

## **Micro Insurance in India: Current Barriers and Emerging Opportunities**

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### **Abstract**

*In most developing countries social protection systems are underdeveloped and generally only cover employees with formal employment. Workers in the informal economy are left to their own devices, or rely heavily on the support of their community. Crises are recurrent features in the lives of the poor, often involve high expenditure and drive a poor family deeper into poverty. They are the most vulnerable ones and are the least capable of withstanding the adversities and regain strength to normalize. Impact of risk is compounded for the poor due to their financial exclusion from savings, because banks find it unviable to maintain micro-savings account. In such conditions poor people protect themselves from risks by taking emergency loans. By depleting savings, by selling productive assets, by defaulting on loans and by reducing spending micro finance is the most important socioeconomic development of our times for combating poverty. With the concept of micro credit coming in picture, it had been proved that poor can become creditworthy if they form small groups. In the 90's, numbers agencies involved in micro credit operations in India started adding other financial securities including micro insurance to its micro credit operations.*

**Key words:** *micro finance, micro insurance*

### **Micro insurance- the concept**

Micro – insurance is a first step in providing social and economic security to the poor, particularly business and livelihood security micro-insurance refers to protection of assets and lives against insurable risks of target population such as micro-entrepreneurs, small farmers and the landless, women and low-income people through formal, semiformal and informal institutions. These groups have to pay specific amounts as regular premiums,

proportionate to the livelihood and the cost of risk against which they are insuring their life, those of their family members and property. Micro insurance is normally offered to that group of people who are not encompassed by the mainstream of commercial and social insurance schemes because these people do not have access to the products offered in the general line. Insurance companies also ignore them because these groups do not have a regular and predictable source of income.

In principle, micro-insurance works like any typical insurance business. But there are several things that differentiate it from normal insurance. It is group insurance that can cover thousands of customers under one contract. (e.g. in india, Allianz covers 42,000 customers under one contract); it requires an intermediary between the customer and the insurance company eg. NGO or MFIs etc; and it is a low value product (involving modest premium and benefit package) which requires different design and distribution strategies such as premium based on community risk rating (as opposed to individual risk rating) and active involvement of intermediary agency representing the target community and bundling with micro-saving and micro credit. This way, micro insurance combines positive features of formal insurance (prepaid, scientifically organized scheme) as well as those of informal insurance (by using local information and resources that helps in designing appropriate schemes delivered in a cost effective way), micro insurance is a form of health, life or property insurance which offers limited protection at a low contribution (hence micro). It is aimed at poor sections of the population and designed to help them cover themselves collectively against risks (hence insurance)

### **Micro insurance in India – the present scenario**

Historically in india, a few micro-insurance schemes were initiated, either by nongovernmental organizations (NG) due to the felt need in the communities in which these organizations were involved or by the government. The government on its own and through the nationalized industry brought in several schemes to alleviate the financial losses that the low-income groups in rural areas suffered. Two schemes introduced by the government were;

The personal accident social security (PASS) schemes and the Hut Insurance. The PASS scheme covered persons with income below the poverty line for Rs.3,000 sum insured against accidental death; the Hut Insurance schemes covered the destruction of huts by fire and natural calamities to enable rebuilding them upto Rs.5,000 each. The government had also simultaneously embarked on numerous schemes in the 1970s and 1980s to develop the

earning power of the low-income groups in the rural areas and concentrated on loans being made available to them to purchase milchcattle, engaging in horticulture and other economic pursuits. The nationalized General Insurance Corporation (GIC) administered both the schemes for the government of India on a reimbursable basis. The GIC itself as an instrument of social change, which was the primary purpose of nationalization, brought in a new personal accident scheme in 1975 known as Janata personal Accident Insurance, making it available at a cost of Rs.12 for sum insured of Rs.10,000 against death and permanent disability. This scheme turned out to be very popular and was extensively availed of by a large number of low-income individuals any by cooperative Banks as a cover for credit-life.

Several community based organizations in india have focused on developing community based health insurance (CBHI) schemes during the last decade. Most of these CBHI schemes are also known as Micro Health Insurance Schemes The micro insurance schemes have now gathered momentum partly due to the development of micro-finance activity , and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well identified social sector in the country (IRDA 2000) . The Insurance Regulatory and Development Authority (Micro-Insurance) Regulations, 2005 provided that any micro insurance product issued as per the regulations will quality for rural and social sector obligations of the insurer. The social obligations are in terms of number of individuals to be covered by both life and nonlife insurers in certain identified sections of the society. The rural obligations are in terms of certain minimum percentage of total policies written by life insurance companies and, for general insurance companies, these obligations are in terms of percentage of total gross premium collected. Some aspects of these obligations are particularly not worthy. First, the social and rural obligations do not necessarily require subsidizing insurance. Second, these obligations are to be fulfilled right from the first year of commencement of operations by the new insurers. Third, there is no exit option available to insurers who are not keen on servicing the rural and low-income segment. Finally, non fulfillment of these obligations can invite penalties from the regulator.

These regulation have generated massive pressure on insurers to sell micro insurance. In order to fulfill these requirements all insurance companies have designed products for the poorer sections and low income individuals, both public and private insurance companies are adopting similar strategies of developing collaborations with the various civil society associations. Many private insurance companies have started designing composite micro insurance product combining life and general insurance covers for the new3 products to be

filled under the new IRDA regulations for micro insurance; recently, state owned LIC decided to enter this segment. LIC announced last year Aam Aadmi Bima Yojana with a view to extended a death and disability insurance cover to the unorganized sector. Rastriya swasthya bima yoja is a health insurance scheme for below poverty line families and provides benefits of up to Rs.30, 000. The schemes premium is to be born by both the central and the state government.

In order to reach to the much neglected rural areas and the other under privileged people, Aviva life introduces micro insurance products. These products are basically small premium policies that range between Rs.5000 to Rs.50, 000 and includes health household, fire and motor insurance portfolios. General insurer IFFCO TOKIO on 21 April 2008 launched janata bima yojana in micro insurance which aims to serve the rural population with better products and services to ensure that they are protected from risks of any kind. The scheme provides covers under two sections property cover and critical illness. With a assured some of Rs.10, 000 under both the sections.

Birla sun life on august 31, 2007 announces the launch of its micro insurance product bima surcksha super and bima dhan sanchay. These products are simple transparent and convenient and designed for rural masses as well as for socially weaker sections from semi urban and urban areas. Birla sun life insurance has been consistently exceeding its rural targets since the first year of it operation in 2006-97, the company sold 100349 policies in the rural areas, which constituted nearly 21.6% of the total individual policies sold by the company.

Tata, one of the largest business houses in india announced its policy into micro insurance sector last year through its insurance joint venture- Tata AIG, which is the first insurance company in india to come up with a focused micro insurance scheme. The new business procured through micro insurance as on 31.03.08 has been given in the following table-1.

Methods and models for micro insurance vary depending on the organization, institution, And provider involved. In general, there are four main methods for offering micro insurance in India. Each of these models with their own advantages and disadvantages have been given in table 2. Table 3 shows possible delivery channel in India for micro insurance.

**TABLE-1 The new business procured through micro insurance**

| Division | Absolute volume for the year |            |             |
|----------|------------------------------|------------|-------------|
|          | Policies                     | S.A (000s) | F.P.I. (Rs) |

|           |       |            |             |
|-----------|-------|------------|-------------|
| Agra      | 54.36 | 84984.00   | 952168.00   |
| Aligarh   | 6000  | 78030.34   | 1297574.00  |
| Allahabad | 3011  | 37395.52   | 439455.00   |
| Bareilly  | 8390  | 99790.20   | 1287169.00  |
| Dehradun  | 6729  | 126613.09  | 1070311.00  |
| Faizhabad | 6610  | 62983.00   | 1027445.00  |
| Gorakhpur | 5893  | 88328.36   | 976095.00   |
| Haldwani  | 3223  | 55626.11   | 744018.00   |
| Kanpur    | 9806  | 116775.60  | 1675602.00  |
| Lucknow   | 12089 | 123720.60  | 1675602.00  |
| Meerut    | 5004  | 82471.67   | 1092808.00  |
| Varanasi  | 4008  | 52924.58   | 701380.00   |
| NCZ       | 76199 | 1009643.41 | 13268650.00 |

Source: PRAGATI, April 2008 quarterly magazine published by LIC.

**Table-2 Models and methods for micro insurance in India**

Source: national bank of agriculture and rural development and reserve bank of india, annual report 2006.

|   |  |
|---|--|
| <p><b>Partner-agent model</b><br/> Insurers utilize MFIs delivery mechanism to provide sales and basic services to clients.<br/> There is no risk and limited administrative burden for MFIs.<br/> Advantage- limited control.<br/> Disadvantage- limited risks</p> | <p><b>Full-service model</b><br/> The land claims assessment.<br/> The provider is responsible for all aspects of product manufacturing, sales, servicing insurers are responsible for all insurance – related costs and losses and they retain all profits.<br/> Advantage – full control.<br/> Disadvantage- higher risks.</p> |
| <p><b>Provider – driven model</b><br/> The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals of groups.<br/> Advantage – full control<br/> Disadvantage – limited on product and services.</p>                | <p><b>Community – based/mutual model</b><br/> The policyholders own and manage the insurance program and negotiate with external health care providers.<br/> Advantage – ability to design market products more easily and effectively<br/> Disadvantage – small size and scope of operations.</p>                               |

**TABLE-3 possible delivery channels in India for micro insurance**

|   |           |
|---|-----------|
| Self-help groups linked to banks                                      | 1,618,476 |
| Non –governmental organizations as development facilitators (approx.) | 2,00,000  |
| Non- governmental organizations involves in microfinance              | 3,024     |
| Rural and semi-urban commercial bank branches                         | 33,388    |
| Regional rural bank branches  | 14,446    |
| Private fertilizer dealers  | 192,000   |
| Primary agricultural cooperative societies                            | 105,735   |
| Post offices in rural areas   | 138,756   |

**TABLE-4 Insurance companies operating in India**

| Public sector                  | Private sector  |
|--------------------------------|---|
| Insurance corporation of india | <ol style="list-style-type: none"> <li>1. Bajaj Allianz life insurance co.ltd</li> <li>2. Birla sun life insurance co.ltd.</li> <li>3. HDFC standard life insurance co.ltd.</li> <li>4. ICICI prudential life insurance co.ltd.</li> <li>5. ING vysya life insurance co.ltd.</li> <li>6. Max New York life insurance co.ltd.</li> <li>7. Met life India insurance co.pvt.ltd.</li> <li>8. SBI life insurance co.ltd.</li> <li>9. TATA AIG life insurance co.ltd.</li> <li>10. Aviva life insurance co.pvt.ltd.</li> <li>11. Bharti AXA life insurance company ltd.</li> </ol> |

## Conclusion

Although the current reach of 'micro' insurance is limited, the early trend in this respect suggests that the insurance companies, both public and private, operating with commercial considerations, can insure a significant percentage of the poor. MFIs are playing a significant role in improving the lives of poor households. Linking micro-insurance with micro-finance makes better sense as it helps in bringing down the cost of lending. In his message, the

president of india, DR. APJ Abdul Kalam cautioned that for “micro health insurance to be a sustainable success in the long run, needs to be linked to the programme for urban amenities in rural areas (PURA), as employment created through this programme will progressively as more and more people who can afford insurance. In addition.

Involvement of self-help groups will create avenues for capacity building to further make micro insurance sustainable. Thus a virtuous cycle should be created where the cover provided under micro insurance schemes increases with growth and buying power through employment as well as through development of rural communities”.

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