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PERFORMANCE ANALYSIS ON MICRO INSURANCE IN RURAL INDIA– A COMPARATIVE STUDY

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Abstract
Micro insurance right from its inception in rural areas has shown remarkable success in protecting the lives of rural and potentially weaker section of people against the risk of lives and the properties. Though, there is a significant gap in terms of number of people benefited through micro insurance, still the support of NGO, government and the IRDA providing momentum to the growth of micro insurance in India. Due to low premium and coverage limits, micro insurance is expected to play vital role in the coming days with the support of various financial and marketing intermediaries. In view of the importance of micro insurance, the present paper provides study on the role of government and regulatory bodies in the development of micro insurance in India. The paper provide the base for understanding the importance of micro insurance in achieving social security to rural communities and also make comparative analysis on performance of LIC and private sector in micro insurance business in India.

Key Words: Claims, IRDA, Insurance Agents, LIC, Micro Insurance.

1) Conceptual Overview of Insurance

Insurance is the backbone of country's risk management system. Risk is an inherent part in human's lives. The insurance providers offer a variety of products to businesses and individuals in order to provide protection form risk and to ensure financial security. Insurance, in law and economics, is a form of risk management primarily used to hedge against the risk of a contingent loss. Insurance is defined as the equitable transfer of the risk of a loss, from one entity to another, in exchange for a premium, and can be thought of a guaranteed small loss to prevent a large, possibly devastating loss. An insurer is a company selling the insurance.

a) Types of Insurance

The insurance can be divided from two angles: from business point of view and from the risk point of view.

Business Point of View
The insurance from business point of view can be categorized into:

I. Life Insurance
Life Insurance is different from other insurance in the sense that the subject matter of insurance is life of human being. The insurer will pay the fixed amount of insurance at the death or at the expiry of certain period. At present, life insurance enjoys maximum scope because each and every person requires the insurance. This insurance provides protection to the family at the premature death or gives adequate amount at the old age when earning capacities are reduced. Life insurance or life assurance is a contract between the policy owner and the insurer, where the insurer agrees to pay a designated beneficiary a sum of money upon the occurrence of the insured individual's or individuals' death or other event, such as terminal illness or critical illness. In return, the policy owner agrees to pay a stipulated amount at regular intervals or in lump sums. Life insurance is a contract between the insurer and the policy owner whereby a benefit is paid to the designated beneficiaries if an insured event occurs which is covered by the policy.

The value for the policyholder is derived, not from an actual claim event, rather it is the value derived from the 'peace of mind' experienced by the policyholder, due to the negating of adverse financial consequences caused by the death of the Life Assured. To be a life policy the insured event must be based upon the lives of the people named in the policy. Life policies are legal contracts and the terms of the contract describe the limitations of the insured events. Specific exclusions are often written into the contract to limit the liability of the insurer; for example claims relating to suicide, fraud, war, riot and civil commotion.

II. General Insurance
The general insurance includes property insurance, liability insurance and other forms of insurance. Fire and marine insurance comes under property insurance. Liability insurance includes motor, theft, fidelity and machine insurances to a certain extent. The strictest form of liability insurance is fidelity insurance whereby the insurer compensates the loss to the insured when he is under the liability of payment to the third party.

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III. Social Insurance

The social insurance is to provide protection to the weaker sections of the society who are unable to pay the premium for adequate insurance. Pension plan, disability benefits, unemployment benefits, sickness insurance and industrial insurance are the various forms of social insurance.

2) Brief Overview of Life Insurance Business in India

Life insurance business in India has started during the era of British in the year 1818 with the formation of Oriental The Oriental Life Insurance Company is the first corporate entity in India offering life insurance cover established in Calcutta in 1818 by Bipin Behari Dasgupta and others. Europeans in India were its primary target market, and it charged heftier premiums from Indians. The sector has shown less development till independence. The formation of LIC in the year 1956 has shown significant improvement in the life insurance business. Further, the reforms has given life to the regulatory body called IRDA and it has made significant contribution by introducing 23 life insurance companies in Indian insurance market with in a period of 12 years. Life insurance industry in India is one of the flourishing sectors; especially its contribution to the India's GDP is situated at 2.5%. The growth has opened an array of opportunities for global firms to either set-up their division in India or to enter into joint ventures with the private insurance companies in India. The industry has witnessed many alterations especially after 1999 when the Indian government allowed the privatization of the sector to promote insurance for attracting FDIs upto 26%. Since then the Indian insurance industry is regarded as a booming market amongst the international insurance firms.

The entry of private life insurance companies in the market brought the market a competitive one and the life insurance companies in order to capture more market share started to increase its operations with wide variety of new policies and attractive packages to its insurance marketers. Growing competition made the marketers to offer wide variety of policies.

3) Role of Micro Insurance

Micro-insurance is considered by low premium and low coverage limits and sold as typical risk-pooling and marketing arrangements and designed for low income people and businesses not served by typical social or commercial insurance. "Micro-insurance is the protection for the low -income population against specific dangers in exchange for regular payments of proportional premiums to the probability and costs of the involved risks". – Churchill.

Micro-insurance is thus designed with the objective of protecting poor people and also designed with the environment that surrounds them, their needs, and possibilities. It is necessary that the product is developed for people ignored by traditional insurance markets.

It is being realized that, every citizen and his /her family must be protected against the financial consequences of certain basic risks such as those of death, illness and injury. Insurance, by spreading the loss among all insured members, provides financial protection to those who actually suffer loss and thereby makes insurance an efficient way to deal with risks.

The concept of insurance has taken its stand from the protection to stronger section to the weaker section with a new term called micro insurance. The word Micro insurance has its initiation in the early 1990s due to the impact of reforms and government's active role in protection of the weaker communities. With the growth of micro credit and the need for cover for loans of that kind, the concept of micro insurance has evolved over the years but, in general, it is mainly aimed to address specific policies for individuals with own incomes who are not normally covered by conventional types of insurance. Micro insurance covers carefully defined specific risks and the premiums are affordable for low-income customers. It is usually linked to a micro credit loan. The target group for micro insurance is concentrated in poor urban areas and primarily, in rural areas. Both, the demand side and supply side developments in the country given momentum to micro insurance. The spread of micro-credit and imposition of rural and social obligations by the insurance regulatory authority on all insurers has given life to micro insurance there by benefiting the weaker sections of the people in society.

Besides many independent private initiatives aimed at protecting the low income group from different types of risks, are taking place in the country. This is partly due to the felt-needs of the communities in which such initiatives are taking shape and partly the result of anti-poverty strategies of the government.

For example, some health care providers have developed risk pooling mechanism whereby they are able to offer health insurance to the people in different income groups. Insurance for the poor who have low, irregular income and who lack financial literacy is possible if it is made available to them in a cost-effective way. Insurance to the poor is generally a costly proposition as the poor need to be educated and informed about the concept of insurance much more than others, and

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moreover. Insurance to them is a small value transaction. Therefore, relative to the premium amount, the transaction costs in offering insurance to the poor are higher. Any mechanism designed to reduce the transaction costs for the poor can make the whole difference in making insurance affordable or rendering it out of reach of the poor.

4) Review of Literature

The present study embodies a brief review of the research done in the area of micro insurance. The purpose of reviewing the earlier studies is to economize the historical and present prospective of the present work and the related studies which have been taken cognizance of one or more variables includes in the study. Syed Abdul Hamid& Roberts & Paul Mosley (2010) in the study shows that there is a positive impact of micro health insurance in the reduction of poverty among rural households of Bangladesh. Micro health insurance has a significant beneficial effect on food sufficiency of poor‟s and has a dynamic improvement in the health status of poor rural households. The study of GunitaArunChandhok (2009) show that there is a huge untapped market for micro health insurance and majority of population are aware and understand the importance of micro health insurance. Thus, micro insurance will go a long way in eradicating poverty. If the various micro insurance models are implemented effectively by Insurer, MFI‟s, SHG‟s, NGO‟s, Health institutions, Donors and Co-operatives the BPL population will lead a peaceful and secure life.

Lena Giesbert (2008) studied that the potential demand for insurance in the survey area seems to be very high within 95% of the non-insured households showing a general interest to buy insurance. Most of the potential clients are interested in health, death, or old age insurance. So survey study says that micro insurance providers reach a high number of clients in the survey area but mostly to the richer people. The group of poor segments in society seems to be rather limited by micro insurance.

VenkataRamanaRao (2008)'s study reveals that micro insurance is not an opportunity but a responsibility and to serve this responsibility good awareness campaign is needed. Micro insurance is offering real solutions to the billions of rural poor that raises the awareness of micro insurance as a key issue in coming future. Prof. M. ZiaulhaqMamun (2007) concluded that there are three basic models of micro insurance this is Provider model, Insurer model and Linked model. As per the study, linked model is the best suitable model for the improvement of poor‟s conditions in Bangladesh, but presently they are using Insurer model, which is less productive for poor‟s social security.

The study of Anuradha K. Rajivan (2007) reveals that planned actual steps to address constraints like poverty will help express the insurability of the poor in the future and study also shows that micro insurance is on the edge of floating take off in India. The current interest from the different stakeholders, combined with the solid movement provided by the November 2005 directive of IRDA, concrete, complementary catalytic support will enable all the stakeholders to play a more pro-active role. However, according to the insurance companies micro insurance is so far to be a proven business offer, so investment from their side is limited and efforts from few NGO‟s and MFI‟s have resulted in the introduction of micro insurance as an add-on to their existing micro credit projects & utilities for the rural poor‟s.

SarthakGaurav,Ana Paola Gomez & Acosta and Luis Flores Ballesteros (2007)'s study concludes that rural households need a dependable, useful, transparent and affordable solution for effectively deal with risk and shocks they face and micro insurance is one of the effective risk management tools for the development and addressing critical risk of the rural poor.

5) Need for the Study

Despite, awareness of the people regarding micro insurance has been growing, it is observed that, micro insurance is still suffering the advancement in comparison with the micro credit in India. Due to the linking of micro credit with micro insurance, the speculations are especially restricting the rural people to not to accept micro insurance due to negative impression on implications of micro credit on rural. The present scenario shows a significant change in the micro insurance business in India due to effective control mechanism of government, regulatory body, i.e., IRDA and the active participation of LIC and private companies. In view of the present scenario, the present paper throws light on issues related to micro insurance and the comparative analysis on performance of Micro insurance business between LIC and private companies.

6) Objectives of the Study

The study mainly emphasizes on the importance of micro insurance and the initiations taken by the government and regulatory bodies on the development of micro insurance. Further, the study provide the comparative study on the performance of LIC and private sector companies in terms of growth in micro insurance business in India.

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7) Methodology of the Study

The study is mainly restricted to secondary data. Data for the present paper is collected from the references from various articles, journals, reports generated by IRDA on micro insurance and the annual reports of IRDA, LIC and private companies for the period 2009-2013.

8) Initiations for Micro Insurance in India

International labour Organization has taken active step to safeguard the rural people especially that do not have financial capacity to pay higher premiums. This includes an inventory of micro insurance schemes in India. The inventory lists 51 schemes that are operational in India and make a number o interesting observations. These include linked with micro finance services provided by specialized institutions or non-specified organizations. For Micro Finance institutions, integrating insurance with their credit and savings activities make logical sense as it helps them reap scale economies in financial management, provides them with a captive market, and enable them to use their existing network and distribution channels to sell insurance.

A) Initiation of Regulatory Bodies on Development of Micro Insurance

Insurance Regulatory and Development Authority(IRDA) is the regulatory body governing the insurance business in India. The creation of IRDA in 1999 has given to insurance sector in India. IRDA's presence as a regulatory body given life to 23 private life insurance companies from the period 2000-2014. Further, IRDA has made mandatory for the companies to offer micro insurance to the vulnerable sections of the people mainly lives in rural villages. It has created special category of insurance policies called micro-insurance policies to promote insurance coverage especially targeted to rural and economically vulnerable sections of the society. As per the regulations made by IRDA with regard to micro insurance in the year 2005, life insurance companies operating in India must follow the following specifications with regard to micro insurance in India.

1. A general or life insurance policy with a sum assured of Rs.50,000 or less.
2. In this a general micro-insurance product may be a health insurance contract, contract covering belongings such as hut, live stock, tools or instruments or any personal accident contract which may cover an individual or group basis.
3. Where as a micro life insurance product covers a term insurance contract with or without return of premium or any endowment or health insurance contract which may be with or without an accident benefit rider and either on an individual or group basis.
4. Further, micro-insurance business should be done through the intermediaries including non-government organizations, self-help groups, micro-finance institutions.
5. There shall be allowing a maturity age of upto 60 years capping premium payment upto 45/50/55 years under different modes of premium payment, including monthly payment with the maximum term being 10/15 years.
6. Free lock cancellation during 30/15 days period Sum assured capped between Rs.5000 and Rs.50000 with a majority offer one year term some are offering 5/10 year terms under group product.

The guidelines and conditions of IRDA has result in many life insurers commenced their micro-insurance operations and many new products are being introduced every year. It has been observed that, there has been a steady growth in the design of product catering to the needs of the poor. The flexibilities provided in the regulations allow the insurers to offer composite covers or package products. Insurance companies are now offering already approved general insurance products as micro-insurance products with the approval of the authority. From the regulations of IRDA, it has become mandatory and the companies have successfully identified the thrust of micro insurance regulations which include protection of low income people in rural areas especially by offering affordable nsurance products to help cope with and recover from common risks with standardized popular insurance products adhering to certain levels of cover, premium and benefit standards. These regulations not only helped the target group, but also given momentum for Non Governmental organisations(NGOs) and Self Help Groups(SHGs) to act as agents to insurance companies in marketing the micro insurance products and have also allowed both life and non-life insurers to promote combi-micro insurance products. Further, the recent changes that have been added by IRDA has given more scope for rural people to access micro insurance from District Co-operative banks, Regional Rural banks, individual owners of Kirana shops too as micro insurance agents facilitating better penetration of micro insurance business. Further, ease of joining in micro insurance reduced the hurdles to the rural people and further reduced the on boarding costs. This has contributed for the financial inclusion drive proposed by the Government of India.

9) Comparative Analysis

With a view to understand the performance of the life insurance companies in the area of micro insurance, comparative study has been adopted to analyze the performance of both private companies operating in India and LIC. The observations are shown in the following heads.

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A) Comparative Analysis on New Business under Micro Insurance Portfolio

Table1: Statistics on individual new business achieved by LIC and private sector

Period	Insurer	Individual (premium in Lakh rupees)		Lives covered
		Policies	Premium	
2013-14	Private	561339	92.29	1291741
	LIC	2205820	8635.77	11887303
2012-13	Private	695904	1018.54	757450
	LIC	4340235	9949.05	13223872
2011-12	Private	793660	964.22	750555
	LIC	3826783	10603.49	9444349
2010-11	Private	699733	735.09	1983537
	LIC	2951235	12305.76	13275464
2009-10	Private	998809	839.78	1895143
	LIC	1985145	14982.51	14946927

Source: IRDA annual reports from 2009-10 to 2013-14

From the study on figures from the period 2009-10 to 2013-14, it is observed that, LIC has shown steady growth in terms of policies issued in the specified period. Accept for the period 2013-14, LIC has shown consistent improvement in comparison with private sector. With regard to private sector, it is clearly evident that, there is a consistent decrease in terms of no. of policies issued. Further, it is also observed that, the share of LIC in terms of premium in Lakhs is very high in comparison with Private sector. Further, it is also observed that, in terms of lives covered, it is observed that, 2009-10 period has shown highest with 1, 49, 46, 927 lives covered through insurance by LIC company in comparison with the highest achieved by private sector companies with 19, 83, 537. Overall the figures clearly shown that, LIC stood clearly on top in comparison with private sector which consist of 23 life insurance companies.

B) Comparative Analysis on Micro Insurance Agents of Life Insurers

Table 2: statistics on number of insurance agents employed by life insurance agents

S.No.	Insurer category	No. of insurance agents employed by the companies					
		2009	2010	2011	2012	2013	2014
1	Private sector	603	770	758	1251	1824	1656
2	LIC	6647	7906	9724	11456	15228	18401
Karl Pearson's correlation co-efficient: 0.928 Result: High degree of positive correlation between Performance of Private Sector and LIC.							

Source: IRDA annual reports

Insurance agents are the crucial intermediaries for the insurance companies. As insurance products are typical to sell due to inherent characteristic features in insurance, micro insurance agents are expected to play vital role especially to influence in rural market. The performance of the two sectors including LIC and private sector has shown steady growth in terms of number of insurance agents employed. For the private sector, least number of agents, i.e., 603 has been achieved for the period 2009-10 and the value has increased to highest for 2013. Despite decreasing figures that is being shown in 2014 with 1656 agents, overall, private sector has shown consistent growth in terms of training the micro insurance agents' services.

Where as LIC remained highest achiever in terms of taking the assistance of insurance agents. In 2009, LIC has employed 6647 insurance agents and this has massively increased to 18401 for the period 2013-14. Further, it is also observed that, the number of insurance agents has increased around 2.5 times for the period 2013-14 in comparison with 2009-10 statistics. Karl Pearson correlation co-efficient has shown that, both private sector and LIC is deviating in the same direction in terms of number of micro insurance agents performing their services for rural and vulnerable sector.

C) Individual Death Claims under Micro Insurance Portfolio

Table 2: Statistics on claims paid by the insurance companies

S.No.	Period	Insurer	Total claims paid	
			No. of policies	Benefit amount
1	**2009-10**	Private	2288 (97.20%)	579.57 (96.02%)
		LIC	41175 (98.83%)	17188.61 (99.19%)
2	**2010-11**	Private	4039 (99.21%)	505.23 (98.18%)
		LIC	7244 (98.96%)	1174 (98.65%)
3	**2011-12**	Private	5010(99.54%)	568.72(97.92%)
		LIC	9499 (98.79%)	1540.40 (98.87%)
4	**2012-13**	Private	3253 (98.91%	315.47 (96.55%)
		LIC	11647 (99.10%)	1954.95 (99.03%)
5	**2013-14**	Private	3562 (99.41%)	357.62 (98.94%)
		LIC	12048 (99.27%)	2005.35 (99.13%)

Source: IRDA annual reports

The figures clearly shown that, the number of policies paid to the beneficiaries in case of maturity or death clearly shown evident that, there is a massive difference between in term of number of policies paid for the claims between Private sector and LIC. Further, it has shown that, both private sector and LIC are showing more 97% of success in terms of total claims paid to the beneficiaries. Further, it is also observed that, as LIC issued more number of policies, LIC remained on top in terms of total claims paid and the benefit amount given to the beneficiaries, i.e., policy holders and their belongings. Further, it is also observed that, 2011-12 period shown highest for the private sector in terms of total clams paid with 5010 claims and 568.72 lakhs been given to the beneficiaries. Further, LIC has paid highest claims for the period 2009-10 with 41175 claims and the total benefit amount of Rs.579.57 lakhs been given to the beneficiaries. In terms of success rate both private and LIC has shown more than 97% but where as in terms of claims paid and the amount been given, LIC is on top in terms of performance.

D) Duration –Wise Settlement Of Death Claims In Micro Insurance- Individual Category

Table 3: Duration wise settlement of death claims for the period 2013-14

S.No.	Insurer	Duration					
		Within 30 Days of intimation	31 to 90 Days	91 to 180 days	181 days to 1 year	More than 1 year	Total claims settled during 2013-14
1	Private sector	3510 (98.54%)	22 (0.62%)	20 (0.56%)	1 (0.03%)	9 (0.25%)	3562 (100%)
2	LIC	12048 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)	12048 (100%)

Death wise settlement statistics reveals that, private sector companies are able to settle the claims to the beneficiaries' families with 98.5% success rate within 30 days of intimation. Whereas, LIC has shown 100% success in able to pay the death claims within 30 days of intimation of death of policy holder. Further, it is also observed that, in terms of total claims settled during 2013-14, private sector has shown the settlement of 3562 claims in comparison with 12048 claims being settled by LIC.

10) Findings & Suggestions

From the observation on comparative study on performance of private sector and LIC with regard to performance in micro insurance business, it is clearly observed that, LIC has been operating with highest number of policies being issues in comparison with private sector and further, LIC has been covering highest number of lives and it is almost 2.5 times higher than the private sector. The study on comparative analysis on micro insurance agents of life insurers is also revealed that, both LIC and privates sector has shown consistent increase in terms of taking the assistance of insurance agents. Further, the death claims under micro insurance portfolio has also shown that, LIC has served highest claims in comparison with Private sector. Further, both the sectors have shown around 98% of success in settling the claims as well as benefit amount given to beneficiaries. Finally, the study on duration wise settlement of death claims has revealed that, LIC has achieved 100% result

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in settling the claims with 30 days of intimation and private sector has shown 98.5% success in settling the death claims. Overall, the comparative study clearly revealed that, both LIC and private sector has continuously expanded their business in micro insurance segment. And further, LIC remained clearly on top in comparison with performance of 23 private life insurance companies operating in India. Overall, it is suggested that, importance of micro insurance for rural people is still need of the hour due to crores of lives need to be covered through insurance. Further, there is a lot of gap still emerge in micro insurance segment as the contribution of LIC and private sector is still less in comparison with 70% of the Indians live in rural areas.

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