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Economics

AN OVERVIEW OF MICROINSURANCE IN INDIA

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KEYWORDS :

1. BACKDROP

Microinsurance is different from other traditional products in the market in it being a targeted instrument for low income households. It intends to offer the poor protection against risks in return for payment of affordable premiums in ways that support small ticket size; coverage for the most vital risks; and a responsive and service oriented distribution infrastructure.

2. NEED FOR MICROINSURANCE

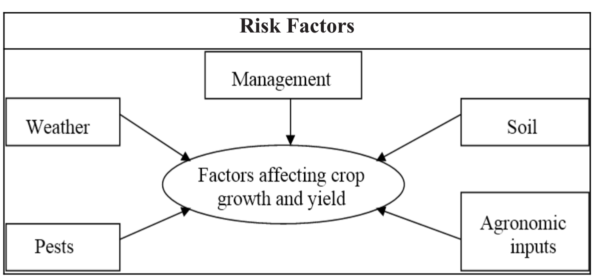
Poverty is not just a state of deprivation but has latent vulnerability. Low-income households are predisposed to cope with risk through their own means like savings, asset sales, reduced consumption, credit as well as other means and lack access to need based insurance services. Therefore poor people need financial tools to protect themselves and their families against different risks like death of the breadwinner, illness, injury, loss of property like natural disasters like droughts and floods. Financial Institutions have realized that the poor not only need loans but also a variety of financial services including insurance. The poor need to be seen as a market and the products devised after through analysis and deep understanding of risks, consumer needs and insurance buying preferences.

3. THE RELEVANCE OF INSURANCE TO THE AGRICULTURAL SECTOR

The major focus of insurance so far has been on the urban markets, primarily due to easy availability of interested intermediaries; sufficient margins of profits available to cover operating costs; and market and service the products.

Major Risks to which crops are exposed

- Untimely/Adverse climatic occurrences like drought, excessive wind, flood, untimely/inadequate/excessive rainfall, thunderstorm, hailstorm and cyclone;
- Cold/heat waves, frost and sudden variations in temperature;
- Different risks that a crop is exposed to at different sub crop stages during the period from sowing to harvesting;
- Pests;
- Plant diseases and weeds.



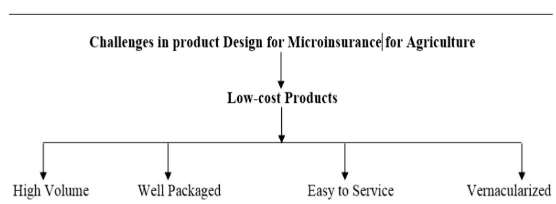
4. NEED FOR CROP INSURANCE AS A RISK MITIGATION TOOL

- Greater dependence of crop production on nature;
- Uncertainty of crop yields;
- Incapacity of farmers to bear disastrous losses;
- Loss of investment – failure to repay loans;
- Ineligibility to further credit – loss of occupation;
- Loss of purchase power – impoverishment leading to mounting debt – suicide;
- Spillover effects of crop failures on the economy like increase in inflation, increase in prices, etc.

5. EVOLUTION OF MICROINSURANCE IN INDIA

IRDA is probably the first regulatory authority in the world to issue the notification on microinsurance regulations and has opened a wide variety of options for the insurance sector whereby both the life and general insurance players can have mutual arrangements to market combination products for the target customers.

Product Designing Challenges



Main Features

- Insurance simplified by the regulator for ease of distribution.
- No licensing and less stringent training norms (only 25 hours) for microinsurance agents.
- Servicing of microinsurance products open to other existing intermediaries also.
- Single window policies and service possible as per the regulations and a non-life insurer can tie-up with a life insurer and vice-versa to offer composite insurance product (life and non-life) to the low-income people.
- The IRDA regulation allows the MFIs, NGOs and SHGs and these have the potential to become the best 'Rural Insurance Advisors' on account of their proximity and capacity to understand the needs and fears of the farmers.

The need for unique product design and distribution to diversity from standard insurance to microinsurance, to walk the extra mile and increase outreach in rural areas to the farmers. Microinsurance is not a specific product or product line and is also not limited to a specific insurance company. Microinsurance targets specific income segments, i.e., the low-income earning segment of the population.

6. DIFFERENCE BETWEEN STANDARD INSURANCE AND MICRO INSURANCE

A few differences between the standard insurance and microinsurance for agriculture may be seen as:

The comparison	
Standard Insurance	**Microinsurance for Agriculture**
• Targeted generally at the urban wealthy or middle-class clients.	• Targeted at low-income small and marginal farmers, some living along or even below poverty line.
• High level of awareness.	• Low levels of awareness.
• Markets are near, accessible and familiar	• Markets are distant and considered • Inaccessible due to vast geographical stretch and poor infrastructure and connectivity.
• Most consumers are aware of their specific insurance requirements and bundling not necessary.	• Not insurance/finance literate.
• Consumer awareness on insurance as a risk management tool is rising.	• Farmers see insurance as an avoidable means of additional expense with uncertain outcome.
• Ticket size of premium is high.	• Low ticket size.
• Agents and brokers are responsible for sales and services. Direct sales are also common, intermediaries find the covers lucrative and attractive.	• New intermediaries are required to manage the entire customer relationship, including premium collection. Microinsurance is most economical when directly sold to groups. Due to inherent seasonal nature, not perceived attractive/regular source of income by intermediaries.
• Globalized.	• Localized consumers need

7. ROLE OF MICROINSURANCE CATER TO THE NEEDS OF THE FARMERS

Agriculture insurance risk is well-known as a possible systemic, non-diversifiable stemming from say natural disasters affecting a large number of farms over a whole region. Therefore, the insurance companies told to view the crop insurance contracts to be many times more risky than an equally valued portfolio of fire and engineering/automobile insurance contracts.

Due to frequency and severity of agricultural losses, the premiums are generally high, even when subsidized. Hence, consumers are reluctant to take insurance.

The challenge is to envision the task of financing and covering the poor as not only a fulfillment of social sector obligations but a great business opportunity as well. Well-known studies have been done on doing business successfully with the layer at the bottom of the pyramid.

In insurance, we can begin with certain well-known factors;

- In India, everyone is connected through some cooperative, commercial, social or religious association/structure.
- There are well-functioning agencies/intermediaries in every village.
- The political system at the local level allows for social initiatives.

Using such platforms allows for mass/wholesale selling, with the assistance of the financial and governmental infrastructure.

Beginning with groups or the opinion leaders in villages for efficiencies and access and then increasing penetration levels to individual units is required so that even if the profit per individual/family for the underwriter and the intermediary is miniscule, it becomes substantial when applied to large groups and the law of large numbers come into play. Some more measures that can be adopted to make it easier for the masses would be:

- Simplifying underwriting and claim settlement procedures, introducing easy to understand and easy to market and service new integrated microinsurance products (with both life and non-life component).
- Making premium payment plans flexible (installment facility) and simplifying premium collection.
- Designing long-term policies where necessary, to coincide with the loaning period/other requirements of farmers: Microinsurance may prove to be most effective if it complements microfinance and the insurance period may be made to coincide with the loaning period for convenience.

8. CONCLUSION

It is the time to redesign the microfinance practices in India, so that they may be aligned with the Microinsurance Regulations and allow the poor class to access all financial services. All financial services need to be taken to the grass root level with an ever-improving framework so that we can indeed move towards a hunger-free, food surplus nation with prosperous farmers. Insurers and intermediaries need to get together to ensure the following:

- Simplification of products and bundling where required to make them easy to understand, easy to use, sell and service.
- Simplifying and making premium payment plans flexible to suit farmer needs.
- Focus on volumes by targeting large groups.
- Integrating microfinance activities with micro insurance for a most beneficial outcome.
- Claim settlement to be timely, simple and transparent.
- Maximizing the benefit of connectivity revolution in rural India to reach the unserved markets.

Using additional innovative distribution channels to achieve cost-efficiency in agricultural markets:

- Agri-preneurs, fertilizer/seed/pesticide distributor companies.
- Social/charitable Institutions, local governments, gram panchayats.
- Internet Kiosks/village level connectivity and end-to-end solution providers like the leaders in this field the ITC e-choupal, and others like DCM Kisan Bazaars, Kisan Khushali Bazaars, Reliance Retail, etc.

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