Abstract

“A Study of Buying Behavior For Microinsurance”

Submitted by
Sandeep Bhardwaj

for the degree of
Doctor of Philosophy
(Faculty of Management)
Symbiosis International University
Pune

In
July, 2011

Under the guidance of
Dr. Vandana Sonwaney
Director, Symbiosis Institute of
Operations Management,
A-23, Shravan Sector Cidco Washlik
Nashik
The poor are much more exposed to the dangers from their surroundings. They live in unhealthy environment where even proper sanitation is not available. Natural calamities like floods, drought, earthquake etc. hit them the hardest. An unfortunate event like illness or death in the family can change the living standard of the poor for the worse. Cost of medical care being prohibitive, s/he consumes lots of (already diminished) resources from the family. Since they do not have adequate savings, such an episode drives them to either sell their assets or borrow money from local money lenders at high interest rates.

According to World Health Organization report (2006), out of total health expenditure in India, 73% happens through out-of-pocket spending. This is a very precarious situation as it exposes the poor household to sudden spurt in unplanned and unexpected medical expenses. So, how do we ensure that the poor, or the ‘excluded’ face this ever threatening risk to their lives and livelihood? Insurance as a concept was introduced in 19th century to do exactly that - protect the poor! But over a period of time, it became a financial tool for the rich. Affordability being one of the prime reason but exposure and access being other important reason for low penetration in this segment.

The poor are still facing the harsh economic conditions. Traditional insurance companies do not typically approach this segment because of their own rigidity. Microinsurance, on the other hand is proposed to be ‘The Solution’ to this problem. Microinsurance is a low-premium-low-claim insurance plan meant for low income group targeted at rural or social sectors. In microinsurance, the premium (and consequently, the claim) has got to be low by design as it is targeting that particular segment. The potential of microinsurance to reduce the risks in the life of the poor will go a long way to establish an equitable society. They will be freed to use their resources for better purposes.

The idea of bringing insurance to the poor emanated from the success of microfinance. Successful experiments by the Grameen Bank led by Nobel Prize winning Mohammed Yunus in Bangladesh gave the world a new vision to look at the poor.
Abstract

Microinsurance is in a way an attempt to replicate the success of the microfinance story, after all insurance planning is also a part of financial planning. Also, just like formal financial institutions, formal insurance institutions too have not shown active interest in prospecting the poor. Thus, it makes common sense to use a Microfinance-like approach to make insurance accessible to the poor.

While microinsurance benefits the poor, it is not an exercise in charity or corporate social responsibility. Companies wanting to give out a portion of their earnings as charity will not help the cause of the poor in the long run. To help sustain the interest of all stake holders, it has be a successful business model with a potential for growth. The potential for microinsurance is huge in the developing world and the market for insurance is clearly untapped. Microinsurance is a business model on its own and those who want to get into it should do so because it makes business sense in doing so. The big difference that insurance companies need to realize is that this is catering to a completely different target audience. Insurance companies need to get out of their rigidity and innovate since there are immense challenges in this market. As C K Prahlad has shown, the poor can be served and served profitably.

The utility of microinsurance as a tool to help the poor has also been understood by the government. While bringing in reforms in the insurance sector, the Insurance Development Regulatory Authority (IRDA) has made it compulsory for insurance companies to get a percentage of their business from rural and social sectors.

Though attempts have been made to understand Microinsurance from Demand side, there is a big gap in available literature. This study tried to fill this gap and understand Microinsurance from the buyer’s point of view. As suggested by Iddo Dror, the social dynamics underlying the buying process needs to be studied so that design and implementation of Microinsurance schemes can be much more effective. The present study has taken the social capital concept to much more detail and explored the behavior of the consumer as buyer or non-buyer of Microinsurance in the social context.

It becomes imperative that the success of Microinsurance as a tool for poverty reduction should involve the very people for whom the business is targeted. This study tried to understand the market from customers’ point of view so that commercial organizations, donors and government can devise product, price, place and promotion strategies accordingly.
This research studied the behavior of the consumer for purchasing Microinsurance.
Factors that have been studied as part of this research on consumer’s buying behavior of microinsurance are:

- Marketing influences of the Insurance firms
- The Socio cultural factors and
- The Personal factors

Extensive study of existing literature was carried out from various sources to understand the work done on this subject till date. A primary survey was carried out across 54 locations on 407 respondents to further explore the buying habit of the defined segment with respect to insurance.

This study has showed that Microinsurance is the need of the hour and a proper implementation will benefit everyone in the society.

The socio-cultural environment and the psychological field (personal influences) both suggest that the customer is positively inclined to buy insurance. The influence of family, reference groups and opinion leaders, social class and culture make him want to buy insurance. There is also a strong motivation, perception is not biased and attitude is positive.

In such circumstances, why is the penetration so low? The answer lies with the marketing efforts of the firm. Very little is being done by the insurance firms to reach out to this marketing segment. Regulatory obligation is not the solution to the problem. As discussed, Microinsurance has to be implemented as a business model. Reaching out to this segment will mean changing the way the insurance companies have been doing business. This too is not an impossible obstacle as any firm that reaches out to new segments or geographies, changes its business model. The product, price, place and promotion strategies have to be reworked. As this study shows, product has to be redesigned, price has to be reconsidered, distribution in terms of agent presence has to be strengthened and most importantly, promotion has to be made relevant to this segment. Microinsurance has the potential which is waiting to be realized.