1 Introduction

1.1 Background

1.2 Scope and Limitations of the Study
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Poverty eradication is at the heart of everyone in the society. Government, NGO’s, corporate world & the poor themselves want to get out of this social inequity, which makes a section of the population, vulnerable. Poverty is the barometer of a nation’s progress. A huge number of people living in poor conditions, indicates that the society is not a just society. The development of a nation has to include all sections of the population. The wealth of the nation in the hands of a few is a very risky proposition. For the country to reach its full potential, each and every section of the society has to move forward.

Protecting the poor from impact of illness and death

There are many attributes of poverty like over-population, lack of education, unemployment, crime, diseases, ill health etc. Of all the attributes of poverty, ill health & disease make the poor very vulnerable. 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.

The financial earnings for the poor occur mostly through physical labor. An unhealthy person is not a productive person. The earning potential of such individuals is thus not realized. So, the cost of illness is not just the medical expenses but the number of days that the individual is out of work. This drives them further into debt. In case of pre-mature death of the chief wage earner, the family is left to face the struggles that life brings to them.

The risk to health and life exists for everyone in the society. So, how do the ‘affording’ classes cope with the risk? Primarily, they try to mitigate the risk by insuring themselves. With insurance, they ‘ensure’ that in case an unfortunate event like death or illness strikes, the Insurance Company would pay a pre-decided amount to the individual. Thus s/he has taken care of the loss of income arising out of being unproductive. The money from insurance also
takes care of the medical expenses arising out of illness. In case of the death of the chief wage earner, the family gets a pre-decided amount thus reducing the burden of loss of income for some time.

If insurance works so well with the upper strata of the society, then why does it not work for the poor? In reality, 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, earth quake etc. hit them the hardest.

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.

It is in the interest of the entire society that we make insurance work for the poor. In fact, 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. The poor are still facing the harsh economic conditions.

**How to make Insurance work for the Poor**

Insurance works on the principle of risk pooling. Subscribers to an insurance plan pay money in the form of premium to the insurance company. The risk of an event (say death) happening to all the subscribers to an insurance plan is not likely. But, on the other hand a few may die, to whose family the insurance company needs to pay claim. So the insurance company collects premium from *all* the subscribers and pays to a few. The larger the pool of subscribers, the lesser is the risk for the insurance company. Complex statistical tools are employed to arrive at this risk for the insurance company. The insurance company tries to minimize its risk by bringing in maximum number of eligible subscribers in the pool.

Microinsurance works exactly like the above mentioned regular insurance except that the pool in their case is very small; generally it is the local community in which the scheme operates. The insurance that is directed at this segment is called microinsurance. This segment is not generally covered by traditional private insurance companies. Due to the financial limitations of the target audience, there is a constraint on the premium which can be
charged to the subscribers of a microinsurance scheme. Since the amount of
premium that can be collected is relatively low, the amount of claim that can
be awarded is also low. Thus 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.

Thus microinsurance opens up a whole new world of prospects who can
become customers, provided the products are designed with them in mind.
Many microfinance institutions offer compulsory insurance products to
safeguard their credit. Such products protect the microfinance institutions and
not the borrower. Thus these products cannot be truly defined as
microinsurance products.

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 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. (Figure 2.3)

Simultaneously it must be noted that microinsurance is just one of the tools
available to fight poverty and vulnerability. There have to be other institutions,
policies and will of the people to achieve their goals. Microinsurance on its
own is not a ‘magic pill’ that will start working wonders for the poor. For
example, no amount of insurance would be worthwhile unless there is an
availability of hospitals and health centers (with staff).

It's not hand-out 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. The poor, who are largely uninsured, may be seen by insurance companies as an inconvenience or an opportunity waiting to be explored. It depends on the point of view or the vision of the organization. But it is the same poor who are aspiring to be the next middle class in the economy and they are demanding and will demand in future, world class products serving their needs.

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. Thus, what works for the conventional business prospects, may not work for this market. Insurance companies need to study this market and bring out products that are the need of this market. Existing products, diluted for this market is not the solution. Insurance companies need to innovate as there are immense challenges in this market. As C K Prahlad has shown, the poor can be served and served profitably.

It's Win-Win for all stakeholders
The idea of bringing insurance to the poor emanated from the success of microfinance. The not-so-poor have easy access to finance through formal financial institutions. But, these formal financial systems do not lend to poor as the poor do not have any assets nor do they have any credit history. Microfinance brings to the poor the access to finance which is denied to them by formal financial systems. Microfinance institutions work with the ‘bottom of the pyramid’ to provide them with relatively cheaper loans. With access to money, they can thus use it to further their economic well being. 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.

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. In fact, the seeds of microinsurance were
laid out by microfinance institutions themselves when they started insuring the risk of the loans that they disbursed to the poor.

Life Insurance Corporation of India (LIC) has been the monopoly player in this industry for more than 50 years. It being a public sector enterprise also carried upon itself the social responsibility of reaching out to all sections of the society whether rich or poor, rural or urban. LIC has successful in penetrating the rural markets but its efforts alone are not enough. Moreover, the product, pricing and promotion have left a lot to be desired. On the other hand, private insurance players who came into existence only after 2000 have been mandated by the authority (IRDA) to reach the rural and low income population. The private players need the insight into the minds of this consumer.

This study brings out specific insights that the insurance industry will need to address this market.

The poor spend their life time savings or sell their assets or take a loan to meet health expenditure. The access to insurance will make them better equipped to face unfortunate events in their lives. Freedom from financial burden of healthcare can play an important part in their economic development. They will no longer be pushed in the cycle of debt and thus will be more productive citizens.

This study has explored the means to increase access to insurance for the poor.

Insurance companies with their huge capital base are also major financial investors. They invest in the economy thus, making capital more accessible to the industry. Thus insurance companies in turn provide the vital fuel for the economy.

This study has established ways to reach the ‘invisible’ market by the insurance companies. They can thus reach out to a much wider market and help the economy.
1.2 Scope and Limitations of the Study

The scope of the study is limited to population belonging to Rural Areas and Social Sectors as defined by IRDA Act Schedule I Section 32B and 32C.

The sample for the study is limited to rural areas in Pune district and suburban areas of Pune city only.

The scope of the study is limited to Health and Life insurance only as per IRDA definition of microinsurance.