

**Micro Insurance in India- An overview**  
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**Abstract**

*According to Sri. P.Chdambaram said that "While growth is the best antidote for poverty, governments must now turn their attention to those who are at the bottom of the income pyramid. It is clear that wealth does not percolate down to society's poor, in India some 250 million people. Over half of the Indian populations have no access to banking products, let alone insurance products. Addressing these concerns is as important as focusing on growth".*

*The micro insurance is provided for low-income people by a variety of insurers. Micro Finance helps people improve livelihoods and helps them insurance industries. Government has an important role to play in developing public private partnerships for delivering ambitious state funded insurance programs. At present paper an overview of the Development, Current Issues, opportunities and challenges of Micro Insurance in India.*

**Keywords:** Development, Micro Finance, IRDA, NGO, MFIs.

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**1. Introduction**

In the present scenario of economic vibrant changes Insurance is the emerging strategy for the get exposed to variety of risks mainly because of absence of cost-effective risk hedging w-income group to get engaged in wide variety of income generation activities, and who instruments. Micro insurance is provided for low-income people by a variety of insurers, which run in accordance with generally accepted insurance principles, and funded by premiums .It Comprises of risk-pooling products. It is appropriate for the low-income market cost, terms, coverage, and delivery mechanisms. Micro Finance helps people improve livelihoods and helps them Micro-insurance, the term used to refer to insurance to the low-income people, is different from insurance in general as it is a low value product (involving modest premium and benefit package) which requires different design and distribution strategies such as premium based on community risk rating (as opposed to individual risk rating), active involvement of an intermediate agency representing the target community and so forth. Insurance is fast emerging as an important strategy even for the low-income people engaged in wide variety of income generation activities, and who remain exposed t varieties of risks mainly because of absence of cost-effective risk hedging instruments to protect the gains in the event of any unfortunate events.

**Micro Insurance In India**

In India, a few micro-insurance schemes were initiated, either by nongovernmental organizations (NGO) due to the felt need 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, Micro-finance institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customized group or standardized individual insurance

schemes for the low-income people. Although the reach of such schemes is still very limited, their potential is viewed to be considerable. The micro insurance regulation of 2005 was a pioneering approach by the Insurance Regulatory Development Authority (IRDA). India is among the few countries to draft and implement specific micro insurance regulations. In 2002 IRDA developed rural and social sector obligation norms that mandated every insurance company to achieve: Percentage of policies to be sold in rural areas and number of lives to be covered in the social sector.

In India insurance is a big opportunity where large untapped population is there. Insurance business in India registered the growth rate of 23.88 percent when compare to 94.96 percent in 2006-07. Increasing insurance penetration contributed 4.0 percent to GDP in terms of premium volume of life insurance business. Increased consumer untapped market. Increased competition brought innovative product with competitive price with good service. This created an impact on the insurance industry. The overall insurance industry in India is still yet to be developed. Till now approximately 10 percent of population is covered with insurance.

### **Development Of Micro-Insurance In India**

Historically in India, a few micro-insurance schemes were initiated, either by nongovernmental organizations (NGO) due to the felt need 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 or standardized individual insurance schemes for the low-income people.

### **Population excluded from insurance in south asian countries**

<b>Countries</b>	<b>Excluded (%)</b>	<b>Population (Million)</b>
India	90	950
Bangladesh	93	134
Pakistan	97	147
Nepal	95	23

*Source: Marc Socqut (2005)*

### **2. Objectives:**

- 1) To find the problems faced in Micro Insurance
- 2) To know the penetration of micro insurance to the low income groups
- 3) To suggest suitable strategies.

### **3. Research Methodology:**

- Secondary Data
- Descriptive and Explorative

#### 4. Findings & Discussion

##### Challenges faced by Microfinance Insurers

- 1) There are high operating costs and clients that are spread out and difficult to access.
- 2) There is a need of more innovative but simple and flexible products taking into account the life style and needs of the low income group people.
- 3) Product development exclusions must be made clear and simple Enhanced role of SHGs.
- 4) Developing insurance awareness amongst the low income band people.
- 5) Need to develop Health micro insurance products standardizing underwriting procedures for MI.
- 6) Innovative strategies for sustainability
- 7) The contemporary insurance paradigm is not geared to serve the poor high costs, restrictive access and low transparency being the chief reasons.

##### These gender specific risks include:

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

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.

The challenges faced by India offer learning opportunities for the countries where micro insurance is still in its infancy. To overcome the challenges, it is imperative that measures are taken to encourage regulatory modification, product development, distribution optimisation and financial education. Regulators need to move away from the prescriptive regulation towards a regulatory framework that incentivizes innovation, so that insurance industry stakeholders can innovate flexibly. We can conclude that helping the rural poor systematically manages financial risks to their livelihoods and lives through micro-insurance offer innovative ways to combat poverty in India. However micro insurance has not penetrated rural markets and the current reach of 'micro insurance' is limited. Hence, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the regulator, private micro insurance providers, MFI's, NGO's as well as the government.

### **Microfinance current issues**

It is important for the MFIs to achieve financial, operational and institutional sustainability as the long term future of the microfinance is dependent on the MFIs. Secondly, innovative method of cost reduction is an important way to balance the microfinance operation. Thirdly, through substantial outreach there is guarantee of efficiency in leveraging large amount of funds. The last important segments that are the outreach are crucial to solve many challenges that remain hurdles in microfinance. Findings in this research suggest that the formal sources of microfinance are still new in India. Not many people are aware of the microfinance industry. There are still many people who below the poverty line; therefore, there is great need of microfinance industry. Therefore, there is huge need of financial assistance to the targeted population. It is also stated that one of the drawbacks is the cooperation from the government.

### **Opportunities And Challenges Micro Insurance In India**

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 7percent 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). 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. MFI's. The other drawback is the ratio of the licensed microfinance banks which is stated to be low as compared to the population of the poor entrepreneurs.

### **Problems Faced In Micro Insurance**

- 1) Lack of unfamiliarity and trust on the services providers.
- 2) The penetration of micro insurance to the low income groups has not been successful and its
- 3) Promotion by MFIs has not yet realized its full potential.
- 4) When it comes to insuring the poorest, two important issues are referred to often whose.
- 5) Benefit should micro insurance target? The second issue is who should pay the micro insurance premiums?
- 6) Lack of awareness value of micro insurance.
- 7) Difficulties in understanding technology introduced by the service providers.
- 8) Delivery systems are poor when growing demand is there for micro insurance.
- 9) Irregular cash flows of households where they are unable to pay the premiums.
- 10) Big challenge in educating the market and overcoming the bias on insurance.

### 5. Suggestions

Following policy measures can be suggested to improve the penetration of Micro insurance Schemes in India

- 1) There is a need to change the financial culture of the country wherein gold, land etc. are considered best insurance against risks instead of formal financial instruments. This insurance culture can be changed by raising consumer awareness about the importance of formal insurance products.
- 2) There is a need for a vast improvement in the awareness levels of the insuring public is necessary for enhanced insurance inclusion of the masses.
- 3) Government has to play an important role in developing public-private partnerships for delivering ambitious state funded insurance programs, and MFIs can be partners for these government-funded insurance schemes. Insurance regulators (and other government entities) can help create an enabling environment that facilitates the commercial viability of micro insurance.
- 4) Cumbersome and inappropriate procedures inhibit the development of this sector. So, the processes / procedures are to be streamlined and simplified, to facilitate easier access for the rural poor. There is also a need to simplify the products and make premium payment plans to suit the needs.
- 5) There is a misconception about the parity between the Government sponsored micro health insurance schemes and those introduced by the private sector companies. Hence there is a need for making micro insurance more affordable to the poorer sections of the society.
- 6) Most of the schemes introduced by the Government are not strictly insurance as they have the social welfare objective. But the policy prescriptions on micro insurance should take into cognisance the business interests of the private insurers as well.
- 7) Insurance companies should go beyond devising new products to improving their processes for building awareness, marketing enrollment, premium collection, claim settlement and renewal. Further, the use of technology such as mobile phones and ATMs for premium collection should be encouraged to keep transaction costs low.
- 8) High transaction cost of banks in servicing large number of small rural accounts is an issue that needs to be addressed. Use of 'Group Mode' i.e. SHGs, JLGs etc. for financing is a proven mode for reducing the transaction cost. Banks are already financing vulnerable sections of rural borrowers through SHGs. The same needs to be further accelerated.
- 9) There is a need to establish a council of micro insurance representatives, regulator and government. This body should meet on a regular basis to discuss the issues and strategies to develop the sector. This body can also help to develop regulations. It could help facilitate the sharing of information between insurers.
- 10) Creating awareness through use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of insurance. Local community-based organizations could organize premium collections, as they have better access to the local people.
- 11) The regulator should take the responsibility of creating awareness among low -income people of micro insurance, as it is for the public good. The regulator should take the responsibility of developing the sector more actively.
- 12) The core problems in institutional insurance, viz., moral hazard, adverse selection and poor infrastructure which results in high claims costs, administrative costs and consequently inadequate coverage have to be addressed effectively, for enabling the growth of an affordable, cost-effective and sustainable model.

- 13) There is a need to utilize existing Government organizations, banks, MFIs, NGOs, Non-Banking Financial Companies and SHGs to increase the outreach of micro-insurance to the poor, as they find greater acceptability among the financially excluded, and with a better understanding of their needs are well equipped to advise them on the choice of products.
- 14) There an urgent need to understand the local conditions, awareness and information's of local level for the effective customer orientation practices. It can translate many insurance needs of low-income groups into an insurable proposition as insurers are often not completely aware about local conditions and needs.
- 15) Micro insurance as a pro-poor risk coping tool may be integrated with social security measures. Possibility of such integration can be explored in the areas of women entrepreneurship development, poverty reduction measures, public health programme etc. Gender-oriented credit could be affected by financing through SHGs, considering the substantial gender coverage through women groups.
- 16) The core problems in institutional insurance, viz., moral hazard, adverse selection and poor infrastructure which results in high claims costs, administrative costs and consequently inadequate coverage have to be addressed effectively, for enabling the growth of an affordable, cost-effective and sustainable model.
- 17) Finally, there is a need for greater co-ordination between the different levels of government, as well as between different departments at the same level of government, and greater regulation of micro insurance schemes, to ensure that a meaningful level of benefits are available to the poor.

## 6. Conclusions

The plans for microfinance if implemented will provide an ongoing financial stability and sustenance for the poor in both the rural and urban area. The obstacles and challenges can be taken as a bold step in bridging the missing gaps that are hurdles to the development of microfinance. The insurance sector was opened up for private participations.

The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insure both life and non-life segment. A strategic perspective towards Micro insurance together with innovations in technology and assessment of client demand holds the key to the future of micro insurance in India. Regulation of MFIs is needed not only to promote micro-finance activity the country but also to promote the linking of micro-insurance with micro-finance which as demonstrated in the paper makes a good sense.

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**Reforms through Research**

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