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MICRO INSURANCE IN INDIA

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Abstract: According to Consultive Group to Assist the Poor [CGAP], micro insurance is defined as, "The protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and costs of the risks involved." It refers to insurance products made for low-income individuals. Micro insurance is an emerging concept in India, adopted in 2005, as per the Insurance Regularity Development Authority of India [IRDA] guidelines to increase insurance coverage to protect the people below the poverty line. Basically, micro-insurance provide services to the people working in the informal economy and who are financially weak as compared to the upper class of the society. Main objectives of this paper are to study distribution Model and Diversity of Micro-insurance Products for Micro Insurance and to study the current scenario of Micro Insurance in India Micro-insurance is different from traditional insurance in many ways. Like the size of premiums, coverage limits, product features, distribution channels and target population.

Key Words: - Insurance, Micro, Income, Risk, Poor

I. INTRODUCTION

In 2007, Micro Insurance Academy, India defined micro-insurance as, "a risk transfer device characterized by low premiums and low coverage limits and designed for low income people not served by typical low insurance schemes."

International Association of Insurance Supervisors has defined micro-insurance as, "Insurance that is accessed by the low-income population provided by a variety of different entities, but run in accordance with generally accepted insurance practices. Importantly this means that the risk insured under a micro-insurance policy is managed based on insurance principles and funded by premiums."

ILO's Micro-insurance Innovation Facility in 2008, defined micro-insurance as, "a mechanism to protect poor people against risk in exchange for insurance premium payments tailored to their needs, income and level of risk."

Objectives of the study:

1. To study the distribution models for Micro-insurance
2. To study the Diversity of Micro-insurance Products
3. To study the benefits and Challenges faced by Micro-insurance
4. Difference between Micro-insurance and Conventional insurance.
5. To analysis the Current Scenario of Micro-insurance in India

II. RESEARCH METHODOLOGY

The study is qualitative study based on secondary data.

III. 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, economical 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

IV. CHARACTERISTICS OF MICRO-INSURANCE:

- Insurance Principles: It is based on the basic insurance principles which involve payment of premiums by the policyholders to the insurance company in exchange for the promise by the insurer to indemnify the insured in case any loss arises.

- Accessibility: Micro-insurance targets the people with low and unstable income who cannot afford to pay the premium charged in traditional insurance. It helps the insurers to provide insurance services to the remote sections of the society and helps them in ensuring the availability of risk protection for a wider section of the society.
- Affordability: The amount of premiums is very less in case of micro-insurance to make products affordable for the target population. Governments or developmental agencies also help by providing premium subsidies to ensure that the products are affordable.
- Flexibility: Since the poor section of the society does not have same requirements so micro-insurance products requires flexibility so that they can be tailored to meet their requirements in an effective way.
- Simplicity: Micro-insurance should be formed easy to make it understandable for lower income group. It should contain only the premium chargeable, underwriting charges and some other charges which are very important in an insurance product. This helps to make the products easy to understand and more acceptable.

V. 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.

VI. 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 socio-economic 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.

VII. DISTRIBUTION MODELS FOR MICRO-INSURANCE

Cost of acquiring the product and its delivery to the customers is a key concern in the pricing of insurance products, therefore, by focusing on reducing the delivery costs, insurance products can be provided at a low-cost to attract the low-income section of the society and at the same time, it be financially suitable to the insurers.

Micro-insurance can be provided to the target population with the help of the following models:

- Partner-Agent Model: Here insurers use MFIs delivery mechanism to provide insurance products and basic services to clients. The risk involved in this type of model is very low and limited administrative burden for MFIs. This is the most commonly used model but the major disadvantage of this model is that it involves time delays in claim settlement.
- Full Service Model: Here the provider takes all the responsibility related to the production, sales, servicing and claim assessment of the product. And the insurer takes the responsibility of handling all insurance related costs and losses and retains all profits earned in the business.
- Community-Based Model: In this type of model the policyholder himself is the insurer as he own and manages the insurance program, and negotiates with .external businesses providing healthcare services.
- Provider Model: In this type of model, the service provider and the insurer is the same person like hospitals or doctors providing micro-insurance policies to low-income individuals.
- The “all-in-one insurance” Model: In this model, organisations like MFIs and insurance companies provide their own micro-insurance products to low-income group. For this purpose, these organisations appoint agents on salary basis or commission basis and they also bear the risks related to these products.

VIII. DIVERSITY OF MICRO-INSURANCE PRODUCTS

The most frequent micro-insurance products are as follow:

- Life Micro-insurance: Life Micro-insurance provides protection against financial losses that occur to the family on the death of the earning person of the family. Although life-insurance is generally provided for a long period but poor people generally buy it for short-period i.e. 1 year and with no guarantee of renewal. These are of two types:
  a) Term Life Micro-insurance: under this type of policy the compensation is paid only on the death of the policyholder. The nominee is generally a family member who receives a lump sum in case of the death of the policy holder. But on the condition that the policyholders dies within the specified term.
  b) Credit Life Micro-insurance: This type of micro-insurance is taken by the policy holder who takes a loan from micro-finance institution and if the policyholder dies with the term than the compensation is paid to these micro-finance institution. One of the main purpose of this type is to provide relief to the family of the deceased person from the burden of loan.
- Health Micro-insurance: This type of micro-insurance provides coverage against financial losses including ill-health and maternity. The financial consequences include direct medical and non-medical costs. Health micro-insurance schemes mostly provide cover for direct medical costs with a specified list of risk.
- Disability micro-insurance: This type of micro-insurance provides protection against the financial consequences of lack of validity, which can be either temporary or permanent, depending on the contract of micro-insurance. In case when the physical loss can be reversed and it lasts only for a limited period of time which is generally up to three years than the disability is called temporary disability. Disability micro-

insurance covers different variety of disabling events that need to be defined in detail in advance. The financial compensation provided is proportional to the seriousness of the disability which is also known as disability rate.

- ✓ Property Micro-insurance: Property or asset micro-insurance provides protection against the financial loses that a person has to incur due to the damage or loss of personal assets (livestock, housing etc.), work premises and tools. The person who takes the insurance is generally the owner of the assets and/or tools. In this the amount of compensation depends on the loss caused to the insured so it is accessed after the damage has happened.
- ✓ Crop Micro-insurance: This type of micro-insurance is made to protect the farmers in case of crop failure. It provides a financial compensation to the farmers in the case of crop failure due to uncontrollable factors like drought, crop pest etc. Since the assessment of the loss caused is very difficult so the financial compensation is calculated once the damage has occurred.

IX. ROLE OF TECHNOLOGY IN MICRO-INSURANCE

Micro-insurance or the insurance which is designed to serve low-income segment of the society, has become a popular strategy to eliminate poverty in the last ten years. The rural health delivery and micro-insurance scheme developed by CARE focuses mainly on training the local health care providers to use highly technological diagnostic devices.

The project is facing large amount of challenges. It is able to provide benefit to only about three percent population of low-income segment in the world's 100 poorest countries, leaving nearly around two billion people uncovered and to provide micro-insurance to these people the use of technology is very important.

According to the World Resources Institute, "Technology does two key things that help drive the development of financial services: it cuts costs, and bridges physical distance." There are generally two big barriers in the development of micro-insurance which are as follow:

- High operating costs
- Clients that are spread out and are very difficult to access.

X. ROLE OF RE-INSURANCE IN MICRO-INSURANCE

Re-insurance plays a very crucial role in micro-insurance programmes and it has two major advantages:

1) It decreases the risk of bankruptcy of the micro-insurance provider in bad years
2) The micro-insurer does not need to build reserves for future-emergency as it provides them safety and also allows them to earn good amount of surplus in good years.

Some of the professional re-insurers in micro-insurance markets are Interpolis Re-insurance, Swiss Re-insurance, Africa Re-insurance and Best Re-insurance etc.

XI. CHALLENGES OF MICRO-INSURANCE

- ✓ The greatest hurdle in the delivery of micro-insurance products through financial institutions is due to the different perspective of the insured.
- ✓ Other basic problems in institutional insurance mainly include wrong selection of products, moral hazards and poor infrastructure facilities which leads to high administrative cost and claims leading to insufficient compensation need to be addressed properly, for developing a sustainable model.
- ✓ Creating awareness among people to invest in the micro-insurance products is a very difficult challenge.
- ✓ Lack of availability of data related to potential claims which could have helped the insurers in designing good-quality products.
- ✓ As farm laborers keep moving from one area to another so portability of micro-insurance products is a crucial issue.
- ✓ In most cases it is observed that there has been a large number of dropouts in insurance programmes as people are not able to pay premiums in times of crisis, due to which the premiums paid previously, is also forfeited by the insurance providers.
- ✓ In most of the cases it is observed that the impact of any shock affects a women more

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than a men. Moreover, there are many other problems like unstable marriage, high level of illiteracy and other health problems such as pregnancy with women which are not covered under micro-insurance.

- ✓ Due to difference in the sum assured offered for accidental deaths and natural deaths by different insurers there is a lot of confusion in the minds of the people regarding which micro-insurer product to buy.
- ✓ Delay in claim settlement is one of the major challenges faced by micro-insurance. In most of the cases the problem with death claim is obtaining death certificate and other documents which generally leads to delay in claim settlement, moreover, claims are paid with the help of cheques and many low-income people do not have a bank account so it again leads to problems in claim settlement.

Difference between Micro-insurance and Conventional insurance

BASIS	MICRO-INSURANCE	CONVENTIONAL INSURANCE
Target Market	It targets only low-income segment of the society.	It targets medium and high income segment of the society.
Product Design	It designs simple products which can easily be understood by the people.	In this type of insurance the products are generally complex as it provides multiple coverage.
Marketing and Distribution	It requires innovation and is sold as combined products and is sold through micro-finance institutions.	It uses conventional channels of distribution like agents and is sold through licensed intermediaries
Administration	It involves irregular payment of premiums due to irregular income of people also payments can be made by cash.	It involves regular payment of premium and the payment is made with the help of cheque, debit or credit card.
Claims Handling	Claims can be handled very quickly and is very simple as it involves less documentation	Claims handling process is complex in nature as it involves detailed documentation

XII. CURRENT SCENARIO OF MICRO-INSURANCE 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.

XIII. 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. The main objective of micro-insurance is the development of the informal section of the society by providing them insurance services at a very low price through Micro Finance Institutions. 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. Technology and Re-insurance play an important role in the development of micro-insurance as with the help of latest technology distribution of micro-insurance products can be made easy and moreover with the help of re-insurance it protects the insurer from suffering losses. Thus these two elements are very important for the development of micro-insurance.

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