MICRO-INSURANCE IN THE INDIAN MARKET

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1. INTRODUCTION:

MICRO-INSURANCE refers to the insurance of the low-income people. Today, thé promise of providing Social Security to all is not being fulfilled in India. Only 20% of the world population enjoy adequate social protection. Ironically the poor, who are the most in need of social protection, are the excluded ones. Rural Population has to face many risks and hardships. The simple existence of risks inhibits their development initiatives.

The liberalization of economy has strengthened the argument "to strengthen the people at micro level, i.e., at the grass-root level of the society, the rural areas." Action plans are made to strengthen the rural areas by providing micro finance to the people living therein. With the concentration on micro finance, the concept of savings and credit has evolved. This concept has further developed the mobilization of local resources including the skills and expertise of local people by formulating self-help groups and micro financial institutions. Today the micro-finance institutions have grown both horizontally and vertically. They are playing a vital role in rural economy. With the increased attention and concentration on the micro-finance models & institutions, the need for protecting the rural people & assets from risk of uncertainties by purchasing the insurance products has been identified. Thus, insuring the people involved in the economic development by utilizing micro finance and the property created by micro finance has become priority. In order to involve the insurers in protecting the micro-financial institutions, self-help groups and the property involved therein, the IRDA has conceptualized the special category of insurance model, micro-insurance.

Micro-insurance refers to protection of assets and lives against insurable risks of target populations such as micro-entrepreneurs, small farmers and the landless, women and low-income people through formal, semi-formal and informal institutions. Micro-insurance products are sure to cover the entire gamut of micro-finance (credit & savings) and the assets created by micro-finance.

The IRDA has framed and notified Micro-Insurance Regulations on November 10, 2005, under the powers vested on it vide Sections 114 A of the Insurance Act, 1938 and Section 26 of IRDA Act, 1999. The insurance companies are asked to make innovative insurance products to meet the needs of the people involved in micro-finance. The micro-insurance coverage targets the low income groups with irregular and unstable income patterns. It also covers the assets purchased or acquired with the micro-credit, personal accident, health & life insurance. The IRDA has planned a three-tier strategic approach to promote micro-insurance –"adapting insurance companies to the requirements of micro-economy is the first step; then linking them as wholesale institutions to self-help groups as retailers; and finally, upgrading self-help groups, to the level of financial cooperatives or village banks."

Low-income households are vulnerable to risks and economic shocks. One way for the poor to protect themselves is through insurance. By helping low-income households manage risks, micro-insurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability. If governments, donors, development agencies and others working for the welfare of the poorer community are serious about combating poverty, insurance has to be one of the weapons in their arsenal.

The main players involved in micro-insurance in Indian market are:

1. Insurance Companies ;
2. Micro - Finance Institutions ;
3. Non Governmental Organizations (NGOs) ;
4. Banking Institutions ;

5. Central/State Governments ;
6. Co-operative Societies;
7. Village councils (Panchayat samitis) ;
8. Employers' Organizations ;
9. Health Providers & various other third parties related to health insurance.

2. STRATEGIES FOR RURAL AND MICRO INSURANCE MARKETING:

Micro-finance is the most important socio-economic development of our times. Due to the economic circumstances the poor had no bank facilities for a long time. But with the concept of micro-credit it has been proved that the poor can become credit worthy if they form small groups. Micro-credit in India started in a big way in the 90's. In the late 90s, numerous agencies involved in micro-credit operations in India started adding other financial services, including micro-insurance to its micro-credit operations. The importance of micro-finance can be seen from the fact that in spite of the fact there are many banks in the country but still poor people specially in the rural areas bypassed the formal banking procedure and formed their own groups for the micro-finance activities.

MICRO-INSURANCE refers to the insurance of the low-income people. It is very different from the other types of the insurance available in the urban areas and is a low value product. It requires different design and different distribution strategies and it also requires active involvement of an intermediate agency representing the target community.

Insurance is emerging as a necessity for the low income people also. Recent 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. Thus, insurance is fast emerging as a prepaid financing option for the risks facing the poor.

3. HISTORICAL BACKGROUND OF MICRO-INSURANCE:

Government of India and certain NGOs started the micro-insurance scheme in India. Although the reach of these insurance schemes is limited only to the 10 million individuals but there is a huge potential seen in the near future. The overall market is estimated to reach Rs. 250 billion by 2008 (ILO 2004).

For micro-insurance facilities to be available to the poor, the IRDA has divided the poor block of people under the two broad categories which are: a) RURAL SECTOR, b) SOCIAL SECTOR. And there are the obligations set by the IRDA to be fulfilled in both of these sectors. These obligations are: The rural obligations are in terms of certain minimum percentage of total policies written by life insurance companies and, for general insurance companies, these obligations are in terms of percentage of total gross premium collected. The social obligations are in terms of number of individuals to be covered by both life and non-life insurers in certain identified sections of the society.

In order to fulfil all these requirements of IRDA all the insurance companies have designed products especially for the poorer sections, rural sections and also for the low income group. These insurance companies in collaboration with the nodal agencies have been able to cater to the low-income segment of the economy. These nodal agencies which organize the poor, impart training, and work for the welfare of the low-income people play an important role both in generating both the *demand* for insurance as well as the *supply* of cost-effective insurance.

4. PERCEPTIONS OF THE RURAL POPULACE:

The following features relating to rural populace have emerged:

1. The rural people are having very high awareness levels;
2. The concept of life insurance to them is synonymous to long term saving plan;
3. Tangible & definite benefit seen at the end of tenure;
4. There are altogether 51 Operational Schemes at present but definitely low penetration;
5. Out of all the existing schemes - 59% of schemes provide life insurance and 57% of them provide health insurance;
6. 74% of the schemes operate in 4 southern states of Indian territory;

7. Of 80 listed insurance products, 45 cover only as a single risk;
8. Most products available for the rural market - whether life or for non-life - require a single payment of premium upon subscription.

5. DEMAND OF MICRO-INSURANCE:

- Micro-insurance schemes in demand in India (list has been prepared by ILO-2004):
- The inventory lists 51 schemes that are operational in India.
- Most schemes are still very young, having started their operations during the last few years. Of the 39 schemes for which this information is available, around 24 schemes came up during the last 4 years, and about 7 schemes have operated for more than a decade.
- As regards the beneficiaries, the 43 schemes for which the information is available cover 5.2 million people.
- Most insurance schemes (66%) are linked with micro finance services provided by specialized institutions (17 schemes) or non-specialized organizations (17 schemes). Twenty two percent of the schemes are implemented by community based organizations and 12% by health care providers.
- Life and health are the two most popular risks for which insurance is demanded: 59% of schemes provide life insurance and 57% of them provide health insurance. In SEWA's experience health insurance tops the list of risks for which the poor need insurance.
- Twenty-five out of 37 schemes received some external funds to initiate their schemes. Twenty out of 32 schemes received external technical assistance in the form of advisory services, technical services, training, or even referral services for their schemes.
- In the majority of the schemes special staff had been recruited to manage the insurance activities. The other schemes kept relying on their regular staff while recognizing their additional responsibilities linked to the management of the scheme.
- Most schemes (74%) operate in 4 southern states of India: Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%), and the two western states Maharashtra (12%) and Gujarat (6%)) account for 18% of the schemes.
- 56% of schemes deal with one single risk.
- Most schemes require single yearly premium at the time of subscription. Of the 43 schemes, 6 use a monthly payment for their contribution, while 2 others have linked the contributions to some other activities (disbursement of loan etc.).
- Most of the schemes (27) rely on voluntary contribution, while 10 schemes imposed compulsory contributions, and 7 adopted a mix of voluntary and compulsory contributions (based on the type of service provided).

6. SUPPLY OF MICRO-INSURANCE:

These are the list of the insurance products offered to the poorer section of the society by the private as well as the public sector companies. (Source - ILO -2004 report):

- Out of 80 listed insurance products, 45 (55%) cover only a single risk. The other products covering of risks as a package mostly focus on 2 (20%) or 3 (18%) risks coverage.
- The available products cover a wide range of risks. However, the broad majority of the insurance products cover life (40 products or 52%) or accident-related risks. The health coverage remains very limited (12 products).
- Most life insurance products (23 out of 42) are addressed to individuals. However, some products may be bought both by individuals and groups.
- Most life insurance products (55%) have been designed to cover an extended contract duration ranging from 3 to 20 years.
- Out of 42 life insurance products, 23 are pure risk products. The other 19 products propose various types of maturity benefits.
- Out of the 12 currently available health insurance products, 7 have been designed and restricted to groups.
- Out of the total 12 health products, 7 products propose the reimbursement of hospitalization expenses while the other 5 narrow down the

coverage to some specific critical illnesses.

- Most of the h ealth insurance products specifically exclude deliveries and other pregnancy-related illnesses. Most of these products also mention amongst their exclusion clauses, HIV/AIDS.
- Most products whether life or non-life require a single payment of premium (i.e., a one-time payment) upon subscription.
- Private insurance companies have three times more products than the public companies.

  As per the IRDA statistics, the public insurance companies still play a predominant role in the present coverage of the rural and social sectors. This is only to be expected since the incumbent public insurers have been in the market for a number of years now.

  From the above, we may conclude that - health and life is the insurance demanded by the poor.

  - The supply is mostly of the life insurance products and only 7 products provide health insurance to the poor.
  - The schemes offered to the rural poor are not as rigid as those provided to the urban; there is much flexibility provided to them in terms of mode of payments of the premium.

7. HANDICAPS FACED IN INSURANCE TO THE RURAL POOR:

The first major drawback in providing insurance to the poor is REACH, because of the few nodal agencies available. Even if they are available they are mostly available in southern India with very few in northern India leaving enough space for the potential market to remain untapped.

The second drawback is AFFORDABILITY, the segment of the market the companies are catering to is poor and not able to afford for its life insurance or its health insurance.

8. CHALLENGES IN MARKETING:

THE MAIN CHALLENGE IS TO ADDRESS THESE BASIC DRAWBACKS

Most of the companies do not get involved in micro-insurance because they feel that poor would not be able to afford and also the low margin being involved. There had been many possible solutions given to the government and IRDA to make these companies involved in the micro-insurance. One of the suggestions may be imposing tax on these companies if they do not cater to this section of the society.

But there are many companies who have taken this obligation in positive spirit and have made genuine attempt to cater to this segment of the society.

Before extending micro-insurance to the poor two most important points that need to be kept in mind by the companies are:

i) The flexibility in premium payments by the insured, and

ii) The difference between the micro-insurance provided by the micro-finance institutions and non-micro-finance institutions.

Main challenges in Marketing of Micro Insurance in the present scenario may be perceived as:

- Poor comprehension of insurance in terms of the key benefit and the process.
- Lack of promotion, education, and information in the rural sector.
- Weak distribution channels, inaccessibility of the agent, cost of reaching individual client may be relatively high compared to the existing commission structure.
- Cumbersome Processes.
- Stoic belief in fate coupled with apathetic attitude and language barriers.

Inclusive growth is now recognized as a necessary condition to ensure long term sustainability of growth in India. Bringing in financial inclusion for the poor, rural and socially disadvantaged sections of the society is now a major thrust area for policy interventions. The vulnerability of this category of households is very high to various risks related to their lives and livelihood activities. Therefore, making insurance services available to them becomes a key strategy to ensure that sustainable social protection is offered to these households. The rural and social sector obligations and the micro-insurance regulations from IRDA are definitely the important steps in the direction of ensuring financial inclusion and social protection for the poor. While enabling regulations are in place and several insurance companies are in operations in India, there is still a need for innovation in products and distribution system/channels for ensuring the penetration of micro-insurance to the masses that need it. And along the way, there is also the challenge of educating the vast majority of population on insurance that has to be addressed. BASIX has already taken some initiatives in improving the access to micro-insurance for the poor. BASIX, a livelihood promotion institute set up in 1996, provided both financial and technical assistance services to about half a million households spread over eight states in India. In October 2002, it began its initiative to provide life insurance cover to customers who took micro credit. BASIX took a group policy called Credit Plus from AVIVA which covered its borrower for 1.5 times the loan amount taken by him/her during the loan tenure. In the absence of any past experience of mortality for the customer profile served by BASIX, the insurance company priced the product conservatively at Rs. 8.61 per thousand sum insured.

By October 2004, experience of covering more than 50,000 person years was completed and the insurance company lowered the premium rate to Rs. 6.89 per thousand sum insured. A year later in 2005, over 100,000 person years were covered cumulatively. The claims experience gained till then allowed the insurance company to reduce the premium rate to Rs. 3.98 per thousand sum insured. Based on actual performance of the product, BASIX & AVIVA could reduce the premium rate by more than 50% in a three year period. This further allowed BASIX to extend cover to the spouses of the borrowers, and also add a limited health insurance cover from Royal Sundaram, as the premium was much more affordable now. This experience proved that a sustainable approach to pricing of micro-insurance, combined with proper administration of the products, allows in the long run more value to the small premiums paid by its customers. Another unique feature which was introduced in this group product was that it provided the borrowers the convenience to pay the insurance premium in small monthly instalments along with their loan repayments.

By the end of September, 2007, BASIX insured over 500,000 individuals under this micro-insurance policy and plans to cover over one million lives within the next one year. In partnership with insurance companies, BASIX today offers a wide range of micro-insurance products covering life & health risks and also various assets in rural areas like livestock, agriculture, and non-farm enterprises. In the past five years it has settled claims of over 13,000 households amounting to over Rs. 50 million. More than any other marketing effort, it is the demonstration effect created by the settlement of these claims that helps BASIX to enrol more number of customers for micro-insurance.

It indicated that micro-insurance initiatives can definitely alter the picture of low insurance penetration in rural areas in India in immediate future but obviously there are certain challenges to be overcome to achieve sustainable and scalable micro-insurance models, as well as there is a dire need for creating actuarial data for micro-insurance.

Most poor have not had access to insurance in the past as in the present. This translates into absence of data regarding frequencies of various risks faced by them. In the absence of this data, insurance companies are often constrained to offer products as the availability of historical data is critical to the design of insurance products. This perpetuates the problem of making available insurance products to the poor. To break this deadlock, insurance companies should be willing to introduce products even in the absence of adequate actuarial data. The incentives for doing this would be:

- It would help to build data on various risks for this segment of the market which is huge. This data and coupled with it, the experience in administering micro-insurance policies would serve as an asset for the insurance companies to expand their market in the huge and untapped rural market.
- The marginal error in pricing micro-insurance policies in the absence of historical data would not seriously affect the insurance companies as the financial value of the risk in micro-insurance policies is marginal compared to the traditional high value insurance contracts underwritten by insurance companies. This marginal risk too can be mitigated by taking a conservative approach to pricing of the micro-insurance policies in the inception years and in reviewing the price, based on actual claims experience in subsequent years.
- Reinsurers are also beginning to recognize the potential of micro-insurance, in order to expand the overall insurance market size. Munich Re and Swiss Re and GIC of India are examples of reinsurers who have been actively studying and

promoting micro-insurance in the Indian insurance market. The willingness and the interest of these reinsurers provide an opportunity to local insurance companies to enter into the micro-insurance market, by ceding a portion of micro-insurance risks to global reinsurers. The reinsurers would be in a better position to absorb the risks from micro-insurance programs where the market experience is still in a nascent stage.

There is also a definite need for rationalising underwriting procedures for micro-insurance to make them accessible for target clients. A major roadblock for rolling out insurance products for the poor has been the gap between expectations of insurance companies in obtaining and completing a certain kind of paperwork for issuing insurance contracts and what the poor can actually provide. The poor and especially those in the rural areas are in a disadvantaged position in terms of their ability to access hospitals, schools and various public utility service providers. The certificates issued by these institutions often serve as proofs for establishing identity and also age to be considered for an insurance contract. In the case of BASIX the micro-insurance service providers have worked with the insurance companies to accept alternative age proofs like declaration of age by community members like SHGs or even declaration by the individual or even the household itself to be sufficient for the purpose of extending insurance. This has helped in extending insurance to individuals who would not have otherwise been insured due to non-availability of formal certificates of age and residence.

In the area of health insurance, traditionally insurance companies define that a hospital should have at least ten beds to be qualified for reimbursement of expenses. However, most hospitals in rural areas do not have this kind of infrastructure. Therefore to allow customers to take treatment at rural hospitals, the policy conditions have been simplified in health insurance policies so that customers can get admitted and treated at any registered hospital, even if it does not have the mandatory ten bed infrastructure. This kind relooking at traditional procedures in administering insurance policies holds the key to unlock the availability and access of micro-insurance to the poor.

Livestock Insurance:

With the prime objective of insuring the wealth of rural India we need to focus on agriculture insurance. Another thrust area of micro-insurance is the livestock policy. After agriculture insurance, it is livestock which is the most common source of income for rural households. Very often it provides a supplementary source of income for rural households, helping them to tide over loss of income from other sources. As per the 17th National Livestock census conducted in 2003, there were 284 million cattle in India. There was no growth in the cattle population of the country between 1997 (when the 16th livestock census was conducted) and 2003. In the year 2002-03, as per the department of Animal Husbandry & Dairying, Ministry of Agriculture, 18 million cattle were insured, which means that only 6% of the cattle population was insured. There is a large percentage of rural household assets which are uninsured and surely there are challenges in ensuring greater penetration of insurance for the cattle population.

Traditionally, livestock insurance has always been seen as an unattractive portfolio for insurance companies due to its poor financial performance on account of the behavioural risks associated with both customers and service providers. One of the requisites for offering livestock insurance has been the need for getting a certificate from a veterinary doctor. Many remote places still do not have the services of a veterinary doctor and to get this only adds to cost for obtaining livestock insurance. To overcome this gap BASIX worked with Royal Sundaram to enable the certification of livestock insured through its field staff who are adequately trained to assess the economics of cattle rearing and the insurable status of cattle. While this arrangement greatly simplifies the ease of insuring animals, great care has also got to be exercised by BASIX staff to ensure that proper controls are in place to ensure that no adverse selection of high risk animals happens. In the event of claim too, if the death certificate cannot be given by a doctor, an inspection and report from a field facilitator approved by the insurance company is considered for settlement of claim.

There are other key issues which have to be addressed to make cattle insurance more attractive to rural customers:

- Assessment of market value at the time of claim- Traditionally, cattle insurance policies are indemnity based contracts, i.e. the claim amount paid is based on the market value of the animal at the time of death of animal. If the value of the animal is greater than the sum insured then only the sum insured is paid. It is known that the market value of milch cattle follows an almost cyclical path based on the reproductive stages that they go through. Thus if the death of the cattle due to any risk occurs when the market value is at the low end of the cycle, then the farmer has a considerable loss of future value. Besides, it is also difficult for the farmer to come to terms with the fact that while he has paid premium for a certain sum insured amount, he only gets an amount less than that. In order to overcome this kind of situations, BASIX worked with Royal Sundaram to convert the policy to a full benefit policy, i.e. where the claim paid is equal to the sum insured. To ensure that the principle of indemnity is not compromised, the cattle were insured for about only 80% of the animal value. This also ensured that there was an element of self insurance by the farmer, which would translate into better care of animal.

- Reducing adverse selection - Avoiding adverse selection is major challenge in livestock insurance. A field worker who is not too technically trained in veterinary science cannot easily assess the exact health status of cattle from mere visual observation. To overcome this challenge, most insurance policies have a waiting period of 10-15 days from the date of tagging after which the risk cover period commences. To further minimise adverse selection, customers are also incentivised to insure all the cattle in the household by providing a premium discount for insurance of multiple animals.

Since most of the lending in micro-finance is not necessarily targeted at a single economic activity, most MFIs have not entered the space of insuring the livestock of their clients. Among those MFIs which do lend to specific activities like purchase of livestock, combinations of factors like:

(1) High premium rates (can range from 3-8% of insured value),

(2) Inordinate paper work,

(3) Poor history of claim settlements,

(4) Other issues related to adverse selection, etc.

Only in specific location where the above issues can be addressed, MFIs encourage their customers to take live stock insurance on a voluntary basis.

BASIX has cumulatively insured over 40,000 livestock so far. In the recent two years, BASIX has also begun providing preventive vet care services on a fee basis under its Business Development Services (BDS) program. It currently has close to 50,000 customers who are availing these services. BASIX expects that the BDS services will result in reducing the risk and thereby mortality of livestock owned by its customers. This would eventually translate into reduction of premium rates for livestock insurance, making it more attractive to enrol larger number of customers for livestock insurance.

Appropriate approach in Agricultural Insurance:

Agriculture is still the biggest source of livelihood for a majority of the households in India. However, there is a huge amount of risk involved in agriculture as most farmers do not have assured sources of irrigation and the activity is prone to weather risks like inadequate rainfall. The traditional yield based crop insurance offered to farmers, which currently covers less than 20% of the farming community, suffers on the count of service levels and also its financial sustainability. Alternative models to manage crop risks are now being explored to find a more sustainable approach to managing agricultural risks. Index based weather insurance is now emerging as a promising alternative, as it is actually priced and promises timely claims payments to farmers as the claim payout is determined on a particular weather index which is measured on a daily basis.

As most of its customers are dependent on agricultural activities, BASIX undertook several research projects to provide cover for crop risks. These efforts culminated in collaboration with the Commodity Risk Management Group of the World Bank and ICICI Lombard to launch the first index based weather insurance in 2003 in Mababubnagar district of India covering 230 farmers in first pilot program. In subsequent years the index based weather insurance market in India has scaled up covering more than 200,000 farmers. Today there are more companies offering weather insurance in India, including the government owned Agricultural Insurance Company.

There are also challenges to be overcome to take weather insurance to a large scale. One of them is to increase the network of weather stations in a big way, so that rainfall measured in a particular weather station is better correlated to the actual rainfall in a particular farm. While efforts are underway to improve this infrastructure with the participation of private players like NCMSL apart from IMD, the real scale for weather insurance would come when it is tested as an alternative or to play a complementary role with the NAIS (National Agriculture Insurance Scheme) with support from the Government. The current year has seen a tremendous movement in this direction with the announcement of a 100 Crore budget for the weather index insurance in the central budget and the recent circular issued by the Ministry of Agriculture during October, 2007, advising a good number of states to replace NAIS with index based crop insurance in some selected locations during the Rabi season of 2007-08. With all these developments, a unique model of Agriculture Insurance is now emerging in India with a brighter prospect of penetration in rural India in the immediate future.

9. NEED TO INCULCATE THE HABIT OF INSURANCE :

The rural masses need a conviction that buying insurance is more worthwhile to them than being without it. Inculcating a habit among the rural masses to insure the assets, the lives and the health of their families has remained an elusive goal, notwithstanding the recent introduction of specialist insurance regulation that is very insurer-friendly. The task of mobilizing the efforts of insurance units to make this goal partly achievable has yet remained a slow-starter. The task is formidable but essential. Now let us discuss about -- What misconceptions of the mental models and physical infirmities have been the hindrances to make even the smallest progress?

Each segmented market, including the rural one, has its particularized system of needs, values and beliefs, and a particular manner of responding to the stimuli that insurances provide it. Most of them have led their lives without insurance till now. The concept of insurance itself is new to them. The rural masses, therefore, need a definite conviction that buying insurance is more worthwhile to them than being without availing micro-insurance products. Who should take responsibility for it - is the fundamental question.

The volumes of the likely consumer demands for insurance are likely to be large, if rural segment is brought into the insurance net; but the premium per policy for the supplier may not be quite high. Not cost per policy but margins on volumes should be the primary goal. It should be a long-term corporate strategy of the insurer to create a larger future new market that has the potential to pay back in huge premium volumes, provided necessary investments in money, structure, manpower and customer education are undertaken right now. It calls for individualized selling and expects from the marketers an intimate knowledge of the product to be sold and a persuasive ability to carry proof and conviction. Another very important question is – How does one build such internal organizational competences? The main issue relates to–

- The insurance suppliers’ reluctance to enter the rural fray, and
- The unwillingness of the intended ruralbeneficiaries to accept the ideas behind the initiatives of insurers.

Development of rural markets is one of the avowed goals of Section 32 B & C of the Insurance Act, 1938. There is an element of mandated compulsion to develop an integrated system that includes the rural market and Insurers need to keep this aspect in mind in making their annual marketing plans and long term strategies. The regulator, IRDA has also to pursue this aspect with all the insurers.

The value and belief systems of the rural people that are targeted for sale of micro-insurance products have to be understood and analyzed. One would also have to evaluate how their needs of ‘insurance’ are currently being met and from what sources and how much they are costing them now. What kind of price-value proposition of insurers would make these rural/poor people consider a switch? How could the principle of insurance, wherein premiums are paid upfront for a promise of future financial delivery of an insurer, be sold as an acceptable proposition? Answer to all these questions will be available through effective market research. Others like Hindustan Lever and ITC have made inroads into rural markets in a big way through market research.

What do Rural Markets Need?

The insurance products to be sold have to be acceptable and must be useful alternatives to current sources of need; the premium must be affordable, when the cost vs. benefits analysis is made. Since both the marketing process and selling the product are new to both, there have to be several nearby information and service centres that could provide information on the products, prices, and claims services of insurers.

While these requirements are fundamental to the marketing process of insurers for developing a rural entrenchment, these alone are insufficient for sale of micro-insurance products. There has also to be an infrastructure for sales and service acceptable both to the buyers and sellers in place at the grass-roots levels, as visible demonstrations of serious intent of the insurance players.

Role of NGOs for the rural market:

NGOs are suggested by regulation, as one of the most important intermediaries for the insurance marketing process in the rural areas. While the NGOs usually are Good Samaritans, they are not experts in insurance marketing in which money is exchanged for a future financial contingent promise. How can they drum up consumer demand in the first place? What should insurers do to invest their money and time and a committed work force to develop a market environment that is conducive to selling micro-insurance products?

Selling non-life insurance products, where there is no return of money paid needs more insurance education for buyers. It is insurance pure and simple and not a saving instrument or an asset. How can this information be effectively conveyed? Is there a choice for insurers other than the NGOs? Micro-insurance is not merely an insurance program to be marketed through NGOs but a movement of large expectations to be taken to its full potential. Only the vision of insurers can set limits on the movement.

Popularizing insurance:

Songs, slogans and slide shows should spread the message of what micro-insurance buying can do. Organizing public meetings at which celebrities could participate is another. Insurance selling should not merely be regarded as a program to sell insurance covers but must be regarded as a movement to inculcate the habit of buying insurance to protect the assets and health of the families to cash in on the growing levels of rural incomes in the future.

It is the inculcation of the habit of buying insurance that should be the primary goal and not the volumes or premiums that would take time to mine from it. Interested insurers need to finance such programs as entry curtain raisers for their eventual entry. The soil must be prepared, the seeds have to be sown, the plants have to be nurtured before there can be a harvest. One should not expect a harvest without going through the whole process. The thinking and strategic habits of insurers need big changes first.

How to make the beginning?

Another financial commitment that insurers should be prepared to initially make is in the creation of rural health facilities as a model for the rural folk to copy from by demonstrating the usefulness of running healthcare clinics. It is reported that under the scheme called Integrated Management of Childhood Illness (IMCI) protocol, a nurse can be trained in 11 days to complete a diagnosis of a child suffering from pneumonia and diarrhoea guided by a flow chart that leaves little room for discretion and come to the same conclusion as qualified physicians.

It is reported that in Bangladesh there are about 4500 villager-volunteers that are trained to perform such duties from among the villagers themselves to provide remedial medical advices. It is cited as an example of turning the doctor's arts into a routine program. It can be done in a hut not far from even a hospital.

Funding apart, the diagnostic process alone does not mitigate the difficulties of the medical volunteers, as it is up to the patients and clients to accept the precautionary advices given by them. Superstition is another competition for the acceptance of such advices in addition to the quacks that abound locally. The dissatisfaction of patients when they leave clinics empty handed without medicines is another. Old habits die hard and their eradication needs time, patience, and adequate proof. What then are the alternatives?

The question for insurers is: if they should not be funding such beneficial activities in their selfish interests of the future and as an act of their corporate social responsibilities at least they owe themselves to work out a proposal on a pilot basis in a few selected villages that offer more potential for business.

Developing new competencies in rural insurance marketing, creating a sustainable infrastructure, and raising market awareness for its brand names does require investments in funds and manpower and innovation. Insurers should not be shying away from what is expected of them as an integral part of their business strategy.

Innovative solutions:

Insurers should work through NGOs in close collaboration. They should become joint owners of health care initiatives. They should work with the villagers, so that they demand what they need and insurers and the NGOs arrange to get what they need. Purchase of medicines and setting up medical clinics can be subsidized through intervention of manufacturers of drugs and the NGOs that know how to negotiate. Negotiate favourable deals with the nearby hospitals for in-patient treatment.

Using the healthcare facilities provided for by the Government to its full potential is another activity. Community co-operation and the necessary spirit need to be engendered by interested insurers themselves. Understanding Government health policies for the rural poor and enabling the selected NGOs through whom insurers can work is also a part of marketing.

Mining for rural insurance prospects, like mining for gold, takes a lot of hard work, patience, and money. But one must understand initially why and what for one is mining? Where and what to mine and what processes should be used in pursuit of it. But long used to ready markets, where organized buyers of insurance knock on the doorsteps has made the non-life insurers lethargic and less motivated. Indian insurers need to shed off their lethargy & existing attitude. Now with rates detariffed and with competition levels rising from many more new entrants, the first searchers of new market space would have the first advantage. To quote C K Prahlad, "the bottom of the pyramid in large and long; and is currently un-served and under-served." With 95% of Indian population being outside the non-life insurance safety net, insurers have a huge challenge and big opportunity. Looking for opportunities for growth in unexploited markets is a challenge in itself at the best of times and all will surely like to try for these huge untapped market – this will definitely act as a catalyst for the success of good penetration of micro-insurance in rural India in the immediate future. Indeed micro-insurance business makes it a good commercial proposition to insurers. It would in addition give them even a bigger challenge of developing insurance buying habits among the rural masses by adopting all the means as suggested now – which is why the markets were originally liberated in 2000 with further tough competition coming soon. Mandatory selling micro-insurance products in rural areas must be visualized by the insurers as not only a strict instruction of the regulator or only as a commercial activity but also one that is imbued with a sense of corporate social responsibility for which they are allowed to operate in Indian market.

There is no other field that offers both objectives in one go as the sale of micro-insurance. LIC has done a pioneering job in selling life insurance in rural areas. Its agency force has developed personalized relationships with its customers that are the envy of the developed life insurance markets. A life insurance agent is more than an agent; he is a family friend. His advice is sought on several fronts beyond life insurance. It is admittedly not possible to emulate such experiences nor is it cost effective – until you have the rural network (all public sector non-life insurers are having such rural network) – but the underlying truth must not be forgotten – trust and being available when needed are the key elements in the insured-insurers' relationship.

10. STRATEGIES IN MARKETING OF MICRO INSURANCE PRODUCTS:

Various parameters need to be considered while marketing various micro insurance products in rural sector. Following aspects need to be considered:

Selection of Product:

For promotion of Life Insurance Cover:

- Promoting the benefits of Life Insurance.
- Need Based development of products.

For promotion of General Insurance Cover:

Obviously for promotion of General Insurance in rural sectors product selection/choice needs different criteria and for that purpose product selection involves the following considerations:

- Promote health and personal accident policies, low awareness but high concerns.
- Promote agriculture pump set and cattle insurance among owners.
- Existing owners and lapsers would be an easier target.
- Promoting the benefits of Accidental Coverage against various assets and financial liabilities of the farmers, cattle owners, poultry farms of small scale, mainly benefiting the tribal population.

Considerations in Pricing:

- Policy with relatively lower premiums.

- Allowing flexibility in the mode of payment of premium.
- Considering payment cycles coinciding with the harvest seasons.

<u>**Marketing channels:**</u>

- Preferred channels are Panchayat Samitis, Rural Banks, Co-operatives, Non governmental organisations.

<u>**Promotional Avenues:**</u>

- For promotion – it definitely needs participative information dissemination - through small cohesive groups at farmer meets, village melas, co-operative society meets, Local gathering at the presence of village surpanch.
- Innovative Promotion techniques - movies, plays, etc., for increasing mass awareness.
- Tie ups with Banks & co-operative societies to sell general insurance policies.

Let us look at the total rural population of India which is 741,660,293 of which only 10 million (approx.) population has been tapped by the insurance companies that means there is a huge population that still needs to be tapped.

Before launching any product need based analysis is to be done.

Generally we find rural people have much awareness of the life insurance products available.

They are also aware about the general insurance products like: insurance of tractors, cattle, vehicles, etc.

But they have low awareness for the other types of the insurance products available for the rural market.

These people have a perception that the life insurance is long term saving option for them.

But they consider general insurance as unnecessary expense. That's why most of the rural poor don't go for this kind of insurance. Due to which there is lack of incentive for the agents who deal in general insurance.

The only reason for the motivation for the rural poor to go for Life insurance is that it is synonymous to security and as we have seen it is aggressively marketed by the companies and their agents.

11. STRATEGIES FOR SUCCESS OF MICROINSURANCE PRODUCTS IN RURAL AREAS:

The focal areas are:

i) <u>Increasing the need for insurance:</u>

This can be done by educating the target group about the need for insurance and the benefit thereof. This can be done by the agents themselves by meeting one- by – one all the people in the area assigned to them. Or else they can hold a large group and explain the need for and benefits of not only life insurance but also of general insurance.

ii) <u>Ease of Process:</u>

If we look at the insurance process followed by the insurance companies in our country we find many flaws in the process. So for the population of the country which is not well educated and is sceptical about insurance as such, the companies dealing in micro-insurance should focus on simplification of the process in subscription, renewal and claim settlement.

iii) <u>Product Promotion:</u>

One common mistake done by the insurance companies that they are not able to know the real needs of the rural poor and that is why most of the products launched by such companies are a failure. Focus should be on the promotion of the agriculture pump set and cattle insurance among the owners. And also there is a need to promote health and personal accident policies. Focus should also be on the policy holders and lapsers of the policy.

Regulation 2 of the Micro-Insurance Regulations, 2005 is of immense importance, as it defines various terms that are applicable in the micro-insurance business. A 'Micro-Insurance Policy' (as per regulation 2(g) of Micro-insurance regulation) is the insurance policy sold under a plan which has been specifically approved by the Authority (IRDA) as a 'micro-insurance product.' The 'micro-insurance product' includes a general micro-insurance product or life micro-insurance product. The 'life micro-insurance product' means a term insurance contract with or without return of premium, any endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis. Basically the micro-insurance product, whether life or general, includes the proposal form which is used to provide basic information about the insurance policy purchaser, all the marketing promotional information and literature which explains the products, and any other information which is relevant to the insurance product which is being sold or marketed.

Micro-insurance also to follow provisions of section 64VB of Insurance Act, 1938 – the premium payment has to be in advance but the flexibility is brought in micro-insurance product– here the premium can be paid either weekly or fortnightly, in addition to the regular modes of payment such as monthly, quarterly, half-yearly and annual.

The Micro-insurance Regulations, 2005 enable the general and life insurers to have tie-up with one another for the purpose of marketing general and the life insurance products. A life insurance company may issue the general insurance product of a general insurer with whom it has a tie-up, and a general insurer may market the life insurance product of a company with whom it has an understanding. This tie-up may be at the product level or during marketing and distribution of the products. After the tie-up agreement, one company acts as the agent of the other. The tie-up agreement will specifically mention the responsibilities of each member insurance company involved therein.

iv) Product Innovation:

Non-life general insurance has products to suit crop, agricultural equipment, and weather risks and so on & so forth. However, many of these products are on an experimental basis and not pure commercial products. In micro-insurance, the product covers health, life, and loss of assets. A major issue is that of product innovation for rural contexts.

v) Pricing Strategies:

Lower premiums would be preferable. And there should also be flexibility in the payment of the premiums because we all know that the rural poor are able to earn their earning on the seasonal basis. So it is preferable to charge premium on quarterly or monthly or seasonal basis.

vi) Channels of the Sale:

Channels used for the sale of the insurance policies should be banks, co-operative societies, and sarpanch. The villagers enjoy a rapport with the sarpanch and these co-operative societies and mutual trust.

Private companies are trying to adopt insurance schemes where they focus on a particular group who are members of a community-based organization like micro-finance institutions. The private players, have strategically begun to fill these gaps by spreading their operations to rural areas via Self Help Groups (SHGs), NGOs, Micro Finance Institutions (MFIs) and Co-operative Societies as agents. For example, a private player, Aviva sells insurance through SEWA in Ahmedabad and Basix India, Hyderabad. Distribution and servicing are two key areas in developing rural based micro-insurance business. ICICI Prudential has a robust rural distribution model, involving tied agents, brokers as well as referral arrangements with NGOs, MFIs and corporates. BASIX works towards its mission of livelihood promotion by providing a comprehensive set of services, which include: Livelihood, Financial services-credit, insurance & savings, development services (Productivity enhancement & market linkages), and Institutional development services.

vii) Participative Information:

Small groups of the farmers and the villagers should be called for meetings at the melas, co-operative society's meet, and the farmers meet where they can be made aware about the new kind of the insurance products available to them and also about the existing products.

viii) Development of Health Insurance Products:

"Health insurance has a great potential in the country but remains highly untapped. According to some estimates only 3% of India's population is covered under some form of voluntary health insurance schemes."

ix) Sustained Expansion of the Market Size:

Our metro areas and the large urban markets would saturate in 3-5 years time. For sustained expansion of the market size, it is critical to introduce simple products and distribute them in semi urban and rural markets.

Certain Bima yojanas have already been started. Example: Sankat Haran Bima yojana (launched in Sept., 2001 by ITGI). It covered 5.5 crores farmers across the country.

x) **Rural Penetration by Private Insurers:**

The penetration of insurance in India is remarkably low, at just about 1.6 % of GDP. If the overall market has to grow and expand, all the insurance companies will have to look at this rural segment rather than fight for the share of same pie. Government's plans of huge investments in rural sector will definitely have the effect of pushing rural incomes at a much faster rate. With higher purchasing power in the hands of the bulk of the rural folk, the demand for goods and services is expected to go up in tandem. It is one of the reasons why India has once again begun reclaiming its rightful space in the marketing strategies of private players. Currently, a number of private sector insurance players are working towards increasing their coverage in rural areas with the involvement of NGOs. The International Labour Organization (ILO) reviewed insurance schemes in India for the disadvantaged social & rural sector. IRDA issued the Micro Insurance Regulations, which provides for a tie up between a life & a non-life insurers for distribution of insurance products, with a view to improving the penetration of micro insurance in the rural market. This regulation also has allowed cross selling of insurance products which is not being allowed in general. As per these regulations, the Self Help Groups (SHGs), micro finance institutions and non-governmental organizations would now be expected to be acting as micro-insurance agents. This would improve the distribution channels in rural India for marketing micro-insurance products.

xi) **Long-Term Potential:**

With the need for long term potential of life insurance in rural India, covering the lives of people in rural areas presents unique challenges. With enhanced income, supplemented by bank credit, the rural population is also acquiring consumer durables, constructing houses, purchasing vehicles, computers, and so on. All these assets need to be protected against damage/loss, natural as well as man-made. Thus the rural areas offer huge opportunities for the committed private insurance companies (in both life & non-life schemes). It is estimated that in LIC, 10% of the agents bring in 90% of the business. This means there are over one lakhs active, full time career agents. It is not likely to be different in the case of the private players too. Educated unemployed youths of the villages can be trained and become valuable assets for the insurers for the long-term perspective.

12. MAIN THRUST AREAS:

Every Insurer whether big or small, should give stress on designing effective micro-insurance products based on market research, appropriate product wording and reasonable premium and should start marketing immediately, since there is dire need of the people living below poverty level in distant rural areas being far away from the reach of common city live and also there exists huge untapped potential premium. Particularly to design an insurance product under the area of Micro-Insurance involving the NGOs &/ or various State Government Departments along with listing the beneficiaries needs to do a great amount of market research and will arrive at not only with the appropriate product wording but also pricing befitting for the purpose (which requires actuarial studies and also definitely to ensure that there would also be a genuine demand for those products).

The Rate for the Micro-insurance product should be :

- Adequate – inspite of facing the challenges of averages, competition & regulations;
- Not unfairly discriminatory;
- Not excessive;
- Simple to administer.

Suitable Health coverage is the dire need among the rural population and Health Indicators in India are :

- Only 2% of the population covered
- 60% of those covered are from urban-India
- Approximately 72% of India lives in the rural areas.

13. CONCLUSION:

Insurance in General and Life Insurance in particular is truly an industry for social well being. However the full potential of the strong rural base has perhaps not been fully realized or exploited. Keeping in sight the well established role played by the individual agency force for selling insurance products in the rural areas, it is necessary to strengthen this channel with a set of new, up-to-date inputs befitting the requirements. This would fulfil the objectives of both the insurer as well as the nation – of identifying as well as strengthening these new untapped markets while also providing the much needed employment opportunities in rural areas. However, it is very important that the knowledge level and the skill of agents is improved.

Only when the agents will be able to explain the policies to the potential rural customers, micro-insurance will flourish. Sales personnel need new skills and attitudes to explain the concept and benefits of insurance to the rural mass.

If we take into account the increasing rural-urban connectivity, we find the basic nature of rural economy and the rural market has undergone fundamental transformation. To quote NCAER "The mobility towards higher income group has, in fact, been much higher in the rural areas than urban." This provides greater opportunity for marketing in rural areas. The changing behaviours and attitudes of the rural income groups regarding savings and financial institutions indicate tremendous growth in opportunity. There is lot of institutionalization of savings. Opportunities in the rural market are vast. The village-folk are turning to more secure institutions like LIC, Post Offices, and Nationalized Banks. Obviously the lead will have to be maintained by the public sector insurers because of their geographical spread and market share, it is equally important that the private players intensify their efforts to cover this segment of the huge population.

The rural areas of India during the 21st Century are not what they used to be at the time of independence. Sustained investments in irrigation & power and modern methods of connectivity & communication have brought prosperity and affluence to a sizable population. It makes sound business sense to study these markets and fully tap the vast potential that exists today. Moreover, phase two of detariffing process would help the insurers to develop products more suited for the rural folk, farmers, and agro-based industries.

Many insurance schemes for the poor are being experimented with across the country covering crop, property, assets and health hazards for the under privileged population, and the time has come to scale up the pilot schemes to much larger populations with the active support of the governmental and non-governmental infrastructure that is available.