

## A study on current issues, opportunities and challenges of micro insurance in India

V Mahesh

Research Scholar, Department of Commerce, Annamalai University, Tamil Nadu, India

### Abstract

At present paper an impression of the Development, Current Issues, opportunities and challenges of Micro Insurance in India. The micro insurance is provided for low-income people by a variety of insurers. Micro Finance helps people get better livelihoods and helps them insurance industries. Government has a vital role to play in developing public private partnerships for delivering ambitious state funded insurance programs. The best antidote for poverty, governments must now turn their attention to those who are at the bottom of the income pyramid. It is clear that wealth does not percolate down to society's poor, in India some 250 million people. Over half of the Indian populations have no entrée to banking products, let alone insurance products. Addressing these concerns is as vital as focusing on growth.

**Keywords:** development, current issues, opportunities and challenges

### Introduction

Micro-insurance, the term used to pass on to insurance to the low-income people, is different from insurance in general as it is a low value product (involving modest premium and benefit package) 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 a vital 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. Although the type of risks faced by the poor such as that of death, illness, injury and accident, are no different from those faced by others, they are more susceptible to such risks because of their economic circumstance.

In the past insurance as a prepaid risk managing instrument was never considered as an option for the poor. The poor were considered too poor to be able to afford insurance premiums. Often they were considered uninsurable, given the wide variety of risks they face. However, fresh developments in India, as elsewhere, have shown that not only can the poor make small periodic contributions that can go towards insuring them against risks but also that the risks they face (such as those of illness, accident and injury, life, loss of property etc.) are eminently insurable as these risks are mostly independent or idiosyncratic. Moreover, there are cost-effective ways of extending insurance to them. Thus, insurance is fast emerging as a prepaid financing option for the risks facing the poor. Most of the countries in the South-East Asia including India are predominantly agricultural, and greater part of their populations is concentrated in the rural areas and is dependent upon the soil for their livelihood (Jayanthi *et al.*, 2017) <sup>[6]</sup>. In this paper, we analyse the early verification on micro-insurance already available in this regard, highlight the current initiatives being contemplated to strengthen micro insurance

activity in the country, and recommend specific ways that can help promote insurance to the target segment.

### Importance of Micro insurance

Micro insurance is potentially an important new risk management tool for low-income people in developing countries for several reasons. Vulnerability inordinately affects poor people and reinforces or exacerbates their poverty. When these are risks materialize, low income people are, furthermore, frequently less able to cope. Regular solutions (like medical care) are, for example, often inaccessible (particularly given the general shortage of facilities in rural areas), unaffordable (considering the costs of treatment, transportation, bribes, medicines, waiting, aftercare, and missed work), or of terrible quality (with provider absenteeism, poor staff training, corruption, patient abuse, and chronic shortages of equipment, supplies and medicine endemic in healthcare facilities which predominantly serve low-income clients in developing countries). Social safety nets (like national health insurance schemes) are — due to narrow tax bases, corruption, inefficiency, and other government priorities like indebtedness — commonly weak or non-existent. Moreover, the low-income people's plentiful and creative array of informal risk mitigation techniques is often insufficient, particularly when risks repeatedly occur over a short period.

### Micro insurance and Microfinance in India

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 are 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 to their target groups. Since most of the larger micro-finance organizations operate in the three southern states of Andhra Pradesh, Tamil Nadu and Karnataka, the existence of micro-insurance schemes in the south appears directly proportional to the growth of micro-finance activities in that part of the country.

### **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.

### **Objectives**

- 1) To find the problems faced in Micro Insurance.
- 2) To know the penetration of micro insurance to the low income groups.

### **Challenges faced by Microfinance Insurers**

- There are high operating costs and clients that are spread out and difficult to access.
- There is a need of more innovative but simple and flexible products taking into account the life style and needs of the low income group people.
- Product development exclusions must be made clear and simple Enhanced role of SHGs.
- Developing insurance awareness amongst the low income band people.
- Need to develop Health micro insurance products standardizing underwriting procedures for MI.
- Innovative strategies for sustainability.
- The contemporary insurance paradigm is not geared to serve the poor high costs, restrictive access and low transparency being the chief reasons.

### **These Gender Specific Risks**

- Risks related to sexually transmitted infections (STI), pregnancy and childbirth;
- Risks related to economic crisis such as the death of the breadwinner, loss of assets;
- Protection at old age (less security for women due to informal working conditions, lesser in-come, etc.);
- Risks related to hazardous working conditions.

Women more often work under hazardous conditions: the carpet industry, refuse dumps, garbage tips and recycling industries such polythene bags/vinyl recycling. Some risks due to gender specific conditions in the society require a comprehensive approach beyond micro-insurance. The following issues need long -term interventions and cannot be addressed by micro-insurance alone. But micro-

insurance, as one risk management tool complementing others, can have a more immediate positive impact on improving the situation. Micro-insurance in India is a new concept and in the real sense, is yet to be tested for its conduciveness to the needs of the target segment. The most significant constraint is the lack of base line.

The challenges faced by India offer learning opportunities for the countries where micro insurance is still in its infancy. To overcome the challenges, it is imperative that measures are taken to encourage regulatory modification, product development, distribution optimization and financial education. Regulators need to move away from the prescriptive regulation towards a regulatory framework that incentivizes innovation, so that insurance industry stakeholders can innovate flexibly. We can conclude that helping the rural poor systematically manages financial risks to their livelihoods and lives through micro-insurance offer innovative ways to combat poverty in India. However micro insurance has not penetrated rural markets and the current reach of micro insurance is limited. Hence, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the regulator, private micro insurance providers, MFIs, NGOs as well as the government.

### **Microfinance Current Issues**

It is vital for the MFIs to realize financial, operational and institutional sustainability as the long term future of the microfinance is dependent on the MFIs. Secondly, innovative method of cost reduction is an important way to balance the microfinance operation. Thirdly, through substantial outreach there is assurance of efficiency in leveraging large amount of funds. The last important segments that are the outreach are crucial to solve many challenges that remain hurdles in microfinance. Results in this research advise that the formal sources of microfinance are still new in India. Not many people are aware of the microfinance industry. There are still many people who below the poverty line; therefore, there is great need of microfinance industry. Therefore, there is huge need of financial assistance to the targeted population. It is also affirmed that one of the drawbacks is the cooperation from the government.

### **Opportunities and Challenges Micro Insurance in India**

Insuring Dairy Farmers in India is more than cash cows: When Allianz started offering micro-insurance, it employed well-established microfinance institutions to deliver its policies. But reaching out to all levels of society requires a more flexible approach, like partnering with dairy cooperatives in India. About 7percent of India's 1.2 billion people live in rural areas, but the Bajaj Allianz insurance business is 90 percent urban. Clearly, there is room to grow. To reach out to new customers, Bajaj Allianz has relied mostly on large, efficient microfinance institutions (MFIs). Kamesh Goyal, CEO of Bajaj Allianz, explains: "Fifty percent of India's population lacks access to any financial products. The challenge is scaling up the model while reducing costs". Micro-insurance, more than mainstream insurance depends on such innovative cooperation. Finding well established local structures like the dairy cooperative movements will remain essential for the growing micro-insurance industry MFI. The other drawback is the ratio of the licensed microfinance banks which is stated to be low as compared to the population of the poor entrepreneurs.

### Problems Faced in Micro Insurance

Insurance helps in reducing interest rate charged on credit. With insurance interest rate together with the premium may be lower than interest rate charged in the absence of insurance. The intuition runs as follows: contingencies such as illness, accident, life etc. have a bearing on project performance and thereby on loan recovery. Health insurance, for example, by improving financial access to medical care of the insured who takes loan/credit, reduces disruption in the economic activity for which loan is taken, and thereby enables the borrower to repay loan. Higher loan recovery is an important determinant of interest rate charged by a lending agency. The higher the loan recovery, the lower is the interest rate charged by a lender. Thus, insurance, by reducing the risk of loan default due to the contingency against which insurance is bought, reduces interest rate charged by the lender. For this reason it makes better sense for micro credit organizations to introduce micro-insurance. Important here is to stress that when insurance is integrated with credit the total amount charged (i.e., interest plus premium) may be lower than the interest charged in the absence of insurance.

### Conclusion

The plans for microfinance if implemented will provide an ongoing financial stability and sustenance for the poor in both the rural and urban area. The obstacles and challenges can be taken as a bold step in bridging the missing gaps that are hurdles to the development of microfinance. The insurance sector was opened up for private participations.

The insurance market have witnessed dynamic changes which includes presence of a fairly large number of insure both life and non-life segment. A strategic perspective towards Micro insurance together with innovations in technology and assessment of client demand holds the key to the future of micro insurance in India. Regulation of MFIs is needed not only to promote micro-finance activity the country but also to promote the linking of micro-insurance with micro-finance which as demonstrated in the paper makes a good sense.

### References

1. Government of India. Report of Joint Group "on Review of Crop Insurance, Ministry of Agriculture, New Delhi, 2004-2007.
2. New Delhi, India. World Bank. India: National Agricultural Insurance Scheme: Market Based Solutions for Better Risk Sharing, 2007, Report No 39353.
3. Sameer A Zodgekar, Ravikant S Wawge. Micro insurance-global and Indian scenario, ICFAI books. )  
Bhattacharya, A. Titbits of weather insurance for protecting various risk exposures of Indian crops & events: Insurance Times, 2009; 23-30.
4. Nagpal Somi. Micro Health Insurance in India' 2009. Journal of Business Management & Social Sciences Research (JBM&SSR), Blue Ocean Research Journals. 2013; 2(3):39. www.borjournals.com.
5. Ratna Kishore N. Micro Insurance in India-Protecting the Poor. IJRMEC. 2012; 2(11).
6. Jayanthi C, Pugazhendy K, Tamizhazhagan V, Sakthidasan V. Problems of women teachers in Cuddalore district. International Journal of Zoology Studies. 2017; 2(5):89-95.

7. Yogita Sharma. Analysis of FDI in Insurance Sector in India. IJRESS. 2013; 3(3).
8. Bhattacharya A. Titbits of weather insurance for protecting various risk exposures of Indian crops & events: Insurance Times, 2009; 23-30.