

## INTRODUCTION

India's most striking feature is its diversity. The country's population of about 1.24 billion people is composed of several ethnic groups, speaking over 1000 languages and following six major religions. With an annual population growth rate of 1.3 per cent, India is projected to become the most populous country in the world by 2035. More than 400 million people in India still live in poverty, accounting for one third of the world's poor. Poverty is most prevalent in rural areas, with about 26 per cent of the urban population. Although the country saw strong economic growth in past years, poverty levels did not decline proportionately and the overall rate of growth has decreased recently. Poor rural people continue to live with inadequate physical and social infrastructure, poor access to service and a highly stratified and hierarchical social structure, characterized by inequalities in assets, status and power (IFAD, 2013).

Risk and vulnerability is a main component of daily life for poor people. Life is risky for the poor in developing countries. India is enjoying rapid growth and benefits from a young population. Its middleclass is growing rapidly but 70 percent of the population is still rural, often very poor and handicapped by poor health and health services and with low literacy rates. Although the type of risks faced by the poor such as death, illness, injury and accident, are no different from those faced by others, they are more vulnerable to such risks because of their economic circumstance. Rural people often work hard to generate income and build their assets to get out of scarcity. Households follow a variety of coping strategies to manage different factors that are risky and affect benefit losses. But many informal risk coping strategies are risky that affect benefit losses. For this reason, microfinance is considered as a proven strategy of poverty improvement. To cope with risk and vulnerability, microinsurance should therefore provide greater economic and psychological security to the rural households (Singh and Gangal, 2011).

The Government of India released a new data on July, 2015 which showed that rural household's socio economic and caste census. The survey done across 17.91 crore rural families, has various data sets on households regarding various aspects of their socio-economic status includes housing, land-holding/landlessness, educational status, status of women, SC/ST households, incomes, etc.,

**Table 1**  
**Rural Households in India**

Criteria	All households	SC households (18.46%)	ST Households (10.97%)	Women headed (12.83%)	HH with Disabled person (6.09%)
No. of Households (in crores)	17.92	3.31	1.97	2.30	1.09
<b>Main Source of Income (in percentage)</b>					
Manual casual labour	51	12.42	5.63	6.75	3.15
Cultivation	30	3.39	4.16	3.05	1.85
<b>Salaried Households (in percentage)</b>					
Government Jobs	5.0	3.96	4.38	4.66	4.45
Public Jobs	1.11	0.93	0.58	1	0.92
Private Jobs	3.57	2.42	1.48	3.43	2.43
<b>Paying Income Tax</b>	4.58	3.49	3.34	4.08	3.91
<b>House ownership</b>	94	17.7	10.5	12.09	0
<b>House size – ½ dwelling rooms</b>	54	11.28	4.83	6.93	3.29
<b>Possession of Assets (in percentage)</b>					
2 / 3 / 4 wheeler / fishing boat	20.69	12.59	9.79	15.68	15.8
Refrigerator	11.04	6.49	3.43	11.25	8.06
<b>Landless Households</b>	56	70	50	64	54

Source: Socio Economic and Caste Census 2011 (Rural) Data

Table 1 reveals the facts about the rural households in India. Out of 17.91 crore rural households surveyed, 51 per cent of families have manual casual labour as main source of income followed by 30 per cent of them depends on agricultural income and only 9.7 per cent have salaried job. Out of the salaried households, five per cent work in Government sector, 1.1 per cent in Public sector and 3.6 per cent in Private sector. Only 4.6 per cent of the households surveyed paid income tax or professional tax. A high 74.5 per cent of the households said the monthly income of their highest earning member is less than Rs. 5,000. Of the total population of 88.4 crore surveyed, 35.7 percent were illiterates. As many as 44 percent families own land and 56 percent have no land. An enormous 87.2 percent of the families surveyed were headed by male and just 12.8 percent were headed by a female. It is identified from the table that the rural households should be focused and aware on microinsurance.

### **1.1 Microinsurance**

Microinsurance has been considered as a social protection product and an additional financial tool to help people with poverty coping with the risks and vulnerability they face in everyday life (Hasan, 2007). Insurance is a device that uses risk pooling to compensate individual and groups that are adversely affected by a specific risk or event (Cohen and Sebstad, 2003). Microinsurance is a subset of insurance that provides social security and plays the role of social security net to the rural households.

Microinsurance is designed for the protection of low income group with reasonable insurance products to help them recover from common risks. It is a market based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress (UNDP, GTZ and Allianz AG, 2006)

Microinsurance is literally defined by the Insurance Regulatory and Development Authority (IRDA) as “insurance with low premiums and low caps/coverage”. It further distinguishes itself from normal insurance by their distinctively designed features in terms of clients, distribution models, policies, risk control and handling claim. The aim of microinsurance is to offer “a vital

financial service to low income households by developing an appropriate business model that enables the rural households to be profitable or sustainable market segment for commercial or cooperative insurers” (Butt, 2010).

Consultative Group to Assist the Poor (CGAP), defined microinsurance as “the protection of low income people against specific perils in exchange for regular premium payments proportionate to the livelihood and the cost of the risk provided”. Microinsurance is the process of delivering and servicing relevant and affordable insurance products to the disadvantage of the socio-economic classes that is the lower class.

Social protection measure is often related with microinsurance for the poor and low income group. Microinsurance can play a vital role as a comprehensive tool to reduce poverty, inequality and vulnerability, particularly where public social protection measures are inadequate and unevenly distributed (Sahu, 2010).

With inherent limitation of the existing social protection measures in the country, there is also a high demand to fighting the adverse impacts of natural disaster such as drought, floods and cyclone etc. Though India has exhibited with a series of pro-poor anti poverty measures oriented towards reduction of risks and susceptibility, microinsurance can contribute indirectly as it often exclude covariant risks from their portfolio (Sahu, 2010)

## **1.2 Development of Microinsurance in India**

In 1956, the Indian Government expressed its concern towards the disadvantaged in its country for the first time and it established the Life Insurance Corporation Act. With this Act the Government nationalized the life insurance in India, so that it could spread more widely and penetrate the rural areas. The aim of the Act is to provide sufficient finance cover to all the insurable persons in the country. In 1972 the Indian Government also nationalized the non-life insurance sector, with the same objectives as in 1956. However, as the economy was emerging, the Government realized that opening the insurance market could help to meet its growing insurance needs. In 1999 the Insurance Regulatory and Development Authority (IRDA) Act

liberated the Indian insurance market; which not only attracted foreign insurance companies to enter the market but also international MFIs and NGOs.

India is one of the foremost countries in the world to have introduced microinsurance regulation. In India, microinsurance schemes were initiated by non – governmental organisations and trust hospitals. The concept gained impetus partially due to microfinance activity and somewhat due to the regulations of IRDA which made it mandatory for all insurance companies to carry out a certain percentage of their business in rural area (Ahuja and Rajeev, 2005). 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 focused by supply and not by demand (UNDP, GTZ and Allianz AG, 2006).

Insurance Regulatory and Development Authority (IRDA) was established in the year 2000. In August 2004, IRDA circulated a concept paper on the need for developing microinsurance in India. In November 2005, IRDA issued detailed guidelines on microinsurance. These guidelines defined microinsurance products, agents and enabled SHGs, MFIs and NGOs to allocate microinsurance products on behalf of the insurance companies. IRDA regulations bill was a milestone in the development of microinsurance in India.

In India, microinsurance had remained as a secondary choice for financial inclusion. It was found from pertinent literatures that one-fourth of the hospitalized poor people fell into poverty as they have to sell or pledge their assets to meet the high costs of healthcare (Shetty and Veerashekharappa, 2009). Life Insurance Corporation Act, 1956, enunciated the concern of the Government towards the disadvantaged, low income population especially in rural areas.

The Government of India constituted a consultative group on microinsurance sector in the year 2003 to examine the possibilities of

implementing schemes targeting the rural and urban poor people with specific reference to outreach, pricing, products and servicing.

The social responsibility means number of individuals to be covered by both life and non life insurers in certain identified section of the society. The rural responsibility means minimum percentage of total policies written by life insurance companies and for general insurance companies, these responsibilities are in terms of percentage of total gross premium collected (Singh and Gangal, 2011).

The insurance companies approached NGOs and MFIs for supporting insurance activities in rural areas. MFIs were already leading in giving loans and promoting insurance amongst rural population. The main reason for appointing MFI as agency is due to the absence of an agency network for insurance company and the need for a trusted institution to penetrate into rural market.

United Nations Development Programme (UNDP) report estimated that the potential market size for microinsurance in India is expected to grow as microinsurance becomes better understood by the people who would be able to access the benefits of microinsurance (UNDP, 2011).

### **1.3 IRDA's Regulations on Microinsurance**

India is one of the developing countries in the world which has a special microinsurance Act that regulates the suppliers through its special agency for insurance regulation – the Insurance Regulatory and Development Authority (IRDA). In December 1999, the Indian parliament passed the Insurance Regulatory and Development Bill which provided that any microinsurance product issued as per regulations will qualify for rural and social sector obligations of the insurer. As per the Bill passed, insurance companies are obliged to conduct a certain percentage of their business in rural areas or with marginalized groups. The obligation to enroll rural customer and form socially marginally group has created opportunities for partnership between NGOs and insurance providers. Recognizing NGOs, MFIs and SHGs as agents of microinsurance by the IRDA regulations, the rural insurance penetration has increased. In addition, the IRDA regulations

prescribe that these intermediary institutions as microinsurance agents should have a clean tract record and by-laws with relevant aims, objectives and accountability. About, 9,250 microinsurance agencies were registered with IRDA by 31<sup>st</sup> March 2012 (NABARD, 2012)

Building on the recommendations of the consultative group, IRDA notified Microinsurance Regulations with the following key features to promote and regulate microinsurance products. The regulations focus on the direction, design and delivery of the products:

- A tie-up between life and non life insurance players for integration of product to address risks to the individual, his family, his assets and habitat,
- Monitoring product design through “file and use”,
- Breakthrough in distribution channels with inclusion of NGOs, SHGs, MFIs and PACS to provide microinsurance, with appropriate compensation for their services,
- Enlarged servicing activities entrusted to microinsurance agents,
- Issue of policy documents in simple vernacular language.

Another striking feature of the regulation is the provision of extending coverage to the family as a unit as against the system of insurance coverage to individual lives. The insurer has to take IRDA’s prior approval for launching microinsurance products through the “file and use” mode.

At the time of opening of the insurance sector, IRDA had decided that all insurers, including the new entrants, should fulfill certain obligations to spread insurance in rural areas. Specific regulations have been issued prescribing targets in terms of quantum of policies to be written in the rural sector consistent with the years of their operations and also certain quantified target for coverage of lives in the social sector. With a view to encouraging the insurers to meet these obligations and give a fillip to microinsurance products, IRDA also decided that all microinsurance products may be reckoned for the purpose of fulfilment of the social obligation and where such policy are issued in rural area they could also be reckoned for rural sector obligation. IRDA has also proposed to benchmark for the obligations with reference to quantified

limits of sums assured under microinsurance policies. The approach would ensure the faster development of the microinsurance market and take the insurance penetration to rural areas.

The committee wholly subscribes to the initiatives of IRDA in widening outreach of microinsurance products to the rural poor and recommends that the same may be implemented with renewed zeal as providing microinsurance is a necessary and essential adjunct in the inclusive process. The IRDA should continue to impose Rural and Social Sector Obligations but there should be no unreasonable caps on premiums and channel commissions. This is in line with the de-trifling process in other sectors also. In the long run, it is only when the insurance companies find it profitable to serve this market that they will do so on their own.

“Development of the microinsurance sector needs a longer-term perspective that combines responsiveness to client priorities with market development and financial viability,” The use of Information and Communications Technology (ICT), in this process could also help to cut down on costs to rural microinsurance clients. Current coverage tends to be far more common for life insurance rather than non-life insurance for livestock, health and crops, confirming that most non-life products need to be “sold.”

#### **1.4 Statement of the Problem**

Rural persons live in unsafe environments, susceptible to numerous perils, including illness, accidental death, disability and loss of property due to theft or fire, agricultural losses and disasters of both the natural and man-made varieties. Susceptibility to risk and its associated shocks are the key aspects of poverty. It is now recognized that access to credit or savings programme alone does not eliminate the susceptibility of the poor. Microinsurance is considered by development practitioners as one of the financial services to help the poor with risk-coping (Sahu, 2009).

With higher economic growth and expansion of income earning prospect more intensive pro-poor policy can be created with good environment for microinsurance sector in India. Increased policy attention

towards rural and agricultural credit and financial services progress the growth of micro finance sector are the potential factors for achieving the growth of microinsurance sector.

Microinsurance aims at reducing vulnerability of low income households and individuals. Vulnerable households are those who are unable to manage unexpected risks. The risks are important if household exposure is high, risk is severe and if several high-stress coping mechanisms are used to generate lump sum money. The microinsurance products need to be more effective than formal and informal mechanisms which are used to date by the target group.

Demand research can explore what rural people know about insurance, how they find out, and whether it is correct or incorrect. It can reveal whether their attitude are open and positive, or negative and mistrusting and also highlights the microinsurance product offered by the institution and the demand for the same. Hence a study on “Risk Management and Demand for Microinsurance among Rural Households” is carried out.

### **1.5 Research Questions**

The researcher is intended to answer the following questions.

1. What are the most important risks for rural households in terms of their financial pressure?
2. How can current insurance knowledge, usage and attitude influence the rural households?
3. What are the biggest gaps in risk management strategies that can be replaced by microinsurance?
4. How microinsurance products feature benefits to the rural households?
5. Whether the rural households are willing to buy for microinsurance in the future?

### **1.6 Objectives of the Study**

The following are the objectives of the study:

- To analyse the factors that influence the risk and risk management strategies.
- To determine the awareness of microinsurance products.
- To analyse the factors motivate to buy the microinsurance.
- To identify the features of different microinsurance products.
- To segment the market for microinsurance in the rural area.

### **1.7 Hypotheses of the Study**

Based on the objectives framed following hypotheses are constructed.

- There is no association between the risk of the rural households and coping mechanism.
- There is no significant difference between socio-economic factors and awareness on insurance among rural households.
- Motivational factor do not influences the rural households on investment in microinsurance.
- There is no relationship between investment in microinsurance and features of microinsurance.
- There is no association between the knowledge of the respondents and investment in microinsurance products.
- There is no association between the respondent's perception on investment and investment in microinsurance products.

### **1.8 Scope of the Study**

The present study takes into account five blocks. This study covered the rural households managing their risk and risk management strategies. The study has included the awareness of different microinsurance products and to study the reasons for investing in microinsurance products and the motivational factors to invest in microinsurance products. The study focused on the factor which determines the demand for microinsurance products that includes the investment in different microinsurance products, product concepts and usage of rural households and knowledge. To determine the size of the market for the group within access frontier for different types of

microinsurance products to develop marketing strategies to reach those within access frontier now and in future.

### **1.9 Limitation of the Study**

The study is prone to some limitations which are mentioned below:

- 1) The present study focused only on the rural households of Coimbatore District.
- 2) The analysis was based on the data collected with the help of the interview schedule and its might have its own limitation.
- 3) The opinion of the respondents may change from time to time and the results of the study may not be similar for all time and may not be the same for other division in the state. Therefore, the results of the study may not be generalised to other place.

### **1.10 Chapter Scheme**

#### **Chapter 1: Introduction**

This chapter deals with introduction of research, microinsurance in India, development of microinsurance in India, IRDAs Regulations in microinsurance, statement of the problem, research questions, objectives, hypotheses, scope and limitations of the study.

#### **Chapter 2: Review of Literature**

This chapter deals with various related studies focuses the research problem.

#### **Chapter 3: Methodology**

This chapter covers methodological nature of research, selection of the study area, selection of the sample units, tools for collection of data and tools for analysis of data.

#### **Chapter 4: Results and Discussion**

This chapter deals with result of data analysis and specific inference drawn from the results.

#### **Chapter 5: Summary and Conclusion**

This chapter deals with summary of findings, conclusion and presents useful recommendation.