MICRO INSURANCE IN INDIA

Rama Vishvesh
Research Scholar, Sathyabama University, Chennai

Dr. B.Venkatraman

ABSTRACT

Micro insurance refers to the insurance of the low income people. Insurance is fast emerging as an important strategy even for the low-income people engaged in a wide variety of income generation activities, and who remain exposed to a variety of risks mainly because of absence of cost-effective risk hedging instruments. This paper traces the origin of Micro insurance in India, the demand and supply side factors associated with it. It looks at the areas of concern and the role of IRDA in making micro insurance a reality for the poor.

Keywords: High Risk, Life Insurance, Cost Effective Premium, IRDA.

MICRO- INSURANCE IN INDIA

Micro-insurance is the term used to refer to insurance to the low-income people. It is different from insurance in general as it is a low value product which involves modest premium and benefit package and also requires different design and distribution strategies. It is based on community risk rating as opposed to individual risk rating and requires the active involvement of an intermediate agency representing the target community. Insurance is fast emerging as an important strategy even for the low-income people engaged in wide variety of income generation activities, and who remain exposed to a variety of risks mainly because of absence of cost-effective risk hedging instruments. 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 circumstance. In the context of health contingency, for example, a World Bank study reports that about one-fourth of hospitalized Indians fall below the poverty line as a result of their stay in hospitals. The same study reports that more than 40 percent of hospitalized patients 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.
Of the different risk management strategies, insurance that spreads the loss of the affected members among all the members who join insurance scheme and also separates time of payment of premium from time of claims, is particularly beneficial to the poor who have limited ability to mitigate risk.

In the past insurance as a prepaid risk managing instrument was never considered as an option for the poor. The poor were considered too poor to be able to afford insurance premium. Often they were considered uninsurable, given the wide variety of risks they face. However, recent developments in India, as elsewhere, have shown that not only can the poor make small periodic contributions that can go towards insuring them against risks but also that the risks they face such as those of illness, accident and injury, life, loss of property etc. are eminently insurable. Moreover, there are cost-effective ways of extending insurance to them. Thus, insurance is fast emerging as a prepaid financing option for the risks facing the poor.

DEVELOPMENT OF MICRO-INSURANCE IN INDIA

Historically in India, a few micro-insurance schemes were initiated, by non-governmental organizations (NGO) due to the felt need in the communities in which these organizations were involved or by the trust hospitals. These 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). As a result, increasingly, micro-finance institutions (MFIs) and NGOs are negotiating with the insurers for the purchase of customized group or standardized individual insurance schemes for the low-income people. Although the reach of such schemes is still very limited---anywhere between 5 and 10 million individuals---their potential is viewed to be considerable.

Insurance Regulatory and Development Authority (IRDA) Micro-insurance Regulations, 2005 defines a micro-insurance policy as a general or life insurance policy with a sum assured of Rs 50,000 or less

A general micro-insurance product is any:

- Health insurance contract
- Any contract covering belongings such as Hut
- Livestock
- Tools or instruments or
- Any personal accident contract
- They can be on an individual or group basis

A life micro-insurance product is:

- A term insurance contract with or without return of premium
- Any endowment insurance contract or
- A health insurance contract
- They can be with or without an accident benefit rider and
- Either on an individual or group basis

There is flexibility in the regulations for insurers to offer composite covers or package products that include life and general insurance covers together.
The IRDA defines rural sector as consisting of (i) a population of less than five thousand, (ii) a density of population of less than four hundred per square kilometer, and (iii) more than twenty five per cent of the male working population is engaged in agricultural pursuits. The categories of workers falling under agricultural pursuits are: cultivators, agricultural labourers, and workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities.

The social sector as defined by the insurance regulator consists of (i) unorganized sector (ii) informal sector (iii) economically vulnerable or backward classes, and (iv) 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 polices 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 noteworthy. First, the social and rural obligations do not necessarily require (cross) 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.

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. The presence of these associations as a mediating agency, or as a nodal agency, that represents, and acts on behalf of the target community is essential in extending insurance cover to the poor. The nodal agency helps the formal insurance providers overcome both informational disadvantage and high transaction costs in providing insurance to the low-income people. This way micro insurance combines positive features of formal insurance as well as those of informal insurance.

In the absence of a nodal agency, the low resource base of the poor, coupled with high transaction costs (relative to the magnitude of transactions) gives rise to the affordability issue. Lack of affordability prevents their latent demand from expressing itself in the market. Hence the nodal agencies that organise the poor, impart training, and work for the welfare of the low-income people play an important role both in generating both the demand for insurance as well as the supply of cost-effective insurance.

Supply of micro-insurance

Recently, the ILO (2004) prepared a list of products of all insurance companies, public as well as private, for the disadvantaged groups in India. Some of the observations made on the basis of the list are presented below:

1. Out of 80 listed insurance products, 55% cover only a single risk. The other products, covering a package of risks, mostly focus on 2 or 3 risks.
2. The available products cover a wide range of risks. However, the broad majority of the insurance products cover life (52%) or accident-related risks. The health coverage remains very limited.
3. Most life insurance products are addressed to individuals. However, some products may be bought both by individuals and groups.
4. Most life insurance products (55%) have been designed to cover an extended contract duration ranging from 3 to 20 years.
5. Out of the 12 currently available health insurance products, 7 have been designed and are restricted to groups.
6. Out of the total 12 health products, 7 products propose the reimbursement of hospitalization expenses while the other 5 have chosen to narrow down the coverage to some specific critical illnesses.
7. Most of the health insurance products specifically exclude deliveries and other pregnancy-related illnesses. Most of these products also mention amongst their exclusion clauses, HIV/AIDS.
8. Most products whether life or non-life require a single payment of premium (i.e., a one-time payment) upon subscription.
9. Private insurance companies have three times more products than the public companies.

As per the IRDA statistics, the public insurance companies still play a predominant role in the present coverage of the rural and social sectors. This is only to be expected since the incumbent public insurers have been in the market for a number of years now.

**DEMAND FOR MICRO-INSURANCE**

On the demand side too, the ILO (2004) has recently prepared an inventory of micro-insurance schemes operational in India. Based on this list some of the observations are made below:

1. The inventory lists 51 schemes that are operational in India and there is a demand for the schemes.
2. Most schemes are still very young, having started their operations during the last few years. Of the 39 schemes for which this information is available, around 24 schemes came up during the last 4 years, and about 7 schemes have operated for more than a decade.
3. As regards the beneficiaries; the schemes cover 5.2 million people.
4. Most insurance schemes (66%) are linked with micro finance services provided by specialized institutions or non-specialized organizations.
5. Life and health are the two most popular risks for which insurance is demanded: In SEWA’s experience, health insurance tops the list of risks for which the poor need insurance.
6. In the majority of the schemes special staff had been recruited to manage the insurance activities. The other schemes kept relying on their regular staff while recognizing them the additional responsibilities linked to the management of the scheme.
7. Most schemes operate in 4 southern states of India: Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%), and the two western states (Maharashtra (12%) and Gujarat (6%)) account for 18% of the schemes.
8. 56% of schemes deal with only one single risk.
9. Most schemes require single yearly premium at the time of subscription.
10. Most of the schemes rely on voluntary contribution.

Any nodal agency keen on buying insurance for their members now have a choice of insurers and approach those who offer them the best deal. According to the ILO inventory, 8 schemes have already entered into partnerships with at least 2 insurance companies (public or commercial), and 3 schemes have already entered simultaneous partnerships with both public and commercial insurance companies.
However there are certain areas of concern.

1) Clearly, health and life are two most important risks for which insurance is demanded. Indeed, at low-income level, when much of the income goes into meeting basic needs, the scope of having varying priority needs is very limited. Admittedly, compared to life insurance, which is a relatively straightforward business, health insurance is a much more complex service as it involves addressing the provision of healthcare that is location specific. The design and sale of products are currently driven by the objective of meeting the regulatory obligation and the making of profits or reducing losses. In this situation, there is a danger of certain priority needs getting neglected by the insurance companies.

2) Most products require single yearly premium at the time of subscription. It is well known that rural incomes are irregular and uncertain to enable payment of premium in one go, and more so when only a part of the remuneration is paid in cash. In the above, we find only a few schemes offer flexibility in paying premium. This could act as a serious drawback in increasing the membership.

3) We find that most of the schemes are concentrated in the southern region of the country. The southern regions are well known for the social mobilization of low-income people. In contrast, the northern region is bereft of such mobilization as the nodal agencies are either non-existent or dysfunctional. Creating and nurturing nodal agencies can be quite involved and can take a long time to develop. Local government, that can also perform the role of nodal agency, will take a long time to strengthen as a result of decentralization process currently underway in most Indian states. There has to be alternative approaches to extending insurance in regions where nodal agencies do not exist.

4) Even before insurance is bought for all important contingencies, affordability constraint is likely to kick in, especially for the low-income people. The issue then is how to cover for these other important contingencies. One of the ways suggested is to impose a tax at industry level (this could be on the turnover or profits of the industry), and use the tax proceeds for the benefit of workforce involved in activities peripheral to the industry.

Finally, the benefit or protection provided under some insurance schemes is quite shallow.

The attitude of insurers on these obligations has been mixed. Some have taken a positive view of the regulatory obligations and have made a genuine attempt to understand the rural and low-income segment of the market. Indeed, a few insurers have actually surpassed their obligations by a wide margin. These companies have realized that there is potential in the rural and low-income segment but tapping that potential requires a different kind of approach. In some cases, insurance companies have actually cross subsidized their micro-insurance products while in other cases insurers have been able to find a donor for paying premium, at least in part, on behalf of the low-income people.

The impact of rural and social obligations on extending insurance to the intended people has been positive. However, development of micro-insurance needs further guidance from the insurance regulator by way of supplementary provisions. Sensing this, the insurance regulator has already come out with a concept paper on micro-insurance in which it has spelled out its thinking on what these supplementary provisions could be.
CONCLUSION

Policy-induced and institutional innovations are promoting insurance among the low-income people who form a sizable sector of the population and who are mostly without any social security cover. 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. Serving low-income people who can pay the premium certainly makes a sound commercial sense to insurance providers. To that extent imposing social and rural obligations by insurance regulator (IRDA) is helping all insurance companies appreciate the vast untapped potential in serving the lower end of the market.

However, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the regulator as well as the government. IRDA has already come up with the concept note on micro-insurance, which suggests the regulator’s bias towards insurer-agent model. Even so, two areas in which having explicit provisions would aid the development of micro-insurance are: one, flexibility in premium collection, and two, encouraging micro-insurance among micro-finance institutions (MFIs).

Given irregular and uncertain income stream of the poor, flexibility in premium collection is needed to extend the micro-insurance net far and wide. Moreover, MFIs are playing a significant role in improving the lives of poor households. Quite apart from this, linking micro-insurance with micro-finance makes better sense as it helps in bringing down the cost of lending. Given this, there is a case for strengthening the link between micro-insurance and micro-credit. At present microfinance business in the country is unregulated. Regulation of MFIs is needed not only to promote micro-finance activity in the country but also to promote the linking of micro-insurance with micro-finance makes good sense.

BIBLIOGRAPHY