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## MICRO INSURANCE: ILLUMINATING THE REAL CHALLENGES IN INDIA

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### ABSTRACT

**Purpose:** Micro insurance is now recognized as the terrain where innovation in insurance can be and indeed is being experimented. The strongest drive to understand more about micro insurance comes from the realization that insurance is an essential tool in improving the protection of low income persons against the financial exposure due to life cycle events, economic activity, environmental issues and political issues. Insurance cannot resolve any of the major underlying issues; it can however provide the tools that delimit the financial exposure of single individuals when adverse, cost generating events occur. For Insurance companies providing Micro insurance to claim that their work is fostering rural growth, there must be proper development of products that respond to the need of the clients and in a way that is commercially viable. There is a need for market education which will help to demystify micro insurance so that when agents come, people are willing to engage with them. Many studies have attempted to study the phenomenon of health micro insurance, but none tried to study the rural Self help Groups (SHGs) Life micro insurance. This article illuminates the real challenges in taking up micro insurance among rural SHGs in Vellore District, Tamil Nadu, India.

**Design/Methodology/Approach:** Data was collected from primary as well as secondary sources. Primary data was collected from respondents using questionnaire and interview method. Secondary data was collected from NABARD, LIC, NGOs, Journals and other published and unpublished records. Using graphical representations and Chi Square Analysis the paper aims to find out what are the real obstacles involved in micro insurance.

**Findings:** This study reveals that majority of the low income members in Vellore District are illiterate and as such there is lack of understanding among them regarding various products and benefits offered under the micro insurance by insurance companies. There is less contribution from Government side for providing services to the rural poor. There is less contribution from Government side for providing services to the rural poor. There is no proper mechanism or adequate infrastructure to systematically reach the informal group. The Insurance Companies do not want to cover much people in the low income sector as it involves a large number of risks.

**Originality/Value:** The study relating to micro insurance illuminating the real challenges is the original work of the author.

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### INTRODUCTION

Financial inclusion forms an integral part of the package of livelihood promotion services that the poor require. While a diverse set of both formal and informal

institutions has evolved to cater to the savings and credit needs of the poor, there is still a huge gap with respect to insurance services available for the poor. It is also well understood that the vulnerability to various risks is highest for the poor. In the absence of proper risk hedging

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mechanisms like insurance, the poor stand to lose their wages, borrow, liquidate their assets, migrate and face several other hardships, which in turn only traps them into a deeper and vicious circle of poverty. With the increasing prevalence of nuclear families, the informal support system of the joint family too is unavailable for most people today. The penetration of formal insurance sector is very low today. Estimates put that less than 15 percent of the country's population is insured. The challenge for providing a whole range of insurance products to cover the risks related to both lives and livelihood generating assets of the poor is huge. However, the current situation is also seen as an opportunity by many players in insurance industry, to expand and deepen the insurance market in India. The concept of micro insurance was introduced in India on 28<sup>th</sup> of September, 2006 by Dr.A.P.J.Abdul Kalam who was the then President Of India.

### **Micro Insurance: A Concept**

The term micro insurance is comprised of two words "Micro" which means "Affordable to the poor" and "Insurance" means "Risk pooling to compensate to individual and group". Micro insurance, a recent concept in the field of micro finance, helps reduce vulnerabilities of microfinance clients and saves them from disastrous liabilities. The concept of micro insurance evolved out of two decades of research in microfinance. Financing the poor is sometimes a risk. The risk comes from the nature of investments and health hazards of the clients, which makes loan payment uncertain. As insurance is one of the scientific methods of handling risks, micro insurance facilities reduce risk to both clients and microfinance institutions. "General micro insurance product means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis".(IRDA,2005).

### **Micro insurance in India**

So far 13 life insurance companies and 8 non life companies offer micro insurance, but the premium collected is less than 5% of the total premium indicating a vast untapped potential. It is revealed that Insurance Penetration in the World for Life insurance has decreased from 4.76 in 2002 to 4.50 in 2006 and for Non-Life Insurance it has decreased from 3.38 in 2002 to 3.00 in 2006, whereas the Insurance Penetration in India for Life Insurance has increased from 2.59 in 2002 to 4.10 in 2006 and for Non-Life Insurance it has decreased from 0.67 to 0.60. Therefore it is clear that insurance penetration in the world is less than India. Insurance Density in the World for Life Insurance has increased from 247.30 in 2002 to 330.60 in 2006 and the Insurance Density in India for Life Insurance has increased from 11.70 in 2002 to 33.20 in 2006 and for Non -Life Insurance it increased from 3.00 in 2002 to 5.20 in 2006. Therefore there is clear that insurance density in the world and in India has increased for Life Insurance as well as Non-Life Insurance.

### **Statement of Problem**

The literature shows that micro insurance is going on well in helping the rural people. Some studies have discussed about the progress made by micro insurance in the rural sector. With all said and done still many questions remains unanswered like, Is micro insurance programme going on well? Are the channels of distributing really working to their full eventual for reaching the poor? Are they really taking solemn efforts to prop up rural development? Are they giving full support to rural poor? Keeping this in mind this study has made a modest attempt to study the challenges in micro insurance and sets its objective.

### **Objectives of the study**

1. To study the demographic profile of the respondents.
2. To illuminate the real challenges in micro insurance.

### **Need of the study**

Insurance segment is mainly engaged in serving only the people who have regular income. The sector by no means seeks to uplift the rural poor who are most prone to risk and mostly cope up with risk by selling their assets or reducing their consumption. The poor felt the need for pecuniary gear to protect their families as well as themselves against risks that arise in course of life. Hence, the need for micro insurance comes here to protect the poor from a hotchpotch of risks. The need of the study is an attempt to understand the desires and prospect of the policy holders in connection with micro insurance its products, services, companies and in contradiction to find out the challenges in micro insurance. The study also highlights the challenges in micro insurance in Vellore Division, Tamil Nadu, and India.

### **Data Source and Methodology**

Primary and secondary data forms the base of the study. Secondary data is collected from various publications of NABARD. For the primary survey convenient sampling was utilized and SHG members from four different NGOs from Vellore division namely Organization for Rural Development (ORD), REEDS, Rural Social Welfare Society (RSWS) and PMD were interviewed. The sample size of the study is 100 SHGs. The respondents were either animator or member of SHGs. Only one member per SHG was interviewed. Questionnaire and personal interview method of data collection were used. 130 questionnaires were distributed and 120 were collected back and finally 100 were used for the analysis of the study. The questionnaire consisted of three parts: Personal factors with 9 questions, Administrative Factors with 5 questions and Critical evaluation factors with 16 questions. Likert's five point scales was also used, with 1 for Strongly Agree (SA), 2 for Agree, 3 for Neither Agree Nor Disagree (NADA), 4 for Disagree and 5 for Strongly Disagree (SD). For the analysis part Reliability test using Chronbach's Alpha ( $\alpha$ ) was utilized to measure the internal consistency of the building blocks and obstacles factors. Chi-square test was employed to study the relation of demographic factors and risk factors with the

demographic factors. Percentage and graphical method was also used for analysis.

**Analysis and Interpretation**

This segment consists of the analysis part of the study. Various factors were used to study the demographic profile of the respondents like age and educational qualification, and some factors like amount of and purpose of loan are also analyzed here.

**Reliability Test**

The Chronbach’s Alpha ( $\alpha$ ) measuring the internal consistency of the variables is given by the formula:

$$\alpha = kr / 1 + (k-1) r$$

Where;

k = Items in the scale

r = Average correlation between the pairs of items

**I. Percentage and graphical method**

Percentage and graphical method is used to study the demographic profile of the respondents..

**Table 1** Gender of the respondents

Gender of the respondents	Number of respondents	Percentage
Male	22	22
Female	78	78
Total	100	100

Source: Primary Data

Among the respondents majority (78%) were females.

**Table 2** Family occupations of the respondents

Number of respondents	Number of respondents	Percentage
Agriculture	58	58
Coolie	10	10
Business	24	24
Self Employed	8	8
Total	100	100

Source: Primary Data

Among the respondents majority (58%) are involved in agriculture, followed by 24% in business, 10% as coolie and 8% self employed

**Table 3** Type of micro insurance

Types of policies	Number of respondents	Percentage
Life Insurance	100	100
General Insurance	0	0
Health Insurance	0	0
Total	100	100

Source: Primary Data

Among the respondents 100% took life insurance policies because insurers did not offer health insurance.

**Table 5** Relation between education and lack of understanding on benefits of micro insurance

		Understanding				SD	Total
		SA	Agree	Neutral	Disagree		
Education	Illiterate	18	8	1	0	2	29
	1 to 5	10	7	14	0	6	37
	6 to 10	2	4	7	12	0	25
	up to 12	0	4	0	0	5	9
	Total	30	23	22	12	13	100

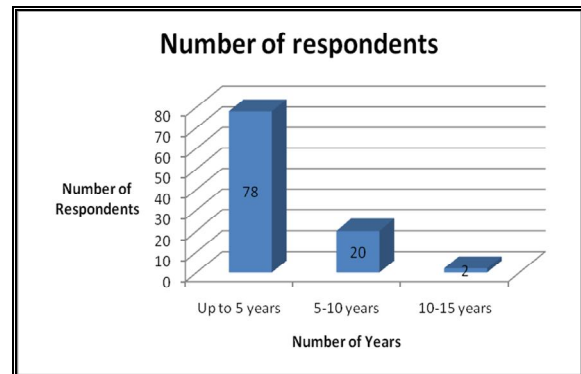
Source: Output SPSS

**Table 4** Channels of micro insurance

Sources of Delivery	Number of respondents	Percentage
LIC Directly	0	0
Banks	10	10
LIC through NGOs	90	90
Total	100	100

Source: Primary Data

Among the respondents, majority (90%) have taken policy from LIC through NGOs and 10% have taken from banks.



Source :Primary Data

**Fig.1** Number of years of taking insurance policy

Among the respondents 78% took policy for a period up to 5 years,20% took policy for a period of 5 to 10 years and 2% took insurance for a period of 10 to 15 years.

**Chi-Square Tests**

The purpose of Chi-square test of independence / relatedness is to determine whether the observed values deviate significantly from corresponding expected values. It is computed by summing the squared deviations [observed value ( $f_0$ ) minus expected value ( $f_e$ )] divided by the expected value for each cell:

$$\chi^2 = \text{Sum} [(f_0 - f_e)^2 / f_e]$$

As we can see, if there is large discrepancy between the observed values and the expected values, the  $\chi^2$  static would be large, suggesting a significant difference between observed and expected values. Along with this probability value is also computed. With  $p < 0.05$ , it is commonly accepted that the observed values differ significantly from the expected values and that the two variables are NOT independent of each other [Darren George (2009)].

**1. Relation between education and lack of understanding of benefits of micro insurance: Hypothesis testing**

H<sub>01</sub> = There is no significant relation between education and lack of understanding on benefits of micro insurance.  
 H<sub>11</sub> = There is significant relation between education and lack of understanding on benefits of micro insurance.

**Table 6** Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	83.706	12	.000
Likelihood Ratio	84.107	12	.000
Linear-by-Linear Association	23.371	1	.000
N of Valid Cases	100		

Source: Output SPSS

The Pearson Chi-Square value (83.706) with significance (0.000) illustrate that null hypothesis (H<sub>01</sub>) is not accepted and alternate hypothesis (H<sub>11</sub>) is accepted, i.e. there is significant relation between education and lack of understanding of benefits of micro insurance.

**2. Relation between education and confidence on micro insurance documents: Hypothesis testing**

H<sub>02</sub> = There is no significant relation between education and confidence in understanding the relevance of micro insurance documents.  
 H<sub>12</sub> = There is significant relation between education and confidence in understanding the relevance of micro insurance documents.

**Table 7** Relation between education and confidence in understanding relevance of micro insurance documents

		Confidence					Total
		SA	Agree	Neutral	Disagree	SD	
Education	Illiterate	24	5	0	0	0	29
	1 to 5	17	14	0	0	6	37
	6 to 10	6	4	7	7	1	25
	Up to 12	9	0	0	0	0	9
Total		56	23	7	7	7	100

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	68.092 <sup>a</sup>	12	.000
Likelihood Ratio	68.221	12	.000
Linear-by-Linear Association	4.984	1	.026
N of Valid Cases	100		

Source: Output SPSS

The Pearson Chi-Square value (68.092) with significance (0.000) illustrate that null hypothesis (H<sub>02</sub>) is not accepted and alternate hypothesis (H<sub>12</sub>) is accepted, i.e. there is significant relation between education and confidence in understanding the relevance of micro insurance

**3. Relation between family size and capability to pay full premium: Hypothesis testing**

H<sub>03</sub> = There is no significant relation between family size and capability to pay full insurance.  
 H<sub>13</sub> = There is significant relation between family size and capability to pay full insurance.

**Table 10** Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	70.598 <sup>a</sup>	12	.000
Likelihood Ratio	79.136	12	.000
Linear-by-Linear Association	26.869	1	.000
N of Valid Cases	100		

Source: Output SPSS

The Pearson Chi-Square value (70.598) with significance (0.000) illustrate that null hypothesis (H<sub>03</sub>) is not accepted and alternate hypothesis (H<sub>13</sub>) is accepted, i.e. there is significant relation between family size and capability to pay full insurance.

**4. Relation between education and weakness on explaining various types of Micro insurance: Hypothesis testing**

H<sub>04</sub> = There is no significant relation between education and weakness on explaining various types of micro insurance.

H<sub>14</sub> = There is significant relation between education and weakness on explaining various types of micro insurance. The Pearson Chi-Square value (45.595) with significance (0.000) illustrate that null hypothesis (H<sub>04</sub>) is not accepted and alternate hypothesis (H<sub>14</sub>) is accepted, i.e. there is significant relation between education and weakness on explaining various types of micro insurance.

**Table 9** Relation between family size and capability to pay full insurance

		Capability					Total
		SA	Agree	Neutral	Disagree	SD	
Family size	2	6	0	0	0	0	6
	3	22	0	0	0	0	22
	4	16	12	4	0	10	42
	5	4	5	11	7	3	30
Total		48	17	15	7	13	100

**Table 11** Relation between education and weakness on explaining various types of micro insurance

		Weakness					Total
		SA	Agree	Neutral	DA	SD	
Education	Illiterate	11	13	0	0	5	29
	1 to 5	17	6	0	7	7	37
	6 to 10	6	9	5	5	0	25
	Up to 12	9	0	0	0	0	9
	Total	43	28	5	12	12	100

**Table 12** Chi-Square Tests

	Value	Df	Asymp. Sig. (2-sided)
Pearson Chi-Square	45.595 <sup>a</sup>	12	.000
Likelihood Ratio	53.235	12	.000
Linear-by-Linear Association	1.460	1	.227
N of Valid Cases	100		

Source: Output SPSS

**FINDINGS**

1. Among the respondents majority were females.
2. Majority of the respondents were involved in agriculture, followed by 24% in business, 10% as coolie and 8% were self employed.
3. There were no insurers for health insurance.
4. Maximum respondents have taken insurance for a period up to 5 years.
5. There is Relation between education and lack of understanding on benefits of micro insurance.29% of the illiterates’ fond it difficult to understand the benefits of micro insurance as compared to 81% of the respondents who are educated.
7. There is Relation between education and confidence on micro insurance documents.29% of the respondents who were illiterates have no confidence on micro insurance documents as compared to 81% who are educated.
8. There is *relation between* family size and capability to pay full premium.42% of the respondents who had family size of 4 agree that they do not have the capability to pay full premium as compared to 6% who have a family size of 2.
9. There is relation between education and weakness on explaining various types of micro insurance. 29% of the illiterates found it difficult in explaining the types of insurance as against 37% of the respondents who were educated up to 5<sup>th</sup>.

**SUGGESTIONS AND CONCLUSIONS**

There are very few or no providers for health insurance. So the providers should concentrate more on providing health insurance products. The poor people are mostly illiterate. The providers can join with the government and provide ways and means to educate the low income people. The providers must give orientation classes to the poor. there must be proper development of products that is commercially viable. There is a need for market education. People either have no information about micro insurance or they have a negative attitude towards it. So there is a need to get people somehow without having to sit down to a table –to understand what

insurance is, and why it benefits them. Small firms should make a compulsory contribution from the employer to actively take and participate in an insurance cover. The real problem lies with the corporate because they are still not ready to give importance to the rural market. There is a need of well laid out strategy to target rural market at corporate level and more importantly human angle should not be handled by experts. The need for the hour is a long term strategy wherein a real consumer is treated just like any other consumer who has needs, desires, likes and dislikes. The extensive expansion of pioneering micro insurance product holds much significance in outreaching the concept of micro insurance to the grass root level.

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