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Overview of Current Microinsurance Policies in India and its Impact in the Rural Districts of West Bengal

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ABSTRACT

In the year 2005, IRDA developed microinsurance regulation with the aim of empowerment given to the poor families as well as better opportunities to the development of insurance market. Insurance companies are associated with SHGs, MFIs and NGOs to market their small premium product and low profit margin to the poor peoples. Both the products like, life and non-life insurance availed under microinsurance schemes protects people against unexpected losses. The current paper displays an experimental and analytical study that has been done with the objective of identifying the factors that influence policyholders buying decision of the insurance product under microinsurance scheme in rural areas. For this purpose a sample of 134 policyholders are selected by using simple random technique. This research is primarily focused on the buying decision of the policyholders and what type of factors motivates them to purchase the microinsurance products among the various other services available in the market. The current research was done with the help of policyholders awareness level of microinsurance activities which was assessed through both positive and negative statements related to microinsurance activities.

KEYWORDS : Types of Microinsurance products, policyholder's awareness, distribution channels, buying decision, motivational factors

Introduction

When the sole bread earner of a hawker or farmer dies and he has not taken any safety net as such neither in the form of insurance nor by way of having inherited property,the family of the deceased are subjected to various liabilities.A very negligible percentage of the vulnerable low-income section is insured or covered by a safety net.This is mainly because of lack of awareness and also that the design of insurance products does not appeal to the low-income people.It is not projected as a necessary product. People today are inclined towards macro portfolio of insurance i.e.,lifeinsurance,motorinsurance,health insurance etc.but as far as the micro portfolio is concerned it is still in a dormant stage.The low-income people are not made to realise the strength of insurance policies.This is because it is not as profitable for the insurers as the other big portfolios. Insurance the risk management tool comprising of 60 life insurance products,160 non life products and 20 micro insurance products meaning 20 products for the vulnerable section of the society.In a recent study conducted by United Nation yielded the following loins from which the vulnerable

people suffer from:

Extreme poverty and hunger
Inequality
Illiteracy
High child death and declining maternal health
Malnutrition

Microinsurance provides opportunities for protection of the people and their families against perils like weather,catastrophes,illness,death,etc.Most of the poor work in the informal sector and normally work under risky situation. Microinsurance is a means of protecting low-income households against specific risks in exchange fora regular payment of premiums whose amount is proportional to the likelihood and the cost of the relevant risk.Like anybody else,the poor also face variety of risk of death,illness,disability,accident,income and property and so on.Like all others, they also need to be protected from these risks.The recent developments in the Indian insurance industry after it was opened to private entry are mainly geared towards serving the middle and upper income segments of society. Most of the insurers do not get involved in micro insurance as they feel that the poor would not be able to afford and also the low margins involved as profitability standards.There have been many possible solutions given to the government by Insurance Regulatory and Development Authority (IRDA) to make these companies involved in micro insurance.

The IRDA (obligations of insurers to rural and social sectors) regulations were issued in 2002 to increase the penetration of insurance in rural India.

Rural sector obligation in life insurance business:

7% in the first financial year
9 % in the second financial year
12% in the third financial year
14% in the fourth financial year
16% in the fifth financial year of the total policies written direct in that year.

Rural Sector obligation in general insurance business:

2% in the first financial year
3% in the second financial year
5% thereafter, of the total policies written direct in that year.

The emerging opportunity of micro insurance is not only to promote business perspective but also social development and protection to the poor people. The rural and social sector obligations and the microinsurance regulations from IRDA are important steps in the direction of ensuring financial inclusion and social protection for the poor. While enabling regulations are in place and several insurance companies are engaged in operations in India,there is still a need for innovation in products and distribution channels for ensuring the penetration of micro insurance to the masses that need it. Delivering the best possible benefits and affordable premiums to poor individuals can occur only when administrative costs are minimised. Different distribution models can be considered, with various cost effects.

Community Based Organisation: Under this model,local community organisations ,MFI,NGOs or cooperatives jointly develop and distribute their own insurance.The CBO pools,manages and absorbs the risk. Community involvement reduces transaction costs .This model has achieved better targeting outcomes and reduces the administrative costs of handling transfer payments.ButCBOs usually lack the management and actuarial expertise and the financial backing of regulated insurers.

Full Service Model: In this model,a NGO or other organisation operates the insurance scheme and fully absorbs risks,profit and loss.Full service model require substantial investment before starting their operations.

Provider Model: MFI and commercial banks can directly market micro insurance products to potential clients as in the provider model.This model requires a well established distribution network and is widely used in the general insurance market.This model suffers from high transaction cost,when applied in low-income ,low-margin markets such as rural area with dispersed population.

Partner Agent Model and Social Funds: In the partner agent model insurers both commercial and public collaborate with an MFI/NGO to develop a micro insurance programme.This programme is then use a intermediary such as NGO,MFI or local bank to link the customer with the insurance company.The insurer bears the risk of the insurance policy while the MFI/NGOs utilises its distribution channels to bring the product to the masses.This model minimizes distribution costs,while increasing outreach as well as affordability.

Main challenges in marketing of micro insurance in the present scenario may be pointed as follows:

- Poor comprehension of insurance in terms of the key benefit and the process
- Lack of promotion,education,and information in the rural sector
- Weak distribution channel
- Inaccessibility of the agent
- Cost of reaching individual client may be relatively high compared to the existing commission structure
- Cumbersome processes
- Stoic belief in fate coupled with apathetic attitude and language barriers

Comparative study of micro insurance products of Indian market

1.Products under life insurance term policy: A wide range of products are available but penetration is really limited in rural areas.the procedural requirements at the time of entry and in case of claims settlement are cumbersome.The commission structure for agents is also heavily weighted in favour of getting new policies with very little incentive to service existing policies.Inthis regard Micro Insurance Guidelines (2005) issued by IRDA has provided for equal commission throughout the life of a policy and this will now remove the disincentive in servicing existing policy holders.

- Amar Suraksha:It is a pure term insurance policy with no benefits payable on maturity.in this policy,there is a flexibility to pay either in single premium or in regular premium.
- GrameenSuraksha:it is a term insurance policy where the entire premium is paid on maturity.in this policy,only two yearly premiums are to be paid.This policy covers people unto the age of 55 years.This acts as a barrier in this policy.
- SaralSuraksha:it is a term insurance policy with only premium without any benefit paid back on maturity.In this policy,there is an option to take accident rider along with the main policy.This policy has good coverage in terms of age.
- Swayam Shakti Suraksha:it is a group based term insurance policy with surrender and maturity benefits payable.as it is a group insurance policy,
- BimaKavach:It is a term insurance policy with best in the industry return on maturity and surrender on such low premium product. Besidesthis,there is an any time surrender facility in the product in case of suicidal death,the premium is returned back.
- BimaSuraksha Super: This gives insurance coverage to the people only up to the age of 60 years.And the premium is to be paid on yearly basis for the whole term of policy.
- BimaDhanSanchay: It is a term insurance policy where total premium is paid back on maturity.This policy gives insurance coverage to the people up to the age of 75 years.In this policy a grace period is given for 180 days to pay the due installments.
- Sarv Jana Suraksha:It is a single premium term insurance policy with maturity and surrender value benefits.This policy gives insurance coverage to the people only unto the age of 55 years.But the sum assured is very low in the product.
- GraminBimaMitrYojana:It is a single premium term insurance with maturity and surrender value benefits.This policy gives insurance coverage to the people only up to the age of 53 years. But the sum assured is very low in the product.
- Development Insurance Plan:It is a pure term insurance policy with no maturity and surrender value benefits.This policy gives an additional benefit in case of accidental death.And the premium of this policy is very low in comparison to other products.
- Group Microinsurance:It is a group based term insurance policy with maturity benefits but no surrender value.This policy gives an additional benefit of accident rider.But in this policy the grace period is only 15 days.
- Rural Term Plan:It is a term insurance policy with maturity benefits as well as surrender value.This policy has an additional feature of changing the sum assured during the policy term.
- BachatKavach:It is a group based pure term insurance policy with no maturity benefits or surrender value.It is an annual policy with the option of renewal every year.
- ParasparSuraksha:It is a pure term insurance policy with no maturity benefits or surrender value.It is a low premium policy with annual premium being as low as Rs.33.50.
- Group Savings Linked Insurance Policy:It is a group based term insurance policy with maturity benefits and surrender value.It is an annual policy with the option of renewal every year.Only groups having mire than 50 members are eligible for this policy.
- Jan Kalyan:It is a group based pure term insurance policy with no maturity benefits or surrender value.This policy provides a double coverage in case of accidental death.
- NavkalyanYojana:It is a group based insurance policy with no maturity benefits or surrender value.This policy comes with an additional feature of accident rider benefits.It is a term insurance policy with maturity benefits and surrender value.
- SampoornBimaYojana:It is a term insurance policy with maturity benefits and surrender value.In this policy,premium is paid for 10 years and the coverage is for 15 years.
- Grameen Super Suraksha:It is group based pure term insurance policy with no maturity benefits or surrender value.
- JanshreeBimaYojana:It is group based pure term insurance policy with no maturity benefits or surrender value.But certain additional benefits are available in this policy such as accident coverage without any additional premium.Educational scholarship of Rs.300 per quarter available for children studying in plus two level.For a maximum of two children.

GraminBimaYojana: This is like a fixed deposit along with insurance coverage.

Alp NiveshYojana:It is an endowment policy which pays bonus every year.this policy comes with an additional feature of accident rider benefits.

Jana VikasYojana: It is an endowment policy with the benefits od fixed deposit and insurance plan.

Met Vishwas: This is like a fixed deposit along with insurance coverage.

Met SuvidhaRural: It is long term endowment policy with the option of a single premium as well as regular premium.

AyushmanYojana: It is a single premium endowment policy with loan facility.

SumangalBimaYojana: It is a low premium money back endowment policy which pays bonus in 6th,9th,12th year.in this policy,if the two full year premium has been paid,the cover will prevail for period of 2 years from the date of first unpaid premium.

JeevanMadhur: t is a low premium money back endowment policy with accidental coverage.In this policy,if two full year premium has been paid,the cover will prevail for period of 2 years from the date of 1st unpaid premium.

Products under Health Insurance:

Gramin Accident Policy:This accident policy is being offered by United India assurance and New India Assurance at a nominal premium of Rs.15 per year.In the event of accident injury,it provides compensation equal to 100% of sum insured for total disablement and 50% of sum insured for loss of one limb or one eye.

Janata Personal Accident Policy: Several group policies were sold all over the country through Government,NGOs and corporate clients. Itasls provides compensation equal to 100% of sum insured for total disablement and 50% of sum insured for loss of one limb or one eye.

Jana ArogyaBimaPolicy: This is a mediclaim health insurance policy with the option of full family coverage.This product is being offered by United India assurance and New India Assurance.Reimbursement of hospitalisation expenses incurred by an insured for treatment of illness/disease/injury as a patient in a nursing home.The limit of liability of the policy per year per person is Rs.5000.

SwathyaBimaPolicy:This is a mediclaim health insurance policy with the option of full family coverage and personal accident cover by the head of the family.The policy covers reimbursement of hospitalisation expenses unto Rs.25,000 to an individual/family subject to few limits.

Universal Health Insurance Scheme:This is a mediclaim health insurance policy only for the member of SHG and credit linked group being offered by United India Insurance and Oriental Insurance.

Other Microinsurance products that are still in their nascent stage are:
- Products for live stock Insurance:
- Cattle and Livestock Insurance
- Poultry Insurance

Products Insuring agriculture:
- Pump Set Insurance
- Plantation Insurance

Products Covering other elements:
- Animal Cart Policy
- Raj RajeshwariMahilaKalyanYojana
- Hut Insurance
- Mother Teresa Women and Children Policy

Objectives of this paper:
- To study the awareness level of microinsurance among the rural people
- To assess the need of microinsurance product among the low-income people
- To identify the hindrances in the microinsurance policies as suggested by the low-income people.

Research Methodology:
The present paper is empirical in nature.This study is empirical and exploratory in nature. The study is based on primary data.

The data relating to the district-wise populations of the microinsured households served by each of those 4 MFIs were collected from their offices, the details of which are given below in parentheses.

After discussion with knowledgeable persons, it was identified the 4 MFIs key providers of microinsurance in 3 districts of West Bengal namely South 24 Parganas,Kochbihar and Hooghly. The data relating to the MFI-wise populations of the microinsured households served by each of those 4 MFIs were collected from their offices, the details of which are given below in parentheses.

Vivekananda Seva o SishuUddyan (VSSU) [395]
KochbiharKhagrabari Relief Services (KRS) [450]
BelghariaJanakalyanSamity (BJS) [425]
Anjali Microfinance (AM) [315]

The researchers set a target of drawing a sample of 10% of those microinsured households in a MFI-wise manner. However, in spite of repeated requests, the researchers could get cooperation from only 134 microinsured households, the MFI-wise break-up of which is given below. The percentages of microinsured households which finally responded, i.e., the respondents, are given in Table 1 below, which vary from 7.3% to 9.3 %.

Table 1: MFI WISE BREAK UP OF HOUSEHOLDS

Name of MFI	Microinsured Household	Percentage targeted	Percentage sampled	Sample Size
VSSU	395	10%	7.3%	29
KRS	450	10%	9.3%	42
BJS	425	10%	8.5%	36
AM	315	10%	8.6%	27
				134

This next section deals with the case study with the respondents i.e. the users of microinsurance. It is done through data collected by questionnaire. The SPSS package was used for statistical analysis of the primary data. Apart from the usual descriptive statistical tools, Hypotheses Testing was done for analysis and interpretation of the primary data.

Empirical Survey and Findings
The field work combined interviews in the form of questionnaire and discussions with the local people and interviews with local experts. In most households the interviewees were of mixed gender. Although women were in some cases formally considered the head of the household, most often male members responded to the questions. In addition, data on socio-economic variables, like age, gender, education, sources of credit, physical assets, livestock assets, income from various sources, adaptation measures have been collected from the field survey. The socioeconomic indicators and adaptation diagram of the district are presented in the tables below.

Table 2: Age-Wise Distribution of Respondents

Category	Frequency	Percentage
18-30	2	1.49
31-40	60	44.78
41-50	66	49.25
Above 50	6	4.48
TOTAL	134	100

Table 3: Gender-Wise Distribution of Respondents

Category	Frequency	Percentage
Male	22	16.42
Female	112	83.58
TOTAL	134	100

Table 4: Occupation-Wise Distribution of Respondents

Category	Frequency	Percentage
Service	48	36.57
Self-Employed	86	63.43
TOTAL	134	100

Table 5: Education-Wise Distribution of Respondents

Category	Frequency	Percentage
Illiterate	20	14.93
Primary	53	39.55
Secondary	52	38.80
Higher Secondary	9	6.77
TOTAL	134	100

Table 6: Income-Wise Distribution of Respondents

Category	Frequency	Percentage
Less than 5000	60	44.78
5001-10000	56	41.79
10001-15000	16	11.94
More than 15000	2	1.49
TOTAL	134	100

Table 7: Adaptation Strategies of Households

Category	Frequency	Percentage
Informal Borrowing	58	41.79
Selling of Asset	38	26.87
Loan from Friends	15	8.96
Microloans	30	22.38
TOTAL	134	100

Table 8: Usefulness of Microinsurance Policies

Category	Frequency	Percentage
YES	99	73.88
NO	35	26.12
TOTAL	134	100

Table 9: Types of Microinsurance Policies Availed Till Now

Category	Frequency	Percentage
Crop	18	13.43
Health	37	27.61
Life	61	45.52
Livestock	18	13.44
TOTAL	134	100

Table 10: Benefits Derived from Current Microinsurance Policies

Category	Frequency	Percentage
Better Education Facilities	21	15.67
Daughter's Marriage	10	7.46
Increase in present activity	41	30.61
Reduction of Risks	10	7.46
Reduction in impact of seasonality	52	38.80
TOTAL	134	100

Table 11: Difficulties Faced

Category	Frequency	Percentage
Product Design	13	9.70
Claim Settlement	34	25.37
Premium Amount	38	28.36
Product Awareness	49	36.57
TOTAL	134	100

Table 12: Suggestions for Improving

Category	Frequency	Percentage
Easy Claim Settlement	-	-
Flexibility in Collection of Premium	31	23.13
Less Premium	81	60.44
Greater Awareness	1	0.76
More Products	21	15.67
TOTAL	134	100

Table 13: Reasons for not continuing Microinsurance Policies

Category	Frequency	Percentage
Collection Period	7	28
Lack of Flexibility in collection of premium	4	16
Premium amount	10	40
Too many policies	4	16
TOTAL	25	100

Findings and Suggestions:

The premium payable on microinsurance is exempted from payment of service tax,which will also enable greater penetration in the rural markets.

Underutilisation of available distribution channels hinders the growth of rural insurance services.This add to costs,both,managerial and financial.

There are challenges in product design,which has resulted in a mismatch between needs and standard products on offer.Efforts at product development/diversification have been limited.

insurers must remember that,if the low-income policy holder is assisted today they can grow into the middle class of tomorrow,and hence creates a bigger market for the future.Therefore,the need to look beyond short-term gains so as to reap profits patiently in the long run. All one needs is to be innovative and visionary.

The development of microinsurance cannot take place independently they need a collaborative effort of economic development,improved healthcare and education,and political stability.Since the lack of local experts seems to be a major obstacle to development,the insurance needs to invest in the education and training of such experts.

So we can conclude to the point that insurers are requested to first eliminate serious mismatches between the needs of the insured and the insurers which is priorities in favour of profits rather than social inclusion.

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