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Micro Insurance in India: A Gizmo to Vehicle Economic Development & Alleviate Poverty and Vulnerability

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Abstract:*The conditions for growth and the degree of inequality are two key factors that determine the extent of poverty reduction from per capita economic growth. The lower the inequality levels the more positive effect economic growth has on poverty levels. The link between economic development and human development is dependent on the effectiveness of countries to convert income into better lives for all their citizens (UNDP 2000). The international development target of halving the proportion of people living in extreme poverty by 2015 can be attained by low-inequality countries without any change in their growth pattern and with lower growth rates. However, high-inequality countries will only reach the target if growth is pro-poor and significantly higher than in the past (twice that of low-inequality countries). If all countries belonged to the low-inequality group then a forecasted growth of four per cent per annum would realize the target as early as 2005 (Hanmer et al 2000). So, this paper explores the idea of development and reduction of poverty, vulnerability and inequality by micro insurance in India.*
Key words:*Micro insurance, poverty, development, vulnerability, inequality*

I. Introduction

India is home to two third of the poor living in the world. Around 84% of Indian population earns less than US $ 2 a day. The India Financial Protection Survey conducted by the National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life found that 96 per cent of the households cannot survive beyond a year on their current savings in case of loss of income due to some eventuality such as death or disability of the chief earner. This calls for measures to improve financial security of the households.

Micro insurance can be one tool to mitigate risks of low-income group in the country. India has very low insurance penetration (5 %) and density ($ 42) compared to the world average of 7.5 %. This is because of the low awareness and acceptance of pure insurance services, lack of access to financial services for the low-income group. To increase acceptance of insurance as a tool to mitigate loss due to financial risk arising out of various events, insurance literacy and accessibility to insurance has to increase.

Nearly 80 % of Indian population is without life, health and non-life insurance coverage. The per capita spent on life and non life insurance is only Rs 2000 and Rs 300 respectively, compared with global average of at Rs 18000 and Rs 13,000. The main reason for the poor spread of insurance may probably be lack of availability, affordability, acceptability and awareness.

Government has attempted to address issues related with financial vulnerability of poor families in rural areas by providing insurance at the doorsteps of the families. To achieve this Government has launched a Micro Insurance initiative to address clients' needs for risk management that helps the bottom of the pyramid to have more savings and thus pool them from the destitution (Figure 1).

Figure 1: How the Risk Management of Poor Addresses by Micro-Insurance

II. Review ofprevious studies

Hennie Bester, Doubell Chamberlain, Christine Hougaard and Herman Smit (2010)[1] the study concludes that Brazilian insurance market in 2009 covered between 40m and 50m people. Of these between 23 and 33 million would represent the existing micro insurance client base. Micro insurance in Brazil is mostly provided by large commercial insurers who started marketing products to this market from about 2001. The exception is the large informal funeral assistance market comprising up to 20-25 million clients served by several large and many smaller funeral homes. By law, funeral assistance is not considered as insurance. Health insurance remains the largest single private insurance market in Brazil.

Syed Abdul Hamid Jennifer Roberts & Paul Mosley (2010)[2] the study shows that there is a positive impact of micro health insurance in the reduction of poverty among rural households of Bangladesh. Micro health insurance has a significant beneficial effect on food sufficiency of poor's and has a dynamic improvement in the health status of poor rural households.

HongbinCai, YuyuChen,Li-An Zhou &Hanming Fang (2009)[3] The study results that there is an effect of micro insurance on subsequent production decision of farmers and farmers significantly raise the tendency of having access to formal insurance and study also provide a set of corroborating evidence that government-sponsored insurance products act like a significant barrier for farmers' willingness to pay for the nominal insurance premium.

GunitaArunChandhok (2009)[4] The result of study indicates that there is a huge untapped market for micro health insurance and majority of population are aware and understand the importance of micro health insurance. Thus, micro insurance will go a long way in eradicating poverty. If the various micro insurance models are implemented effectively by Insurer, MFI's, SHG's, NGO's, Health institutions, Donors and Co-operatives the BPL population will lead a peaceful and secure life.

Sarthak Gaurav, Ana Paola Gomez, Acosta and Luis Flores Ballesteros (2007)[5] According to the research, study concludes that rural households need a dependable, useful, transparent and affordable solution for effectively deal with risk and shocks they face and micro insurance is one of the effective risk management tools for the development and addressing critical risk of the rural poor.

Michael McCord (2007)[6] says in their report that the micro insurance product development process is continuous and designed to ensure that appropriate products get delivered to the market in an effective manner and are monitored for potential improvements. Every step is informed by the needs and abilities of the low-income consumers, the activities of the competition, and the capacity and objectives of the institutions offering the micro insurance product. It is imperative that the product also fit the needs of the institutions (insurers and delivery channels) that offer it.

JenneferSebstad& Monique Cohen (2005)[7] the Study reveals that micro insurance is a clear requirement as a tool for risk handling. Insurance is necessary to help poor people better managed risk and avoid falling back down the poverty ladder. It is a key to the process of poverty alleviation because demand of micro insurance is same in all three countries. Therefore, micro insurance has a role to play for poor's to enhance risk management option.

III. Need of the study

- Poor need insurance protection
- Inclusive growth is the only way to ensure sustained growth
- Trickledown effect of the process of economic growth benefiting the poor belied
- Poor get excluded unless special effort is made to bring them into the development process
- Mandate insurers to devote attention to this segment of the population
- Monitor it effectively

Objectives of the Study

1. To study the growth of micro insurance in India.
2. To study the role of micro insurance in poverty, Vulnerability, inequality removal.

Growth of Micro Insurance in India

The micro insurance business in India has made a continued progress in both public insurance and private insurance companies. More life and group operations and many fresh policies have been lunched during the year. The distribution system of policies has also been strengthened substantially, and the new business of micro insurance has shown a sufficient growth though the mass is still very low.

Table 1: Growth of Individual micro insurance Business (in Rs lakh)

Year/ Companies	Public Insurance Companies				Private Insurance Companies			
	Policies	**% Change in growth rateof Policies**	**Premium**	**% Change in growth rate of Premium**	**Policies**	**% Change in growth of Policies**	**Premium**	**% Change in growth rateof Premium**
2007-08	854615		1613.36		83153		209.74	
2008-09	1541218	80.34	3118.74	93.31	610851	634.61	537.81	156.42
2009-10	1985145	132.29	14982.5	828.65	998809	1101.17	839.78	300.39
2010-11	2951235	245.33	12305.8	662.74	699733	741.50	735.09	250.48
2011-12	3826783	347.78	10603.5	557.23	793660	854.46	964.22	359.72

Source: IRDA annual reports

The table, no. 1 shows the percentage change in the growth rate of individual micro insurance business of public and private insurance companies. For calculating the percentage change in the growth rate during year 2007-08 has been taken as base year. This table, it is clearly revealed that public insurance companies have been an increased percentage in policies, but the private insurance company is only increased percentage in first two years (2008-09 to 2009-2010) then after decrease in 2010-2011 and again increase in a year 2011-12. Similarly public insurance companies have increased growth rate for premium from the year 2007-2009 but decrease in 2010-2011 and then again, increase in 2011-12. Whereas same condition is there with private insurance companies in case of the premium amount.

Table 2: Growth of Group micro insurance Business (in Rs lakh)

Year/Companies	Public Insurance Companies						Private Insurance Companies					
	Schemes	**% Change in growth rate of Schemes**	**Lives Covered**	**% Change in growth rate of Lives Covered**	**Premium**	**% Change in growth rate of Premium**	**Schemes**	**% Change in growth rate of Schemes**	**Lives Covered**	**% Change in growth rate of Lives Covered**	**Premium**	**% Chan ge in growt h rate of Premi um**
2007 -08	7583		11367126		19256.23		15		874901		871.23	
2008 -09	6883	-9.23	11052815	-2.77	17268.54	-10.32	14	-6.67	1498994	71.33	3326.8	281.8 5
2009 -10	5190	-31.56	14946927	31.49	22869.72	18.77	17	13.33	1895143	116.61	1472.09	68.97
2010 -11	5446	-28.18	13275464	16.79	13803.67	-28.32	23	53.33	1983537	126.72	1719.14	97.32
2011 -12	5461	-27.98	9831.63	-99.91	9444349	48945.68	112	646.67	1150.67	-99.87	750555	86048 .89

Source: IRDA annual reports

The table no. 2 examine the percentage change in the growth rate of group micro insurance business during the last five years i.e., from 2007-2012.

In case of group micro insurance business, public insurance companies have been increasing percentage in schemes during the year 2007-2009 but decreased during the year 2009-10 and then increased in 2010-2012. Whereas the private insurance companies have decreased their schemes in their 2008-2009 from 15 to 14 schemes but again increase in next three years. Similarly, in case of lives covered by public & private insurance companies there has been an increased trend of micro insurance from 2007-08 to 2010-2011, then again, decreased in 2011-2012. While in case of premium collection by public insurance companies, they had been rising trend premium amount from 2007-2009 but decrease in 2010 again increase in 2011-2012. Same Condition is there with private insurance companies for the premium amount.

But in last, the public micro insurance companies are much preferred by unprivileged peoples of the society and performing better because people have much faith over the government-owned companies than private.

IV. Economic Growth, Income Poverty and Inequality over the Successive Five Year Plans- India

At the time of India's independence, the socio-economic scenario was characterized by a predominantly rural economy with feudal structure. There was widespread poverty, dismal literacy rate, geographically and culturally isolated population, a rigid social structure and extremely poor transport and

communication system. The state leaders and policymakers during the initial years of development planning were also not adequately acclimatized to development activities.
In view of the impediments to social and economic development, the fulcrum of the planning process had been pivoted on the strategic goal of 'economic development with social justice'. Thus, the planning process in India, over the years, underscored the development of backward areas and disadvantaged population groups.

Table 3: Growth Targets and Achievements (% per year)

Plan	Target	Achievement
First Plan (1951-56)	2.1	3.6
Second Plan (1956-61)	4.5	4.2
Third Plan (1961-66)	5.6	2.7
Fourth Plan (1969-74)	5.7	2.1
Fifth Plan (1974-79)	4.4	4.8
Sixth Plan (1980-85)	5.2	5.5
Seventh Plan (1985-90)	5.0	6.0
Eighth Plan (1992-97)	5.6	6.7
Ninth Plan (1997-2002)	6.5	5.7
Tenth Plan (2002-2007)*	8.0	7.1

Source:http://planningcommission.nic.in

Table 4: Poverty and Inequality across Rural and Urban Areas

Year	Poverty ratio (%)		Per capita consumption expenditure (%)		Urban-Rural disparity in average monthly per capita expenditure
	Rural	urban	Rural	Urban	
1973-74	56.4	49.0	28.7	31.9	1.334
1977-78	53.1	45.2	29.5	33.7	1.396
1983-84	45.7	40.8	30.0	34.1	1.458
1987-88	39.1	38.2	29.4	34.5	1.585
1993-94	37.3	32.4	28.4	34.4	1.628
2004-05	28.3	25.7	30.5	37.6	1.882

Source:http://planningcommission.nic.in

Table 5: Economic Growth, Per Capita Income and Poverty Ratios (1973-74 to 2004-05)

Indicators	1973-74	1983-84	1993-94	2005-04
Economic growth (%)	3.3	5.6	6.7	8.0
Per capita income (Rs. At 1993-94 prices)	4763	5555	7433	12000
Poverty ration (%)	54.9	44.5	36.0	27.5

Source:http://planningcommission.nic.in

V. Role of Micro Insurance in Poverty Reduction and vulnerability

Poverty and vulnerability are closely related. Poverty is not only state of deprivation but also a state of vulnerability. Although the poor do have some informal mechanism to cope with risk and misfortunate, it is limited or inadequately organized. We have also seen that risk can cause poverty traps following large shocks to assets and income that are almost impossible to recover from.

Insurance services are emerging as coping mechanism to deal with many risks and vulnerabilities. Unlike savings and credit, there has been little progress in providing insurance services to the poor.

Micro insurance is intended to protect the working poor, particularly those working in the informal economy. Often poverty alleviation efforts like microcredit focus on boosting incomes, building assets or creating jobs – all of which are important objectives. But these productive efforts must be balanced with a corresponding intervention on the protective side. Even families that are breaking out of poverty can be left destitute by the financial burden of serious health problems. The World Health Organization estimates that around the world 100 million people each year fall into poverty because of exorbitant health care expenses.

The poor, or even the not-so-poor, cannot cope with the costs of a major surgery or debilitating illness out of their cash flow or by relying on their social support networks. They may choose not receive the treatment and start the downward cycle into destitution or they may borrow from a moneylender, which could end up with the same result. To pay for the treatment or to pay off debts they may need sell off productive assets, which reduce future income generating potential. They are stuck between a rock and a hard place. Any of these unattractive options will contribute to spiraling further into poverty, for themselves and perhaps for their offspring as well.

Risks are certainly not limited to health crises. The death of a breadwinner can force children out of school and into the labour market. Property damage and theft are rife in low-incomesettlements and slums. Floods and other natural disasters can overwhelm poor households, destroying homes and livelihoods, and leave vulnerable families destitute.

The characterization of the working poor depends greatly on the country or jurisdiction, but in general the poverty line, often with irregular or unpredictable incomes which may make it difficult for them to maintain regular premium payments, they are possibly un-banked and excluded from social protection mechanisms, perhaps with limited education and unfamiliar with insurance. This is the population in your countries that is most vulnerable to risk and least able to cope when a crisis occurs. For this population, even a small loss in absolute terms can be devastating, often because losses do not occur in isolation, but in quick succession. So before the household has an opportunity to recover from the initial loss, they are hit again. But now their coping mechanisms are frayed and they cannot manage to get their heads back above water.

Today's populations in the greatest need for insurance, but the least access. But micro insurance can help rectify this conundrum. If products are properly designed and made widely available, micro insurance has the potential to help these families to cope with these and other risks for the cost of a premium.

Besides these potential protective functions, access to insurance can also unlock productive potential. **For example, if the larger prospective risks can be managed through small regular premium payments, it will enable the poor to focus their energies on other challenges. Instead of putting cash under the mattress to protect against possible risks, they might be willing to make additional investments in productive efforts that help to break the cycle of poverty.** This is the "peace of mind" effect. Knowing that they have the safety net of insurance to fall back on, in some circumstances the poor may be willing to engage in high risk, high return opportunities that could boost them out of poverty.

Another productive function of micro insurance is its potential to unlock access to productive inputs, especially credit. Many banks severely restrict their willingness to lend for agricultural activities because of the associated risks. But if the risk of too much or too little rainfall could be covered by insurance, for example, to what extent would financial institutions be willing to increase their agriculture portfolio? If the risk of death to cows or buffalos were covered by micro insurance, would banks significantly increase their willingness to lend for livestock? If so, additional flows of credit could create jobs and stimulate economic growth.

Another exciting development impact emerging from inclusive micro insurance is that insurers have an interest in reducing claims costs and therefore are willing to invest in risk prevention programmes. **For example, an insurer in Uganda found it much more cost effective to subsidize the costs of insecticide treated bed nets for its policyholders than to treat them for malaria. Similarly insurers in India are investing in health education activities to help policyholders to avoid succumbing to preventable diseases because the investment saves them money.** Insurers could be persuaded to undertake more of these loss control strategies if researchers helped them to identify interventions that would pay for themselves through lower claims costs.

The benefits of micro insurance in terms of poverty alleviation are not only seen at the household level, but can potentially be found in the broader economy as well. Deep markets with varied participants can absorb overall risk better. By covering more insurable units, insurers are able to diversify their risks, increase their revenue streams, and hopefully accumulate greater pools of capital to invest in local economic activities. When you look at the insurance penetration in many developing markets, it is really quite astonishing how few individuals and businesses have insurance coverage.**For example, in one African country where I have worked recently, only a few hundred thousand persons are covered by the formal insurers, whereas informal micro insurers, especially microfinance institutions, are providing basic life coverage to several multiples of the formal outreach. The potential is there.**

Micro insurance is not really new. Some of today's large insurance companies began in the 1800s as mutual protection schemes among low-income workers. In the early 1900s, many insurers built their business by selling industrial insurance at factory gates to low-income workers. Over the years, however, insurance became increasingly sophisticated and more relevant for complex risks, and wealthier policyholders.

In developing countries, the insurance industry inherited the more sophisticated insurance without going through the same development processes. Unfortunately, insurance is not like some industries where developing countries can leapfrog to more sophisticated technologies, such as in telecoms where we can forget about developing landlines and move straight into the development of mobile phone networks. By not building the industry from the ground up, developing countries do not have a consumer base that sees insurance as a viable risk management tool.

As such, micro insurance can be described as a back-to-basics campaign for insurers that enable them to reach an underserved market, reducing the vulnerability of the poor while strengthening their balance sheet and the broader economy in the process.

VI. Findings

- From 2008 to 2011 there is an enough growth of new business under micro insurance.
- In individual policies there is an increase from 2152069 (2008-09) to 3650968 (2010-11) and in premium 3656.55 (2008-09) to 13040.85 (2010-11).

- And, in case of group micro insurance policies there is adecrease in schemes 6897 (2008-09) -5469 (2010-11), increase in lives covered 12551809 (2008-09) - 15759001 (2010-11) and decrease in premium collection 20595.34 (2008-09) - 15522.81 (2010-11).
- In the study it is finds that the economic growth of our country is less comparing to the targets fixed for five year plans and targets achieved.
- In table no. 3 it is shown that poverty and inequality in rural and urban areas across India is decreases from the year 1973 to 2005 (Rural 56.4 to 28.3 and Urban 49.0 to 25.7).
- It was also found that the per capita consumption is increases from 1973 (Rural 28.7 and urban 31.9) to 2005 (Rural 31.9 and Urban 37.6).
- The economic growth of our country is being increases as the table no. 4 is showing that in 1973 the economic growth of India was only 3.3% and in 2005 it was 8%.
- The per capita income is increases from Rs. 4763 to 12000 and poverty ratio has been decreases from 54.9 to 27.5%.
- Micro insurance can be a partly self-financing development strategy. It provide the coverage of many risks, for some segments of the low-income market, it can be covered through the premiums paid by the poor.
- The development of micro-insurance are: one, flexibility in premium collection, and two, encouraging micro-insurance among micro-finance institutions (MFIs).
- Micro insurance as a social tool to build comprehensive social security system.
- Micro insurance has come as a natural next step towards financial empowerment. Itprovides relief in case of economic shock that happens due to accident or death of theearning head of the family.
- Growth accompanied with a decline in income inequality is both necessary conditions for reduction in poverty.

VII. Suggestions

- Promoting awareness and literacy among the people for effective development of micro insurance
- Irregular and uncertain income stream of the poor, flexibility in premium collection is needed to extend the micro-insurance net far and wide.
- The role played by Radio and television in transferring information is nil. Keeping in view the fact that audio & visual media make more impact on the audience for development of micro insurance, these two sources can be utilized in future.
- Micro-insurance needs a further push and guidance from the regulator as well as the government.
- Maximization of growth rate by encouraging savings and foreign capital inflows in the form of private investment for micro insurance.

VIII. Conclusion

The study highlights the importance of insurance in supporting the sustainable development of the poor and reducing the inequality in developing countries like India. Micro insurance a magic cure for all that ails the economy. There are still many unknowns in the micro insurance space, but the potential is there, just waiting for us to grab it. The development of micro insurance is both a moral and an economic imperative, not only for the promotion of inclusive financial systems but also for the equitable mitigation of risks. This imperative is reinforced by the fact that many donor agencies are taking a keen interest in supporting its development as a complementary poverty alleviation strategy.

Insurance is an intangible product. It is a promise. Policyholders are buying peace of mind that they will be protected should an insured event occur. But for the working poor, who have limited disposable income, it is hard to allocate funds to protect against an event that they hope won't even happen when they have more pressing short-term needs, like putting food on the table. Consequently, there is a need to make sure that that they have access to appropriate products, and have a positive experience with insurance; otherwise we will muddy the waters for insurance for another generation.

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