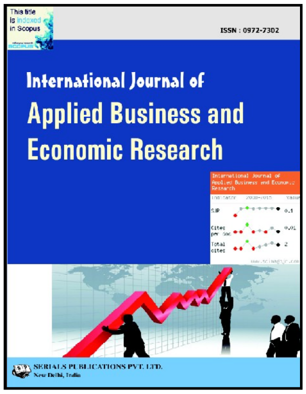

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Micro Insurance: A Tool for Uplifting the Vulnerable Section of the Society

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Abstract: Social protection is enclosing the interventions from the public, private, voluntary organizations and social networks to support individuals, households and communities in their efforts to alleviate the underprivileged. The last decade of the twentieth century has seen huge advancements in micro insurance in various countries. It is seen and regarded as an important service to curb poverty and assist the financial security necessities for the underprivileged. As humans, risks cannot be eluded by individuals even when careful steps are taken. Most of households of the developing countries are prone to numerous risks such as sickness, death, natural catastrophes, un-employment and crop failure. The main focus of this research work is to evaluate the micro insurance needs and estimate the potential demand for micro insurance. The paper will also evaluate the market preferences for micro insurance.

Key words: Financial inclusion, Micro insurance, inclusive growth, underprivileged, IRDA

MICRO INSURANCE

"…*the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved" Draft Donor Guidelines*, CGAP Working Group (2003). Micro Insurance is shielding people of lower income group against shocks in exchange for paying premium at regular intervals, which is proportionate to the livelihood, and the cost of the risk involved. The rudimental principle of Micro Insurance is pooling the risks by means of contribution in financial terms from the members of the insurance scheme and all the members share the risk when an individual incurs loss. Micro Insurance is operated in accordance to the generally accepted practices of insurance but it is designed to suit the likes of those who are unable to have access of the insurances of the mainstream.

FEATURES OF MICRO INSURANCE

- Size of the transaction is small and the premium is lower.
- Target audience includes the lower income, traditional businesses and the ones with lower educational qualifications.
- Simple products that covers just a single cover.
- Flexible design and payment of premium due to the nature of the income of the insurance holders.
- Faster process of claims and lesser complications with less documentation.
- Imposition and implementation of weak enforcements of regulations
- Simpler process of underwriting due to involvement of relatively lower sum of money.

KEY PRODUCTS OF MICRO INSURANCE

Various sources provide a wide range of services under Micro Insurance. There is a high scope of development to enhance the quality of these services. Features such as innovation, technology, distribution channels and appealing product so as to reach the targeted population are to be developed.

(i) Life-protection: One of the most popular services of Micro Insurance is life insurance policy in which the insurer pays a beneficiary amount to the policyholder in exchange for regular payment of premium upon the death of the insured person. Sometimes life insurance policy is made mandatory along with the microcredit loan granted to a member.

(ii) Life-savings: Developing countries are pressing on the idea of provision of pensions in order to alleviate risks and poverty which is faced mainly in the rural areas by the older age group due to their inability to perform their works. Quick solutions to management of wealth for the lower income group are products that are long-term savings and encouragement of creation of wealth. For example, ICICI Prudential Life has partnered with a producer of tea to offer unit-linked endowment products to the plantation workers, encouraging them to save and in the process there will be an improvement in the quality of life.

(iii) Agriculture: Individual farmers and also Governments of various emerging economies are provided with insurance policies to shield against risks regarding weather, pest, diseases and economic problems. Protection against income loss and rebuilding cost is offered to individuals in agriculture insurance. Agriculture insurance to the Government allows shift in risk to other sectors of the economy. An innovation in products of index-linked insurance like minimum temperature insurance and rainfall index insurance has been of great help. Micro chipping of animals is being used by some farms to prevent fraud practices with grazing animals.

(iv) Property/Assets: Property insurance provides protection against loss of personal assets, property, equipment used in agriculture and business assets. Natural catastrophes taken place in the past has increased the emphasis on protection of assets. Nonetheless, the demand for property insurance is still low among the targeted population because of difficult pricing strategies and people with low income would rather spend on their basic needs than spend on the insurance.

(v) Health: Protection of income, earning capacity, expenditure and use of medical services are offered by health Micro Insurance companies for the population which comes under low income group. The demand of health Micro Insurance is the greatest even with low availability and wretched infrastructure of the insurance providers. However, the increasing demand and revenue generation have encouraged the popularity of the product with insurers, informal society groups and cooperatives.

DEMAND FOR MICRO-INSURANCE

The demand for the micro insurance policy and the level of satisfaction an individual derives from it can analyze the value of micro insurance. The degree of risk will vary from person to another depending on their utility of the insurance product. Emergent of the insurance market depends on the readiness of the individuals to pay the premium so that they receive a definite amount on maturity. The individuals who are more exposed to risk will be more willing to pay higher than the price of the policy. Paul Mosley (2009) asserted that micro insurance was mostly supply-driven rather than efficient demand. Since the demand is less among the poorest, insurance products are still unfashionable and at a nascent stage

DETERMINANTS OF MICRO INSURANCE PRODUCT

Price

Lower pricing of the product does not necessarily mean the demand will be higher. It is crucial to understand the response of demand based on the price change. Though the demand of micro insurance is affected by the change in price of the product generally, but it does not suggest that the demand will grow higher due to low prices. Discount will have an impact when there is low demand but the pace of taking up the product would be low. David M. Dror *et al.* (2009) studied the arrangements that were based on community that offered low cost insurance of health, Poor households had enrolled in all the three insurance schemes offered to them and the usage of hospital was seen to be the greatest. Hence, low price of the product is not the sole determinant for willingness to buy and increase the demand. Various factors facilitate the demand of the product.

Transaction costs

Subscription costs, annual premium payment, filling claims and obtaining reimbursements are some of the factors for calculating the transaction costs. Policyholders will be able to get credits easier if the interest rates are lower. There is a resistance from the lower income group to purchase the insurance products due to the cost of transaction involved.

Risk aversion

The impact of risk aversion is not easy to predict on the demand for micro insurance. Higher rate of taking up the policy will be seen among the individuals who are more inclined towards risk. Since the insurance product may not provide a full coverage, the product may be taken as risky. And if the customers do not have a stable income, they will be unable to shell out their savings to purchase products of insurance as they do have to purchase their necessary daily utilities instead.

Trust

Lower rate of taking up the micro insurance policy may relate to the trust factor. Individuals need to trust the institution in order to improve the demand. Some of the factors which affect the trust in the institution are the experiences encountered with the institution, trust in the management, involvement of trusted and known individuals in the institution. Various studies have depicted that the demand for insurance was increased substantially when known and trusted individuals are involved in the process. Karlijn Morsink1 and Peter Geurts (2011) concluded that the lower demand of products of micro insurance in developing countries is attributed to the weak and low level of trust on the institutions which takes care of the transactions

Personal characteristics

Age, gender, education and wealth of an individual are some of the personal characteristics that correlate with the take up of the micro insurance. Older people are less likely to purchase the micro insurance product as compared to younger people. When it comes to life insurance, age of the individual has proven to be an important factor. Most of the time households with higher income are more likely to purchase micro insurance.

Quality of the product

The quality of the product is one of the most important factors for taking up the micro insurance product. Various aspects for different kinds of insurance decide the quality of the product. For health insurance, a designated health center is assigned for covering the service and if the quality of the center is lacking then there are less chances of taking up the insurance.

KEY PLAYERS OF MICRO INSURANCE AND DISTRIBUTION

Till recently, in India the insurance industry was a public entity. The industry of insurance was owned by the state. Life Insurance Corporation of India (LIC) was the major provider of insurance products before the entry of the private entities. Life Insurance Corporation encompasses the entire country under one umbrella and the socially vulnerable classes of population are provided with subsidized group insurance schemes. Life Insurance Corporation provides more than 62 products which cover numerous necessities like child education, life cover, health, property, old age pension, marriage, etc. Life Insurance Corporation of India has more than two thousand branches all over the country. General Insurance Corporation provides various non-life insurance products. Earlier General Insurance Corporation and the associates of the public sector had the upper hand in the market as it was the sole player of non-life insurance until recently. General Insurance companies offers over more than 150 products to its customers. Just 30 of these products generate nearly 80 percent of its income. In rural India there are very less chances of the usage of the products offered by the general insurance companies. Licensed insurers, microfinance institutions, NGOs, healthcare providers and informal societies offer Micro Insurance products. Multinational corporations and local entities are among the licensed insurers. The key to delivering Micro Insurance is innovation in advertising to the target population. Banks, self-help groups, local shops and labor unions are being teamed up with licensed insurers to offer Micro Insurance products so that the targeted population take up the products and use it effectively. Trade union SEWA offers insurance products of the insurers to the socially vulnerable population and they carry a part of the risk to make the product more affordable. Insurance market of India is still in its growth phase and hasn't matured yet. The population of the rural area is still pessimistic about its benefits. Traditional and cultural beliefs are barriers to the purchase of insurance products as they are uneducated and not aware of them. Marketing of insurance products to such markets is a huge challenge due to the lower literacy rates and stubbornness. Tax exemption on the tax of income by the Government of India is the driver for insurance products to the policyholders on the payment of premium. As for the borrowers of loans, they have to give up their life insurance policies as collateral to their lenders. General insurance taken by the policyholders are made to take risk covers as a prerequisite of legal and banking. Claims are not being able to settle on time due to the hurdles faced during the processing and also the requirements of legal process have been more difficult for the policyholders. The insurance has been difficult to be monitored and investigated due to the enormous spread of the country. It has become quite difficult to provide mundane products as the demands have changed with time. Customization of the products and wider range of products have been demanded by the customers.

REGULATION OF INSURANCE IN INDIA

Insurance Regulatory and Development Authority (IRDA) of India has taken up a farsighted approach to promote Micro Insurance. It is set up for the protection of the interests of insurance policies holders. Gilberto M. Llanto *et al.* (2007) discussed the requirement of an efficient and reliable regulatory framework for micro insurance For regulating, promoting and for ensuring a healthy and orderly growth of the industry of insurance. Some of the aspects that must be looked into and regulated are -

- New players' entrance into the industry through norms of entry and licensing.
- Capital, investments and reinsurance's prudential norms.
- Provisions for the conduct of business in socially vulnerable groups.
- Investment of funds of insurance's norms.
- Risk spreading and reinsurance.
- Foreign insurers' entrance to be regulated.
- Account and audit the companies of insurance to ensure the protection of policy holders.
- Education and professional competence and skills of the agents.

LITERATURE REVIEW

In 2006, Pamela Young identified and refined the indicators that can be utilized for the assessment of the effect of Micro Insurance on the poor. The research was explicitly studied and examined the differences which were brought about in the behavior of the finances and the various roadmaps taken up by the policyholders and the non-policyholders in order to avert the risk. The research was done with the help of focus groups as the subjects. The research shows that the respondents preferred early treatments of medical which covers their health either by credit of emergency or by Micro Insurance. For the assessment of Micro Insurance, the measures which are taken up by the effect of microfinance were inadequate. After Young's research in 2007, Thomas Levin and Dirk Reinhard discussed the issues concerning how farmers with low-income near the poverty level can be compensated for loss of agriculture due to extreme conditions of weather heedless of the level of insurance. Discussion covered various types of agriculture insurance, problems of traditional agricultural insurance, specific problems of agricultural Micro Insurance and new risk management approaches in agriculture. They found that agricultural insurance products were still in infancy and did not reach the poor farmers and insurance companies were reluctant to take the reputation risk associated with the possible negative media coverage if the poor farmers in developing countries were not compensated for the loss in spite of their insurance cover. Ornsaran Pomme Manuamorn (2007) highlights the technical and operational viability of rainfall index insurance contracts to smallholder farmers in remote rural areas of Andhra Pradesh and analyzes the conditions that allow BASIX to do so effectively. Keeping the focus on India, in 2009 Seiro Ito and Hisaki Kono investigated on the take up decisions of Micro Insurance which focused on the prospect theory, hyperbolic preference and adverse selection in Karnataka. Prospect theory speculates that the behavior of the people is risk averse when evaluating gains but risk loving when evaluating losses. Risk loving stance towards losses explained the low take up rates. Hyperbolic discounting is the human tendency to prefer smaller payoffs now over larger payoffs later, which leads one to largely disregard the future when it requires sacrifices in the present. Households that preferred hyperbolic discounting were more presumable to purchase insurance. They also found some evidence on the existence of adverse selection: households with a higher ratio of sick members were more likely to purchase insurance. A study by Sarah A. Janzen and Michael R.Carter (2013) has explored whether insurance have the capability to transfer the risk in such a way that it diminishes the need for households to count on expensive strategies to cope which degrades the productivity that is unborn Another aspect was brought up in 2009 when Wendy J. Werner conducted a study in Bangladesh on social exclusion perspective to assess the health and poverty impact of Micro Insurance for health and contrasted it with several Micro Insurances offered in India. It was seen that in Bangladesh Micro Insurance for health was made available and targeted the poor and the extremely poor so that the basic healthcare is made available at an affordable rate and on the other hand schemes of the Indian Micro Insurance for health have been executed for a large population and involves high cost and lower frequency events. A significant work was done by Ralf Radermacher, when in 2009 he reviewed 31 research papers covering various insurance up to 118 different schemes of insurance. Numerous research papers studied the effect of insurance of micro health on their utilization of the care of the inpatients. Numerous studies looked into one of the key functions of insurance i.e. providing financial protection to the vulnerable group. Some studies scrutinized the impact of Micro Insurance on out of pocket spending. Three papers assessed the protection against catastrophic costs of health. On the other side of the Asian subcontinent was Hongbin Cai, who conducted a large randomized natural field experiment in Southwestern China in the context of insurance for sows in 2009. They studied on how access to formal insurance affects the decisions for the production of the farmers' and what explains the low take up rate of insurance that is formal, despite substantial premium subsidy provided by the Government. They found that providing access to formal insurance significantly increased the farmers' tendency to raise sows. They also provided several pieces of evidence suggesting that trust, or lack thereof, for Government-sponsored insurance products was a significant barrier for farmers' willingness to participate in the insurance program. Anja Smith *et al.* (2010) compiled a study on exploring innovative ways by the commercial insurers in the market of low-income of South Africa. They extrapolated the studies done on innovative routes of extending the market of insurance through retailers and intervention of cellphones. Few signals that suggested that there was a need for upgrading the experience of innovation were of mixed experience of the innovators, new experiments on models of micro insurance and products and the changing political, and environmental and economic factors.

The need for Micro Insurance among the socially vulnerable group of the society is quite high. The lower income groups do not have access to good strategies of risk management and often tend to borrow from local sources in emergency with higher interest rates.

METHODOLOGY

The study is based on descriptive research design. The study was conducted keep in view the following objectives.

OBJECTIVES OF THE STUDY

The main objective of the study is -

(i) To evaluate the Micro Insurance needs and estimate the potential demand.

(ii) Estimate the demand and evaluate the market preferences for Micro Insurance.

The study was predominantly based on primary data. 200 respondents were reached out but only 100 respondents gave back their response. Convenience sampling was adopted located in Delhi NCR region. The respondents mainly consist of the lower income group. A structured questionnaire was administered tete-a-tete.

ANALYSIS OF THE STUDY

Characteristics of sample respondents

Gender	*No. of members*	*Percentage*
Male	36	36%
Female	64	64%

Figure 1: Gender of the sample members

The response collected from the target population depicts that out of total 100 respondent 36 were men and 64 were women. Maximum respondents are female and are working.

Figure 2: Marital status of sample members

The marital status of the sample shows that 69 of the respondents were married, 27 were unmarried, 4 of them were widowed and none of the respondents were found to be divorced.

Figure 3
Educational qualification of sample members

Qualification	*No. of members*	*Percentage*
Primary	45	45%
Secondary	17	17%
Vocational	4	4%
Graduate	0	0%
Post graduate	0	0%
None	34	34%

Majority i.e. one third of the respondents were found to be uneducated. Education plays a very important role in awareness of insurance products. The respondents who had at least studied primary education were found to be aware of these products as compared to the ones who had no education at all. At least 45 percent of the respondents had primary education and 17 percent of the sample had at least secondary education. The respondents who had vocational education consisted of 64percent of the sample population.

Table 4
Source of income

Sl. No	*Type of job*	*Number of members*	*Percentage*
1	Permanent job	17	17%
2	Temporary small job	71	71%
3	Self employed	1	1%
4	Agriculture	11	11%

Majority of the sample population are engaged in temporary small jobs i.e. 71 % of the sample population. Just 17 % of the sample population has permanent jobs. Out of the sample population, only 11% of the sample population is engaged with agriculture. Most of the respondents worked as housekeepers either in individual's house or in institutions. Some of them were working as drivers for private transports and some as public transport drivers.

Figure 5
Frequency of saving

Pattern of savings	*No. of members*	*Percentage*
Daily	8	8%
Every week	4	4%
Every month	48	48%
Every 3 months	7	7%
Every 6 months	4	4%
Once in year	26	26%
None	3	3%

Figure 5 depicts no proper systematic way of pattern of savings. Even temporary small job workers were able to save in a monthly basis. 48% of the sample population saves from their income on a monthly basis. 26% of the sample population saves from their income on a yearly basis. Eight percent of the sample population saves from their income on a daily basis. Seven percent of the sample population saves from their income once every three months. Four percent of the sample population saves from their income once every week and four percent of the sample population saves from their income once every six months. Daily and weekly basis of saving is the least popular mode of savings among the respondents. These results shows that the respondents have savings and these savings could be channelized in right direction through right product and awareness level.

Table 6
Insurance knowledge sample population

Sl. No	*Type of insurance*	*Number of members*	*Percentage*
1	Health	20	20%
2	Life	40	40%
3	Property	1	1%
4	Automobile	12	12%
5	None	27	27%

Most of the respondents of the sample population were aware of life insurance. 40% of the sample population was aware of life insurance. 20% of the sample population was aware of health insurance. 12% of the sample population was aware of automobile insurance. Surprisingly 27 % of the sample population was not at all aware of any insurance.

Table 7
Insurance used in the last 3 years by sample population

Sl. No	*Type of insurance*	*Number of members*	*Percentage*
1	Health	18	18%
2	Life	25	25%
3	Property	2	2%
4	Automobile	4	4%
5	None	44	44%

Out of the sample population 18% have subscribed for health insurance. And also 25% of the sample population has subscribed for life insurance. But 44 % of the sample population has not taken even a single policy scheme in last three year. Just two percent of the sample population has taken property insurance. And just 4 percent of the sample population has taken automobile insurance.

29 % of the sample population reasoned their not usage of insurance to having not enough information about it. Just five percent of the sample population does not use insurance due to their distrust towards the insurers. 44 % of the sample population found the insurance products to be too expensive. Seven percent

Table 8
Reasons of not using insurance

Sl. No	*Reasons*	*Number of members*	*Percentage*
1	Not enough information	29	29%
2	Does not trust insurers	5	5%
3	Too expensive	44	44%
4	Do not know where to find	7	7%
5	Do not need it	12	12%
6	No reason given	3	3%

of the sample population does not know where to find these products. 12 % of the population feels that they do not need insurance. Three percent of the sample population did not provide any information as to why they are not using insurance products. Customized product & awareness regarding the same is very crucial.

Source Used by Respondents for availing Credit facilities

Source	*Number of Response*	*Percent*
Financial Institution	01	01%
Private Money Lender	14	14%
Bank	10	10%
Relatives & Friends	61	61%
Other	14	14%

The respondents use different sources for availing credit facilities. Only one percent of the respondent use financial institutions, while 61% are dependent on friends & relatives. 14% have not disclosed their source. The respondent is not relying on formal source for their credit requirement.

MAJOR FINDINGS AND MANAGEMENT IMPLICATIONS

Majority i.e. one third of the respondents were found to be uneducated. The marital status of the sample shows that 69% of the respondents were married. 57% percent of the sample population lives with their children. As most of the respondents lived with their children, the size of their household was more than five. Majority of the sample population are engaged in temporary small jobs i.e. 71% of the sample population. 50% of the sample population earn in the bracket of Rs. 5,000 –Rs. 10,000. No proper systematic way of pattern of savings is followed by the sample population. Most of the respondents of the sample population were aware of life insurance. Only 25% of the sample population has subscribed for life insurance schemes. 44% of the sample population found the insurance products to be too expensive. 99% of the sample population did not borrow money from micro finance institutions. 86% of the sample population did not borrow money from private moneylenders. 90% of the sample population did not borrow money from the banks. 61 % of the sample population borrowed money from their relatives, friends and neighbors. There is enough scope for the financial institutions & Banks to trap the urban poor population. Micro insurance could play a crucial role in uplifting the living standard and quality of life of vulnerable strata of the society.

CONCLUSION

More than 70% of the Indian population lives in rural areas. The insurance companies have made some efforts to reach out to these areas. Rural area is considered as a place that has a total population of not more than 5000 with not more than 400 people per square kilometer and agriculture must be the source of income of at least 75% of the male population. Major initiative taken by IRDA is by keeping in mind the rural poor but a considerable amount of poor population lives in urban India. This paper tried to analyze the awareness and usage about the micro insurance product by the urban poor. The study has disclosed the facts that the lack of cost effective products, poor financial literacy & awareness about the products, distribution of products and modification of regulatory are some of the core area where major initiatives are required. The product should be customized as per the need of the customers and awareness should be created. It's not always the supply side but demand side initiatives and development is more crucial. Inspite, of series of initiative on inclusive growth and financial inclusion still majority of target audience use informal source for their credit requirement.

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