Micro Insurance in India: A Safety Net for the Poor

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Abstract
India is enjoying rapid growth and benefits from a young population. Its middle class is growing rapidly but 70 percent of the population is still rural, often very poor, and handicapped by poor health and health services, and low literacy rates. What happens when a poor family’s breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. These highlight the need for micro insurance. In India, liberalization of the economy and the insurance sector has created new opportunities for insurance to reach the vast majority of the poor, including those working in the informal sector. Market penetration is largely driven by supply, not demand. Micro insurance in India has valuable lessons for the rest of the world, particularly in the regulation of the industry. Unlike micro lending – the better-known side of microfinance – micro insurance has been a hard sell among the world’s poor. The reasons include lack of understanding of how insurance products work, the poor population’s general reticence to part with what little financial resources they have, badly designed products and a shortage of localized risk management knowledge among providers. Micro insurance, more than mainstream insurance, depends on innovative cooperation. Finding well established local structures like the dairy cooperative movements will remain essential for the growing micro insurance industry. Scaling up micro insurance needs partners like SKS Microfinance, the fastest-growing MFI in the world. In this context the present paper explores the history of micro insurance in India. The present paper focuses on the opportunities and challenges of micro insurance in India and studies the three regulated distribution models of micro insurance in India.

Keywords
Micro Insurance, Liberalisation, Poverty, Regulated Distribution Models, Opportunities, Challenges

I. Introduction
The emerging opportunity of micro-insurance is not only to promote business perspective but also, social development and protection to the poor people. It has also been found that, out of the estimated four billion people worldwide, who live on less than $2 a day. Fewer than 10 million people currently have access to formal insurance from a regular financial institution, showing the tremendous growth potential the micro insurance segment holds today. Micro-insurance provides opportunities for protection of the poor and their families against perils like weather, catastrophes, illness, death, etc. Most of the poor work in the informal sector and normally work under risky conditions. It is a group insurance that can cover thousands of clients under a master policy. Micro-insurance is a means of protecting low income households against specific risks in exchange for a regular payment of premiums whose amount is proportional to the likelihood and cost of the relevant risk.

Like everybody else, the poor also face a variety of risks such as risk of death, illness, disability, accident, income and property and so on. Like all others, they also need to be protected from these risks. The recent developments in the Indian insurance industry after it was opened to private entry are mainly geared towards serving the middle and upper income segments of society.

1. The rural and social sector obligations imposed by the insurance regulator are regarded by nongovernmental organisations (NGOs) and nodal agencies to be too mild to be able to serve low-income people in any significant way.
2. How then to extend insurance coverage to the poor? Insurance to the poor cannot be made viable (cost-effective) without the active involvement of nodal agencies and NGOs.
3. These agencies and organizations either directly provide insurance (for example, the Sewagram Hospital) or negotiate a scheme, on behalf of the community, with the insurer, and also collect premium and manage claims (for example, SEWA in Ahmedabad, ACCORD in Niligiris).
4. A group insurance scheme is a powerful way of insuring a number of poor people in one shot.

The role of a nodal agency is crucial as it helps in lowering transaction costs by managing the scheme, building trust among its members, bringing about behavioural changes, checking against the adverse selection and moral hazard problems, tailoring the product to the needs of the group, and claims verification. Spreading the idea of insurance among the poor, illiterate or semi-literate community is not easy. It requires a great deal of sustained effort. Once people join an insurance scheme, the issue of retaining them becomes crucial, particularly those who do not receive any benefits. An insurance company cannot be expected to perform all these tasks, and if it does so it only jacks up the premium. Only an organisation that is rooted in a community can carry out these tasks. Hence the role of an NGO or some other nodal agency is absolutely crucial in micro-insurance.

Providing insurance to low-income people one major issue that comes up is whether offering insurance to them is a Viable Business Proposition (VBP). The idea of Viable Business Proposition (VBP) here can be captured as consisting of four key aspects: affordability, insurability, marketability and profitability. Affordability is a critical issue when dealing with the poor, and the existing experiments have been able to get around this issue by keeping the costs low, and in some cases, partly subsidising the premium. The subsidy comes from diverse sources: from government either directly or indirectly, from external donors and from internal sources of the nodal agencies. In almost all cases, the schemes are successful in mobilising some contributions from the insured themselves. Some social experiments that help the poor generate income have been able to circumvent the affordability concern and have introduced insurance. Profitability is an important condition to attract insurance companies to seriously consider offering insurance to low-income people. All the four aspects cited above determine whether or not insurance to low-income people makes a Viable Business Proposition.

Micro-insurance is a highly diversified sector: Stakeholders: Micro-insurance is developed by commercial insurers, mutual funds, microfinance institutions, NGOs, governments or semi-public bodies.

Products: Micro-insurance covers an extreme broad variety of services like, for example, life insurance, health, invalidity, cattle breeding, crop and asset insurance.
II. Need and Importance of the Study

What happens when a poor family’s breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That’s where “micro-insurance” comes in. Micro-insurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Two-thirds of human beings suffering in the most extreme poverty are women. Often living within $1 per day, they are the most vulnerable.

III. Review of Literature

The literature available on this subject is quite vast. Prathma Rajan (2011) gave a detailed understanding of the RSBY (Rastriya Swasthya Bhima Yojana) scheme by conducting several rounds of interviews with both FINO and ICICI Lombard. Intense primary and secondary research was involved during the process to ensure unbiased analysis.

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Micro-Insurance Regulation in the Indian Financial Landscape (2008) a report of M-CRIL says that conscious of the relatively recent experience of insurance regulation and the lack of its own capacity to implement a strong regulatory regime, the regulator – the Insurance Regulatory and Development Authority (IRDA) – has limited the scope within which micro-insurance may be offered.

Roth, J & McCord, MJ (2008) in their book has been written for people who would like to know how agricultural insurance could
play a role in improving the livelihoods of the rural poor. It will be useful for development agents such as donors, development banks and development workers in NGOs, co-operatives, credit unions and Microfinance Institutions (MFIs). They also analysed the successes, failures and challenges of providing agricultural micro-insurance in practice.

Jim Roth and Gaby Ramm (2006) in a report of Federal Ministry for Economic Cooperation and Development explores how micro-insurance began in India, and gives reasons for its dynamism. It investigates into the supply and demand of micro-insurance in India, gives the various channels for distribution, gives an examination of social security in India and its relationship to micro-insurance.

IV. Objectives of the Study

• To explore the history of micro insurance in India.
• To study the opportunities and challenges of micro insurance in India
• To examine the three regulated distribution models of micro insurance in India

A. Section I

1. Development of Micro-insurance in India

Historically in India, a few micro-insurance schemes were initiated by Nongovernmental Organizations (NGO) due to the need felt in the communities in which these organizations were involved or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well-identified social sector in the country (IRDA 2000). As a result, increasingly, Micro-Finance Institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customized group insurance structures like the dairy cooperative movements will remain essential for the growing micro-insurance industry.

Kamesh Goyal, CEO of Bajaj Allianz, explains: “Fifty percent of India’s population lacks access to any financial products. The challenge is scaling up the model while reducing costs”. Micro-insurance, more than mainstream insurance, depends on such innovative cooperation. Finding well established local structures like the dairy cooperative movements will remain essential for the growing micro-insurance industry.

2. Challenges

A number of risks faced by women could be minimized through micro-insurance. These genderspecific risks include:

• Risks related to sexually transmitted infections (STI), pregnancy and childbirth;
• Risks related to economic crisis such as the death of the breadwinner, loss of assets;
• Protection at old age (less security for women due to informal working conditions, lesser income, etc.);
• Risks related to hazardous working conditions.

Although these also affect men, the number of unskilled labourers is higher among women workers. Women more often work under hazardous conditions: the carpet industry, refuse dumps, garbage tips and recycling industries such polythene bags/vinyl recycling. Some risks due to gender-specific conditions in the society require a comprehensive approach beyond micro-insurance. The following issues need long-term interventions and cannot be addressed by micro-insurance alone. But micro-insurance, as one risk management tool complementing others, can have a more immediate positive impact on improving the situation.

Micro-insurance in India is a new concept and in the real sense, is yet to be tested for its conduciveness to the needs of the target segment. The most significant constraint is the lack of base line various civil society associations. The presence of these associations as a mediating agency, or a nodal agency, that represents, and acts on behalf of the target community is essential in extending insurance cover to the poor. The nodal agency helps the formal insurance providers overcome both informational disadvantage and high transaction costs in providing insurance to the low-income people. This way micro-insurance combines positive features of formal insurance as well as those of informal insurance.

In the absence of a nodal agency, the low resource base of the poor, coupled with high transaction costs gives rise to the affordability issue. Lack of affordability prevents their latent demand from expressing itself in the market. Hence the nodal agencies that organise the poor, impart training, and work for the welfare of the low-income people play an important role both in generating both the demand for insurance as well as the supply of cost-effective insurance.

B. Section II

1. Opportunities and Challenges – Micro Insurance in India

1. Insuring Dairy Farmers in India is more than cash cows: When Allianz started offering micro-insurance, it employed well-established microfinance institutions to deliver its policies. But reaching out to all levels of society requires a more flexible approach, like partnering with dairy cooperatives in India.

About 70 percent of India’s 1.2 billion people live in rural areas, but the Bajaj Allianz insurance business is 90 percent urban. Clearly, there is room to grow. To reach out to new customers, Bajaj Allianz has relied mostly on large, efficient microfinance institutions (MFIs).

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data on potential claims that can help the insurers to design or price products. The consumption and saving patterns are also a critical aid to assess the insurance needs. The issue of moral hazard and adverse selection is a matter of concern for the insurer. Above all, spreading awareness among this segment of insurable population and capacity building of the delivery organisations are major challenges.

C. Section III

A. Delivery Mechanism: Micro-Insurance Models

A key concern in the pricing of an insurance product is the element of cost of acquisition and its delivery. Obviously, the delivery costs have to be contained to keep the cost of insurance sufficiently low to attract the poor and to incentivise the insurer to venture into this segment viewing it as a genuine market opportunity. The Committee studied four different models for delivering micro-insurance services to the targeted clientele:

1. Partner - Agent Model
   - Insurers utilize MFIs’ delivery mechanism to provide sales and basic services to clients.
   - There is no risk and limited administrative burden for MFIs.

2. Full Service Model
   - The provider is responsible for all aspects of product design, sales, servicing, and claims assessment.
   - The insurers are responsible for all insurance-related costs and losses and they retain all profits.

3. Community Based Model
   - The policy holders own and manage the insurance program, and negotiate with external health care providers.

4. Provider Model
   - The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups.

D. Section IV

1. Conclusion and Suggestions

The availability of credit and insurance to the poor in rural India not only helps them but also allows the financial intermediaries to increase their business.

Two facts have to be considered are (i) urban insurance markets are already saturated and (ii) micro-insurance in rural India hasn’t really taken off. It means that if companies want to grow, they need to harness technology to leverage the under-explored rural market.

Insurers must remember that, if assisted, the low-income policy holder of today can grow into the middle-class of tomorrow, and hence create a bigger market for the future. Therefore, the need to look beyond short-term gains, to leverage technology smartly, and reap profits patiently in the long run. Doing well while doing good is indeed very possible. All one needs is innovation, drive and a vision to grow together.

The development of micro-insurance cannot take place independently of economic development, improved healthcare and education, and political stability. Since the lack of local experts seems to be a major obstacle to development, the insurance industry needs to invest in the education and training of such experts. What the developed world took several hundred years to accomplish cannot be replicated within a decade even given all the new technology and knowledge that is now available. What is needed, moreover, are strategic, country-wide approaches such as the one adopted by the Philippines, in which the insurance industry, government, donors and organizations representing the clients join forces. The challenges are often too great to be met by individual players alone, and the now mature Micro-insurance Network will continue its work to catalyse cooperation throughout the industry.

V. Suggestions

1. Leveraging existing network for micro-insurance
2. Linking micro credit with micro insurance
3. Human Resource is required to be trained to cover the huge untapped market.
4. There is a need for developing adequate feed back mechanisms.
5. IRDA should take initiatives in widening outreach of micro-insurance products to the rural poor as providing micro-insurance is a necessary and essential adjunct in the inclusive process.

References


