



*Journal of Advances and
Scholarly Researches in
Allied Education*

*Vol. V, Issue X, April-2013,
ISSN 2230-7540*

**THE LIKELY IMPACT OF MICROINSURANCE ON
INDIA'S POOR- A VIEW OF THE NEXT 10 YEARS**

The Likely Impact of Microinsurance on India's Poor- a View of the Next 10 Years

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Abstract – The present paper discusses microinsurance in the context of India. It has started with discussing the concept of microinsurance and its importance to poor people living in rural or remote areas. The paper further explores the microinsurance situation in India. The paper reveals that even if microinsurance sector has not obtained as much popularity as the traditional insurance, it is growing at a rapid pace. At present, the demand for microinsurance is not very high in rural India due to lack of awareness and acceptance among poor people. However, microinsurance providers like insurance companies and government are trying to raise awareness of microinsurance. Hence, the future of this sector looks very bright and it will create positive impact on the lives of rural poor in future.

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INTRODUCTION

The middle class section of Indian society is expanding at a high rate. However, almost 70% of India's population lives in rural areas (Srijanani, 2013). These people are very poor and often characterized by low rate of literacy and poor access to services related to health (Rajan, 2011). The existence of these poor people gets threatened because of illness, natural disasters and accidents and all these risks push them into further poor. All these issues indicate the requirement of microinsurance (Rajan, 2011).

Microinsurance is that type of insurance which is provided to the people with low income. This type of insurance is unusual from other types of insurance as the value of microinsurance is very low (Dalal and Morduch, 2010). Thus, the policies for allocation and designs are different for microinsurance. In the case of micro-insurance, premiums are based on risk rating of society and not risk rating of individual. Further, an intermediary agency which represents the particular society is involved in case of microinsurance (Dalal and Morduch, 2010; Schneider, 2004).

Although the poor people experience similar risks, such as accident, injury, illness and death like other people, they are more prone to these risks because of their economic conditions. A study of World Bank (Peters, 2002) revealed that almost 25 percent of Indians who are hospitalized fall under the poverty line as a result of their hospital stay (Holzmann and Jorgensen 2000, Siegel et al. 2001).

Initially very few microinsurance schemes were started in India by the hospital trusts and the NGOs (Rajan, 2011). The development of activities relating to micro-finance and the new rule which compelled every

official insurance company to provide their services in rural and well recognized areas in India (IRDA, 2000) resulted in the increase of microinsurance schemes. Thus, the NGOs and MFIs (Micro Finance Institutions) are consulting with the profit making insurance companies for buying standardized individual or customized group insurance scheme for the people having low income (Peters, 2002). Though very few people can access these schemes but the prospect of these schemes is huge (ILO 2004b).

MICROINSURANCE SITUATION IN INDIA

According to a report published by ILO (International Labour Organisation) in 2012, total population across the world covered under microinsurance reached 500 million in 2012 and around 60 percent of these people who are covered under various microinsurance schemes live in India (ILO, 2012). It shows the huge spread of microinsurance in India. India has become a leader of microinsurance in the world. Microinsurance policy is perceived in India as a type of insurance policy which has a low premium and hence appropriate for that large section of population that lives in rural areas and depends on agriculture (Rao and Samuel, 2009).

As microinsurance sector is essential for households as well as the economy, so it attracted the policy makers in a very short time (Sahay, 2009). Two important researches by ILO (2004a and 2004b) illustrated the wide range of the sector of microinsurance in India. In the research, it has been emphasized that 45 of 80 insurance products cover a single peril and merely 2 or 3 products cover more than one peril (ILO, 2004a). Almost 52 percent of the insurance products cover life or perils related to accidents and directed to individuals (ILO, 2004a).

There are currently 12 health insurance products available and out of them, 7 products are limited to groups and 5 products are created to cover some critical diseases for individuals. However repayment of expenses of hospitals are not included (ILO, 2004b). At the time of subscription, most of these products need single premium payment which is a one-time payment. The products of private insurance companies are almost thrice that of public insurance companies (ILO, 2004b).

PLAYERS AND VARIANTS OFFERED

The market of microinsurance is expanding over time. Initially only government owned insurance companies and NGOs offered microinsurance products. But now, commercial insurance companies like Tata AIG and Bajaj Allianz have penetrated in this market as demand for microinsurance products is increasing. The level of competition in the microinsurance sector in India has increased with the entry of number of firms in recent years. Many specialized market players like NGOs, MFIs and Co-operatives are entering into this sector, resulting into increased competition and product & process innovations (Srijanani, 2013). Looking at this trend, it seems that the market is no longer dominated by few players and there is no monopoly in this market. However, the nature of competition cannot be classified as perfect competition as there are some restrictions on entry due to high cost of operations and differentiated products etc. Thus, the nature of competition can be termed as monopolistic competition where there are a bunch of players that sell similar, but differentiated products and have their own share of market. This kind of competition instigates the players to innovate more in order survive within the market place. Hence, companies operating in this market always try to deliver new and innovative products and processes.

Some of the major domestic as well as international players in the microinsurance market of India are as follows:

- **Allianz AG**

Allianz AG Group is considered among the best private providers of financial services in India through their Indian Joint Venture Bajaj Allianz, with two different insurance companies operating with life and non-life insurance company licences. These companies specialise in the areas of health and life insurance, casualty and property insurance. Currently Allianz AG has collaborated with help organisations throughout the world to investigate the methods by which insurance companies can help to reduce poverty by providing insurance in low premium in Asia. (Federal Ministry for Economic Cooperation and Development, 2006)

- **GTZ**

The Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) is a global cooperation company which work for the sustainable development of the whole world. The company offers advanced and practical solutions for ecological, economic, social; and political development. GTZ can be found in 130 nations of Eastern European, Latin American, Asia, Africa and New Independent States (NIS). (Federal Ministry for Economic Cooperation and Development, 2006)

- **UNDP**

The international development network of UN is known as UNDP. This organization supports change and associates nations to resources, experience and knowledge for helping people make a good life. UNDP works in 166 nations for strengthening their abilities and generate solutions to national and international development problems. (Federal Ministry for Economic Cooperation and Development, 2006)

- **ASA**

The Activists for Social Alternatives (ASA) is a Non-Government Organization which helps the poor people of drought prone places of Tamil Nadu to develop. The organisation was founded by Sathianathan Deveraj in the year 1986. The organisation was formed in such a way that it is able to work for the privileges of poor and exploited people belonging to the Dalit society. The vision of ASA is to create a society which is based on values, sustainable, humane, affluent, productive and free of poverty. The objective of ASA is to make the women of poor families politically, economically and socially powerful by associating them with community organizations through microfinance and poverty reduction programmes. Many women groups or sanghas were formed by ASA to eradicate caste system, child marriage and gender inequality (Rajan, 2011)

- **SHEPHERD**

The Self-Help Promotion for Health and Rural Development (SHEPHERD) was formed in the year 1995. Shepherd is situated in Tiruchirapalli in Tamil Nadu. Peter Palanisamy formed the Shepherd. This organization was formed to make the women specially the dalits powerful. The main aims of Shepherd are (Rajan, 2011):

- To safeguard the poor people from risks or calamities.*
- To assist the women to have a sustainable life.*
- To instil saving habits.*

- **SPANDAN**

In the year 1992, SPANDAN was formed in Guntur in Andhra Pradesh and was formally registered in the

year 1995. In the year 1998 the organization initiated microfinance after a ragpicker described the significance of small loans to the founder of the organization, Padmaja Reddy. After this incident Padmaja Reddy left her job and formed an institution which offers small loans to the poor people of Guntur. (Rajan, 2011)

MICROINSURANCE AWARENESS

The market of insurance has diverse clients. Even if microinsurance sector is expanding in rural India, still a large section of people of the country, particularly in rural area do not have proper knowledge about microinsurance (Schneider, 2004). Schneider (2004) establishes that in the insurance sector, there are two types of people. One group has very little or no knowledge about insurance and the other group comprises those who have negative ideas about insurance (Srijanani, 2013). The public insurance companies such as Life Insurance Corporation of India(LIC) have offered services in many places for many years, so people are more or less aware of 'insurance' (Srijanani, 2013). But in the past, many people of rural areas and middle class groups had bad experience with various traditional insurance policies on account of issues relating to premium payments and receipt of low surrender values. Many people were reported failing to pay high premiums when their incomes got reduced; and further many got very little surrender values after several years of starting the policy (Srijanani, 2013). This has created some negative thoughts on microinsurance in rural areas and therefore the acceptance level of microinsurance is not quite high (Srijanani, 2013). Moreover, many brokers and agents of rural areas who generally survive on the earned commissions have not been able to continue their service because of discontinuation of these policies (Srijanani, 2013; Rajan, 2011). Hence, these agents were reluctant to market and sell microinsurance policies. A large section of people living in rural areas are not aware of the features and benefits of microinsurance. Lack of knowledge on microinsurance together with their bad experiences on some traditional insurance policies coupled with agents' reluctance to sell microinsurance - have contributed to the lack of acceptance of microinsurance in rural India.

Thus, it can be inferred from above discussion that a huge section of the market either had access to products which they were not able to afford or they had bad experiences regarding insurance which made them suspicious about insurance. Moreover, in many areas the level of awareness about microinsurance is low. People very often get confused about the difference between traditional insurance and microinsurance. However, government agencies as well as private commercial insurance firms have

started to raise awareness about microinsurance in India (Rajan, 2011)

Of late, the microinsurance sector is experiencing huge spread as more people are getting aware of microinsurance schemes and their benefits in India (Srijanani, 2013). As of 2012, 300 million people living in India have been covered under various microinsurance schemes (ILO, 2012). This expansion is associated with the aggregate expansion of the insurance sector in India (Rajan, 2011). However, the important point to note here is that the spread of microinsurance is not uniform across the country. For example, the spread of microinsurance is more in South India. It could be because of the fact that NGOs, MFIs and Cooperatives in South India are more active in microinsurance awareness and sales (Rajan, 2011; Srijanani, 2013). However, microinsurance has started to grow in North India also in recent times (Srijanani, 2013).

Even though microinsurance in India has experienced a huge spread, a large section of potential market of microinsurance in the country is still untapped due to lack of awareness and acceptance of these new types of insurances. However, insurance companies are trying to penetrate into this untapped market by educating people about the benefits of microinsurance products (Srijanani, 2013).

BENEFITS TO POOR

Microinsurance serves as a protection for people with low income against certain risks in return of constant payments of premium which is equal to the cost and probability of risks involved (ILO 2004b). People having low income may utilise microinsurance as a tool for controlling risks (Federal Ministry for Economic Cooperation and Development, 2006).

As people with low income usually have low asset base, they are more affected by negative shocks and risks, such as, death or illness of bread-earner, natural disasters etc. (Dalal and Morduch, 2010). In the developing nations, poor people formed various informal and formal tools to control the effect of these negative shocks. But these informal and formal tools cannot provide full protection, provide lower returns and may stop working at the time of emergencies (Dalal and Morduch, 2010; Siegel et al. 2001). Here comes the importance of insurance schemes as risk management tools. To be more specific, microinsurance products have been designed for poor by keeping their needs in mind. If the poor people take the benefits of the microinsurance, then it can act as a good tool to manage risk. The main advantages of microinsurance are stated below (Dalal and Morduch, 2010; Siegel et al. 2001):

- *Safeguarding the poor people and their assets from bad external risks.*
- *Reimburse the impacts of covariate risks like natural disasters.*
- *Attracting the capital of household for the purpose of investment in small, but reliable companies.*
- *Assist the families to escape the trap of poverty by providing regular and secured returns.*
- *Spreading the schemes of informal insurance and social safety.*

POTENTIAL IMPACT IN NEXT FEW YEARS

The future of microinsurance looks bright in India. With the spread of awareness of microinsurance, the demand for microinsurance is increasing in the rural India. Thus, it seems that the majority of the rural population will be covered under microinsurance in the near future, which will help to enhance the conditions of poor. A large section of poor people will be able to come out of their poverty trap with their wise investments in various microinsurance schemes (Rajan, 2011). Since, the government as well as private commercial enterprises are trying to make the rural people aware of microinsurance and their benefits to enhance their knowledge on this subject and clear their misgivings on the insurance products, it seems that more rural people will be aware of microinsurance and learn about the benefits of these products.

With the help of microinsurance, poor people will no longer be exposed to the perils like natural disasters, illness, death etc. These people can now protect their income from these unforeseen events. Moreover, it will also increase investments that is a good sign for the growth of the economy (Srijanani, 2013). The microinsurance will encourage investments in riskier, but more profitable activities that will increase income of people over long run (Srijanani, 2013). Thus, microinsurance will produce positive impact not only at individual level, but also at aggregate economy level in the near future. It will enhance the condition of poor people and thus the overall outlook of the economy will look brighter.

CONCLUSION

The paper established that microinsurance has a bright prospect in Indian rural areas. In near future, microinsurance will become one of the major measures of eradicating poverty in rural India as mentioned in the last section. It will not only hedge poor people from risks, but also offers new avenues of earning income. It will offer new investment opportunities. People will become more courageous to invest in more riskier, but profitable ventures that will enhance their income levels. The microinsurance has

become an essential tool for the low income people and act as a cost-effective means of managing risks. The poor people are generally not able to access the conventional insurance schemes due to high premium rates. Discoveries in the field of microinsurance try to increase coverage and accessibility of insurance for the low income groups and hedge them against risks. In India, the prospect of microinsurance companies looks bright as there is a huge untapped market. By increasing awareness about the features and benefits of microinsurance products, more and more companies will enter into this sector and cover more people.

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