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THE ROAD SO FAR TO MICRO INSURANCE: THE FINANCIAL REVOLUTION IN THE SERVICES FOR THE POOR

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The Road So Far To Micro Insurance: The Financial Revolution in the Services for the Poor

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Abstract – For Enterprise and Economy to prosper, Insurance is more of a "partnership that allows individuals and businesses to spread their wings and go where they might otherwise would not have dared to go". In this context, Micro insurance, relatively a new term, is aimed at poor sections of the population and is a fast – growing sector providing innovative tools for risk protection of low income people. It has become an integral part of poverty eradication programs to strengthen the development of both the financial, health and social security systems. The occurrence of any emergency or risk has the tendency to easily erode the hard earned incomes of the poor households.

This is particularly the case when households have no formal cover over them .Micro-insurance serves as a shock reliever to major risks and ensure that the household involved can continue on their route to escaping poverty. The present study is an attempt to analyse the current status of micro insurance in India and the important initiatives taken in this regard, both by public players as well as private sector enterprises. The study also reviews the commonly faced problems and challenges in micro insurance and throws light on the implementable suggestions to make micro-insurance more inclusive to make rural poor risk appetite stronger.

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1. INTRODUCTION

We reside in a world where four billion people survive on incomes of less than eight dollars per day. Of these, 2.6 billion live on less than two dollars per day. Besides the daily hardship from making ends meet, the low-income persons are exposed to risky environments, susceptible to numerous perils including illness, disability, accidental death, unemployment, agricultural losses such as crop failures, and loss of property due to theft or fire, and disasters of both the natural and man-made varieties. The situation is even more worsened as these households are less able to avoid and mitigate risks than the rest of the population and they are the least able to cope up with the consequences when a crisis occurs because of their economic circumstance.

Although Article 22 of the United Nations Declaration of Human Rights (1948) states that "every member of the society has the right to social security", approximately 75% of the world population is inadequately covered, and approximately 40 % lack even basic protection. Faced with these figures, the recommendations of the International Labour Organisation (ILO) Special Protection Floor Initiative (SPF – I) called for a practical, systematic approach to social protection, defining some minimum social security benefits that should be extended to the underserved as conditions allow.

Within this context, micro insurance is one possible key strategy for mitigating risks and reducing the vulnerability of poor and low-income households, especially in the informal economy. The importance of micro insurance, therefore, is to serve as a safety net, with the ability of ensuring that the poor household acquires the ability to accord with a named risk and in addition ensure that these households are prevented from becoming poorer after the occurrence of a risk on an emergency.

2. CONCEPT OF MICRO-INSURANCE

Micro insurance, commonly called as insurance for the poor, is a new promising tool in a collective toolbox in reducing poverty and enhancing welfare by providing risk management solutions to low income persons. More recently, micro insurance has evolved as a weapon with the potential to become the next revolution.

According to **IRDA Concept Paper (2005)**, Micro insurance refers to "protection of assets and lives against insurable risks of target population."

In the words of **CGAP Working Group on Microinsurance (2003)**, "Microinsurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risks involved."

According to ILO, Micro insurance is an element of social protection. It is a form of health, life or property insurance which offers limited protection at a low contribution (ICAI, 2009). Simple products which are easily accessible through an efficient distribution process to keep the overall cost of products low are qualified under micro-insurance (KPMG, 2013).

Micro- insurance is a highly diversified sector with the following elements:

- *Intermediaries*: Micro-insurance is done by commercial insurers, micro-finance institutions, NGOs, Self Help Groups, governments or semi-public bodies.
- *Products:* Currently micro-insurance covers an extreme broad variety of products like- endowment, savings, pension, life, health, property, protection (term insurance) and personal accident.
- *Portfolio size*: A micro insurer may cover dozens as well as millions of policyholders (Srijanani, D., 2013)

Thus , it can be said that micro -insurance is considered by low premium and low coverage limits and sold as typical risk-pooling and marketing arrangements and created for low-income people and businesses not covered by typical social or commercial insurance.

3. REVIEW OF LITERATURE

The present study summarises findings and major issues of some important studies and reports on microinsurance in general and in India in particular. The objective of reviewing the previous studies is to economize the historical and economic perspective of the present work and the related studies which have a bearing on one or more variables included in the study.

Ratna Kishore (2013) in his paper "Micro Insurance in India – Protecting the Poor" has pointed out that the micro-insurance market in India has a plethora of opportunities and remains untapped. The potential market size for micro insurance in India is estimated to be between Rs.62,000 and Rs.84,000 million. He has given a micro insurance business model for the existing insurers and describes micro insurance as social security cover for the poor and pointed out the problems and challenges in micro insurance.

Allianz Group (2010) "Learning to insure the poor: Micro insurance report" draws from case studies of existing Allianz micro-insurance products and experts in the field to review products for low-income people and how to realize scale and profitability.

Shweta Mathur (2010) in her study "Micro Insurance - A Powerful Tool to Empower Poor" describes the evolution of micro insurance in India and the challenges faced by the companies offering microinsurance products. She concluded that policy induced and institutional innovations are stimulating insurance among the low income people who form a sizeable sector of the population and who are mostly without any social security cover. Although the current ambit of micro insurance is restricted, the early trend in this regard indicates that the insurance companies both public and private, operating with commercial consideration can insure a significant percentage of the poor .

Syed Abdul Hamid & Roberts & Paul Mosley (2010) in their study "Can Micro Health Insurance Reduce Poverty?" shows that micro health insurance has a positive impact on the reduction of poverty among rural households of Bangladesh. Micro health insurance has a progressive beneficial impact on food sufficiency of poor and has a considerab;e improvement in the health position of poor rural households .

GunitaArunChandhok (2009) in his study indicates that there is an enormous untapped market for micro health insurance and most of the population are informed and understand the significance of micro health insurance. Thus, micro insurance will go a long way in wiping out poverty. If the various micro insurance models are implemented efficaciously by Insurer, MFI's, SHG's, NGO's, Health institutions, Donors and Co-operatives, the BPL population will lead a steady and secure life.

VenkataRamanaRao (2008) in his paper "Life Insurance Awareness in Rural India : Micro Insurance Lessons to Learn and Teach" concluded that micro insurance is not an opportunity but a responsibility and to handle this responsibility ,good awareness campaign is essential. Micro insurance is rendering real solutions to the billions of rural poor that raises the awareness of micro insurance as a primary issue in the coming future.

Mark malika and Anet T. Kuriakose (2008) stressed the role of micro insurance in mitigating external shocks on poor household. He also laid emphasis on careful attention and expert technical input is required in designing micro insurance products and programs as they are significantly more complicated than credit programs offered by different organizations. Use of different risk layering using different form of reinsurance to cover the insurer is crucial from a financial sustainability standpoint, and the use of numerous outreach mechanisms to reach poor household is essential from an equity point of view.

Michael J McCord (March 2008) outlined various inputs required to reach micro insurance to billions of poor people's .Some of these inputs are - Coordination of knowledge of activities to allow all parties- mutual's, commercial insurers, intermediaries and delivery channels, governments, donors, and others—to maximize effectiveness, improving products and processes that identify the needs of low-income households and satisfy their needs with value, innovation in processes that can be replaced or boosted by technology. This requires financial and regulatory facilitation, and an openness to offer such technology on a public platform, careful development of regulation that effectively balances the need for consumer protection with the flexibility needed to develop and service a gigantic market.

Anuradha K. Rajivan (2007) the study shows that micro insurance is on the verge of floating take off in India. The current interest from the different stakeholders, united with the solid movement provided by the November 2005 directive of IRDA, substantial, complementary catalytic support will enable all the stakeholders to play a more pro-active role. However, according to the insurance companies micro insurance is so far to be a proven business offer, so investment from their part is restricted and efforts from few NGO's and MFI's have resulted in the establishment of micro insurance as a supplement to their prevailing micro credit projects & utilities for the rural poor's.

Sarthak Gaurav, Ana Paola Gomez & Acosta and Luis Flores Ballesteros (2007) study concludes that rural households require a reliable, useful, transparent and affordable solution to effectively deal with risk and shocks they face and micro insurance is one of the effective risk management tools for the development and addressing critical risk of the rural poor.

Jim Roth, Michael J. McCord and Dominic Libber (2007) conferred a report which gives a portrayal about the functioning of Micro insurance and detailed quantities overview of micro insurance in world's 100 poorest countries in which he explains about distribution channels, types of micro insurers and various micro insurance products, regulation and social security schemes in 100 countries including India.

Ahuja, R., & Guha-Khasnobis, B. (2005) in his paper "Micro-Insurance in India: Trends and strategies for further extension" provides an overview of the prospects of micro insurance in India, and suggests strategies for its further extension. Analyzing the early evidence on micro-insurance, the paper also highlights the present initiatives being contemplated to intensify micro-insurance activity in the country.

4. HISTORY AND VISION OF MICRO INSURANCE IN INDIA

The scope for micro financial products in India is massive, with approximately 800 million people living on less than $2 a day, the market is vast.

It was back in October 2002 that BASIX, a livelihood promotion institution, began providing insurance cover to customers who obtained micro credit. This early form of micro insurance in India was in the form of a group policy called Credit Plus from AVIVA. The policy covered its borrower for 1.5 times of the loan amount taken during the period.

Therefore, the micro-insurance business traces its roots in India with a few schemes launched by non-government organizations (NGOs), micro finance institutions (MFIs), trade unions, hospitals and cooperatives to create an insurance fund against a specific peril. These schemes were outside the boundary of the regulations and worked more on good faith of these institutions. The microinsurance panorama changed with the first set of regulations published in 2002. The regulations essentially announced a quota system to compel new private sector insurers to sell a percentage of their insurance policies to de facto low-income clients.

Whilst this and similar organisations in India were setting the landscape for microinsurance products, India's Insurance Regulatory and Development Authority (IRDA) was also looking at micro insurance. The Government of India set up a consultative group on micro insurance in 2003 to investigate the issues faced by the micro insurance sector. The group highlighted the apathy of insurance companies towards micro insurance business, non-viability of standalone microinsurance programmers and huge potential of alternative channels amongst others. The Reserve Bank of India permitted regional rural banks (RRBs), which have good distribution horizon in rural areas, to sell insurance as 'corporate agents,' in 2004.

In order to support the development and expedite the growth of the insurance sector, the insurance regulator Insurance Regulatory Development Authority (IRDA) came up with the microinsurance regulations on 10th November 2005. It was a pioneering approach which put India among the few countries to create a charter for insurers to offer micro-insurance products targeting both rural and urban inhabitants.

The main features of the IRDA (Microinsurance) Regulations, 2005, are as follows:

- Tie up between one life and one non-life insurance players to promote microinsurance products to the individual, his family, hia assets and habitat;

- All life insurance products are available for a breakthrough in distribution channels with inclusion of NGOs, SHGs, MFIs and PACS to provide micro-insurance, with appropriate remuneration for their services;

- Some restriction are recommended in the minimum and maximum sum assured for endowment, term and health insurance;

- There should not be any minimum qualification required for appointment as an micro - insurance agent ;

- All the products sold as micro-insurance products have to be cleared by the IRDA before marketing;

- The terms and conditions of insurance contracts should be delivered in vernacular languages to prospective policyholders and

- All micro insurance products will necessarily be underwritten by insurance companies only.

Currently the IRDA regulations do not support composite insurance (i.e., life and non-life insurances by the same company) and also restrict the agency tie-up to one life and one non-life insurer. However, in respect of the uniqueness of micro102 insurance, these regulations permit life and non-life companies to tie-up for offering a combined policy in rural areas. Further, the IRDA has permitted insurers to issue policies with a maximum cover of Rs. 50,000 for general and life insurance under these regulations. The regulations have also relaxed the norms for entry of agents relating to training and pre-recruitment examination.

While the micro-insurance regulations had a relatively narrow outlook, focusing only on the partner agent model, it relaxed some of the conditions to promote distribution efficiency and perpetrated the view to boost micro-insurance from a social perspective to a commercial business opportunity (KPMG, 2013).

Helping the rural poor systematically manage financial risks to their livelihoods and lives through microinsurance offers innovative ways of fighting poverty in India. Micro-insurance could, therefore, render greater economic and psychological security to the poor as it minimises exposure to multiple risks and buffers the effect of a disaster. The rural masses, therefore, need a conviction that buying insurance is more beneficial to them than being without it. Different players have a part to play in reducing the vulnerability of the poor including Government subsidizing microinsurance products and regulator ensuring proper development of both social and rural sector (ICAI, 2009). Micro insurance is also taken as group insurance that can envelope thousands of customers under one contract. It requires an intermediary between the customer and the insurance company. This intermediary role has been played mainly by nongovernmental organization (NGO) and microfinance institutions (MFI). The role of intermediaries in growth of micro insurance in India is well documented (Sahu, Basanta K., 2011).

5. OBJECTIVES OF THE STUDY

- To highlight the current initiatives being envisaged to intensify micro-insurance activity in India.

- To explore the present status of micro insurance in India.

- To study the role of micro insurance for economic upliftment of poor and rural India making their risk appetite stronger.

- To identify significant problems, issues and challenges in micro insurance.

- To analyze the future market potential of micro insurance in India.

- To suggest some implementable policies, to make micro insurance services more inclusive to enhance pro-poor risk management capability.

- To undertake a comparative analysis of public and private sector enterprises in micro insurance.

India is an emerging and a fast growing economy, where the policy maker's one of the main focuses is on the elevation of poverty and improving the standard of living for its people. The Micro insurance is the one of the major tools as stated above adopted by the public and the private sector enterprises to help the poor in the rural and the migrated labourers in the urban India in providing social security against the various risks and uncertainties both in form of life and general insurance. With United States at the top ,India ranks 15th among the other nations of the world (as in table 1.1) in case of insurance penetration and coverage of insurance density. But the growth achieved in the non-life premiums is 4.3% far higher than the life premium's growth of just 0.5%. The insurance penetration is calculated as the premium as percentage of GDP and insurance density is the amount equal to premium per capita. Among the Asian nations the total premium growth rate has been negative in 2013 as still the various economies are recovering from the economic slowdown and pressure on their currencies, even the advanced economies like US has a negative life premium growth rate.

Table 1 Countries Status in the Insurance Sector.

	Ranking by premium volume 2013	Life premiums USD bn	Life premiums Change* vs 2012	Non-life premiums USD bn	Non-life premiums Change* vs 2012	Total premiums 2013	Total premiums vs 2012	Insurance density (USD) 2013	Insurance penetration 2013
Advanced markets		**2200**	**−0.2%**	**1653**	**1.1%**	**3853**	**0.3%**	**3621**	**8.3%**
United States	1	533	−7.7%	726	1.7%	1259	−2.5%	3979	7.5%
Japan	2	423	1.4%	109	2.0%	532	1.5%	4207	11.1%
United Kingdom	3	223	2.6%	107	−1.8%	330	1.2%	4561	11.5%
France	5	160	3.9%	95	1.1%	255	2.8%	3736	9.0%
Germany	6	114	2.2%	133	0.6%	247	1.3%	2977	6.7%
Italy	7	118	21.1%	51	−5.0%	169	11.9%	2645	7.6%
South Korea	8	91	−12.4%	54	0.3%	145	−8.0%	2895	11.9%
Emerging markets		**408**	**6.4%**	**380**	**8.3%**	**788**	**7.4%**	**129**	**2.7%**
Latin America and Caribbean		80	12.2%	103	7.2%	184	9.4%	300	3.2%
Brazil	12	49	14.7%	40	9.8%	89	12.5%	443	4.0%
Mexico	26	12	7.3%	15	5.7%	27	6.4%	223	2.2%
Central and Eastern Europe		21	−3.2%	55	2.5%	76	0.8%	235	1.9%
Russia	24	3	47.4%	26	1.5%	28	4.5%	199	1.3%
South and East Asia		250	4.1%	159	13.4%	410	7.5%	112	3.0%
China	4	152	3.1%	126	15.5%	278	8.3%	201	3.0%
India	15	52	0.5%	13	4.1%	66	1.2%	52	3.9%
Middle East and Central Asia		12	5.6%	35	1.7%	47	2.6%	140	1.5%
United Arab Emirates	44	2	17.8%	6	7.7%	8	10.0%	872	2.0%
Africa		50	12.8%	22	2.1%	72	10.2%	66	3.5%
World		**2608**	**0.7%**	**2033**	**2.3%**	**4641**	**1.4%**	**652**	**6.3%**

Notes: *in real terms, ie adjusted for inflation.
Insurance penetration = premiums as a % of GDP; insurance density = premiums per capita.

Sources: final and provisional figures released by supervisory authorities and insurance associations. Estimates by Economic Research & Consulting.

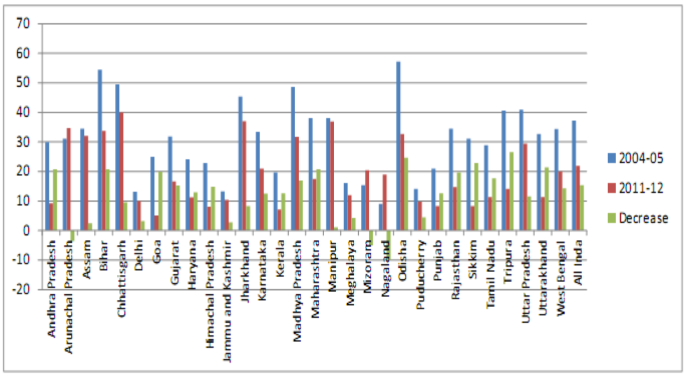
The potential market for the micro insurance in India is very vast and an untapped market exists where 21.9% of the total population are people below the poverty line in which 25.7% of them belongs to the rural India and 13.7% stays in the urban areas. The people below the poverty line has been significantly reduced from 45% in 1993-94 to 21.9% in 2011- 12 as reported by the Planning commission. If we focus on finding the potential areas where we can target the people for the micro insurance products or we can diversify or customize the insurance products according to the geographical or the literacy rate of the people may be we can achieve more success in covering the population under micro insurance schemes.

Table 2 National poverty estimates (% below poverty line) (1993 – 2012)

Year	Rural	Urban	Total
1993 – 94	50.1	31.8	45.3
2004 – 05	41.8	25.7	37.2
2009 – 10	33.8	20.9	29.8
2011 – 12	25.7	13.7	21.9

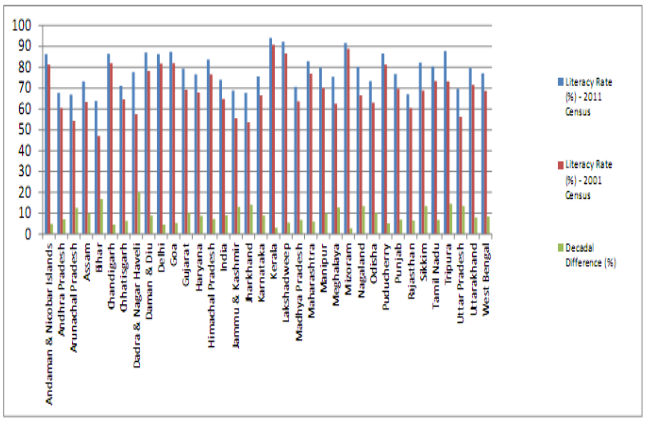
Source: Press Note on Poverty Estimates, 2011 – 12, Planning Commission; Report of the Expert Group to Review the Methodology for Estimation of Poverty (2009) Planning Commission; PRS.

Figure1 State-wise Poverty Estimates (% below poverty line) (2004-05, 2011-12)



Source: Review of Expert Group to Review the Methodology for Estimation of Poverty (2009) Planning Commission, Government of India; Press Note on Poverty Estimates, 2011 – 12 (2013) Planning Commission, Government of India; PRS.

Figure 2 State-wise Literacy Estimates (% literacy rate) (2001 & 2011 census)



If we compare the India's poverty estimates and the literacy rates, we find that the poverty has declined in almost all the states and also the literacy rate has increased many fold in last one decade. This shows that the awareness among the masses has increased and also we need to focus that the young population i.e. "proportion of working-age population in India is likely to increase from around 58 per cent in 2001 to more than 64 per cent by 2021, with a large number of young persons in the 20-35 age group, according to the pre-Budget Economic Survey 2013-14" (Economic times July 9, 2014). This is the demographic advantage that every enterprise found for them as a potential market. The Government and the Insurance companies need to focus on the Human development front and this is the time for micro insurance companies to come into limelight and focus on social development and provide security basically to the economically weaker section of the society by providing them the individual and the group benefits and upgrade the society as a whole.

Micro insurance enterprises just need to focus on making the poor people aware that such kind of schemes and products can reduce the risk they suffer and educate them properly about the way these products can benefit them. For this purpose these enterprises need to hire the employees from these targeted groups only so that they can help them settle their grievances and doubts from them. India is a nation where majority of its people are from the primary sector i.e. basically the agricultural and agricultural allied activities, so the basic areas or states that need more focus are the southern and the eastern and the central states like Andhra Pradesh, Madhya Pradesh, Jharkhand, Bihar, Odisha, Chhattisgarh, Assam and other states. The following is the way to access the poor population:

The Indian micro insurance market has been divided into public and private players where in public players majorly LIC(Life Insurance Corporation of India) has the potential share of the market with the premium collection of Rs 2.61 billion and among the private players only 14 companies out of 47 private companies had registered their micro insurance products with IRDA and only 7 companies were actually able to sell these products, which shows they are lacking in the rural and social sector obligation. The government of India has also launched 50 community schemes for social security of poor in India. The government schemes potentially intend to cover 422 districts of the country and 56.56 million families living in rural and urban India.

The Indian microinsurance market is marked by various players operating a number of schemes:

The individual new business premium under microinsurance in the year gone by 2012-13 , was INR 109.67 crores on 50.36 lakh new policies (IRDA , Annual Report 2012-13) . The respective figures for group business was nearly double at INR 218.02 crores on 1.39 crore lives (IRDA , Annual Report 2012-13) . The insurers achieved the year-wise targets , set in advance by IRDA both in terms of percentage of business from the social and rural sectors and in terms of number of policies and number of lives covered. The industry figures for the same time period stood at penetration level of 3.96% density of USD 53.2 , divided as 3.17% penetration for life insurance and 42.7 USD density and the corresponding figures for non-life insurance stood at penetration of 0.78% and USD 10.5 density. All the figures indicate a declining trend after reaching the paek during 2009 and 2010.

These overall figures hide the ground realities of financial inclusion. The insurance "have-nots" are greater in numbers in the low income segment, (thus lending themselves more to the microinsurance program) as compared to the high income segment groups. Overall people outside the ambit of the insurance services in the Indian low-income bracket is still more than 68%. (World Development Report,2014). This ever-increasing gap is sought to be bridged by the industry policy makers (IRDA in India) by specific provisions defining them under rural and social segment, within the broader umbrella of micro insurance combining within its fold both life and non-life insurance.

Products	Endowment products	Credit life and retail products	Credit life, savings linked plan and retail products		Saving and wealth accumulation products
Key Highlights	• Low sales volume • Poor persistency • Servicing challenges	• Bundling with micro credit • High-value sales to offset operational expenses • Regulatory guidelines for microinsurance • Supply chain innovations • Technology innovation to improve the policy administration and claims process	• Rural channel upscaled • Unit Linked Insurance Plans (ULIPs) savings plan launched • Technology usage for increased efficiency during client interface	• Strong technology usage • Consumer awareness • Flexible savings and term products • Collaborating with larger banks on financial inclusion projects • Public private partnership	• Focused approach by insurers, large-scale need-based programs • Products providing risk cover against health, agriculture, house and education to grow • Advance technology-led distribution • Government-sponsored programs
Distribution	• NGOs	• MFIs • NGOs • Regional Rural Banks (RRBs) • Co-operatives • Retail chains • IT kiosks	• MFIs • NGOs • RRBs • Co-operatives	• RRBs • Producer companies • Banks • MFIs	• RRBs • Banks • MFIs • NGOs
	2001–03 Infancy stage	2004–08 Startup stage	2009–11 Evolving stage	2011 Growth stage	2012 Way forward

The table above depicts the changing landscape of the micro insurance sector with the launch of new products and newly tapped markets, but still there is a vast scope of growth of this sector and its contribution to the overall growth of the economy. Micro insurance is basically linked with micro finance tapping rural channels and offering flexible saving products and working on consumer awareness for these products. Micro insurance being a major source of financial inclusion can be worked through PPPs (Public Private Partnerships') to achieve higher sales and supply chain innovations are required. The Micro Insurance sector is in its growth stage need to focus on improvement in its distribution channels and provide risk cover for all agricultural allied activities.

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6. PROBLEMS, ISSUES AND CHALLENGES IN MICROINSURANCE

- The penetration of insurance to the low income segment has not yet reached its mark and its promotion by MFIs has not yet realized its full potential.
- The definition of micro insurance in India is primarily a product-based, monetary one. It is not defined clearly and categorically.
- Indian insurers are not accustomed to selling high volume, low ticket products and therefore fixed costs of administration and distribution is not justified by low penetration irregular revenues (client numbers) and short term loss.
- The present day insurance paradigm is not tailored to serve the poor – high costs, limited access and low transparency being the main reasons.
- Demand for insurance is unrealized.
- Awareness of clients about insurance, products and their features is limited.
- Lack of unfamiliarity and trust on the service providers
- There is ambiguity about the nature of demand of the low income groups for microinsurance
- There is non-customisation of processes leading to high costs, poor service quality, opaque terms of risk and cost sharing among channel partners.
- Two important issues are often faced when it comes to insuring the poorest -

Whose benefit should microinsurance aim at? And second issue is who should pay the microinsurance premiums?

- Irregular and uncertain cash flows of low income households which makes them unable to pay the premiums.
- Insurers have not readily embraced the concept of microinsurance. They find it difficult to fit their products within the parameters set by the IRDA for a micro-insurance product. For example, sum assured of Rs. 30,000 may be perceived by an insurer as inadequate to make health insurance attractive even to low-income segment. The sum assured is low compared to the actual indemnity experience of the clients, making the products unattractive.
- According to a study by Micro Save in 2012, it has been seen that the number of products registered with IRDA over the past five years shows a decline from 11 in 2007-08 to just 1 in 2009-10. No products were registered from 2010-11. Only seven life insurance companies sold micro insurance products in 2010-11.
- Under the public-private-partnership mantra, many insurers have started to underwrite government-sponsored mass insurance programmes to serve the poor. The Rashtriya Swasthya Bima Yojana (RSBY) is one such Central Government -subsidised programme. In addition, there are five States – sponsored programmes. The premium collected from such programmes is included in the rural social business of the respective insurer. This creates further confusion on what constitutes micro insurance.
- Migratory nature of the client requires a delivery channel which can serve on a sustained basis. Delivery systems are poor when growing demand for micro insurance is there. But there is difficulty in finding effective distribution channels.
- As the microinsurance industry is in its infancy stage, it is yet to realise and implement focused product marketing, product design and human resource management programmes. The small ticket size and insubstantial revenue (often resulting in short-term losses) makes the insurance players apprehensive of investing in such efforts.
- There have been instances of insurance companies finding rural social obligations unviable.
- Big challenge in educating the market and overcoming the bias on insurance.
- Insurance companies (and other players involved in microinsurance product design) lack the mortality and risk-related actuarial data for the targeted client segment. There is lack of base line data on potential claims that can help the insurers to design or price products.
- In the absence of a clear- cut definition and with disaggregated data for micro insurance, it becomes difficult to compare performances and reach at a conclusive figure indicating

the number of insurance products and the number of poor reached in India.

7. RECOMMENDATIONS AND SUGGESTIONS FOR FUTURE ACTION

- In the light of decreasing motivation for micro insurance products, IRDA needs to redefine the concept of micro insurance first and put it in clear quantative and qualitative terms. Two, based on this conceptual clarity, data regarding insurance for the poor needs to be segregated and collected from all the companies.

- It is becoming increasing clear that micro-insurance needs a further push and guidance from the IRDA as well as the Government. Therefore, there is a need to emphasise linking of micro credit with micro-insurance as it will help in bringing down the prevailing risk cost of lending. Morever, NABARD should be involved in matters relating to rural and micro insurance to leverage on its experience of being a catalyst in the field of micro-credit.

- Keeping in view the difficulties to establish a vast network for distribution of micro-insurance products , the insurers need to latch on to existing Government organizations , banks , MFIs , NGOs and SHGs to reach the under covered market ,as they find greater acceptability among the financially excluded and will help in lowering the costs.

- It would be prudent to choose a partner- agent model for delivery where the insurer underwrites the risk and the distribution is handled by an existing intermediary. This model will keep the cost of insurance lucrative enough for the low- income to enter and remain in its fold even while addressing the concern of the insurers about the low returns of the micro insurance.

- IRDA should look into the performance of the insurers in meeting rural social targets as it would help to strengthen the micro insurance regulations and monitor the activities under it. This will encourage all the existing and upcoming insurers to develop and design more customized products for the market which will gradually improve the rural's poor conditions and will increase the overall insurance penetration in India.

- Customised product development to suit the varying requirements of the local populace is a pre-requisite. Design of micro-insurance products must have the features of simplicity, availability, affordability, accessibility and flexibility. Information should be made available in vernacular for an easy understanding of the terms of offer.

- The micro-insurance sector is unique in the sense that there is an on-going challenge to explain the concept and benefits to the insured. Creating awareness through use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of insurance. Educating in the market in their local languages through media, information kiosks, social meetings etc can help.

- The IRDA should consider putting in place an appropriate institutional structure for deciding on service packages including premia and formulating strategies for effective promotion of micro insurance. For this purpose, it should monitor the quality of training imparted to micro insurance agents / advisors. More quality training institutes are required for this purpose.

- With a view to bringing down product costs, building data base on claim histories, risk profiles, settlement ratios etc., are to be undertaken. This will also help in bringing pricing decisions in line with actuarial calculations.

- An innovative distribution channel should be developed to achieve cost -efficiency and ensure overall development of insurance in rural India.

- As the micro insurance is meant for the poor, there should be flexibility in premium amounts and focus should be on risk coverage.

- The technology platforms being envisioned to facilitate financial inclusion should enable micro - insurance transactions also. Towards this end, there is a need to integrate the various modules – savings, credit, insurance, etc. into the technology framework so that holistic inclusive efforts are possible in the rural areas.

- As like foreign countries, India should also make insurance mandatory.

8. CONCLUSION

For India to reach its condign place as a developed nation, it must financially empower its entire population. A primary element of this empowerment is a base risk cover that covers elements of life, disability and health. This empowerment can only be attained through the collective efforts of the government, private enterprises and regulators; they must be able to build commercially viable and scalable models for financial inclusion.

Given the IRDA has an objective of "promoting orderly growth of insurance industry for the benefit of the common man", a separate body under it to effectively monitor all forms of insurance for the poor would plug many loopholes in India's path to effective financial inclusion. In this context, micro insurance has the potential to be a game changer, as it can help address many of the people across the world. Micro insurance can give rise to a 'win-win situation', connecting the double bottom line of long-term financial impact with social advantages of combating poverty through systematic risk management among the rural poor. With microinsurance, we can tap a huge market of low income households at the bottom of the economic pyramid.

Though micro insurance struggles to achieve scale due to limited ability to expand risk pools and cross-subsidize, it does play a significant role in guaranteeing financial protection for individuals. The foundation of the micro insurance sector is expanding quickly with primary stakeholders joining forces and unparalleled resources, making this a crucial time in the evolution of micro insurance.

To overcome the challenges in the path of micro insurance, it is imperative that measures should be undertaken to encourage product customisation, distribution optimisation, regulatory modification and financial education. Regulators need to move away from the prescriptive regulation towards a regulatory framework that incentivises innovation, so that insurance industry stakeholders can innovate flexibly. Hence, Micro insurance is still a "work in progress".

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