

A CRITICAL ANALYSIS OF MICROINSURANCE

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ABSTRACT

Micro-insurance now-a-days is a global issue across the whole world due to the increasing poverty and micro insurance is very useful for those people who living below the poverty line. Main object is to know the demand and supply of micro insurance in the market. Determination need and ability of people segment whose per day income is less than 100 or 200 rupees. What really matters to him or her while think about insurance. In research it would be difficult for the insurers to established a vast network for distribution of micro-insurance products so they need to utilization of existing government organization, Banks, MFIs, NGOs to increase the outstretch of micro insurance to the poor.

INTRODUCTION

India is enjoying rapid growth and benefit from a young population. Its middle class is growing rapidly but 70 percent of the population is still rural, often very poor, and handicapped by poor health and health services, and low literacy rates. Although the type of risks faced by the poor such as that of death, illness, injury and accident, are no different from those faced by others, they are more vulnerable to such risks because of their economic circumstances. According to World Bank study (peter et al. 2002), reports that about one-fourth of hospitalized Indians fall below the poverty line as a result of their stay in hospitals.

Micro insurance is the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved. It is specifically designed for the protection of low income people with affordable insurance products to help them cope with and recover from common risk. A key strategy for enhancing economic development and alleviating poverty is to make financial system more inclusive, for example by improving access to savings and credit services for un-and under-served markets. Historically in India, a few micro insurance schemes were initiated, either by nongovernment organization (NGO) due to the felt need in the communities in which these organizations were involved or by the trust hospitals.

Need For Developing Micro-Insurance in India – IRDA Perspective

Development Goal: To enable micro insurance to be an integral part of a country's wide insurance system, it is important for every insurer to adjust its costs of serving marginal client in remote areas. Collecting premium and installment, and offering doorstep services. It is also important to recognize a wide network of intermediaries in the rural and social sectors

and notify regulation in order to guide and supervise the micro-insurance services providers and their customer. Semiformal institutions including savings and credit cooperatives, NGOs and self-help groups which immense potential in carrying the messages of insurance as also solicit insurance business are yet to be utilized in a manner where their true potential can be harnessed to increase the insurance penetration levels.

- Adapting formal insurance arrangements to the needs of the micro economy.
- Upgrading non formal insurance arrangement with insurance companies.
- Linking formal and non formal insurance institution with banks and self help groups.
- Establishing new local institution providing micro insurance services.

IRDA (Microinsurance) Regulation, 2005

The regulation defines micro-insurance products

The regulation provides definitions of micro-insurance products covering life and general insurance “General micro insurance product” means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule-I appended to these regulations. “Life micro insurance product” means any term insurance contract with or without return of premium, and endowment insurance contract or health insurance contract, with our without an accident benefit rider, either on individual or group basis, as per terms stated in Schedule-II appended to these regulations.

Intermediary: The micro insurance agent, can be a Non-Governmental Organization (NGO), MFI or other community organization such as Self Help Groups (SHG) appointed by an insurer to distribute micro-insurance through specified persons. Micro-insurance agents enter into a “deed of agreement” with the insurer. They abide by the code of conduct defined by the IRDA and attend 25 hours of training (down from 100 hours originally required for conventional insurance agents but now reduced to 50 hours) in the local language at the expense of the insurer. There is no qualifying examination, unlike the case of ordinary insurance agents.

According to the regulation,

(a) Non-Government Organization (NGO) means a non-profit organization registered as a society any law, and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rule, by-laws or regulations as the case may be, and demonstrates involvement of committed people.

(b) Self Help Groups (SHG) means any informal group consisting of ten to twenty or more persons and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people.

(c) Micro-Finance Institutions (MFI) means any institution or entity or association registered under any law for the registration of societies or co-operative societies, as the case may be, inter alia, for sanctioning loan/finance to its members.

IRDA has recognized four categories of intermediaries: brokers, agents, corporate agents, and Micro-insurance (MI) agents. Categories other than MI agents may sell micro-insurance but they do not benefit from the concessions allowed for the MI agents. However, a micro-insurance agent shall not distribute any product other than a micro insurance product.

The regulation provides for MI agents to perform the following functions

- (a) Collection of proposal forms
- (b) Collection of self declaration from the proposer that he/she is in good health.
- (c) Collection and remittance of premium
- (d) Distribution of policy documents
- (e) Maintenance of registers of all those insured and their dependants covered under the microinsurance scheme, together with details of name, sex, age, address, nominees and thumb impression/signature of the policyholder.
- (f) Assistance in the settlement of claims
- (g) Ensuring nomination to be made by the insured

The limitations of the micro-insurance regulations

The impacts of the MI regulations are likely to be limited for a number of reasons

Limitation on the number of insurance companies an MFI can work with: The MI Regulations restrict a MI agent to working with one life and/or one general insurer respectively. This is problematic and does not accommodate models currently used in the MI market. Most insurers do not want to underwrite all risks and tend to specialize in particular types of risk. For example if a MI agent is tied to specialized health insurer, they cannot work with another general insurer to sell other asset insurance products.

Know Your Customer (KYC) / Anti Money Laundering (AML) Norms: Micro insurance agents have expressed their concern at the difficulties faced by them in accessing KYC documents from proposers in rural areas, such as electoral identity card or ration card or electricity bill which are generally accepted as proves of residence.

Micro Insurance: Product in India

There are 23 life insurance companies are present in India but only 14 companies are providing micro insurance products this clearly give an idea of low attraction of majority of companies towards these products. Below is the list of micro insurance products along with the name of companies:

Name of insurer	Name of the product
AVIVA Life Ins. Co. India Pvt. Ltd	Grameen Suraksha
Bajaj Alliance Life Insurance Co.Ltd	Bajaj Alliance Jana Vikas Yojana Bajaj Alliance Saral Suraksha Yojana Bajaj Alliance Alp Nivesh Yojana
Birala Sun Life Insurance Co. Ltd.	Birala Sun Life Insurance Bima Suraksha Super Birala Sun Life Insurance Bima Dhan Sanchay
ICICI Prudential Life Insurance Co.Ltd.	ICICI Pru Sarv Jana Suraksha
IDBI Fortis Life Insurance Co. Ltd.	IDBI Fortis Group Micro insurance Plan
ING Vysya Life Insurance Co. Ltd	ING Vysya Saral Suraksha
Life Insurance Corporation of India	LIC's jeevan Madhur LIC's jeevan Mangal, Jeevan Deep
Met Life India	Met Vishwas
Sahara India Life Insurance Co.Ltd.	Sahara Sahayog (Micro endowment Insurance without Profit Plan)
SBI Life Insurance Co. Ltd.	SBI Life Grameen Shakti SBI Life Grameen Super Suraksha
Shriram Life Insurance Co.Ltd.	Shri Sahay Shri Sahay(AP)
Star Union Dai-ichi Life Insurance Co.	SUD Life Paraspar Suraksha plan
TATA AIG Life Insurance Co. Ltd.	Ayushman Yojana, Navkalyan Yojana, Sampoorn Bima Yojana, Tata AIG Sumangal Bima Yojana

LITERATURE REVIEW

Michael J. McCord(March 2008): Still, only around two percent of the households that could use micro insurance are reached by micro insurance programs. Microinsurance massification will be predicated on effective delivery channels. For a long time, people thought microfinance institutions were the way to go. But, even at best, MFIs will only be able to reach about 25 percent of the potential micro insurance market. Microinsurance seems to moving from the simple to the more complex. Additionally, you've got some companies now, for example CruzSalud in Venezuela and Micro care in Uganda, that have been offering health microinsurance on a commercial basis. These examples give the insurance sector some numbers and this helps them to understand quantitatively the risks in this market. We will continue to move more towards additional health insurance products as insurers become more comfortable with these markets and the risk inherent in them.

Rachele Pierro(2008):gives an overview of Christian Aid interest in crop/weather micro insurance(MI) as well as "involvement in micro insurance related products and Services" in his research he found that majority of people interviewed (85%) believe crop/weather insurance would help poor farmers in managing weather risks and this percentage rises to 100 % for interviewees based in field. For most respondents conditions for successful MI

would be the presence of empowered communities and the absence of conflict, while protection to different categories of poor (not only farmers but also landless and marginalized pastoralist communities) makes weather insurance more appealing than traditional crop insurance.

A World Bank study(Peters et al. 2002), report that about one-fourth of hospitalized Indians fall below the poverty line as a result of their stay in hospitals. The same study report that more than 40 percent of hospitalized patient take loans or sell assets to pay for hospitalization. Indeed, enhancing the ability of the poor to deal with various risks is increasingly being considered integral to any poverty reduction strategy (Holzmann and Jorgensen 2000, Siegel et al. 2001).

Mark malika and Anet T. Kuriakose (2008) discussed the role of micro insurance in mitigating external shocks on poor household. He also stressed on careful attention and expert technical input is required in designing micro insurance products and programs as they are significantly more complex than and credit programs offered by different organizations. Use of different risk layering using different form of reinsurance to cover the insurer is crucial from a financial sustainability standpoint, and the use of various outreach mechanism to reach poor household is necessary from an equity point of view.

RESEARCH METHODOLOGY

OBJECTIVE

- To know the demand and supply of micro insurance in the market and to know the most demanded product of micro insurance.
- Determine need and ability of people segment whose per day income is less than 100 rupees. What really matters to him or her while think about insurance.
- To find the awareness of micro insurance among the poorest group of people.
- To identify significant constraints for Micro insurance

Research Design

Sampling Method	Non random Sampling
Sampling Technique	Convenience sampling
Sample size	150

Data Collection

Primary: Structured questionnaire.

Secondary: Internet, Publications (magazines), Newspapers

Data Analysis and Interpretation

Sr. no.	Response of the Question		
1.	Awareness of insurance		
	Yes	112	75%
	No	38	25%
2.	No. of earning members in family		
	One	70	
	Two	42	
	More than two	0	
3.	Have you ever taken insurance policy?		
	Yes	60	54%
	No	52	46%
	Awareness of micro insurance policy		
	Yes	32	29%
	No	80	71%
4.	Source of awareness micro insurance		
	Social group	2	6%
	Friends/Family	5	16%
	Insurance Agent	20	62%
	Other	5	16%
5.	No. of micro insurance holder or interested respondent		
	Yes	12	38%
	No	20	62%
6.	Most preferred micro-insurance policy		
	Life insurance	10	45%
	Health Insurance	12	55%
	Live stock Insurance	0	0%
	Unemployment Insurance	0	0%
	Property Insurance	0	0%
	Other	0	0%
7.	Ability to pay premium		
	Less than 300	2	17%
	300-500	2	17%
	500-1000	6	49%
	More than 1000	2	17%
8.	Reason behind not taken the micro-insurance		
	Not enough information	72	64%
	Not able to pay premium	8	7%
	No trust on insurance policy	30	27%
	Other	2	2%

Test Application**Chi square independency test:**

H₀:	Taking of micro insurance is independent from the awareness of micro insurance.
H₁:	Taking of micro insurance is dependent from the awareness of micro insurance.

Awareness/taken	Yes	No	Total
Yes	22(6.29)	10(25.29)	32
No	0(15.71)	80(64.29)	80
Total	22	90	112

Calculated Value: 68.37

Table value $\chi^2_{.05,3} = 3.841$

So Calculated value > Table value $68.37 > 3.841$ so null hypothesis is rejected and suggest that t awareness of micro insurance is dependent if the people are aware about the micro insurance than and than they take micro insurance.

FINDINGS

- Many of them aware about insurance but not about the micro insurance policy because lack of information about the micro insurance.
- Because of no. of earning members in family are one or two and also per day income is around 150to 200 and most of their income is spent on rent, food, cloth sand Medicare so they prefer to take the policy for one or two members only because of inability to pay premium.
- 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.
- As majority of respondents are daily earner and so they are ready to invest in micro insurance policy, they are ready to give daily 10-20 re for their insurance if someone collects premium from their shops or door steps. Most of the respondents prefer to pay premium up to re.1000 because of low income and some of them prefer to pay premium monthly or half yearly at the door steps. There are specific reasons for low demand for insurance in spite of intense need. Suppliers have their own concerns which help to explain why there have been so little efforts at market development. Consequently, the rural market is characterized by limited and inappropriate services, inadequate and capacity gaps.

SUGGESTIONS

- It would be difficult for the insurer to establish a vast network for distribution of micro insurance products. They need to more utilization of existing Government

organization, Banks, MFIs, and NGOs to increase the outreach of micro insurance to the poor.

- Special programs should be arranged for awareness of Micro insurance policy.
- The agents should be provided more commissions for micro insurance policies.
- Design of micro-insurance products must have the features of simplicity, availability, affordability, accessibility and flexibility.
- As like foreign countries, India should also make insurance compulsory.

CONCLUSION

At last the results indicate that there is a huge untapped market for micro insurance. And most of the respondents are completely unaware of micro insurance product but many of them are aware of insurance product. Given irregular and uncertain income stream of the poor, flexibility in premium collection is needed to extend the micro-insurance net far and wide.

The above statistical interpretation it could be also concluded that sometimes low income people want to take micro insurance policy but lack of information and money for premium they can't take micro insurance policy so micro insurance product should be manufactured in such a way that those respondent who had denied for having insurance for all family members only just because of premium.

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