



Micro-Insurance: A Boon for Poor People

Kartik Agre¹ and Gaurav Mittal²

¹ Research Scholar, Apex School of Law, Apex University, Jaipur, Rajasthan, India.

² Assistant Professor, School of Law, University of Petroleum and Energy Studies, Dehradun, India.

kartikagre2393@gmail.com

Abstract: In this dynamic scenario every person faces various kinds of uncertainties, whether a person belongs to a middle class family or from a poor background. But it becomes difficult for the poor people or the rural people to come up with such uncertain situations. The best emerging solution for this problem is micro-insurance. Micro-insurance provides insurance facility to low income class of the society at a very small rate of premiums. This paper would be dealing with the basic concept of micro-insurance, various distribution models of micro-insurance, products which are available under micro-insurance and the micro-insurance regulation in India. The paper will also try to find out the different kind of needs and the actual position of certain number of people of this society in economic terms.

Key Words: Micro-Insurance, IRDA, Micro-Insurance Products, Risks.

Article History

Received: 19/08/2020; Accepted: 22/09/2020

Corresponding author: Kartik Agre, Email id: kartikagre2393@gmail.com

1. INTRODUCTION

From the time immemorial society has always been divided into two parts the haves and the have not's. Life is always been unfair for the latter half of the society as they are the people who are more prone to risks in terms of illness, poverty, accident, natural disaster, etc. Even though it affects the poor as well as the rich in a similar manner but the potentiality to cope up with the sudden as well as persisting problems are far lesser for the poor and rural sector people than of the rich. These situations can aggravate their conditions and lead them towards sheer poverty. So, in order to safeguard these people the concept of 'Micro-insurance' has been introduced by the Government.

‘Micro-insurance’ can be defined as an insurance which has been designed to provide coverage to low income or poor people at the low premium including numerous designs and patters for the coverage of various kind of risks. So, the key characteristics of this definition are¹:

- It’s such an insurance which works with the principle of risk management.
- It is mostly suitable for lower middle class and poor people who basically belong to the lower income group.
- The target groups are mainly those people who are not in a position to avail formal insurance policies.
- Application of micro-insurance is not restricted to a particular kind of risks; it covers all such problems that are likely to affect the poor and the needy.

Micro-insurance plays a vital role in providing economical assistance to the people through various schemes and approaches. The different needs that are fulfilled by micro-insurance are as follows:

- Poor, illiterate, rural people, who are generally in need of money in order to meet their daily expenses, often took loans from the witty moneylenders who misused and ill-treated them by charging high interests. Micro-insurance protects the poor from the clutches of these money lenders.
- Micro-insurance provides an opportunity to the poor people to save their money in small amounts money from various sources to overcome certain issues like health, education, household, etc.
- There are several insurers who are focusing on low income society, as through this they may get a large number of people which benefit them also by providing large market.
- Micro-insurance products designs also keep in mind the agro industries and farmers.
- Micro-insurance is also beneficial for the people who are living in remote areas as micro-insurance products finds their way to reach out these sections of people which was never ever attempted by urban insurance products that deals with upper middle class and rich clients.²

¹David M. Dror and David Piesse, *What is micro finance?*, http://www.microinsuranceacademy.org/wp-content/files_mf/1406872143194603_MIN_BRO_CHAPTER_2_final.pdf (Last visited May 2, 2020).

²*Microinsurance: Demand and market prospects – India*, August 2006, <http://www.undp.org/content/dam/aplaws/publication/en/publications/capacity>

- Micro-insurance has made the life of this poor people easier by avoiding several kinds of complexities that were otherwise present in formal financial institutions such as paper works, cost of submitting claims, ill-treatment by officials towards the low income people, etc.³
- Women in our society is more vulnerable to risks than men, some of these risks pertaining to wealth issues after the demise of sole earner of the family, risks of various kind of infections during pregnancy, risks of hazardous or dangerous working situations and protection at old age, risk of instability of economic position of women after widowhood, maternity, etc. In order to overcome such risks, they work under hazardous situations, such as carpet industry, bangle factories, crackers factories and recycling industries of polythene.⁴ This badly affects the physical as well as mental condition of the women. These gender-specific issues can be dealt to a certain extent through micro-insurance, as women by saving small amounts for premium can secure their positions and be less prone to risks.

Due to the benefits that are being rendered, micro-insurance has proved to be a boon for the economy. As economy can only rise with the rise of the living standards of its people and these comprises of all sections of the population. Thus, this scheme has been adopted by the governments of different countries. This project deals with micro-insurance in India.

2. DEVELOPMENT AND GROWTH OF MICROFINANCE IN INDIA

2.1. Brief History

In India, where the maximum percentage of the population belongs from a low income group and are prone to different kind of risks, ‘micro-finance’ proved to be a savior for many. History reveals that India is the first country that has given immense importance to micro-finance schemes and also formulated regulations for the same. It was first introduced in India by NGO’s that worked for the welfare of the low income group of people who mainly belongs from a rural background. They felt the need of the situation and thus found out means through which the low income people would be able to save and secure their money for the future. Later, with the

development/microinsurance-demand-and-market-prospects-for-india/Microinsurance.pdf (Last visited May 2, 2020).

³*Id*

⁴ D. Srijanani, *Micro-Insurance in India: A safety net for the poor*, 3IJMBS, Jan - March 2013 <http://www.ijmbs.com/31/drsijanani.pdf> (Last visited May 2, 2020).

advent of proper regulation under Insurance **Regulatory** and Development Authority (IRDA), 2000, the whole process gained an impetus and several micro-finance institutions cropped up with various schemes for the poor.

2.2. Micro-insurance Distribution Models in India⁵

2.2.1. Partnership Model – As the name suggests is a type of model where there is partnership between the insurer and the agent and through this partnership they provide insurance to the lower income groups of people. In this model the agents provide financial services like insurance schemes to the poor by taking a certain amount of commission fee. They do this through their recognized channels of distribution which in turn proves advantageous for the insurer companies who otherwise had to establish one such channel. One example can be BASIX which is an NGO that focused on the livelihood promotion of backward district people who later got engaged with different insurances companies to render micro-insurance to the poor.

2.2.2. Agency Model – It is a type of model in which the insurer company directly sells its insurance to the poor people through their own agency offices. Each and every service that is related to this micro-insurance is provided to the people in this office. Though it is recognized as a type of model but in reality there is no practical application to it.

2.2.3. Micro-agent model – This model has been formulated by TATA AIG. In this model the working is done through a body called Rural Community Insurance Groups (CRIGs) which are maintained by organizations that run in rural sector such as NGOs or MFIs. CRIGs are mainly formed of five women who are a part of self help groups. And among these women there is a woman who is the leader of CRIG who along with other members performs the task of promoting, selling and collecting insurance premiums and also maintains each and every record.

2.3. Micro-insurance Products in India⁶

There are several micro-insurance companies that are providing micro-insurance product to several poor and rural people all over India. And only within few years this scheme has gained huge momentum all over the country. A list of few insurers along with their product names are laid down below:

⁵ 2 *Supra* at 2

⁶ Neeraj Kumar, Microinsurance: Perception And Need of Low Income Group, <https://www.scribd.com/doc/31741616/microinsurance-project>. (Last visited May 13, 2020)

- AVIVA Life Ins. Co. India Pvt. Ltd. is the insurer company and its product name is Grameen Suraksha.
- Bajaj Allianz Life Ins. Co. Ltd. is the insurer company and the product names are Bajaj Allianz Jana Vikas Yojana, Bajaj Allianz Saral Suraksha Yojana, Bajaj Allianz Alp Nivesh Yojana.
- Birla Sun Life Insurance Co. Ltd. is the insurer company and the product names are Birla Sun Life Insurance Bima Suraksha Super, Birla Sun Life Insurance Bima Dhan Sanchay.
- DLF Pramerica Life Insurance Co. Ltd. is the insurer company and the product name is DLF Pramerica Sarv Suraksha.
- ICICI Prudential Life Insurance Co. Ltd. is the insurer company and the product name is ICICI Pru Sarv Jana Suraksha.
- IDBI Fortis Life Insurance Co. Ltd. is the insurer company and the product name is IDBI Fortis Group Microinsurance Plan.
- ING Vysya Life Insurance Co. Ltd. is the insurer company and the product name is ING Vysya Saral Suraksha.
- Life Insurance Corporation of India is the insurer company and the product name is LIC's Jeevan Madhur, LIC's Jeevan Mangal.

3. MICRO-INSURANCE REGULATION IN INDIA

3.1. The Key Features of IRDA, 2000

- This regulation gives a vivid description of various terms in relation to 'micro-insurance' which includes the definition of micro-insurance products, micro-insurance policies, micro-insurance agents, etc.

There are mainly two types of **micro-insurance products**: 'General micro-insurance product' and 'Life micro-insurance product'.

- ❖ '**General micro-insurance product**' includes all contracts that are related to health insurance, that covers all the belongings or personal accident contracts. This can be both in individual or group basis in accordance to Schedule I.
- ❖ '**Life micro-insurance product**' includes any term insurance contract, with or without premium or any endowment insurance or health insurance contract, with or without an accident benefit rider. This can be both in individual or group basis in accordance to Schedule II.

‘**Micro-insurance Policy**’ is such an insurance policy which is sold under a particular plan that has been approved by an Authority as a micro-insurance product.

‘**Micro-insurance Agents**’ are persons appointed by the insurers for the purpose of distribution of micro-insurance. They are generally bound by a deed of agreement with the insurers. As such there is no qualifying examination for these agents but they must have a minimum 3 years experience of working with low income group. In accordance to the code of conduct of IRDA, training is also provided to the agents by the insurer. The agents can be divided under different heads which are as follows:

- ❖ Non-Government Organizations
 - ❖ Self-Help Groups
 - ❖ Micro-finance Institutions
- The regulation also provides the functions of intermediaries and these functions includes⁷:
 - ❖ Proposal forms are collected by them.
 - ❖ Self declaration form that the proposer is in good health is collected by them.
 - ❖ Premiums are collected and remitted by them.
 - ❖ Policy documents are distributed by them.
 - ❖ Maintaining the details of clients and their dependants in registers.
 - ❖ Intermediaries assist in settling claims.
 - ❖ Intermediaries confirm that the insured people have put in their nominations.
 - The capping system under the regulation helps in setting up commissions of the MI agents and also managing the intimidation costs. The commissions of MI agents are generally more liberal than that of other agents in ordinary businesses and this is due to the fact that these agents perform several extraordinary functions.
 - Under this regulation there is provision for combining two sets of insurance that is life insurance and general insurance that is collaboration can be built up between life insurers and non-life insurers and they can jointly provide these in one single product but the condition is premiums should be paid separately. This set up or tie up between the insurers will be governed under Section 64 VB of the Insurance Act that deals with remittance of the premium amount to the insurance company.

⁷*Supra* 6 at 4

3.2. Contribution of the IRDA in the promotion of micro-insurance scheme

This regulation has reduced the training time for micro-insurance to 25 hours which is generally 50 hours in case of other ordinary agents under different insurance schemes to facilitate rapid spread of this scheme.

The regulation levies high duties on MI agents because it is believed that efficiency in their working will lead to a growth in micro-insurance scheme as proper collection of premiums by agents would lower the transaction cost of insurance companies and which in turn would lower the premium rates.

In order to get the license under IRDA for rendering insurance to general public, there are certain norms which are required to be followed and that includes a high startup capital of around 100 crores rupees. But this regulation is not religiously followed in order to give space to in house insurance. And this is due to the fact that the needs of such a huge population cannot only be satisfied by the formal insurance companies.

3.3. Limitation of the Micro-insurance Regulation

- Under the regulation the definition of MFI only includes societies, trusts and cooperative societies thereby excluding several other MFIs working through other legal forms. Though the formalizing procedure of MI agents is a step towards welcoming the MFIs but still it's a matter of concern under the present scenario.
- The regulation also puts restriction upon the MFIs in relation to the number of insurance companies they can work with and this is generally one life and/or one general insurance. This is a difficulty as this provision chalks out several other MI models currently in use in the market.
- It is very difficult to 'Know Your Customers (KYC)' documents such as voter's card, ration card or any other identity proof from people of rural areas and this becomes a serious problem for the MI agents.
- The regulation is at certain places contradicting with the provisions or regulations under RBI and this raises a serious issue and must be looked into otherwise it will always create conflicts. Example of one such contradicting provision can be that RBI regulation strictly prohibits receiving premiums in any money instrument other than cash but still MI premiums are taken in other form too.

4. SURVEY REPORT

While doing this paper we visited a village named Maholi, which is just 3 Kms. away from Mathura district. And there we surveyed in around 20 houses so that we could receive a clear view about the perception and level of awareness that the poor and rural people in that area carry in relation to micro-insurance. After conducting the survey the things that we have observed are laid down below:

- Firstly, after starting our survey we observed that the people of that area have a poor standard of living and they are mostly daily wage earners. Almost all the families have more than 4 members that may also reach up to 12, with only one or maximum 2 earning members in the family which makes their lives all the more difficult.
- Secondly, the wage that they earn is so less in amount that it even becomes insufficient for them to fulfill their basic needs only a small percentage of around 35% of people were of the view that they somehow manages to meet up their basic needs which is really a matter of concern for the society.
- Thirdly, we also got an idea about the problems that these people face due to lack of money which are for example money saving problem, problem of getting a good treatment at times of illnesses, problem of facing and kind of sudden occurrences such as accident and many others, etc. In short, what we have concluded is that there is very less or actually no security at all for this people and there are very much prone to risks. When asked about their preference regarding borrowing of money most of them inclined towards an informal system such as the money lenders even though they impose huge amount of interest upon this poor people. And this is due to the fact that at times of need the money is readily available without meeting any kind of formalities.
- Fourthly, when we tried to enquire them regarding their awareness of micro-insurance scheme a huge population of around 70% was unaware of this concept. Out of the remaining percentage who knew about this concept only a small percentage have actually availed the benefit of such scheme.
- Fifthly, after further enquiry we came to know about the benefits that those people have received who have availed the scheme and we also enquired others who have not yet availed regarding their future willingness to which maximum people denied as they do not have a clear concept thus uncertainty and unawareness is the root cause for such a response.

- Sixthly, to the people who wanted to invest in future we asked about their preference in relation to the type of insurance company to which maximum relied upon government companies over private as they feel that they will get better security. We also asked them their preference in terms of affordability of premiums which they answered according to their incomes earned.
- Lastly, we also asked them their preference in terms of intervals of payment and place of payment and they replied according to their individual convenience.

5. SUGGESTIONS

- There is a great need of awareness among the low income people regarding the micro-insurance.
- Training should be provided to the agents of micro-insurance and the quality of training must be monitored by IRDA.
- Distribution channel should be developed in the rural areas.
- There should be proper feedback structure.

6. CONCLUSION

After doing this paper we have come to know about a unique scheme for providing financial security and economic assistance for the poor and rural people of our country which is known as Micro-insurance. This policy has acted as a boon in the lives of poor people and side by side it also enlarged the business market for the financial intermediaries. As this a new concept so currently it is in its development stage where in other insurance companies providing insurance to the urban and rich people have attained great heights. There are chances that insurance companies behave in a reluctant manner while forwarding insurance to poorer group of people but it should be kept in mind that providing assistance to them would improve their social and economic condition in future and they then would become prospective clients for these insurance companies. But development of micro-insurance have to face several challenges in India and that is being concluded after conducting a social survey in very small scale in a village near Mathura district. One more major problem which we have witnessed is that even though there are some people who are aware of such a scheme but due to lack of local experts the policy does not function in a proper manner. So, in order to establish this concept in this country proper mechanism must be adopted by the Government so that smooth functioning becomes possible.