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# Micro-Insurance: An Innovative Business Strategy

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**ABSTRACT** *The poor have greater risks of life, income and the standard of living than that of the rich. Due to absence of savings, these risks can push families to poverty and indebtedness. In India, MFIs are in a unique position to provide microinsurance as they have extensive networks and are already offering financial services to poor clients. MFIs linked with formal insurance companies act as agents for the formal insurers. MFIs can also form joint ventures with formal insurers and share both risk and management. Some MFIs team up with professional insurance providers who have the technical expertise in the area. A faster growth of insurance in the rural sector can also be achieved by insurance companies if they tie up with cooperative societies, regional rural banks, Kisan Credit Cardholders, self-help groups, NGOs, panchayats, and agents to distribute insurance products. This would help the insurance companies achieve insurance penetration in a cost-effective manner.*

**I-Introduction:**

The use of insurance as a cover on risks is very poor in India. Even after the entry of private companies in the insurance market, though one sees some improvement in the share of insurance in the overall GDP, the number of policies taken on life and health is low looking to the insurable population of India. In fact the focus of marketing insurance products has always been rich individuals in case of life and industry for the non-life sector. Very little effort is made to reach the large low income population particularly the rural areas. The poor have greater risks of life, income and the standard of living than that of the rich. Due to absence of savings, these risks can push families to poverty and indebtedness. A death of a breadwinner or an illness in a poor family is a much severe blow to the family as compared to a rich family. Realizing the role of microinsurance an innovative business strategy in providing risk cover facility to the mass of the country the study was planned with the following objectives.

1. To find out the insurance cover in India.
2. To know the development of microinsurance in India.
3. To find out the Business Models for Microinsurance.
4. To analyse the Microinsurance Providers.

The paper was prepared collecting information from secondary data. Various books, journals, research reports of individual researchers and govt. have been referred. The study analyses briefly the various aspects of microinsurance in India identifying various areas for further research studies in future course of time.

**II-Insurance Cover in India:**

A World Bank study reports that about one-fourth of hospitalised Indians fall below the poverty line as a result of their stay in hospitals. The same study reports that more than 40 percent of hospitalised patients take loans or sell assets to pay for hospitalisation expenses. The poor were considered too poor to be able to afford insurance premiums. Often they were considered uninsurable, given the wide variety of risks they face. However, recent developments in India, have shown that not only can the poor make small periodic contributions that can go towards insuring them against risks, but also that the risks they face (such as those of illness, accident and injury, life, loss of property, and so on)are purely insurable. The rate of annual growth of insurance market is of 20 percent for life and 15 percent for non-life. Despite this growth rate, India is under-insured when compared to other countries. As per the survey conducted by Federation of Indian Chambers of Commerce and Industry (FICCI), the Indian insurance market is one of the least insured markets in the world. India has a population of 1,044.15 million out of which only 100 million Indians have a life insurance policy. Almost 300 million people in the country can afford to buy insurance but of this only 20 percent have an insurance cover. A huge chunk of the population is yet to be tapped. India's life insurance premium as a percentage of GDP is 5 percent as against 12.8 percent in UK, 8 percent in the US, and 12.5 percent in South Africa. The survey by the Foundation for Research, Training and Education in Insurance (FORTE) suggests that insurance can be sold profitably to rural communities if the following conditions are kept in mind.

1 There is a distinct hierarchy of needs in rural areas.
2 Rural people find security in groups.
3 The saving habit is very strong in rural areas.
4 Average savings across the three most important socio-economic strata comes to 30-35 percent of annual income or about Rs. 13,500 annually which is significant.
5 There is a high level of awareness about life-insurance.
6 51 percent of those who own life insurance would like to buy more.
7 Amongst the savers, a significant percentage does not save through formal financial modes or institutions.
8 Rural buyers of insurance prefer a half-yearly mode of premium payment to coincide with the time of harvest.

**III-Development of Microinsurance in India:**

The insurance industry has both economic and social purpose. In provides social security and promotes individual welfare. It reduces risk and helps to raise productivity in the economy. Insurance business consists of spreading risks over time and sharing between persons and organisations. Historically, in India, few microinsurance schemes were initiated, either by NGOs due to the felt need in the

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communities in which these organisations were involved or by the trust hospitals. These schemes have now gathered momentum partly due to the development of microfinance 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. As a result, increasingly MFIs and NGOs are negotiating with the for-profit insurers for the standardised group or individual insurance schemes for the low income group.

The rural obligations are in terms of certain minimum percentage of total policies written by insurance companies. Obligations are in terms of percentage of total gross premium collected. Some aspects of these obligations are note worthy. First the social and rural obligations do not necessarily require subsidising 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 serving the rural and low income segment. Finally, non-fulfilment of these obligations can invite penalties from the regulators.

To assist the insurance companies, IRDA, Hyderabad, took pioneering initiatives to formulate the microinsurance policies in India in November, 2005. In order to fulfil 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 to extend insurance cover to the poor.

**IV-Business Models for Microinsurance:**
There are four general models for delivering insurance service to the poor.

**1-Partner-Agent model:**
In this model, insurers and MFIs team up to exploit each other's comparative advantages. Insurers utilise MFIs efficient delivery mechanism that provides the sales and basic services to the clients with no risk and limited administrative burden.

**2-Community –Based Insurance Model:**
in this model the policy holders are themselves owners and managers of the insurance programme. This model is used mainly in health insurance. The members themselves design, develop, service and sell the product and they negotiate with external healthcare providers.

**3-Full-Service Model:**
This is similar to the model followed by formal-sector insurers, when the provider is singly responsible for all aspects of product manufacturing, sales, servicing and claims assessment. The insurers are wholly responsible for all insurance related costs and losses, but they also retain all profits.

**4-Provider Model:**
under this model, the service provider and the insurer are the same. Like the community based model this model is also used mainly in health services, where hospitals or doctors offer policies to individuals or groups.

**V-Microinsurance Providers:**
The banks need not obtain prior approval of RBI for engaging in insurance agency business subject to given conditions. A microinsurance product is an insurance policy with a small sum insured with low premium. It is designed to reduce the fundamental risks of life, living and livelihood. Microinsurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury or death) and property risks (damage or loss). The most frequent Microinsurance products are life microinsurance (and retirement savings plans), health microinsurance (hospitalisation, primary health care, maternity, etc), disability microinsurance, property microinsurance (assets, livestock, housing) and crop insurance. The essential feature of an ideal microinsurance product that makes it successful is the right balance between insurability (capacity to take a policy) and saleability (possibility on the insurer's side to offer it. The current providers of microinsurance include stand-alone institutions or partnerships between formal insurance and reinsurance companies, national and local governments, international organisations, MFIs, NGOs, and community groups.

**VI-Conclusion:**
The focus of marketing insurance products has always been rich individuals in case of life and industry for the non-life sector. Very little effort is made to reach the large low income population particularly the rural areas. The poor have greater risks of life, income and the standard of living than that of the rich. Due to absence of savings, these risks can push families to poverty and indebtedness. An untapped potential reveals that our human and physical assets are unprotected and neglected. In India, MFIs are in a unique position to provide microinsurance as they have extensive networks and are already offering financial services to poor clients. MFIs linked with formal insurance companies act as agents for the formal insurers. MFIs can also form joint ventures with formal insurers and share both risk and management. Some MFIs team up with professional insurance providers who have the technical expertise in the area. A faster growth of insurance in the rural sector can also be achieved by insurance companies if they tie up with cooperative societies, regional rural banks, Kisan Credit Cardholders, self-help groups, NGOs, panchayats, and agents to distribute insurance products. This would help the insurance companies achieve insurance penetration in a cost-effective manner.

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