

# Influence of Micro Insurance Towards Poverty and Vulnerability in India

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## Abstract

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

**Keywords:** *Micro Insurance, Poverty, Development, Vulnerability, Inequality.*

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## 1. INTRODUCTION

India is home to two third of the poor living in the world. Around 84% of Indian population earns less than US \$ 2 a day. The India Financial Protection Survey conducted by the National Council of Applied Economic Research (NCAER), New Delhi and Max New York Life found that 96 per cent of the households cannot survive beyond a year on their current savings in case of loss of income due to some eventuality such as death or disability of the chief earner. This calls for measures to improve financial security of the households. Micro insurance can be one tool to mitigate risks of low-income group in the country. India has very low insurance penetration (5 %) and density (\$ 42) compared to the world average of 7.5 %. This is because of the low awareness and acceptance of pure insurance services, lack of access to financial services for the low-income group. To increase acceptance of insurance as a tool to mitigate loss due to financial risk arising out of various events, insurance literacy and accessibility to insurance has to increase. Nearly 80 % of Indian population is without life, health and non-life insurance coverage. The per capita spent on life and non-life insurance is only Rs 2000 and Rs 300 respectively, compared with global average of at Rs 18000 and Rs 13,000. The main reason for the poor spread of insurance may probably be lack of availability, affordability, acceptability and awareness. Government has attempted to address issues related with financial vulnerability of poor families in rural areas by providing insurance at the doorsteps of the families. To achieve this Government has launched a Micro Insurance initiative to address clients' needs for risk management that helps the bottom of the pyramid to have more savings and thus pool them from the destitution (Figure 1).



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

## 2. REVIEW OF LITERATURE

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

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

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

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

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

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

JenneferSebstad & Monique Cohen (2005) the Study reveals that micro insurance is a clear requirement as a tool for risk handling. Insurance is necessary to help poor people better managed risk and avoid falling back down the

poverty ladder. It is a key to the process of poverty alleviation because demand of micro insurance is same in all three countries. Therefore, micro insurance has a role to play for ports to enhance risk management option.

### 3. GROWTH OF MICRO INSURANCE IN INDIA

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

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

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

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

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

Year/ Companies	Public Insurance Companies					Private Insurance Companies						
	Schemes	% Change in growth rate of Schemes	Lives Covered	% Change in growth rate of Lives Covered	Premium	% Change in growth rate of Premium	Schemes	% Change in growth rate of Schemes	Lives Covered	% Change in growth rate of Lives Covered	Premium	% Change in growth rate of Premium
2007-08	7583		11367126		19256.23		15		874901		871.23	
2008-09	6883	-9.23	11052815	-2.77	17268.54	-10.32	14	-6.67	1498994	71.33	3326.8	281.85
2009-10	5190	-31.56	14946927	31.49	22869.72	18.77	17	13.33	1895143	116.61	1472.09	68.97
2010-11	5446	-28.18	13275464	16.79	13803.67	-28.32	23	53.33	1983537	126.72	1719.14	97.32
2011-12	5461	-27.98	9831.63	-99.91	9444349	48945.68	112	646.67	1150.67	-99.87	750555	86048.89

The table no. 2 examine the percentage change in the growth rate of group micro insurance business during the last five years i.e., from 2007-2012. In case of group micro insurance business, public insurance companies have been increasing percentage in schemes during the year 2007-2009 but decreased during the year 2009-10 and then increased in 2010-2012. Whereas the private insurance companies have decreased their schemes in their 2008-2009 from 15 to 14 schemes but again increase in next three years. Similarly, in case of lives covered by public & private

insurance companies there has been an increased trend of micro insurance from 2007-08 to 2010-2011, then again, decreased in 2011-2012. While in case of premium collection by public insurance companies, they had been rising trend premium amount from 2007-2009 but decrease in 2010 again increase in 2011-2012. Same Condition is there with private insurance companies for the premium amount. But in last, the public micro insurance companies are much preferred by unprivileged peoples of the society and performing better because people have much faith over the government-owned companies than private.

#### 4. ECONOMIC GROWTH, INCOME POVERTY AND INEQUALITY OVER THE SUCCESSIVE FIVE YEAR PLANS- INDIA

At the time of India's independence, the socio-economic scenario was characterized by a predominantly rural economy with feudal structure. There was widespread poverty, dismal literacy rate, geographically and culturally isolated population, a rigid social structure and extremely poor transport and communication system. The state leaders and policymakers during the initial years of development planning were also not adequately acclimatized to development activities. In view of the impediments to social and economic development, the fulcrum of the planning process had been pivoted on the strategic goal of „economic development with social justice“. Thus, the planning process in India, over the years, underscored the development of backward areas and disadvantaged population groups.

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

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

**Table 4: Poverty and Inequality across Rural and Urban Areas**

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

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

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

#### 5. ROLE OF MICRO INSURANCE IN POVERTY REDUCTION AND VULNERABILITY

Poverty and vulnerability are closely related. Poverty is not only state of deprivation but also a state of vulnerability. Although the poor do have some informal mechanism to cope with risk and misfortunate, it is limited or inadequately organized. We have also seen that risk can cause poverty traps following large shocks to assets and income that are almost impossible to recover from. Insurance services are emerging as coping mechanism to deal with many risks and vulnerabilities. Unlike savings and credit, there has been little progress in providing insurance services to the poor. Micro insurance is intended to protect the working poor, particularly those working in the

informal economy. Often poverty alleviation efforts like microcredit focus on boosting incomes, building assets or creating jobs – all of which are important objectives. But these productive efforts must be balanced with a corresponding intervention on the protective side. Even families that are breaking out of poverty can be left destitute by the financial burden of serious health problems. The World Health Organization estimates that around the world 100 million people each year fall into poverty because of exorbitant health care expenses. The poor, or even the not-so-poor, cannot cope with the costs of a major surgery or debilitating illness out of their cash flow or by relying on their social support networks. They may choose not receive the treatment and start the downward cycle into destitution or they may borrow from a moneylender, which could end up with the same result. To pay for the treatment or to pay off debts they may need sell off productive assets, which reduce future income generating potential. They are stuck between a rock and a hard place. Any of these unattractive options will contribute to spiraling further into poverty, for themselves and perhaps for their offspring as well. Risks are certainly not limited to health crises. The death of a breadwinner can force children out of school and into the labour market. Property damage and theft are rife in low-income settlements and slums. Floods and other natural disasters can overwhelm poor households, destroying homes and livelihoods, and leave vulnerable families destitute.

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

## 6. CONCLUSION

The study highlights the importance of insurance in supporting the sustainable development of the poor and reducing the inequality in developing countries like India. Micro insurance a magic cure for all that ails the economy. There are still many unknowns in the micro insurance space, but the potential is there, just waiting for us to grab it. The development of micro insurance is both a moral and an economic imperative, not only for the promotion of inclusive financial systems but also for the equitable mitigation of risks. This imperative is reinforced by the fact that many donor agencies are taking a keen interest in supporting its development as a complementary poverty alleviation strategy. Insurance is an intangible product. It is a promise. Policyholders are buying peace of mind that they will be protected should an insured event occur. But for the working poor, who have limited disposable income, it is hard to allocate funds to protect against an event that they hope won't even happen when they have more pressing short-term needs, like putting food on the table. Consequently, there is a need to make sure that they have access to appropriate products, and have a positive experience with insurance; otherwise we will muddy the waters for insurance for another generation.

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