SUPPLY AND DEMAND SIDE DEVELOPMENT OF MICRO- INSURANCE IN INDIA

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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 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.

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

SUPPLY AND DEMAND SIDE DEVELOPMENTS

Supply of Micro-Insurance

Recently, the ILO (2004a) prepared a list of products of all insurance companies, public as well as private, for the disadvantaged groups in India. Some of the observations made on the basis of the list are presented below:

- Out of 80 listed insurance products, 45 (55%) cover only a single risk. The other products, covering a package of risks, mostly focus on 2 (20%) or 3 (18%) risks.
- The available products cover a wide range of risks. However, the broad majority of the insurance products cover life (40 products or 52%) or accident-related risks. The health coverage remains very limited (12 products).
- Most life insurance products (23 out of 42) are addressed to individuals. However, some products may be bought both by individuals and groups.
- Most life insurance products (55%) have been designed to cover an extended contract duration ranging from 3 to 20 years.
- Out of 42 life insurance products, 23 are pure risk products. The other 19 products propose various types of maturity benefits.
- Out of the 12 currently available health insurance products, 7 have been designed and are restricted to groups.
- Out of the total 12 health products, 7 products propose the reimbursement of hospitalization expenses while the other 5 have chosen to narrow down the coverage to some specific critical illnesses.
- Most of the health insurance products specifically exclude deliveries and other pregnancy-related illnesses. Most of these products also mention amongst their exclusion clauses, HIV/AIDS.
- Most products whether life or non-life require a single payment of premium (i.e., a one-time payment) upon subscription.
- Private insurance companies have three times more products than the public companies.

As per the IRDA statistics, the public insurance companies still play a predominant role in the present coverage of the rural and social sectors. This is only to be expected since the incumbent public insurers have been in the market for a number of years now.
Demand for Micro-Insurance

On the demand side too, the ILO (2004) has recently prepared an inventory of micro-insurance schemes operational in India. Based on this list some of the observations are made below:

- The inventory lists 51 schemes that are operational in India.
- Most schemes are still very young, having started their operations during the last few years. Of the 39 schemes for which this information is available, around 24 schemes came up during the last 4 years, and about 7 schemes have operated for more than a decade.
- As regards the beneficiaries, the 43 schemes for which the information is available cover 5.2 million people.
- Most insurance schemes (66%) are linked with microfinance services provided by specialized institutions (17 schemes) or non-specialized organizations (17 schemes).
- Twenty percent of the schemes are implemented by community-based organizations, 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. In SEWA’s experience health insurance tops the list of risks for which the poor need insurance.

In the majority of the schemes, special staff had been recruited to manage the insurance activities. The other schemes kept relying on their regular staff while recognizing them the additional responsibilities linked to the management of the scheme.

On Extending Micro-Insurance

Prior to the introduction of social and rural obligations, insurance to the low-income people took the form of (i) a nodal agency tying up with one of the public insurance companies (the intermediate model) and (ii) a nodal agency itself underwriting risk i.e., performing the role of an insurance company (the insurer model). However, with the social and rural obligations the insurer model is becoming less common and is getting subsumed in the intermediate model. To further promote this model, the IRDA is thinking of introducing supplementary provisions outlined in its concept note on micro-insurance in which it defines ‘micro-insurance’ and ‘micro-insurance agent’. The concept note suggests how a single insurance company can offer composite insurance product to the low-income people, sets a ceiling on the commission that can be paid to insurance agents.

Flexibility in Premium

In the IRDA’s concept note on micro-insurance there is no provision that explicitly calls for allowing flexibility in premium collection which is necessary for extending the reach of micro-insurance. Although some micro-insurance products allow for half-yearly, quarterly and even monthly payment of premium, most products whether life or non-life require single, yearly payment of premium upon subscription. This can be a serious drawback in extending the reach of insurance to the low-income people, especially in rural areas. Often nodal agencies adopt several methods to facilitate premium collection. These methods may take the form of soft loans for paying premium, collecting premium in kind, collecting smaller amounts but more frequently, having insurance contract of shorter durations and so forth. Where a nodal agency collects annual premium in one go, there is not much involvement of the agency.

Micro-Insurance and Micro-Finance

Micro-finance activity in the country is leading to the spread of micro-insurance among its members/clients. For MFIs, integrating insurance with their credit and savings activities makes logical sense as it helps them to reap scale economies in financial management, provides them with a captive market, and enables them to use their existing network and distribution channels to sell insurance. Besides, linking micro-insurance with micro-credit makes it cheaper for the borrower to have both these financial services. Indeed, the natural linkage between micro-insurance and micro-finance is well reflected in the ILO inventory referred to earlier. Not only is the specialized microfinance organizations the most numerous in initiating the micro-insurance schemes, but many organizations involved in other activities are also providing micro-finance services.

SUGGESTIONS

- Linking Micro-insurance with Micro-credit
- Human Resources Requirement and Training
- Development of Adequate Feedback Mechanism
- Development of Data Base
- Consumer Education, Marketing and Grievance Handling
- IRDA’s Regulations on Micro-Insurance
- MI Products and Coverage
- Pricing of Product
- Review of existing schemes

CONCLUSION

This article paper concludes that, 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, International Food Policy Research Institute, Washington, DC.
REFERENCE