

CHAPTER I

INTRODUCTION

1.1 Introduction

India is a fast developing country with progress in all the sectors. Agriculture, Manufacturing, Infrastructure, Services, Transport and communication, education and healthcare sectors are growing significantly. In the service sector, financial services sector plays a crucial role. The economic reforms initiated in the early 90s paved the way for the growth and opening up of the financial sector, which led to a sustained period of economic growth. The insurance industry plays a significant role in the financial service sector. The doors of insurance industry were opened up for private players in 2000. It has seen tremendous growth over the past decade with the entry of global insurance majors. India is fast emerging as one of the world's most dynamic insurance markets with significant untapped potential.

The insurance sector plays a critical role in a country's economic development. It acts as mobilizer of savings, a financial intermediary, a promoter of investment activities, a stabilizer of financial markets and a risk manager. The life insurance sector plays an important role in providing risk cover, investment and tax planning for individuals; the non-life insurance industry provides a risk cover for assets. Health insurance and pension systems are fundamental to protect individuals against the hazards of life. India, as the second-most populous nation in the world, offers significant potential for that type of insurance cover. Furthermore, fire and liability insurance are essential for corporations to safeguard infrastructure projects and investment risks. Private insurance systems complement social security systems and add value by matching risk with price.

Insurance had a very positive impact on India's economic development. The sector is gradually increasing its contribution to the country's Gross Domestic Product (GDP). In addition, insurance is driving the infrastructure sector by increasing investments each year. Further, insurance has boosted the employment

scenario in India by providing plenty of direct as well as indirect employment opportunities.

At present in India, only about 15% of the population is served by the life insurance industry (IRDA press information bureau, 2011) which means that the overall insurance industry in India is still at an early stage of development, in spite of its large population and the varied risks people face. These point out to an enormous scope for growth. The potential is even higher when the untapped rural population is considered.

The legislation for establishment of Insurance Regulatory and Development Authority (IRDA) was passed in 1999 and was a milestone in the insurance industry in India, playing a catalytic role in development of the sector.

Micro Insurance : Meaning and Definition

Micro insurance, commonly called as insurance for the poor, has recently drawn the attention of practitioners in developing countries. In common parlance, micro insurance is the provision of insurance services to low-income households, which serves as an important tool to reduce risks for the already vulnerable population. There is no unanimously accepted definition of micro insurance despite its profound use and understanding across stakeholders and others.

1.2 History of Micro Insurance in India

Historically, a few micro-insurance schemes were initiated in India, either by non-governmental organizations (NGO) or by the charitable trust hospitals. It gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well-identified social sector in the country (IRDA 2000).

A study by UNDP, GTZ and Allianz AG (2006) finds that India has the most dynamic microinsurance sector in the world. Liberalization of the economy and the insurance sector has created new opportunities for insurance to reach the vast majority of the poor, including those working in informal sector. However, the

insurance market penetration is largely driven by supply and not by demand. Available microinsurance products tend to be supply driven or compulsory in nature and more recently, driven by the quota system imposed on insurers under rural and social sector obligations (UNDP, 2007).

1.3 Significance of the Micro Insurance

Micro insurance is the protection of low -income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Micro insurance policies are specifically designed for this market in terms of low premiums, terms, coverage, and delivery to manage their risks.

Low-income clients often live in remote rural areas, requiring a different distribution channel to market insurance products; they are often illiterate and unfamiliar with the concept of insurance, requiring new approaches to both marketing and contracting, tend to face more risks than wealthier people.

Micro insurance, like regular insurance, may be offered for a wide variety of risks. These include both health risks (illness, injury, or death) and property risks (damage or loss). A wide variety of micro insurance products exist to address these risks, including crop insurance, livestock/cattle insurance, insurance for theft or fire, health insurance, term life insurance, death insurance, disability insurance, insurance for natural disasters, etc. Micro insurance is recognized as a useful tool in

1.3.1 Micro Insurance and Social Security in India

Social protection measure is often related with micro insurance for the poor and low income groups. Micro insurance can play a crucial role as a comprehensive tool to reduce poverty, inequality and vulnerability, particularly where public social protection measures are inadequate and unevenly distributed. Unfortunately, more than half of the world's total poor do not benefit from any form of social protection measures. Since micro insurance is designed for the protection of low-income people to cope with common risks, it can also strive to cover the excluded such as poor, women and workers in informal sector. In many developing countries like India, the proportion of informal workforce in total workforce is substantial and there is increasing tendency towards casual nature of labour. Under this situation, it

becomes daunting task on the part of the government to provide social security to all.

TABLE 1.1
COVERAGE OF MICRO INSURANCE POLICIES - GENERAL

Type of Cover	Minimum amount of Cover	Maximum amount of Cover	Term of Cover Min.	Term of cover Max	Minimum Age at entry	Maximum Age at entry
Term Insurance with or without return of premium Rs.	5,000	Rs.50,000	5 years	15 years	18	60
Endowment Insurance	Rs.50,000	Rs.30,000	5 years	15 years	18	60
Health Insurance Contract (Individual)	Rs.50,000	Rs.30,000	1 year	7 years	Insurer's discretion	Insurer's discretion
Health Insurance Contract (Family)	Rs.10,000	Rs30,000	1 year	7 year	Insurer's discretion	Insurer's discretion
Accident Benefit as rider	Rs.10,000	Rs.50,000	5 year	15 years	18	60

Source : IRDA report 2008-09

1.3.2 Types of micro insurance model

There are four techniques for distributing micro insurance products or services. They are a) the partner agent model b) the provider driven model c) the full service model and d) community based model (Siegel et al 2010).

In the partner agent model a licensed insurer carries the risk and the MFI or other distributors provide access to clients. In provider driven model, the provider is responsible for all the operations, design, delivery and other related services. In full service model, the scheme is in charge of everything, both design and delivery to care for the providers and to render services. In community based model developing

and delivering micro insurance products and services to the peculiar needs of an individual community.

1.4.2 MI (Life) Business in India

The micro insurance regulation (2005) has helped the growth of regulated micro insurance in India. According to the IRDA annual report 2012-13, 50.36 lakhs of Individual MI (life) policies were sold in India in the year 2012-13. The cumulative premium collected from individual MI (life) policies was ` 10,967.59 lakhs. After the eight years of MI regulations, there are clear trends in the way, business is conducted. Since the study is focusing only on the individual category MI policies, the data provided here with, represents only individual MI policies of LIC of India. Group category policies are not considered.

Table 1.3

MI Policies Sales- Individual Category

Year	LIC	Private	No of policies
			Total
2007-08	8,54,615	83,153	9,37,768
2008-09	15,41,218	6,10,851	21,52,069
2009-10	19,85,145	9,98,809	29,83,954
2010-11	29,51,235	6,99,733	36,50,968
2011-12	38,26,783	7,93,660	46,20,443
2012-13	43,40,235	6,95,904	50,36,139

Sources : IRDA report (2007 – 2013)

Table 1.4

MI New business Premium Individual category

Year	LIC(`)	Private(`)	Premium ` in lakhs
			Total(`)
2007-08	1,613.36	209.74	1,823.10
2008-09	3118.74	537.81	3,656.55
2009-10	14,982.51	839.78	15,822.29
2010-11	12,305.76	735.09	13,040.85
2011-12	10,603.49	964.22	11,567.71
2012-13	9,949.05	1,018.54	10,967.59

Sources : IRDA report (2007 – 2013)

1.6 Statement of the Problem

Micro insurance is specifically designed for the protection of low -income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Generally MI providers do not create products that market wants, appropriate type of MI policies required by low income people. They are creating the products to fulfil the requirements of IRDA.

To assess the intensity of the problems and to find a appropriate practical solution to improve the performance of LIC MI, a research study is very much essential. Hence this research study on **“Perception and Satisfaction Towards LIC’S Micro Insurance Policies Among Policy Holders in Coimbatore district – An Empirical Study”** was carried out in Coimbatore district during 2010-13.

1.7 Objectives of the Study

The following are the objectives of the research study

1. To find out the level of awareness about LIC MI among the policyholders in Coimbatore District.
2. To understand the perception of target groups about LIC micro insurance
3. To assess the level of satisfaction of LIC MI policy holders in Coimbatore District.
4. To study the role of intermediaries in the performance of LIC micro insurance
5. To identify the specific problems relating to micro insurance and to offer suggestions.

1.8 Significance of the Study

The contribution of insurance to an economy’s growth and efficiency is not the only entry point into its role in development. The contribution of insurance to

poverty alleviation and the welfare of the poor is also potentially of considerable importance, although the quantitative evidence on this point is not on very firm grounding. In the area of MI, a large number of studies have been conducted to analyze the performance of MI intermediaries, perception of MI policyholders towards MI and to analyze the policy holder's satisfaction. LIC is the giant in the life insurance sector and also in the MI sector. The number of policies sold under LIC's MI individual category from the year 2007-08 to 2012-13 has been in increasing trend. Even though there is lot of pit falls in the MI market like unawareness about MI, low yield, channel of premium collection, method of premium payment, payment of premiums by MI intermediaries to LIC, large number of discontinuance of policies and the simple performance of MI Intermediaries. Meanwhile, there is no denial of the fact that the earlier research studies related to LIC's MI policyholders and its MI intermediaries are not focused on serious factors.

1.9 Scope of the Study

The study focuses on the Awareness of the LIC MI Policy holders, Perception of MI policy holders, Level of Satisfaction of LIC MI policy holders, Role of LIC MI intermediaries and, the underlying problems of LIC MI market in Coimbatore district.

After the intervention of IRDA in 2005, it has become a great responsibility to the micro insurance providers to foster the fast growth of micro insurance market.

1.11 Limitations

- 1) The study is restricted to LIC's MI policy holders and its Intermediaries in Coimbatore district only due to time constraint.
- 2) Only individual category MI policies of LIC are considered for research, the Group category MI policies of LIC are not taken into consideration.