CHAPTER - II

OVERVIEW OF DEVELOPMENT OF MICRO INSURANCE IN INDIA
Chapter - II

Overview of Development of Micro Insurance in India

2.1 INTRODUCTION

The concept of micro insurance has shown a stable growth in many countries in the past decade. In India, the concept has gained popularity in the recent years. Many insurance companies are launching micro insurance products as per the directions of IRDA to concentrate 20 per cent of their insurance business in rural areas thereby fulfilling their social and rural obligations. A number of market research studies had been conducted which reveals that India has an untapped insurance market owing to low penetration of health insurance products. A study by UNDP, GTZ and Allianz AG (2006)¹ concluded that India has the most dynamic micro insurance sector in the world. The UNDP study on “Potential and prospects for Micro insurance in India”, stated that up to 90 per cent of the Indian population are still excluded from the insurance market in India. The study further pointed out that the micro insurance industry in India is on the brink to take off. In this backdrop, this chapter provides an overview of fruition and development of micro insurance, particularly in the Indian context.

2.2 THE TERMINOLOGY

The following terminologies were adopted for the study. Most of the definitions were taken from Insurance Regulatory Development Authority (IRDA) as it is the pioneering institution in the field of providing, regulating and controlling the business of insurance in India.

2.2.1 MICRO INSURANCE: “Protection from specific risks, paid for by regular premiums, specifically designed for low-income individuals”, Churchill (2006)². For this study micro insurance is insurance with a premium of less than Rs.500 per annum with an insured benefit of Rs.50,000 or less, targeted at low-income households.
2.2.2 MICRO FINANCE INSTITUTION: Any institution or entity or association registered under any law for the registration of societies or cooperative societies, as the case may be, inter alia, for sanctioning loan/finance to its members (IRDA Regulations, 2005).³

2.2.3 MICRO INSURANCE AGENT: A micro-insurance agent may be a non-government organization (NGO); or a self-help group (SHG); or a micro-finance institution (MFI), who is appointed by an insurer to act as a micro insurance agent for distribution of micro-insurance products (IRDA Regulations, 2005).⁴

2.2.4 MICRO INSURANCE POLICY: An insurance policy, sold under a plan, which has been specifically approved by the authority as a micro insurance product (Micro Insurance Regulations, 2005).⁵

2.2.5 LIFE MICRO INSURANCE PRODUCT: A term insurance contract with or without return of premium, and endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis (IRDA Regulations, 2005).⁶

2.2.6 SELF-HELP GROUP: A group with an average size of about 15 people from a homogenous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritisation of needs, setting terms and conditions and accounts keeping (NABARD, 2005).⁷

2.2.7 NON GOVERNMENT ORGANISATION (NGO): Non-government Organization means a non-profit organization registered as a society under any law, and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency, and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people (Kapoor and Rajkumar Ojha).⁸
2.3 EVOLUTION OF MICRO INSURANCE

2.3.1 MICRO INSURANCE AT GLOBAL LEVEL

The origin of micro insurance is similar to that of micro-credit. According to Churchill (2007)\textsuperscript{9}, micro insurance has existed since at least the 1800s, when mutual protection schemes co-insured the poor workers. In several countries micro-insurance schemes were already a part of the process of designing and implementing increasingly more consistent and incorporated social protection systems. In Senegal micro insurance schemes were mentioned in the national social protection strategy as a key mechanism. In Rwanda and Ghana, the state implemented nation-wide social protection schemes on health that are built on direct and community based mutual organizations. In Bangladesh, Grameen bank had established a separate wing called Grameen Kalyan (village welfare) which implemented micro insurance schemes through women groups in the villages. Micro insurance Centre (2007)\textsuperscript{10} had estimated that around 135 million of the low-income people in developing countries have used micro insurance products. The insurance penetration level in some of the Asian countries is presented in table 2.1:

<table>
<thead>
<tr>
<th>Country</th>
<th>Insurance Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Total (%)</td>
</tr>
<tr>
<td>Japan</td>
<td>9.8</td>
</tr>
<tr>
<td>Singapore</td>
<td>7.8</td>
</tr>
<tr>
<td>India</td>
<td>4.6</td>
</tr>
<tr>
<td>Malaysia</td>
<td>4.3</td>
</tr>
<tr>
<td>Thailand</td>
<td>3.3</td>
</tr>
<tr>
<td>PR China</td>
<td>3.3</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>1.4</td>
</tr>
<tr>
<td>Philippines</td>
<td>1.4</td>
</tr>
<tr>
<td>Indonesia</td>
<td>1.3</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Swiss Re Sigma No.3 (2009)\textsuperscript{11}

In most of the South Asian Countries a major share of population were and is still excluded or not covered under any formal sources of insurance. The details are presented in table 2.2.
Table 2.2 Population Excluded from Insurance in South Asian Countries

<table>
<thead>
<tr>
<th>Countries</th>
<th>Excluded (%)</th>
<th>Population (In Millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>India</td>
<td>90</td>
<td>950</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>93</td>
<td>134</td>
</tr>
<tr>
<td>Pakistan</td>
<td>97</td>
<td>147</td>
</tr>
<tr>
<td>Nepal</td>
<td>95</td>
<td>23</td>
</tr>
</tbody>
</table>

Source: Marc Socqut (2005)

To serve the purpose of covering the uninsured population in these countries a number of community banks had emerged across the world which were engaged and is presently engaged in strengthening households’ risk management, such as Grameen Bank in Bangladesh, Bank Rakyat of Indonesia, BancoSol in Bolivia and SEWA in India.

2.3.2 DEVELOPMENT OF MICRO INSURANCE IN INDIA

India is one of the foremost countries in the world to have introduced micro insurance regulation. In India, micro insurance schemes were initiated by non-governmental organizations or trust hospitals. The concept gained impetus partially due to microfinance activity and somewhat due to the regulations of IRDA which made it mandatory for all insurance companies to carry out a certain percentage of their business in rural areas (Ahuja and Rajeev, 2005). In India, micro-insurance had remained as a secondary choice for financial inclusion. It was found from pertinent literatures that one-fourth of the hospitalized poor people fell into poverty as they had to sell/pledge their assets to meet the high costs of healthcare (Shetty and Veerashekharappa). The Life Insurance Corporation Act, 1956, enunciated the concern of the government towards the disadvantaged, low-income population especially in rural areas.

The Government of India constituted a consultative group on micro insurance sector in the year 2003 to examine the possibilities of implementing schemes targeting
the rural and urban poor with specific reference to outreach, pricing, products and servicing.

The Insurance Regulatory and Development Authority (IRDA) was established in the year 2000. In August 2004, IRDA circulated a Concept Paper on the Need for Developing Micro insurance in India. In November 2005, IRDA issued detailed guidelines on micro insurance. These guidelines defined micro insurance products, agents and enabled SHGs, MFIs and NGOs to allocate micro insurance products on behalf of the insurance companies. IRDA regulations bill was a milestone in the development of micro insurance in India.

This conformity to serve the rural community inspired the Indian insurers to come up with many attractive micro insurance innovations. Reserve Bank of India (RBI) in October 2004, granted permission to Regional Rural Banks (RRBs) to take on insurance without risk sharing as they had branches in the rural areas which would help in mounting the outreach.

The Activists for Social Alternatives (ASA), a new generation microfinance institution, which started in 1986, began its operations as a facilitating agency for empowering the poorest of the poor women by focusing on natural resource issues had started to offer micro insurance products (Srinivasan, Girija and Arunachalam, 2002).

One of the oldest and most famous of these is Self-Employed Women’s Association (SEWA) of North-western India, which had been involved in social protection ever since the 1970s. Some other major providers of micro insurance in the earlier period in India were: League for Education and Development (LEAD) which offered cattle insurance and social security scheme. Raja Rajeswari Mahila Kalyana Bima Yojana under Indian Cooperative Network for Women (ICNW) started insurance scheme in 1999. Chaitanya which was started in 1993 offered accident and cattle insurance and SPARK started micro insurance service from 1999 (Mosley, 2009).

BASIX, a livelihood promotion institution entered into micro insurance in the year 2002 by taking a group policy called Credit Plus from AVIVA. Within three
years BASIX could reduce the premium from Rs.8.61 to Rs.3.98 per thousand of the sum insured (Rao, 2007)\textsuperscript{17}.

In March 2004, the Sangha Kshema Vima Yojana (SKVY), a combined insurance product for providing life and health insurance to the SHG members was launched. Life Insurance Corporation of India (LIC) entered the micro insurance business a little late compared to some other private insurance companies.

The M-CRIL (2008)\textsuperscript{18} study team estimated that near about 14 million adults were covered by life micro insurance in India. In a country with about 120 million families living on less than $2 a day, this is very diminutive part of the potential micro insurance market. A study by Syed (2006)\textsuperscript{19} showed that 70 per cent of India’s population lived in villages and only two per cent of them are insured.

Tata-AIG initially moved into micro insurance because, like all Indian insurers, it was lawfully bound to serve low-income and rural policyholders. The Indian micro insurance scenario showed a trend towards basket coverage whereby a number of benefits are integrated in one insurance policy. The extent of coverage of micro insurance in India based on the study report is given in figure 2.1.

**Figure 2.1 Coverage of Micro insurance in India**\textsuperscript{20}

\begin{figure}
\centering
\includegraphics[width=\textwidth]{coverage.png}
\caption{Coverage of Micro insurance in India}
\end{figure}

\textbf{Source:} UNDP Study Report, 2000
UNDP report estimated that the potential market size for micro insurance in India is expected to grow as micro insurance becomes better understood by the people who would be able to access the benefits of micro insurance (UNDP).\textsuperscript{21}

Sahu B.K (undated)\textsuperscript{22} provided a comprehensive statistics on the penetration of micro insurance in the various states in India. The outreach level showed that, 74 per cent of the total schemes operate in four southern states constituting Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%), and Kerala (8%) and in the northern states of Maharashtra (12%) and Gujarat (6%).

Health micro insurance is predominantly covered by schemes which were subsidized by the government and localised community-based health insurance. IRDA estimated that 14.7 million micro insurance policies were sold in 2009 with an aggregate collection of $53 million as premium.

2.2.3 MICRO INSURANCE REGULATIONS IN INDIA

India is one of the few developing countries in the world which has a special micro insurance act that regulates the suppliers through its special agency for insurance regulation – the Insurance Regulatory and Development Authority (IRDA). In December 1999, the Indian Parliament passed the Insurance Regulatory and Development Bill (IRDA) which provided that any micro insurance product issued as per regulations will qualify for rural and social sector obligations of the insurer. As per the Bill passed, insurance companies are obliged to conduct a certain percentage of their business in rural areas or with marginalized groups. The obligation to enrol rural customers and form socially marginalized groups has created opportunities for partnership between NGOs and insurance providers. Recognizing NGOs, MFIs, and SHGs as agents of micro insurance by the IRDA regulations, the rural insurance penetration has increased. In addition, the IRDA regulations prescribe that these intermediary institutions as micro-insurance agents should have a clean track record and by-laws with relevant aims, objectives, and accountability. About 9,250 micro insurance agencies were registered with IRDA by 31\textsuperscript{st} March 2012 (NABARD, 2012).\textsuperscript{23}
2.4 STATUS OF LIFE MICRO INSURANCE IN INDIA

When the Life Insurance Corporation was formed on September 1, 1956 the then Union Finance Minister CD Deshmukh gave a call to take life insurance to every nook and corner of the country. However when the insurance industry was denationalised in 1999-2000 after 44 years and opened to the private sector, the Insurance Regulatory and Development authority was formed. The situation of reaching every nook and corner was a far cry and it was one of the reasons for the government to take this crucial decision. IRDA after overseeing the life insurance sector for five years issued Micro insurance Regulations – 2005 since that was the only option to compel the life and non life insurers to turn towards the downtrodden and the lowly or in the words of the management Guru C K Prahlad – “The People at the Bottom of the Pyramid”.

There are 60 million poor households and another 60 million rural households in India. A majority of them are not covered by any sort of protection. The market is so large but still no insurer has plans to reach them although a few of them have some products to cater this population. Even if 50 per cent of these people are insured with a premium of Rs.500 per head, the potential is Rs.125 billion as a premium income.

IRDA permitted for the first time composite products in the sense that one life insurer and one non – life insurer can join hands and bring out a plan with life coverage and health cover. The Central Government as well as the state government are also eager to do something in this regard. Many NGOs, MFOs and SHGs are ready to join in bandwagon but still little progress has been made in the right direction.

2.5 MICROFINANCE AND MICRO INSURANCE

Micro insurance has linkages to microfinance. The linkages prospects safeguarding the poor from negative shocks and their consequences. In India, since insurers are obliged to cover the rural and social sector, they (insurers) are increasingly interested in partnership with the microfinance institutions. Links between MFIs and MI provides extent to institutional and regulatory issues, issues of
financial and economic sustainability and potential for social inclusion and exclusion embodied in MF/MI design.

Since insurers in India are required to sell a certain percentage of their policies in the rural areas, the demand for co-operating MFIs was too strong and there were too few reliable MFIs to work with.

2.6 MICRO INSURANCE AT TAMIL NADU LEVEL

An UNDP press release, based on field investigations and public consultations in rural areas in the states of Orissa, Rajasthan and Tamil Nadu concludes that Tamil Nadu was found to be relatively developed in insurance compared to Rajasthan and Orissa, where coverage is less than one percent. Government of Tamil Nadu and Government of India have joined hands to provide health insurance cover to 2.5 million families below poverty line in the state under the “Kudumbasree Poverty Eradication Mission (Roth, J, 2005)\textsuperscript{24}. There are seven insurance companies in Tamil Nadu which are engaged in Life micro insurance. All the insurance companies except LIC have stopped working on life micro insurance not because people are not interested in taking life micro insurance but because they cannot meet the expenses or they have attained the target set by IRDA in rural areas or because not many people came forward to act as agents or intermediaries for providing life micro insurance.

2.7 MICRO INSURANCE PRODUCTS

Micro insurance, like any other regular insurance is offered for a wide variety of risks. They can be broadly classified into health risks and property risks. The most common product types of micro insurance are presented in the figure below:
2.7.1 LIFE MICRO INSURANCE: A wide range of life micro insurance products are available but penetration is really limited in rural areas. Life micro insurance covers the policyholder and his/her family against the financial consequences resulting on the death and disability. It is an important measure of financial security for low-income.

2.7.2 HEALTH MICRO INSURANCE: Critical illness (ill-health and maternity) and hospitalization are the main product segments in health micro insurance. Peters and et al. (2002) reports that about one-fourth of hospitalized Indians fall below the poverty line because of their stay in hospital. This market represents more than two-thirds of the poor and hence huge potentialities from insurance companies’ lies here. Health micro insurance schemes usually cover direct medical costs covering a predetermined list of risks or health services.

2.7.3 CROP MICRO INSURANCE: Crop micro insurance is an agricultural insurance product which covers crops against perils. An Index instrument are often used for crop insurance to avoid moral hazard risks and are not connected to one particular crop, but is based on the measurable occurrence of a specific micro insurance which provides a financial compensation in the case of crop failure generated by uncontrollable adverse events (e.g. drought, crop pets).
2.7.4 LIVESTOCK MICRO INSURANCE: Livestock micro insurance is an agricultural insurance which covers loss of livestock owned by the policy holder. Most livestock micro insurance schemes insure against a specific peril and can be paid out in the form of a lump sum payment or livestock replacement.

2.7.5 ASSET MICRO INSURANCE: This could cover a wide range including residential buildings, farm and non-farm equipments and vehicles. For poor households, insurance for a hut, irrigation pump, a handloom or a bullock cart would have considerable economic significance.

2.8 MICRO INSURANCE SCHEMES

According to ILO report, (2004) in India, more than 50 micro insurance schemes are in operation. The study found that among these, 43 schemes covered 5.2 million people and about 66 per cent of the insurance schemes were linked with micro-finance institutions. Micro insurance with proper design enables the poor to more proactively manage the risk by reducing the chance of a loss resulting from unanticipated risk events. The micro insurance experience in India exhibits great variations in volume of members, premium options, coverage, and insurance products. These products can be broadly classified into four categories: (i) Health insurance, (ii) long-term saving and insurance such as life insurance and annuities (Endowment, Life annuities, Term assurances, and Saving completion insurance), (iii) credit-linked insurance products such as credit-life product and (iv) Non-life product such as property insurance (Kapoor and Rajkumar, 2006).

Comprehensive lists of micro insurance products floated by various insurance companies are given in table 2.3.

Table 2.3 List of Micro Insurance Schemes Currently Available

<table>
<thead>
<tr>
<th>Financial Year</th>
<th>Name of Insurer</th>
<th>Name of the Product</th>
<th>Product No.</th>
<th>From (Opening Date)</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006-07</td>
<td>LIC's Jeevan Madhur</td>
<td>LIC's Jeevan Madhur</td>
<td>512N240V 01</td>
<td>14/9/06</td>
<td>Endowment + LI*</td>
</tr>
<tr>
<td>2006-07</td>
<td>TATA AIG Life Insurance Co. Ltd.</td>
<td>Ayushman Yojana</td>
<td>110N042V 01</td>
<td>30/5/06</td>
<td>Single Premium LI</td>
</tr>
<tr>
<td>Year</td>
<td>Company</td>
<td>Policy Name</td>
<td>Policy No</td>
<td>Date</td>
<td>Type</td>
</tr>
<tr>
<td>----------</td>
<td>----------------------------------</td>
<td>------------------------------------</td>
<td>------------</td>
<td>---------</td>
<td>---------------------</td>
</tr>
<tr>
<td>2006-07</td>
<td>TATA AIG Life Insurance Co. Ltd.</td>
<td>Navkalyan Yojana</td>
<td>110N043V 01</td>
<td>30/5/06</td>
<td>Term Plan</td>
</tr>
<tr>
<td>2006-07</td>
<td>TATA AIG Life Insurance Co. Ltd.</td>
<td>Sampoorn Bima Yojana</td>
<td>110N044V 01</td>
<td>2/6/06</td>
<td>Endowment + LI</td>
</tr>
<tr>
<td>2006-07</td>
<td>Sahara India Life Insurance Co. Ltd.</td>
<td>Sahara Sahayog</td>
<td>127N010V 01</td>
<td>21/4/06</td>
<td>Endowment</td>
</tr>
<tr>
<td>2007-08</td>
<td>AVIVA Life Ins. Co. India Pvt. Ltd.</td>
<td>Grameen Suraksha</td>
<td>122N039V 01</td>
<td>16/3/07</td>
<td>Term Assurance</td>
</tr>
<tr>
<td>2007-08</td>
<td>ING Vysya Life Insurance Co. Ltd.</td>
<td>ING Vysya Saral Suraksha</td>
<td>114N032V 01</td>
<td>3/9/07</td>
<td>Life Insurance</td>
</tr>
<tr>
<td>2007-08</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>SBI Life Grameen Shakti</td>
<td>111N038V 01</td>
<td>6/9/07</td>
<td>Group Micro Insurance</td>
</tr>
<tr>
<td>2007-08</td>
<td>SBI Life Insurance Co. Ltd.</td>
<td>SBI Life Grameen Super Suraksha</td>
<td>111N039V 01</td>
<td>6/9/07</td>
<td>Group Term Assurance</td>
</tr>
<tr>
<td>2007-08</td>
<td>Shriram Life Insurance Co. Ltd.</td>
<td>Shri Sahay</td>
<td>128N011V 01</td>
<td>7/2/07</td>
<td>LI</td>
</tr>
<tr>
<td>2007-08</td>
<td>Shriram Life Insurance Co. Ltd.</td>
<td>Sri Sahay (AP)</td>
<td>128N012V 01</td>
<td>24/4/07</td>
<td>LI</td>
</tr>
<tr>
<td>2008-09</td>
<td>ICICI Prudential Life Insurance Co. Ltd</td>
<td>ICICI Pru Sarv Jana Suraksha</td>
<td>105N081V 01</td>
<td>2/6/08</td>
<td>Term Assurance</td>
</tr>
<tr>
<td>2008-09</td>
<td>Met Life India</td>
<td>Met Vishwas</td>
<td>117N042V 01</td>
<td>2/6/08</td>
<td>Single Premium Term Assurance</td>
</tr>
<tr>
<td>2008-09</td>
<td>TATA AIG Life Insurance Co. Ltd.</td>
<td>Tata AIG Sumangal Bima Yojana</td>
<td>110N061V 01</td>
<td>3/6/08</td>
<td>Limited Payment Money Back</td>
</tr>
<tr>
<td>2008-09</td>
<td>IDBI Fortis Life Insurance Co. Ltd.</td>
<td>IDBI Fortis Group Microinsurance Plan</td>
<td>135N004V 01</td>
<td>5/11/08</td>
<td>Group Micro Insurance</td>
</tr>
<tr>
<td>Year</td>
<td>Insurance Company</td>
<td>Plan Name</td>
<td>Policy No.</td>
<td>Date</td>
<td>Type of Insurance</td>
</tr>
<tr>
<td>--------</td>
<td>------------------------------------------</td>
<td>-------------------------</td>
<td>----------------</td>
<td>-------</td>
<td>-------------------</td>
</tr>
<tr>
<td>2008-09</td>
<td>DLF Pramerica Life Insurance Co. Ltd</td>
<td>DLF Pramerica Sarv Suraksha</td>
<td>140N007V 01</td>
<td>16/3/09</td>
<td>Group Term Micro Insurance</td>
</tr>
<tr>
<td>2008-09</td>
<td>Star Union Dai-ichi Life Insurance Co Ltd.</td>
<td>SUD Life Paraspar Suraksha Plan</td>
<td>142N009V 01</td>
<td>17/3/09</td>
<td>Group Micro Insurance</td>
</tr>
<tr>
<td>2009-10</td>
<td>Life Insurance Corporation of India</td>
<td>LIC's Jeevan Mangal</td>
<td>512N257V 01</td>
<td>4/5/09</td>
<td>Term Assurance</td>
</tr>
</tbody>
</table>

Source: IRDA Reports (compiled), *LI – Life Insurance

2.9 DELIVERY MODELS OF MICRO INSURANCE

2.9.1 FULL - SERVICE MODEL

In this model, an NGO or other organization operates the insurance scheme and fully absorbs risks, profit, and losses arising from the same (Sinha and Sudipto, 2010). The micro insurance scheme is in charge of everything: both the design and delivery of products to the clients and working with external healthcare providers to provide services to the clients. This model is the most demanding in an organization in terms of capacity, expertise, and investment required to make it work, which entails the financial risk for the organization at its maximum and are wholly responsible for all insurance related costs and losses.

2.9.2 PARTNER - AGENT MODEL

In “partner - agent” or “linked” model, an NGO or MFI act as the intermediary between the end population and an insurance company. It is supreme that agents caught up in insurance schemes have very close contact with the poor. The advantages are that it eliminates agent risk and allows the institutions involved in focusing on their particular strengths and the insurers utilize MFIs delivery mechanism to provide sales and basic services to clients (Anne and Mallika, 2008).

2.9.3 SERVICE - PROVIDER MODEL

In service provider model, microfinance institutions or commercial banks directly market their micro insurance products to their clients. The model needs a well established distribution network and are mostly used in the case of general insurance. The disadvantage of this model is high transaction costs as it targets low-
income groups, which is a low margin market because of the geographical spread of the client population (Dercon and Cearer, 2006)\textsuperscript{32}.

### 2.9.4 GROUP POLICYHOLDER MODEL

Under this model MFI purchases a group life insurance policy from a local insurer, markets them and sell them individually. As a group policyholder, MFI is not responsible for any sales or product servicing activities; it simply pays premiums and forwards applications for claims to insurer just as any policyholder would do.

### 2.9.5 COMMUNITY - BASED MODEL (MUTUAL INSURANCE)

As per this model, the community members are the sole owners and managers of the insurance. It is not-for-profit model and is characterized by its participatory processes and the role of social cohesion. The policyholders or clients are in charge of managing and owning the operations, and working with external healthcare providers to offer services. A diagrammatic representation of various models in micro insurance is given in figure 2.3.

**Figure 2.3 Models of Micro Insurance in India**

Source: World Bank Report, 2005\textsuperscript{33}
A delivery mechanism of the models in micro insurance with respect to benefits, mechanisms and operational costs can be understood with the help of the following diagrammatic representation in figure 2.4.

**Figure 2.4 Micro Insurance delivery mechanisms**

![Diagram of Micro Insurance delivery mechanisms]

**Delivery Mechanism : Micro-Insurance Models**

Source: NABARD Report – 2012

2.10 **COMMON FEATURES OF MICRO INSURANCE PRODUCTS**

Micro insurance product features are distinct from the general insurance products with respect to the following points:

2.10.1 **PRODUCT SIMPLICITY**

A simple product with less coverage is easier to describe and has less circumstances to explain to staff and clients than a more complex product. If the client understands the product easily, then they are more probable to be pleased. The micro insurance regulations specify that contracts for products demarcated as micro
insurance have to be issued in vernacular language that is simple and easily understood by policyholders, separate certificates have to be provided to each member in case of a group policy and the same may be distributed through micro insurance agents, these agents can perform additional functions like collection of forms, remittances of premium, distribution of policy documents, assistance in the settlement of claims, and other policy administration services, which warrant the products to be simple and easy for the clients (Arora and Poonam, 2009).^{35}

### 2.10.2 CORRECT DISTRIBUTION MECHANISM

The distribution mechanism should reduce transaction costs to a level that permit sale of very low cost insurance to the individuals. The margin involved in selling a micro insurance policy is very low. Hence MFIs have proved to be an important link in the provision of insurance to the poor as they group together a large number of the poor people and have an existing infrastructure that can be leveraged (Leftley and Shadreck, undated).^{36}

### 2.10.3 PRICING

The pricing of the product should be done in a way to meet the required premium by the insurer and the administrative expenses also should be affordable by the target group. A range of products are available for the low income segment ranging from comparatively expensive health insurance to low-priced group-based credit/life/asset insurance. The regulation has set limits for micro insurance products, which cannot increase more than Rs.50,000 and the policy term not exceeding 15 years for non-life and for life, the term is annual (Biswa, Sourav and Ratnadevi, 2008).^{37} The products beyond the prescribed sum insured (Table 2.4) do not qualify as micro insurance.

**Table 2.4 Regulatory Environment for Micro Insurance**

<table>
<thead>
<tr>
<th>Product Stream</th>
<th>Minimum Coverage (Rs.)</th>
<th>Maximum Coverage (Rs.)</th>
<th>Term Insured (Years)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>5,000</td>
<td>50,000</td>
<td>5</td>
</tr>
<tr>
<td>Non-life</td>
<td>5,000</td>
<td>30,000</td>
<td>-</td>
</tr>
<tr>
<td>Health</td>
<td>5,000</td>
<td>30,000</td>
<td>1</td>
</tr>
<tr>
<td>Personal Accident</td>
<td>10,000</td>
<td>50,000</td>
<td>1</td>
</tr>
</tbody>
</table>

*Source: Mittal, N. K, 2009^{38}
2.11 ADVANTAGES OF LIFE MICRO INSURANCE

Life micro insurance is a key element in the economic services package for people at the bottom of the social pyramid. Life micro insurance offers pioneering ways to combat poverty by helping the rural poor systematically manage financial risks to their livelihoods and lives. The poor face more risks than the well-off, but they are more vulnerable to the same risk. Without suitable insurance services, a vast majority of the poor turns to moneylenders or temporarily migrates for work. The overall size of the Indian micro insurance market is restricted by general lack of awareness about the benefits of insurance amongst the low income segments of population. Without access to life micro insurance, many poor people are trapped in the vicious cycle of poverty, wherein shocks and debt thwart them to rise on the steps of economic affluence. Mittal.N.K (2009)\textsuperscript{39} states in his study that bundled product delivers a more comprehensive risk protection package with reduced expenses since marginal costs of additional benefits are minimum in this case.

The following are the broad benefits of life micro insurance:

- Simplicity
- Basket Coverage
- Benefits in Cash or in Kind
- Cash-back Benefits

2.12 POTENTIAL FOR MICRO INSURANCE

The findings of Kapoor and Raj Kumar (2006)\textsuperscript{40} clearly made certain that ample potential for insurance exists in rural areas. Researchers argue that a sufficient demand for micro insurance exists among world’s poor (Churchil, 2002\textsuperscript{41}, Cohen and Sebstad, 2005)\textsuperscript{42}. UNDP (2007)\textsuperscript{43} study reported that there is a huge potential for micro insurance market in India. And the estimation of size of micro insurance market (both life and non-life) in India ranged between Rs.62,304.70 to Rs.84,267.55 million. In case of life insurance, the market potential was estimated to be between
Rs.15,393 to Rs.20,141 million and in case of non-life insurance, it was between Rs.46,911.70 to Rs.64,126.55 million.

Dror and et. al (2007)\(^{44}\) in his study found that with regard to a higher level of willingness to pay for insurance there was a positive correlation between household income and willingness to pay.

### 2.13 CHALLENGES IN MICRO INSURANCE PENETRATION

Kapoor.S and Raj Kumar Ohja (2006)\(^{45}\) stated in their study that the challenge with micro insurance is to design products that are appropriate in terms of cost, terms, and coverage. The authors mentioned that other challenges for insurers are the high costs of covering the needs of the rural poor and that micro insurance was difficult to distribute. Till date, the experience with micro insurance had been limited in India in terms of coverage and impact. The authors further mentioned that one of the main constraints in introducing micro insurance in rural areas is the limited comprehension of the concepts of insurance among the poor especially with respect to non-life insurance and its cost worthiness and usefulness. A study by Anne.T.Kuriakose and et.al (2008)\(^{46}\) stated that the key micro insurance challenge lies at the nexus of coverage, costs, and affordability. Levin.T and Reinhard (2007)\(^{47}\) stated that although demand for micro insurance solutions for small farmers in developing countries was great, the supply side faces several constraints and challenges which prevented the private sector from becoming involved on a large scale. The authors listed out four primary insurance risks for micro insurance schemes: (i) adverse selection, (ii) fraud, (iii) moral hazard and (iv) covariant risk.

Dercon.S (2006)\(^{48}\) suggests that the poor sometimes have difficulty in properly understanding their rights in insurance contracts. McCord et al. (2001)\(^{49}\) reported several cases where the poor did not file their claims after being affected by an event covered by their policies.

Sinha.A. and Sudipto Das (2010)\(^{50}\) points out that members’ ability to pay was most often very low, which leaded to a very limited coverage in the absence of subsidies do and hence does not reach the poorest segments of the excluded groups. The authors suggested that the premium collection mechanism is a tricky issue as
villagers can pay premium only during the harvest seasons. The authors further pointed out that there is fierce competition among insurance and other savings media like the chit funds, who give immediate cash in times of emergency whereas in case of insurance companies, there may be a few formalities in settlement of claims leading to delay. Also since the premiums were low and the scope of benefits and services was also limited (unless contributions are made by the government).

Lists of major challenges faced by the rural poor and the responses to be adopted for overcoming the challenges are brought in the form of a table as given below:

Table 2.5 Challenges and Response in providing Insurance to the Poor

<table>
<thead>
<tr>
<th>Issues</th>
<th>Challenge</th>
<th>Response</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Coverage</strong></td>
<td>Protection has to be restricted to maintain affordable premiums and solvency of insurance scheme</td>
<td>Careful trade-off between poor and non-so-poor clientele</td>
</tr>
<tr>
<td><strong>Fraud</strong></td>
<td>Opportunities for fraud are high among ill-informed clients</td>
<td>Emphasize customer education; and place strong internal control systems</td>
</tr>
<tr>
<td><strong>Moral hazard</strong></td>
<td>Clients may be less risk averse after insurance</td>
<td>Peer pressure, rejection of over-servicing by patient/hospitals</td>
</tr>
<tr>
<td><strong>Adverse selection</strong></td>
<td>Narrow client base with homogenous backgrounds may raise risks.</td>
<td>Build a sufficiently large pool size of the right mix of risks.</td>
</tr>
<tr>
<td><strong>Affordability</strong></td>
<td>People with limited and regular income may be less inclined to purchase insurance</td>
<td>Design product and services to suit client needs and capacity. Premium paid in small, frequent instalments.</td>
</tr>
<tr>
<td><strong>Retention</strong></td>
<td>High dropout expected for various reasons: change in price, misgivings of policies, lack of vigorous marketing, and change in client’s personal circumstances.</td>
<td>Communication, special promotions, information campaigns.</td>
</tr>
<tr>
<td><strong>Sustainability</strong></td>
<td>Solvency may be threatened in the initial years due to high expenditure in acquiring and serving customers</td>
<td>Need for support from government and financial institutions till break-even is achieved.</td>
</tr>
<tr>
<td><strong>Customer-friendly qualified staff</strong></td>
<td>Important to verify and dispose claims orderly and make payments quickly</td>
<td>Simple procedures, prompt settlement, at-your-door step service.</td>
</tr>
<tr>
<td><strong>Qualified staff</strong></td>
<td>Technical and actuarial staff is</td>
<td>Capacity building of staff</td>
</tr>
</tbody>
</table>
### 2.14 LIFE INSURANCE CORPORATION OF INDIA

India’s largest government owned Life Insurance Corporation of India was found in 1956, with its headquarters in Mumbai. The corporation has 8 zonal offices and 101 divisional offices located in different parts of India. According to India Invest Incomes and Savings Survey 2007, insurance penetration in urban India is 47 per cent, while it is only 27 per cent in rural areas. In 2006, LIC entered into a memorandum of understanding with the Confederation of NGOs of Rural India (CNRI), an apex body of Non-governmental Organizations of rural India that has over 4,000 NGOs across the country. MOU authorized the NGOs who are members of the CNRI to distribute micro insurance to rural areas. LIC has played a significant role in spreading life insurance among the masses and mobilisation of people’s money for people’s welfare. Even after the entry of private insurers for almost a decade now, LIC continues to be the frontrunner in the industry in terms of market share.

#### 2.14.1 LIFE MICRO INSURANCE PRODUCTS OF LIC

LIC, after a finance research worked out special insurance products for rural area and low-income sections of society – ‘LIC Jeevan Madhur’ and ‘LIC Jeevan Mangal’. Both these micro insurance products of LIC are customized offerings to cater to the distinct needs of the most vulnerable low income sections of Indian population. These products are sold only by self-help groups and NGOs. ‘LIC Jeevan Madhur’ is an endowment assurance plan launched in September 2006. This product is available to both male and female without any medical examination and is a simple saving related life insurance plan covering individuals in the age group of 18 to 60 years. The minimum sum assured under the plan is Rs.5,000 and maximum sum assured is Rs.30,000. Mode of payment of premium can be weekly/fortnightly in
addition to other regular modes to suit the needs of people with low income. Minimum premium is Rs.25 per week, Rs.50 per fortnight, Rs.100 per month, which is expected to be well within reach of the targeted group. The term policy ranges between 5 to 15 years. The maturity benefit is in proportion to the amount of premium, term of policy and age of the life assured.

‘LIC Jeevan Mangal’ is the second micro insurance product of LIC, launched in 2009, is a term assurance plan in which insurance holder gets premiums on maturity. With the introduction of its second micro insurance product, LIC has taken a big step in fulfilling its commitment and prime goal to spread life insurance widely and in particular to the rural areas and to the society and economically backward classes with a view to reaching all insurable persons in the country and providing them adequate financial cover against death at a reasonable cost. The micro insurance plan “Jeevan Mangal” is a term assurance plan with return of premium on maturity providing for a sum assured (risk cover) ranging from minimum of Rs.10,000 to maximum of Rs.50,000 with an optional accident benefit rider, together providing for total death benefit equal to double the sum assured, on death due to accident. Flexible modes of premium payment have been provided ranging from weekly, fortnightly, monthly, quarterly, half-yearly, annually and a single premium payment option has also been provided.

‘LIC Jeevan Deep’ is a simple savings related life insurance plan introduced recently with guaranteed additions where you may pay premiums either in lump sum or regularly at monthly, quarterly, half-yearly or yearly intervals over the term of the policy. The minimum sum assured is Rs.5,000 and the maximum sum assured is Rs.30,000. The sum assured should be in multiples of Rs.1,000. The minimum age for taking policy is 18 years and the maximum age is 60 years. The maximum maturity age is 65 years.

2.14.2 LIFE MICRO INSURANCE IN VELLORE

The present study takes into account the Vellore Division of Life Insurance Corporation in Tamil Nadu. LIC Vellore division covers five districts namely, Vellore, Cuddalore, Thiruvannamalai, Villupuram and Pondicherry with about 38,000 policies during the period 2010-11. Out of which Vellore district and Tiruvannamalai
districts are the best performers in life micro insurance activity. Vellore currently has about 20,000 plus policies and Tiruvannamalai covers near about 38,000 plus policies during this period (2012 – 2013) and a total of 75,000 plus policies are sold till 31.3.2013 which shows that there is an increase of 50 per cent in the number of policies from 2010 – 2011 to 2012 – 2013.

### 2.14.3 OTHER FUNCTIONS OF LIC

Life Insurance Corporation also seeks to provide social security schemes in addition to micro insurance, the details of which are given in table 2.6.

**Table 2.6 Social security schemes (Achievement as on 31.03.2012)**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>New Lives (in Lakhs)</th>
<th>Premium income (Rs.in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Security Schemes</td>
<td>132.75</td>
<td>138.04</td>
</tr>
</tbody>
</table>

**Source:** Vellore Division Office

Life micro insurance by Life Insurance Corporation of Vellore Division has shown a growth of 48.67 per cent in terms of micro insurance which is illustrated with the help of table 2.7:

**Table 2.7 Micro insurance (Achievement as on 31–03–2012)**

<table>
<thead>
<tr>
<th>Attributes</th>
<th>Volume</th>
<th>Growth %</th>
<th>Percentage share to total New Business</th>
</tr>
</thead>
<tbody>
<tr>
<td>Policies</td>
<td>29,51,235</td>
<td>48.67%</td>
<td>7.97%</td>
</tr>
<tr>
<td>FPI (Lakhs)</td>
<td>4389.91</td>
<td>21.41%</td>
<td>----</td>
</tr>
</tbody>
</table>

**Source:** LIC Division Office

Life Insurance Corporation of India had also made contributions with regard to each of the Five Year Plans. The contributions made by LIC with respect to each of the Five Year Plans are given in table 2.8
Table No 2.8 Contribution towards Various Five Year Plans

<table>
<thead>
<tr>
<th>Plan</th>
<th>Year</th>
<th>Contributions (Rs.in Crore)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2nd Five Year Plan</td>
<td>1956-1961</td>
<td>184</td>
</tr>
<tr>
<td>3rd Five Year Plan</td>
<td>1961-1966</td>
<td>285</td>
</tr>
<tr>
<td>4th Five Year Plan</td>
<td>1969-1974</td>
<td>1530</td>
</tr>
<tr>
<td>5th Five Year Plan</td>
<td>1974-1979</td>
<td>2942</td>
</tr>
<tr>
<td>6th Five Year Plan</td>
<td>1980-1985</td>
<td>7140</td>
</tr>
<tr>
<td>7th Five Year Plan</td>
<td>1985-1990</td>
<td>12969</td>
</tr>
<tr>
<td>8th Five Year Plan</td>
<td>1992-1997</td>
<td>56097</td>
</tr>
<tr>
<td>9th Five Year Plan</td>
<td>1997-2002</td>
<td>170929</td>
</tr>
<tr>
<td>10th Five Year Plan</td>
<td>2002-2007</td>
<td>394779</td>
</tr>
<tr>
<td>11th Five Year Plan</td>
<td>2007-2011</td>
<td>528390</td>
</tr>
</tbody>
</table>

Source: LIC Annual Report, 2012

2.14.4 SATELLITE OFFICES

For improvement in overall efficiency and effectiveness in the cost and marketing, LIC has opened 1123 Satellite Offices. These Satellite offices which are attached to the respective parent branches are basically an extension of the large parent branches for rendering quick services to policy holders. Processing of new proposals and collection of renewal premium are the main functions of these offices at present.

2.14.5 LIC OF INDIA – INTERNATIONAL OPERATIONS

The Life Insurance Corporation of India has three of its Branch Offices functioning at Fiji, U.K and Mauritius. Also there are five Joint Venture Companies functioning at Bahrain, Nepal, Sri Lanka, Kenya and Saudi Arabia, out of which, the latter two are composite Companies transacting both life and non-life business. A representative Office was opened at Singapore in November, 2008.
LIC as a part of its Corporate Social Responsibility formed a Trust – ‘LIC Golden Jubilee Foundation’ in the year 2006, with the objective of promoting education, health, relief of poverty or distress and advancement of other objects of general public utility. Till date LIC has put in a Corpus of Rs.90 Crores towards LIC Golden Jubilee Foundation and interest is distributed for various charitable purposes. So far it has sanctioned projects worth of Rs.22.35 Crore.

LIC Golden Jubilee Scholarship Scheme provides scholarship to economically weaker sections of the society to pursue higher education at the rate of Rs.1,00,000/- per year for 10 students per division till they complete their graduation/ professional course approximately 2,650 students have benefited from the scheme so far.

2.15 CONCLUSION

Based on the overview of the development of insurance business of LIC and development of micro insurance in particular, in India and Tamil Nadu with special attention to micro insurance in Vellore Division, the study makes an attempt to identify the problems in the regulation and working of life and health micro insurance which further needs to be modified and improved so as to obtain a major share in the market without taking into consideration the rural and social obligations. With regard to the observations made in this chapter an attempt is made in the next chapter to identify the related past studies which support the existence and working of life micro insurance with regard to the objectives of the present study.
REFERENCES

6. IRDA (Micro-Insurance) Regulations, (2005), Notification, Hyderabad, the 10th November.


