

## Micro-Insurance: A Study of Ahmedabad District



### Management

**KEYWORDS:** Micro Insurance, Awareness, Insurance Companies, Safety Net

**Dr. Sneha Shukla**

Associate Professor N. R. Institute of Business Management GLS Campus, Ellisbridge, Ahmedabad.

### ABSTRACT

*The liberalization of economy has strengthened the argument "to strengthen the people at micro level i.e. at the grass root level of the society," the people below poverty line. Action plans are made to strengthen the un-privileged section of society by providing micro-Insurance to the people living therein. Today, more than 260 million low-income citizens in developing countries are covered by an insurance policy. Nonetheless, many people are still without cover. With the global middle class expected to grow to nearly five billion within two decades, there are billions of people who are without a safety net and at risk of falling (back) into poverty. This paper is an attempt to find out the awareness about micro insurance as a concept and its products as well. The author has meticulously tried to map out the impact of various demographic characteristics on the decision to buy micro insurance.*

### Introduction

Micro insurance is a mechanism to protect low-income households against risks, such as [illness](#), [a death in the family](#), or [crop failure](#). The costs and benefits of this kind of insurance are specifically adapted to suit the needs and incomes of low-income households. Micro insurance is particularly important for those in the informal economy who tend to be underserved by mainstream commercial and social insurance schemes.

Micro insurance provides a critical safety net, preventing households from falling into poverty by avoiding the damaging costs of emergencies. It helps low-income people avoiding difficult, often devastating risk coping measures such as putting children to work, eating less food, or selling productive assets. Moreover, it also has the potential to improve their living and working conditions. In the last few years, experiences with micro insurance schemes, ranging from agricultural via health to life insurance products, have multiplied. Some of the global commercial insurers, as well as micro insurance experts and development agencies, have entered this market.

The micro insurance sector has experienced persistent growth in client outreach and premium volumes over the past ten years. Today, more than 260 million low-income citizens in developing countries are covered by an insurance policy. Nonetheless, many people are still without cover. With the global middle class expected to grow to nearly five billion within two decades, there are billions of people who are without a safety net and at risk of falling (back) into poverty. (Munich Re Foundation)

### Development of Micro-Insurance in India

NGO's and trust hospitals were the early entrants with a few Micro - Insurance schemes. These schemes have now gathered momentum mainly due to regulation made by IRDA in 2005 for all insurance companies to mandatory extend their activities to rural as well as social sector in the country. Consequently, the micro-Insurance Industry in India growing rapidly.

### Growth Trends in the World

Micro insurance has grown and evolved dramatically in recent years, with many encouraging results:

- **Growth:** Today micro insurance covers half a billion risks, up from 135 million in 2009, largely due to collaboration with national governments, but also because of more active interest by commercial insurers.
- **New delivery channels:** Growth is partly attributed to the emergence of alternative delivery channels – including retailers, utility and cell phone companies, cooperatives, and labour unions – which provide new access points to reach the low-income market.
- **Demonstrated business case:** Micro insurance can be profit-

able under certain circumstances. Group insurance schemes are generally viable, as are products that are bundled with other services (e.g. loans, mobile phone minutes or fertilizer). It is more difficult to generate a profit from health and agricultural micro insurance products, but public-private partnerships are increasingly finding viable ways to offer such protection.

- **Impact:** Researches have demonstrated a positive impact of insurance on the lives of the poor and, more broadly, on in their communities. For instance, health insurance can reduce out-of-pocket expenditure and increase use of health services. Property insurance, on the other hand, allows entrepreneurs to take more risk and invest more in their businesses. Furthermore, various studies demonstrate a causal link between the development of the insurance industry and national economic development by putting a price on risk and supporting entrepreneurship. Indeed, it is not possible to have meaningful social and economic development without insurance.

### Review of Literature

India's Macro Economy & Sectoral Outlook, Dun & Bradstreet (2014) Report states that rural areas have lot of scope for inclusive growth. The large section of un-insured rural population poses tremendous growth opportunities for the micro-insurance sector. Several policy initiatives have been undertaken to promote financial inclusion such as insurance companies being statutorily required to conduct rural business and cover lives from social sector -rural, un-organized and socially underprivileged from first year of operation. The Union Budget FY14 also permits insurance companies to open branches in Tier-II cities and below without prior approval of IRDA. The budget has also proposed for public insurance companies to have offices in all towns of India with a population of 10,000 or more. Further, as of Mar-13, 72% of the total 10,253 branches of insurance companies have been set up in semi-urban and rural areas. Insurers are keen to use the well diversified and huge reach of bank branches in rural and semi urban areas to increase penetration. IRDA has new guidelines permitting insurers to utilize licensed Common Service Centres (CSCs) as distribution networks in rural areas. Insurers utilize CSCs to expand reach 0.1 million CSCs each serving a cluster of 6-7 villages, covering ~0.65 million villages across India. The government is also encouraging business correspondents of banks to sell micro insurance policies in rural areas. Micro insurance refers to insurance products designed for low-income people characterized by low premium and margin for which insurers have been making efforts to increase awareness.

Ratna Kishore (2013) in his article "Micro Insurance in India – Protecting the Poor" has pointed out that the market for mi-

cro-insurance in India is enormous and remains untapped. The potential market size for micro insurance in India is estimated to be between Rs.62, 000 and Rs.84,000 million. He has given a micro insurance business model for the existing insurers. He explains micro insurance as social security cover for the poor and brought out the problems and challenges in micro insurance.

Sushil Kumar, Niray Mishra and Seema Varshney (2012) in their article "Globalization and Growth of Indian Life Insurance Industry" highlights the post globalization period of the Indian life insurance industry. And concluded that the objectives of globalizing this industry is being fulfilled in terms of safety to rural and urban population, encouraging savings and utilizing the funds in creating long term funds for infrastructure developments.

Malick, Selvam and Nazar Abdul (2011) highlighted the robust growth potential in the Indian life insurance industry, the role played and customer's awareness on the private life insurance players in Vellore district.

Shweta Mathur (2010) in their article "Micro Insurance - A Powerful Tool to Empower Poor" describes the development of micro insurance in India and the challenges faced by the companies offering micro insurance products. They opined that policy induced and institutional innovations are promoting insurance among the low income people who form a sizeable sector of the population and who are mostly without any social security cover. Although the current reach of micro insurance is limited, the early trend in this respect suggests that the insurance companies both public and private, operating with commercial consideration can insure a significant percentage of the poor.

#### Need for the Study

With a huge population and large untapped market, insurance happens to be a big opportunity in India. Life insurance penetration in India - which was less than 1 per cent till 1990-91 - increased to 2.53 per cent in 2005, and to 3 per cent in 2006-07. According to international consultancy firm Clint, the rural life insurance market will grow to a potential of US\$ 1.9 billion by 2015 from the current US\$ 487 million. This validates the fact that India's untapped rural market holds tremendous growth opportunities for life insurance companies. It is expected to have business worth US\$ 231.67 million for insurance firms.

In this context there is need to explore more about awareness of micro insurance as a concept & different micro-insurance products, as well as acceptability and preferences of the customers.

#### Objectives of the Study

-  To assess the level of awareness about micro insurance among the rural customers.
-  To understand the factors in favour as well against success of micro insurance products.
-  To assess the impact of various demographic characteristics on the consumer's decision to buy micro insurance products.
-  To determine the preference for different types of policies by the rural customers.

#### Research Methodology

##### Population

All customers residing in the selected villages of Ahmedabad District were taken as the population for the study.

##### Sample Units

Individual Rural Customers.

##### Sampling Method

Convenience Sampling

#### Sample Size

The study was conducted in 3 villages of Ahmedabad District as per below:

Ahmedabad District: Sanand, Daskroi, Jambuthal

District	Insured	Uninsured	Total
Ahmedabad	69	101	170

(In consultation with insurance companies, it has been found that normally the ratio of insured to un-insured is 3:5. This is the basis of the above number of sample of users & non-users used for study)

#### Findings

**Table 1 depicts the demographic profile of the respondents.**

**Table 1: Profile of the Respondents**

Particulars	Categories	Uninsured		Insured	
		Frequency	%	Frequency	%
Age	< 20	7	7	6	9
	20-40	49	49	30	43
	40-60	39	39	33	48
	>60	6	5	0	0
Gender	Male	49	49	41	59
	Female	52	51	28	41
Qualification	Uneducated	17	17	17	25
	Primary	40	40	32	46
	Secondary	29	29	14	20
	Other	15	14	6	9
Type of Employment	Unemployed	6	5	3	4
	Permanent Service	27	27	20	30
	Temporary service	16	16	12	17
	Vocational	22	22	20	29
	Business	30	30	14	20
Presence of Other Income Source	Yes	49	49	26	38
	No	52	51	43	62
Period of Employment	< 6 Months	3	3	3	5
	6 Months - 1 Year	1	1	4	6
	1 Year - 3 Years	13	13	9	13
	3 Years - 5 Years	15	15	5	7
	> 5 Years	63	62	45	65
	Unemployed	6	6	3	4
Marital Status	Single	27	27	13	19
	Married	62	61	50	72
	Divorced/Widow	12	12	6	9
No. of earning members	1	39	39	26	38
	2	35	34	20	29
	3	18	18	19	28
	> 3	9	9	4	5
Availability of ID Proof	Yes	85	84	67	97
	No	16	16	2	3

#### Findings

- A major finding was that just 35% respondents of those who were uninsured, knew about micro insurance. Thus the level of awareness among the target group is appallingly low.
- Among the insured, it has been found that while 57% of the respondents were male, the rest were female leading to the inference that the male members, being the bread earners in most of the families, were the decision makers. 45% of male respondents were insured while only 35% of female respondents were insured. Also it was seen that, 70% females themselves preferred to insure their spouse before taking insurance for self major reason for which was observed that it is the male member who manages the economic affairs of the household and hence insuring them was considered more important. However, as studied from the attitude of the insured and based on our interaction with the NGO's, it was

easier to convince the female gender regarding the importance of micro insurance by explaining what could be the possible repercussions if the main bread earner of the family is not insured.

- Contrasting attitudes were observed among the insured and the uninsured regarding the same subjects. The 35% of insureds who were in their early twenties were of the opinion that taking insurance early in their life, even if the amount is small would lead to a regular saving habit and a better return on maturity. While those in their early twenties and were uninsured were of the opinion that since they had not settled in their jobs, they had not thought of any formal security option like insurance. Similarly, while the insured thought of marriage as increased responsibility and hence a reason for taking additional insurance, the uninsured saw marriage as increase in their expenses, thereby leaving no or minimal savings for taking insurance.
- Similarly in case of educational background, uneducated (38%) and those with primary education (43%), on one hand were easy to convince regarding the importance of micro insurance while on the other hand, some of the same category of respondents (not making any sense) were sceptic regarding the benefits offered by Micro-Insurance as profit making proposition. They were also rigid in their attitudes for not buying insurance.
- The 46% respondents who took insurance and were the only members earning in their households were of the opinion that any mishap to him would create financial havoc in the lives of his family members and hence a small premium for life cover is an important expense. On the other hand, respondents who were the only earning members in their families and took no insurance offered the reason that one earner and many dependents does not leave enough savings to opt for insurance. What they failed to see is the reason that insurance, in cases of life cover, is not a saving but an important expenditure that should be incurred for future security of the family members.
- Non-availability of identity proof was claimed by some private companies as one of the reason for low penetration of micro insurance. However this view is refuted with 91% of the uninsured having ID proof. Besides, even for those who do not have ID, micro insurance could still be obtained from LIC by giving a self-attested statement or through NGO's like SEWA which just ask for a membership card.
- With respect to the employment type, it has been found that those with irregular income stream chose Micro-Insurance mainly because of the low premium amount and flexibility in payment option. Those who could afford endowment policies had opted for them while the others had taken term insurance. Among the respondents who were uninsured, those with irregular income stream were more interested in micro insurance. The major reason for their not opting for micro insurance was their lack of awareness. They had an idea about insurance but not about micro insurance, which majority of them, felt was in line with their financial capacity and hence were willing to buy. Those who had permanent service or fixed income were less inclined to purchase micro insurance since they felt that bank or post office were better options for saving.
- It has been observed that majority of the uninsured wanted a money back policy. They were willing to shell out a higher premium provided that they obtained some return at the end of the term. Some of the respondents who were not aware about micro insurance also accepted the idea of security cum savings when at the end of the term period, the premium paid was returned.
- Since micro insurance is for low income group, payment premium interval preferred by the insured (88%) as well as those uninsured (42%) were either six monthly or yearly so that it gives a cushion in payment for their irregular income.

In the survey of uninsured, it has been seen that those with a monthly income interval preferred to pay premium monthly. However, through the interaction with the insured, it has been found that among them those who had opted for monthly payment or quarterly payment depending on their income interval later wanted to shift to six monthly or yearly premium options due to problems of saving.

- With regard to the place for paying premium, door step being the most convenient option, was opted by 44% of the insured and 42% of the uninsured. However, the rest of them chose the other options for paying premium. Due to cases of cheating and fraud, some of the insured and uninsured opted for bank or post office as their option for paying premium. The respondents who chose the option of paying to the agent directly, wanted to keep track of the payment given and the receipt.
- It has been observed that 85% of the insured did not face any post purchase problems and when asked if they would want to change any of the premium payment options, with respect to duration or collection agents, majority of them did not want to make any changes. However just 57% of the insured said that they referred purchasing micro insurance to others. Thus, what is inferred is that absence of problems on the part of insured does not mean complete satisfaction. Post-purchase follow up and reinforcement after sales is needed to make them realize that they have made a correct and an important decision and hence they should also promote this among their friends, family and neighbourhood. This message should also be conveyed with an appreciation that it will indirectly help in promoting the wellbeing of their near and dear ones.
- While 28% respondents had other income sources among the uninsured, the figure was 48% in case of the insured. It might be seen that presence of other income sources definitely contributes favourably towards insurance purchase decisions. But what is also to be noted is that, from the interaction with the insured is that, even those who did not have other income sources but understood the importance of insurance somehow manage to set aside the premium amount. While on the other hand, some of the uninsured who had other income sources were reluctant regarding insurance purchase due to other concerns such as profitability in the investment or fear of getting cheated or attaching less priority to insurance expense. Thus, attitude of the clients plays the most important role in deciding insurance purchase while factors such as presence of other income sources do not play a major role, even though it might be considered during policy purchase.

Relationship between Variables	Insured		Uninsured	
	Correlation Co-efficient	Interpretation	Correlation Co-efficient	Interpretation
Education & Awareness about micro insurance benefits	-0.06	Negatively Correlated	0.018	Positively Correlated
More than one source of income & Preferred amount of insurance	-0.06	Negatively Correlated	0.17	Positively Correlated
More than one source of income & Willing to buy insurance in future	0.18	Positively Correlated	0.18	Positively Correlated

No. of earning members & No. of family members insured	0.22	Posi-tively Correlated	-	-
No. of earning members & Amount of insurance	-0.43	Nega-tively Correlated	-	-

### Correlation Analysis

#### Conclusion

The research identifies a major problem of low penetration of micro insurance products. The main reason identified for the same is that there is lack of awareness that prevails about the micro insurance products. Due to cannibalization of micro insurance products, the sector has not been able to function up to its mark. As majority of the insurance companies look up to micro insurance more as a regulatory obligation rather than an opportunity, there is a clear understanding that the sector has underperformed. There are number of instances where there are low income people willing to purchase micro insurance products, but the same are inaccessible to them due to supply related concerns.

The Non-Government Organizations have been actively participating in the development of micro insurance and they are also trying to integrate the financial inclusion part and the micro insurance. Despite their best efforts, the size of the population positively affected by such efforts is very miniscule. Similarly there is absence of strong support from the Government's side. The efforts of the NGO and similar other organizations are not enough to improve the overall scenario. Hence there has to be more concentrated efforts on part of the State and Central Government to promote and penetrate the micro insurance into the State of Gujarat. Proper implementation through concentrated efforts in this direction will improve the scenario significantly.

Also there is a strong need on the part of the insurers, to create awareness about the insurance products which have remained on the side lines over all those years. The insurance products are not only an investment option but also a risk management technique which can lead to a much better financial position of the insured. As the people with low income, particularly those of rural markets demand specialized products, the Insurance providers must remain prepared to that extent, so as to satisfy the differentiated need of the people of low income group. They must provide tailor made solutions in order to significantly gain the markets. Catering to some of the common requirements of the insured people like endowment benefits, faster processing of claims, convenient premium payment options is the need of the hour for the insurance companies.

However, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the regulator as well as the government. IRDA has already come up with the concept note on micro-insurance, which suggests the regulator's bias towards insurer-agent model. Even so, two areas in which having explicit provisions would aid the development of micro-insurance are: one, flexibility in premium collection, and two, encouraging micro-insurance among micro-finance institutions (MFIs).

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