Micro-insurance and its Role in Poverty Alleviation: A Study with Reference to a Private Insurance Company in Assam

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ABSTRACT

Microfinance phenomenon is one of the most remarkable socio-economic developments of our times. In this context, micro insurance is emerging as a prepaid financing option for the risks facing the poor. Earlier, insurance as a prepaid risk managing instrument was never considered as an option for the poor. Often they were considered uninsurable, given the wide variety of risks they face. To combat these risks, the poor used to do proactive risk management such as grain storage, savings and asset accumulation. However, these forms of risk management which were appropriate earlier are no longer adequate. Micro-insurance should, therefore, provide greater economic and psychological security to the poor by reducing exposure to multiple risks and cushioning the impact of a disaster. In this reference, we look at the functioning of a private insurance company, ICICI Prudential Life Insurance Company in giving support to micro-insurance in Assam. ICICI Prudential has selected tea tribes of Assam as the target group to launch their Micro-insurance product.

Keywords: Micro-insurance, Poverty, Assam.

1.0 Introduction

What happens when a poor family’s breadwinner dies, when a child in a disadvantaged household is hospitalised, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. This is where ‘micro-insurance’ comes in. Micro-insurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress.

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Two-thirds of human beings suffering in the extreme poverty are women. Often living within $1 per day, they are the most vulnerable. Microfinance phenomenon is one of the most remarkable socio-economic developments of our times. For a long time, the poor, because of their economic circumstance, were considered non-bankable. However, the “micro-credit phenomenon” has shown that the poor can be made creditworthy if they are organised in small groups. This clearly has profound implications not just from a finance perspective but, more importantly, from the perspective of poverty alleviation.

Inspired by the Grameen experiment that started in Bangladesh around mid-70s, micro-credit has quickly spread in other parts of the developing world, including India. Micro-credit in India really started in a big way in the early 90s with the recognition of Self-Help Groups as a conduit for providing credit to the poor. Similarly, in the past, insurance as a prepaid risk managing instrument was never considered as an option for the poor. The poor were considered too disadvantaged to be able to afford insurance premiums. Often they were considered uninsurable, given the wide variety of risks they face. However, 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. Moreover, there are cost-effective ways of extending insurance to them. Thus, micro-insurance is emerging as a prepaid financing option for the risks facing the poor. Micro-insurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Specific perils can be death, funeral expenses, small-scale assets, livestock, crop and damage to properties. Micro-insurance refers to the target market but does not refer to the size of the risk carrier. Some micro-insurance providers can be very small but there are also examples of very large companies offering micro-insurance products. Micro-insurance is only a component of the broad spectrum of micro financing. This study, however, focuses only on micro-insurance.

1.1 Rationale of the study

Various studies clearly indicate that access to micro-insurance by the poor and disadvantaged population can contribute significantly to the achievement of the Millennium Development Goals, particularly the goals of eradicating extreme poverty and hunger, promoting gender equality and empowering women, and developing a global partnership for development. The purpose of this study is to provide an overview of micro-insurance and strategic support to poverty alleviation process in Assam. While the benefits of providing financial services for the poor is now widely accepted, and
micro credit is a common approach to long term development, micro-insurance and its benefits for low income individuals and families has hardly been considered. However, it is now being seen within the private sector, government and non-governmental sector as a way not only to reduce the impact a disaster might have in the poorest communities but also as a way of encouraging economic development and growth. Micro-insurance could help low income people to retain the financial gains they make, allowing them to kick start a virtuous cycle of growth and economic independence.

Our study has shown that experience in this area is limited, particularly the experience of successful models of crop and asset insurance for small-scale and marginal farmers, tea estate workers in Assam and livestock producers. However, many agencies are now getting interested in the subject and look into the role of micro-insurance to address risk, also in areas expected to be affected by climate change. Governments and commercial providers are now making micro-insurance schemes available to low income individuals. Private insurance companies are now interested in piloting a micro-insurance approach with other tools already in use, ensuring in this way that the scale of the approach is sufficiently big, and that a large number of people are covered under the scheme to prove its benefits and sustainability in the long run.

2.0 Development of Micro-insurance in India

Historically in India, a few micro-insurance schemes were initiated, either by Non-Government Organisations (NGOs) due to the felt need in the communities in which these organisations were involved, or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well-identified social sector in the country (IRDA 2000). As a result, increasingly, micro-finance institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customised group or standardised individual insurance schemes for the low-income people. Although the reach of such schemes is still very limited---anywhere between 5 and 10 million individuals---their potential is viewed to be considerable. The overall market is estimated to reach Rs. 250 billion by 2008 (ILO 2004). The Insurance Regulatory and Development Authority (IRDA) defines rural sector as consisting of (i) a population of less than five thousand, (ii) a density of population of less than four hundred per square kilometer, and (iii) more than twenty five per cent of the male working population engaged in agricultural pursuits. The categories of workers falling under agricultural
pursuits are: cultivators, agricultural labourers, and workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities.

The social sector as defined by the insurance regulator consists of (i) unorganised sector (ii) informal sector (iii) economically vulnerable or backward classes, and (iv) other categories of persons, both in rural and urban areas. 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. 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. Some aspects of these obligations are particularly noteworthy. First, the social and rural obligations do not necessarily require (cross) subsidising insurance. Second, these obligations are to be fulfilled right from the first year of commencement of operations by the new insurers. Third, there is no exit option available to insurers who are not keen on servicing the rural and low-income segment. Finally, non-fulfilment of these obligations can invite penalties from the regulator. In order to fulfill these requirements, all insurance companies have designed products for the poorer sections and low-income individuals. Both public and private insurance companies are adopting similar strategies of developing collaborations with the various civil society associations. The presence of these associations as a mediating agency, or what we call a nodal agency, that represents, and acts on behalf of the target community is essential in extending insurance cover to the poor. The nodal agency helps the formal insurance providers overcome both informational disadvantage and high transaction costs in providing insurance to the low-income people. This way micro-insurance combines positive features of formal insurance (pre-paid, scientifically organised scheme) as well as those of informal insurance (by using local information and resources that helps in designing appropriate schemes delivered in a cost effective way). In the absence of a nodal agency, the low resource base of the poor, coupled with high transaction costs (relative to the magnitude of transactions) gives rise to the affordability issue. Lack of affordability prevents their latent demand from expressing itself in the market. Hence the nodal agencies that organise 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. The latest in this process was the introduction of the micro-insurance regulations in November 2005. The concern of the regulator was to make appropriate products available for low income families as was also reflected in the IRDA report for the year 2005-06.
2.1 Key features of the micro-insurance market in India

- **Product characteristics**: Micro-insurance products in the market have short policy contract terms and are overwhelmingly (but no longer exclusively) underwritten on a group basis. A number of the new products offered by formal insurers may be individually underwritten but the numbers of such policies is still minuscule even relative to the low overall outreach of micro-insurance.
- **Demarcation**: Formal insurers are required either to provide life or non-life insurance exclusively though health insurance may be provided by either category of insurer. Community-based insurance systems are largely limited to health cover.
- **Health prominence**: Health insurance is prominent in community-based systems because health risk is generally seen as potentially the most devastating type of systemic risk likely to upset the lives and economic livelihoods of the low-income population. Formal micro-insurance schemes are yet to cover health in any significant way on account of the difficulties of ensuring service delivery and the dangers of moral hazard in a highly informal health service provision network.
- **Low outreach of community-based insurance**: Community-based health insurance systems managed by NGOs are available but, except in a couple of cases, has minuscule outreach. The limited prudential risk vis-à-vis payments made by the covered population means that the regulator has not yet taken a significant interest in them.
- **Dominance of loan linked products**: This is the largest product in the market driven by the compulsion of borrowers to purchase insurance schemes mainly to provide protective cover to the MFIs.
- **Micro-insurance category**: The advent of separate micro-insurance guidelines provided by the insurance regulator has seen the launch of new micro-insurance products in the formal market.
- **New distribution models**: Rural and social sector obligations imposed on formal insurers by the market regulator have compelled insurance companies to experiment with new distribution models through NGOs, MFIs and the rural banking network.
- **Advice less selling**: Micro-insurance is sold overwhelmingly without advice while the higher end of the insurance market is served by brokers providing advice. Micro-insurance agents are specifically restricted to working with a single life and single non-life insurer.

2.2 The Micro-insurance regulations, 2005

Regulations on micro-insurance were officially gazetted by the IRDA on 30th November 2005. The salient features of the regulation are presented below. The regulation provides definitions of micro-insurance products covering life and general insurance.
micro insurance product means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule-I appended to these regulations. Life micro insurance product means any term insurance contract with or without return of premium, and endowment insurance contract or health insurance contract, with our without an accident benefit rider, either on individual or group basis, as per terms stated in Schedule-II appended to these regulations.

(a) “micro-insurance policy” means an insurance policy sold under a plan which has been specifically approved by the Authority as a micro insurance Product.

(b) “micro-insurance product” includes a general micro-insurance product or life insurance product, proposal form and all marketing materials in respect thereof.

(c) Every insurer shall be subject to the “file and use” procedure with the IRDA.

(d) No one other than insurer – be it a micro-insurance agent or anyone else – can underwrite a micro-insurance proposal.

(e) Rural business transacted under micro-insurance by an insurer will be counted for quota fulfilment both for rural as well as social sector obligations.

Tables 1 and 2 present the product guidelines for life and general insurers.

Table 1: Life products- Sum assured, Plan and Term

<table>
<thead>
<tr>
<th>Type of Cover</th>
<th>Min. Amt. cover (Rs.)</th>
<th>Max Amt. cover (Rs)</th>
<th>Min. Term of Cover</th>
<th>Max. Term of Cover</th>
<th>Min. Age of Entry</th>
<th>Max. Age of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Terms insurance</td>
<td>5000</td>
<td>50000</td>
<td>5 year</td>
<td>15 year</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>with or without return of premium</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Endowment insurance</td>
<td>5000</td>
<td>30000</td>
<td>5 year</td>
<td>15 year</td>
<td>18</td>
<td>60</td>
</tr>
<tr>
<td>Health insurance (Individual)</td>
<td>5000</td>
<td>30000</td>
<td>1 year</td>
<td>7 year</td>
<td>Insurer’s Discretion</td>
<td></td>
</tr>
<tr>
<td>Health insurance (family)</td>
<td>10000</td>
<td>30000</td>
<td>1 year</td>
<td>7 year</td>
<td>Insurer’s Discretion</td>
<td></td>
</tr>
<tr>
<td>Accident benefit as rider</td>
<td>10000</td>
<td>50000</td>
<td>5 year</td>
<td>15 year</td>
<td>18</td>
<td>60</td>
</tr>
</tbody>
</table>

Note 1: Group Insurance products may be renewable on a yearly basis

Note 2: The minimum number of members comprising a group shall be at least twenty for group insurance.
Table 2: Non-life products- Sum assured, Plan and Term

<table>
<thead>
<tr>
<th>Type of Cover (per life/ earning member of family)</th>
<th>Min. Amt. Cover (Rs)</th>
<th>Max. Amt. Cover (Rs)</th>
<th>Min. Term of Cover</th>
<th>Max. Term of Cover</th>
<th>Min. Age of Entry</th>
<th>Max. Age of Entry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dwelling or contents, or live stock or tools or other named assets/or crop ins.</td>
<td>5000</td>
<td>30000</td>
<td>1 year</td>
<td>1 year</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Health insurance (Individual)</td>
<td>5000</td>
<td>30000</td>
<td>1 year</td>
<td>1 year</td>
<td>Insurer’s Discretion</td>
<td></td>
</tr>
<tr>
<td>Health insurance (family) – (option to avail limit for individual/float on family)</td>
<td>10000</td>
<td>30000</td>
<td>1 year</td>
<td>1 year</td>
<td>Insurer’s Discretion</td>
<td></td>
</tr>
<tr>
<td>Personal accident (per life/ earning member of family)</td>
<td>10000</td>
<td>30000</td>
<td>1 year</td>
<td>1 year</td>
<td>5</td>
<td>70</td>
</tr>
</tbody>
</table>

Note: The minimum number of members comprising a group is at least twenty for group insurance.

Intermediary: The micro insurance agent, can be a Non-Governmental Organization (NGO), MFI or other community organization such as Self Help Groups (SHG) appointed by an insurer to distribute micro-insurance through specified persons. Micro-insurance agents enter into a “deed of agreement” with the insurer. They abide by the code of conduct defined by the IRDA and attend 25 hours of training (down from 100 hours originally required for conventional insurance agents but now reduced to 50 hours) in the local language at the expense of the insurer.

3.0 Micro-insurance for tribal tea plantation labourers in Assam: A Study of ICICI Prudential Life Insurance

ICICI Prudential will pilot a term life insurance with a savings component delivered to groups of tea workers through intermediary agencies. The intention is to significantly boost resources for the rural poor by reducing transaction costs and improve...
customer service and overall efficiency by using technology. Intermediary agencies would be trained to create awareness, conduct sales and provide customer service.

3.1 ICICI Prudential Life Insurance: Organisational Overview

ICICI Prudential Life Insurance Co. Ltd. is a joint venture between ICICI Bank - one of India's foremost financial services companies - and Prudential PLC - a leading international financial services group headquartered in the United Kingdom. The insurer started its operations in 2000 and is the largest private life insurance company in India with one of the largest distribution networks with more than 2000 branches nationwide. ICICI Prudential launched its Rural Business Channel in February 2007 and has established a strong service delivery infrastructure through more than 1000 micro-offices in India. It has more than 288 rural offices to increase access and service and has been working with many Micro Finance Institutions. Based on six years of micro-insurance experience, the company is reengineering its delivery systems to improve the viability of micro-insurance products.

The project innovates by using an online service delivery system to reduce the costs of serving low-income persons significantly. Pre-defined targets - such as reducing premiums significantly - demonstrate ICICI Prudential’s commitment to implementing strategies that make micro-insurance more affordable to low-income individuals with the additional benefit of tying delivery channels more closely to both the insurer and the insured.

3.2 Beneficiaries

Expected target groups: ICICI Prudential has selected tea tribes and rural poor of Assam as the target market to launch their micro-insurance product. These workers are mostly migrants from neighbouring states who have settled in Assam for generations. The tea tribes constitute about 17% of the population in Assam. Almost 50% of the tea estate workers are women who are employed to pluck tea, the most labour intensive part of tea production. The average monthly income of a household is around 2000 Indian rupees. In addition, tea estate management provides the workers with housing and subsidised rations.

Due to geographic constraints, however, basic facilities like hospitals, schools, banks, etc. are very limited. There is also very little awareness about institutionalised savings and preventive health amongst the workers. The monthly savings are nominal and mostly saved in the form of cash or unregulated schemes. Due to the lack of awareness and limited access to banks and other financial institutions, the workers tend to borrow money from local money lenders.
Study Process of the Micro-insurance

- Can technology significantly improve affordability, responsiveness and transparency for low income policyholders?
- How can an insurer create a micro-insurance culture amongst the working poor? What is the added value of consumer awareness?
- How can an insurer set up an effective delivery of customer service by intermediaries?
- To what extent can the proposed model be replicated to other large labour groups?

Emerging Lessons

The lessons that have emerged from a study of the functioning of ICICI Prudential Life Insurance have been listed below.

- The feasibility of rolling-out the IT system in service centres should have been considered more carefully.
- A new process had to be designed to streamline policy issuance and continuation and contain costs.
- The mode and method of the awareness campaign need to be carefully selected considering not just the interests of the target audience, but also the level of possible involvement and participation of the community.
- The most effective way to form a partnership with promoters of Community videos, was to highlight areas of converging interests and mutual benefit.
- The awareness program had to be designed while taking into account the political sensitivity of the region.
- When deciding on sensitive matters, it is prudent to involve the management of the intermediary.
- To earn the trust of the workers and increase uptake, more resources should have been allocated to involve more workers from the tea estates and to financially support the participants to conduct more mass awareness campaigns.
- Supplementing micro-insurance education with activities such as street plays that discuss relevant themes like alcoholism and safety-at-work can increase the interest, enthusiasm and participation of the community.
- A pre-requisite to building a partnership with a delivery channel is the channel’s awareness of two things: benefits of Micro-insurance for their constituents and the benefits of the partnership for the channel.
- In terms of formalizing the partnership, the signing of the Memorandum of Understanding (MoU) can take a substantial amount of time.
In terms of the operational implications, several process adjustments had to be implemented by ICICI Prudential to increase relevance for the partner and target customers.

Implementing a wage deduction system for premium payment became an administrative concern.

The project would have garnered larger support and acceptance across tea companies if it had been bundled with other development initiatives that the tea company was pursuing.

Showcasing a successful pilot case is needed to convince other potential partners.

In the case of a new product, do not underestimate the time needed for product approval.

The choice of the sales force should take into account the political sensitivities of the target market and the channel partner.

ICICI Prudential Life has launched 'Anmol Nivesh', an exclusive unit-linked endowment product for tea tribes in Assam. The product is designed to help the consumers meet their savings and protection needs, effectively. The product is available with an annual premium of as low as Rs 1,200 for a sum assured of Rs 6,000. The policy term is for 7-15 years. ICICI Prudential Life Insurance has received a grant from Geneva-based International Labour Organisation's Micro Insurance Innovation Facility for initiating the project for the tea tribes. The facility, a partnership between the ILO and the Bill and Melinda Gates Foundation, will support the company to provide insurance solutions to over 1.2 million tea plantation workers of the state, over the next 2-3 years. However, the amount of the grant has not been disclosed.

ICICI Prudential Life, whose 7-8 per cent of the total business comes from micro insurance, will utilise the facility's support to spread awareness on financial literacy, need for savings, child education, healthcare, benefits of life insurance and providing training to the staff and people related to the project. ICICI Prudential Life does not take micro-insurance as an obligatory business move. It is a financially viable and an important segment for them. They are committed towards providing an effective saving and insurance mechanism to consumers in the low-income segment in India, keeping in mind the need of such unique options in the country.

Availing a life insurance cover through this company will help tea tribes in Assam mitigate risks, which will enable this consumer segment to provide better security for their financial future. The company will provide an effective channel for consumers’ funds to create a sustained savings mechanism as well as create awareness on the need and benefits of life insurance. Deputy Director, International Labour Organisation, South
Asia, said: “We are providing support to ICICI Prudential Life as we believe the company has developed an innovative and sustainable approach to reach a marginalised population such as the tea workers.”

4.0 Conclusion

Micro-insurance policy-induced and institutional innovations are promoting insurance among the low-income people who form a sizable sector of the population and who are mostly without any social security cover. Although the current reach of ‘micro-insurance’ is limited, the early trend in this respect suggests that the insurance companies, both public and private, operating with commercial considerations, can insure a significant percentage of the poor. Serving low-income people who can pay the premium certainly makes a sound commercial sense to insurance providers. To that extent, imposing social and rural obligations by insurance regulator (IRDA) is helping all insurance companies appreciate the vast untapped potential in serving the lower end of the market. However, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the regulator as well as the government. IRDA has already come up with the concept note on micro-insurance, which suggests the regulator’s bias towards insurer-agent model. Even so, two areas in which having explicit provisions would aid the development of micro-insurance are: one, flexibility in premium collection, and two, encouraging micro-insurance among micro-finance institutions (MFIs). Given irregular and uncertain income stream of the poor, flexibility in premium collection is needed to extend the micro-insurance net far and wide. Moreover, ICICI Prudential, MFIs are playing a significant role in improving the lives of tea workers/poor households. Quite apart from this, linking micro-insurance with micro-finance makes better sense as it helps in bringing down the cost of lending.

References


