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Micro Insurance: a Spectacular View on Rural Development in India

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Sanjeev Kumar Srivastaw

Assistant Professor, Barasat College, Surya Sen Road, East Rabindra Pally, Wireless Gate, P.O. Nona Chandan Pukur, Barrackpore, Kolkata-700122

ABSTRACT *Micro insurance is the tool that protects rural as well as poor urban people by offering low cost insurance to mitigate their risk. With the opening up of the economy and as per the regulation of IRDA private insurance companies also tries to exploit the rural market. But still LICI is a major player so far as the employment generation is concerned [in the form of insurance agents] as well as offering of social security and life risk. In this paper an attempt has been made to evaluate the present position of micro insurance in India and its role in respect of risk mitigation and economic upliftment.*

Introduction:
Micro-insurance is the lowest premium and low coverage insurance policies for people with low income. The products of micro insurance are designed with the objective of protecting poor people. The products are also developed as per the requirement of poor people that are generally ignored by traditional insurance products. The objective of micro insurance is providing economic security to low income people. In other words, it is the insurance products traditionally ignored by insurance companies.

The objectives of the study: The present study has been carried out to achieve the following objectives:

- To assess the position of micro insurance in India.
- To study the role of micro insurance for economic upliftment of rural India.
- To study the role of different insurance companies in respect of micro insurance.
- To examine the problems for growth of micro insurance.

Present Status of Micro insurance:
Traditionally it was believed in India that insurance is not a cup of tea for poor people. But with the passage of time the scenario has been changed and several measures were formulated and adopted to bring poor people under the purview of insurance coverage. In the year 2003, Government of India formed a Consultative group on micro insurance in order to examine the present status of existing insurance schemes for poor people in general and rural people in particular. The group found the following features of micro-insurance in India:

- The expansion of micro insurance in rural India was not remarkably noticeable. Micro-insurance has not penetrated rural markets. Micro insurance has not penetrated even among the urban poor.
- The schemes of micro insurance are complicated and rigid. Design of micro-insurance products must have the features of simplicity.
- Promotion of micro insurance at grass root level requires the help of social organizations and NGO's. A partnership between an insurer and a social organization like NGO would be desirable to promote micro-insurance.

On the basis of the recommendations of consultative group and various insurance companies, IRDA notified the IRDA (Micro-Insurance) Regulations, 2005 with the objective of providing life coverage for poor people. The main features of IRDA (Micro-Insurance) Regulations, 2005 are as follows:

1. To promote micro insurance products, a tie up should be done between a life and a non-insurance company.
2. NGO's and SHGs are permitted to market micro insurance products.
3. There should not be any minimum qualification required for appointment as a micro insurance agent.
4. Life insurance products are available for 15 years as maximum period.
5. All micro insurance products should be cleared by IRDA before marketing.
6. All terms and conditions of insurance contracts should be available in local languages for prospective policy holders.

The main objective of Micro Insurance Regulation, 2005, is to protect people with low income by offering affordable insurance products to help those people to mitigate their life risk with low premium. The regulation paves the way for SHGs and NGOs in order to act as insurance agents for the purpose of marketing the micro insurance products of various insurance companies. The overall performance of micro insurance in India is not very encouraging. Table –I shows the insurance density of some of the countries of the world.

Table: I
Insurance Density in different countries of the world [in US Dollar]

Country	2010	2011
UK	4496.6	4535
USA	3758.9	3846
FRANCE	4186.6	4041
HONKONG	3635.5	3904
INDIA	64.4	59
JAPAN	4390.2	5169

Insurance density is one of the performance indicators for judging the performance of the insurance sector. It is calculated by dividing the premium collected with the total population. Insurance density for India was 64.4 Dollar in 2010 and 59 Dollar in 2011 much lower not only as compared with developing countries but also with their Asian counterparts Japan and Honkong.

The growth and status of micro insurance agents in different years are given in Table: II.

Table: II
Status of Micro-Insurance Agents

Insurer	31.03.2009	31.03.2010	31.03.2011	31.03.2012
Private	603	770	758	1251
LICI	6647	7906	9724	11546
Total	7250	8676	10482	12797

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The total growth in total number of agents between 31st March, 2009 and 31st March, 2012 is 76.5%. The number of micro insurance agents as on 31st March, 2012 was 12797 of which 11546 are those of LIC i.e.90.22 % and remaining 9.78% belongs to the agents of private insurance companies.

The business of different companies under micro insurance portfolio is mentioned in Table: III.

Table: III
Status of New Business under Micro insurance Portfolio As on 31st March, 2012 [Rs. In Lakhs]

Insurance Company	Individual		Group	
	No. of Policy	Premium	No. of Policy	Premium
Private Companies	7933660	964.22	750555	1150.67
LICI	3826783	10603.49	9444349	10982.30
Total	4620443	11567.71	10194904	12132.97

The new business premium under micro insurance stood at Rs.11567.7 lakhs under individual segment as on 31st March, 2012 in which the contribution of LICI was Rs.10603.49 lakhs accounted for 91.66% whereas in respect of Group Insurance policies, the contribution of LICI was 89.52%.Therefore, LICI had played a significant role, both in respect of coverage of life as well as income generation is concerned and private players have a long way to go.

Micro Insurance and Rural Economic Development: About 70% of Indian population resides in rural area but they do not have the access to insurance coverage. Rural area is dominated by poor people and their vulnerability to risk is higher than their urban counterparts. These people are less educated and are not well aware about risk mitigation mechanism. They face two types risk firstly household related risk and secondly common risk like natural disasters. Poor people are especially vulnerable to risks related to health, income generation, old age problems, unemployment, illness, accident, sudden death of the sole earning member; etc. These incidents adversely affect the livelihood of the poor people as they do not have the enough opportunity of mitigating such type of risks. . They are also more prone to risks due to lack of income, assets, insecure and unsafe working conditions, and increased exposure to health risks through poor housing, sanitation, etc. Natural disaster affects the poor people to a great extent. It affects their lives, including health, housing, children, and income generating activities.

The strategy available to them is to sale their small piece of land, reduction of household consumption, withdrawing children from school, deferring/ignore expenditure on health, etc. These strategies have both short term as well as the long term implications on their lives. Micro insurance, thus, helps poor people to cope up with such problems.

Poverty reduction is directly related to agricultural development in rural area. Sustainable development requires systematic risk mitigation which is possible through micro insurance.

Micro-insurance is an important service provider that provides financial services package for people at lower income levels. Micro insurance provides economic as well as psychological security to the poor by reducing exposure to multiple risks and minimize the impact of a disaster. Micro insurance has gone a long way in keeping poor people away from poverty trap and is an important tool for financial inclusion. It is one of the important tools for managing risk by poor and low income group people. It offers a promising new way for poor people to manage risk and contribute to poverty alleviation. Micro insurance has great potential to reduce risk and also provide business opportunities. It focuses on extending social protection to the poor people on one hand and providing financial services to low income group people by framing appropriate business model.

Successful micro insurance programs have emerged in recent years as powerful tools to help poor families to cope up with risk and alleviate poverty. Poor people seek micro insurance both for themselves and for their families, serving as risk managers for entire households. Micro insurance products address the need of poor people by floating schemes to protect against crop failure, damage from natural disasters, disabilities, etc.

Microinsurance has the potentiality to enable the rural poor to mitigate the effects of shocks that threaten their lives, productivity, and assets. Micro insurance helps to prevent the depletion of savings and assets of poor people. It also induces them to invest in high risky proposals as micro insurance undertake the risk of agricultural and other risk of poor people.

Micro insurance can reduce the risk as effective crop insurance allows farmers to specialize in high-value crops. With property or asset insurance, people can invest more in illiquid assets that offer higher returns, rather than liquid assets with lower returns. Lower income means fewer resources to invest and lower level of income and higher risk of return. Lower income comes in the way of aggressive investment strategies which are risky but that provide a higher rate of return necessary for survival and expansion of business. Micro insurance helps poor people to undertake risky ventures. Increase in earnings improves the standard of living, as well as to induce them to invest the surplus. Therefore, it can be said that it is an important tool for poverty alleviation.

Development of micro insurance also requires the development of education system in rural and semi urban area. In order to explain the mechanism and importance of insurance posters, local folk arts and street corner play can be used. A combined effort by government, regulator, insurance companies, NGOs and SHGs are also necessary to accelerate the growth of micro insurance. There is very little knowledge about micro insurance particularly health insurance products among rural people. Insurance companies realized to recognize the future potentiality of the micro insurance market by expanding the customer base by providing affordable, accessible able and flexible insurance products.

Conclusion: Poverty alleviation is still a major problem of India. Micro insurance is one of the tools that seek to achieve that objective. Micro insurance tries to extend social protection to poor people as well as providing financial services to them. However, the diverse nature of Indian rural economy, suitable mechanism must be developed to minimize the transaction cost and improvement in insurance density. Business correspondent, SHGs, NGOs, mobile phones, ATM etc. should be used for collection of premiums. Flexible insurance premium payment option should be attached to insurance products.

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