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MICRO INSURANCE: PHILANTHROPY FOR NEEDY PEOPLE

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Introduction

In the developed world, insurance is an everyday part of life. However, insurance coverage is much patchier in the developing world. More than 80 per cent of India's poor are not covered in any way. However, what was a once-unthinkable luxury that allows the poor to secure their gains and plan for the future with confidence is now becoming a reality on account of several innovative models developed by institutions. Insurance can provide low income communities with a greater degree of protection against health, property, disability and death risk, because the risk of these events occurring is pooled over a large number of people, at a much lower cost or premium per person.

Under the new public-private-partnership mantra, many insurers have begun to underwrite government-sponsored mass insurance programs to help the poor. The entire micro insurance segment is growing and is now worth about 15 per cent of the worldwide insurance industry. India is now a major site of a rapidly growing micro insurance revolution. Micro insurance is most prevalent in India and the Philippines, which have proper policies and regulations in place. India accounted for 65 per cent of Asia's micro-insurance market, with some 37 million poor families signed up to **Rashtriya Swasthya Bima Yojana** (RSBY) or national health insurance program, the flagship program of the Government for health insurance.

Enrolment in RSBY costs just 30 rupees per family and coverage includes an annual benefit cap of 30,000 for a family of five. Members use a biometric smart card to minimize fraud. The government is working with private insurers to roll out health insurance plans across different states.

The United India Insurance Company and ICICI Lombard cover the maximum number of districts in partnership with the Central and State governments. Premiums are subsidized completely or partially by the government.

The premium generated from such programs by general insurance companies is included in the rural social business of the respective insurer. This creates further confusion on what constitutes micro insurance.

Current Scenario

India is one of the first countries to adopt micro insurance formally through the Micro Insurance Regulations Act in 2005. The regulation sets boundaries for the cost and coverage of the product and provides clarity about distribution mechanisms.

The poor need insurance more than wealthier people because they are more vulnerable to many of these risks than the rest of the population, and they are the least able to cope when a crisis does occur.

Finance is the glue that holds all the pieces of our life together. It enables money to be in the right place at the right time for the right situation. To borrow and save is to move money from the future to the present or from the present to the future. To insure is to move money from a "good" situation to a "bad" one. Ideal financial societies are those which provide safe and convenient ways of managing these simple monetary affairs.

One of the key strategies for eliminating poverty is equipping poor with the right financial tools. Access to the right financial tools at critical moments can determine whether a poor household is able to capture an opportunity to move out of poverty or absorb a shock without being pushed deeper into debt.

Low-income persons live on the edge, in constant fear of a catastrophe or tragedy. They live in risky environments, vulnerable to numerous risks and economic shocks such as a loss of a job, loss of property due to theft or fire, crop failure, the death of a breadwinner, and disasters of both natural and manmade varieties. Although poor households often have informal means to manage risks, these coping strategies generally provide inadequate protection. One way for them to protect themselves is through insurance.

Poverty and vulnerability reinforce each other in an escalating downward spiral. Often, the trigger for poverty is illness. Illnesses are a severe risk and can shave off most of the hard-earned savings. They are the number one route to bankruptcy. The Indian Ministry of Health found that a quarter of all people hospitalized were pushed into poverty by their hospital costs — not including the cost of missed work. In these and other emergencies micro insurance can help families avoid desperate measures such as incurring debts or selling assets or abandoning children or taking them out of school.

For the poor to reap the real benefits of micro insurance, companies need to practice responsible insurance. On account of lack of proper awareness and failure of institutions to properly guide them, people buy insurance policies without proper planning and give up mid-way because they don't have money to pay the premium. Aggressive selling prevents the agents from properly assessing the consistency in income streams of buyers for servicing their policies. The customers end up losing heavily as penalties are very harsh. The greatest challenge for micro insurance schemes is finding the right balance between adequate protection and affordability to deliver real value to the insured.

Role of Regulator

Keeping in mind concerns that a competitive, open environment could lead to the neglect of the rural and weaker sections of India, the Insurance Regulatory and Development Authority of India (IRDA) passed the IRDA (Obligation of Insurers to Rural or Social Sectors) Regulations Act in 2002. After that, every insurance company was required to engage with the rural and social sectors by complying with mandatory obligations.

The IRDA regulations set rural insurance targets for each company. These require that 7 per cent of all life insurance business should be generated from the rural social sector in the first financial year, and this should increase annually to reach 18 per cent by the sixth financial year.

For general insurance, 2 per cent of insured premium in the first financial year should be from rural social business, increasing annually to 5 per cent in the sixth year.

Micro insurance, by definition, 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. It has ultra-low premiums and low coverage. Designed to protect the poor against specific losses, it leverages economies of scale (large volumes of small policies). Because of its affordability, more people can get policies. And more policies mean greater business for the company — and viable coverage for clients. The target population typically consists of persons ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products.

The IRDA micro-insurance Regulations, 2005 defines micro insurance as a general or life insurance policy with a sum assured of Rs 50,000 or less. In other words, micro-insurance aims to provide financial protection to low-income families, particularly those with approximate income of less than Rs. 250 per day.

Moving beyond the definition, Kromhout adds that the focus should be on providing protection to the stratum of society that is financially most vulnerable, where the death of a breadwinner transcends into a financial catastrophe for the family and in some cases no food on the table. The social need to provide insurance to this sector is very critical. With 80 percent of the country's population living in the rural parts of India, micro-insurance makes insurance affordable for a lot of people.

Distributors of Micro Insurance

Insurance regulator IRDAI has allowed distribution of all micro-insurance products through point-of-sales (PoS), with an aim further increase insurance penetration in the country.

The Insurance Regulatory and Development Authority of India (IRDAI) has created a special category of insurance policies called micro-insurance policies to promote insurance coverage among economically vulnerable sections of society. A micro-insurance policy is a general or life insurance policy with a sum assured of Rs 50,000 or less.

Agreeing to the suggestions of insurance companies, IRDAI in a circular has done away with the practice of pre-fixing the word 'PoS' on life, general and health products sold through PoS. The regulator said it has received representations from insurance companies requesting to do away with the prefix 'POS' in the product name.

The IRDAI (Protection of Policyholder's Interest) Regulations, 2017, under the matters to be stated in life, general and health insurance policy, makes it mandatory to give the details of the person involved in the sales process.

Insurers made representations to change the norms that made it mandatory for every policy sold through the 'Point of Sales Persons' to be separately identified and pre-fixed by the name 'POS'. IRDAI said the requirement was to identify the person involved in the sales process.

The micro insurance is either distributed through agents, commercial banks, Regional Rural Banks, Cooperative banks, Self Help Groups and their Federations, Non-Governmental Organizations and Micro Finance Institutions, Post Offices, Internet, Rural Kiosks and Rural Knowledge Centres.

For example, Federations promoted by DHAN Foundation are participating in Mutual Insurance Scheme. Chitradurga Gramin Bank has in close cooperation with the NABARD GTZ-Project introduced a new deposit scheme for SHGs called "Rakshith" Savings Bank Scheme in tie up with LIC and UIICo. Ltd.

Cost of Micro Insurance

The micro insurance industry no doubt suffers from several other issues. These include high cost of selling micro insurance, difficulty in finding effective distribution channels, low insurance awareness among consumers, companies finding rural social obligations unviable, and so on. An insurance servicing company recognizes three issues while servicing this segment:

Service Cost: As the average premium per policy is very low, it is imperative that the cost of service per policy, an absolute amount is kept at a minimum. This implies the high amount of automation, minimal human intervention, high volumes and elimination of documentation requirements.

Claim Settlement: It is necessary to collect all the details of the bank account information at the time of insurance. As the number of claims is large, any mismatch in name or other data can result in claim settlement issues and impact the service standards adversely.

Fraud Control: There is potential for fraudulent claims as there are large volumes of low ticker insurance. This makes it difficult to investigate claims from a logistical and feasibility standpoint. Hence, the risk underwriting process and fraud control process needs to be robust.

Micro Insurance Delivery models

One of the greatest challenges for micro insurance is the actual delivery to the clients. Methods and models for doing so vary depending on the organization, institution, and provider involved. One must be thorough and careful when making policies, otherwise micro insurance could do more harm than good. 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.

Partner agent model: A partnership is formed between the micro insurance (partner as MFI) scheme and an agent (insurance companies), 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. Micro Insurance Centre is an example of an organization using this model.

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.

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.

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.

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.

Micro Insurance scheme

The institutions or set of institutions implementing micro insurance are commonly referred to as a micro insurance scheme.

A micro insurance scheme is a scheme that uses, among others, an insurance mechanism whose beneficiaries are (at least in part) people excluded from formal social protection schemes, particularly, informal economy workers and their families. The scheme differs from others created to provide legal social protection to formal economy workers. Membership is not compulsory (but can be automatic), and members pay, at least in part, the necessary contributions in order to cover benefits.

Micro insurance schemes may cover various risks (health, life, etc.); the most frequent micro insurance products are:

- Life micro insurance (and retirement savings plans)
- Health micro insurance (hospitalization, primary health care, maternity, etc.)
- Disability micro insurance
- Property micro insurance – assets, livestock, housing
- Crop micro insurance

Micro Insurance and Development

Micro insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable to fall back into poverty in times of hardship, for example when the breadwinner of the family dies, or when high hospital bills force families to take out loans with high interest rates. Furthermore, micro insurance makes it possible for people to take more risks. When farmers are insured against a bad harvest (resulting from drought), they are in a better position to grow crops which give high yields in good years, and bad yields in year of drought. Without the insurance, however, they will be inclined to do the opposite; since they have to safeguard a minimal level of income for themselves and their families, crops will be grown which are more drought resistant, but which have a much lower yield in good weather conditions.

Without a clear definition and with disaggregated data for micro insurance, it becomes difficult to compare performances and arrive at a conclusive number indicating the number of insurance products and the number of poor reached in India.

Conclusion

Micro insurance is in evolving phase. Innovations are required at all stages for products, in pricing policy and in delivery channels. Success of marketing micro insurance depends on understanding the social and cultural needs of the target population. Given that the IRDA has a mission of "promoting orderly growth of insurance industry for benefit of the common man'', a separate body under it to effectively monitor all forms of insurance for the poor would plug the many loopholes in India's path to effective financial inclusion.

Micro insurance is certainly a way to end the cycle of poverty — to provide the safety net that family needs. But it is more than that. If the poor know they are covered, they're more likely to invest in expanding businesses, diversifying their crops, or sending their children to school, without fear of losing their little and only savings if something were to happen. The whole capacity to take risks changes. Thus from just being a safety net, micro insurance provides something that earlier generations could never imagine: hope in the future.

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