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Promotion of Micro Insurance in Rural India

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Abstract: Micro-insurance is the lowest premium and low coverage insurance policies for people with low income. The products of micro insurance are designed with the objective of protecting poor people. The products are also developed as per the requirement of poor people that are generally ignored by traditional insurance products. The objective of micro insurance is providing economic security to low income people. Micro insurance is the tool that protects rural as well as poor urban people by offering low cost insurance to mitigate their risk. With the opening up of the economy and as per the regulation of IRDA private insurance companies also tries to exploit the rural market. Over 6, 30,000 villages across the vast content but also customization of the same Regional rural banks, which have been expanse of the country.

Keywords: , Upliftment, private insurance, Rural Tie-ups

Introduction

Traditionally it was believed in India that insurance is not a cup of tea for poor people. But with the passage of time the scenario has been changed and several measures were formulated and adopted to bring poor people under the purview of insurance coverage. In the year 2003, Government of India formed a Consultative group on micro insurance in order to examine the present status of existing insurance schemes for poor people in general and rural people in particular. The group found the following features of micro insurance in India. The expansion of micro insurance in rural India was not remarkably noticeable. Micro-insurance has not penetrated rural markets. Micro insurance has not penetrated even among the urban poor. The schemes of micro insurance are complicated and rigid. However the cost of putting up enormous business potential is the potential of the rural market and there infrastructure has to be looked into from widely accepted across all are visible initiatives being taken. Most a long term returns point of view. Some segments of the industry. Marketing initiatives are sponsoring the 700 Million that reside here; other However, unlike in urban areas where tax local festivals and fairs (melas), creating statistics make an equally strong and investment. For instance, while rural considerations; here insurance is shows, hoardings, wall paintings etc. households contribute to 45% of the total considered a long term savings tool. There are various distribution models household income of the country, the traditionally the endowment products that life insurers have been trying out in savings to income percentage in rural, at have been sold in this segment. Rural Tie-ups with NGOs, Self Help 30%, is even higher than urban. There are several challenges Groups are common to target the rural success of FMCG, telecom and consumer confronting sales and marketing masses. In certain parts of the country the durables is only a pointer to inherent executives in the rural domain. Within the rural sector, however there the entire sales delivery should preferably have an existing relationship with the are vast variations in socio-economic be in the local language. These calls for not consumers and this can go a long way in profiles. After the enjoying similar standards of living like premium payments on a regular basis are amalgamation, the RRBs have been given their urban counterparts, while a bulk of villages are still grappling with the basic.

Review of Literature

G. Prabhakara (2010) in his studies revealed that there is a change in the insurance industry with the role of privatization and so many new products have been introduced to the market. He also emphasized the importance of spreading the rural and social insurance with reference to IRDA obligations.

Selvakumar & Priyan (2010) found that insurance companies are increasingly taping the semi-urban and rural areas to take across the message of protection of life through insurance cover. Higher level of protection implies that customers are more conscious of the need for risk mitigation, grater security, and about the future of their dependents. Insurance sector has been evolving and improving its underwriting and risk management abilities.

Altaf Ahmad Dar (2012) conducted a study on awareness of insurance in rural areas with respect to Kashmir valley and concluded that insurance companies can promote saving both government and private companies by building a relationship of trust. The middle and low socio-economic groups are a potential market to be tapped, as they are ready to spend a reasonable amount as premium payable per annum. To develop a viable life insurance scheme, it is important to understand people's perceptions and develop a package that is accessible, available, affordable and acceptable to all sections of the society.

Sastry (2010) in his studies revealed that in the world life insurance markets would grow very rapidly over the next decades in India. He reveals that the major drivers of this growth include sound economic fundamentals, a rising middle class, an improving regulatory framework, and rising risk awareness. He expressed that presently the people are viewing insurance as a tax saving mechanism but there is a need to look at insurance as a long term saving instrument. There is a great need to study the awareness of the society on insurance to improve this situation.

Objectives

- To study the development of Micro Insurance of India
- To study the different insurance companies in respect of micro insurance
- To study the product offered by various insurance companies.
- To offer few conclusions

Development of Micro-insurance in India

Historically in India, a few micro-insurance schemes were initiated, either by nongovernmental 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 partly due to the development of micro-finance activity, and partly 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 (IRDA 2000). 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. Although the reach of such schemes is still very limited---anywhere between 5 and 10 million individuals---their potential is viewed to be considerable. The overall market is estimated to reach Rs. 250 billion by 2008 (ILO 2004).

The insurance regulatory and development authority (IRDA) defines rural sector as consisting of (i) a population of less than five thousand, (ii) a density of population of less than four hundred per square kilometer, and (iii) more than twenty five per cent of the male working population is engaged in agricultural pursuits. The categories of workers falling under agricultural pursuits are: cultivators, agricultural labourers, and workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities. The social obligations are in terms of number of individuals to be covered by both life and non-life insurers in certain identified sections of the society. The rural obligations are in terms of certain minimum percentage of total polices written by life insurance companies and, for general insurance companies, these obligations are in terms of percentage of total gross premium collected. Some aspects of these obligations are particularly noteworthy. First, the social and rural obligations do not necessarily require (cross) subsidizing insurance. Second, these obligations are to be fulfilled right from the first year of commencement of operations by the new insurers. Third, there is no exit option available to insurers who are not keen on servicing the rural and low-income segment. Finally, non-fulfillment of these obligations can invite penalties from the regulator.

In order to fulfill these requirements all insurance companies have designed products for the poorer sections and low-income individuals. Both public and private insurance companies are adopting similar strategies of developing collaborations with the various civil society associations. The presence of these associations as a mediating agency, or what we call a nodal agency, that represents, and acts on behalf of the target community is essential in extending insurance cover to the poor. The nodal agency helps the formal insurance providers overcome both informational disadvantage and high transaction costs in providing insurance to the low-income people.

Different Insurance companies in respect of Micro Insurance

Micro Insurance and Rural Economic Development: About 70% of Indian population resides in rural area but they do not have the access to insurance coverage. Rural area is dominated by poor people and their vulnerability to risk is higher than their urban counterparts. These people are less educated and are not well aware about risk mitigation mechanism. They face two types risk firstly household related risk and secondly common risk like natural disasters. Poor people are especially vulnerable to risks related to health, income generation, old age problems, unemployment, illness, accident, sudden death of the sole earning member; etc. These incidents adversely affect the livelihood of the poor people as they do not have the enough opportunity of mitigating such type of risks. . They are also more prone to risks due to lack of income, assets, insecure and unsafe working conditions, and increased exposure to health risks through poor housing, sanitation, etc. Natural disaster affects the poor people to a great extent. It affects their lives, including health, housing, children, and income generating activities. The strategy available to them is to sale their small piece of land, reduction of household consumption, withdrawing children from school, deferring/ignore expenditure on health, etc. These strategies have both short term as well as the long term implications on their lives. Micro insurance, thus, helps poor people to come up with such problems. Poverty reduction is directly related to agricultural development in rural area. Sustainable development requires systematic risk mitigation which is possible through micro insurance. Micro-insurance is an important service provider that provides financial services package for people at lower income levels. Micro insurance provides economic as well as psychological security to the poor by reducing exposure to multiple risks and minimize the impact of a disaster. Micro insurance has gone a long way in keeping poor people away from poverty trap and is an important tool for financial inclusion. It is one of the important tools for managing risk by poor and low income group people. It offers a promising new way for poor people to manage risk and contribute to poverty alleviation. Micro insurance has great potential to reduce risk and also provide business opportunities. It focuses on extending social protection to the poor people on one hand and providing financial services to low income group people by framing appropriate business model. Successful micro insurance programs have emerged in recent years as powerful tools to help poor families to cope up with risk and alleviate poverty. Poor people seek micro insurance both for themselves and for their families, serving as risk managers for entire households. Micro insurance products address the need of poor people by floating schemes to protect against crop failure, damage from natural disasters, disabilities, etc. Micro insurance has the potentiality to enable the rural poor to mitigate the effects of shocks that threaten their lives, productivity, and assets. Micro insurance helps to prevent the depletion of savings and assets of poor people. It also induces them to invest in high risky proposals as micro insurance undertake the risk of agricultural and other risk of poor people. Micro insurance can reduce the risk as effective crop insurance allows farmers to specialize in high-value crops. With property or asset insurance, people can invest more in illiquid assets that offer higher returns, rather than liquid assets with lower returns. Lower income means fewer resources to invest and lower level of income and higher risk of return. Lower income comes in the way of aggressive investment strategies which are risky but that provide a higher rate of return necessary for survival and expansion of business. Micro insurance helps poor people to undertake risky ventures. Increase in earnings improves the standard of living, as well as to induce them to invest the surplus. Therefore, it can be said that it is an important tool for poverty alleviation. Development of micro insurance also requires the development of education system in rural and semi urban area. In order to explain the mechanism and importance of insurance posters, local folk arts and street corner play can be used. A combined effort by government, regulator, insurance companies, NGOs and SHGs are also necessary to accelerate the growth of micro insurance. There is very little knowledge about micro insurance particularly health insurance products among rural people. Insurance companies realized to recognize the future potentiality of the micro insurance market by expanding the customer base by providing affordable, accessible able and flexible insurance products.

Different policies, product and services offered by various insurance

Quantities of Popular Rural Life Insurance Products of Various Companies are as Follows:

- Jeevan Madhur (LIC): This policy has covered nearly 13.5 lakh lives in rural areas. It is a simple savings related life insurance plan where you may pay premiums regularly at weekly, fortnightly, monthly, quarterly, half-yearly or yearly intervals over the term of the policy. The premium chosen by you shall be subject to the minimum and maximum sum assured of Rs. 5,000/- and Rs. 30,000/- respectively payable on death and maturity under this plan.
- They have also designed 'Bima Kavach Yojana' plan keeping in mind the paying capacity and the needs of the rural population.
- Suraksha Kavach (ICICI): Suraksha Kavach is different from Surkasha in that it is sold exclusively through Micro Finance Institutions (MFIs) when a customer avails of a loan. The primary goal of Suraksha Kavach is to pay off the outstanding loan amount in the event of the policyholder's death; thereby safeguarding the financial future of his or her family members. This policy can be availed in single premium modes only. The policy is assigned to a lending institution that becomes the beneficiary and provides the policyholder with a cover for the loan amount.

- They are working in close coordination with the Aditya Birla Group Units and various N.G.O's, located across India to provide the rural insurance services to the rural population.

- Bima Dhan Sanchay (Birla Sun Life Insurance): This plan provides the security of life insurance cover and guarantees the refund of premiums paid by you on maturity. Apart from providing the security of life insurance, cover also guarantees the refund of premiums paid by you on maturity. This plan is simple and convenient with no medical tests and minimum documentation.

- Max Vijay (Max New York Life): Max Vijay is a unique product, which combines the benefits of life insurance, savings and gives you complete flexibility for making subsequent premium payments. A plan, which gives coverage for life long for a minimum premium amount of Rs1000, Rs 1500 and Rs 2500 especially, designed for the farmers and lower income group people concentrated in rural areas. The policy does not lapse as long as there is sufficient amount in the policy account.

- Sumangal Bima Yojana (Tata AIA): A micro insurance policy in which the policy holder pays premium for 10 years and get cover for 15-years. Upon survival until maturity, the policy returns 100% of the premiums paid by the policyholder during the term of coverage. To encourage saving from individuals who prefer getting periodic returns, Tata AIA Life brings an insurance plan that goes hand in hand with regular savings. Tata AIA Life Sumangal Bima Yojana, a non-participating limited premium payment money back plan, gives guaranteed returns* at specified intervals during term of the policy besides an insurance cover for 15 years. Apart from these, they have Ayushman Yojana, Sampoorna Yojana and Navkalyan Yojana schemes in micro insurance sector.

Conclusions

Policy-induced and institutional innovations are promoting insurance among the low-income people who form a sizable 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 considerations, can insure a significant percentage of the poor. Serving low-income people who can pay the premium certainly makes a sound commercial sense to insurance providers. To that extent imposing social and rural obligations by insurance regulator (IRDA) is helping all insurance companies appreciate the vast untapped potential in serving the lower end of the market. 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). Given irregular and uncertain income stream of the poor, flexibility in premium collection is needed to extend the micro-insurance net far and wide. Moreover, MFIs are playing a significant role in improving the lives of poor households. Quite apart from this, linking micro-insurance with micro-finance makes better sense as it helps in bringing down the cost of lending. Given this, there is a case for strengthening the link between micro-insurance and micro-credit. At present microfinance business in the country is unregulated. Regulation of MFIs is needed not only to promote micro-finance activity in the country but also to promote the linking of micro-insurance with micro-finance which as demonstrated in the paper makes a good sense.

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