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Risk Management and Awareness of Microinsurance Among Rural Households

KEYWORDS: Vulnerability, Microinsurance and Risk management

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ABSTRACT *Risk and vulnerability is a main component of daily life for poor people. India is enjoying rapid growth and benefits from a young population. Its middleclass is growing rapidly but 70 percent of the population is still rural, often very poor, handicapped by poor health and health services, and low literacy rates. Susceptibility to risk and its associated shocks are the key aspects of poverty. Microinsurance is considered by development practitioners as one of the financial services to help the poor with risk-coping. Objectives of the study are to analyse the factors which influencing the risk and risk management strategies and to determine the awareness of microinsurance among rural households. Microinsurance is not only the mechanism for reducing vulnerability but also ensure social and economic security to the poor. It protects rural households against those risks that they are unable to protect themselves through informal mechanisms, savings or credit.*

Introduction

Risk and vulnerability is a main component of daily life for poor people. Life is risky for the poor in developing countries. India is enjoying rapid growth and benefits from a young population. Its middleclass is growing rapidly but 70 per cent of the population is still rural, often very poor, and handicapped by poor health and health services, and low literacy rates. Although the type of risks faced by the poor such as death, illness, injury and accident, are no different from those faced by others, they are more vulnerable to such risk because of their economic circumstance (Singh and Gangal, 2011). Insurance especially the micro insurance has been considered as a social protection products and an additional financial tool to help people with poverty coping with the risks and vulnerability they face in every day to day life. Micro insurance is designed for the protection of low income group with reasonable insurance products to help them with recover from common risks.

Objectives of the study

1. To analyse the factors which influencing the risk and risk management strategies.
2. To determine the awareness of microinsurance among rural households.

Hypothesis

Awareness of microinsurance does not vary based upon socioeconomic factors

Methodology

Coimbatore District has been chosen purposively as the locale for this study. As the sampling is carried out in different stages, the sampling considered for the study is multi stage sampling. Coimbatore district has 23 blocks, out of this five blocks were selected to represent different rural areas of each block. All the five blocks put together has 62 villages and from each village 10 households were selected to arrive at 620 respondents for the study. The final sample of 558 was resulted due to incomplete information provided by the respondents. Tools for collection of data, the primary data was collected from 558 respondents through a detail interview schedule, personally administered and observed from surveying the locality and from personal interviews. Tools for analysis of data, Percentage analysis, Chi square analysis, cross tabulation, Analysis of Variance and Factor analysis were used as the tool for analysis.

Results and Discussion

Socio economic factors of the rural households

Socio economic factors of the rural households it is clear that 62.2 per cent of the respondents selected for the study were male and 37.8 per cent were female. Most of the respondents (41.2 per cent) are in the age group of 36 - 45 years who are the prime earning members of the households. Majority of the rural households (58.2 per cent) selected for the study are married. Higher percentage of rural households (35.3 per cent) fell into the category of high school level of education. Majority of 63.8 per cent of the rural households was from nuclear type of family. 33.5 per cent of respondents have above four members in the family. Most of the respondents (30.6 per cent) revealed that they were self employed. 35.7 per cent of the respondents selected for the study have monthly income in the range of Rs. 5,001 – Rs.10, 000. 47.7 per cent of the respondents selected for the study were spending between Rs. 3,001 – Rs. 6,000 for monthly expenses and 38.9 per cent of the rural household were having less than one acre of agricultural land.

Sources of borrowings

Most of 33.9 per cent of the respondents were borrowed from friends, relatives and neighbours. 29.8 per cent of them were borrowed from private money lenders, 27.6 per cent of them were borrowed from banks, 4.5 per cent of them were borrowed from micro financial institution and 4.2 per cent of them were borrowed from SHGs.

Risk and risk management strategies of the rural households

Risk management strategies under Health Loss, 17 per cent of the respondents were affected with Illness in the family, 16.5 per cent of them were having the accidental risk, 14.9 per cent of them were involved the risk of death of the family members, and 14.5 per cent of them were having disability risk.

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Under property losses, 14 per cent of the respondents were involved with property loss like damages of houses, accident, etc. 11.6 per cent of them were having the livestock disease like buffalo, bullock carts, etc. 9.7 per cent of them were involved with business loss due mismanagement of business.

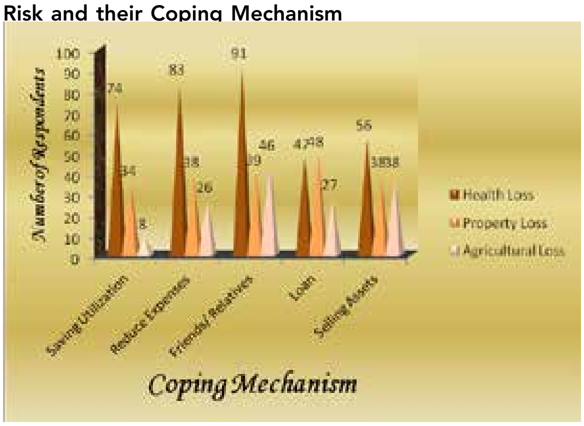
Under agricultural losses, 10 per cent of the respondents were involved with natural disaster, 8.6 per cent of them were involved with poor harvesting and 7.3 per cent of them were involved with crop losses.

In overall, maximum of the respondents are having health loss of illness in the family members, in property loss of the family under property loss and in agricultural loss of maximum risk incurred in natural disaster.

Risk Management Mechanism Adopted by the Rural Households

Figure 1

Risk and their Coping Mechanism



It is interpreted from the figure 1 that 26.5 per cent of the respondents were using savings amount for the death of the family members, 31.6 per cent, 30.4 per cent and 27.2 per cent of the respondents were borrowed money from their friends and relatives for illness, accidents and disability under health loss. 27.8 per cent of them were borrowed loan when they have business loss, 24.4 per cent of them were selling assets when they have property loss and 23.1 per cent of them were reduce expenses and loan when they have livestock disease under property loss. 34.1 per cent of the respondents were borrowed money from friends and relatives and selling assets when they have crop losses, 32.1per cent and 29.2 per cent of them were borrowed from friends and relatives when they have natural disaster and poor harvesting under agricultural loss.

Financial Pressure on Different Risk

Majority of the respondents have the financial pressure involved for accidents under health loss, business loss under property loss and natural disaster under agricultural loss.

Awareness about Microinsurance among Rural Households

Table 1

Awareness among Microinsurance

Insurance services	Extremely aware	Moderately aware	Somewhat aware	Slightly aware	Not at all aware
Health insurance	201 (36.0)	54 (9.7)	138 (24.7)	143 (25.6)	22 (3.9)
Life insurance	253 (45.3)	65 (11.6)	104 (18.6)	107 (19.2)	29 (5.2)
Property insurance	184 (33.0)	69 (12.4)	84 (15.1)	134 (24.0)	87 (15.6)
Vehicle insurance	231 (41.4)	77 (13.8)	90 (16.1)	139 (24.9)	21 (3.8)
Cattle Farm	219 (39.2)	94 (16.8)	76 (13.6)	101 (18.1)	68 (12.2)
Crop insurance	187 (33.5)	92 (16.5)	63 (11.3)	101 (18.1)	115 (20.6)

Note: The values in bracket are in percentage

Table 1 shows that most of the respondents (36 per cent) have extremely awarded of the health insurance, Maximum of 45.3 per cent were extremely awarded of Life insurance, another 33 per cent were knew about Property insurance, 41.4 per cent were extremely aware of vehicle insurance, 39.2 per cent were extremely aware of cattle farm, 33.5 per cent were extremely awarded of Crop insurance of microinsurance.

Hypothesis Testing

To test whether the significant difference between socio economic factors and awareness of microinsurance among rural households the one way ANOVA test was performed.

H_0: Awareness of microinsurance does not vary based upon socio economic factors.

H_1: Awareness of microinsurance does vary based upon socio economic factors.

Table 2

Socio economic factors and Awareness of Microinsurance

Socio economic factors	Health insurance	Life insurance	Property insurance	Vehicle insurance	Cattle farm	Crop insurance
Gender	S	NS	NS	S	NS	NS
Age	S	S	S	S	NS	S
Marital Status	S	NS	S	S	S	S
Educational Status	S	NS	S	S	S	S
Type of Family	NS	NS	NS	NS	NS	S
Family Size	S	S	S	S	S	S
Occupational status	S	S	NS	S	S	S
Monthly Income	S	S	S	S	NS	S

(S- Significant, NS- Not Significant)

At 5% significance level, it has found that awareness of microinsurance is vary based upon the gender with health and vehicle insurance, age with health, life, property, vehicle and crop insurance, marital status with health, property, vehicle, cattle farm and crop insurance, educational status with health, property, vehicle, cattle farm and crop insurance, type of family with crop insurance, family size with health, life, property, vehicle, cattle farm and crop insurance, occupation status with health, life, vehicle, cattle farm and crop insurance, monthly income with health, life, property, vehicle and crop insurance.

Conclusion

Microinsurance is not only the mechanism for reducing vulnerability but also ensure social and economic security to the poor. It protects rural households against those risks that they are unable to protect themselves through informal mechanisms, savings or credit. Microinsurance providers are concerned that coverage of risks can be provided on a sustainable basis. Therefore, microinsurance is appropriate when there is an overlap of perspectives of both the household and the provider. Low income and poor people have different needs and priorities. Designing insurance products on a one-size-fits-all platform runs the risk of neglecting these differences and affecting any insurance programme adversely.

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