

## ERUDITION AND ROLE OF MICROINSURANCE IN INDIA

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Received: July 15, 2018

Accepted: August 27, 2018

### ABSTRACT

*The paper is a conceptual study on Microinsurance in India. In every economy, insurance plays a critical role in the life of their citizens. It not only protects the value of their life but also contributes to the socio-economic development of the country. In India, most of the rural sectors are not aware of the basic insurance facilities that they can avail through micro insurance policy. Micro insurance do provide protection to illness as well as those groups who work in hazardous conditions and faces heavy risk. Though there is a growth in Microinsurance, still India has a low insurance tapping. The micro insurance policy offers coverage to four category of risk namely, health, life, accidental and property and also provides a mechanism to help the individuals be aware of basic financial facilities through certain scheme which are introduced by the Government. The main objective is to analyse the Microinsurance market in India and its need and relevance to the low sector of the society. Microinsurance in concurrence with micro savings and micro credit could thus, aid in keeping the poor segment away from the poverty trap and help to be a part for financial inclusion awareness.*

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

### 1. INTRODUCTION

The Insurance sector portrays a predominant role for the prosperity of its economy in India. It provides aid to the individuals in pooling their savings and protecting their future. With the savings contributed to the insurance sector by the individual, the company can address the claims raised by the insured's. The government body supervises the insurance sector in India and acts as a custodian for consumer rights. The Insurance sector is classified into two categories – Life Insurance and Non-life Insurance sectors. General insurance is another term commonly used for non-life insurance. Both, Life Insurance as well as non-life Insurance is regulated and governed by the Insurance Regulatory and Development Authority of India (IRDA). The Insurance industry has emerged over the decades by providing a wide variety of insurance products to its customers and thus competing with different insurance companies present in the world.

#### 1.1 CURRENT SCENARIO OF INDIAN INSURANCE SECTOR

The Insurance sector comprises of; Life Insurance Corporation (LIC), New India Insurance, National Insurance, United Insurance and Oriental Insurance, which are being monitored by the regulatory body. Two classes of insurers specialized mainly for Crop Insurance is the Agriculture Insurance Company Ltd and for Credit Insurance, it is the Export Credit Guarantee of India.

The Life and General Insurance are the private insurers who have a tie up with foreign insurance companies in order to start their business as a joint venture. Life insurance provides protection and covers the individuals life whereas, Non-life insurance provides protection in the fields relating to agriculture, electronic equipment, motor insurance, house hold insurance, insurance for pets etc. Life insurance companies provides investment opportunities to its individuals by meeting the individual's savings whereas, general insurance covers all the risks which the individual faces in form of pure risk.

The insurance industry consists of 54 insurance companies of which 24 deals in life insurance business and 30 deals in non-life insurance business. Life Insurance Corporation (LIC) is a unique company that provides services mainly to cover an insured's life and it is also a public company which is owned by the Indian Government. There exist six public sector insurance companies who deal in non- life insurance business. The General Insurance Corporation of India (GIC Re) is a sole national re-insurance company. Other insurance agents include stakeholders in Indian Insurance market, agents, individual, corporates, brokers, surveyors and third party administrators (TPA) who provides aid in health insurance claim.

## 1.2 MICROINSURANCE

The word 'Microinsurance' infers to those insurance services which are catered to the rural households with low income and lean access to the basic facilities. Micro insurance is a medium to safeguard the low income group from specific risks that arise out of uncertainty with a moderate premium amount. The main contrast from that of a traditional insurance is that it targets the rural poor with less income means and also addresses the specified risk, and ensures simplicity, easy documentation and efficiency and also aids to build a strong trust among the target clients.

Low-income households and Micro, Small & Medium Enterprises (MSME) are mainly vulnerable to the risks, be it in case of their health, agriculture, property or death. These risks come with a heavy financial association as the individuals, businesses and households attempt to mitigate the risks which arise out of uncertainty.

## 2. LITERATURE REVIEW

The behavior of a 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) discusses the causes for low penetration of health insurance in India. Microinsurance also relates to community health insurance and denotes that micro health insurance is recognized to be more irksome. (J.S.Cohen, 2005) reveals that micro insurance is a requirement for handling the risk for low income individuals. For several years, insurance was never considered as an option for the low income people as they were unable to pay for insurance and hence were assumed to be uninsurable. If microinsurance is implemented by certain groups such as MFI's, SHG's, NGO's, etc, it will assist the rural households in meeting their basic needs and also aid to a secured life. (G.A.Chandhok, 2009) infers that, there exists a market for micro health insurance but the same is not aware to many. Micro health insurance has a (J.S.Cohen, 2005) positive effect on the rural health which can be availed through microinsurance policy. Those households having more sick members are likely to purchase health insurance (S.I.Kono, 2010). According to (Singh, 2015), Microinsurance is a tool for economic development by reducing the poverty and vulnerability and it has increased the economic growth through adopting microinsurance policies. (S.Vijayalakshmi, 2014, February) focuses on the reasons of adopting microinsurance and the uses of micro credit which is sanctioned by Micro Finance Institution (MFI's). The author reveals 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 an unsought category of insurance product. (M.A.Uddin, 2017, January) discusses on the influence of insurance literacy and demographics and benefits one can avail from adopting a microinsurance policy. (C.M.Karunanithi, August, 2015) discusses on the reasons for the decreasing trend in microinsurance products for the period 2013-14 is because that the premium is not being settled to the LIC offices by the NGO's. Majority of the micro insurance products are obtained through LIC. (B.Dahiya, 2017) focuses on the regulations introduced by IRDA and the amendments 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 the introduction of Micro variable Life insurance products consisting of systematic contributions to term insurance cover. It also relates to the product development, regulatory modification, and financial literacy which can ensure better microinsurance penetration to the rural sectors. (Bakhshi, April 2016) infers that Microinsurance is a guarantee against uncertain risk that arise to the rural people. Micro insurance policy caters to those clients who have low income, living at rural outskirts, who are illiterate and are not familiar with insurance services and who tend to face more risk when compared to other class of society in India. (G.A.Chandhok, 2009).

## 3. PROBLEM STATEMENT

As Microinsurance provides a protection to the rural 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 poor with the 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. As very few group of people have access to efficient risk management and protection of the losses, it is difficult to provide the insurance cover to the large section of the weaker society as it is difficult to understand the estimate of uninsured's. Thus, relates to the following objectives of this study:

#### 6. OBJECTIVES

- To analyze the Micro Insurance market in India
- To analyze the operations of Micro Insurance framework
- 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
- The insurance companies need to provide protection to the rural and social sector by safeguarding the rural lives through policies that should be sold as per IRDA norms.
- 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 few common techniques used for delivering the microinsurance products which are adopted by institutions, organization and providers. Some of these channels are:

- **Partner Agent model**

As per the name, a partnership is devised between the microinsurance scheme and an agent. In certain situations, a TPA is used. Agents here are mainly insurers, MFI's, donors etc. The insurers underwrites and provides the microinsurance product while, the agents delivers the product through delivery channels. The agent also takes care of the design and development of the product. This model is benefited from limited risk but has less control to its clients.

- **Full Service model**

The model looks after both, the design as well as the development of the products to the clients. The model also works in partnership with health care providers. This model provides full control in offering the microinsurance schemes but results in high risk.

- **Provider-Driven model**

The model provides healthcare and it is alike to the full-service model. It delivers, designs and provides the services to its client in health care aspect. As it has the benefit of full control to its clients, it has the disadvantage of providing its services to limited products.

**Community-based/ Mutual/ Cooperatives model**

As per the name, the policy holders or clients owns and manages the operations as well as works with external health care providers. The model offers the design and markets the product efficiently and effectively but has a drawback in its in limited scope of operations.

**Examples of the above model are:**

TABLE NO- A

<ul style="list-style-type: none"> <li>Partner Agent model Insurers uses MFI's as a delivery channel of the products to the clients as they are traditional distributors.</li> </ul>	<ul style="list-style-type: none"> <li>Full Service model The insurance company provides its products and takes care of the sales, servicing and assessment of the claims related to various products.</li> </ul>
<ul style="list-style-type: none"> <li>Provider-Driven model The service operator as well as the insurer is similar, such as in hospitals, doctors provide policies to individuals or groups in respect to health insurance.</li> </ul>	<ul style="list-style-type: none"> <li>Community-based/ Mutual model The insured is the person who owns as well as manages the insurance and also negotiates with external health care providers.</li> </ul>

Source: Micro Insurance article, 2017

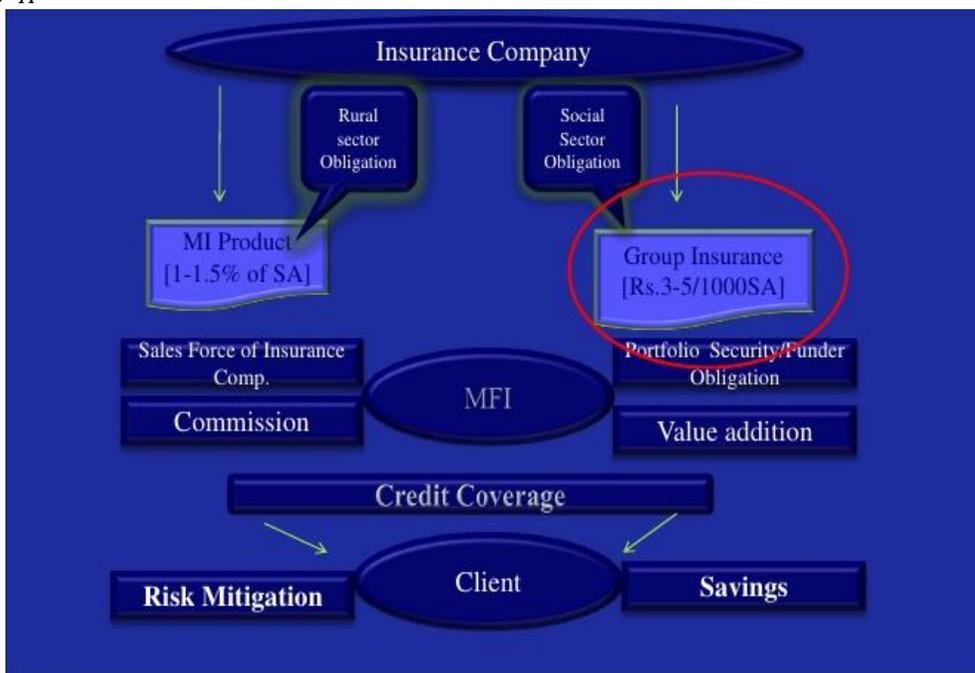
Some challenges which the policy holder's faces are:

The most noticed inadequacy in the execution of a microinsurance plan is that:

- Funds for the scheme depend upon the intensity of the risk which makes it difficult to decide the actual price of the products.
- As most microinsurance schemes are state led, the insurance company and MFI's joins as partnership wherein the insurance company assumes the risks that arise and the MFI's acts as an intermediary.
- Uncertainty of cash flow results to loss of income to the rural people and inability to adopt a microinsurance policy.
- Non awareness of the benefits of government schemes that a rural household can avail
- Uncertainty of income due to disasters, fluctuations in the market which causes a threat to the rural people.
- Employment will be unstable in certain areas leading to instability of income to the family.

**MICRO INSURANCE FRAMEWORK IN INDIA**

FIGURE NO- A



Source: Micro Insurance article, 2017

**CONCLUSION**

India is one amid those countries who are developing and has a unique Microinsurance Act. It is obligatory for the insurance company to devote a percentage of their business to the rural area and other diminished groups as per the Microinsurance Regulation Act. Many microinsurance innovative products are emerged from India as there is a large market as well as large portion of individuals living in rural areas who needs to be educated about the benefits. Risk mitigation becomes an important aspect to the poor people as their income is limited and their livelihood is equally dependent on their health as well as their future life being the recipients of majority of risk in life. Hence, a saving solution is directed towards the low income group with moderate premium. There are innumerable issues and challenges for a sustainable growth of microinsurance in India but yet the insurance sector is finding new methods in order to cover those rural people who still live amidst the poverty line. If large insurance companies can adapt to the regional sensitivities 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, aid and offer a huge opportunity for the insurers to penetrate into the new markets and also build a more flexible and better economy.

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