



MARKET DRIVERS OF MICROINSURANCE INVESTMENT: BENEFICIARY PERSPECTIVE FROM MALABAR REGION OF KERALA

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Abstract

Insurance has become inevitable to every facet of human life, but those who are live bottom of the economic pyramid were completely excluded from the main stream of commercial insurance. This situation has been changed due to the emergence of financial inclusion plan and insurance providers needed to meet the requirements of social sector obligation laid down by Insurance Regulatory Development Authority. Micro-insurance provides a platform for bottom of the pyramid to cover their risk , it is different from insurance in general as it is low value product involving modest premium and benefit package which need different marketing plans.

Earlier forms of insurance are no longer adequate to cover the risk of low-income segment. Micro-Insurance in conjunction with micro finance could go a long way in keeping this segment away from the poverty trap and truly be an integral component of financial inclusion amid this back drop, the present study sheds light on the market drivers that influence the policyholders to invest in micro-insurance policy.

The study employed a descriptive cross sectional design using survey method where a structured interview schedule was administered from 100 sample policyholders in different parts of Malabar region of Kerala. Reliability and normality measured by using SPSS. Exploratory factor analysis conducted for grouping different items into identical factors and appropriate statistical measures were used for analysis.

Keywords: *Bottom of the Pyramid, Social Sector Obligation, Financial Inclusion, Micro-Insurance.*

Introduction

It is well recognized that the availability and affordability of insurance protection is a necessary requirement for the sound functioning of modern economy. Therefore there is an urgency for insuring everyone across their many unforeseen risk in order to ensure security and sustainability at multiple levels, namely individual, family, community, commercial (to ensure credit flow, to meet the legal liability etc.), at society and country level. In any analysis of financial exclusion, it may be seen that there is a general tendency to exclude persons on two parameters- one on the basis of social segmentation and the other on the basis of geography (rural).

Social exclusion points to inadequate or unequal participation in social life, or exclusion from a place in the normal consumer ladder. These two dimensions of deprivation are visible in almost all societies and communities. The economic and social gradient can reflect various degrees of exclusion from the instruments of economic development leading to various deprivations.

There can be many real or prejudicial reasons for such exclusion. In insurance, there can be a tendency to take refuge in the condition of insurability of heightened perception of adverse selection and moral hazards as well as high cost of marketing and administration, lack of literacy and poor infrastructure



etc., so as to stay away from certain segments of the population and geographies. Traditionally, world over there have been instances of insurers practicing subtle forms of exclusion termed ‘redlining’; in many jurisdictions these practices are forbidden and insurers are expected to take necessary affirmative action. The policy of inclusion begins to make sense if one were to take into consideration that there is a natural tendency for people to shape their risks in their own informal and tentative manner.

A pointing on World Bank “Micro-Insurances every bit as powerful as microcredit. Even better, insurance products can prevent people into poverty in the first place.” The role of Micro-Insurance like any effective risk management instruments is to temper these downturns, which are major impediments to escape from poverty. Confronted with a shock, poor people usually look for a variety of resources, including formal and informal credit, saving and insurance. Understanding these risk management strategies is starting point for thinking about the demand for insurance by the poor.

Need for the study

Micro-Insurance is must for bottom line people in an economy and it is the only way to ensure overall growth in a country. Micro-Insurance is recognized as a useful tool and safety measure for the working poor having limited disposable income. It is very crucial for the BOP people to allocate their income to protect against an event that they hope won’t even happen when they do not have income to meet their basic needs. There is a strong need to make sure that they have access to appropriate products, and have a positive experience with insurance. It is necessary to study which drivers induced the beneficiaries to invest in Micro-Insurance and what extent it effects.

Review of related works

Oscar Joseph et al. (2011) identified the factors which influence the demand for Micro-Insurance services among the informal sector workers of Ghana who are quite vulnerable to various risks in the economy.

Abdallah Naniyo Saqware (2012) addressed three distinct but interrelated areas in the Micro-Insurance sector in Tanzania, demand perspectives of Micro-Insurance in the informal sector, examined strengths and weaknesses of current risk coping strategies in the informal sector and also examined household ‘s characteristics that influence demand for micr insurance.

Fabian Huber (2012) evaluated socio-economic determinants of micro life insurance demand in Indonesia. The study aims to provide insight in customer characteristics which cause actual Micro-Insurance take-up and, thereby, facilitate more effective product design and distribution to seize the opportunities in Micro-Insurance.

Benedikt Link (2007) investigated the reasons for low uptake of Micro-Insurance policy among low income households in the South-East Indian state of Tamil Nadu. The study analyzed the factors which have hindered the development of Micro-Insurance market. Hermanto (2010) described the gap between Micro-Insurance supply and demand mechanisms have impeded the prosperity improvement for low income people in informal sectors in Indonesia.

Giesbert and Steiner (2012) investigated people’s understandings and perceptions of Micro-Insurance. Specifically, the study is relating to the assessment and the evaluation of a particular Micro-Insurance policy, as well as attitudes to insurance in general among groups of both insured and non-insured individuals in southern Ghana.



Pradeep Randiwela (2014) identified and substantiated several determinants which contribute to the growth in the insurance industry such as: Socio-economic and Business/organisational Factors.

Objectives of the study

1. To identify the market drivers through exploratory factor analysis
2. To assess the extent of influence exerted by dominant factors on micro-Insurance investment

Methodology

The study is designed as a descriptive one based on primary data. Population of the study comprises of Micro-Insurance policyholders in Malabar region, the population is quite large and scattered over the Malabar region. So it is difficult to conduct the census survey. Hence sampling method was adopted. 50 policyholders each selected from Kozhikode and Malappuram district through purposive sampling technique. For the present study data collection from policyholders was done only on a single occasion with the help of structured interview schedule, hence it has a cross sectional study nature. Most of the information collected was qualitative nature, it become necessary to use scaling technique to quantify the qualitative information. For this purpose, five point Likert scaling technique followed. The researcher had conducted pilot study and pretesting by taking 30 Micro-Insurance policyholders. In order to check the internal consistency of the scaled statements, reliability analysis using Cronbach alpha reliability test was done. Cronbach alpha for the scaled items were as follows

Table No: 1.1, Reliability statistics of variables

Construct	Number of items	Cronbach Alpha
Products Attributes	8	.856
Role of Agents	5	.815
Promotional Aspects	3	.837
Convenience Factor	3	.805
Micro-Insurance Investment	4	.874

[Source: primary data]

Data Analysis and Discussion

Market drivers of Micro-Insurance investment were identified with the help of exploratory factor analysis. The test of sampling adequacy (KMO) and multivariate Normality of set of distribution (Bartlett test of Sphericity) satisfied from selected observations. For conducting exploratory factor analysis Kaiser-Mayer-Olkin should be greater than .05 and Bartlett's test value should be less than .05. Test results from the observations shows in table

Table No: 1.2, Test results of Exploratory Factor Analysis

Kaiser-Mayer-Olkin measure of sampling adequacy		0.6771
Bartlett's test of Sphericity	Approx. Chi-Square	241.144
	Df	66
	Sig	0.000

[Source: primary data]

From the result it is understood that KMO measure indicate 0.671 and bartlett's test of sphericity measure value is 0.000, these both the test values were satisfactory to employed exploratory factor



analysis. Varimax rotation and principal component analysis were adopted to arrive at factor loadings. Here the extracted communalities of 19 variables are high

Table No: 1.3, Rotated component matrix

Statements	Factor Loadings			
Micro-Insurance policy is a worth investment	.984			
Attractive schemes are available under Micro-Insurance	.984			
Micro-Insurance gave limited benefits	.963			
Premium charged by insurance companies are reasonable	.963			
The benefits offered for different premium charged good value	.920			
Sum assured of Micro-Insurance is enough for me	.888			
Premium payment interval attracts more	.873			
Agent has proper communication with policyholders	.	.947		
Agent give good response to queries and clarification		.932		
Agent can collect premium from the place of residence		.999931		
Service rendered by agent is satisfactory		.797		
Agent have sufficient knowledge and experience in the field.		.729		
The process of taking Micro-Insurance policy is relatively easy			.947	
Premium flexibility is an important factor to take policy			.895	
Take Micro-Insurance policy is not a burden to me			.876	
Attractive promotional initiatives are taken by intermediaries				.915
Advertisement focusing on wellbeing and family security will induced to take Micro-Insurance policy				.757
Awareness campaign are more effective				.695

[Source; primary data]

Extraction method; principal component Analysis

Rotation method; varimax with Kaiser normalization^a

Rotated component matrix gives the factor loadings of each variable after rotation. The sum of squares of loadings of each variable constitutes communality of variables. There were four components

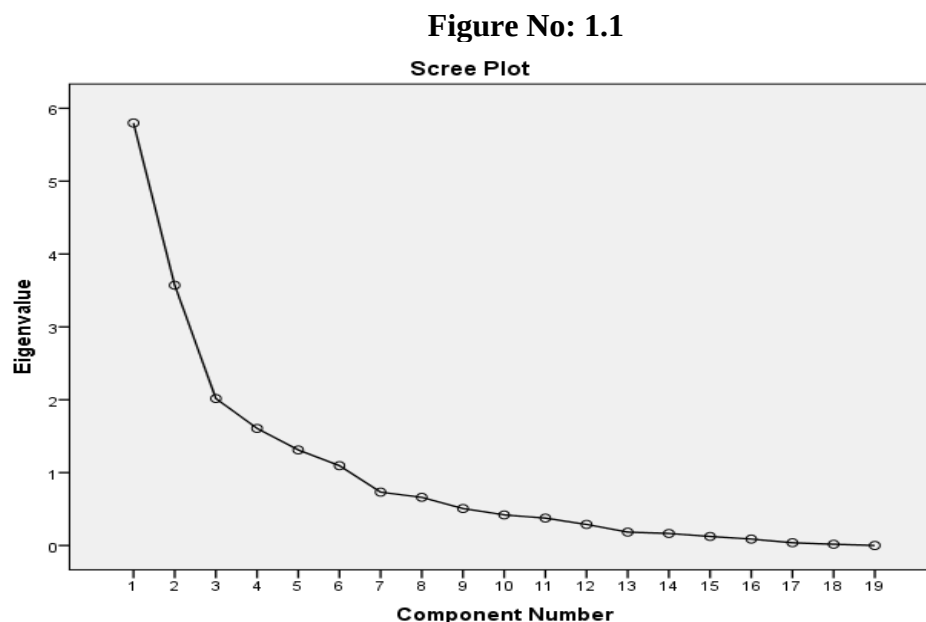


extracted by the rotated component matrix. The relative correlation between variables (factor loadings) varies interchangeably. The factor loading values of nineteenth, sixth, sixteenth, ninth, thirteenth, tenth, fifteenth, twelfth components were high and it has grouped under one single factor, which labeled as **product attributes**; seventeenth, first, eighteenth, seventh and eight were belongs to second factor, which named as **role of agent**; third, fourteenth, eleventh constitute third factor, which termed as **convenience factor**; remaining grouped as fourth factor, which called **promotional aspects**.

From component transformation matrix, it is concluded that 83.8% of the total variance after rotation of different component formed the factor **product attributes**, 82.3% of the total variance after rotation of different component formed the factor **role of agent**, 72.5% of the total variance after rotation of different component formed the factor **convenience**.

factor, 69.7% of the total variance after rotation of different component formed the factor **promotional aspects**, these are the identified factors which can be pointed out the micro-insurance market drivers, so that by considering these factors an alternative model for micro-insurance investment can be introduced.

The graphical representation of the Eigen values of the variables suggests that four factor solutions may be right choice to discuss the influence of different factors on micro-insurance investment. It will clear from the given Scree plot



Second objective is to find out the extent of influence of various market drivers on Micro-Insurance investment. To find out the significant determinants (drivers) multiple regression analysis is conducted. The composite variable representing Micro-Insurance investment was taken as a continuous dependent variable. Influences of identified factors were taken as independent variables (product attributes, Role of agents, convenience factor, promotional aspects).

The assumptions of multiple regression analyses such as linearity, reliability of measurement, homoscedasticity, and normality were evaluated to ensure that the regression model fulfills the requirements of the study.



Figure No: 1.2

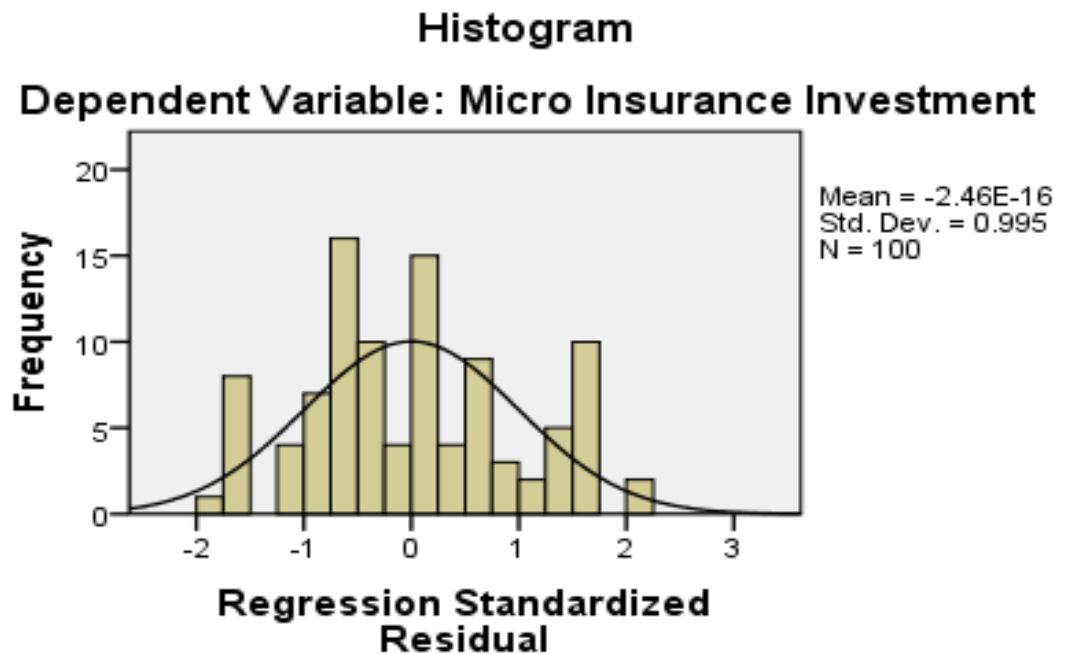
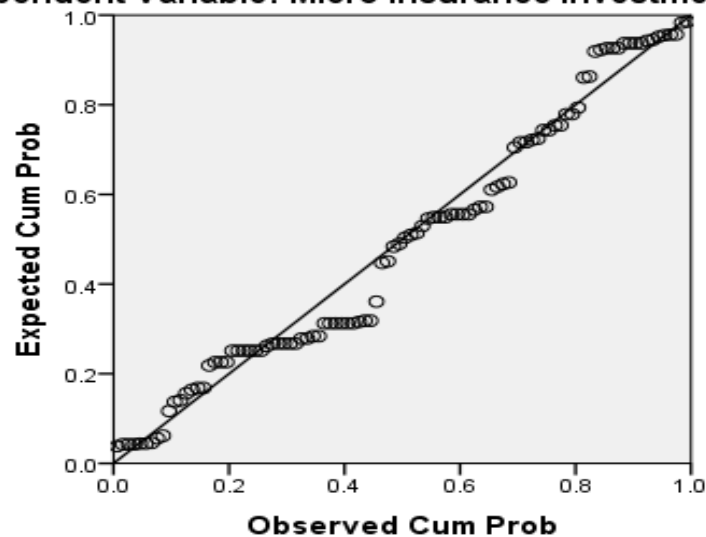


Figure No: 1.3

Normal P-P Plot of Regression Standardized Residual
Dependent Variable: Micro Insurance Investment



The shape of the Histogram of the standardized residual is almost normal in shape and normal P-P Plot of standardized residual coincides with a diagonal straight line, which indicates the normality of residuals.



Table No: 1.4, Model summary on regression of determinants of Micro-Insurance Investment

R	R ²	Adjusted R square	Std. Error of the estimate	Durbin Watson
.857	.734	.712	.77018	2.251

[Source: primary data]

From the table it can be seen that R square of the regression model is .734, which means that 73.4 percent variation in the Micro-Insurance Investment is determined by the selected independent variables. The value of Durbin Watson is 2.251, which is approximately equal to 2.00 indicating the absence of autocorrelation in the dependent variable.

Table No: 1.5, ANOVA of regression of Market drivers of Micro-Insurance Investment

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	580.820	4	116.164	9.168	.000
Residual	1191.085	95	12.671		
Total	1771.905	99			

[Source: primary data]

From the table, it understood that the significance level of F values related to initial and final regression models is less than 0.05. This indicates that the final regression model is valid to explain the variation in the micro-Insurance investment among beneficiaries concerning independent variables.

Table No: 1.6, Coefficients of the regression model of Market drivers of Micro-Insurance

variables	Unstandardized coefficients		Standardized coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	-2.763	1.222		-2.261	.029		
Product Attributes	.148	.354	.044	.417	.679	.519	1.926
Convenience Factor	.770	.288	.381	2.670	.011	.286	3.495
Promotional Aspects	-.309	.227	-.120	-1.359	.181	.742	1.349
Role of Agents	.995	.226	.539	4.397	.000	.387	2.583

[Source: primary data]

Above table shows that Micro-Insurance investment varies with different market drivers. The unstandardized coefficient of the 'Role of Agent' is positive and the highest value (.995) among other independent variables. This indicates that beneficiaries take Micro-Insurance policies due to agents influence. The unstandardized coefficient value of 'Convenience Factor' is (.770) positive and it indicates that target group investment is higher due to their convenience in their investment. The unstandardized coefficient of 'product attributes' is also positive and it shows that policyholders take their



policies due to the product features. Whereas the unstandardized coefficient of the 'promotional aspects' is negative, which means it doesn't much influence to make their investment.

Conclusion

Insurance agents has turned to be most effective driver which causes the investment among policyholders Micro-Insurance agent is the single most important intermediary between the beneficiaries and providers. Meeting an insurance agent and insured status are related. This means that who have met an insurance agent are more likely to invest in micro-insurance. They also happen to be the major source of information disseminator about the schemes and its benefits. Therefore, it is strongly recommended that the companies must strengthen their network of agents by applying some motivational and performance appraisal techniques. As most of the agents are not regular employees of the insurance companies. The product, price, place, promotion strategies have to be reworked. As this study shows, price has to be reconsidered and promotion has to be made relevant to this segment. Micro-Insurance has the potential which is waiting to be realized.

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