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Penetration of Micro Insurance - A Study

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ABSTRACT

Poor people live in risky environment than the rest of the population, and they are more vulnerable to cope when a crisis does occur. One possible solution to overcome risks is "Micro Insurance". Micro insurance is a special mechanism to protect poor people against different risks. Currently, majority of the poor people in India are employed in the unorganized sector. The availability of micro insurance would in some ways provide them with some protection and peace of mind. In doing so, micro insurance gives them an opportunity to improve their lives. The problem is that, the benefit of micro insurance is not reached to the target population. Against this backdrop, the present study aims at analyzing the reasons for low penetration towards micro insurance. The study also suggests the possible ways for effective implementation of micro insurance to the targeted population.

KEYWORDS : low income persons, risky environment, micro insurance.

INTRODUCTION

We live in a world where four billion people live on incomes of less than eight dollars per day. Of these, 2.6 billion live on less than two dollars per day. Besides the daily suffering for making ends meet, the poor are often more exposed to a variety of risks like illness, disability, death, unemployment, crop failures and natural catastrophes as the consequences of climate change become more apparent. The situation is further aggravated as these households are less able to prevent and mitigate risks than others; and in the case of shocks, they are less able to cope with the consequences. Hence poor are more vulnerable to risks and are more likely to experience a significant decline in wellbeing when a shock occurs. Micro insurance provides a good answer to this situation providing the poor with a mechanism to retain the financial gain they make. Further micro insurance also helps in reducing the vulnerability of the poor.

CONCEPT OF MICRO INSURANCE

Micro insurance is a new promising tool in reducing poverty and increasing welfare by providing risk management solutions to low income persons. More recently, micro insurance has evolved as an instrument with the potential to become the next revolution.

According to **IRDA Concept Paper (2005)** Micro insurance refers to "protection of assets and lives against insurable risks of target population".

In the words of **CGAP Working Group on Microinsurance (2003)** "Micro insurance is the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved". The low income people use micro insurance as one of several tools to manage their risks.

Thus it can be said that micro insurance products provide coverage to low-income households. It provides protection to individuals who have little savings and is tailored specifically for lower valued assets and compensation for poor health, injury or death.

REVIEW OF LITERATURE

Benedikt Link et al., (2007). "Why the poor are underinsured-A Case Study on Micro insurance in South-east India".

The reasons for low uptake of micro insurance policy among low income households in the South-East Indian state of Tamil Nadu were investigated in this paper. The paper analyzed the factors which have hindered the development of micro insurance market. It was found that the products currently offered by insurers contributes to risk reduction potential of low income clients, indicating that products offered were not ill suited to the client's needs. However, it was found that the target population for micro insurance products were widely unaware of micro insurance availability, lacks financial literacy and basic insurance concepts.

Ahmed, M. (2006). "Market Research on Microinsurance Demand".

This report provided findings of a market research on micro insurance demand in Sri Lanka. The research revealed that usage of micro insurance is quite low amongst the low income households in spite of high awareness about insurance and the insurers. The report recommended for designing of micro insurance products that are better suited to low income groups and also recommended for an insurer agent model of partnership of high reputation players.

OBJECTIVES OF THE STUDY

1. To analyse the causes for low penetration level of micro insurance.
2. To know whether the respondents are willing to take micro insurance policy.
3. To identify the preferred micro insurance scheme by the respondents among the various micro insurance schemes available.
4. To know the premium payment frequency preferred by the respondents while paying premium towards micro insurance.
5. To study the convenient distribution channel preferred by the respondents in availing micro insurance policy.

RESEARCH METHODOLOGY

The following methodology is applied for the purpose of the study:

a) **Sample Size:** Total of 50 respondents who has BPL Card
b) **Sample Area:** Mysore city
c) **Data Collection Method:** Structured Questionnaire and Personal Interview
d) **Sampling Technique:** Convenient Sampling
e) **Sampling Methodology:** Percentage analysis and Mean
f) **Sampling period:** June 2013

DATA ANALYSIS AND INTERPRETATION

Table 1: Reasons for low penetration level of micro insurance

Reasons	No. of respondents	Mean
Not aware of products and service providers	50	4.00
Do not have enough information on micro insurance	50	3.78
Difficult to pay premium regularly	50	3.00
It involves lot of paper work	49	2.50
Long process to realize claim	50	3.38
No trust in insurance companies	50	3.22
Low benefit	50	3.04

Not sure the micro insurance will work because third party (eg., hospital) might refuse to accept it	50	3.78
Policies are available but does not suit my needs	50	3.68

Source: Field Survey

From the above table it can be said that awareness level (Mean=4.00) towards micro insurance products and service providers is the main reason for low penetration of micro insurance. Next, awareness on micro insurance concept (Mean=3.78) and no trust on hospitals in accepting micro insurance service is identified as the reasons for low penetration on micro insurance. The other reasons for not availing micro insurance are policies not suiting the respondents needs (Mean=3.68), long process to realise claim (Mean=3.38), no trust in insurance companies (3.22) and difficult to pay premium regularly (Mean=3.00). This analysis indicates that the main reason for low penetration towards micro insurance is lack of awareness of micro insurance.

Table 2: Number of respondents willing to buy micro insurance

Particulars	No. of respondents	Percentage
Yes	30	60%
No	20	40%

Source: Field Survey

The above table shows that 60% of the respondents were willing to buy micro insurance and 40% of the respondents were not willing to buy micro insurance. This shows that people are willing to buy micro insurance.

Table 3: Risk coverage preferred by the respondents

Particulars	No. of respondents	Percentage
Life	13	26%
Health	12	24%
Assets	02	4%
Enterprise	01	2%
Natural calamities	03	6%

Source: Field Survey

Table 3 depicts that among the respondents willing to buy micro insurance, most of them gave priority to life risk coverage(26%) followed by health risk coverage(24%), natural calamities (6%), Assets (4%) and Enterprise risk coverage(2%). Thus it can be said that life risk coverage is given priority by the respondents followed by health risk.

Table 4: Premium payment flexibility

Particulars	No. of respondents	Percentage
Annually	08	16%
Quarterly	07	14%
Semi annually	05	10%
Monthly	06	12%
Weekly	03	6%
Daily	02	4%

Source: Field Survey

The figures from the table 4 indicate that 16% of the respondents preferred to pay the premium annually towards micro insurance, 14% were willing to pay quarterly, 12% of them preferred monthly premium payment, 10% of them wanted to pay monthly , 6% of the respondents were willing to pay weekly and 4% of them wanted to pay daily. Thus it can be said that from among the respondents who were willing to buy micro insurance wanted to pay premium annually.

Table 5: Distribution channel opted in availing micro insurance policy

Distribution Channels	No. of respondents	Percentage
Microfinance Institutions	4	8%
Self Help Groups linked to banks	6	12%
NGO's involved in micro insurance	2	4%
Regional Rural bank Branches	1	2%
Primary Agricultural Co-operative Societies	3	6%
Post office	5	10%
Directly from insurance company	4	18%
Life Insurance Corporation	6	12%

Source: Field Survey

From the table 5 it is interesting to note that respondents chose to avail micro insurance policy directly from insurance company (18%). 12 % of them wanted to take micro insurance policy from LIC and Self Help Groups linked to banks. Rest of them chose to avail micro insurance policy from post office (10%), Microfinance institutions (8%), Primary agricultural co-operative societies (6%), Non Governmental Organisation (4%) and Regional Rural bank branches (2%). It can be inferred that respondents do not want to get micro insurance through agents but they wanted to avail the policy directly from insurance companies.

FINDINGS

1. The awareness level about micro insurance is the main reason for the low penetration of micro insurance.
2. Majority of the respondents were willing to buy micro insurance policy if properly guided.
3. Life micro insurance was given priority by the respondents than any other types of micro insurance available.
4. Annual premium payment mode is mostly preferred by the respondents who wanted to buy micro insurance policy.
5. Majority of the respondents chose to avail micro insurance policy directly from insurance company rather than buying through agents.

SUGGESTIONS

1. More awareness should be created about the benefits of micro insurance to poor people.
2. The insurance providers must train their employees in a proper and effective manner in order to sell the micro insurance to the poor and needy people.
3. The IRDA must take necessary steps making it compulsory for the private players to have a target of doing a certain percentage of insurance as micro insurance which may be equal to some percentage of their sales.
4. Premium flexibility must be given to the respondents.
5. The micro insurance must be done in post offices and other government depots so that the transparency could be maintained.
6. Advertisement campaigns must be made and advocated all over the country.
7. The advertisements must be made in the local languages. Along with the advertisements certain role plays and street plays must be done in villages so that the rural people may become aware of the programme in a much faster way.

CONCLUSION

In summary, micro-insurance is a tool for the country's poor people to protect themselves from adversities. It will reduce financial risks and provide optimism to policy holders, helping them cope with financial emergencies. Micro-insurance is considered as an integral output of micro finance and will assist the poor from being further impoverished as a result of adverse events. As micro insurance evolves, there will be increasingly higher standards for quality products tailored to meet client needs. The foundation of the sector is expanding quickly with key stakeholders joining forces and unparalleled resources, making this a pivotal time in the development of Micro insurance. Micro insurance providers must improve their communication with customers and expressly strive to serve the needs of poor people. Government must take necessary steps in initiating micro insurance only then can micro insurance become the success story hoped for by so many.

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