

Penetration of Micro Insurance in India: A Tool for Financial Inclusion

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ABSTRACT

Poor people live in risky environment than the rest of the population, and they are more vulnerable to cope when a crisis does occur. One possible solution to overcome risks is "Micro Insurance". Micro insurance is a special mechanism to protect poor people against different risks. Currently, majority of the poor people in India are employed in the unorganized sector. The availability of micro insurance would in some ways provide them with some protection and peace of mind. In doing so, micro insurance gives them an opportunity to improve their lives. The problem is that, the benefit of micro insurance is not reached to the target population. The study also suggests the possible ways for effective implementation of micro insurance to the targeted population.

Keywords: Inclusive growth; financial services; Insurance sector; Insurance inclusion; Micro insurance; financial inclusion

I INTRODUCTION

Micro-insurance, the term used to refer to insurance to the low-income people, is different from insurance in general as it is a low value product (involving modest premium and benefit package) which requires different design and distribution strategies such as premium based on community risk rating (as opposed to individual risk rating), active involvement of an intermediate agency representing the target community and so forth. Insurance is fast emerging as an important strategy even for the low-income people engaged in wide variety of income generation activities, and who remain exposed to variety of risks mainly because of absence of cost-effective risk hedging instruments. In order to facilitate penetration of micro insurance to the lower segment of population, IRDA (Insurance Regulatory and Development Authority) has formulated the micro insurance regulations. Micro Insurance Regulatory, 2005 provide a platform to distribute insurance product, which are affordable to the rural and urban poor people and to enable micro insurance to be an integral part of the country's wider insurance system. Again on 13th May 2015, the insurance Regulatory and Development Authority (IRDA) India introduced the revised Micro insurance Regulation (2015) which supersedes the existing regulations introduced in 2005. The new regulation makes a number of important amendments including to guidance on product development, adjusting the risk coverage level, permitting more entities to distribute micro insurance products and the training of micro insurance agents and there specified personal. The main thrust of micro insurance regulation is protection of low income people with affordable insurance products to help them cope with and recover from common risk with standardized popular insurance products adhering to certain levels of

cover, premium and benefit standard's. The regulatory has allowed Non Government Organizations (NGOs) and self Help Groups (SHGs) to act as agents to insurance companies in marketing the micro insurance.

II MICRO INSURANCE PENETRATION INDIA

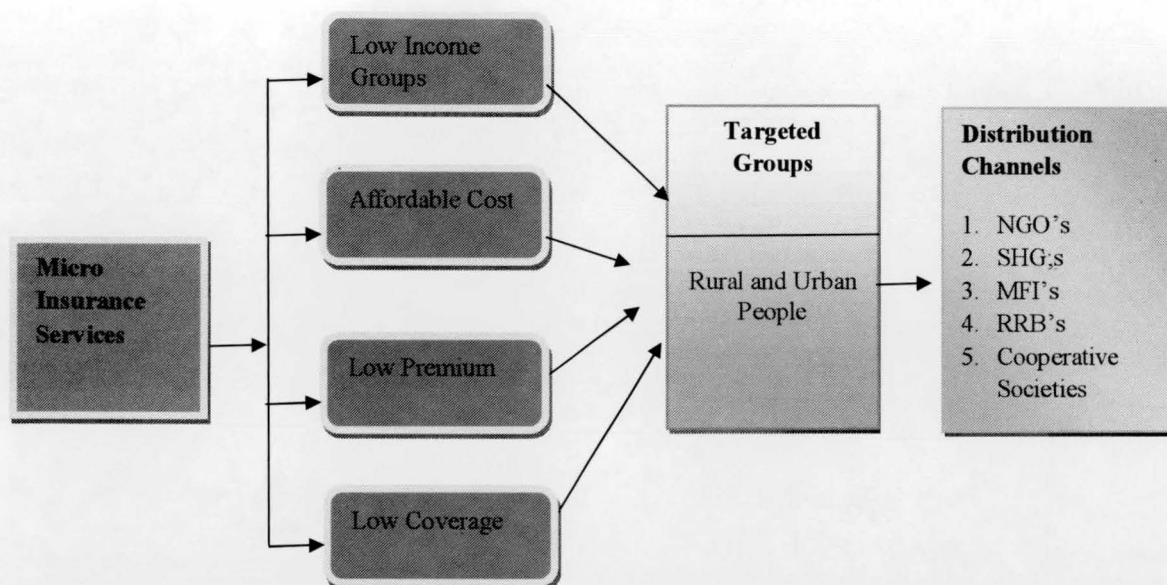
In order to facilitate penetration of micro insurance to the lower income segments of population, Insurance Regulatory and Development Authority (IRDA) has created special category of insurance policies called micro-insurance policies to promote insurance coverage among economically weak sections in society. The IRDA Micro-insurance Regulations, 2005 provide a platform to distribute insurance products and services, which are affordable cost to the rural and urban poor and to make possible micro insurance to be an integral part of the country's wider insurance system. The main thrust of micro insurance regulations is perform of low income people with affordable insurance products to help them cope with and recover from common risks with standardized popular insurance products adhering to certain levels of risk cover, premium and benefit standards.

(a) Characteristics of Micro Insurance

- (i) Micro insurance is insurance and applies principles of risk pooling
- (ii) Micro insurance products are designed for rural and urban low income people
- (iii) Micro insurance targets people in the informal sector
- (iv) Micro insurance products are designed general as well as life insurance (health, live stock, personal accidents, etc.)

Chart1

Micro Insurance Products Delivery Mechanism

**(b) Micro-insurance policy is:**

A general or life insurance policy with a sum assured of Rs.50,000 or less

(i) A general micro-insurance product is any:

- Health insurance contract
- Any contract covering belongings such as
- Hunt
- Live stock
- Tools or instruments or
- Any personal accident contract
- They can be on an individual or group basis

(ii) Intermediaries:

- Non-Government Organizations (NGO's)
- Self-Help Groups (SHG's)
- Micro-Finance Institutions (MFI's)
- Regional Rural Banks (RRB's)
- Co-operative societies

III REVIEW OF LITERATURE

Prabhakara (2007) examined that creating awareness of the need for services like life insurance, basic banking services their accessibility and affordability increase the business opportunities of bankers and life insurers in rural as well as urban. Creating awareness to banking services and insurance services among rural and urban poor could also be regarded as one of the ingredients in infrastructures to the financial market supports the financial inclusion programmes of governments where life insurance deserves to be an integral part. The study also focused that a 5 part of these financial inclusion programmes, micro

insurance competently fits to be propagated in the targeted market segments.

Gunaranjan (2007) studied that bringing in financial inclusion for the poor, rural and socially disadvantaged sections of the society is now a major thrust area for policy maker's interventions. The rural and social sector obligations and the micro insurance regulations are important steps in the directions of ensuring financial inclusion and social protection for the poor.

Choudhari (2013) stated that access to safe, easy and affordable financial services to the poor and vulnerable groups, disadvantaged people in the society is so far largely remained concentrated around banking inclusion but the focus is fast shifting towards inclusion of poor people in insurance also. The study also found that the goal of financial inclusion will remain unmet until the insurance needs of people particularly of those living in rural and semi-urban areas are met.

IV OBJECTIVES OF THE STUDY

- (a) To know the opportunities of Micro Insurance in rural area of India.
- (b) To study the financial inclusion through Micro Insurance.
- (c) To reach the suggestions and conclusion.

V RESEARCH METHODOLOGY

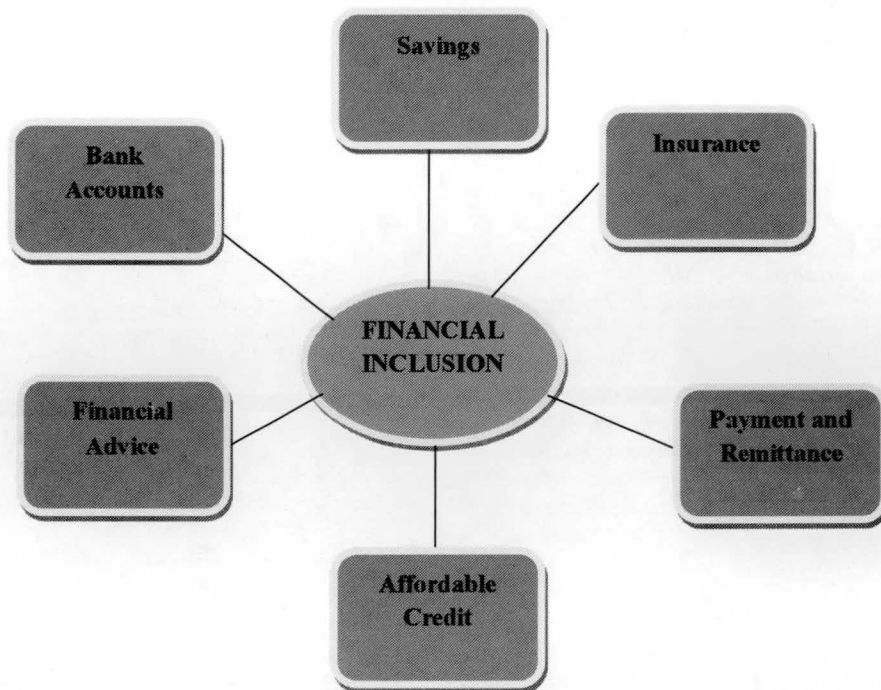
The study is based on secondary data. Data has been collected from journals, articles, websites and IRDA reports etc.

VI MICRO INSURANCE INTERVENTIONS AND ENSURING FINANCIAL INCLUSION

The rural and social sector obligations and the micro insurance regulations form IRDA are important steps in the direction of ensuring financial inclusion and social protection for the poor. As part of these financial inclusion programmes, micro insurance competently spread in the targeted market segment. To improve the market share of micro insurance

segment the IRDA is reviewing the micro insurance regulations, 2005. In this connection, the authority has already released draft modifications of the regulations on 31st Jan, 2014. Also, the Authority has issued acircular on 3rd April, 2013 permitting several more entities like district co-operative banks, regional rural banks, rural banks, etc. Who are banking correspondents to be appointed as micro insurance agents facilitating better penetration of micro insurance business in rural and urban people which leads to financial inclusion.

**Chart 2
Dimensions of Financial Inclusion**



VII PROSPECTIVE OPPORTUNITIES FOR MICRO INSURANCE PLAYERS IN RURAL INDIA

Rural India per capita income level has risen due to shifting of its occupation from agricultural based activities to non-farm agricultural income and it has become an important aspect of rural India. The rural people income mostly comes from cottage industries, dairy, food processing and packaging, commodity trading and handicraft etc. The non agricultural base of rural occupation and income has been growing in rural GDP figures that are estimated at 45 %. Insurance companies can add about Rs.1000 crore to their net worth from nearly 200 million rural folk that are looking for alternate savings channels for their surpluses provided these come out with innovative schemes at affordable premium. Currently, only 8-10% rural households are covered under life insurance

schemes and remaining 90% can be targeted for new innovative insurance schemes.

There are several opportunities for doing marketing of micro insurance products in rural and urban areas which significantly impact on marketing of micro insurance services in India.

- (a) Growth in rural consumption level
- (b) Increase in literacy rate
- (c) The government has increased spending in rural areas for development in infrastructure and rural connectivity
- (d) Improved access to finance and institutional credit has brought greater cash inflows to households.
- (e) Increased in level of income

VIII SUGGESTIONS

Following policy measures can be suggested to improve the penetration of Micro insurance Schemes in India

- (a) There is a need for a vast improvement in the awareness levels of the insuring public is necessary for enhanced insurance inclusion of the masses.
- (b) Government has to play an important role in developing public-private partnerships for delivering ambitious state funded insurance programs, and MFIs can be partners for these government-funded insurance schemes. Insurance regulators (and other government entities) can help create an enabling environment that facilitates the commercial viability of micro insurance.
- (c) There is a misconception about the parity between the Government sponsored micro health insurance schemes and those introduced by the private sector companies. Hence there is a need for making micro insurance more affordable to the poorer sections of the society.
- (d) Insurance companies should go beyond devising new products to improving their processes for building awareness, marketing enrolment, premium collection, claim settlement and renewal. Further, the use of technology such as mobile phones and ATMs for premium collection should be encouraged to keep transaction costs low.
- (e) High transaction cost of banks in servicing large number of small rural accounts is an issue that needs to be addressed. Use of 'Group Mode' i.e. SHGs, JLGs etc. for financing is a proven mode for reducing the transaction cost. Banks are already financing vulnerable sections of rural borrowers through SHGs. The same needs to be further accelerated.
- (f) There is a need to establish a council of micro insurance representatives, regulator and government. This body should meet on a regular basis to discuss the issues and strategies to develop the sector. This body can also help to develop regulations. It could help facilitate the sharing of information between insurers.
- (g) Creating awareness through use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of insurance. Local community-based organizations could organize premium collections, as they have better access to the local people.
- (h) The regulator should take the responsibility of creating awareness among low -income people of micro insurance, as it is for the public good. The regulator should take the responsibility of developing the sector more actively.

IX CONCLUSION

In summary, micro-insurance is a tool for the country's poor people to protect themselves from adversities. It will reduce financial risks and provide optimism to policy holders, helping them cope with financial emergencies. Micro-insurance is considered as an integral output of micro finance and will assist the poor from being further impoverished as a result of adverse events. As micro insurance evolves, there will be increasingly higher standards for quality products tailored to meet client needs. The foundation of the sector is expanding quickly with key stakeholders joining forces and unparalleled resources, making this a pivotal time in the development of Micro insurance. Micro insurance providers must improve their communication with customers and expressly strive to serve the needs of poor people. Government must take necessary steps in initiating micro insurance only then can micro insurance become the success story hoped for by so many.

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