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Micro Insurance in India

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Abstract

Micro Insurance is generally, but inaccurately referred to as a new concept. It first appeared as a new financial service within micro finance & then developed into a sector of its own. However it is the only the term micro insurance that is fairly new. The term micro insurance was 1st published around 1999 & in the development environment defining it has been subject of much debate & discussion.

Micro insurance typically refers to insurance products designed for low-income individuals Micro insurance is recognized as a useful tool in economic development. As many low income people do not have access to adequate risk management tools, they are vulnerable to face the poverty in times of hardship. This paper aims at studying the concept of Micro Insurance, its brief history, features, benefits, Micro Insurance products, its role in social and economic development in India, growth opportunities for the insurers, the challenges that the micro insurance sector faces in India and how to overcome them.

Key words : Micro Insurance, Micro Insurance Products, Financial Risk , Disaster Risk, insurance principles.

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1. Introduction

A promise of compensation for specific potential future loses in exchange for a periodic payment. Insurance is designed to protect the financial well being of an individual, co or other entity in case of unexpected loss. Some forms of insurance are requested by law, while others are optional. Agreeing to the terms of an insurance policy creates a contract between the insured & the insurer. In exchange for payments from the insured called (Premiums), the insurer agrees to pay the policy holder a sum of money upon the occurrence of a specific event. In most cases the policy holder pays part of the loss and insurers pays the rest.

Micro Insurance - A Concept

Micro insurance typically refers to insurance products designed for low-income individuals The word 'micro' represents the relatively small transaction size of lower premiums, a concept similar to microfinance with small ticket loans. Microinsurance differs from traditional insurance in many ways. Such as the size of premiums, coverage limits, product features, distribution, policy administration and target customers. The objectives of microinsurance also vary amongst different stakeholders. For governments and policymakers, for instance, micro insurance is a way to ensure, inclusive growth and support the livelihoods of the vulnerable segment of the society For social and developmental organizations, microinsurance can be an effective tool to help alleviate 'poverty for insurers and other market participants. It is an opportunity to tap into new market segments and support economic and insurance growth of emerging markets.

Micro insurance plans are not plans but opportunities that knock on your door once in a life time. These plans are a perfect blend of insurance investment & life time of the happiness.

Brief History

Micro insurance is generally, but inaccurately referred to as a new concept. It first appeared as a new financial service within micro finance & then developed into a sector of its own. However it is the only the term micro insurance that is fairly new.

The term micro insurance was 1st published around 1999 & in the development environment defining it has been subject of much debate & discussion.

Micro Insurance and development

Micro insurance is recognized as a useful tool in economic development. As many low income people do not have access to adequate risk management tools, they are vulnerable to face the poverty in times of hardship.

Ex: when the breadwinner of the family dies or when high hospital bill force families to take out loans with high interest rates.

Further more, micro insurance makes it possible to for people to take more risks when farmers are insured against a bad harvest (resulting from drought) they are in a better position to grow crops which give high yields in good years, & bad yields in the year of drought without the insurance, however they will be inclined to do the opposite since they have to safeguard minimal level of income for themselves & their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather condition.

Characteristics of Microinsurance

Though the concept of microinsurance is gaining in popularity across the globe, there is no commonly accepted definition. The sigma study defines microinsurance by the following characteristics:

- **Insurance Principles:** It based on insurance principles and involves payment of premiums by the policyholders (or on the policyholder's behalf by government developmental agencies and donors) in exchange for the promise of indemnification by the insurer in the event of a covered
- **Accessibility:** Microinsurance targets the segment of society with low and unstable incomes who would not otherwise be able to afford conventional insurance. It extends the reach of insurance to the remote sections of the society, thus ensuring the availability of risk protection for a wider segment of the society.
- **Affordability:** Premiums and coverage are kept at a low level in order to make products affordable for the target population. Premium subsidies provided by governments or developmental agencies also help to ensure products are affordable
- **Flexibility:** Since the low- income segment of the society is not a homogeneous cluster, microinsurance products require customization to meet the community requirements in an effective way. For instance, premium collections can be tailored to suit the irregular income stream of policyholders.
- **Simplicity:** Microinsurance should be structured simply in terms of product design, underwriting conditions, premiums collection, policy language and claims handling. This takes into consideration the lack of actuarial data in many cases and helps to make the products easy to understand and more acceptable.

Benefits of Microinsurance

- **Health risks:** Such as illness, accidents and disability can results in high expenditure on medical treatment and also indirect costs including loss of income.
- **Lifecycle risks:** The death f the breadwinner can lead to acute poverty conditions for family members with no or limited alternative sources of income Many low-income households are also not prepared to face major life cycle events such as old age and retirement.
- **Financial Risk :** such as crop spoilage , lower market prices for the produce, death of live stock or loss of business properties can significantly impact the earnings of low income families.
- **Disaster risk:** Events such as windstorm, flood, tsunami and earthquake will not only result casualties, but also widespread economic damages that impact the livelihood of low-income individuals.

List of Micro Insurance Products

Financial year	Name of the products
2007-08	Bajaj Allianz Jana Vikas Yojana
2007-08	Bajaj Allianz Saral Suraksha Yojana
2007-08	Bajaj Allianz A/P Nivesh Yojana
2007-08	Grameen Suraksha
2007-08	Birla Sun Life Insurance Bima Suraksha Super
2008-09	ICICI pre Jana Suraksha
07-00	ING Vysya Saral Suraksha
06-07	LIC's Jeevan Madhu
09-10	LIC's Jeevan Mangal
08-09	Met Vishwas
07-08	SBI Life Grameen Shakti
07-08	SBI life Grameen Super suraksha
06-07	Ayushman Yojana
06-07	Navakalyan Yojana
06-07	Sampoorn Bima Yojana
08-09	Tata AIG Sumangal Bima Yojana
06-07	Sahara Sahayog
07-08	Shri Sahay
07-08	Shri Sahay (AP)
08-09	IDBI Fortis Group Micro insurance plans
08-09	DLF Pramerica Sarva suraksha
08-09	SUD Life Parspar suraksha plan

LIC special plan Jeevan Madhur

It is a simple savings related life insurance plan where one may pay premiums regularly at weekly fortnightly, monthly, quarterly half yearly or yearly internals over the terms of the policy Minimum installments premium for different models of premium payment shall be

Weekly	25
Fortnightly	50
Monthly	100
Quarterly/ half yearly /yearly	250

Further the premium chosen by you shall subject to the minimum & maximum sum assured of Rs. 5000/- & Rs. 30,000/- ouspectively payable on death & maturity under the plan.

Rashtriya Swasthya Bima Yojana (RSBY): heath microinsurance for the poorest in India Sigma Swiss Re Economic Research and Consulting has properly assessed RB$Y in India. With the objective of providing health insurance to the "below poverty line" (BPL) households, the Government of India in 2008 launched the RSBY initiative, which is a healthcare financing model making use of public private partnership (PPP). the model leverages government financing, legislator and private sector expertise to improve BPL households' access to healthcare services.

2. Objectives

1) To study about Microinsurance in India
2) To know the impact of Microinsurance on weaker section of the society
3) To know the role of Microinsurance in economic development of the country

3. Research Methodology.

Descriptive methodology adopted by collecting the secondary data.

4. Findings & Discussion

Role in Social and Economic Development

Governments and developmental agencies have been heavily involved in launching and supplementing social security schemes to improve the livelihood of low-income individuals. However, it is believed that many low-income households have yet to benefit from such schemes and available benefits could be insufficient. At the same time, the use of conventional insurance to manage risks, after having improved significantly in emerging markets in the past, still remains less prevalent among low-income households who either do not have access to or cannot afford insurance.

Micro insurance has thus emerged as a viable alternative for low-income households to manage their risks. Risks related to health, lifecycle events, natural disasters and loss of property can be covered at affordable premiums with microinsurance. The development of microinsurance was largely driven through microfinance as life insurance has been increasingly bundled with credit product to limit uncertainties related to the death of loan-holders. This not only resulted in increased awareness of insurance, but also created a platform to develop other microinsurance products. The development of microfinance over the last two decades has shown that the low-income population is a commercially viable segment as well as a huge potential market for financial services.

A key objective of microinsurance is to offer insurance and risk management products to low-income population. By reducing the vulnerability of low-income households, microinsurance supports the macroeconomic development of emerging markets and limits the impact of shocks. It also helps protect the income streams of low-income families, thus reducing their vulnerability of falling back into extreme poverty. These families can therefore begin to focus on the education of their children, health, improving their quality of life, upgrading skill sets and launching entrepreneur ventures that result in the social uplift of the rural areas.

Providing access to financial service across all segments of the society is Vital to ensure broad level economic development. Through credit, savings and insurance products, low-income house hold are able to mitigate their risks, gain access to credit that can be used to establish new business ventures, and expand their income-generating options. Financial services thus create economic opportunity, which enables people to manage their assets in a way that generates income and options.

For the extremely poor segment of the society, where commercial microinsurance may not be viable, governments through public private partnerships (PPP) can engage insurers to administer microinsurance products by fully funding or subsidizing premiums. Such mechanisms are high relevant, especially in markets where social security schemes are inadequate. In fact, government-sponsored microinsurance programmes can be an effective alternative to social security schemes, especially. in helping to cope with life and health risks. Such programmes extend the reach of social protection measures to a wider population. They also allow governments to leverage private sector involvement to improve effectiveness and efficiency. Government-sponsored programmes significantly reduce government expenditure and administrative expenses required to establish and sustain comprehensive social security schemes. Lastly, these programmes encourage infrastructural investments by the private sector, such as the setting up of healthcare facilities and enhancing service quality

Growth Opportunity for the Insurers

Offering insurance to the low-income segment of the society is no longer simply a part of corporate social responsibility. But it is becoming a focused growth strategy of insurers. With the insurance markets in industrialized countries fast becoming saturated, insurers must identify new markets which can drive future business growth. Emerging markets offer enormous opportunities for the insurance sector. It is estimated that low-income individuals constitute a USD 5 trillion global consumer markets. This is potentially a substantial market opportunity for the financial service sector, including insurance.

Microinsurance supports the insurance sector's long-term development. With favorable trends, such as rising personal and household income, improving economic fundamentals and increased efforts on poverty reduction, it is expected that a high percentage of present low-inocme households will move into the middle income segment in the near future. This socio-economic transformation will offer huge business opportunities to the financial services industry. In particular, insurers can look forward to a growing client base seeking higher premium/coverage conventional insurance products. Insurers targeting microinsurance are not only serving current unmet risk protection needs, but also creating for their long-term growth a strong brand value, a large client base, and credibility and recognition for future development.

A key contribution of microinsurance is the strong drive to raise insurance awareness by insurers, market practitioners and governments. Lack of insurance awareness has often been regarded as one of the major reasons for low insurance penetration in emerging economies, especially in the 'lower income segment. Efforts to raise insurance awareness will not only result in immediate benefits, such as higher uptake of microinsurance products, but will also help in developing an insurance-buying culture amongst low-income individuals, supporting long-term demand for insurance products, hut will also help in developing an insurance-buying culture amongst low-income individuals, supporting long-term demand for insurance products and thereby increasing the insurance penetration levels in emerging economies.

Micro Insurance – Macro Problems

In the light of decreasing motivation to introduce micro insurance products its time to redefine the concept even as rural booking obligation for new bank hopefuls are in the limelight it may be time to take a look at similar obligations for insurance cost & how they are being implemented.

There are today 27 general insurance & 24 LIC in India.

Keeping in mind concern that competitive open environment could lend to the neglect of the rural & weaker section of India IRDA (The insurance regulatory & development authority of India) passed the IQDA (Obligation of insures to rural & Social sectors regulation act in 2002 after that every insurance company was required to engage with the rural and social sectors by complying with mandatory obligation.

5. Conclusion:

The IRDA regulation set rural insurance target for each company. These requires that 7% of all life insurance business should be generated from the rural social sector in the first financial year, and this should be increase annually to reach 18% by the 6th financial year.

For general insurance, 2% of insured premium in the first financial year should be from rural social business increasing annually to 5% in the 6th year.

India is the one of 1st countries to adopt micro insurance formally through the micro insurance regulation Act. In 2005 the regulation sets boundaries for the cost and coverage of the product and provides clarity about distribution mechanism insurers in the private sector while meeting the obligation have brought in significant innovation in product and processes to serve the poor such as

1) Co- payment models
2) Increasing client value with product such as health screening tele medicine no claim discount
3) Mobile enrollments
4) Exploring exciting distribution channels such as internet kiosks
5) Introducing products such as weather based insurance, rain fall index insurance

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