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"Protecting the Poor": Micro Insurance as a Panacea

Opportunities lie in the bottom of pyramid -C.K.Prahalad

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ABSTRACT

Everyday millions of poor communities across the world make difficult decisions when it comes to healthcare. Forgoing immediate medical treatment can result in longer and more disruptive illnesses in the future. At the same time, expenses associated with drugs and frequent hospital visits can quickly add up placing a household in almost perpetual debt. Worse still, a sudden illness can cause a household to permanently lose its most productive member, depleting years of savings overnight. Protecting the poor against these health-related uncertainties is a priority in the fight against poverty. Micro insurance is a risk transfer device characterized by low premiums and low coverage limits, and designed for low-income people not served by typical social or commercial insurance schemes.Hence this paper explores the opporunites, delivery mode, marketing and chasing the challenges of micro insurance.

Keywords : Micro insurance, Panacea, SHG, MFI

1. Introduction

What happens when a poor family's breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That's where "microinsurance" comes in. Microinsurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Two-thirds of human beings suffering in the most extreme poverty are women. Often living within $1 per day, they are the most vulnerable. But will microinsurance actually help those living in poverty by contributing to sustainable livelihoods? We believe it can, and we decided to test the hypothesis in the real world. UNDP approached Allianz AG about working together on a market potential study to analyze the demand, acceptability and affordability of microinsurance products. They immediately saw the value of working in this under-explored area. This public private partnership acquired greater strength when GTZ, with considerable experience in the area of social protection and microinsurance, joined the alliance.

The partners agreed to analyze demand for microinsurance products in India, Indonesia and Lao People's Democratic Republic (PDR) and jointly selected a team of consultants to prepare country studies. The studies clearly indicate that access to microinsurance by the poor and disadvantaged population can contribute significantly to the achievement of the Millennium Development Goals, particularly the goals of eradicating extreme poverty and hunger (MDG 1), promoting gender equality and empowering women (MDG 3) and developing a global partnership for development (MDG 8).Micro insurance is insurance with low premiums and low caps / coverage. Here "micro" refers to the small financial transaction that each insurance policy generates. Micro insurance is a financial arrangement to protect low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Micro insurance is synonymous to community-based financing arrangements including community health funds, mutual health organizations, rural health insurance, revolving drugs funds, and community involvement in user-fee management. Most community financing schemes have evolved in the context of severe economic constraints, political instability, and lack of good governance. The common feature within all, is the active involvement of the community in revenue collection, pooling, resource allocation and, frequently, service provision.

2. Objectives

- To explore the opportunities of Micro Insurance to the poor in rural.
- To decide about the delivery mode through which it will reach the rural poor.
- To devise a technique to chase the challenges of Micro Insurance.

3. Growth of insurance industry

Insurance provides the much needed cover against the unexpected loss events and ensures the households financial security. The provision of insurance cover will encourage the poor to undertake a higher risk, which will result in higher income. Well developed insurance sector is needed for a fast economic development of a country as it provides the long term funds for infrastructure development and strengthen the risk taking ability of the people. The life insurance sector has contributed Rs4284520 millions as invested funds as at the end of Mar 2005, whereas the non-life sector's total investments stood at Rs374119.70 millions as of Mar 2005. These funds have been invested in government securities, market securities and in social and infrastructure sectors benefiting the nation. Thus, Insurance assumes significance by not only reducing the vulnerability of the poor, but also in enabling a faster recovery from the loss event and helping the nation in development of the infrastructure sector.

As per the Sigma Report (2/2005) of Swiss Re, the World Insurance premium rose to 3244 billion US Dollars in 2004 and India's share in the world Insurance market accounted for only 0.66% (19th rank) with total premium volume of 21249 million US Dollars. Insurance penetration is an indication for the level of risk awareness by public and it shows how significant the insurance is with in an economy. It is defined as Gross Insurance premium as a percentage of GDP (Gross Domestic Product). India's Insurance penetration is 3.17% of

GDP in 2004, which is less than half of the world's average of 7.99%.

Insurance Density or Density of premium is used to judge the relative progress of the industry across countries and it is a sign of the maturity of the industry in a country. It is measured as Per capita Insurance premium. Higher the insurance density, more diverse will be the insurance products accessed. India's Insurance Density is just 19.7 US dollars, less than the world average of 511.5 US dollars. Among the top ten emerging markets, India attained the 5th rank with 16919 million US dollars as life insurance premium in 2004 (7.5% share of emerging markets) and 4330 million US dollars as non life premium in 2004 (3.0% share of emerging markets).In India, only 10% of people have some kind of social protection. Table: 1 shows the exclusion magnitude of selected countries.

TABLE -1
Exclusion Magnitude

Countries	% of Exclusion	Excluded people in Millions
India	90	950
Bangladesh	93	134
Pakistan	97	147

India, with its huge economy and large population, is the most promising emerging market in the world. In 1956, Government of India merged 240 private insurance companies to form the government owned Life Insurance Corporation of India (LIC). General Insurance business was also nationalized in 1972. In the post nationalization phase, the general insurance business was undertaken by the General Insurance Corporation (GIC) and its four subsidiaries viz. United India Insurance Company limited, Oriental Insurance Company limited, National Insurance Company limited and New India Assurance Company limited. Passing of IRDA (Insurance Regulatory and Development Authority) 1999 bill was a milestone. In 2000, the IRDA opened up the Insurance industry, which attracted many players into the field. The Insurance Division in the Department of Economic Affairs, Ministry of Finance, Government of India, makes appointment of Chief executives to the Nationalized Insurance companies and appointment of members of IRDA and exercises control for over all policy formulations. The foreign companies were allowed to enter the insurance sector through joint venture with the Indian companies and the foreign companies' equity stake restricted to 26% cap. This has set in a healthy competition leading to roll out of a series of customer focused products. As of now, there are 14 life insurers (out of this 1 public sector insurer), 14 non life insurers (out of this 6 public sector insurers) and one re-insurer (1 public sector re-insurer). The premium underwritten by the insurance industry has grown from Rs456775.70 millions in 2000-01 to Rs836451.10 millions in 2003-04. According to a ILO (2005) study, the expected market size of the life insurance industry by 2008 is Rs800 to 1000 billion and the expected market size of non-life industry by 2008 is Rs250 billion.

4. Micro Insurance at a glance

Micro-insurance is a term increasingly used to refer to insurance characterized by low premium and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing arrangements, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes.

Micro insurance is a form of health, life or property insurance, which offers limited protection at a low contribution (hence "micro"). It is aimed at poor sections of the population and designed to help them cover themselves collectively against risks (hence "insurance"). Normally, microinsurance schemes are linked to associations, whose main area of work puts them in direct contact with the target groups. They may, but must not necessarily, act as the insurance provider. In many cases, they have transferred the risks of the insurance business to a professional insurer.

Micro insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use micro insurance, where it is available, as one of several tools specifically designed for this market in terms of premiums, terms, coverage, and delivery to manage their risks. Designing micro insurance policies requires intensive work and is not simply a question of reducing the price of existing insurance policies.

5. Micro Insurance in India

Earlier, in India, the Micro insurance initiative was on a bank-driven basis. The assets (mainly dairy animals, sheep and goat) created under the poverty alleviation programs by the banks were insured and the lives of the beneficiaries were covered by Government of India under a group insurance policy. As most of the non life insurance companies had master policy with the banks at the apex level, the claim servicing was not given attention in the field, which resulted in inordinate delay in settlement of claims and a negative image was created about the insurance companies among the poor.

5.1 Rural & Social Sector Obligations: In 2002, IRDA prescribed rural and social sector obligations for the insurance companies to achieve a bench mark in the insurance sector. Every insurer who begins to carry on insurance business after the commencement of IRDA act 1999 shall comply with the following obligations.

Rural sector:

i. In respect of a Life insurer:

Financial years:	I	II	III	IV	V
% of policies Written in the year	7%	9%	12%	14%	16%

ii. In respect of a Non life insurer:

Financial years:	I	II	III
% of total premium Written in the year	2%	3%	5%

Social sector:

For Both life and non-life insurers:

Financial years:	I	II	III	IV	V
No. of lives insured In the year	5000	7500	10000	15000	20000

For existing insurers as on the date of commencement of IRDA act, the quantum of insurance business to be done shall not be less than what has been recorded by them for the accounting year ended 31st Mar 2002. IRDA has modified the rural area definition later upon request from the insurers. The latest definition of rural area is the area not qualified as urban area with municipality or corporation or cantonment board or notified town area.

IRDA brought out the micro insurance regulations in Nov 2005. The days ahead are going to be hectic for the insurers, as lots of micro insurance products launches are expected. The international organizations like UNDP, ILO, World Bank, DFID, USAID and GTZ have been instrumental in initiating and supporting the various models of micro insurance programs in India through grants and technical assistance.

5.2 Micro-insurance products: Micro-insurance, 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). A wide variety of micro-insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc.

6. Micro-insurance delivery models

One of the greatest challenges for micro-insurance is the

actual delivery to clients. Methods and models for doing so vary depending on the organization, institution, and provider involved. In general, there are four main methods for offering micro-insurance. The partner-agent model, the provider-driven model, the full-service model, and the community-based model. Each of these models has their own advantages and disadvantages.

6.1 Partner agent model: A partnership is formed between the micro-insurance scheme and an agent (insurance company, microfinance institution, donor, etc.), and in some cases a third-party healthcare provider. The micro-insurance scheme is responsible for the delivery and marketing of products to the clients, while the agent retains all responsibility for design and development. In this model, micro-insurance schemes benefit from limited risk, but are also disadvantaged in their limited control.

6.2 Full service model: The micro-insurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering micro-insurance schemes full control, yet the disadvantage of higher risks.

6.3 Provider-driven model: The healthcare provider is the micro-insurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage once more in the amount of control retained, yet disadvantage in the limitations on products and services.

6.4 Community-based/mutual model: The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

7. Marketing of Micro Insurance

Marketing of micro insurance bears some similarity to marketing in the mainstream insurance industry, in that it has to be sold to customers. Microinsurance policies have to be sold to poor people, as they are sold to people of other income brackets. What appears to work best is the face-to-face and house-to-house selling of microinsurance. It is also the most expensive marketing method, pushing up transactional costs considerably. Other ways of marketing microinsurance that we have used are:

- small and large meetings (sammelans)—these need to be held repeatedly
- gram sabhas or village-wide meetings
- linking with SHGs—livelihood-based groups, savings and credit groups and others to get a “chunk of insured” on the one hand, and lowering transactional costs on the other
- developing special premium payment plans—monthly savings towards annual premium, one-time lump-sum payment which is put in fixed deposit (and the interest accrued is used to pay the annual premium), loans for fixed deposit-linked insurance
- linking with loanees of SEWA Bank
- linking with individual depositors of SEWA Bank and taking premium directly from their savings accounts with their consent
- linking with NGOs in other states
- linking with specific groups of workers—like members of a cooperative

8. Chasing the challenges of micro insurance

8.1 Product: Even though the pamphlets / rural insurance booklets of public sector insurers mention the existence of many rural / micro insurance products covering livestock, crops, business assets, accident and health risks, these are not actively marketed by those companies nor demanded by the clients in the market. Only a few products like Cattle insurance and accident insurance covers are visible. One of the existing weaknesses is due to the standard products (e.g. Universal Health Insurance being marketed by all the public insurers consequent to the policy announcement by the Government of India in the Union Budget) offered by the commercial insurers. But, in rural India, diversity is the hall mark, which requires the customization of the products for each segment / region. For serving the rural market, the first and foremost step by the insurers is to focus on new product development so as to cater to the felt needs of the poor, which is lacking now.

8.2 Processes: Processes are more important as simplified and transparent processes will lead to cost reduction and more satisfaction to the clients. The product sales & servicing by the insurers will also be easy. Sometimes, these processes involve cost to the client much more than the insurance benefit amount e.g. getting the certificates like Police Inquest Report for accidental deaths. As the current processes in micro insurance are cumbersome, it leads to delay in servicing and client dissatisfaction.

8.3 Pricing: Pricing is a critical issue, which has to be arrived at carefully. Even Roth.J and Ramm.G (2005) in their study on “ Micro Insurance – Demand & Market prospects – India , observed that many of the life policies are being sold in India, at a loss to meet quota obligations. This is not a good strategy as it can not be continued for a long period. Likewise, subsidizing the premium will also not help in developing the MI market.

8.4 Distribution: In case of the micro insurance products, the cost of distribution in rural areas is more as the insurance companies do not have any of their branches in rural areas, but have to operate through some intermediaries. The distribution channel development has not taken place in the rural areas.

8.5 Promotion: At present the promotional efforts of the many of the insurers targeting the bottom of the pyramid market is almost negligible. Even the micro insurance pamphlets of most of the insurers are in English and not in local languages. Mass media like TV, radio and paper media have not been put to optimum use for creation of the awareness about the micro insurance among the target group in the rural areas.

8.6 Human Resources / Capacity Building: As the concept of insurance itself has many technicalities, provision of micro insurance services to poor requires some management capacity at the NGO / MFI level, which is lacking. The organizations which are having professionals as operational heads at the field units and proper operational systems & procedures are very few and these only are trusted more by the insurance companies as the first choice, which is evident from their delegation of more of their front end functions to the NGOs. Besides NGO staff, the prospective clients of the target market are also not aware of the insurance concept and insurance product options. Insurers also, have not acquainted themselves with the intricacies of the needs & expectations of the rural clients and lack an understanding of the perspectives of the target market environment.

8.7 Management Information System: Management Information System (MIS) is a weak area in the field of Micro Insurance as on date. Even Micro Insurance product-wise performance of all insurance companies is not published regularly in any journal, which will facilitate the comparison of products in the market. As the historical data has not been captured from the micro insurance clients, the insurers are generally not able to price their MI products on a real actuarial basis. Professional NGOs like BASIX has developed IDIAS (Insurance Distribution and Administration System) software. But, many of the small & medium NGOs are not using any software at present and maintaining the data on MI manually, which is a cumbersome work and effective data-mining analysis is not possible from such non-formatted data.

8.8 Regulatory Framework: After wider consultations, IRDA notified the MI regulations in Nov 2005. Even then, IRDA has not addressed some main issues in their new regulations. In the new MI regulations of IRDA, SHG has not been recognized as an entity to take insurance cover in its name. MI regulations have not given space for the community managed insurance programs, which are making actual product and process innovations in the field. File and use system of getting prior approval of IRDA, for new Micro insurance products are found to be cumbersome by the insurers. As per the new regulations of IRDA on MI, the minimum amount of cover is prescribed as Rs5000, which is beyond the entry level of the poorest that owns just 2 goats worth Rs3000 and wants to insure. Too much prescription for the MI product leaves very little scope to the insurer for bringing out innovations. Not recognizing & not prescribing separate lower capital requirements for the existing Micro insurers backed by the foreign re-insurers, prevents the Foreign Direct Investment flow and the technical assistance into the sector, which is very crucial for the development of the micro insurance market in rural areas.

8.9 Lack of Thrust from the Government: After liberalization and introduction of prudential norms in the banking sector, the credit flow to agriculture was coming down (The decadal average growth rates of direct institutional credit to agriculture declined from 20.2% in 1970s to 14.0% during 2002-03. Policy announcement in June 2004 by the Government of India to double the credit flow to agriculture in next three years triggered a robust growth of more than 30% in Bank's credit flow to agriculture in 2004-05.Such a policy announcement by Government on Micro Insurance is also the need of the hour to move the top brass of Insurance companies into action.

9. Conclusion

Micro insurance can be viable. However, there are very few examples world-wide of large and viable micro insurance programmes, especially those including health insurance. Also, most micro insurance programmes tend to focus on life insurance which is easier to administer and can be viable faster than health insurance can. The viability of life insurance is due to the nature of this product, and that there is less possibility of moral hazard and fraud. Health insurance which is dependent on many variables, and most importantly hospital care, is more volatile and prone to fraud and other adverse situations.

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