ABSTRACT
The most vulnerable rural population - in particular, women - are largely excluded from the insurance market. This only amplifies the felt need of this segment for protection of their lives / income-generating assets against various perils. Insurance Development and Regulatory Authority (IRDA) and Pension Fund Regulatory and Development Authority (PFRDA) have suggested that if at all pension and insurance are defined as “micro finance services”. With a view to encouraging the insurers to meet these obligations and give a fillip to micro-insurance products, IRDA also decided that all micro-insurance products may be reckoned for the purpose of fulfillment 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 the above obligations with reference to quantified limits of sums assured under micro-insurance policies in rural India. This paper refers to the perspectives in micro insurance towards SHGs in rural India and different rural insurance and models. And it also shows the implementation of micro insurance programs/regulations of IRDA.

Keywords: Micro Insurance Perspectives; Models; Programs; Regulations Rural India

INTRODUCTION
Micro Insurance: It refers to as an insurance that is accessed by the low-income population, providing by a variety of different entities, but run in accordance with generally accepted insurance practices. It enables the entrepreneurs to concentrate more on developing their business while mitigating other risks affecting. The most vulnerable rural population - in particular, women - are largely excluded from the insurance market. This only amplifies the felt need of this segment for protection of their lives / income-generating assets against various perils. At present, the Personal Accident Insurance Scheme (PAIS) which is being provided as a bundled offering along with the Kisan Credit Card (KCC) Scheme and the Rashtriya Krishi Bima Yojana (RKBY) for insuring crops, are, probably, the only borrowed-linked risk mitigation mechanisms available to rural households. Further, many State Governments are offering health insurance facilities to the rural poor (eg., Yeshaswini Scheme of the Government of Karnataka) which have also generated considerable acceptance and awareness about insurance products in the rural areas.

The Committee note that Clause 2(1)(j) (C) allows the MFIs to provide pension and insurance services. This has invited objections from Insurance Development and Regulatory Authority (IRDA) which has stated that this provision would disturb the regulatory environment. However, the regulators namely, IRDA and Pension Fund Regulatory and Development Authority (PFRDA) have suggested that if at all pension and insurance are defined as “micro finance services” under the Bill; their regulation should be left to the respective regulators which should be expressly stated in the Bill. The Ministry of Finance has not accepted the suggestion. Further, the Committee note that some stakeholders have also expressed apprehension on the very merits of including these services within the ambit of MFIs. Therefore, the Ministry should address these concerns appropriately and
reformulate their proposals. IRDA regulations on micro-insurance have some restrictive aspects, they have also a number of positive features. Its most innovative feature is legally recognizing NGOs, MFIs and SHGs as “micro-insurance agents.” This has the potential of significantly increasing rural insurance penetration. Many commercial banks have partnered foreign insurance companies for providing life insurance policies. Thus, banking outlets (which number close to 70,000) and more than 1 lakh cooperative societies could provide the needed outreach to purvey micro-insurance facilities, without any further addition to transaction costs.

**OBJECTIVES OF THE STUDY**

The objectives of the study are based on the micro-insurance in rural India are:

1. To study the Perspective in micro insurance towards SHGs
2. To analysis the Products and micro-insurance models for Rural insurance in India
3. To formulate strategies for effective implementation of Micro-Insurance programmes
4. To evaluate the IRDA’s Regulations on Micro-Insurance

**Perspective in Micro Insurance towards SHGs**

Death and disability insurance covering scholarship to the children of the woman of the members enrolled into scheme: The members enrolled in to the scheme those who are below 59 years of age will automatically secure coverage under Janasree Bim Yojana, Life Insurance Scheme, without having to pay any premium separately. In the event of natural death of the members, the nominee is entitled to Rs. 30,000/- or Rs. 75,000/- in case of accident death. In case of permanent disability or partial disability the member is entitled to receive scholarship amount of Rs. 1,200/-payable in two half yearly instalments.

**Fund Management**

The Nodal Implementation Agency will appoint the Life Insurance Corporation of India as Fund Manager. The contributions received shall be transferred to the Fund Manager regularly for investing wisely. The Fund Manager will give half yearly statement of account to every member.

**Policy Issue**

For struggling families living in poverty, economic shocks can be devastating. An unexpected home or equipment repair, loss of income, or ailing family member can drain money needed for food and housing. Health shocks are among the largest and least predictable forms of uncertainty that a poor family can face. In developing countries, high levels of poverty and poor health conditions have the potential to make health shocks all the more frequent and dangerous. Formal health insurance has the potential to mitigate the impact of health shocks.

**Context of the Evaluation**

The more economically progressive states in India, but much of the rural population still lives in poverty. Despite the burden imposed by health shocks, only 1 percent of households in rural India are estimated to have formal health insurance policies. There is little systematic evidence on effective distribution networks or the benefits of access to affordable health insurance.

**Leveraging Existing Network For Micro-Insurance**

It would be difficult for the insurers to establish a vast network for distribution of micro-insurance products. They need to utilize existing Government organizations, banks, MFIs, NGOs and SHGs to increase the outreach of micro insurance to the poor. The advantages of these entities are that they find greater acceptability among the financially excluded, and with a better understanding of their needs are well equipped to advise them on the choice of products. In India with a vast rural population characterized by challenges and complexities, it makes sense to latch on to an existing mechanism
operating in these segments to lower costs and to help the insurer to leverage on the faith already generated by the entity. Hence it would be prudent to choose a partner-agent model for delivery where the insurer underwrites the risk and the distribution is handled by an existing intermediary. This model keeps the cost of insurance attractive enough for the poor to enter and remain in its fold even while addressing the concern of the insurers about the low returns of micro-insurance.

**Linking Micro-Finance with Micro-Insurance**

It is becoming increasingly clear that micro-insurance needs a further push and guidance from the Regulator as well as the Government. The Committee concurs with the view that offering microcredit without micro-insurance is bad financial behaviour, as it is the poor who suffer on account of such bad product design. There is, therefore, a need to emphasise linking of microcredit with micro-insurance. The micro-insurance with micro-finance makes good business sense. Further, as it helps in bringing down the inherent risk cost of lending, the Committee feels that NABARD should be regularly involved in issues relating to rural and micro Insurance to leverage on its experience of being a catalyst in the field of micro-credit.

**Products for Rural Insurance in India**

Protect the agriculture business in the best manner possible by opting for Rural Insurance. India’s heart beats in the rural segment where over 70% of our population lives and toils to enrich our country. The rural insurance as more than a mere social responsibility, and have worked to offer protection covers custom-designed to suit the needs of rural India. Some of the products for the rural segment are hereunder.

1. **Health Insurance:** The affordable and customized family floater health insurance cover to rural population of the country through various channels like MFIs, NGOs and also organizations involved in Financial Inclusions. In case of Health Insurance, penetration level is even much lower than Life Insurance. The two categories viz., Critical Illness and Hospitalisation are the main product segments. Some State Governments have developed Health Insurance schemes which are still in very early stages. The Committee has observed that mutual health insurance models have advantages of its members performing a number of roles such as awareness creation, marketing, enrolment, premium collection, claims processing, monitoring, etc. Under this arrangement, the costs of offering small-ticket health insurance gets significantly reduced. The high covariant risks such as epidemics will have to be taken care of by a mutual entity taking reinsurance for such risks. IRDA has also suggested that the capital requirements for stand-alone health insurance companies be reduced to Rs.50 crore as against Rs.100 crore for Life Insurance Companies and the Committee endorses the same.

2. **Rashtriya Swasthya Bima Yojana (RSBY) scheme:** Central-State Govt's joint social healthcare scheme for providing Health Insurance for BPL families across the country, wherein more than 32 Lakh families which are below poverty line (BPL) across various states like Gujarat, Maharashtra, Jharkhand, Bihar and West Bengal have been covered and benefited.

3. **Crop Insurance:** This is a very important risk mitigation arrangement for small and marginal farmers. However, the present scheme suffers from very serious implementation problems. Leaving the discretion to notify crops/regions to state governments has contributed to adverse selection. Further, claims settlement based on yield estimation has been cumbersome and the sampling area for crop cutting experiments is very large. An alternative model based on weather insurance has been attempted. Farmers are happier with it because of quick settlements. On the down side premium rates are very high. Further, due to low density of weather stations, the problem of large area averaging is a critical factor even with weather insurance. To counter this, there is a need for having a large number of smaller weather stations. The Committee recommends that policies be evolved to make crop insurance universal, viz., applicable to all crops/regions and pricing actuarial.
4. Personal Accident Insurance: Personal Accident Insurance covering Death, Permanent and Partial Total Disability along with hospitalization cash benefits to cover the rural populace.

5. Critical Illness Insurance: To cater to the treatment cost/financial sustainability in case of listed critical illness is contracted.

6. Tractor / Commercial Vehicle / Motor / Farm Inputs Insurance: A product specifically designed for catering to rural requirement. This could cover a wide range including residential buildings, farm and nonfarm equipments and vehicles. For poor households, insurance for a hut, irrigation pump, a handloom or a bullock cart could have considerable economic significance. Products are available but penetration levels are negligible. The main constraint seems to be lack of distribution channels appropriate for lower income groups. The Committee again recommends that involving local NGOs, MFIs, SHGs, etc. as distribution channels as well as facilitators of claim settlements would be quite useful.

7. Micro Insurance: The various Micro Finance organizations working in the hinterland collaborating with SHGs (Self Help Groups) who provide insurance advisory services to the rural customers at their doorstep.

8. Combined / Composite Product Insurance: A package policy offering a one stop solution for various protections needs of rural families which includes Health Insurance, Accidental Insurance, Dwelling Insurance etc. is offered under a single policy.

9. Cattle Insurance: An insurance policy to provide insurance to cattle-breeding community of rural India to cover their milch-Cows / Buffaloes, Calves / Heifers, Stud Bulls & Bullocks etc; thus providing their prime livelihood source a financial protection in case of death or disability caused to cattle due to accident or disease.

10. Livestock Insurance: As in Life Insurance, the problem lies in the process of enrollment and claims settlement. Several pilots indicate that the involvement of local organizations likes SHGs, dairy co-operatives, NGOs and MFIs improves the quality of service, reduces false claims and expedites claims settlement. The Committee recommends that these experiences be studied and adopted by insurance companies.

**Micro-Insurance Models**

A key concern in the pricing of an insurance product is the element of cost of acquisition and its delivery. Obviously, the delivery costs have to be contained to keep the cost of insurance sufficiently low to attract the poor and to incentivise the insurer to venture into this segment viewing it as a genuine market opportunity. The Committee studied four different models for delivering micro-insurance services to the targeted clientele:

1. Partner - Agent Model: Insurers utilize MFIs’ delivery mechanism to provide sales and basic services to clients. There is no risk and limited administrative burden for MFIs.

2. Full Service Model: The provider is responsible for all aspects of product design, sales, servicing, and claims assessment. The insurers are responsible for all insurance-related costs and losses and they retain all profits.

3. Community Based Model: The policy holders own and manage the insurance program, and negotiate with external health care providers.

4. Provider Model: The service provider and the insurer are the same, i.e., hospitals or doctors offer policies to individuals or groups.

**Implementation of Micro-Insurance Programmes**

The Committee has identified major areas for formulation of strategies for effective Implement of micro-insurance programmes. These are explained in the following:
1. Human Resources Requirement and Training: As indicated earlier, the UNDP report states that there is a huge untapped market – of around 950 million people and nearly US$2 billion – for insurance in India. IRDA may consider putting in place an appropriate institutional structure for deciding on service packages including premia and formulating strategies for effective promotion of micro insurance. There is also a felt need for development, of both full-time and part-time staff, thru’ effective training in insurance marketing and servicing concepts.

2. Operations and Systems: To address the requirements of the huge market potential available, appropriate systems should be evolved for tracking client information, either manually or using technology. While a technology platform may take time for setting up, in the long-run, the same will be cost-effective and reliable. Similarly, the procedures for premium payments, claims and other services should be formalized along with increased customization of products to stimulate demand.

3. Development of Adequate Feedback Mechanism: Keeping in view the diverse nature of market requirements, suitable mechanisms to collect market intelligence, collating and interpretation of the same, in a formally structured manner, is important for product development and process refinement. Insurance companies should go beyond devising new products to improving their processes for building awareness, marketing enrollment, premium collection, claim settlement and renewal. For this they need use innovative channels such as business correspondents, SHGs, NGOs and MFIs as also cooperatives and mutual associations. Further, the use of technology such as mobile phones and ATMs for premium collection should be encouraged to keep transaction costs low.

4. Development of Data Base: High costs of penetration and acquisition often leads to higher pricing of products, thereby impacting client outreach and market depth. Building up historical data base on risk profiles, claims, settlement ratios, etc., will facilitate in better pricing of products, based on actual rather than presumed risks. Besides enabling cost reduction, warehousing of such data will make the market more transparent for entry of more operators. The IRDA and the Government should help in provision of data such as human mortality and morbidity, weather parameters and livestock mortality/morbidity, on a timely, large sample and regular basis. This will lead to finer pricing on actuarial basis and eventually cut costs of insurance.

5. Consumer Education, Marketing and Grievance Handling: The micro-insurance sector is unique in the sense that there is an ongoing challenge to explain the concept and benefits to the insured. Creating awareness thru’ use of pictorial posters, local folk arts and street theatres might be useful to explain the mechanisms of insurance. Local community-based organizations could organize premium collections, as they have better access to the local people. To make it more acceptable to the people, micro-insurance products, apart from covering only risks, should also provide an opportunity for providing long term savings (endowment). Micro-insurance in India is a new concept and in the real sense, is yet to be tested for its conduciveness to the needs of the target segment. The most significant constraint is the lack of base line data on potential claims that can help the insurers to design or price products. The consumption and saving patterns are also a critical aid to assess the insurance needs. The issue of moral hazard and adverse selection is a matter of concern for the insurer. Above all, spreading awareness among this segment of insurable population and capacity building of the delivery organizations are major challenges.

6. Product Development / Process Re-engineering: Customised product development to suit the varying requirements of the local populace is a pre-requisite. The processes / procedures are to be streamlined and simplified, to facilitate easier access for the rural poor. Information should be made available in vernacular for easy understanding of the terms on offer.
7. **Building Data Base:** With a view to bringing down product costs, building data base of claim histories, risk profiles, etc., are to be undertaken. This will also help in aligning pricing decisions with actuarial calculations.

8. **Using Existing Infrastructure:** Micro-insurance service providers can use the existing banking infrastructure and also adopt the agency-mode (NGOs, SHGs, NBFCs, etc.) for providing services, thereby leveraging on the existing physical branch network and reducing costs.

9. **Use of Technology:** The technology platforms being envisioned to facilitate financial inclusion should enable micro-insurance transactions also. Towards this end, there is a need to integrate the various modules - savings, credit, insurance, etc. - into the technology framework so that holistic inclusive efforts are possible in the rural areas.

**IRDA’s Regulations on Micro-Insurance**

Building on the recommendations of the consultative group, IRDA notified Micro-Insurance Regulations on 10th November 2005 with the following key features to promote and regulate micro-insurance products. The regulations focus on the direction, design and delivery of the products:

1. **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,**

2. **Monitoring product design through “file and use”,**

3. **Breakthrough in distribution channels with inclusion of NGOs, SHGs, MFI's and PACS to provide micro-insurance, with appropriate compensation for their services,**

4. **Enlarged servicing activities entrusted to micro-insurance agents,**

5. **Issue of policy documents in simple vernacular language.**

Currently the IRDA regulations do not favor composite insurance (i.e., life and non-life insurances by the same company) and also limit the agency tie-up to one life and one non-life insurer. However, in recognition of the uniqueness of micro102 insurance, these regulations enable insurance, these regulations enable life and non-life companies to tie-up for offering a combined policy in rural areas. Further, the IRDA has allowed insurers to issue policies with a maximum cover of Rs. 50,000 for general and life insurance under these regulations. The regulations have also eased the norms for entry of agents relating to training and pre-recruitment examination. As an attraction, remuneration to agents has also been leveled across the term of the policy. 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 maximum cover will be Rs. 30,000 per annum for a dwelling and contents or livestock or tools or implements or other named assets or crop insurance against all perils. For individual and group health insurance, the maximum cover is Rs. 30,000 per annum per individual. For personal accident policies the maximum Rs. 50,000 per annum and is open to 5-70 age group. In case of life micro-insurance products, the cover amount for term insurance ranges between Rs. 5,000-50,000 for a minimum term of five years and maximum of 15 years. The entry age for this product is kept between 18-60. Endowment insurance policy provides cover for Rs. 5,000-30,000 for a minimum five years and maximum 15 years for people aged between 18 and 60.

The ILO has recently prepared an inventory of micro-insurance schemes operational in India.

1. **The inventory lists 51 schemes that are operational in India.**

2. **Most of the schemes were launched in the last 4-5 years.**

3. **43 schemes for which the information is available cover 5.2 million people.**

4. **Most insurance schemes (66%) are linked with micro finance services provided by specialised institutions or non-specialised organisations. 22% of the schemes are implemented by community-based organisations and 12% by health care providers.**
5. Life and health are the two most popular risks for which insurance is demanded; 59% of schemes provide life insurance and 57% of them provide health insurance.

6. Most schemes (74%) operate in 4 southern States of India: Andhra Pradesh (27%), Tamil Nadu (23%), Karnataka (17%) and Kerala (8%). The two western States: Maharashtra (12%) and Gujarat (6%) account for 18% of the schemes.

CONCLUSION

The rural population in particular women is largely excluded from the insurance market. The small rural borrowers seek savings and lending products, they also seek insurance (life, health, crop), which banks do not generally offer. The perspective in micro insurance towards SHGs are death and disability insurance covering scholarships to the children of the women of the SHGs enrolled into schemes, fund management, policy issues and context of the evaluations. The insurer has to take IRDA’s prior approval for launching micro insurance products through the “file and use” mode. Further, an insurer can collect the premium for both life and general insurance components directly from the consumer or agents. 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. The Committee wholly subscribes to the initiatives of IRDA in widening outreach of micro-insurance products to the rural poor and recommends that the same may be implemented with renewed zeal as providing micro-insurance 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 commission. This approach would ensure the faster development of the micro-insurance market and take the insurance penetration to rural India.

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