SOCIAL SECURITY THROUGH MICRO-INSURANCE IN INDIA

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ABSTRACT:
Micro-insurance phenomenon is one of the most remarkable socio-economic developments of recent times. For a long time, the poor, because of their economic circumstances, were considered non-insurable and non-bankable. However, the "micro-insurance" and "micro-credit" phenomena have shown that the poor can be made insurable and creditworthy if they are organized in small groups. This clearly has deep connotations not just from a finance perspective but, more importantly, from the perspective of poverty mitigation.

Key words : Micro-insurance, micro-credit, micro-finance, ILO, IRDA.

INTRODUCTION:

Micro-insurance is one of the tools that provide protection to low income people against the persons earning very low-income live in risky environments, vulnerable to numerous perils, consisting illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and manmade varieties. The poor are more vulnerable to many of these risks than the rest of the population, and they are the least able to cope when a crisis does occur. Micro-insurance financial losses occurred due to happening of above mentioned perils. It is the most unexplored area of micro finance where tremendous opportunity for insurer can be seen. It has immense importance in reducing the poverty and providing social protection to the down trodden section of society. Providing insurance services to majority of the world population which lives in the rural areas or having low income scattered over a wide dissection of geographical, socio-cultural and linguistic landscape is the major challenge for both public and private institutions delivering insurance services. The challenge is even scarier because of low literacy levels; poor infrastructure and a nascent and urban centric insurance industry at this point of time of the four billion people on earth today who live on less than USD 2 per day, fewer than 20 million currently have access to insurance. According to the United Nations Capital Development Fund, up to 80% of the 5.1 billion people in developing countries derive their incomes from the informal economy. Micro-insurance can provide solutions for these people to cope with risks in spite of low and often irregular incomes.

As far as the Indian economy is concerned it is enjoying rapid growth and benefits from youngest population in the world. Indian economy is predominantly an agrarian economy. Agriculture employs 65% of the total workforce in this country. It accounts for 40% of the GDP and accounts for 20% of the total value of exports. Nearly 80% of the total population lives in our villages. Insurance industry contributed just 2.6% of the GDP during 20013-14 and 3.17% during the financial year ending March 2015.

Despite its importance, rural sector has not been given the adequate attention it deserves. Our rural population does not enjoy the same privilege and security as their urban counterparts.

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Insurance is one such crucial area where the benefits of security arising out of an insurance cover is not yet available to a farmer on the same lines as available to an urbanite.

NEED OF THE STUDY:

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 US$ 2 per day, they are the most vulnerable.

OBJECTIVES OF THE STUDY:

- To explore the history of micro-insurance in India.
- To study the challenges of micro-insurance in India.
- To examine the regulated distribution models of micro-insurance in India.

MICRO-INSURANCE IN INDIA:

The draft paper prepared by the 'Consultative Group to Assist the Poor (CGAP)' defines micro-insurance as "the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of risk involved". 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 device that promises to support sustainable livelihoods by empowering people to adapt and resist stress. Here, the word "micro" refers to small financial transaction that each insurance policy generates. Micro-insurance can also be defined as a financial agreement to protect low income people against specific perils. It should be noted that micro-insurance does not refer to the size of the risk carrier, the scope of the risk, and the delivery channel. Hence, the following points may be concluded in context of micro-insurance:

- Transactions are low cost
- Clients are essentially low-net-worth, and

Communities are involved as important phases of the process.

Historically, in India, a few micro-insurance schemes were initiated, either by Non Government Organizations (NGO) or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activities and partly due to the regulation that makes it mandatory for all the formal insurers to extend their activities to rural and social sector. As a result, micro-finance institutions (MFI) and NGOs are negotiating with the insurers for purchasing customized group or standardized individual insurance schemes for the lower income group. Although, the reach of such insurance schemes is still very limited and ranges from 15 to 16 million individuals but their potential is viewed to be considerably high.

The IRDA defines rural sector as,

- A population of less than five thousand,
- A population density of less than 400 per square kilometer, and
- More than 25% of the working male population is engaged in agriculture.

The social sector as defined by IRDA consists of

- Unorganized sector,
- Informal sector,
- Economically vulnerable or backward classes, and
- Other categories of persons, both in rural and urban areas.

The social obligations are in terms of number of individuals to be covered by both life and non-life insurers in certain identified sections of the society. The rural obligations are in terms of certain minimum percentage of total policies sold by the life insurers and for general insurers, it is a certain percentage of the total gross premium collected.

In order to fulfill these requirements, all the insurers have designed products for the weaker section and low income individuals. Both public sector and private sector companies are adapting various strategies for developing collaborative relations with the civil society associations. The presence of these associations as nodal agencies (mediators), help the insurers in extending insurance cover to the poor. These nodal agencies help the formal insurers overcome both informational disadvantage and high transaction cost in providing insurance to the low income group.

REGULATORY FRAMEWORK FOR MICRO-INSURANCE IN INDIA:

Regulations define the requirements of an insurer, provide consumer protection through the supervision of insurers to safeguard their solvency and thus shield the customer from buying insurance from an unsuitable company. More specifically, insurance regulations:

(1) protect customers from misleading sellers (by regulating the delivery channel, e.g. through standards for agents/licensing of agents and brokers) and unfair claims practices; for example by requiring disclosure and by regulating complaints; or by regulating rate setting/pricing (some jurisdictions have limits for rate, or require prior approval); regulating policies (forms/contracts, exclusions);

(2) protect the financial viability of insurers, e.g. by requiring standards for qualifications, solvency, performance, risk limitation, disclosure, reserves, reporting (periodicity, accounting and information systems), auditors, investment restrictions;

(3) define the general features of insurance, e.g. the provision of insurance, the types of products and the different types of insurance (e.g. short- and long-term; national or cross-border operations; life insurance and general insurance);

(4) define duties and responsibilities, e.g. the persons (natural or judicial) permitted to engage in insurance activities, ownership (management, domicile, holdings, foreign investors); the public sector agency responsible for insurance regulations and compliance; sanctions and penalties for non-compliance or omission;

(5) define the conditions for the entry and exit of players in the market;

(6) guarantee a level playing field in the market, i.e. guarantee that equal conditions for all operators exist in the market and that competition is not distorted (e.g. by permitting an insurer to operate outside the law while the regulated competitor has to bear significant costs because he is licensed and supervised).

Insurance Regulatory and Development Authority (Micro-insurance) Regulations, 2005: Building on the recommendations of the consultative group, IRDA notified Micro-insurance Regulations on 10th November 2005 with the following key features to promote and regulate micro-insurance products:

- A tie-up between life and non life insurance players for integration of product to address risks to the individual, his family, his assets and habitat,
- Monitoring product design through "file and use",
- Breakthrough in distribution channels with inclusion of Non Government Organizations (NGO), Self Help Groups (SHG), Micro Finance Institutions (MFI) and Poorest Areas Civil Society (PACS) to provide micro-insurance, with appropriate compensation for their services,
- Enlarged servicing activities entrusted to micro-insurance agents, and
- Issue of policy documents in simple vernacular language.

BENEFITS OF MICRO-INSURANCE:

Generally it is said that micro insurance is rural and poor oriented insurance but that is only a narrow concept. It equally focuses on the urban poor for fulfillment of wider objectives. It is very difficult to meet diverse needs of all the poor people, yet those risks that dominate the micro economy and require coverage must be covered. Micro-insurance schemes can cover various risks which are listed below:

- Life micro-insurance and retirement savings plans provide coverage against the financial consequences due to death of the breadwinner.
- Health micro-insurance provides coverage against the financial consequences of ill health. The financial consequences can take several forms such as direct medical costs of prevention, care and cure (fees for consultations, laboratory tests, medicines, hospitalization, delivery, etc.), direct non-medical costs such as costs of transportation, food in case of hospitalization, and indirect costs (opportunity costs) since ill health usually causes a loss of productive time for both patients and caretakers. Health micro-insurance schemes usually cover direct medical costs covering a predetermined list of risks (or health services). Very few schemes provide cash benefits (income replacement) in case of ill health.
- Disability micro-insurance provides coverage against the financial consequences of disability, whether temporary or permanent, depending on the contract. Disability is called temporary when the physical loss is reversible and lasts for a limited period of time (generally up to three years).
- Property micro-insurance (assets, livestock, housing) provides coverage against the financial consequences of the damage or loss of personal assets, work premises and tools (e.g. hut micro-insurance against fire, theft of belongings, or death of livestock).
- Crop micro-insurance provides a financial compensation in the case of crop failure generated by uncontrollable adverse events (e.g., drought, crop pest etc.).

DELIVERY MECHANISM OF MICRO-INSURANCE:

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 Committee studied four different models for delivering micro-insurance services to the targeted clientele:

Partner - Agent Model

- Insurers utilize MFIs' delivery mechanism to provide sales and basic services to clients.
- There is no risk and limited administrative burden for MFIs.

Full Service Model

- The provider is responsible for all aspects of product design, sales, servicing and claims assessment.
- The insurers are responsible for all insurance-related costs and losses and they retain all profits.

Community Based Model

- The policy holders own and manage the insurance program, and negotiate with external health care providers.

Provider Model

- The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups.

CURRENT STATUS OF MICRO-INSURANCE IN INDIA:

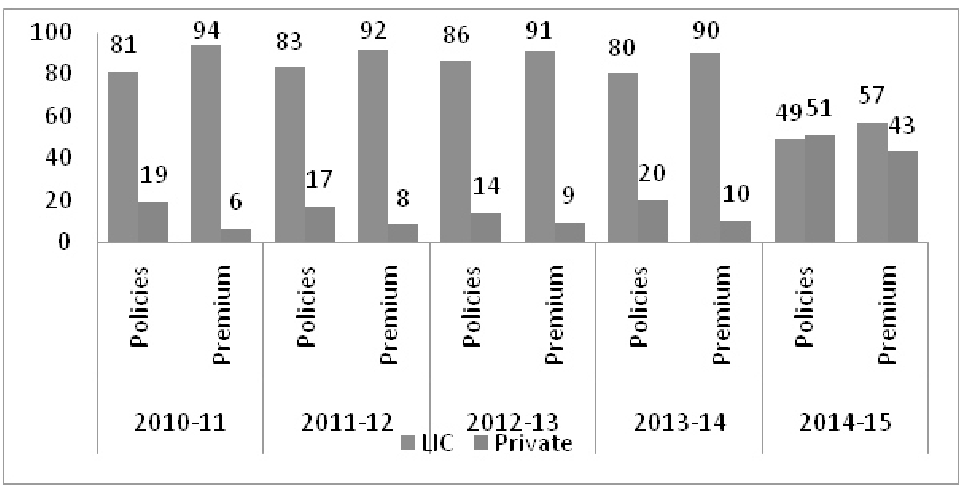
Some important observations about the demand for micro-insurance in India are made in a study by ILO (2004b). Apart from this, annual reports of IRDA are published which provide details of micro-insurance schemes operational in India. Some highlights of the micro-insurance business are given below:

There are 25 schemes which are operational in India and most of them are running in very initial stage, having started their operations in last few years.

- As far as the beneficiaries are concerned, the individual schemes cover around 15 to 16 million people, whereas more than 75 million people have been covered under the various group insurance schemes.

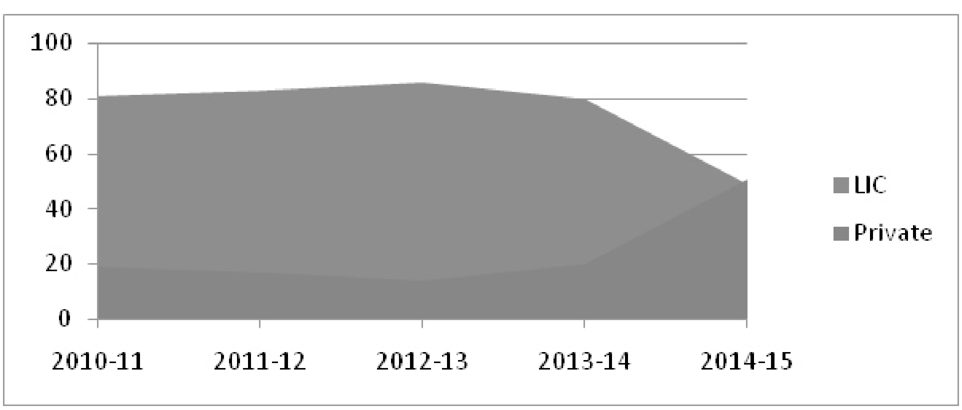
- Life and health are the two major segments where micro-insurance schemes are mostly demanded for, rest of the sectors remain ignored.
- Most of the schemes (around 75%) operate in four southern states of India - Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%). Two western states Maharashtra (12%) and Gujarat (6%) are also doing fairly well in this regard.
- Most of the schemes require single yearly premium at the time of purchase. Only 12% of the schemes offer other payment options.
- Most of the schemes (about 55%) rely on voluntary contributions, while 20% imposed compulsory contributions and 15% of them adopted a mix of voluntary and compulsory contributions.
- Table-1 shows that LIC had been the leader in the micro-insurance business in India till 2013-14, both in terms of policy and premium, but now the private insurers are giving a tough fight and their businesses are almost equal.
- Table-2 and Table-3 show the changing patterns of business in terms of no. of policies and premium for LIC and private insurers. On one hand, the no. of policies has gone down by 32% and on the other, the premium income also dipped by 37%.

Table 1: New Business of LIC and Private Insurers from 2010-11 to 2014-15



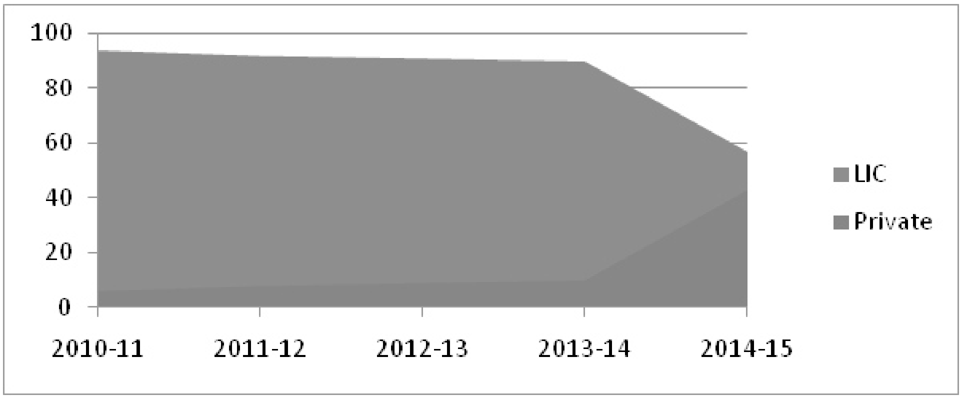
Source: IRDA reports

Table 2: Comparative chart of New Business (Policies) from 2010-11 to 2014-15



Source: IRDA reports

Table 2: Comparative chart of New Business (Premium) from 2010-11 to 2014-15



Source: IRDA reports

THE CHALLENGES OF MICRO-INSURANCE:

Besides the delivery challenges addressed above, there are a number obstacles associated with extending insurance to low-income persons.

- Technical Complexities: Insurance is a highly technical business that requires specific skills to ensure that the business is managed properly. Management of a micro-insurance programme requires an even greater level of technical expertise and actuarial capacity because of the high level of risks, lack of reliable data, and claims volatility. Such schemes require substantial resources dedicated to underwriting, MIS, claims adjustment, premium setting, and insurance accounting.
- Lack of Comprehension: There is a lack of awareness among the poor about insurance, and its intangibility makes it difficult to understand. Misunderstandings lead to low renewal rates, particularly from clients that have not had a claim. Insurance may have a poor image in low-income communities; insurance providers are seen as quick to sell and slow to pay. Often, policy documents are too complicated for the poor, most of whom are illiterate. Micro-insurance must focus on products that policyholders will understand. The provider must put careful planning and resources into marketing and client education.
- Underwriting: Underwriting is the process of selecting risks for insurance and determining in what amounts and on what terms the insurance company will accept those risks. Proper underwriting requires consideration of, among other things, the potential for adverse selection, moral hazard, and fraud. Thus, the risk structure for an insurance business is significantly different from that of other businesses, including microfinance. Further, credible data to assess these risks is usually not available. The skills required are frequently lacking in the development of informal micro-insurance products and this can easily lead to rapid disintegration of the business activity.
- Premium Collection: Collection of premiums is a common problem in many micro-insurance schemes. To lower transaction costs and increase investment revenue, insurers often require annual premiums, but that may be unaffordable for low-income persons. Yet regular smaller payment procedures are costly and difficult to implement. Without adequate information systems, providers cannot effectively control payment lapses. Developing mechanisms to facilitate premium payment is critical to the success of micro-insurance.
- Adequate Coverage: As informal schemes do not have access to reinsurance markets, protection of events that may affect a significant portion of policyholders may not

be provided. Policies must be limited to losses absorbable by the capital base of the provider. Independent informal schemes are therefore vulnerable to covariant risks, such as epidemics and natural disasters. Schemes linked to larger, better-capitalized sources will be better able to offer more comprehensive and varied products.

- Lack of Financial Sustainability and Capacity: Existing micro-insurance schemes are finding it difficult to be sustainable and viable. In the initial years of operations, most insurers incur a loss because of the costs of acquiring and servicing customers, start-up of operations, and excessive claims resulting from inexperience in underwriting, premium setting, and control development and management. The limited insurance knowledge in such organizations can be extremely costly.
- Regulatory Requirements: Insurance regulations are in place to protect consumers against misleading selling practices and protect the financial viability of the insurers. Relatively high capital requirements can obstruct the provision of insurance products to low-income markets by formal insurers because of the small premiums and high risks. Consequently, many micro-insurance providers operate informally, without access to expertise, reinsurance, or consumer protection oversight. In addition, the lack of any legal contract between the policyholder and the provider means that consumers are even more exposed to such dangers as fraudulent behaviour.

CONCLUSION:

Though India has experimented a lot with micro-insurance, the sector is still driven by supply-led interventions. There are two facts to be considered - first, urban insurance markets are almost saturated and second, micro-insurance in rural India hasn't really taken off. Put together, it simply means that if companies want to grow, they need to harness technology to leverage the under-explored rural market. Hence, a strategic standpoint towards micro-insurance, conjugated with innovation in technology and estimation of client's demand, probably holds the key for the future of micro-insurance in India. However, the attitude of Indian insurers towards the potentiality of this market segment has been mixed. Some of them have taken positive view of the regulatory compulsion and have made a genuine effort to understand the rural and low-income segment of the market. In fact, a few insurers have exceeded their target by a wide margin. The time has come that each insurer should take firm steps towards the well-being of economically under privileged people and makes them feel that life is a boon, not a bane.

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