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Trends of Micro-Insurance in India

Dr.P.Sai Rani
Head of the Department - Finance
ICBM School of Business Excellence
Plot No. 2A, Ishwar's Abode, Upperpalli 'X' Roads, Right to Pillar No. 179,
Attapur, Hyderabad, Telangana 500048, India.

Introduction

Insurance

Insurance is an essential part of running any business. If you are operating a small business you need more than just property insurance. Taking out the right insurance will help protect your business and minimize its exposure to risk.

Your insurance requirements will vary according to the type of business you are operating, but you should be aware that some forms of insurance are compulsory, such as workers' compensation and third party car insurance [1].

When you're in business you deal with a variety of potential risks each day. Risk is not something you can avoid, but it is something you can manage. Risk management will increase the probability of success and reduce the probability of failure of your business.

Types of insurance

- Assets & revenue insurance
- People insurance
- Liability insurance

Assets & revenue insurance

To protect your assets and revenue-generating capacity, here are some of the types of insurance available:

Building and contents

Covers the building, contents and stock of your business against fire and other perils such as earthquake, lightning, storms, impact, malicious damage and explosion [2].

Burglary

Insures your business assets against burglary, and is most important for retailers or a business which maintains unattended premises.

Business interruption or loss of profits

Covers you if your business is interrupted through damage to property by fire or other insured perils. Ensures your ongoing expenses are met and anticipated net profit is maintained through a provision of cash flow.

Fidelity guarantees

Covers losses resulting from misappropriation by employees who embezzle or steal.

Machinery breakdown

Protects your business when mechanical and electrical plant and machinery at the work site break down.

Motor vehicle

It is compulsory to insure all company or business vehicles for third party injury liability. Many different types of policies are available, so make sure you understand the options before making a decision [3]. There are four basic options:

1. Compulsory third party (injury) – covers you for claims made against you for personal injuries and legal costs arising from the use of your car. You must obtain this insurance to register your car.

2. Third party property damage - covers your liability for damage to another person or to the property of others

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and your legal costs. It doesn't include repairs to your own car if you caused an accident.

3. Third party, fire and theft - covers you against the events covered above, as well as fire and theft. It also insures against damage caused if your car was stolen.

4. Comprehensive - covers you for all of the above plus damage caused to your own car by you in an accident. If you're buying a car on an installment basis, financiers will usually insist on this cover.

People insurance

It includes:

- Superannuation
- Workers compensation requirements

Insurance cover for you and your employees:

Workers Compensation

You must provide accident and sickness insurance for your employees - workers compensation - through an approved insurer. Workers compensation is covered by separate state and territory legislation [4].

Personal accident and illness

If you are self employed you won't be covered by workers compensation, so you need to cover yourself for accident and sickness insurance through a private insurer. There are several types of life insurance. Some are investment-type funds where you contribute over a certain time and get back your investment plus interest earnings at the maturity date [5]. Others are designed to cover risk - things that could happen to you.

- Income protection or disability insurance - covers part of your normal income if you are prevented from working through sickness or accident.
- Trauma insurance - provides a lump sum when you are diagnosed with one of several specified life threatening illnesses.
- Term life insurance or whole of life cover - provides your dependents with a lump sum if you die.
- Total and permanent disability insurance - provides a lump sum only if you are totally and permanently disabled before retirement.

Superannuation

If you are running a business or employing people, you are likely to have superannuation obligations to your employees. If you are self-employed you also need to provide for your retirement - superannuation is generally used to provide for a retirement plan.

Liability insurance

Types of liability insurance you need to consider:

Public Liability

Public liability insurance protects you and your business against the financial risk of being found liable to a third party for death or injury, loss or damage of property or 'pure economic' loss resulting from your negligence.

Professional Indemnity

Professional indemnity insurance protects you from legal action taken for losses incurred as a result of your advice. It provides indemnity cover if your client suffers a loss - either material, financial or physical - directly attributed to negligent acts.

Product Liability

If you sell, supply or deliver goods, even in the form of repair or service, you may need cover against claims of goods causing injury or damage. Product liability insurance covers damage or injury caused to another business or person by the failure of your product or the product you are selling [6].

What is Micro Insurance?

On a daily basis, the poor around the world face a multitude of risks that threaten to derail any progress they have made to work their way out of poverty. The death of a family member, loss of property and livestock, illness, and natural disasters each pose unique

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dangers. Protecting people against these losses is an important step to alleviating global poverty.

Micro insurance - the protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved – seeks to provide a suitable solution for managing these risks.

Definitions of micro-insurance

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 to variety of risks mainly because of absence of cost-effective risk hedging instruments.

Development of Micro-insurance in India

Historically in India, a few micro-insurance schemes were initiated, either by non-governmental organizations (NGO) [3] 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. Although the reach of such schemes is still very limited anywhere between 5 and 10 million individuals---their potential is viewed to be considerable. The overall market is estimated to reach Rs. 250 billion by 2008 (ILO 2004).

The insurance regulatory and development authority (IRDA) [5] defines rural sector as consisting of:

- a population of less than five thousand,
- a density of population of less than four hundred per square kilometer
- More than twenty five per cent of the male working population is engaged in agricultural pursuits. The categories of workers falling under agricultural pursuits are: cultivators, agricultural labourers, and workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities.

The social sector as defined by the insurance regulator consists of:

- Unorganized sector
- informal sector
- economically vulnerable or backward classes, and
- Other categories of persons, both in rural and urban areas.

The social obligations are in terms of number of individuals to be covered by both life and non-life insurers in certain identified sections of the society. The rural obligations are in terms of certain minimum percentage of total polices written by life insurance companies and for general insurance companies, these obligations are in terms of percentage of total gross premium collected. Some aspects of these obligations are particularly noteworthy. First, the social and rural obligations do not necessarily require (cross) subsidizing insurance. Second, these obligations are to be fulfilled right from the first year of commencement of operations by the new insurers. Third, there is no exit option available to insurers who are not keen on servicing the rural and low-income segment. Finally, non-fulfillment of these obligations can invite penalties from the regulator [2-5].

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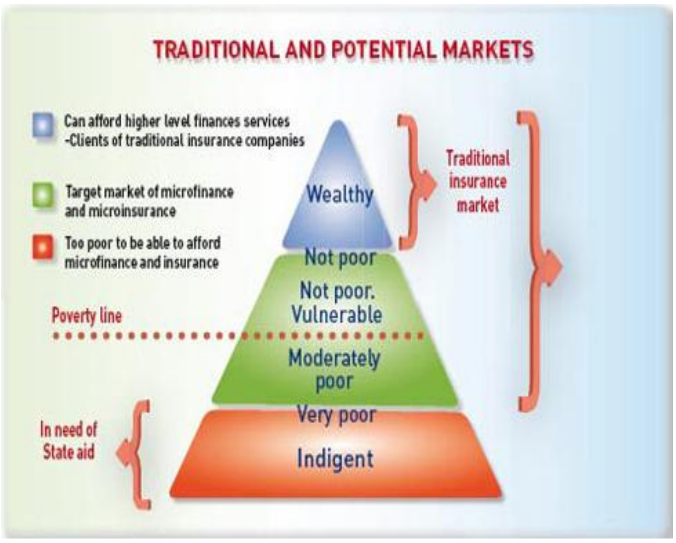
In order to fulfill these requirements all insurance companies have designed products for the poorer sections and low-income individuals. Both public and private insurance companies are adopting similar strategies of developing collaborations with the various civil societies associations. The presence of these associations as a mediating agency, or what we call 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 (pre paid, scientifically organized scheme) as well as those of informal insurance (by using local information and resources that helps in designing appropriate schemes delivered in a cost effective way). In the absence of a nodal agency, the low resource base of the poor, coupled with high transaction costs (relative to the magnitude of transactions) gives rise to the affordability issue. Lack of affordability prevents their latent demand from expressing itself in the market. Hence the nodal agencies that organize 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.



The market for micro insurance is represented by this pyramid diagram. Formal sector insurance companies generally focus on the area identified as “A”. In this realm the customers are corporations and wealthy individuals, and the products are voluntary products such as life insurance, and obligatory products required either by law (such as motor third party liability) or by banks (such as property loss and credit life). Also offered are products covering employees and civil liability. Most of the non-auto related commercial products are being sold within the area marked “B”.

The aggregate market for microfinance providers is generally in the area identified as “C”. Some MFPs [6] require borrowers to obtain insurance for property, or credit-life insurance as a means of protecting the institution’s interests. Area “D” indicates the broad range of products offered by the social security and public health insurance systems of developing country governments. They include coverage for pensions, disability benefits, primary health care, and medications. The weakness of this sector is indicated by the dashed line that suggests incomplete coverage. The potential market for microinsurance is indicated as “E”.

This extends above the MFP range in providing access to individuals and others that cannot obtain appropriate products from the commercial sector. The microinsurance range also extends below the MFP range because it addresses agricultural coverage in some cases, and is now being sold through many delivery channels other than MFPs. Just a few of these delivery channels include:

- Low-income focused retailers in South Africa
- Post offices in Indonesia
- On bags of agricultural inputs or through computer kiosks in India.

Micro-insurance delivery models

One of the greatest challenges for micro-insurance is the actual delivery to clients. Methods and models for doing so vary depending on the organization, institution, and

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provider involved. In general, there are four main methods for offering micro-insurance the partner-agent model, the provider-driven model, the full-service model, and the community-based model. Each of these models has their own advantages and disadvantages.

Partner agent model:
A partnership is formed between the micro-insurance scheme and an agent (insurance company, microfinance institution, donor, etc.), and in some cases a third-party healthcare provider. The micro-insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, micro-insurance schemes benefit from limited risk, but are also disadvantaged in their limited control.

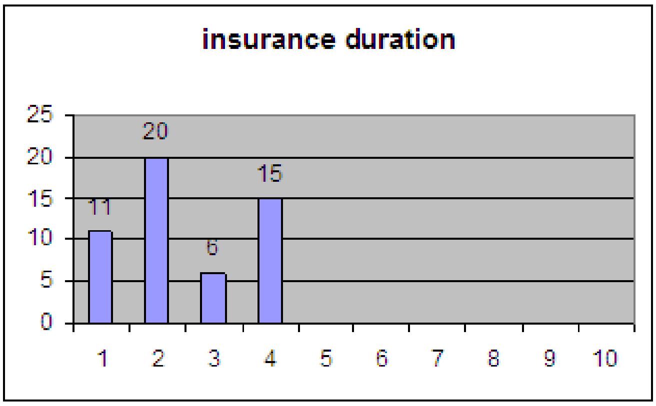
Full service model:
The micro-insurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services.

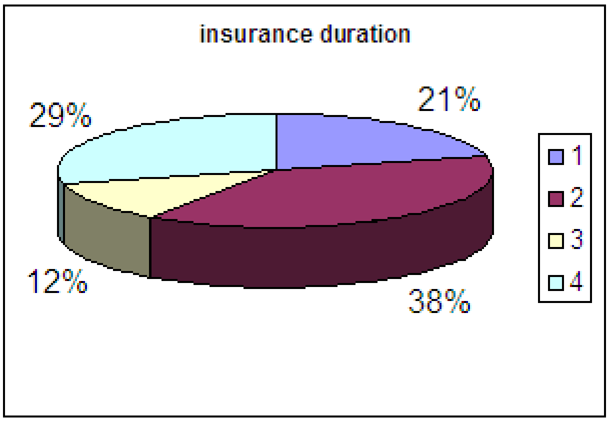
This model has the advantage of offering micro-insurance schemes full control, yet the disadvantage of higher risks.

Provider-driven model:
The healthcare provider is the micro-insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.

Community-based/mutual model:
The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

Insurance Duration





Inference:
The result found above reveals that a majority of respondent 38% like the insurance for the duration of 5-10 years, 29% upto 15-20 years, 12% upto 10-15 years but some were also those 21% who can't bear even so less premium and want to have insurance policy upto duration of 0-5 years.

FINDINGS

- Study reveals that majority of people whose daily income is less than 100 bugs have big family
- Earning member in majority of family is only male.
- Income level lies between 100-200 bugs per day
- Majority of respondent didn't had any saving account because of no ID proof

- Majority of respondent have more spending on travel & rent, after that on food & cloth and Medicare & entertainment
- Majority of respondent are the only earning member in family size of 5-8.
- Majority of respondent hadn't significant asset
- Majority of them managed critical financial problem from some lender like master of their service
- They hadn't any significant job risk but yes they had asset loss risk
- Many of them awared about insurance but not of micro insurance and best source of information medium found to be "Radio" and "advertisement banners".
- Many of respondents were not insured just because of either high premium or lack of complete information.
- Some complaint about bad approachability of insurance provider company to them as well.
- Majority of respondent shows keen interest in micro-insurance policy in life and health , some were very sensitive toward education and like to have education insurance as well
- Because of low income they are ready to pay 150-200 bugs per year for insurance and like to have atleast one more member of their family to be insured
- They are ready to pay premium 15-20 years.

CONCLUSION:

From the above statistical interpretation it could be concluded that potential lies in the society. There is a large segment of the population whose income level lies under the boundary line of poverty and since micro insurance target to those people whose income level is even less than 100 bugs per day, it can penetrate population very well. Many of our target segments have recommended many other facilities with micro insurance which found to be really concernable. Micro insurance product should be manufactured in such a way that those respondents who had denied for having insurance for all family members only just because of premium, can also get access through it.

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