



Prospects of micro insurance: A financial safety net to empower the poor

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Abstract

In the developing countries like India, where according to some indicators, such as GDP, Global Hunger Index, and foreign trade; the economic growth has definitely been improved but still this growth has not yet been reflected in particular sections of the society. Deprivation of this section is more acutely observed in the case of vulnerable and marginalized sections belonging to the lower income groups. In this context, the concept of micro insurance has been introduced as one of the financial instruments to repel the associated deprivation. This study makes an attempt to measure the operating performance of micro insurance business of public and private micro insurance companies in Indian context. The paper also tries to measure the variation of premium collections, number of lives covered, number of agents and number of products offered by the micro insurance companies in individual and group schemes between public and private insurance companies. For this purpose, secondary data were retrieved from the IRDAI by considering both public and private insurance companies for sixteen years period from 2007-08 to 2022-23. However, to maintain the comparability of the data, period of 2018-19 has been eliminated from the data series as the LICI has no business in group micro insurance segment in the year of 2018-19. The statistical result shows that the number of policies issued, premium collection in terms of individual category and number of issuing schemes is much higher for public companies. However, in the case of other variables; the performance is better for private micro insurance businesses as a whole as compared to that of LICI. It is also observed that the number of micro insurance product offered by the private players in individual category is much higher as compared to group category. The present study also prescribed several suggestions for the betterment of micro insurance policy in Indian economy.

Keywords: Micro insurance, comparison, performance evaluation, IRDAI, ANOVA

Introduction

The economic growth in Indian Financial System has definitely been proved according to some development indicators. However, the reflection of this growth is yet to reach in some sections of the society, especially those are not included in the formal financial markets due to the poverty, literacy rates and other related element (Sinha, 2014) ^[17]. In general sense, the traditional insurance system mainly serves to protect the life, health, property and other belongings of the middle and wealthy class of the society (Chowdhury, 2019) ^[3]. Therefore, in the context of this social obligation, Insurance Regulatory and Development Authority (IRDA) of India had promulgated the micro insurance regulation in the year of 2005 with the aim of extending the benefits of insurance to marginalized sections of the society. In the Indian insurance system, Micro insurance is comparatively a new scheme basically introduced as a shield for the upliftment of the financially backward class of the society. In other words, it can be said that the micro insurance is the promotional tool which is considered as one of the ways of financial inclusion as well as the financial safety net for the deprived sections of the society. Since the enactment of IRDAI (Micro Insurance) Regulations, 2005, one public company and a large number of private insurance companies have launched life and various types of non-life insurance policies in the Indian insurance market. In the present time, this study considers it necessary to analyze the performance of existing micro insurance companies in India. This research also contributes to the existing study by empirically measuring the variations of different variables, such as premium collection in individual category, premium collection in group category, number of agents deployed, number of lives covered,

policies issued in individual category and schemes issued in group category between LICI and private companies. In this study, additionally evidence has been provided regarding the overall operating performance of micro insurance companies in Indian context.

Review of Literature

On the arena of micro insurance, several studies have been carried out by various researchers. Brief review of these studies in Indian and global context are discussed below:

Sinha (2014) ^[17] carried out research to analyze the performance of six life insurers who carried out the micro insurance activities. The research study covered the period from 2008-09 to 2012-13. In his study, Bootstrap estimates have been utilized to avoid the bias in estimation efficiency. The result revealed that the four out of six sample companies have been effectively running their micro insurance activities.

Roy (2015) ^[14] analyzed the necessities of micro insurance products for the low-income workers. The paper took the primary data from 300 respondents of Birbhum district, one of the states of West Bengal in India. To understand the vulnerability in terms of socio-economic factors, vulnerability indices of three categorized ranking method was formulated. The results revealed that micro insurance will never achieve its success unless the reduction of premium amount and the flexibility regarding the collection of premium payment.

Paramasivan and Rajaram (2016) ^[12] in their theoretical study discussed the conceptual aspects of micro insurance. They opined that raising awareness and creating the proper channel for distributing the micro insurance products will

make it effective among the people who living below the poverty line.

Chowdhury (2019) [3] examined the awareness level of micro insurance in Medinipur district of West Bengal. The primary data were obtained by way of structured questionnaire. The finding shows that demographic and socio-economic profiles are the main aspects of the micro insurance awareness. It also indicates that the illiteracy, low-income level and lower age groups are the determinants of vulnerability in the selected study area.

Al-Imran *et al.* (2022) [1] in their paper, studied the effectiveness of micro insurance among the underprivileged of Somalia. They also discussed the problems and opportunities associated with the micro insurance. To obtain primary data, the online survey was carried out on 100 participants by using purposive sampling method. The empirical outcome was that the majority believes that the micro insurance plays as a safeguarding role against financial crisis and it reduces the fragility and increases the creditworthiness among the low-income people.

Karagyoza (2023) [6] discusses the effectiveness of micro insurance on the development of African economies. The data were retrieved through census surveys for the period of 2005, 2008 and 2011. It was observed that the micro insurance has strong impact on the economic growth of the country.

Research Gap

After reviewing the relevant studies on micro insurance, the following research gaps are pointed out:

First, no longitudinal studies have been conducted to analyze the performance of Micro Insurance companies. Second, no studies have been attempted to compare the performance of public and private micro insurance companies in Indian context.

Objectives of the Study

To fill the research gaps, the following objectives are framed:

1. To measure the performance of micro insurance business of LICI and Private insurance companies.

2. To compare the operational metrics such as, new business premium, number of policies, number of schemes, number of lives covered and number of micro insurance agents between private insurers and LICI.
3. To assess the variations in the overall performance of public and private micro insurance business.

Legal Framework

In a density populated country like India, considerable efforts are needed to cover all sections of the society, especially the low income groups. Similarly, it is necessary to make a safety net as a protection tool for the vulnerable sections of the society in various natural calamities as well as accidental situations. Considering these aspects, IRDAI, had introduced regulations at various times to propel the micro insurance programme. These regulations are discussed here.

IRDAI (Micro Insurance) Regulations, 2005

Since the 19th century, micro insurance activities in India have been going on by various NGOs, hospitals etc. however, before the year of 2005, IRDAI as a regulator of Indian insurance industry have no regulation for micro insurance. To fulfill one of the responsibility, IRDAI on 30th November 2005 was officially introduced the Micro Insurance policy 2005. This policy for micro insurance was introduced mainly to provide insurance for the lower income groups as a means of hedging risk.

IRDAI (Micro Insurance) Regulations, 2015

With the aim of extending insurance benefit to more people and in the context of present times, IRDAI reviewed various aspects of the micro insurance policy, 2005. Accordingly on March 13, 2015; after amendment of different matters contained in earlier regulation namely, inclusion of micro insurance agent, number of members in group insurance, coverage limit; new micro insurance regulation has been introduced.

There are number of dissimilarities between micro insurance policy 2005 and micro insurance policy 2015. The points of those differences are discussed here.

Table 1: Key Differences between the Micro Insurance Regulations, 2005 and Micro Insurance Regulations, 2015

Micro Insurance Regulations, 2005	Micro Insurance Regulations, 2015
1. Inclusion of Agent	
Under this policy, there are provisions to authorize MFI, NGO and Hospitals as agents of micro insurance were appointed as micro insurance agents.	The definition of micro insurance agent has been widened to include NGOs, SHGs, MFIs, RBI regulated NBFC-MFIs, different cooperative banks licensed by RBI, RRBs etc.
2. Maximum amount of coverage for contents and dwelling, or tools or livestock or crop insurance or implements-against all perils	
Maximum amount of coverage is thirty thousand rupees per asset/cover	Maximum amount of coverage is one lakh rupees per asset/cover
3. Maximum amount of coverage for Health insurance group (individual)	
The coverage amount shall not exceed an amount of rupees thirty thousand	The coverage amount shall not exceed an amount of rupees one lakh
4. Maximum amount of coverage for Health insurance group (group/family)	
Maximum amount of coverage is thirty thousand	Maximum amount of coverage is rupees two lakh fifty thousand
5. Maximum amount of coverage for personal accident	
The coverage amount shall not exceed an amount of rupees fifty thousand	The coverage amount shall not exceed an amount of rupees one lakh
6. No. of members for group policy	
If a group having at least twenty members, the micro insurance scheme (group) will be applicable to that group	For the micro insurance scheme of a group, the minimum number of members in a particular group should be at least five.

Formulation of Research Hypothesis

In order to fulfill the objectives, the following hypotheses are developed:

H₀₁: There is no significant difference between the premium collection in individual category of LIC and private insurance companies.

H02: There is no significant difference between the premium collection in group category of LIC and private insurance companies.

H03: There is no significant difference between the number of lives covered of LIC and private insurance companies.

H04: There is no significant difference between the number of agents of LIC and private insurance companies.

H05: There is no significant difference between the number of policies of LIC and private insurance companies.

H06: There is no significant difference between the number of schemes of LIC and private insurance companies.

Research Methodology

Sources of the Data: Basically, the research is based on secondary data. Required data is retrieved from the annual reports of IRDAI.

Data analysis

Table 2: Descriptive Statistics of Performance Indicators: Comparison by Public and Private Micro Insurance Companies

Variables	Insurer	Individual		Group		Lives covered	Agents
		Policies	Premium (INR in lakh)	Schemes	Premium (INR in lakh)		
Mean	LIC	1421820	11152	4276	18496	12749506	15681
	Pvt.	417929	1424	258	217311	46103932	28379
Standard Deviation	LIC	1293403	9880	2255	15088	9400675	5698
	Pvt.	290791	1151	278	350376	65911401	35329
Minimum	LIC	239000	1587	1	1709	854315	4166
	Pvt.	77000	210	14	757	83153	418
Maximum	LIC	4340235	35293	7583	63185	37316017	21547
	Pvt.	998809	3922	968	1069073	175343000	82682

Source: Author's computation

Interpretation

On observation of table no. 2, it is revealed that the mean value regarding the premium collection in individual category, LIC has performed much superior with a mean value of 11,152, minimum of 1,587, and a maximum of 35,293 than the private insurance companies with a mean value of 1,424, minimum of 210, and with a maximum of 3,922. The amount of group premium collected by private companies with a mean value of 2,17,311 is much higher than the LIC which is having a mean value of 18,496 but LIC of India had issued more number of schemes than private insurers. It can be inferred from the above table that private sector companies had covered more number of lives

Period of the study: Sixteen years period starting from the year 2007-08 to 2023-24 are involved for the study. However, to maintain the uniformity, 2018-19 has not been considered for the study as in the concerned period, LIC has no micro insurance business in group category.

Sample covered: As a sample, those insurance companies have been selected that are offering micro insurance products and included in the annual reports of IRDAI.

Statistical tools applied: To assess and compare the performance of micro insurance in India, descriptive statistics has been applied. Furthermore, ANOVA technique has been used to track out the variation of the selected attributes between LIC and private micro insurance companies. As statistical software, Microsoft Excel and SPSS Statistics 20.0 has been involved in this research study.

than LIC but during the study period LIC had issued higher number of Policies than private insurance players. In terms of number of agents, private insurance business dominates this segment by recruiting higher number of agents for micro insurance business. The standard deviation also provides evidence that there is wider variation regarding the premium collection under individual business, number of policies and also for number of schemes for LIC; whereas, the variation relating to premium collection in group category, number of lives covered and the number of agents is greater for the private insurance business; which implies that the concerned attributes are varied in a narrow band in LIC.

Testing variability in performance of micro insurance business

To determine whether there is any significant variation in micro insurance business between LIC and private insurance companies, the analysis of variance (ANOVA) technique was conducted.

Table 3: ANOVA

Variables	Source of variation	Sum of squares	df	Mean square	F (Observed value)	Sig.
Premium collection (individual category)	Between Groups	757058233.4	1	757058233.4	15.305	0.000
	Within Groups	1483952090	30	49465069.65		
	Total	2241010323	31			
Premium collection (group category)	Between Groups	316219343148.26	1	316219343148.26	5.142	0.030
	Within Groups	1844859992435.06	30	61495333081.17		
	Total	2161079335583.32	31			
Lives covered	Between Groups	8900141536771540.00	1	8900141536771540.00	4.016	0.054
	Within Groups	66490282009353600.00	30	2216342733645120.00		
	Total	75390423546125100.00	31			

Number of agents	Between Groups	1289862841	1	1289862841	2.014	0.166
	Within Groups	19209468911	30	640315630.4		
	Total	20499331752	31			
No. of policies	Between Groups	8062367080141.12	1	8062367080141.12	9.175	0.005
	Within Groups	8062367080141.12	30	878725918350.16		
	Total	34424144630645.90	31			
No. of schemes	Between Groups	129178701.1	1	129178701.1	50.029	0.000
	Within Groups	77461718.75	30	2582057.292		
	Total	206640419.9	31			

Source: Author's computation

Table 3 exhibits that the F value for the amount of individual premium collection is 0.000 which is less than the alpha value of 0.05. It indicates that there is a significant difference in the individual premium collection between LICI and private sector insurance business. For the group premium, the F value is 0.030, which is less the alpha value of 0.05. This result supports our alternate hypothesis that there is significant difference between private micro insurance business and LICI. However, for the attributes of number of lives covered ($P \geq 0.05$) and number of agents ($P \geq 0.05$), the null hypothesis was not accepted, which means that there is no significant difference for the coverage of lives and number of micro insurance agents appointed. The difference in the number of policies ($P=0.005$) and the number of schemes ($P=0.000$) was less than the alpha value of 0.05. This result shows that there are significant differences between LICI and private sector companies in terms of number of policies and schemes issued.

Summary and Conclusion

This study focuses on analyzing the performance of selected sample companies in India on the basis of selected parameters namely; premium collection in individual category, collection of group premium, number of lives covered, number of agents deployed, number of policies issued and number of schemes. Based on the statistical results it is evident that, there is a notable dissimilarity in the performance of LICI and private sector insurance companies. In the case of individual micro insurance premium collection, the LICI has maintained its leadership as they hold most of the individual business over the private companies. From the result, it is also observed that there is a significant dissimilarity between LICI and private insurance companies in collecting individual micro insurance premium. However, when it comes to the premium under group business, private micro insurers collectively dominates the micro insurance market. Further, in terms of lives coverage, private insurance companies collectively covered more number of lives than LICI. The agent network of entire private insurers had a larger number of micro-insurance agents than that of the LICI. However, in the case of issuing policies for the individual; LICI is leading; besides it is also leading in the number of schemes provided for group micro insurance business.

On the basis of the analysis so far, it can be gleaned that the LICI has outperformed and done noticeably better than the private companies. However, they should adopt better strategies to increase the group premium and raise awareness about the benefits of micro insurance products to cover a more number of lower income groups lives in the society. Conversely, private insurers should focus on offering more number of policies and schemes for the targeted income groups. It is suggested that a future study can be conducted by analyzing the impact of variables for

the variation in the performance between LICI and private insurance players.

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