Challenges of Effective Implementation of Micro-Insurance in India: A Case Study of Bhartiya Agro Industries Foundation (BAIF)

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ABSTRACT

Almost 70 percent of India's population is rural, majority of which lives in poverty. In order to achieve sustainable economic development, it is necessary that poor people get benefits of inclusive policies. Micro insurance is a necessary step in this direction as poor are most vulnerable to several risks.

In India, insurance has got low penetration and situation is worse in case of poor section of the society. Even though insurance can provide risk coverage to vulnerable section of the society, insurance companies have failed to draw attention of target customers. Micro insurance provides a way out for this issue, but there are various hindrances to successful implementation; from supply as well as demand side. Some of the supply side issues are, lack of appropriate products, reach of organization, reluctance of personnel to work in rural area, pushing of products giving more premium rather than needed products; whereas

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demand side issues include illiteracy, lack of trust; lack of knowledge about the importance of insurance, etc.

The objective of this paper is to identify challenges in effective implementation of micro-insurance in India. A few organizations have tried and achieved success, in this direction. In this paper, we discuss one of the successful micro insurance schemes developed and implemented by an organization called Bhartiya Agro Industries Foundation (BAIF). They work on community based micro insurance program for their self-help groups. Since micro insurance is at its nascent stage in the country, we hope the discussion will provide an insight to others in implementing similar activity.

Keywords: Micro Insurance, Community, Developing Country, BAIF

Introduction

Insurance Regulatory Development Authority (IRDA) of India, the regulatory body to channelize insurance industry in the country has developed a special category of insurance products to cater to the needs of the vulnerable section of the society. These insurance products are called as micro-insurance policies. The IRDA Micro-insurance Regulations, 2005 defines a micro-insurance policy as a life or non-life insurance policy as specified in the table below.

Product Boundaries as per Microinsurance Regulation, 2005

Type	*Sum insured (Rs. 000)*	*Term (in years)*	*Age (in years)*
Term life	5-50	5-15	18-60
Endowment	5-30	5-15	18-60
Health (individual)	5-30	1-7	Insurer's discretion
Health (family)	10-30	1-7	
Accident rider	10-50	5-15	18-60
Livestock/assets	5-30	1	NA
Accident(non-life)	10-30	1	5-70

Source: Mukherjee et al. (2012).

Almost all areas are covered by the micro-insurance policies as covered in conventional insurance policies both in life and non-life segments. India has the second largest population in the world and the potential for growth of insurance is very good. However the penetration of insurance in the country is very shallow. Almost one- third of India's population still lives below poverty line. These people being at subsistence level cannot afford insurance unless it is made cheaper and affordable to them.

To eradicate and eliminate disparity in the society, judicious allocation of economic and financial resources could be ensured only if poor are also brought under the umbrella of financial inclusion through the access to bank accounts and insurance coverage.

The potential of micro-insurance is very high, for a developing economy like India where despite efforts of the governments a major portion of population lives below poverty line. Making life better for poor people is essential for sustainable development. The below average purchasing capacity of individuals, lack of awareness, high transaction cost are few bottlenecks to reach them.

The importance of insurance has widely been accepted across societies. It is more so in case of poor people. The risk without insurance coverage leaves poor households vulnerable not only to financial losses but also gives mental agony. In case of unexpected events in their life like health issues and natural calamities, they incur huge losses, which severally affect their financial condition. Micro-insurance brings them solace on the event of any such loss or damage.

The present paper is divided into four parts. The first part offers a general understanding of micro-insurance and its linkage with rick mitigation for the poor in the society. The second part of the paper discusses literature review followed by case study of BAIF. Last part deals with discussion and practical implications of the research.

Literature Review

The precarious financial situation of poor will be upset by major shocking events such as death, hospitalization, loss of home and that of working assets. Protecting them from these events will help them from remain out of poverty. They have informal mechanisms to do so by borrowing, maintaining savings accounts, investing in assets, and participating in revolving savings and credit groups. There has been weakening of these mechanisms due to increasing urbanization and migration.

Poor people hesitate in paying for some future events that might not happen; especially when when they face problems in meeting their day to day needs. The concept of insurance is alien to them as they do not see any point in paying for something which may or may not give any financial return (Forbes, 2012). In many developing countries more than 3% of households faced catastrophic health expenditure which exceeded 40% of their disposable income (Ransona et al., 2006). Micro-insurance increases chances of economic growth for poor (Apostolakis et al., 2015).

Micro-insurance conceptually is not different from other insurance schemes both in life and non-life categories. The premium contribution by individuals is also low for obvious reasons.

Ito and Kono (2010) observed that there are common problems associated with micro insurance (1) low take-up rates, (2) high claim rates, and (3) low renewal rates. This is explained on the basis of prospect theory, hyperbolic preference, and adverse selection. The prospects theory makes an assumption that people are risk averse while evaluating gains and they become risk loving when it comes to loss (Kahneman and Tversky, 1979). As insurance covers losses people might act as risk loving and may not purchase insurance. Another aspect of it is undervaluing losses with low probability.

Bauer et al. (2008), explains peoples participation in micro credit through hyperbolic behaviour. It is associated with self-control problem of individuals who are tempted to spend rather than save the money. This behaviour is more pronounced when there is lack of mechanism to do so. In case, it is available they are more likely to save. This is applicable to micro insurance also.

The households having more sick members are more likely to purchase insurance. This can be explained on the basis of adverse selection (Ito and Kono, 2010). Information asymmetry only complicates things further, by adding the problems of adverse selection, and ex-ante and ex-post moral hazard. Moral hazard is in terms of engaging and increasing risky behaviour once individuals get insured.

Lack of awareness of insurance is identified as one of the causes of low take-up as well as low renewal rates. In addition relatively large lump sum payments, significant transaction costs, and dependence on relationships with unfamiliar parties act as hindrances. This is also need for financial literacy as majority of the clientele are illiterate. Xavier et al. (2008) explain the decision of rainfall insurance take up is dependent on household wealth, income fluctuations and familiarity with insurance vendor.

Sinha et al. (2006) identified four stages as barriers to insurance (1) Barriers to hospitalization, (2) Barriers to claims submission, (3) Problems in claims processing, and (4) Problems after decision. Barriers to hospitalization include lack of funds; inconvenience caused in the family; distance from hospital. Barriers to claims submission comprises lack of clarity about documents, noncooperation from doctors, transaction cost, delay in claim submission, fear of rejection, lack of clarity about terms and conditions by employees and weak linkage with employees. At third stage there are problems in claims processing like issuance of incorrect or incomplete documents by the doctor or government official. Even after the claim is sanctioned, some members face difficulties in encashment cheque when they had no bank account.

Radermacher and Dror (2006) classified institutional mechanism for delivering microinsurance as (1) partner-agent, (2) charitable insurance, (3) healthcare providers, and (4) mutual.

Type of Provider	*Examples*
Partner-agent model	1. VimoSEWA and ICICI Lombard 2. Shepherd and United India Insurance Company (UIIC) 3. Karuna Trust and National Insurance Company (NIC)
Charitable insurance model	1. Voluntary Health Services (VHS), Chennai 2. Vimo SEWA operated its health insurance under this model from 1996 to 2002. 3. Yeshasvini Trust is a mixture of the charitable insurance model and the provider-driven model
Healthcare providers model	1. Grameen Kalyan, Bangladesh 2. BRAC MHIB, Bangladesh 3. Nkoranza Community Health Insurance Plan, Ghana
Mutual model	1. Union des Mutuelles de Santé de Guinée Forestière (UMSGF) 2. ILO's STEP programme 3. French NGO CIDR SHEPHERD 4. Organisation for Development of People 5. Solapur Cooperative Federation 6. Bihar Milk Cooperative Federation 7. Mahasemam Trust 8. BAIF

Source: Radermacher and Dror (2006).

In partner-agent model, NGOs/MFIs act as an intermediary between insurance company and policyholders. Charitable insurance model has two main features namely being non-profit and not putting the risk on the insured. The first feature primarily differentiates this model from the partner-agent model as well as healthcare provider-driven model. The second feature distinguishes it from mutual model.

In Healthcare provider model insurance is provided by health care provider with an idea to increase volume of their primary business. The mutual model is also known as community-based health insurance schemes. It is based on voluntary non-profit systems to spread the risk with the help of mutual assistance and solidarity. In this case risk is being borne by the insured.

Government also is directly engaged in promoting the microinsurance. They have come up with different products given in the table below.

Type of Product	Natural and Accidental Death for SHG Members	Natural and Accidental Death for Landless Labours	Livestock (for mortality)	Agriculture (area yield)	Agriculture (weather index)
Name of Product	Janashree Bima Yojna	Aam Admi Bima Yojna	Livestock Insurance Scheme	National Agriculture Insurance Scheme (NAIS) Program	Weather Based crop Insurance Scheme
Starting Year	2000	2007	2006	1999	2007

Case Study: Bhartiya Agro Industries Foundation (BAIF)

The study carried out on micro- insurance is exploratory in nature. A case based analysis had been done on the micro-insurance initiatives taken by 'Bhartiya Agro Industries Foundation' (BAIF), a well reputed voluntary organization. It was founded on August 24, 1967 by a Gandhian patriot Late (Shri) Manibhai Desai at Urulikanchan village, Dist. Pune, in the state of Maharashtra with a mission of promoting sustainable rural development.

It started community development by introducing livestock development and sustainable water management in the remote areas. It is a well-known fact that livestock is one of the major sources of livelihood for the population living in villages. Subsequently it came up with community insurance scheme for the poor. This was a mile stone in the initiative of financial inclusion promoted by the Govt. of India under which people who do not have access to basic financial services like bank accounts and insurance against their livestock and health care facilities within the ambit of their reach.

Community and Micro-Insurance

BAIF came up with self-help groups to introduce insurance facilities for the people living in rural areas. A self-help group is the one which works as a financial intermediary usually composed of 10 to 20 men or women. BAIF runs several such self-help groups with anti-poverty agenda. These SHGs are operating micro-insurance for the rural people.

Salient Features of Micro-Insurance Scheme

The self-help groups in BAIF contain only women. There are two kinds of micro insurance products are being provided by BAIF. They are life and health micro-insurance. In the case of life insurance the premium is Rs. 250 per member per year. The insurance is provided for the entire family. Accidental death receives a claim of Rs. 50000 per person. The compensation varies if a person meets with permanent disablement. In the case of medical insurance, if a person is hospitalized for two or more days, he is entitled of a Rs. 5000 compensation on account of his treatment. Apart from these facilities health check-ups are conducted free of cost under the micro-insurance scheme. If a person receives no benefit for 5 years, he is entitled of Rs. 300 compensation.

Initially, BAIF was working under partner-agent model, wherein United India Insurance Company (UIIC) was insurance company and BAIF acted as agent for them. But, conflict arose between them when claim ratio reached more than 100 percent. Reacting to the situation, UIIC decided to increase the premium by 80 percent. The beneficiaries of the schemes were SHG members, and majority of them were poor. This increase might have forced them to leave the scheme. At the same time, justifying the huge rise in the premium was difficult for BAIF as they were the ones who had direct contact with the beneficiaries. Subsequently, BAIF decided to turn its operating system for providing insurance scheme from partner-agent to mutual model.

The premium amount for each contributor is Rs. 250 per annum, out of which Rs. 80 goes to Life Insurance Corporation (LIC); the only state owned Life Insurance Company and additional Rs. 50 is contributed by the Government of Maharashtra and the Central Government. Thus, the total per unit contribution becomes Rs. 130.

The amount collected from villagers who seek benefits of insurance is not enough to create a sizeable corpus, it becomes essential for the SHGs to divert a small chunk of premium for reinsurance with LIC. This mechanism is known as reinsurance. Since most of the micro- insurance schemes are related with life insurance schemes, it becomes obvious that the LIC would play the role of reinsurer.

Earlier micro-insurance scheme was reinsured with United Life Insurance Company, but the policyholders' higher rate of claims made the insurance company to increase the premium. Since SHG members are poor and were not able to afford premium at a higher rate, they shifted to the LIC.

The claim settlement mechanism reads that in case the claim is made by the group, payment is made by cheque. Individual's settlements are done on cash basis. In case of no claim during the last one year period, a 50 percent no-claim rebate is given to the policy holders for the next one year period for renewal of the policy.

In order to avoid false and exaggerated claims thorough scrutiny is done. Since the SHGs are closely knit and small groups all members know each other very well. The detailed information about each other enables the SHGs to avoid false and exaggerated claims.

SWOT Analysis of Micro-Insurance Scheme

Strengths

1. *Elimination of fake claims:* false and exaggerated claims put a pressure on the profitability of insurance companies. SHGs are small and

close knit formal groups of individuals living in close vicinity and are known to each other. It helps in eliminating the chances of false and exaggerated claims.

2. *High speed claim settlement:* Since all members of SHGs are known to each other, the complexity of investigation about genuine claims is pretty less. This enables the SHGs for speedy claim settlement.
3. *Affordability:* Small instalments of premium amounts are affordable for the members of SHGs who live below poverty line.
4. *Reach:* it gives a great outreach for microinsurance products.

Weaknesses

1. *Small corpus:* Due to small amount of premiums, the corpus money collected does not have a large pool of funds prevent them from scaling up.
2. *Designing micro:* insurance products to suit to the individual needs and requirement is a difficult task.
3. *Financial sustainability:* The products are subsidized or donors funded and are not financially self-sustainable.

Opportunities

1. *The Government support:* The Government of India has supported Micro Insurance. Any innovative scheme is likely to be encouraged.
2. *Market potential:* The large number of population qualifies as consumer of these products. It offers huge business opportunities for the organizations operating in this area.
3. *Lack of competition:* Many insurance companies are reluctant to enter into this market; providing wider space for existing players.

Threats

1. *New entrants:* As the insurance sector is being liberalized, there is a threat of new entrants.
2. *Lack of professionals:* Many a times NGOs lack specialized professionals to run these types of schemes.

Benefits to Different Stakeholders

Beneficiaries are getting risk cover, which otherwise is not being catered by insurance players. As health problem has been cited as one of the reasons for poor remaining poor, the micro-insurance policy helped these poor people from getting into poverty trap because of health issues. Affordability of the products has acted as a hindrance for the success of micro-insurance; it got resolved by provision of small instalments. Issue of delayed claim settlement has prevented many customers from taking insurance. In this scheme, claims were getting settled smoothly, encouraging the customers to go for the products.

Fraudulent claims have been always been a serious concern for insurers. The arrangement by BAIF and its distribution through SHGs has helped in resolving this issue. It has also given wider reach to the products, which otherwise was difficult for insurer.

BAIF is providing full-fledged services to its beneficiaries and this has helped in enhancing its image among the stakeholders in general and beneficiaries in particular. By providing insurance, BAIF has widened its product portfolio of financial services for its poor customers.

Discussion and Conclusion

The challenges faced by micro- insurance schemes may be the learning lesson for the generations to come. Product development, regulatory modification, financial literacy drive, distribution optimization for insurance products are a few steps to ensure better and deeper micro-insurance penetration in rural areas for people living below poverty line.

If rightly implemented micro insurance schemes could bring in sea change in the living standard of rural population living below poverty line. The customization of products could better suit to the need and requirement of individual customers and hence could favourably impact the demand for micro-insurance products.

Training programs for insurance professionals especially sales agent in large number could not only generate employment among the educated work force sitting idle without job but will also ensure deeper penetration and higher demand of insurance products in the market.

The financial inclusion initiative taken by the Government of India has opened new vistas for micro- insurance in the country. Micro-insurance is fast-growing sector with immense potential of growth in India. Almost one-third of India's total population lives below poverty line and hence is the target beneficiary of micro-insurance schemes. Through the causal relationship between micro- insurance schemes and poverty eradication this paper could prove to be helpful. Based on the findings, the government and the non-government organizations should increase their efforts to ensure deeper penetration of insurance in the remote areas where the major chunk of population lives below poverty line.

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