



# REVIEW OF RESEARCH

ISSN: 2249-894X

IMPACT FACTOR : 5.2331(UIF)

VOLUME - 7 | ISSUE - 6 | MARCH - 2018



---

## MICRO-INSURANCE - A TOOL FOR RURAL DEVELOPMENT

**Dr. F. Sweetlyn Joy Christy<sup>1</sup> and Dr. I. Prem Rose Thayammal<sup>2</sup>**

<sup>1</sup>Assistant Professor, Department of Commerce, Standard Fireworks Rajarathinam College for women, Sivakasi (PO), Virudhunagar District, Tamilnadu, India.

<sup>2</sup>Head and Assistant Professor, Department of P G Commerce, CSI Jayaraj Annapackiam College, Nallur (PO), Tirunelveli District, Tamilnadu, India.

### ABSTRACT

*The purpose of the present paper is to make awareness on micro-insurance and its benefits among the people, especially for the rural community. The rural masses are benefited by procuring insurance easily and thereby get the additional incentive to their village/community for their welfare activities. Micro-insurance helps the lower income economically vulnerable sections of the society to get the benefit of insurance at a low cost with fewer requirements. The micro-insurance is promoted in different schemes by the Indian government. This paper proved that the micro-insurance is the tool for rural development. It provides the bundle of knowledge and awareness regarding micro-insurance prospect in India. The study suggests that the government should take further development action such as proper guidance and direction for micro-insurance. The paper may be helpful for all those who involved in micro-insurance.*



**KEY WORDS:** Indian government, Knowledge, Micro-insurance, Rural development, Village.

### 1. INTRODUCTION

Micro insurance products offer coverage to low-income households or to individuals who have little savings and are tailored specifically for lower valued assets and compensation for illness, injury or death. Micro insurance looks to aid poor families by offering insurance plans tailored to their needs. Micro insurance is often found in developing countries, where the current insurance markets are inefficient or non-existent. Because the coverage value is lower than a usual insurance plan, the insured people pay considerably smaller premiums. Micro insurance, like regular insurance, is available for a wide variety of risks. These include both health risks and property risks. Some of these risks include crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance and insurance for natural disasters, etc. Like traditional insurance, micro insurance functions based on the concept of risk pooling, regardless of its small unit size and its activities at the level of single communities. Micro insurance combines multiple small units into larger structures, creating networks of risk pools that enhance both insurance functions and support structures (Investopedia, n.d.).

---

In India, the micro insurance has been implemented in variety of types such as life insurance, health insurance, property insurance, disability insurance, crop insurance, disaster insurance, unemployment insurance and reinsurance. The micro insurance has four main methods for offering its service as partner-agent model, provider-driven model, the full-service model, and the community-based model where the each model has their own advantages and disadvantages.

## 2. MICRO INSURANCE AND RURAL DEVELOPMENT

The rural development comes in many forms. Usually, rural development refers to processes of improvement in economic conditions and the general quality of life for people living outside large cities. According to the World Bank, 48% of the world's population was considered rural in 2011, in which it is as high as 71% for least developed countries (Silvia Muller, Gaby Ramm and Roland Steinmann, 2014, p 7).

Micro-insurance is recognized as a useful tool in economic development. As many low-income people do not have access to adequate risk-management tools, they are vulnerable to fall back into poverty in times of hardships, for example when the breadwinner of the family dies, or when high hospital bills force families to take out loans with high-interest rates. Furthermore, micro-insurance makes it possible for people to take more risks (Limna and Basheer Ahammed, 2004, p 60).

In India, Insurance Regulatory and Development Authority (IRDA) has created a special category of insurance policies called micro insurance policies to promote insurance coverage among economically vulnerable sections of society. Micro Insurance Regulations, 2005 defines and enables micro-insurance (Dercon Stefan, 2005). A general or life insurance policy with a sum assured of Rs.50000 or less is a micro-insurance policy. A life micro-insurance product is a term insurance contract with or without a return of premium, any endowment insurance contract or a health insurance contract, with or without an accident benefit rider and either on an individual or group basis. The micro-insurance business is done through the intermediaries like non-Government organizations, self-help groups and micro-finance Institutions (Policyholder, n.d.).

In life insurance, IRDA has authorized 28 micro-insurance providers in India. Life Insurance Corporation of India, the leading player in life insurance market is one among them. LIC has two plans called New Jeevan Mangal (Plan 640) and Bhagyalakshmi (Plan 839). In New Jeevan Mangal Scheme, the sum assured can be from Rs.10000 to Rs.50000, where 2 times for accident policies. Anyone with age between 18 and 55 both men and women can avail this policy without any medical report. Policy Term can be 5 to 10 years for single premium policies, and 10 to 15 years for other policies. This policy can be surrendered after 1 year of commencement. This policy is exempted from Government Service taxes.

In Bhagyalakshmi Scheme, sum assured can be from Rs.20000 to Rs.50000. All men and women between 18 to 55 years of age can avail this policy without any required medical reports. Maximum maturity age is 65 years. Premium paying term ranges from 5 to 13 years. The term includes last 2 years where the premium is not required to be paid. The policy can be surrendered after one year. At the end of the term, maturity value will be 110% of premium paid for the term. This policy is also exempted from Government Service taxes (Licindia, n.d.).

## 3. OBJECTIVES OF THE STUDY

To achieve the main objective of the study, the following specific objectives were framed.

1. To study the scheme of micro insurance towards the Village/Communities
2. To analyze the micro-insurance business in India

## 4. RESEARCH METHODOLOGY

The researchers followed the descriptive approach in conducting the research. To achieve the objectives of the study, all information and data were collected as secondary data from Insurance Regulatory and Development Authority (IRDA) annual reports (IRDA, n.d.). The study was based on only the secondary

data which was collected for three years from 2013-2014 to 2015-2016. An appropriate statistical technique was applied for analyzing the secondary data.

## 5. ANALYSIS AND RESEARCH FINDINGS

### 5.1. Micro Insurance towards the Village/Communities

In LIC, a scheme called Madhur Bima gram/Bima Community (MBG) is meant for encouraging insurance cover to more people in the village. On insurance a certain number of lives (i.e. in micro-insurance policies) in a village, a monetary benefit is extended to the village for development activities. The village/communities classified in three broad categories are as in table 1.

**Table 1: Classification of Village/Communities**

Category	Criterion
I	Population up to 2000
II	Population between 2001 to 5000
III	Population between 5001 to 10000

Source: IRDA Micro-insurance Regulations, 2005

Table 1 explains the categories of village/communities for the purpose of micro-insurance policies. The first category villages /communities have limited the population up to 2000, the second category villages/communities have limited the population between 2001 to 5000 and the third category village/communities have limited the population between 5001 to 10000. The total amount of incentive is subject to the maximum ceiling of Rs.35000. The qualifying condition for getting incentive is given in table 2.

**Table 2: Qualifying Condition for Getting Incentive**

Category	Basic eligibility condition	Additional condition for eligibility for incentive
I	At least 75 micro insurance policies on different lives must be procured in the village or 'community' during the financial year.	Full First year Premium for at least 80% of the completed policies or Rs 3 Lakhs FYP from completed policies should be received to make the village or community eligible for payment of incentive.
II	At least 100 micro insurance policies on different lives must be procured in the village or 'community' during the financial year.	
III	At least 150 micro insurance policies on different lives must be procured in the village or 'community' during the financial year.	

Source: IRDA Micro-insurance Regulations, 2005

This incentive amount can be used for common welfare activities of the village such as building rooms in the school/gram panchayat or setting up of a library or constructing water tank/installing hand pumps, solar street lights or panels, latrines, drains or waste disposal system and other similar purposes.

### 5.2. Micro Insurance Business in India

The study aims to explain and analyze the micro insurance business in India. Table 3 gives the number of agents doing micro-insurance business for the year 2013-2014, 2014-2015 and 2015-2016.

**Table 3: Micro Insurance Agents of Life Insurers in India**

Year	Number of Agents		
	L I C	Private	Industry
2013-2014	18401	1656	20057
2014-2015	19379	1476	20855
2015-2016	18574	8467	27041

Source: IRDA annual Reports for the years 2013-2014, 2014-2015, and 2015-2016

Table 3 describes that in all the three years, the numbers of micro-insurance agents for the industry were very high followed by the numbers of micro-insurance agents for LIC. The numbers of micro-insurance agents for private sectors were very low than other insurance sectors. The following table 4 shows the new business under micro-insurance in India.

**Table 4: New Business under Micro-Insurance in India**

(Premium in lakhs)

Year	Type	New Business	L I C	Private	Industry
2013-2014	Individual	Policies	2205820	561339	2767159
		Premium	8535.77	929.29	9565.06
	Group	Lives covered	11887303	1291741	13179044
		Premium	12581.45	1595.23	14176.68
2014-2015	Individual	Policies	400341	416027	816368
		Premium	1640.23	1249.22	2889.45
	Group	Lives covered	20596725	2531436	23128161
		Premium	28193.8	3366.22	31560.02
2015-2016	Individual	Policies	452291	458655	910946
		Premium	1953.78	1217.95	3171.73
	Group	Lives covered	22603919	6650805	29254724
		Premium	25426.39	4816.67	30243.06

Note: New Business includes first-year premium and single premium

Source: IRDA annual Reports for the years 2013-2014, 2014-2015, and 2015-2016

The above table 4 reveals that both private insurers and LIC have shown good growth rate from 2013-14 to 2015-16 in their new business under micro insurance in individual and group policies in India. The industry sectors have lead in the new business under micro insurance in individual and group policies than LIC and the private sector in all three years. The following table 5 shows the claim details of LIC and private companies for individual death under micro insurances.

**Table 5: Individual Death Claims under Micro-Insurance in India**

(Benefit Amount in Lakhs)

Year	Type	Claim Details	Total Claims	Claims Paid	Claim Repudiated
2013-2014	Private	Number of Policies	3583	3562 99.41%	19 0.53%
		Benefit Amount	361.45	357.62 98.64%	3.45 0.95%
	L I C	Number of Policies	12136	12048 99.27%	52 0.43%
		Benefit Amount	157.19	2005.35 99.13%	10.96 0.54%
2014-2015	Private	Number of Policies	1814	1773 97.94%	40 2.21%
		Benefit Amount	405.39	339.86 83.84%	63.83 15.75%
	L I C	Number of Policies	11582	11365 98.13%	207 1.79%
		Benefit Amount	1845.48	1817.67 98.49%	25.45 1.38%
2015-2016	Private	Number of Policies	4490	4427 98.60%	63 1.40%
		Benefit Amount	607.85	483.33 79.52%	124.60 20.50%
	L I C	Number of Policies	9749	9632 98.80%	102 1.05%
		Benefit Amount	1584.27	1563.55 98.69%	15.77 1.00%

Note: The percentage indicates the share of the respective claims to the total claims

Source: IRDA annual Reports for the years 2013-2014, 2014-2015, and 2015-2016

In the financial year 2013 – 2014 and 2015 - 2016, when comparing the performance of private companies and LIC regarding individual death claims paid and claims repudiated under micro insurances, both private and LIC were almost equal. But in the financial year, 2014 – 2015, the performance of LIC regarding individual death claims paid and claims repudiated was better than private companies. The following table 6 shows the claim details of LIC and private companies for group death under micro insurances.

**Table 6: Group Death Claims under Micro-Insurance in India**

(Benefit Amount in Lakhs)

Year	Type	Claim Details	Total Claims	Claims Paid	Claim Repudiated
2013-2014	Private	Number of Policies	14479	14429 99.65%	43 0.30%
		Benefit Amount	3305	3290.91 99.50%	11.69 0.35%
	L I C	Number of Policies	117854	117827 99.98%	26 0.02%
		Benefit Amount	38123	38111.3 99.97%	11.4 0.03%
2014-2015	Private	Number of Policies	5655	5517 97.56%	18 0.32%
		Benefit Amount	1252.09	1218.38 97.31%	4.96 0.40%
	L I C	Number of Policies	127836	127751 99.93%	76 0.06%
		Benefit Amount	41477.61	41443.9 99.92%	31.28 0.08%
2015-2016	Private	Number of Policies	4118	4069 98.81%	9 0.22%
		Benefit Amount	969.48	958.2 98.84%	1.06 0.11%
	L I C	Number of Policies	138720 100%	138048 99.52%	0
		Benefit Amount	44055.19 100%	43840.08 99.51%	0

Note: The percentage indicates the share of the respective claims to the total claims

Source: IRDA annual Reports for the years 2013-2014, 2014-2015, and 2015-2016

In the financial year 2013 – 2014, 2014 -2015 and 2015 – 2016, when comparing the performance of private companies and LIC regarding group death claims paid and claims repudiated, the LIC has exposed better performance than the private companies in the micro-insurance. At this point, in individual and group micro insurance, LIC as well as private players have shown very good claims settlement ratios. This can be further clear from the table given below. This table 7 gives the percentage of micro-insurance claims settled within 30 days for both individual and group micro insurance claims. This gives further confidence to the development of the rural sector in India.

**Table 7: Micro Insurance Claims Settled Within 30 Days from the Date of Intimation**

Year	Insurer	Percentage of claims settled within 30 days	
		Individual	Group

2013-2014	LIC	100.00%	99.08%
	Private	98.54%	48.29%
2014-2015	LIC	100.00%	99.47%
	Private	95.38%	46.80%
2015-2016	LIC	73.99%	99.99%
	Private	93.86%	90.28%

Source: IRDA annual Reports for the years 2013-2014, 2014-2015, and 2015-2016

Regarding the micro-insurance claims settled within 30 days from the date of intimation, the LIC has good performance in both individual and group micro insurance than the private companies in the financial years 2013 – 2014, 2014 – 2015 and 2015 – 2016 except in the group claims in the year 2015 – 2016.

## 6. CONCLUSION

The rural masses are benefited by procuring insurance easily and thereby get the additional incentive to their village/community for their welfare activities. Micro-insurance thus helps the lower income economically vulnerable sections of the society to get the benefit of insurance at a low cost with fewer requirements. The micro-insurance is promoted in the way of different schemes by the Indian government. This paper provides the bundle of knowledge and awareness regarding micro-insurance prospect in India. The paper may be helpful for all those who involved in micro-insurance.

## REFERENCES

1. Dercon Stefan. (2005). Risk, Insurance, and Poverty: A Review. In Dercon Stefan (Ed.), Insurance against Poverty (DOI: 10.1093/0199276838.001.0001). Retrieved from <http://www.oxfordscholarship.com/view/10.1093/0199276838.001.0001/acprof-9780199276837-chapter-2>.
2. Investopedia. (n.d.). Retrieved March 9, 2018, from <https://www.investopedia.com/terms/m/microinsurance.asp>.
3. IRDA. (n.d.). Retrieved March 9, 2018 from [https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_NoYearList.aspx?DF=AR&mid=11.1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_NoYearList.aspx?DF=AR&mid=11.1)
4. Licindia. (n.d.). Retrieved March 9, 2018 <https://www.licindia.in/Products/Insurance-Plan>.
5. Limna, M and Basheer Ahammed, P V. (2004). Evolutionary Market Trends in Micro Insurance in India. *EPRA International Journal of Economic and Business Review*, 2 (12), p 60.
6. Policyholder. (n.d.). Retrieved March 10, 2018, from [http://www.policyholder.gov.in/economically\\_vulnerable.aspx](http://www.policyholder.gov.in/economically_vulnerable.aspx). Retrieved March 10, 2018.
7. Silvia Muller, Gaby Ramm and Roland Steinmann. (2014). Agriculture, Micro-insurance and Rural Development – A thematic paper. *Micro-insurance Network's Agriculture Working Group*, Page 7. Retrieved March 10, 2018, from [http://www.micro-insurancenet.org/sites/default/files/MICRO\\_Network-Brochure\\_agriculture%20rural-2-WEB.pdf](http://www.micro-insurancenet.org/sites/default/files/MICRO_Network-Brochure_agriculture%20rural-2-WEB.pdf).



**Dr. F. Sweetlyn Joy Christy**

Assistant Professor, Department of Commerce, Standard Fireworks Rajarathinam College for women, Sivakasi (PO), Virudhunagar District, Tamilnadu, India.