RESEARCH PAPER | Management | Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

Growth of Micro Insurance Industry With Special Reference to the Contribution Made by The Private Players

KEYWORDS Micro Insurance, Inclusive Growth, IRDA, Claims

Ms. Lakhwinder Kaur Dhillon

Amity Business School, Amity University, Sector 125 Noida

ABSTRACT *Micro-insurance refers to the protection of people from weaker economic strata of the society against some specific perils in exchange of a premium amount paid by them. This premium amount is paid by them at regular time intervals and is a very small amount of their net income. There are plenty of cases where the entire family suffers if the breadwinner dies an unnatural death, micro-insurance has a huge role to play in creating financial Security. Despite numerous efforts taken by the Government of India to uplift the condition of the poor citizens, there are uncountable such people who are still deprived of basic amenities such as food, water, shelter, clothing and good health.. Hence to curb these issues, it is important that the philosophy of inclusive growth is adopted in the country and to this, micro-insurance has a great deal to contribute. This paper aims at studying the growth of this industry in the Indian context and also the degree of contribution which the private sector has had in the growth of the industry.*

Introduction

Micro-insurance is considered by low premium and low coverage limits and sold as typical risk-pooling and marketing arrangements and designed for low income people and businesses not served by typical social or commercial insurance. The insurance industry in India, both private and public, dates back to the 19th century. The English Government set up state-run social protection schemes for its colonial officials, many of which evolved into the schemes that operate till date. The first private insurance company was the Oriental Life Insurance Company, which was started in Calcutta in 1818. A number of Indian insurance organizations including the Bombay Mutual, Oriental and the Empire of India were experienced to be emerging in the 19th century. Many insurance companies were operating in India in the 18th century. In 1938 a comprehensive legislation regulating the insurance industry called the Insurance Act was passed by the British. Even today, the Act retains its legislative relevance in the insurance industry. Regulated insurers are divided into two core categories in India: life and general insurance.

Life insurance encompasses products like endowment policies and retirement annuities. General insurance includes all other types of insurance. The Indian Government nationalized the life insurance industry in 1956. The rationale for this move was high levels of fraud in the industry and the need to spread insurance more widely. 154 insurance providers were combined by the government to form the Life Insurance Corporation of India. General insurance was nationalized in 1973.

The reason of nationalization was to create smaller number of state-owned insurance companies. Immediately before nationalization, 68 Indian (including the Life Insurance Corporation) and 45 non-Indian entities sold insurance. All of these organizations were combined into one huge corporation which is the General Insurance Corporation (GIC) having four subsidiaries: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited, and United India Insurance Company Limited. When the intellectual winds of change blew in the early 1990s, the Indian Government liberalized its insurance markets. It set up a commission of enquiry chaired by R.N. Malhotra. The most pre-dominant outcome of the commission was the establishment of the Insurance Regulatory and Development Authority (IRDA) that in turn laid the framework for the entry of private (including foreign) insurance companies into the Indian insurance industry. Traditionally in India, a few micro-insurance schemes were initiated, either by non-governmental organizations (NGO) due to the felt need in the communities in which these organizations were involved or by the trust hospitals. These schemes have now gathered momentum partially due to the development of micro-finance activity, and partially 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, micro-finance institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customized group or standardized individual insurance schemes for the low-income people. There are several connotations in which the concept of micro-insurance differs from the concept of conventional insurance as a whole. Micro-insurance, though is a subset of insurance, yet there are many relaxations which are given to a policy holder in case of micro-insurance which are not given to a general or life insurance policy holder. The procedures are a lot more simplifies in case of micro-insurance.

Micro-insurance in India

The UNDP report has been fundamental in analyzing six key issues pertinent to the growth of the micro-insurance industry in India, encompassing the concerns of different stakeholders as indicated below:

- There Are Specific Reasons For Low Demand For Insurance Despite Of The Intense Need For The Same. Suppliers Have Their Own Issues Which Explain Why There Have Been Little Efforts Aimed At Market Development. As A Result Of This, The Rural Market Is Characterized By Limited And Inappropriate Services, Inadequate Information And Capacity Gaps.
- There Are Major Challenges In Product Design, Which Has Resulted In A Gap Between The Needs And The Standard Products On Offer. Efforts Directed Towards Product Development, Innovation And Diversification Have Been Limited.

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

- Pricing, Including Wish To Pay And The Availability Of Subsidies, Influence The Market To A Large Extent. Whenever There Is Unavailability Or Absence Of A Historical Database On Claims, Premium Calculations Are Based On Remote Macro Aggregates And Overcautious Margins. Maintaining And Sharing Claim Histories Can Help In Reconciling Pricing Decisions With Actuarial Calculations, Thereby Reducing Prices Of Such Products.
- Difficulty In Distribution Mechanisms Is One Of The Most Dominant Reasons For Absence Of Rural Insurance. The High Costs Of Penetrating Into Rural Markets, Along With Underutilization Of Available Distribution Channels Restrict The Growth Of Rural Insurance Services. This Increases Managerial And Financial Costs. Similar To Inclusive Credit, Inclusive Insurance Is Regarded As A "Low Ticket" Business, Requiring Volumes For Feasibility.
- Lengthy And Inappropriate Procedures Restrict The Development Of This Sector.
- Comparing Perspectives Of The Insured And The Insurers, Leads To Low Customization Of Products And Low Demand For What Is Available.

Types of Micro Insurance

Life Insurance: Life insurance gives benefits to beneficiaries upon the death of the insured. There are three major types of life insurance coverage: term, whole-life, and endowment. Term life insurance policies provide a set amount of insurance coverage spreading over a specified period of time, like one, five, ten, or twenty years. This insurance is relevant when the policyholder's need for coverage is temporary or short term. Term life insurance is not very difficult to offer as against other life insurance policies. This is the most widely used life insurance policy in low-income communities in developing economies. Lifetime protection is guaranteed by whole life insurance which is a cash-value policy. In the developing nations, this is seldom offered in low-income markets. Endowment life insurance, on the other hand releases the face value of insurance in case the policy holder dies within a specified period. Hence, the time horizon of endowment life insurance is longer than that of the term life insurance. This is also not widely prevalent in developing countries.

Health Insurance: Health insurance is a measure whereby coverage against illness and accident is given. Most Microfinance Institutions realize that the families of poor individuals spend hefty amounts on health related issues which constitutes a significant cause in people's inability to improve their economic conditions. Numerous institutions of this cadre have therefore, either started their own health insurance programs or have linked their customers to existing programs. While the real amount of coverage differs, many health insurance providers cover for only a few hospitalization benefits for certain illnesses, and for costs of physician visits and medicine. Contraceptives and immunity building medicines are also made available by some private insurers. These form a part of primary healthcare.

Property Insurance: Loss or damage of assets is covered under property insurance. There is a need to verify the degree of damage and ascertaining whether loss has actually occurred because of which giving such insurance is difficult. Guarding against such cases of moral hazard is not very easy for most MFIs. A few, nevertheless, do provide this coverage.

Disability Insurance: In case the policy holder and his family suffer from a disability, disability insurance provides protection to both the former and the latter. It is generally clubbed with life insurance products. This type of insurance is not a very rampant trend in Micro insurance companies. Uganda and Philippines are examples of a few countries where MFIs are providing their customers with disability insurance

Crop Insurance: If the crops of policy holders are destroyed by natural calamities such as floods and droughts, the mitigation in such cases is provided by crop insurance. Crop insurance has always shown mixed results in developing countries and even in the developed economies. In the eighties and nineties, governments of many countries developed crop insurance programs in order to improve the capability of rural farmers to repay loans taken from ADBs. Income supplements and provision for loan repayment was facilitated by these programs in case the crop yield of the insured farmer fell below the minimum limit. These type programs were developed in countries like Brazil, India, the Philippines and the USA. These were not very satisfactory, because of large expenses of administration and claim settlements. Bad design of program, co-varying risks in monsoon dependent economies and unexpected natural calamities were the causes of the failure of these programs.

Disaster insurance: Disaster insurance is done via a reinsurance arrangement that broadens the risk pool across countries and regions, and protects insurers against devastating losses.

Unemployment Insurance: Unemployment insurance is generally provided by the public sector. Unemployment insurance gives cash relief to individuals who become unemployed without their will. These individuals are required to meet specific government requirements. Thus, private insurance companies are generally not a party to this kind of insurance. Hence, it is majorly the public sector that provides this insurance. Unemployment insurance aids the unemployed workers in finding appropriate jobs. It aims to streamline the economy by facilitating people to maintain their purchasing power.

Reinsurance: The shifting of part or all of the insurance originally written by one insurer to another is called reinsurance. Reinsurance can be used to streamline profits, instead of bearing large fluctuations in financial outcomes on a yearly basis. It facilitates smaller insurers to pool risk with other insurers in different regions or countries, effectively developing sufficient large risk pools by combining the risks of many insurers.

Literature review

Bock & Wouter (2012) in their paper attempt to answer one important question: why demand, and renewal rates, are decelerated when the same may help in significantly increasing the protection of the poor against adverse shocks. The dearth of knowledge about the nature and technical attributes of micro-insurance products is not enough to substantiate low demand. Although financial literacy training seems to significantly increase knowledge by throwing light on the details of complex insurance products, yet it is less efficient when it comes to increasing the demand for the same. Various other factors are also instrumental in influencing the purchase decisions of an individual. Low degrees of trust, either in the organization providing the micro-insurance or in the micro-insurance product itself, also constrain demand. Poor quality

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

of the product is also another factor decreasing demand. **Singh D. P (2012)** in his paper on social entrepreneurship emphasized that this concept is quietly revolutionizing the less privileged sections of India. Several private equity firms are putting their funds in for-profit entities having social objectives. Specialized social investors fund capital, networking, marketing and business expertise to such organizations. The problems that are face by social entrepreneurs can be similar to the problems their counterparts in the industry face when we talk about the challenges of starting, running and sustaining a business. Prior to entering an industry with a fresh business idea, a social entrepreneur should have a clear picture of the issues he may face so as to make informed decisions. The foremost threat has to do with governments. A majority of businesses have yet to consider social entrepreneurship as a legitimate field of endeavour. The traditional educational system of India still encumbers entrepreneurship. Paucity of social entrepreneurship know-how presents a challenge for social enterprises in finding competent and skilled promoters. Scarcity of capital is again a major problem for the Indian entrepreneur. Mostly, the business of social entrepreneurs is run with their own funds (also called equity) or by raising funds from the local money lenders at a high rate of interest, which at times becomes a financial burden on them. **Kline & Sandhu, (2012)** in their paper analysed the strengths and weaknesses of the regulatory structure in India prevailing in 2012, including the pending Malegam Micro Finance Institutions (Development and Regulations) Bill 2011. They performed a case study analysis on how RBI regulation is viewed and implemented by microfinance institutions, and, also offered a perspective on the future of microfinance regulation in the Indian economy. **Singh & Gangal, (2011)** Researched on the importance of micro insurance in poverty alleviation in India and also the initiatives taken by the private sector in this regard. With a view to fulfil the essentials of social and rural obligations, all insurance companies have designed products for the poor and low-income groups and individuals. Both public and private insurance companies are undertaking similar strategies of developing collaborative arrangements with the different civil societies and associations. The insurance products in India are subject to a 10.36% service tax, but in order to increase penetration of insurance products in rural sector where they are much needed and to make insurance an approachable product for the villagers, it is important that this tax is scrapped off. The rural poor not only require insurance to be cost effective, but also expect to be protected against high-frequency risks of serious ill health, accidents, crop failure, natural disasters and fire. The challenges for insurers remain the high costs of covering the needs of the rural poor and the difficulty in distributing micro insurance. **Gine, Menand, Townsend, & Vickery, (2010)** prepared a case study on the Indian Rainfall Index Insurance with the rationale that households in India and other developing nations are often critically exposed to extreme weather related events including natural disasters like droughts, floods, tidal waves and hurricanes. These sudden weather conditions often adversely affect the households in the local geographical boundary making traditional forms of risk coping mechanisms ineffective. Since such extreme weather conditions are likely to increase worldwide, therefore it becomes important to study the coping mechanisms of poor and low income households in depth. The paper mentions that "rainfall index insurance" is available at retail level in many parts of India. This insurance is one of the forms of "micro insurance" products which are gaining ground in developing countries such as India. **Bullens, Dam, & Kadijk, (2006)** in their papers on micro insurance focus on the aspects like recovery mechanisms of the poor Microfinance vs micro-insurance, relationship between development and micro insurance, the providers of micro insurance and the insurance industry, the dynamics and nitty-gritty of insurance, models of delivering micro insurance, restrictions under micro insurance, involvement of donor and private sector employment, role of private sector in micro insurance industry, challenges for micro insurance, integration of micro insurance with savings and credit. **Mosley (2009)** Insurance practically, is a basic thing that provides a shield against social and financial exclusion for people whose prevailing coping strategies are not bearing any fruit. And if the livelihoods of the people are protected, it should facilitate investment among lower-income groups and increase overall investment and growth rates. The paper examines how well the micro insurance sector has been successful in alleviating poverty. The paper has also provided proposals on how this process could be made better, wherever possible. **Deliya, Patel, & Parmar** brings to light the situation of a family falling below poverty line in case of an emergency. They quote that when a poor's bread winner dies, when a child belonging to a poor family is hospitalized, house of a low income family is destroyed by a natural or unnatural disaster, every illness every accident or every natural disaster leads to deeper poverty into the family. This is where micro insurance steps in. Micro-insurance needs an intermediary between the client and the insurance provider. Mostly, this intermediary is either a non-governmental organization (NGO) or a microfinance institution.For example a rural bank that can take care of the whole of the distribution and most of the administration process. The authors have classified micro insurance into eight broad categories, i) Life Insurance, ii) Health Insurance, iii) Property Insurance, iv) Disability Insurance, v) Crop Insurance, vi) Disaster Insurance, vii) Unemployment Insurance and, viii) Reinsurance. **Radermacher, Wig, Olga van Putten-Rademaker, & Dror, (2005)** wrote a case study on good and bad practices of micro insurance. It mentions that Dr. Devi Shetty's Narayana Hrudayalaya of Karnataka conducted a pilot study to shed more light on the health seeking and spending behaviour of the poor. It revealed the vicious circle of ill health and poverty, especially when serious treatments were needed. It found that the financial capabilities of mist farmers would be exhausted by the time the problem is actually diagnosed. Therefore, in view of this, Dr. Shetty developed the product and defined a gamut of surgeries which were to be covered under the scheme. To avoid price escalation, the prices for all surgeries were kept fixed.

Objective

The main objective of the study is to assess the performance of micro insurance over the last few years in context of India and to establish the contribution of private sector in micro-insurance in India over the last four years. Following parameters were considered for the conduct of the study.

1. Amount of new business in micro-insurance each year for last few financial years in individual category
2. Number of agents employed in micro-insurance each year for last few financial years
3. Trends in claim settlement amount, number of lives and policies there under in case of group and individual micro-insurance respectively for last few financial years

Data Collection

The data for the research has been extracted from annual

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

reports published by Insurance Regulatory and Development authority of India, starting from 2009-10 to 20012-13. The report does not involve any collection of data from primary sources and is strictly dependent upon the information obtained via secondary sources.

Analysis

New business under micro-insurance:

The overall performance of micro insurance industry in India (private and government) in case of generating new business each year from 2009-10 to 2012-13 has been increasing. Since the new business in individual category has grown. The number of lives covered in individual micro-insurance category has increased each year and in total the increase is 69 per cent from 2009-10 to 2012-13. The contribution to this increase is by the LIC. The role of private sector in insuring individuals under micro-insurance has been decreasing every year from 2009-10 to 2012-13. This trend has set off the increasing involvement of LIC in the growth of micro – insurance.

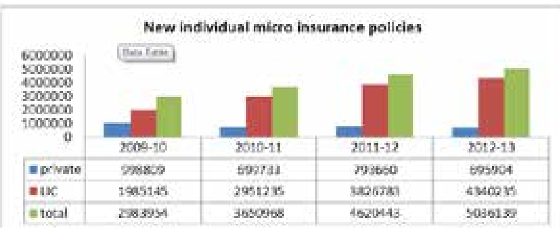

Figure 1: New individual micro-insurance policies

Premium Collection of Individual Micro –Insurance Policy: The total and average monetary premium collection of individual micro-insurance policies as declined approximately by 30 per cent from 2009-10 to 2012-13 though the Premiums collected by private insurers of individual micro-insurance policies have shown an increase. As the new business in individual category has grown but the total premium collection thereof has decreased, it indicates that the average premium per policy has declined. This means that the affordability of micro-insurance services has been worked upon and more lives are covered with lesser outflow of cash on the insured's part.

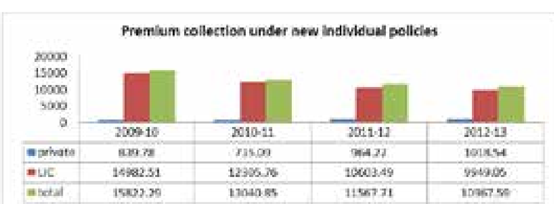

Figure 2: Premium collection under new individual policies

New Schemes under the Group Category & Lives covered under new schemes in group category: On new business under the group category of micro-insurance front, the overall industry performance has been majorly constant since 2009-10 to 2012-13 as far as the number of schemes/policies are concerned, but at the same time the lives covered under these group schemes each year have shown a decrease. The contribution of private sector is extremely low when contrasted against LIC, but the same has marginally increased from 2009-10 to 2012-13 This implies that every year the group schemes have shown a decline in the number of people being covered under the scheme, the net effect of which indicates a decelerated growth in the group micro-insurance category

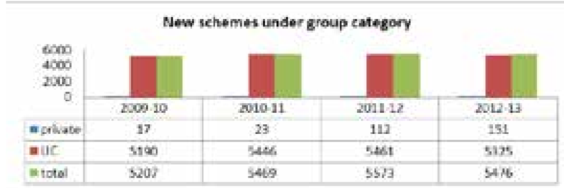

Figure 3: New schemes under group category

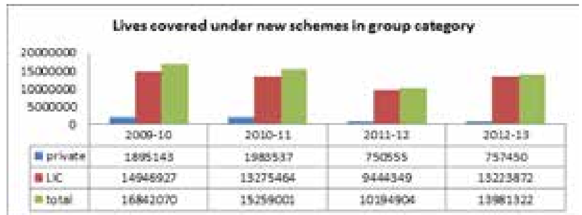

Figure 4: Lives covered under new schemes in group category

Employment of Micro-insurance agents: The number of agents employed under micro-insurance agencies has increased from 2009-10 to 2012-13. The employment of agents in private sector has also shown an increase from 2009-10 to 2012-13. The number of people finding employment as agents in the micro-insurance industry in India has shown an upward trend. This gauges the fact that the industry has adequate employment opportunities and is an attractive avenue for many for their livelihood.

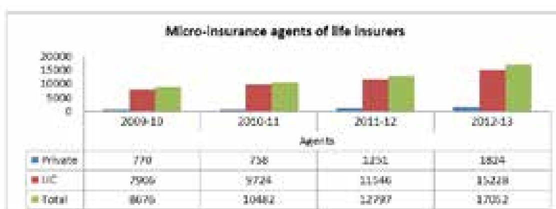

Figure 5: Micro-insurance agents of life insurers

Group Death claims: The stacked bar chart below shows the number of lives of group micro insurance schemes for which the claims have been either paid, or repudiated, or written back or were pending during a particular year from 2009-10 to 2012-13. The insured lives for which the claims have been paid have increased in percentage as well as in absolute terms up to 2011-12 post which the same has declined in 2012-13. The proportion of population for which the claims were repudiated has decreased over the years whereas the insured lives for which the claims lie pending is substantially high.

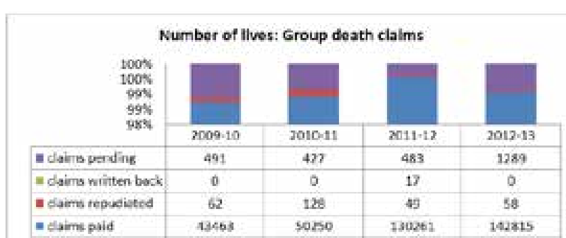

Figure 6: Number of lives covered in group death claims

Benefit amount in group death claims The stacked bar

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

chart below shows the benefit amount that has been discharged, repudiated, written back or left pending in a specific year from 2009-10 to 2012-13. The benefit amount of claims paid has risen in absolute terms as well as in percentage because of a corresponding increase in the lives covered under group death schemes from 2009-10 to 2011-12. But even after an increase in absolute terms in this figure from 2011-12 to 2012-13, the claims paid as a percentage of total claims due has declined in 2012-13. Also the percentage of claims that are pending has increased by more than double from 2011-12 to 2012-13.

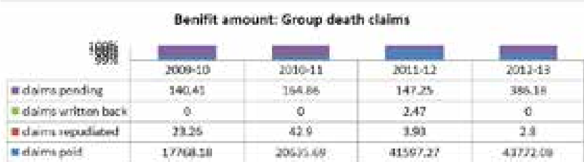

Figure 7: Benefit amount in group death claims

Number of Policies in Individual Death Claims & Benefits amounts in Individual Death Claims: The percentage of claims paid to individual policy holders of micro insurance has remained more or less constant with an increase in the absolute figures of the same. The percentage of claims repudiated has declined in 2012-13 which is a positive signal. On the other hand the percentage of claims that are pending in 2012-13 has also increased. The percentage of benefit amount paid to individual policy holders of micro insurance has remained more or less constant with an increase in the absolute figures of the same. The percentage of claims repudiated has declined in 2012-13 which is a positive signal. On the other hand the percentage of claims that are pending in 2012-13 has also increased.

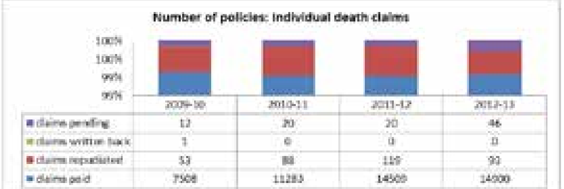

Figure 8: Number of policies in individual death claims

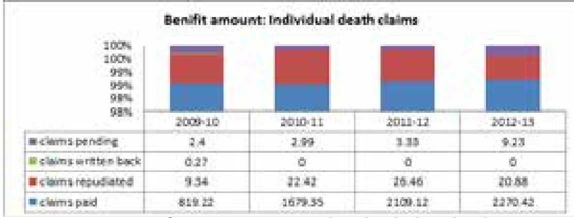

Figure 91: Benefit amount in individual death claims

CONCLUSION

The overall performance of micro insurance industry in India (private and government) in case of generating new business each year from 2009-10 to 2012-13 has been increasing. Contrary to the overall industry performance, the private sector shows a decline in the rate of growth of micro-insurance. From 2009-10 to 2012-13, the individual policies undertaken by private insurance agents/companies have decreased accompanied by a consistent rise in the total premium collection. This clearly indicates that micro-insurance services have become expensive over the past four years in the private sector and a prospective client would have to shell out more in case he opts for a private insurance policy. This is a negative trend because it defies the basic rationale of providing the facility of micro-insurance which rests solely on the paying capacity of people from the weaker sections of the society requiring financial security. Also, as compared to the government sector, the contribution of private micro-insurance agencies is extremely low in case of group insurances but the same has shown a marginal increase over the years as far as the number of schemes under such category is concerned. But this has a flipside. Even though the number of schemes advanced by private players has shown a marginal increase, yet the lives covered there under have declined. The growth in the micro-insurance industry is largely due to the initiatives taken at the public sector level. Even after a decelerated growth in the private sector, the industry as a whole is picking up which signifies that the advances in the public sector are setting off the negative trends in the private sector. The Government should take appropriate steps in encouraging the participation of the private sector in the growth of Micro insurance Industry in India. Creation of a more conducive environment for private sector firms to encourage them to enter into the micro-insurance business is necessary. Currently, the private agencies/organizations engaging in the business of micro-insurance are not given substantial aid and relaxations from the Government of India. Thus, to solve this problem, these companies may find it lucrative to enter the industry if given tax holidays, subsidies or other such benefits. A major reason why the concept of micro-insurance is still showing a sluggish growth is the lack of awareness on the part of the low-income population. Importance of insurance products should be highlighted more in the light of "saving schemes" rather than emphasizing upon undesirable uncertainties such as "death", "loss of house property", "natural calamity" etc. Incorporating financial literacy as a part of the basic curriculum of students in government and private schools and colleges shall go a long way in improving the future of micro-insurance industry as well as in decreasing the rich-poor gap in the country. Similar to the concept of Tax Deducted at Source (TDS), the employers of low income citizens should be advised to pay the latter post deduction of a small amount from their wage/salary towards micro-insurance. This shall help in reducing the psychological burden on low income people to pay for such insurance schemes from their take-home income.

REFERENCES

1. Bock, O. D., & Wouter, G. (2012). The Demand for Micr-Insurance: A Literature Review. *Micro Insurance Innovation Facility, International Labur Organisation* .
2. Bullens, A., Dam, A. H.-v., & Kadijk, S. (2006). Papers on Micro Insurance (Booklet). *Asian Knowledge Centre for Mutual Insurance* .
3. Deliya, M., Patel, D. K., & Parmar, B. (n.d.). Awareness of Micro Insurance Product in Patan District. *Abhinav, National Monthly Referred Journal of Research in Commerce and Management* .
4. Gine, X., Menand, L., Townsend, R., & Vickery, J. (2010). *Microinsurance: A Case Study of the Indian Rainfall Index Insurance.* The World Bank Development and Research Group.
5. Kline, K., & Sandhu, S. (2012). *Micro Finance in India: A New Regulatory Structure.* Centre for Micro Finance.
6. Legatum Ventures. (2011). *Micro Finance in India: A Crisis at the Bottom of the Pyramid.*
7. Mosley, P. (2009). Assessing the Success of Microinsurance Programmes in Meeting the Insurance Needs of the Poor. *DESA Working Papers* .
8. Radermacher, R., Wig, N., Olga van Putten-Rademaker, V. M., & Dror, D. (2005). Good and Bad Practices. *CGAP Working Group on Microinsurance* .
9. Singh, D. P. (2012). Social Entrepreneurship: A Growing Trend in the In-

Volume : 6 | Issue : 6 | June 2016 | ISSN - 2249-555X | IF : 3.919 | IC Value : 74.50

dian Economy. *International Journal for Innovations in Engineering and Technology* .

10. Singh, K., & Gangal, D. V. (2011). Microi Insurance: A Tool for Upliftment of Rural India. *Excel International Journal of Multidisciplinary Management Studies* .
11. Srirsm, M., & Upadhyayula, R. (2002). The Transformation of Microfinance in India Experiences, Options and Future.
12. *RDA Annual Report of 2009-10, 2010-11, 2011-12, 2012-13)*