of low -income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Two-thirds of human beings suffering in the most extreme poverty are women. Often living within $1 per day, they are the most vulnerable. In **India**, the study finds that this country currently has the most dynamic micro insurance sector in the world. Liberalization of the economy and the insurance sector has created new opportunities for insurance to reach the vast majority of the poor, including those working in the informal sector. Even so, market penetration is largely driven by supply, not demand. Micro insurance in India has valuable lessons for rest of the world, particularly in the regulation of the industry.

MEANING OF MICROINSURANCE

There are a variety of different definitions of micro insurance.

Churchill (2006)5defines premium payments proportionate to the likelihood and cost of the risk involved.‟ A peril in this context refers to the type of event (such as health problems, death, and property damage) that could have a financial impact on a person. Under this commonly used definition, micro insurance is simply insurance for low-income people. Micro insurance as „the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.‟ premium payments proportionate to the likelihood and cost of the risk involved .

Consultative Group to Assist the Poor (CGAP) working group on micro-insurance defines micro-insurance as "the protection of low income households against specific perils in exchange for regular. "In India there is existence of vicious circle of poverty. Poverty makes poorer, to the poor people. So, in this scenario micro insurance is the emerging instrument to breaking this vicious circle of poverty and insured them from the specific perils which make them more vulnerable and deprived.

Objectives of the study:

1. To study the distribution models for Micro-insurance.
2. To study the benefits and Challenges Faced by Micro-insurance.
3. To analysis the Current Scenario of Micro-insurance in India.

RESEARCH METHODOLOGY

The study is qualitative study based on secondary data.

NEED FOR MICRO-INSURANCE

Micro-insurance offers protection to poor households, against those risks, which cannot be handled through informal saving mechanism, like credit or savings. Micro-insurance provides for the basic insurance needs of the poor people, i.e., life, health and property and thus provides greater financial, economic and psychological security to the low-income group of the society. It provides protection from multiple risks, and reduces the impact of disaster and occasional events such as epidemics and war that are all comparatively more risky, unpredictable and causes more loss to people than life cycle events which are generally more Predictable.

OBJECTIVES OF MICRO-INSURANCE

The objectives of micro-insurance are different among different stakeholders

- For government and policymakers, micro insurance is a helps to ensure inclusive growth and to support the livelihoods of low-income group.
- For social and developmental organizations, micro-insurance can be an effective tool to help eliminate poverty from the country.
- For insurers and other market participants, it is an opportunity to expand by tapping into new market segments and support insurance growth of the markets.

BENEFITS OF MICRO-INSURANCE

1) Individual Benefits

- Health Risks: Like illness, accidents and disability can lead to high expenditure on medical treatment and high indirect costs such as loss of income.
- Lifecycle Risks: The death of the earning person of the family can lead to accurate poverty conditions with no or limited sources of income. Many low-income households are also not financially prepared to face major events like retirement and old-age.
- Financial Risks: Like spoilage of crop, less income from the produce, death of livestock or major losses in small business can cause an adverse impact on the earnings of poor families.
- Disaster Risk: Natural calamities such as flood, tsunami and earthquake will not only lead to, casualties, but can also cause widespread economic damages that affect the livelihood of poor people.

2) Social and Economic Development

Governments and developmental agencies are constantly involved in launching and implementing new social-security schemes to improve the living standards of low-income individuals. However, their benefits either do not reach to these people or they are insufficient for them. Micro-insurance has therefore emerged as an alternative for low-income households to provide the protection against different Perils. Risks related to health of the people, natural disasters and loss of property can be covered at reduced premiums with micro-insurance. The main objective of micro-insurance is to offer insurance products to the low-income population. By reducing the poverty of the low-income households, micro insurance helps in the macro-economic development of the country and controls the impact of shocks. It also helps controls the income stream of families, hence reducing their chances of falling into extreme poverty. These families can now focus on the education of their children, health, improving their quality and standard of life, launching new entrepreneurial ventures that can lead to the development of the rural areas. Making availability of financial services across all the segments of society is very important to ensure broad level of economic development of the country.

3) Growth Opportunity for Insurers.

Micro-insurance leads to long-term development of the insurance industry. With favorable factors, like increasing personal and household income, improved economic conditions and increased efforts of reducing poverty, it is expected that a very high percentage of present low-income group will shift to the middle income group very soon. This socioeconomic transformation will also lead to greater business opportunities for the financial services industry. Particularly insurers can look forward to an increasing client base asking for conventional insurance with higher coverage even when the premium charged is very high. Insurance companies which are targeting low-income segments are not only serving present risk protection needs of the society, but are also creating for a strong brand value, a larger client base, goodwill in the market and recognition for long-term development

Major Challenges faced by the Micro Insurance Sector in India:

The micro insurance industry is faring very well for the past few years in India and further growth in value and volume. Still, it is facing many challenges on the systemic, institutional, operational and financial front. They can be narrated as follow:

- Micro insurance operators and their distributors are still not able to decide if this activity business to be continued as the main business with independent revenue or to continue as additional activities only.
- The absence of financial literacy in rural and village population which do not allow them to understand the required insurance product and select the wrong Thus, lack of insurance literacy amongst the people slows down the growth of activities of micro insurers.
- The rural micro insurance is riskier compared to regular insurance and thus the companies are less interested to expand fast.
- There is a wide gap between demand and supply for micro insurance, especially in rural areas. This also hinders the expansion of micro insurance business in our country.

- General awareness of people for insurance and products features is very limited in our rural population and this limits the growth of micro insurance.
- Many of micro insurance products do not take care of problems like the adverse selection of products, moral hazards, and fraud in the transaction.
- There is still a need for progress in regulation that can be effective for consumer protection and service rendered by micro insurers. The regulations should be flexible and simple to understand by the rural population.

DISTRIBUTION CHANNELS

A key concern in the pricing of an insurance product is the element of cost of acquisition and its delivery. Obviously, the delivery costs have to be contained to keep the cost of insurance sufficiently low to attract the poor and to incentivize the insurer to venture into this segment viewing it as a genuine market opportunity.

. The following three approaches have emerged in India to provide insurance to low income populations (only regulated channels are included here, not in-house schemes):

- ♣ Partnership model
- ♣ Agency model
- ♣ Micro-agent model

Partnership model (The partner-agent model)

As the name implies this model involves a partnership between an insurer and an agent that provides some kind of financial service to large numbers of low-income people. This could be a microfinance organization, an NGO, or a business that supplies pre-cuts to large numbers of low income people, such as a fertilizer supplier. This party is an agent, selling insurance policies to the clients on behalf of the insurance provider (usually) in exchange for a commission or fee. The insurance provider utilizes the established distribution channels of this agent and its financial transactions with low-income groups that would otherwise be too costly to set up. The partnership model uses the comparative advantage of each partner so that each can focus on its core business: the insurance provider is responsible for designing and pricing the product, the final claims management, and the investment of reserves, and absorbs all the insurance risks. In addition to selling the policies, the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management.

Agency model

In this model the insurer uses its normal agency office and sells micro insurance products directly. The client comes to the agency office for sales and servicing of the product. Insurers described this model but the authors could find no examples of it operating in practice.

Micro-agent model

While the partnership model is relatively common, the micro-agent model described below is distinctive. It is the invention of Tata-AIG, specifically an employee of Tata-AIG. The central building blocks of the model are Rural Community Insurance Groups (CRIGs) supervised by rural organizations such as churches, NGOs or MFIs? CRIGs are a partnership firm formed of five women from a self-help group (SHG). The leader of the CRIG is licensed as an agent. The CRIG is a de facto brokerage firm (in the technical, not the legal sense of the term). All CRIGs in the same geographic area meet in a single Centre, usually organized with the assistance of the rural organization, and receive training and assistance from Tata-AIG. This practice reduces training costs. Most CRIGs consist of four to five members. These members are usually women who are part of an SHG. A typical leader will be educated to the 12th standard or above, have a good track record of past social-sector performance and integrity, be systematic and organized, with leadership qualities, and public speaking and training skills. The CRIG leader and members are involved in promotion, sales and collection of insurance proceeds and maintaining records. The CRIG leader will document all fortnightly CRIG meetings and all weekly meetings with the NGO concerned.

CURRENT SCENARIO OF MICROINSURANCE IN INDIA

Till now 13 life insurance and 8 non-life insurance companies are providing services to the low-income segment of the society but the premium collected under micro insurance is less than 5% of the total potential segment available to provide micro-insurance services which means that many people are still not aware about the benefits available to them through micro-insurance or they do not trust it enough to invest their money in this policy but in spite of this situation it is observed that most of the micro insurance experiments are taking place in India only due to the following reasons:

- After the liberalization of the insurance industry in India in 1990s the insurance sector has witnessed a boom period.
- Many organizations such as Self Help Groups have a reach of more than 10 million people so these can be utilized effectively to provide micro-insurance
Services to low-income people of the society.
- According to the guidelines issued by IRDA all the insurance companies are required to conduct a portion of their business in rural areas covering the
Social sector of the society.

Moreover government has realized the need to protect the low-income segment of the society and is now providing various subsides and has also implemented various schemes by the public insurance companies for the development of the informal sector of the society. These subsidies may not go over well with the free market crowd but they are contributing towards the growth of micro-insurance activities in India.

CONCLUSION

This paper can be concluded with the statement that micro-insurance is an instrument which can be used to provide protection to low-income segment of the society against various uncertainties at low cost. It is an effective tool which can be used to eliminate poverty of the country. Moreover government is also contributing in the development of micro-insurance by providing various subsidies to make the micro-insurance products less costly so that poor people can afford it easily. But micro-insurance is still an emerging concept in India and it is facing challenges for its development as people are not aware about it and there are no proper channels for its distribution.

Internally, insurers need to make a commitment to serve the poor, which involves getting to know the market, and having the resources and latitude to innovate. In many companies, this "willingness" issue is not an easy one to overcome, at least not until senior executives are convinced that the low-income market is worth the trouble. Externally, insurers have to work hard at securing acceptance by the low-income market about insurance as a relevant risk-management tool, and about the insurer itself.

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