ERUDITION AND ROLE OF MICROINSURANCE IN INDIA

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ABSTRACT *The paper is a conceptual study on Microinsurance in India. In every economy, insurance plays a crucial role in the life of their citizens. It does not only protect the value of their life but also contributes to the socio-economic development of the country. In case of India, Microinsurance policy is for low income clients living in rural areas with no knowledge of insurance and who tends to face more risk and are more prone to illness due to working in hazardous condition or malnutrition with little or no experience in dealing with financial institutions. Though there is a growth in Microinsurance, still India has a very low insurance penetration. Microinsurance offers policies to cover four types of risk; life, health, accidental and property and is a key element for the financial inclusion of the poor. The main objectiveis to study the Microinsurance market in India and its need and relevance to the low sector of the society. Microinsurance in conjunction with micro savings and micro credit could thus result in keeping the segment away from the poverty trap and would be an integral component of financial inclusion.*

Keywords: *Microinsurance, Microinsurance Regulations, Low-income*

1. INTRODUCTION

Insurance sector in India plays a dynamic role in the wellbeing of its economy. It substantially increases the opportunities for savings amongst the individuals, safeguards their future and helps the insurance sector to form a massive pool of funds. With the help of these funds, the insurance sector immensely contributes to the capital markets, thus increasing the large infrastructure developments in India. The government organization thoroughly monitors the entire insurance sector in India and also acts like a custodian of all the insurance consumer rights. The Indian Insurance Sector is basically divided into two categories – Life Insurance and Non-life Insurance. The Non-life Insurance sector is also termed as General Insurance. Both the Life Insurance and the Non-life Insurance is governed by the IRDAI (Insurance Regulatory and Development Authority of India). Insurance industry in India has emerged in terms of growth in the last decade with the introduction of a huge number of advanced products leading to a tough competition among the diffeent insurance companies.

1.1 THE PRESENT DAY OF INSURANCE SECTOR IN INDIA

So far as the industry goes, LIC, New India, National Insurance, United insurance and Oriental are the only government ruled entity which provide a great contribution to the insurance sector in India. There are two specialized insurers – Agriculture Insurance Company Ltd catering to Crop Insurance and Export Credit Guarantee of India catering to Credit Insurance.

Whereas, others are the private insurers (both life and general) who has tied up with foreign insurance companies to start their insurance businesses in India as a joint venture.Life insurance companies offer coverage to the life of the individuals, whereas the non-life insurance companies offer coverage with our day-to-day living like travel, health, car, bikes, and home insurance. The non-life insurance companies provide coverage for industrial equipment's, Crop insurance for our farmers, gadget insurance for mobiles, pet insurance etc. are some of the insurance products made available by the general insurance companies in India.The life insurance company provides an investment prospectus with the idea of providing insurance along with a growth of savings. But, the general insurance company is reluctant to offer pure risk cover to the individuals.

The insurance industry of India consists of 54 insurance companies of which 24 are in life insurance business and 30 are non-life insurers. Among the life insurers, Life Insurance Corporation (LIC) is the sole public sector company. Apart from this, the non-life insurers are six public sector insurers. In addition to these, there is a sole national re-insurer, namely, General Insurance Corporation of India (GIC Re). Stakeholders in Indian Insurance market include agents (individual and corporate), brokers, surveyors and third party administrators servicing health insurance claim.

1.2 MICROINSURANCE

The term 'Microinsurance' refers to insurance services offered primarily to clients with low income and limited access to mainstream insurance services and other means of effectively coping with risk. Micro insurance is a means of protecting low income people against specific risks in exchange for a regular payment of premiums whose amount is proportional to the likelihood and cost of the relevant risk. The principal distinction from traditional insurance is in the targeting of low income people, which leads to the distinct characteristics and objectives, including addressing the particular risks of low income people, affordability simplicity and clarity in documentation and thus building a strong trust among the target clients.

Low-income households and Micro,Small & Medium Enterprises (MSME) are particularly vulnerable to risks, be it their health, agriculture, property or death. These risks often carry heavy financial implications as individuals, businesses and households in an attempt to mitigate the risks.

2. LITERATURE REVIEW

The behavior of policy holder (insured) towards Microinsurance and role of Microinsurance in low sector of the society are examined by reviewing the studies of experts. Some of which are reviewed below:

(N.B.Tang, 2001) has analyzed the causes for low penetration of health insurance in India Microinsurance refers to the community health insuranceand denotes micro health insurance is perceived to be more burdensome. (J.S.Cohen, 2005)reveals that micro insurance is a must requirement for risk handling.

However, for several years, insurance was never considered as an option for the low income people because they were unable to pay for insurance and therefore were assumed to be uninsurable. If microinsurance is implemented by Insurer, MFI's, SHG's, NGO's, etc, then the poor population can have a peaceful and secure life. (G.A.Chandhok, 2009)indicates that there is a huge untouched market for micro health insurance and majority of population are aware of importance of micro health insurance. Micro health insurance has a (J.S.Cohen, 2005)significant positive effect on health status of poor rural households. The households having more sick members are more likely to purchase insurance (S.I.Kono, 2010). According to (Singh, 2015),Microinsurance is a vehicle for economic development by alleviating Poverty and Vulnerability and Microinsurance has increased the chances of economic growth for poor. (S.Vijayalakshmi, 2014, February) focuses on the reasons of adopting microinsurance and the uses of micro credit being sanctioned by Micro Finance Institution (MFI's). The author revealed an increasing demand in microinsurance and that it plays a crucial role in alleviating the poverty line. (Jansen, 2011, April) discusses the mindset of consumers in the Netherlands and their attitude towards adopting a microinsurance policy and the factors that influence this willingness. (P.C.Prahalad, 2017) focuses on how the life insurance companies have endeavored to achieve the rural targets but are not yet successful to it. The awareness level of life insurance in rural areas is low that it falls into unsought category of product. (M.A.Uddin, 2017, January)discusses on the influence of insurance literacy and demographics on the likely hood of having a microinsurance policy. (C.M.Karunanithi, August, 2015) relates on the reasons for the decreasing trend in microinsurance products during the period of 2013-14 was because of non- remittance of renewal premium by the NGO's to the LIC offices. Majority of the micro insurance products are being procured by the LIC, through the NGO's. (B.Dahiya, 2017)focuses on the regulations introduced by IRDA and the amendments, regulations as per Micro Insurance Regulation (2015) replacing the existing regulations of 2005. The challenges faced are mainly coverage, affordability, operating costs and the micro risk. The new regulation led to an introduction of Micro variable Life insurance products comprising of systematic contributions to term insurance cover. It also deals on the product development, regulatory modification, and financial literacy drivewhich can ensure better and deeper microinsurance penetration in rural areas for people living below poverty line. (Bakhshi, April 2016)discusses Microinsurance is the guarantee against risk of low income people in exchange of regular premium in proportion to the value of risk involved. In case of India, Microinsurance policy is for low income clients living in rural areas who are illiterate and not familiar with insurance and who tend to face more risk compared to other class of society. (G.A.Chandhok, 2009).

3. PROBLEM STATEMENT

As Microinsurance provides a protection to the poor and low income households with a view to protect them from the effects of risks, the role of microinsurance should be analyzed along with the schemes introduced by the Government. Even though there are many Microinsurance products in Life and General Sectors, still the fraction of these products is not met by many. Hence, a need to understand the policy holder's mind set and the benefits they can facilitate are to be studied further.

4. RESEARCH GAP

There are still many things which are to be done in the microinsurance space. Awareness of the various policies and schemes are not done in depth resulting in policy holders to not adopting the microinsurance policy. A structural framework on how the microinsurance functions is to be identified. Thus further research is necessary in this aspect.

5. NEED OF THE STUDY

Microinsurance is a need for the poor people and it is the only way wherein the growth of the poor people can be developed in the country. Insurance is a product for the working poorwiththe restricted disposable income. It is hard for the poor people to distribute their funds to protect against an event that they hope it won't occur when they don't have the funds for buying their basic needs. Thus, it is vital to understand and educate the poor and below poverty line group of the various micro life insurance products that are existing and what are the benefits they can avail when adopting it. It is equally mandatory to inspect the progress in insurance sector relating to micro life insurance sector. Since very few of these groups have access to efficient and effective formal risk management and social protection mechanisms, recuperating losses and recovering from shock is at its best difficult, and more often impossible. It is difficult to estimate how many people are still uninsured or inadequately insured from risks. Thus, relates to the following objectives of this study:

6. OBJECTIVES

- To study the Micro Insurance market in India
- To understand how Micro Insurance framework operates
- To understand the challenges the policy holder's faces in Microinsurance policy

7. RESEARCH METHODOLOGY

The present paper is descriptive in nature. Data is collected by using secondary sources which are collected from the report of IRDA, website of insurance agencies and other related insurance articles and journals.

8. RESEARCH ANALYSIS

Microinsurance regulations in India:-

Some of the regulations taken by Insurance Regulatory and Development Authority of India (**IRDA**) along with government are:

- 'Rural areas and the social sector' obligations for the private insurance industry
- During the nationalised insurance phase, IRDA has mandated the insurance companies through rural and social sector obligation 2002 to safeguard certain percentage of polices to be sold in rural areas and certain number of lives to be covered in the social sector.
- Permitting self-help groups (SHGs), NGOs, and MFIs as new microinsurance delivery channels.
- It is mandatory to cover Rural and Social sectors of India with the introduction of Micro Insurance Regulation, 2005

Through the review of articles, There are some common methods and models for delivering Microinsurance products that depends on the organization, institution, and provider. Some of these channels are:

- **Partner Agent model**

A partnership is formed between the microinsurance scheme and an agent (insurance company, microfinance institution, donor, etc.), and in some cases a third-party healthcare provider. The scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. This model benefits from the limited risk, but has a disadvantage of limited control.

- **Full Service model**

This scheme is in charge of everything, ie., both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering microinsurance schemes in full control but has high risk.

- **Provider-Driven model**

This scheme deals in providing healthcare and is similar to the full-service model. It is responsible for all operations, delivery, design, and service. It has an advantage as it has full control being retained but caters to few products and services.

- **Community-based/ Mutual model**

The policyholders or clients are in charge, management and owning the operations, and also working with external healthcare providers. This model has the ability to design and market products more easily and effectively, but its small size and scope of operations are limited.

Examples of the above model are:

TABLE NO- A

• Partner Agent model Insurers utilize the MFI's delivery mechanism to provide sales and basic services to the clients.	• Full Service model The provider is responsible for all aspects of product manufacturing, sales, servicing and claims assessment.
• Provider-Driven model The service provider as well as the insurer is the same, such as in hospitals, doctors offer policies to individuals or groups.	• Community-based/ Mutual model The insured owns and manages the insurance program, negotiates with external health providers.

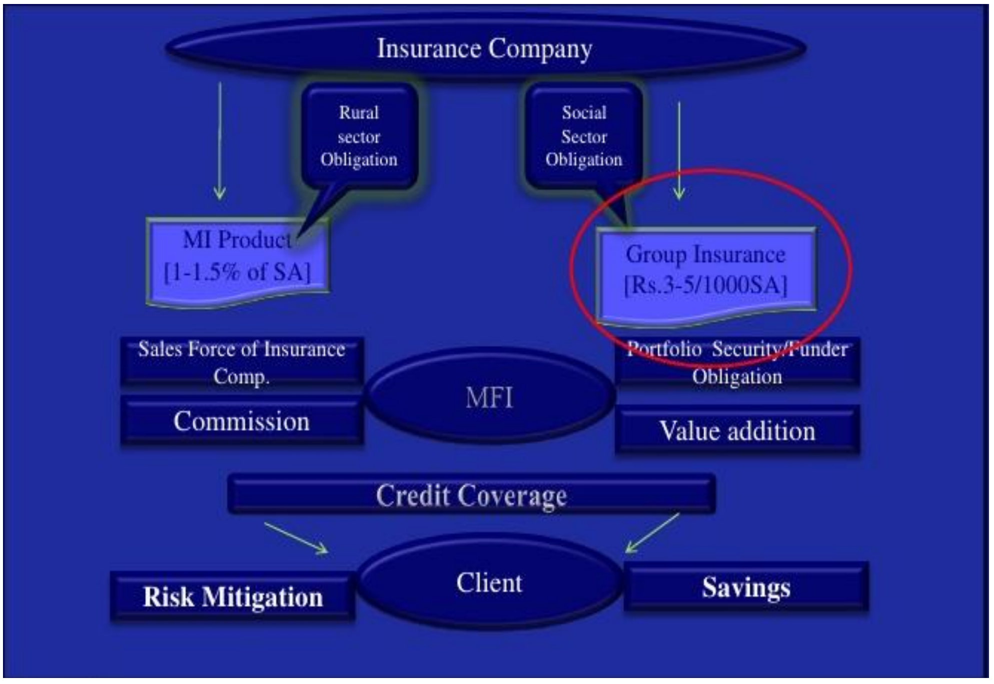
Source: Micro Insurance article, 2017

Some challenges which the policy holder's faces are:
The most noticeable defect in the implementation of a microinsurance scheme on a large, national scale is the fact that:

- The funding of these schemes does come with a price, which is limited to risk-pooling between a small number of individuals and the presence of cross-subsidies only within the members of the microinsurance unit.
- A number of microinsurance schemes are state-led. Many others are partnerships between private insurance companies and MicroFinance Institutions (MFIs). In such a partnership, the MFI's assumes the role of an agent and distributes the product of the insurance company to its clients. This helps the insurance company to reach difficult markets cheaply.
- The risk of loss of income- uncertainty of cash flows
- Variability of cash flow – high range in dispersion of income
- Vulnerability of income to natural disasters, disease and market fluctuations
- Seasonality of employment remainsunstable.

MICRO INSURANCE FRAMEWORK IN INDIA

FIGURE NO- A



Source: Micro Insurance article, 2017

CONCLUSION

India is one of the few developing countries in the world that has a special Microinsurance Act.Under the Micro Insurance Regulations, insurance companies are obliged to conduct a certain percentage of their business in rural areas or with marginalized groups. Because of these obligations and the prospect of a very large market, many microinsurance innovations emerge from India. The poor sections of the population face a variety of risks. Risk mitigation becomes important as their limited income and livelihood are dependent on their well-being and health. Hence it is defined as a savings solution directed at low income groups with modest premium. There are plenty of issues and challenges for sustainable growth of microinsurance in India but insurance companies are looking for feasible ways to provide coverage to rural populations living below the poverty line. If large insurance companies can adapt to regional sensitivities and scale quickly and also provide awareness through the various schemes introduced by the Government to the poor section and also educate them about the benefits and premium payment, microinsurance will thus, offer a huge opportunity for insurers to penetrate into the new markets and build a more resilient and inclusive economy.

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