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EXPANSION OF MICRO INSURANCE INTO LOW INCOME GROUPS

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ABSTRACT

Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well-off, but more importantly they are more vulnerable to the same risk. Micro insurance should, therefore, provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. There is an overwhelming demand for social protection among the poor. Micro insurance in conjunction with micro savings and micro credit could, therefore, go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

INTRODUCTION

In the year 2000 when the insurance regulator came into being and the sector was opened up for private sector participation. The insurance penetration in India was just 2.1 per cent and coverage was largely focused among the well-off. The Authority, which has been vested with developmental responsibilities a part from its regulatory functions. Therefore sought to not only expand coverage but also the imbalances in availability distribution of Insurance across geographic locations and economic classes. As a first step in this trend, the authority had came out with IRDA regulations, 2002. These regulation require insurers to sell a specified percentage of policies Rural Public and to cover a quantified number of lives and assets belonging to people below poverty line or these pursuing certain traditional occupations. The obligations have been quite effective in expanding coverage of insurance to the severally under-penetrated rural and low income segments. Despite the substantial increase in the last decade, the coverage especially among rural and social sectors continues to be inadequate looking to the potential and there is a crying need for its rapid expansion. Though the obligations managed to can per in sources to operate among the under-covered sectors. Mere compassion would not accomplish all that needs to be done in this connection. There was a realization that insurers faced some genuine road blocks in expanding coverage among rural and low income segments and that same of them could be cleared through regulatory interventions or relaxations. Government of India set up a consulting grasp in 2003 to examine the existing insurance scheme for the rural sector. The grasp suggested among other things that stand alone micro insurance entities would not be vilde in the given context, the following these recommendations the authority issued IRDP (Micro insurance) regulations, 2005.

Defining Micro-Insurance

The draft paper prepared by the Consultative Group to Assist the Poor (CGAP) working group on micro-insurance defines micro-insurance as "the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved." The paper deliberates on the key roles to be played by all stakeholders – insurers,regulator and the Government. The working group also agrees that the cost of such cover should be affordable.

Need for the Micro Insurance

Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks than the well-off, but more importantly they are more vulnerable to the same risk. Usually, the poor face two types of risks – idiosyncratic (specific to the household) and covariate (common, eg., drought, epidemic, etc.). To combat these risks, the poor do pro-active risk management – grain storage, savings, asset accumulation (specially bullocks), loans from friends and relatives, etc. However, the prevalent forms of risk management (in kind savings, self-insurance, mutual insurance) which were appropriate earlier are no longer adequate. Poverty is not just a state of deprivation but has latent vulnerability. Micro insurance should, therefore, provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. There is an overwhelming demand for social protection among the poor. Micro insurance in conjunction with micro savings and micro credit could, therefore, go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

Enabling Environment for Micro-Insurance in the Indian Context

Helping the rural poor systematically manage financial risks to their livelihoods and lives through micro-insurance offers innovative ways to combat poverty in India. The timing of the UNDP study is strategic as policy interest has been renewed in energizing the rural insurance market in India. The following factors could provide the needed impetus to push micro-insurance to the "next level" in terms of growth and outreach :

- The widening, deepening and upscaling of microfinance interventions has provided the institutional precincts on which the edifice of micro-insurance could be built in rural areas.
- There are a wide range of developmental programmes being supported by the Government like the SGSY, the NREGP, etc., which have facilitated the improvement of income levels of many rural households. The GoI-package of "Doubling Flow of Agricultural Credit" has also enabled greater institutional credit flow for agriculture and allied activities. However, what is of concern is that all these interventions, though ambitious in stated intent, only incidentally address risk, if at all. The most vulnerable rural population - in particular, women - are largely excluded from the insurance market. This only amplifies the felt need of this

segment for protection of their lives / income-generating assets against various perils. At present, the Personal Accident Insurance Scheme (PAIS) which is being provided as a bundled offering along with the *Kisan* Credit Card (KCC) Scheme and the *Rashtriya Krishi Bima Yojana* (RKBY) for insuring crops, are, probably, the only borrowal-linked riskmitigation mechanisms available to rural households. Further, many State Governments are offering health insurance facilities to the rural poor (eg., *Yeshaswini* Scheme of the Government of Karnataka) which have also generated considerable acceptance and awareness about insurance products in the rural areas.

- In October 2004, the RBI permitted RRBs to undertake insurance business as a "corporate agent" without risk participation. As RRBs have a network of branches in rural areas, they could play an important role in increasing outreach.
- Though the 2005 IRDA regulations on micro-insurance have some restrictive aspects, they have also a number of positive features. Its most innovative feature is legally recognizing NGOs, MFIs and SHGs as "micro-insurance agents." This has the potential of significantly increasing rural insurance penetration.
- Many commercial banks have partnered foreign insurance companies for providing life insurance policies. Thus, banking outlets (which number close to 70,000) and more than 1 lakh cooperative societies could provide the needed outreach to purvey micro-insurance facilities, without any further addition to transaction costs.

Addressing Differing Perspectives in Micro-Insurance

As already indicated, there are contrasting perspectives which have traditionally impeded the growth of this sector globally. The same is true of the Indian experience also. The competing perspectives of the insured, viz., need, affordability and willingness vis-à-vis the insurer's, viz., insurability, profitability and deliverability continue to be the core dilemma in micro-insurance thru' institutional sources. Further, the core problems in institutional insurance, viz., moral hazard, adverse selection and poor infrastructure which results in high claims costs, administrative costs and consequently inadequate coverage have to be addressed effectively, for enabling the growth of an affordable, cost-effective and sustainable.

Delivery Mechanism: Micro-Insurance Models

A key concern in the pricing of an insurance product is the element of cost of acquisition and its delivery. Obviously, the delivery costs have to be contained to keep the cost of insurance sufficiently low to attract the poor and to incentivise the insurer to venture into this segment viewing it as a genuine market opportunity.

The Committee studied four different models for delivering micro-insurance services to the targeted clientele:

Partner - Agent Model:

- Insurers utilize MFIs' delivery mechanism to provide sales and basic services to clients.
- There is no risk and limited administrative burden for MFIs.

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Full Service Model

The provider is responsible for all aspects of product design, sales, servicing, and claims assessment. The insurers are responsible for all insurance-related costs and losses and they retain all profits.

Community Based Model

The policy holders own and manage the insurance program, and negotiate with external health care providers.

Provider Model

The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups.

Operations and Systems

To address the requirements of the huge market potential available, appropriate systems should be evolved for tracking client information, either manually or using technology. While a technology platform may take time for setting up, in the long-run, the same will be cost-effective and reliable. Similarly, the procedures for premium payments, claims and other services should be formalized along with increased customization of products to stimulate demand.

IRDA's Regulations on Micro-Insurance

Building on the recommendations of the consultative group, IRDA notified Micro-Insurance Regulations on 10th November 2005 with the following key features to promote and regulate micro-insurance products. The regulations focus on the direction, design and delivery of the products

- A tie-up between life and non life insurance players for integration of product to address risks to the individual, his family, his assets and habitat,
- Monitoring product design through "file and use",
- Breakthrough in distribution channels with inclusion of NGOs, SHGs, MFIs and PACS to provide micro-insurance, with appropriate compensation for their services,
- Enlarged servicing activities entrusted to micro-insurance agents,
- Issue of policy documents in simple vernacular language. Currently the IRDA regulations do not favour composite insurance (i.e., life and non-life insurances by the same company) and also limit the agency tie-up to one life and one non-life insurer. However, in recognition of the uniqueness of micro Insurance.

The ILO (2004) Has Recently Prepared An Inventory Of Micro-Insurance Schemes Operational In India

- The inventory lists 51 schemes that are operational in India.
- Most of the schemes were launched in the last 4-5 years.
- 43 schemes for which the information is available cover 5.2 million people.

- Most insurance schemes (66%) are linked with micro finance services provided by specialised institutions or non-specialise organisations. 22% of the schemes are implemented by community-based organisations and 12% by health care providers.
- Life and health are the two most popular risks for which insurance is demanded; 59% of schemes provide life insurance and 57% of them provide health insurance.
- Most schemes (74%) operate in 4 southern States of India: AndhraPradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%). The two western States: Maharashtra (12%) and Gujarat about 6% account for 18% of the schemes.

The Essence of Micro Insurance Regulations

Approval of the Patnar-Agent model whereby the insurer would provide technique expertise in the form of risk and resorting, while the agent would bring network reach and trust among communities to the desk.

- A new class of distribution called micro insurance agents created, whereby micro finance institutions (MFIs), Non-governmental organizations and self-help Organizations have been allowed to take up distribution of micro insurance products. The regulation have relaxed the requirements as regards qualification, examination and licensing , but mandated a 25 hour training to be imparted to the employees of micro insurance agents by insurers.
- Composite products, whereby multiple risks faced by low income families such as life, health, accident, dwelling, livestock and tools & implements could be covered under a single policy through a tie-up betiocen use and general insurers.
- sum assured limits have been defined for products to qualify as micro insurance to ensure that the products cater specifically to the needs of micro insurance segment.

As can be observed from the above data micro insurance started off as a minuscule portfolio but has been able to demonstrate robust growth in the last five years. A sizeable portion of the group micro insurance has been supported by government sponsored social security schemes. The 3.6 million individual life policies are mostly self-funded which in dictates that the regret segments are willing to purchase insurance if the right kind of supply is made available. Renewal premium (life) under micro insurance too has grin to a substantial amount. In the year 2010-11, the individual renewal premium was Rs. 181 while the group micro insurance renewal pre for the year was Rs. 682 crores on 31st March, 2011 use insurers had 16 individual and 12 group micro insurance products in their basket while general insurers had launched a total of 66 products. There is increasing realization that social security schemes of the government are better administered through insurers due to cost-efficiency. Superior service-delivery and better accountability. As such three of the flag ship social security schemes of the government of India targeted at low income/micro insurance segments namely Aam Aadai BimaYojana (ADBY), Janashree Bima Yojana and Rashtriya Swasthya Bima Yojana (RSBY) have been handed over to insurers for administration.

Linking Micro-Credit with Micro-Insurance

It is becoming progressively strong that micro-insurance needs a further push and guidance from the Regulator as well as the Government. It is clear that offering microcredit without micro-insurance is bad financial behaviour, as it is the poor who suffer on account of such bad product design. There is, therefore, a need to emphasise linking of microcredit with micro-insurance. Linking micro-insurance with micro-finance makes worthy business sense. Further, as it aids in transporting down the inherent risk cost of lending, the Committee feels that NABARD should be regularly involved in issues relating to rural and micro-insurance to leverage on its experience of being a catalyst in the field of micro-credit.

Consumer Education

The micro-insurance sector is unique in the sense that there is an ongoing challenge to explain the concept and benefits to the insured. Creating awareness thru' use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of insurance. Local community-based organisations could organize premium collections, as they have better access to the local people. To make it more acceptable to the people, micro-insurance products, apart from covering only risks, should also provide an opportunity for providing long term savings (endowment).

Micro Insurance for the Future

The micro insurance has been able to grow to a respectable size in the five-year period after issue of the requisitions. In the year 2010-11 the total premium collected under life and non-use micro insurance portfolios put together was of the order of Rs. 1,543 crore, out of which life insurance premium was Rs. 1,149 crore and non-life insurance premium was Rs. 393 crore. However rural segments, what has been accomplished amounts only to scratching the surface. Only aiay fractions of these persons have insurance protection of any kind and there is an urgent need to expand coverage to a huge number of uninsured masses. The following steps could help speed up expansion of micro insurance.

- The ficket size in micro insurance is very small and therefore the pre-policy costs applicable to majority insurance would just not work out. It therefore becomes authoritative for insurer to invent new way of reducing the same. Compared to individual insurance, group insurance is very inexpensive awing to low cost of distribution for lower overhead costs due to issue of a single policy for the whole group, easy underwriting norms and support of nodal agency in remittance of premium, filing claims, etc.
- Micro insurance parts live in right knit social and economic communities and are therefore easily accessible through community leadership. Involvement of community leadership significantly cases the burden of awareness buildings on the insurers.
- Latest technological innovations have revolutionized the conducted in the financial sector especially in rural area. Insurer too can benefit by deplay8jg latest technology such as premium collection of hand-held devices connected to insurers through internet. Payment and service requests over mobile phones, logging-in

proposals and up loading claims and servicing requests on the net, to economies and expend their operations.

Eligibility for micro insurance agency is now limited to micro finance Institution (MFIs), Self-Help Groups (SHGs) and Non-governmental Organizations (NGOs). Since these entitis are not active invest portions of the country, there is a need to expand the scope of micro insurance agency to enable a balanced and foster growth of micro insurance.

CONCLUSION

In the area of Micro insurance with a view to bringing down product costs, building data base of claim histories, risk profiles, etc., are to be undertaken. This will also help in aligning pricing decisions with actuarial calculations. Micro-insurance service providers can use the existing banking infrastructure and also adopt the agency-mode (NGOs, SHGs, NBFCs, etc.) for providing services, thereby leveraging on the existing physical branch network and reducing costs. The technology platforms being envisioned to facilitate financial inclusion should enable micro-insurance transactions also. Towards this end, there is a need to integrate the various modules - savings, credit, insurance, etc. - into the technology framework so that holistic inclusive efforts are possible in the rural areas. There are a large number of group life and health insurance schemes which are run by various central ministries and State Governments. The level of actual coverage in terms of claims preferred and settled in such schemes is disturbingly low. These schemes should be reviewed by an expert group set up by the IRDA.

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