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- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
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- Garg, Bhavet (2011): Towards a New Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

MICRO INSURANCE SCHEMES IN RURAL INDIA - A STUDY

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ABSTRACT
Micro insurance is of ultimate significance for protecting poor lives against accidents, threats and other types of risks. Micro insurance has been dominated by non-government organizations (NGOs) and by Insurance development regulatory authority (IRDA) in India; however, with the liberalization of Indian economy, private sector entre and Microinsurance has got momentum. The public sector Insurance Companies has emphasized on exploiting the potential of rural India as it provides enormous opportunity in the globalization era. This paper highlights the significance of micro insurance for the upliftment of rural poor's and mitigation rural poverty as well as focuses on the rural economic development in rural India.

KEYWORDS
IRDA, NGOs, microinsurance, poverty mitigation, rural economic development.

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INTRODUCTION
Whilst India's economy has been persistently growing, economic development has neither led to drastically lower poverty rates, nor been able to generate an expansion of the formal economy. According to the Unorganized Sector Workers' Social Security Bill, more than 94% of the working population still works in the informal sector. Poverty, in particular, persists in rural areas, especially amongst certain social and ethnic groups (the scheduled castes and scheduled tribes respectively). Women and children are particularly vulnerable, as they are less educated, are often paid extremely low wages, and work in very hazardous conditions. What happens when a poor family's breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is ruined by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That's where "microinsurance" comes in. Microinsurance 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. Two-thirds of human beings miseries in the most extreme poverty are women. Often living within $1 per day, they are the most vulnerable. But will microinsurance actually help those living in poverty by contributing to sustainable livelihoods? We believe it can, and we decided to test the hypothesis in the real world. UNDP approached Allianz AG about working together on a market potential study to analyze the demand, acceptability and affordability of microinsurance products. They directly saw the value of working in this under -explored area. The studies clearly indicate that access to microinsurance by the poor and disadvantaged population can contribute significantly to the achievement of the Millennium Development Goals, particularly the goals of era dictating extreme poverty and hunger (MDG 1) and rural economic development.

WHAT IS MICROINSURANCE?
Definition: Microinsurance 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. Low-income people can use microinsurance, where it is available, as one of several tools (specifically designed for this market in terms of premiums, terms, coverage, and delivery) to manage their risks.
"Micro-insurance is the protection for the low-income population against specific dangers in exchange for regular payments of proportional premiums to the probability and costs of the involved risks".

Churchill

In India, it is often assumed that a microinsurance policy is simply a low-premium insurance policy. This is not so. There are a number of other important factors. Low-income clients often:
1. Live in remote rural areas, requiring a different distribution channel to urban insurance products;
2. Are often illiterate and unknown with the concept of insurance, requiring new approaches to both marketing and contracting;
3. Tend to face more risks than wealthier people do because they cannot afford the same defenses.
4. Have small experience of dealing with formal financial institutions, with the exemption of the National Bank of Agriculture and Rural Development (NABARD) Linkage Banking Programme;
5. Designing microinsurance policies necessitate intensive work and are not simply a question of reducing the price of existing insurance policies.

REVIEW OF EARLIER STUDIES
The present study embodies a brief review of the research done in the area of micro insurance. The purpose of reviewing the earlier studies is to economize the historical and present prospective of the present work and the related studies which have been taken cognizance of one or more variables includes in the study.
Syed Abdul Hamid& Roberts & Paul Mosley (2010) in the study shows that there is a positive impact of micro health insurance in the reduction of poverty among rural households of Bangladesh. Micro health insurance has a significant beneficial effect on food sufficiency of poor's and has a dynamic improvement in the health status of poor rural households.
GunitaArunChandhok (2009) the result of study indicates that there is a huge untapped market for micro health insurance and majority of population are aware and understand the importance of micro health insurance. Thus, micro insurance will go a long way in eradicating poverty. If the various micro insurance models are implemented effectively by Insurer, MFI‟s, SHG‟s, NGO‟s, Health institutions, Donors and Co-operatives the BPL population will lead a peaceful and secure life.

Lena Giesbert (2008) the results show that the potential demand for insurance in the survey area seems to be very high within 95% of the non-insured households showing a general interest to buy insurance. Most of the potential clients are interested in health, death, or old age insurance. So survey study says that micro insurance providers reach a high number of clients in the survey area but mostly to the richer people. The group of poor segments in society seems to be rather limited by micro insurance.

VenkataRamanaRao (2008) the study reveals that micro insurance is not an opportunity but a responsibility and to serve this responsibility good awareness campaign is needed. Micro insurance is offering real solutions to the billions of rural poor that raises the awareness of micro insurance as a key issue in coming future.

NEED FOR THE STUDY

2.4 billion People around the world live on $2 a day or less. They face daily hardships like poor nutrition, short life expectancy, poor education, and substandard housing. In the rural there is a death in the family, the cost of a funeral can amount to several months' wages. In rural areas, drought can cause crop failure that brings starvation and even death. It is estimated that only eighty million of the poor are now covered by some form of micro insurance. Most remain without access to this critical financial service. In India and China, where organizations are estimated to serve nearly 30 million micro insurance clients each, the percentage of poor lives insured covers below 3%. It comes as a surprise to many people, but microinsurance is an important tool in the alleviation of poverty. With microinsurance, the rural poor can mitigate those risks that would otherwise cause them to slide back into the poverty they seek to escape. Thus this paper tries to study the importance of Microinsurance for the lowest income group with the insurance products they need and demand.

OBJECTIVES OF THE STUDY

In the study, following objectives have been tried to achieve:

1. To study the significance of Micro Insurance for the upliftment of rural poor's and mitigation of poverty in India.
2. To study the rural socio-economic development through micro insurance in rural India.

THE MICRO INSURANCE STRATEGY OF THE GOVERNMENT OF INDIA

The government (including the insurance regulator Insurance Regulatory and Development Authority, or IRDA) plays a proactive role in providing insurance to the low-income market, the poor, and below the poverty line households through the following measures: - Introducing IRDA-enforced obligations for the private insurance industry to meet obligations toward "rural areas" and the "social sector" (implemented in 2002). Private insurers are required to sell a minimum level of insurance portfolio to respond to the development agenda by encouraging the design of products for low-income clients and thereby provide cover to neglected rural areas. Defining and regulating micro insurance through the IRDA Micro insurance Regulations, 2005. - Legalizing new micro insurance delivery channels ("micro insurance agents"), such as self-help groups (SHGs), NGOs, and MFIs through the IRDA Microinsurance Regulations, 2005.

EVOLUTION AND STATUS OF MICROINSURANCE REGULATION

As in much of the developing world, India has a large number of informal quasi-insurance schemes: for example, households that pool rice. In addition to this, there are small schemes run by cooperatives, churches and NGOs that may pond their members' incomes to make an insurance fund against an exact peril: for example, funeral costs. In a few countries, there is specific legislation to regulate these schemes, e.g., the South African Friendly Societies Act. In India, no such law exists, and any individual or institution conducting insurance has to comply with the stipulations of, among other regulations, the 1938 Indian Insurance Act as amended. Compliance with this Act requires, among other conditions, over $22 million of capital. All insurance schemes that do not comply with the Act operate outside it and in a legal vacuum. This includes all community-based schemes, and in-house insurance schemes run by MFIs 4, NGOs, and trade unions, in-house hospital schemes, etc. At present, the IRDA has not taken action against these schemes as the Authority does not consider them to be 'insurance' according to its definition–although the IRDA realizes that this legal vacuum could cause some problems. Furthermore, regulated insurers have expressed to the IRDA their dissatisfaction at needing to compete against non-regulated insurers that do not bear any regulatory expenses. The situation may change if regulated insurers place sufficient pressure on the regulator to act. Two possible scenarios may occur: either the development of specific legislation to cater for microinsurers or active closure of non-regulated insurers. The authors believe the best approach is the former.

As a number of unregulated microinsurance schemes are innovative and should be further studied, it could limit practical knowledge concerning microinsurance i f they were to be closed down. The interests of the customers of these schemes must be protected. The development of exact legislation to support and supervise currently unregulated microinsurers is to be preferred. If the IRDA decides to make exact regulation to support currently unregulated micro - insurance schemes, e.g., in-house schemes run by MFIs, donors could support its development. Several unregulated insurance schemes are run by well -intentioned staff and confer positive social benefits in the areas in which they act. Indeed much of the innovation in microinsurance has emerged from unregulated microinsurers. Unregulated microinsurers may hold important funds on behalf of low-income clients. The risk of working with these unregulated organizations is that there is no legal framework that ensures that they meet minimum prudential standards and other professional insurance qualifications. In addition, they do not have a statutory ombudsman or other feasible means of enforcing consumer rights.

It would be useful to help found a consumer protection mechanism for clients of unregulated micro insurers. Should requests of support come from NGOs running in -house insurance schemes, donors should consider that these schemes are unregulated and carefully weigh up the costs and benefits of supporting such schemes. Two central regulations have shaped microinsurance in India. The first is a set of regulations published in 2002 entitled the 'Obligations of Insurers to Rural Social Sectors'. This is essentially a quota system. It compels insurers to sell a percentage of their insurance policies to de facto low-income clients. It was imposed directly on those new insurers that entered Indian insurance after the market was liberalized. The old public insurance monopolies had no specified quotas, but had to ensure that the amount of business done with the specified sectors "not be less than what had been recorded by them for the accounting year ended 31st March, 2002." With the exception of the social-sector target, the regulations do not specify the income levels of clients directly.

The regulation has also been the motor for significant novelty in the sector. To date, much of the innovation in microinsurance worldwide has derived either from donors, academics or MFIs working on the issue. In India, in their drive to meet their microinsurance sales targets, regulated insurers are developing innovative new products and delivery channels. They bring their considerable resources to this task. The impact of the quota is of course not all positive. There have been unverified reports that some insurers are dumping poorly serviced microinsurance products on clients solely to meet their targets. As soon as the targets were met, they immediately stopped selling microinsurance. This practice is difficult to regulate, as it is harder to police the quality of insurance sold and serviced to the poor than its quantity. It would certainly be socially unfortunate if the regulation resulted in a mass of poorly serviced products sold at a loss, to enable insurers to concentrate on their more profitable products. This would not be a meaningful instance of sustainable financial deepening, but more akin to charity, forced on insurers to allow them to do business in India. Without further research, it is not possible to reach a conclusion on the overall costs and benefits of the microinsurance quota system. It would be useful to conduct research on the quota system to see whether the benefits outweigh the costs and whether such a system would be useful policy in other countries. Because of the quota system, the largest and best -known intermediaries (NGOs, MFIs, etc.) are already taken and have existing relationships with commercial insurers that they are often keen to keep. The implication of this is that insurers will need to think more creatively about their products and relationships with the intermediaries if they hope to convince them to switch companies. Also, it implies that insurers should start exploring distribution models other than partnership. In this context, the decentralized local bodies, village and district councils (Panchayats Raj Institutions), and elected sector committees of village representatives could possibly play a larger role if a strong civil society existed. Furthermore, the intention of the Ministry of Labour in the state of Karnataka, to set up a board at the state level to joint ly implement microinsurance, should be explored. The next central regulatory document is not yet an official regulation but a concept paper published by the IRDA in August 2004 entitled "Concept Paper on Need for Regulations on Micro-Insurance in India." While not a regulation, it nonetheless reflects the intentions of the regulator.

There is much that is commendable in the concept paper, but there are two significant concerns. They revolve around the implicit restriction of microinsurance to the partner's hip model, and the lack of product flexibility. Essentially the concept paper creates a framework for NGOs and MFIs to sell microinsurance. While there is nothing inherently limiting in this arrangement some of the clauses in the concept paper severely curtail the capacity of MFIs and NGOs to make products available that best meet their own needs and those of their clients. The definition of a microinsurance product proposes two seemingly arbitrary products: a life microinsurance product and a general microinsurance product with a specified minimum amount of cover, term of cover, age of entry and age of exit. Unless the product sold by the insurer meets these criteria, the product will not be classified as a 'microinsurance product' and therefore will not be able to qualify for some of the exemptions. Some of these conditions are out of sync with existing microinsurance products in India. For example, the concept paper sets a minimum amount of cover of Rs. 10,000. In client surveys undertaken by partner organizations of Friends of Women's World Banking, many NGOs found that their clients were not able to pay for such an amount of cover. They preferred less cover for a lower price. The 'Minimum Amount of Cover' requirement would exclude a large segment of the poor from the insurance market. In recent informal discussions with the IRDA, it has indicated that in the final regulations, a microinsurance product will be defined solely by the maximum amount of cover. An issue that remains is how a microinsurance product will be registered with the IRDA.

At present, an insurer wishing to introduce a new product on the market in India wants to go through a 'File and Use Procedure', separated into life and general products. Insurers have said that obtaining the relevant information and completing the essential forms can take several weeks. While this may be justified for complex insurance products with significant sums assured, with microinsurance and the low sums involved, such a long and complicated procedure does not seem necessary. At the present time in India many MFIs have met the needs of their clients by partnering with a variety of insurers. For example, Grama Vidiyal, an MFI in Tamil Nadu, provides life insurance through Bajaj Allianz AG and AMP Sanmar. The concept paper does not permit this. In Section 7a, it states that the microinsurance agent "shall work either for one life insurer or for one general insurer or for one life insurer and one general insurer." Section 7e sets caps on how much commission can be charged. These caps may affect the products that MFIs and NGOs are prepared to offer and will create barriers in selling to the poorest segments of the population. The cap set on commissions for servicing life policies is set at 20 percent while the cap set on servicing health insurance, which is much more luxurious to service, is set at 7.5 percent.

RURAL UPLIFTMENT BY MICRO INSURANCE

70% of Indian population resides in the rural area but they have small insurance coverage. Therefore, it opens a huge chance for insurance marketers of micro-insurance products.

Micro-insurance is a form of finance considered to suit the requirements of rural people who do not have access to conventional forms of insurance. It consists of small premium policies on life, weather, accident, household, fire, cattle and motor insurance. The insurance wants of rural India are different from their urban counterpart and cannot be met by official insurance products. All insurance products in India attract a 10.36% service tax, but to increase incursion in rural sector and to make insurance within reach of the villagers, it is significant that this tax is done away with. "Up to 90 percent of the Indian population, or 950 million people, are excluded from the insurance market and represent a powerful missing market. The rural poor not only need insurance to be reasonable, but also to defend against high-frequency risks such as serious ill health, accidents, harvest failure or monsoon failure and fire. But insurance companies generally offer standardized products for a clientele that is relatively better off, urban and male, with some products for women. Many potential insurance risks are exactly to women, such as coverage for delivery expenses, female infertility treatment and injuries from internal violence. Other challenges for insurers are the heavy costs of covering the requirements of the rural poor and that micro insurance is difficult to allocate. Without suitable insurance services, the huge majority of the poor "do without," turn to patrons, the extended family or village moneylenders, or temporarily migrate for work. "Development of the micro insurance sector wants a longer-term perception that combines responsiveness to client priorities with market enlargement and financial feasibility," The use of ICTs (information and communications technology) in this process could also help to cut down on costs to rural micro insurance clients. Present coverage tends to be far more general for life insurance rather than non-life insurance for livestock, health and crops, confirming that most non-life products need to be "sold." The 2005 IRDA regulations legally acknowledged non-Government organizations, self-help groups and microfinance institutions as "micro insurance agents," considerably increasing the pool of permissible agents. The regulations also allow companies to offer both live and livelihood coverage, fix coverage limits and decrease procedural bottlenecks.

The factors contributing to rising opportunities for micro insurance in India include healthy economic growth, which is rising income among rural households; a "silent revolution" of quickly expanding self-help groups comprised mostly of poor women, which has led to more entrepreneurial activity in rural areas; and increased media exposure, which can enhance marketing practices. Conservative estimates place the potential market size for micro insurance in India, both life and non-life, at INR62, 300 million to 84,300 million, or US$1.4 billion to $1.9 billion, the study said.

POVERTY ALLEVIATION BY MICRO INSURANCE

Government hard work through the provisions of micro-finance opportunities to rural population is a step in the right pathway in addressing poverty between its growing populations though not enough, hence, adequate insurance is essential to defend these credit lines obtainable by micro-finance institutions and banks otherwise beneficiaries of such amenities may probably go back to poverty. Rural population is exposed to such risks as health, fire, burglary, death and family responsibilities which are able of removing assets acquired over time. Every society has dangers that should be avoided and low income people are forever weak to them. Low income people are more uncovered to such risks than the rest of the population and most times cannot deal well with the calamities. These classifications of citizens therefore need insurance more than anyone else because they lack fallback positions whenever there is a loss. Rural people take loans from micro-finance institutions and whenever there is sickness or accident and they are hospitalized the next thing will be to use such loans collected to pay for hospital bills and return to poverty once again. Poverty and vulnerability reinforce one another forming an ever-growing downward spiral, not only the exposure to risks results in considerable financial losses but vulnerable families suffer the continued uncertainties about when and how loss may occur. Due to this long-lasting concern, poor people are less likely to take advantage of income generation opportunities, which may mitigate poverty. The majority try to manage their risks and deal with the consequences. Saving money, working extra time on other activities and asking for loans from friends or relations constitute some of the strategies used to avoid financial loss, which is unproductive and exacerbates poverty. Such informal safety procedures do not resist unexpected serial cases before they are capable to rise again from an adverse situation, a new unforeseen event may occur with more power throwing them back to stage one again. Micro-insurance therefore provides cushion against such vulnerability by offering micro-health, life, and property insurances. It is a generally accepted significant tactic therefore to recover sustainable economic development and alleviate poverty by making financial systems more comprehensive by improving access to savings, credit and insurance.

It is main to observe that some insurers like AIG, Allianz, Lombard And standard life have all entered in Indian insurance industry venture with promising results. Yet, some commercial insures and Policy makers still tend to believe that providing insurance cover to the poor is the responsibilities of the state and in practical terms it is risk to insure poor people on a cost covering basis. They suspect that poor households either cannot pay for their insurances or the informality of their living condition makes them unattractive as clients because they do not have formal employment, have ID cards and are uneducated. It should however be listed that several state run schemes of social security in developing countries have failed as they are poorly run, for those targeted do not advantage while those who can afford them are the ones who access these benefits. Also, public social safety schemes where available are delivered through formal sector employer which does not reach the unorganized workers both employed and self-employed in the informal economy. On the other hand however, insurers are commencement to notice the huge markets of low-income households but many problems want to be overcome if micro-insurance is to be offered skillfully and efficiently in terms of distribution system, products development and capacities It should however be listed that many state run schemes of social safeguard in developing countries have failed as they are poorly run, for those targeted do not benefit while those who can afford them are the ones who access these benefits. Also, public social security schemes where available are delivered through formal sector employer which does not reach the unorganized workers both employed and self-employed in the informal economy. On the other hand, insurers are beginning to notice the huge markets of low-income households but a lot of problems need to be overcome if micro-insurance is to be offered efficiently and effectively in terms of distribution system, products development and capacities.

SUGGESTIONS

1. IRDA should seem into the theme that all the insurers develop their own micro insurance products and fulfill the rural obligations. This will promote all the existing and upcoming insurers to develop and design more modified micro insurance products for the market, which will ultimately improve rural poor's circumstances and increases the overall insurance incursion in India.
2. It is highly suggested to induct more and more trained rural life insurance agents, especially micro insurance agents, for the micro insurance products only. For this reason, IRDA should supervise the quality of trainings imparted to the life agents/advisors. More quality training institutes are need for this purpose.
3. The development of the distribution channel into the rural areas is very significant for the overall development of insurance in India. Therefore, a proper distribution channel is required to develop.

CONCLUSION

Micro insurance has the effective to be a game changer, as it can help address several of the across the world. Microinsurance can result in a "win-win" situation, joining the double bottom line of commercial profit with social benefits of fighting poverty through methodical risk management among the rural poor. To unleash this potential, insurance companies will require displaying long-term requirement to the sector, design products that are suitable for the rural population and employ proper distribution mechanisms. Insurers will have to pay special attention to the uniqueness of the rural labour force, like the prevalence of unbalanced income streams and liking for simple products, before they can successfully penetrate this sector. Insurance in General and Life Insurance in particular is truly an industry for social well-being. But still the full prospective of the tough rural base has perhaps not been fully realized or exploited. Keeping in sight, the well-established role played by the individual agency force for selling insurance products in the rural areas, it is necessary to strengthen this channel with a set of new, up-to-date inputs is fitting the requirements. This would accomplish the aims of both the insurer as well as the nation – of classifying as well as strengthening these new untapped markets while also providing the much needed employment opportunities in rural areas. However, it is very essential that the awareness level and the ability of agents are improved. One when the agents will be able to explain the policies to the potential rural customers, micro-insurance will flourish. Sales personnel need new skills and attitudes to explain the concept and benefits of insurance to the rural mass.

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