

## Innovation for social impact through Micro Funeral Insurance

by  
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### Abstract:

*Death is the reality of Life and an inevitable eventuality. It is the only thing which is certain in life and guaranteed to happen at some stage. But people do not plan for this eventuality. Since death cannot be predicted nor do people want to anticipate it, it makes funeral preplanning, a highly personal decision. There is currently no death insurance plan in India. The insurance sector exists to provide risk coverage for many areas except Death. The scenario in other countries however, is that, there are insurance companies, offering funeral expenses under a protection plan. There are a few companies as well who cover stand-alone funeral expenses. therefore, this is an innovative business opportunity for insurance companies to provide insurance against death, which can have a positive social impact, as Innovations with social impact are the key factors affecting businesses today. Micro insurance is believed to work as a powerful risk management tool for low income and vulnerable groups by preventing them from falling into the debt trap.*

*The objectives of the study include understanding the funeral expenditure involved in different religions, the business opportunities available in the death industry, analysis of the micro funeral insurance opportunities available in India and provide recommendations based on the study.*

*This is an exploratory and conceptual study using both primary and secondary data sources. The study concludes with the finding that the insurance companies or start-ups who are venturing into the insurance arena can look at Micro Funeral Insurance as a sustainable, innovative and high impact business opportunity.*

**Key Words:** Funeral Insurance, Micro insurance, Death industry, funeral expenditure, Social Impact, sustainability.

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### 1. Introduction: Theoretical Background:

Insurance is fast emerging as a prepaid financing option for the risks inevitable and certain to occur. One such risk is death. Death is the reality of Life, it's the only thing which is certain in life and guaranteed to happen at some stage. But people do not plan for this eventuality. In many circumstances the family members are financially burdened in arranging the final transportation of the deceased persons.

Funeral expenses ranges from Rs.2,000 to Rs.5,00,000 depending on the religion and financial capability of the deceased family. Sometimes, the bereaved family will have to borrow money to meet the funeral expenses due to lack of pre-planning on the part of the individuals.

However, in recent times, people are pre-planning their funerals (in the form of a funeral insurance policy) so that their dear ones are not financially burdened at the time of their death.

According to the National Association of Funeral (funeral insurance) Directors (NFDA) USA, the willingness of people in the pre-planned funeral has increased steadily over the past 30 years in USA. Recent growths in the industry, however, have focused on the financing of funeral ceremonials. Funeral insurance makes one's dear ones burial more peaceful. Funeral insurance company entirely pays the funeral cost if one has the policy.

The history of funeral insurance and insurance generally, is closely linked to that of *funeral associations* specifically in ancient Greece and Rome, via medieval Europe and Victorian Britain, to large parts of modern-day sub-Saharan Africa. The primary function of funeral associations is to pool the risk associated with the death of members or their close relatives by using members' contributions to organise funerals. Funeral associations are mutual risk-pooling groups designed to ensure decent funerals for members and/or other persons nominated by them, typically close relatives or household members. When a covered person dies, the group will provide some combination of cash, labour and goods towards the funeral. Many associations collect fixed cash premium at regular intervals, while others transact only when a death occurs.

Funeral associations have a long history and global reach. In Athens a law regulating their activity was passed by the statesmen. They were widespread in the Roman Empire, operating on same basic principles as they do today. In medieval Europe they were linked to the professional guilds. In England around the time of the industrial revolution, funeral associations were set up as local community groups, or as large friendly associations. The history of funeral associations is yet to be written, but Van der Linden (1996) covers the history of mutual benefit associations more generally in 26 countries across Europe, North and South America and Asia. Though many of the institutions described also cover events other than death, funeral cover seems to have been the main, or one of the main, components of most of them, and not infrequently the only covered event. The enduring popularity of funeral associations is probably in part due to the inherent insurability of death risk: moral hazard may be less of a problem than for many other types of risks.

Funeral associations still exist in many countries, though in rich countries their importance has declined relatively to formal insurance. But it is not difficult to find contemporary academic references to funeral associations in the developing world, and in particular they are widespread in many parts of sub-Saharan Africa.

Funeral associations (a risk pooling arrangement) are often said to be informal insurance providers – who often operate according to a clearly defined, sometimes written, set of rules. The terms of the policy are specified in detail, including who is covered, conditions of cover and size of premium and payouts.

These co-operative associations started originally among members of the same guild or among persons of the same occupation. They provided for the necessary funeral expenses by paying into the common fund weekly a small fixed sum, easily within the reach of the poorest of them. When a member died, a stated sum was drawn by the members of the committee from the fund for meeting the funeral expenses and providing a decent funeral. (Johnston 1903)

Historians have argued that funeral associations are the pioneers of modern insurance companies. Today, formal funeral policies are offered by insurance companies in many parts of the world.

However, funeral insurance is not provided only by funeral associations. Formal insurance companies still offer explicit funeral policies in several rich countries including the USA, the UK, Spain and Germany.

In India, only recently BharathiAxa with its French parent company has introduced this type of insurance which covers funeral expenses of the insured on his/her death and Vishwaraiah Co-operative Bank pays Rs.5,000 towards funeral expenses to its members (shareholders) in the event of their death.

## 2. Literature Review

Funeral associations have received relatively little attention from economists.

Dercon et al. (2006) discuss funeral associations in Ethiopia and Tanzania, and Bold (2007) test for risk-sharing in Ethiopian associations. Bryant & Prohmmo (2002) ask why funeral association premium in a village in North-Eastern Thailand are equal for all households irrespective of risk. A good source of information on the workings and characteristics of funeral associations in South Africa (known locally as *burial societies*) is Thomson & Posel (2002). Roth (2001) is a case study of formal and informal funeral insurance in a rural South African township. Ardington & Leibbrandt (2004) find a strong correlation between formal employment and the take-up of funeral insurance. Keswell (2004) looks at the relationship between employment and membership of informal networks such as rotating savings and credit associations (ROSCAs) and funeral associations.

Geertz (1962) saw ROSCAs as a 'middle rung' in the ladder of development, implying that they would eventually give way to formal institutions. This paper will show that funeral insurance is demanded for intermediate income and wealth. Moreover, if the survival probability is sufficiently high, as may be the case in developed societies, then there is no demand for funeral insurance at any level of income or wealth. Levenson & Besley (1996) look at the determinants of ROSCA participation in Taiwan. In a situation similar to that of funeral associations in South Africa, they deem ROSCA membership in Thailand surprisingly high (at least a fifth of all households are members) for an industrialised country.

A study of funeral insurance in South Africa by Roth, Jimmy (2001) revealed that poor people often cover the very considerable funeral expenses from a number of sources, including informal credit, informal insurance, and friendly societies. The practices of informal township funeral insurers are contrasted with those of formal insurers. The products of informal insurers were much more popular among respondents than those of formal funeral insurers, because the products fitted the socio-economic contours of their clients' lives. A series of lessons can be drawn from the practices of informal insurers for the development of new micro insurance or the improvement of existing micro insurance products. According to Stefan Dercon et al (2002) a funeral is a costly occasion. They argued that the indigenous insurance institutions should take developmental activities and broaden their products to cope with the high cost of funerals.

### Research gap

Generally people are interested in their well being and feel that they would stay here forever without even thinking of what would cost the family in the event of their death.

*Since death cannot be predicted nor do people want to anticipate it*, which makes funeral preplanning, a highly personal decision, and so there's no typical insurance plan made in India. *The scenario in other countries however, is that*, there are insurance companies, offering funeral expenses under a protection plan. There are a few companies as well who cover *stand-alone* funeral expenses. With this coverage, one can plan many details of one's own funeral, can list the things one wants done, which be included as a part of funeral function including the products and services that it will entail, and pay for them in advance without burdening the relatives. In India though, it is few and far between. The insurance sector exists to provide risk coverage for many areas except Death. *This is an innovative business opportunity the insurance companies can look at, to provide insurance against death*, which can have a positive social impact, as *Innovations with social impact are the key factors affecting businesses today*.

### 3. Statement of the problem

The studies reveal that India currently has the most dynamic micro insurance sector in the world. Liberalization of the economy and the insurance sector has created new opportunities to reach the vast majority of the poor, including those working in the informal sector.

*Micro insurance* is believed to work as a *powerful risk management tool* for low income and vulnerable groups by preventing them from falling into the debt trap.

The micro insurance sector in India is characterized by slow development and limited to a few products. In the past, insurance as a prepaid risk managing instrument was never considered as an option for the poor. The poor were considered too poor to be able to afford insurance premiums. Often they were considered uninsurable, given the wide variety of risks they face such as health problems, crop failure, loss of livestock, death of a family member and loss of asset. However, recent developments in India, as elsewhere, have shown that not only the poor can make small periodic contributions that can go towards insuring them against risks but also that the risks they face (such as those of illness, accident and injury, loss of property and life etc.) are eminently insurable as these risks are mostly independent or idiosyncratic. Moreover, there are cost-effective ways of extending insurance to them.

With this background, some of the questions that need to be answered are - Can the micro insurance companies make a difference in the life style among the investors? Or do the companies have ample opportunities in the area of funeral insurance? Or will the new concept of funeral insurance be accepted by the common people? Will the government regulations encourage the new type of insurance? Is insurance sector, an avenue that may lead to the creation of a micro insurance market that meets the needs of the poor and disadvantaged? To answer some of these questions, this research study was undertaken with the following objectives.

### 4. Objectives

- 1) To study the funeral expenditure involved in different religions.
- 2) To know the business opportunities available in the death industry.
- 3) To analyze the micro funeral insurance opportunities available in India.
- 4) To provide recommendations based on the study.

### 5. Research methodology:

This study is a exploratory and conceptual study which explores the business opportunities that exist in the death industry in general and in micro funeral insurance sector in particular. The study covers information on funeral expenses of different religions, and the related businesses that have opportunity to emerge. Both primary and secondary data sources have been used. Primary data was collected from individuals and secondary data through the websites on Indian Economy watch.

### 6. Analysis and Interpretation

The objective wise analysis and interpretation is as follows:

#### **Objective 1: To study the funeral expenditure involved in different religions**

People of different religions follow different funeral customs – some may follow the burial process while others follow cremation. This involves funeral expenditure which may range from Rs.5,000 to Rs.5,00,000 depending upon the financial capability of the deceased family. The expenditure starts from arranging for a coffin; arranging a vehicle for the final transport of the deceased body to the crematorium; paying for the services of the pundit; arranging stay and food for the relatives, paying for purchasing of the materials for funeral, cost of digging the grave; cost of wood for burning;

or cost for use of the electric crematorium etc.,. The following table highlights the funeral expenses and its cost for different religions under different income groups

**Table 1: Funeral expenses and its cost for different religion under different income group of Hindus**

Expenses	Upper class (Rs)	Middle class (Rs)	Lower-middle class (Rs)
Paying for the purchase of materials for funeral	5,000-10,000	3,000-5,000	500-1,000
Payment to the Pundit	15,000-20,000	3,000-5,000	500-1000
Cost of digging the grave	2,000-3,000	2,000-3,000	2,000-3,000
Cost of wood for burning / electric crematorium charges			
Cost of final transportation	25,000-50,000	3000-5000	1000-2500
Cost of food and stay of relatives	20000-30000	8000-10000	1000-2500
<b>Total cost on the day of death</b>	67000-83000	19000-28000	5000-10000
<b>Cost of <i>asthi</i>(ashes) disbursal in the river</b>	Up to 100000	4000-8000	1000-2000
Cost for the rituals up to the thirteenth day <ul style="list-style-type: none"> <li>• Cost of materials</li> <li>• Cost of food</li> <li>• Cost of the Pundit</li> </ul>	Up to 5,00,000	50,000-1,50,000	Up to 25,000
<b>Total cost for the fifteen days from the date of death</b>	Up to 5,00,000	Up to 1,50,000	Up to 25,000

**Table 2: Funeral expenses and its cost for different religion under different income group – Muslims**

Expenses	Upper class (Rs)	Middle class (Rs)	Lower class (Rs)
Cost of digging the grave	2,000-3,000	2,000-3,000	2,000-3,000
Expenses (flowers, cloth for covering the dead body, clothes for poor people etc)	20,000-30,000	10,000-15,000	5,000-8,000
Entombment	10,000 – 15,000	8,000 -10,000	5,000-6,000
Cost of food and stay of relatives	30,000-50,000	25,000-30,000	15,000-20,000
Expenses throughout the year	Around 1Lakh	40,000-50,000	10,000-20,000

**Table 3: Funeral expenses and its cost for different religion under different income group – Christians**

Expenses	Upper class (Rs)	Middle class (Rs)	Lower class (Rs)
Cost of digging the grave	2,000-3,000	2,000-3,000	2,000-3,000
Charges payable to Church for funeral service	5000-10000	1000-2000	500-1000
Coffin box	10000 -15000	6000-8000	2000-4000
Cost of food and stay of relatives	20000-30000	8000-10000	1000-2500
Cost of other materials (including entombment)	20000-25000	8000-10000	1000-2500

**Objective 2: To know the business opportunities available in the death industry across religions**

Death is inevitable for any one and the expenses on death have to be incurred, thus creating spin off opportunities for other small businesses too. Some of the business opportunities that are available in the death industry across religions are

- Flower including chariot building
- Coffin manufacturing
- Ice box
- Pundits/priests
- Catering
- Transportation
- Entombment service
- Funeral Insurance

**Objective 3: To analyze the micro funeral insurance opportunities available in India**

Table 4 shows the Population growth rate, Birth and Death rate for 10 years from 2003 – 2012 along with life expectancy. The population growth rate is a factor which determines the opportunity for micro funeral insurance. The life expectancy of an average Indian citizen has been slowly increasing which means that, for people who take up micro funeral insurance scheme to insure against their death expenses, the insurance company has a longer lead time (67 years) before making payment of the sum assured to the surviving family members. In addition, the numbers who are eligible to take up the micro funeral insurance policy are higher but the death rate has also slowly been decreasing over the ten year period. This enables the micro funeral insurance company to make enough profits to survive and at the same time reduces the number of people they need to compensate in the form of funeral expenses through the insurance scheme. This is the economically viable angle from which this business opportunity is looked at.

On the other hand, it enables the insurance companies to create a social impact by helping especially the people below the poverty line who struggle to even bear the funeral expenses by creating this scheme of micro funeral insurance.

**Table 4: Population growth rate, Birth and death rates, Life expectancy for ten years from 2003-12**

Years	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Population growth rate (%)</b>	1.47	1.44	1.4	1.38	1.61	1.58	1.55	1.38	1.34	1.31
<b>Birth rate (births/1000 population)</b>	23.28	22.8	22.32	22.01	22.69	22.22	21.76	21.34	20.97	20.6
<b>Annual death rate (per thousand)</b>	8.49	8.38	8.28	8.18	6.58	6.4	6.23	7.53	7.48	7.43
<b>Life expectancy</b>	63.62	63.99	64.35	64.71	68.59	69.25	69.89	66.46	66.8	67.14

**Objective 4: To provide recommendations based on the study**

The first three objectives of the study lead to the obvious conclusion that there is a great business opportunity in India for creating a social entrepreneurship venture by the insurance companies through the scheme of micro funeral insurance. Some of the suggestions recommended are:

- **Think beyond the funeral.** Funeral insurance may be the starting point to build a life insurance market as well as health insurance amongst low-income households both in the urban and rural areas.
- **The target population** should be made **aware** about the micro funeral insurance by the companies.
- The insurance companies should largely **campaign the advantages** of holding micro funeral insurance so that people who struggle to meet their family's funeral expenses through an easy premium payment scheme.
- The **premium** to be paid can be made easy and simple without burdening the target class.
- Further **business opportunities** may be created as a **spinoff** from this death industry and the micro funeral insurance scheme.
- Insurance schemes and products such as **informal credit, informal insurance, and friendly societies** may also be started as such products offered by informal insurers (usually funeral associations) may find popularity among the people than those of formal funeral insurers.
- The micro funeral insurance products should be **fitted to suit** the **socio-economic contours** of their clients' lives.
- Funeral is a **costly occasion** as the high cost of funerals necessitate the introduction of this scheme in our country.

**7. Conclusion**

Make hay while the sun shines, it is rightly said; Why wait for an unforeseen event to hit you hard? Rather, be prepared. Funeral insurance makes one's dear ones burial more peaceful, thus creating a new business opportunity for insurers, both formal insurers (companies) and informal insurers (funeral associations) in India. It is a new and innovative thought which is yet to find its foothold in India in order to create social impact. Therefore, the insurance companies or start-ups who are venturing into the insurance arena can look at **Micro Funeral Insurance** as a **sustainable, innovative and high impact business opportunity**.

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