

Microinsurance in India: Outreach & Efficacy

Basanta K. Sahu,
Researcher

Centre for Microfinance Research (CMR)
(Main Centre, Lucknow)

Bankers Institute of Rural Development (BIRD)
Lucknow-226012

ACKNOWLEDGEMENTS

The study benefited from the experiences of members of self-help groups, microcredit clients, MFIs, insurers (microinsurance), bankers, experts, researchers and others, particularly from the states of Tamilnadu and Orissa who provided some critical and interesting insights. Support from MFIs (ASA Gram Vidiyal, Mahasemam and BISWA) during the field survey was invaluable in covering different groups.

Several rounds of discussions with the Director, BIRD and others at CMR, BIRD, Lucknow helped me in providing a proper direction to this study. Support from office staff at BIRD is also duly acknowledged without which the document preparation would have been difficult.

Thanks are also due to Mr. Arvind Yadav who generously helped with the data processing work for the study.
Usual disclaimer applies.

CONTENTS

		Page No
	Acknowledgement	
	Executive Summary	7-10
Chapter - 1	Introduction Meaning and Definition of Microinsurance Microinsurance India Microinsurance & Social Security Review of Literature Structure of the study	11-27
Chapter -2	Objectives, Methodology, Data & Study Areas Partner-Agent Model of Microinsurance Advantages and Limitation of Agent -Partner Model Research Questions: Objectives Methodology Selection of Study Area Data Collection Sampling & Data Collection Methods Features of Methodology Field Visit Primary Data Analysis Limitations of the Study	28-39
Chapter -3	Insurance Sector in India and Outreach of Microinsurance Performance of Insurance Sector in Post-Reform Period Obligations of Life insurers Outreach of Microinsurance in India Opportunity for Microinsurance in India	40-51
Chapter -4	Introduction to Select MFI & Microinsurance in Study Areas Introduction BISWA, (Sambalpur, Orissa) Mahasemam, (Madurai, Tamil Nadu) ASA Gram Vidiyal, (Tiruchirapally) Comparative Observations & Suggestions of MFIs on Microinsurance Summary	52-74

Chapter -5	Microinsurance, Household Risks and Coping Strategy in Study Areas Household Features House Types Education & Skills Household Employment Pattern Household Income Pattern Household Borrowing & Saving Pattern Household Asset Holding Pattern Household Participation in Microinsurance Microinsurance and Household's Perception and Priority Demand for Insurance Summary	75-124
Chapter -6	Conclusions & Policy Suggestions	125-132
	References	133-135
	Appendix – I: Case Study on Understanding Insurance Products and its Use	136-137
	Appendix - II Some Socio-Economic Features of Selected States in India	137
	Appendix – III Questionnaire for Household	138-150
	Appendix – IV Questionnaire for MFI	151-153
	Glossary	154-157

List of Tables:

	Title	Page
Table – 1.1	Population Excluded from Insurance in South Asian Countries	
Table – 1.2	Key Issues & Findings on Microinsurance: a brief review	
Table – 2.1	Sample Size and Study Areas	
Table – 3.1	Insurance Penetration & Insurance Density in Asia	
Table – 3.2	Insurance Policies Issued during 2008-09	
Table – 3.3	Microinsurance Business during 2008-09 (LIFE)	
Table – 3.4	IRDA Prescribed Range of Microinsurance Cover	
Table – 3.5	Insurance Penetration in Select Countries & Changes -2001-07	
Table – 3.6	Insurance Density in Select Countries and Changes -2001-07	
Table – 3.7	Lists of Approved Microinsurance Products in India	
Table – 5.1	Features of Sample Households	
Table – 5.2	Level of Education of Group Members (in %)	
Table – 5.3	Household Employment by Activity, Region & Sex	
Table – 5.4	Household Income by Activity, Region and Sex	
Table – 5.5	Household Borrowing from MFI by Activity & Regions	
Table – 5.6	Household Borrowing from Non-MFI by Activity & Regions	
Table – 5.7	Household Saving Pattern by Activities & Regions	
Table – 5.8	Asset Holding Pattern of Sample Households in Study Areas	
Table – 5.9	Types of Household Risks & Coping Strategy in Study Areas	
Table- 5.10	Household Perception about Insurance & Risks Management	
Table- 5.11	Intra-Household Risk Management	
Table- 5.12	Intra-Household Risk Strategy: Reduction in Food Expenditure	
Table- 5.13	Insurance Awareness & Insurance Related Problem	
Table- 5.14	Household's Insurance Holding Pattern by Activity & Regions	
Table- 5.15	HH Preference to Continue with Current Insurance Product	
Table- 5.16	Distribution of Demand for Insurance by Type of Risks	
Table–5. 17	Correlation table	
Table- 5.18	Distribution of Demand for Insurance by Activity Group	
Table- 5.19	Average Sum Assured per person (Rs) by Activity & Regions	
Table- 5.20	Average Premium per Person (Rs) by Activity & Regions	
Table- 5.21	Impact of Microinsurance: Expectations of Sample Households	

List of Charts

Title	Page-No.
Chart –3.1 Insurance Density in Select Countries in World	
Chart –3.2 Insurance Density in South Asian Countries 2001-07	
Chart- 3.3: Change in Insurance Density in South Asian Countries	
Chart –5.1: Asset Holding Pattern of HH	
Chart –5.2 – Type of Household Risks in Study Areas	
Chart –5. – Household Risks Coping Strategy in Study Areas	
Chart –5.4 – Who gets Affected worse without insurance	
Chart –5.5 – Can Insurance Manage HH Risks	
Chart–5.6 – Intra-Household Risk Management: Increase in Working Hours	
Chart–5.7 Intra-Household Risk Management: Health Exp	
Chart–5.8 Intra-Household Risk Management: Education Exp.	
Chart–5.9 Intra-Household Risk Management: Food Exp.	
Chart–5.10 Problem Related to Microinsurance	
Chart–5.11 Household Awareness about Insurance	
Chart–5.12 Household Insurance Holding	
Chart–5.13 Household Demand for Life & Health Insurance	
Chart–5.14 Distribution of HH Demand for Insurance (%HH)	
Chart–4.15 Average Premium of HH	
Chart–5.16 Impact of Microinsurance	

Executive Summary

1. Coping with risks such as health problems, crop failure, loss of livestock, death of a family member, loss of asset, income and employment is much harder on the part of poor and low income groups than others. Many poor households involve in activities of smaller scale but carrying higher degree of risk and uncertainty and hence prone to financial and income risks.
2. Microinsurance is believed to work as a powerful risk management tool for low income and vulnerable groups by preventing them from falling into the poverty trap. But not much is known about outreach and efficacy of microinsurance across regions and groups.
3. In India, though government plays a proactive role in providing insurance cover to the poor through subsidized insurance schemes and other programmes. The size and potential of microinsurance market is enormous due a sizeable portion of poor and low income population who live without any formal insurance.
4. A recent UNDP study (2007) found that about 90% of the Indian population (950 million people) is not covered by insurance and it constituted an untapped market of about US\$2 billion. India has lower insurance penetration of 4.7 percentage (ratio of premium to GDP) and insurance density of USD 46.6 (ratio of premium to population) compared to world average of 7.5 percent and USD 607.7 respectively. However, within South Asian region, India has experienced a positive and faster change in insurance density in recent years.
5. More than 50 microinsurance schemes are in operation in India and most of them have been launched during last 4-5 years. Around 43 schemes cover 5.2 million people and about 66% insurance schemes are linked with micro finance services provided by specific institutions (ILO, 2004a). Life and health insurance risk related products are generally demanded by people. Most of these insurance schemes (74%) operate in 4 southern states: Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%). The microinsurance sector in India is characterized by uneven development and limited to a few products.
6. The present study has attempted to analyze microinsurance in India under *Partner - Agent Model* where, insurers utilize MFI as intermediary or delivery channel to provide sales and basic services to the clients with lower administrative cost.

7. The present study is based on primary field survey covering 75 women micro credit clients randomly selected from 23 centers in 11 development blocks in three districts of two states (Trichy and Madurai in Tamil Nadu and Sambalpur in Orissa). The analysis of microinsurance has been made mainly on the basis of information collected from select MFIs and household data with focus on enterprise/occupation, groups and regions.
8. About a quarter of the sample households reported had faced some adverse (risk) during last two years (prior to the date of field survey) that severely affected their financial condition and economic situation. Common Risks observed among sample household ranged from major health related expenditure, health problems of females, accidents, crop loss, loss of livestock, market related problems, and other problems such as divorce.
9. Common risk coping strategies adopted by households were reduction in household expenditure (on food, education and health), borrowing from informal sources, dis-saving (in kind/cash), migrating out, distress sale of produce and other assets, increasing average working hours (observed mainly among females), postponement of social expenditures etc. However, these coping strategies were no longer found adequate and effective to manage sharp fluctuations in household income and consumption, especially when faced with multiple risk events.
10. Over and above the microinsurance product, (mostly life insurance of microcredit clients comes with microcredit loan) the priority accorded to various risk coping strategy among households varied across occupation groups and regions. About 42 percent households resorted to borrowing from informal sources, 18 percent households used dis-saving, 16 percent households undertook supplementary non-farm activity and about 14 percent undertook distress sale of assets as coping mechanism. To some degree, this underscores the importance of linkage between savings, formal credit and insurance in risk avoidance behavior of households.
11. Though about 88 percent of sample households in the study had some idea about life insurance their understanding was inadequate, unclear and very different. However, lack of understanding, information and options for insurance products was found one of the key constraints for wider outreach of insurance. About 44 percent of households had heard about livestock and asset insurance but they did not possess any further information. Surprisingly, only 30 percent households knew about health insurance and only a few of them had tried it at least once. Preference for health insurance was more.

- It reflects the gap between supply of microinsurance and potential demand for the same among the poor households.
12. Similarly, households' complaints against existing insurance products were found to be very high and it varied with different aspects of insurance products and household characteristics. About 85 percent of households were not happy with the design of insurance product offered to them. A sizeable proportion of households reported having problems related to insurance premium (65 percent) and claim settlement (60 percent). Non-coverage of spouse and other family members in life and health insurance scheme was one of the main cause of dissatisfaction among households.
 13. High male mortality rate (two to four times higher than female) was believed to be one of the key factors for not providing coverage to spouse of the female group members, especially when premium under microinsurance has been kept low.
 14. However, findings of our analysis do not support the argument that a household's risk assessment and experience of shocks has a direct correlation on household decision to participate in insurance market. Households exposed more to risks are less likely to use available formal insurance products than others. Some lower income groups feel that use of insurance product as an additional risk as they have to pay premium regularly. Their poor understanding about the functioning of insurance services and lack of trust on the staff of insurers drives them away from insurance.
 15. Household borrowing, saving, family size, level of education, asset holding etc. did not reflect much association with household participation in insurance or continuance. Many low income households reported using borrowing from informal sources in the event of crisis such as illness, crop loss, livestock loss and death of a earning member rather than participating in any formal insurance scheme.
 16. However, household participation in insurance, through microcredit programme by MFIs was found to be mostly involuntary in nature. Many microcredit clients believed that it is difficult to pay premium out of their small loan amount from MFIs. Under the given arrangement and conditions of household borrowing from MFIs, insurance uptake did not appear to be very effective.
 17. It appears that there is a vicious circle of uptake and renewal of insurance products in operation. The situation of inability to pay premium led to a position of no insurance cover (no risk cover – more vulnerable to risks of income and expenditure – high cost of coping with risks - borrowing and liquidation of asset – low capacity and productivity – low income - inability to pay premium/- no insurance).

18. In many cases, what poor households are willing to pay and able to pay for the insurance was led to inability to cover risks adequately. Under this situation, dire credit need of poor households often surpasses their need for insurance.
19. Demand for insurance found to be dependent on household income flows, nature of enterprise or activities undertaken.
20. On supply side, constraints of the insurers and intermediaries (MFIs) help to explain why there has been so little development of the microinsurance market. While insurers look to experiment and explore the large client base of MFIs and to fulfill the social and rural obligations imposed by the regulator, the intermediaries (MFIs) are keen to protect their credit. It also partly explains the low voluntary demand for insurance and wide gaps between the client's needs and insurance products on offer.
21. MFIs as distribution channel of microinsurance can prove to be useful in reducing administrative costs of penetrating rural markets, but underutilization of this distribution channels is visible. Though MFIs enjoy flexibility to choose insurance partner through bargaining process, some of them change insurance partners frequently which further affects the insurance activity.
22. The microcredit-linked insurance business is one of the key factors for growth of the microfinance sector in India. For the insurers, it is beneficial to gain access to the huge rural client base of MFIs and there is enormous market potential for customized insurance products and dire need for innovation. In this regard, a comprehensive health-cum- livestock insurance product, particularly in lower segment may offer better opportunity.
23. Creation of complete awareness, flexibility for premium payment options, efficient claims processing system, trained and trustworthy insurance agents or staff and effective client redressal system are some core areas for policy intervention. Role of MFIs along with involvement of local institutions (Gram Panchayat, Gram Sabha and other community based institutions) could be useful in addressing insurance related matters such as, claim settlement, premium payment, client identification in consultation with the insurers. The documentation and submission of proof of claim need to be standardized. Insurers should involve MFIs and representatives of clients in product design and development. MFIs may obtain clients feed-back and use it in negotiations with the insurers. Better incentives for intermediaries and training for field staff are also suggested.