

ROLE OF MICROINSURANCE IN THE BANKURA DISTRICT OF WEST BENGAL DURING 2010-12 : AN EMPIRICAL STUDY

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[Financial inclusion has come to be regarded as an important and inevitable milestone in achieving inclusive growth. Microinsurance is an important tool of financial inclusion. In West Bengal microinsurance is a nascent intervention, and this study examines the provision, availability and impact of microinsurance in the Bankura district of rural West Bengal. A mix of qualitative and quantitative methods such as household surveying, direct observation and key-informant interviews, were employed for data collection. Keeping this in mind, the present study has been undertaken to examine the need for microinsurance products among the rural people in Bankura. The primary data has been collected from respondents of villages of this district. The main objective of the study is to estimate the demand for different microinsurance products.]

Keywords: *Financial Inclusion, Microinsurance, Inclusive Growth]*

Introduction

Need for managing financial risks has given birth to the insurance industry which has become an integral part of a global financial system as well as the financial system of the nation. Insurance thus provides security for unforeseen future risk, which is required for both the rich and the poor. But, till a few years back insurance facility all over the world was not available to the low-income people. Moreover, the spread of insurance has been uneven. Certain underprivileged sections of the society have not been benefited by insurance products. The term microinsurance is used to refer to insurance for the low-income people and

is different from insurance in general as it is a low value product (involving modest premium and benefit package) which requires different design and distribution strategies such as a premium-based intermediate agency representing the target community and so forth. Insurance is fast emerging as an important strategy even for the low-income people, engaged in a wide variety of income generation activities and who remain exposed to a variety of risks mainly because of absence of cost-effective risk-hedging instruments.

Although the poor face risks such as that

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of death, illness, injury and accident, which are no different from those faced by others, they are more vulnerable to such risks because of their economic circumstances. Indeed, enhancing the ability of the poor to deal with various risks is increasingly being considered integral to any poverty reduction strategy. Of the different risk management strategies, insurance that spreads the loss of the (few) affected members among all the members who join insurance schemes and also separates the time of payment of premium from the time of claims, is particularly beneficial to the poor who have limited ability to mitigate risk on account of imperfect labour and credit markets.

In the past, insurance as a prepaid risk-managing instrument was never considered as an option for the poor. The poor were considered too poor to be able to afford insurance premiums. Often they were considered uninsurable, given the wide variety of risks they face. However, recent developments in India, as elsewhere, have shown that not only can the poor make small periodic contributions that can go towards insuring them against risks but also that the risks they face (such as those of illness, accident and injury, life, loss of property, etc.) are definitely insurable. 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. Microinsurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face

more risks than the well-off, but more importantly they are more vulnerable to the same risks. Uninsured risk leaves poor households vulnerable to serious or even catastrophic losses from negative shocks. It also forces them to undertake costly strategies to manage their incomes and assets in the face of risk, lowering their mean incomes earned.

Review of Literature

Welfare costs due to shocks and foregone profitable opportunities have been found to be substantial, contributing to persistent poverty (Dercon, 1996; Morduch, 2004). Microinsurance has the potential to reduce these welfare costs. By offering a payout when an insured loss occurs, it avoids other costly ways of coping with the shock leaving future income earning opportunities intact. Furthermore, the security linked to being insured can be expected to allow the avoidance of costly risk-management strategies with positive impacts on poverty reduction. Microinsurance, in conjunction with micro savings and micro credit, can therefore go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion.

Microinsurance should, therefore, provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. Thus, insurance is fast emerging as a prepaid financing option for the risks facing the poor.

Microinsurance is defined in line with Churchill (2006) as an insurance that

- (i) operates by risk-pooling,
- (ii) is financed through regular premiums, and
- (iii) is tailored to the poor who would otherwise not be able to take out insurance.

To understand the impact of insurance initiatives, it is instructive to put it in the context of how risk shapes the behaviour. According to Dercon (2008), it is necessary to link risk to its consequences in terms of outcomes in various dimensions of welfare in the short and long-run. Households, communities, firms or societies as a whole, face a multitude of risks. Given their options and characteristics, they will make 'risk management decisions', or at least decisions with implications for risk management. This decision-making 'ex-ante' (when risk is present) has implications for outcomes, both in the short-run and long-run. Next, shocks may occur – effectively a realization of the state of the world whose risk may or may not have been recognized beforehand. People's responses or inability to respond will again have implications for outcomes, both in the short-run and in the long-run.

It is worth emphasizing that two distinct 'decision moments' are considered: one when there is still 'risk' (i.e., a potentially large number of different possible events or circumstances), and one when a 'shock' (i.e., a realization of one of these possible events or circumstances) has occurred. The decisions that need to be taken in the face of risk (risk management

or 'ex-ante' strategies) are potentially very different from those taken in the face of a shock (risk coping or 'ex-post' strategies). Nevertheless, they cannot be viewed independently, as risk management decisions will have implications for the possible set of risk coping strategies, while risk coping will have implications for the type of risk management decisions that can be taken in the next period. These strategies have been widely acknowledged as a central part of people's livelihoods. Households have strategies to cope with shocks, to smooth consumption and nutrition when shocks happen, even if formal credit and insurance markets or social protection schemes are not available. They may use savings, often in the form of live animals, built up as part of a precautionary strategy against risk. They may develop personalized informal credit arrangements. They also often engage in informal mutual support networks, for example, clan- or neighbourhood-based associations, or even more formal groups such as funeral societies. However, group-based systems cannot work effectively in the face of 'covariant' shocks, affecting the whole group, while the lack of good stores of wealth, with limited risks, also means that building these 'buffer stocks' is highly costly and indeed not as effective as hoped. A well-known example of the latter is when households in Northern Wollo in Ethiopia tried to use their standard smoothing device – selling small and large livestock – to cope with the drought and famine in the mid-1980s. Livestock prices collapsed due to

oversupply and lack of demand, in the face of high grain prices, providing a classic case of entitlement failures (Sen, 1981). In terms of risk management strategies, different forms of diversification are commonly observed – in crops, activities or assets. As long as the returns to these activities are not perfectly covariate, there will be benefits from diversification.

Chaudhuri & Bhattacharyya (2013) have examined the role of microinsurance in protecting the low-income people in West Bengal. They have observed that risk management strategies do not vary across types of risks faced, there is no variation in usefulness of microinsurance, microinsurance policies availed of, the benefits derived, difficulties faced from the microinsurance policies, and suggestions regarding the microinsurance policies across the districts covered in the study.

Objectives of the Study

The objective of this study is to assess the need for microinsurance products among the rural people in Bankura district.

Research Methodology

This study was conducted in the Bankura district of West Bengal. According to the 2011 census, Bankura district has a population of 3,596,292. This gives it a ranking of 80th in India. The district has a population density of 523 inhabitants per square kilometre. Its population growth rate over the decade 2001-2011

was 12.64%. Bankura has a sex ratio of 954 females for every 1000 males, and a literacy rate of 70.95%.

This study is empirical and exploratory in nature. The study is based on primary data.

After discussion with knowledgeable persons, the researchers identified the 4 MFIs which are key providers of microinsurance in this district. The data relating to the MFI-wise populations of the microinsured households served by each of those 4 MFIs were collected from their offices, the details of which are given below in parentheses.

1. Sahara Utsarga Welfare Society (SUWS) [490]
2. Liberal Association for Movement of People (LAMP) [440]
3. Belgharia Janakalyan Samity (BJS) [375]
4. Anjali Microfinance (AM) [363]

The researchers set a target of drawing a sample of 10% of those microinsured households in an MFI-wise manner. However, in spite of repeated requests, the researchers could get cooperation from only 135 microinsured households, the MFI-wise break-up of which is given below. The percentages of microinsured households which finally responded, i.e., the respondents, are given in Table 1 below, which vary from 7.3% to 9.4%.

Table 1: MFI Wise Break up of Households

Name of MFI	Microinsured Household	Percentage Targeted	Percentage Sampled	Sample Size
LAMP	440	10%	7.5%	33
SUWS	490	10%	7.3%	36
BJS	375	10%	8.4%	32
AM	363	10%	9.4%	34
Total	1668			135

The next section deals with the study of the respondents i.e., the users of microinsurance. It is done through data collected by administering a structured questionnaire. The SPSS package was used for statistical analysis of the primary data. Apart from the usual descriptive statistical tools, Hypotheses Testing was done for analysis and interpretation of the primary data.

Empirical Survey and Findings

The field work combined interviews in the form of questionnaire and discussions with the local people and interviews with

local experts. In most households the interviewees were of mixed gender. Although women were in some cases formally considered the head of the household, most often male members responded to the questions. In addition, data on socio-economic variables, like age, gender, education, sources of credit, physical assets, livestock assets, income from various sources, and adaptation measures have been collected from the field survey. The socioeconomic indicators and adaptation diagram of the district are presented in the tables below.

Table 2: Crosstab of Age and Gender

		Gender		Total
		Male	Female	
Age	18-30	0	2	2
	31-40	10	50	60
	41-50	9	57	66
	Above 50	3	4	7
	Total	22	113	135

Source: Field Survey

Majority of the respondents are female and fall in the age group of 31-40 and 41-50.

Table 3: Crosstab of Occupation and Education

		Education				Total
		Illiterate	Primary	Secondary	Higher Secondary	
Occupation	Service	9	19	18	3	49
	Self-employed	12	34	34	6	86
	Total	21	53	52	9	135

Source: Field Survey

Majority of the respondents are Self-employed. A reasonably small number of the respondents are illiterate.

Analysis of Socio-economic Vulnerability of the Households

For the purpose of understanding the socio-economic vulnerability of the respondents, three important factors viz., occupation, education and income per month have been considered.

Vulnerability Indices have been constructed using the Three Categorized Ranking (TCR) Method, assigning scores of 1 to 3, the least vulnerable being 1. The basic assumptions are the following:

- First, service-employment is associated with lower vulnerability
- Second, lower level of education is associated with higher vulnerability
- Third, lesser income is associated with higher vulnerability

Table 4: Occupation-wise Distribution of the Respondents

Occupation	Frequency	Percentage
Service	49	36.30
Self-employed	86	63.70
Total	135	100

Source: Field Survey

From the above table it can be seen that there is a higher percentage of self-employed respondents which means

that, as per occupation, Bankura is highly vulnerable to risk.

Table 5: Educational Level-wise Distribution of the Respondents

Education Level	Frequency	Percentage
Illiterate	21	15.56
Primary	53	39.25
Secondary	52	38.52
Higher Secondary	9	6.67
Total	135	100

Source: Field Survey

Only a very small percentage of the respondents has gone up to Higher Secondary education and a reasonably

small percentage of the respondents are illiterate. As far as Education is concerned, this District is quite vulnerable.

Table 6: Income (p.m.)-wise Distribution of the Respondents

Income(p.m.)	Frequency	Percentage
Below 5000	61	45.19
5001-10000	56	41.48
10001-15000	16	11.85
Above 15000	2	1.48
Total	135	100

Source: Field Survey

Almost 86.67% of the respondents fall in the lowest and second lowest income

slabs. Bankura district is highly vulnerable to Risk as far as Income p.m. is concerned.

Table 7: Vulnerability Assessment in Bankura District

District	Occupation	Education	Income p.m.	Combined	Vulnerability
Bankura	2	2	3	2.33	H

Source: Field Survey

Note: H stands for high; M stands for medium; L stands for low

From the above analysis it can be seen that Bankura district is highly vulnerable and hence the importance of microinsurance. Microinsurance can help the people of Bankura district to combat against vulnerabilities. The following section deals with the awareness level, utility and success of microinsurance in this district.

Analysis of Adaptation Options of the Households

The households have been analysed as to how they adapted to any kind of sudden

or accidental crisis. From their responses, the possible adaptation options were found to be accessibility to informal borrowings, microloans, selling of assets and loans from friends. Such adaptation options are presented in Table 8. It is also found from Table 8 that the adaptation capacities of the respondents in this district are low due to lack of formation of SHGs and lack of initiative on the part of the providers of microinsurance.

Table 8: Adaptation Strategies of Households

Risk Management Strategies	Frequency
Informal Borrowings	55
Selling of Assets	37
Loans from friends	18
Microloans	25
Total	135

Source: Field Survey

The respondents opined that for a specific risk faced, they took the help of more than one risk management strategies.

Table 9: Crosstab of Risk Management Strategies and Risk Faced

		Risks Faced					Total
		Asset	Employment	Health	Life	Others	
Risk Managing Strategies	Informal Borrowing	9	2	21	20	3	55
	Loan From Friends	0	2	4	6	0	12
	Microloans	1	0	7	19	1	28
	Others	0	0	3	0	1	4
	Selling of Assets	1	5	8	19	3	36
Total		11	9	43	64	8	135

Source: Field Survey

The above table represents a contingency table, which cross-classifies 135 households in terms of risks faced by them and their risk management strategies. In the above table, the *risks faced* is an explanatory variable and the *risk managing strategies* is a response variable.

Null Hypothesis (H_0) - risk management strategies does not vary across types of risks faced

Alternative Hypothesis (H_1) - risk management strategies vary across types of risks faced

If P value < .05, the *Null Hypothesis* is rejected.

Chi-square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	167.119	25	.000

Source: worked out by the researchers

On the basis of the above Chi-Square value, the *Null Hypothesis* is rejected (as $P < .05$) and the *Alternative Hypothesis* is accepted,

indicating that there is a systematic association between risk management strategies and types of risks faced.

Respondents' Inclination Study

In the respondents' inclination study, opinions and likings of the respondents, particularly in relation to usefulness, availability, reasons for not continuing,

benefits derived, difficulties faced and suggestions for improvement in terms of their microinsurance policies, have been shown. The statistical analyses and interpretations based on primary data are given below.

Table 10: Usefulness of Microinsurance Policies

Opinion	Frequency	Percentage
Yes	99	73.33
No	36	26.67
Total	135	100%

Source: Field Survey

From the above table, it can be said that the majority of the respondents were satisfied with their microinsurance

policies. This indicates the success of the MFIs and their mission to reach out to the people at the bottom of the pyramid.

Table 11: Types of Microinsurance Policies Available of Till Now

Opinion	Frequency	Percentage
Crop	16	12.8
Health	37	27.2
Life	62	46.4
Livestock	20	13.6
Total	135	100

Source: Field Survey

The maximum demand is for the life microinsurance products, followed by health. But during the interviews with the

respondents, they expressed their preference for more diverse and risk-specific microinsurance products.

Table 12: Benefits Derived from Current Microinsurance Policies

Opinion	Frequency	Percentage
Better Education For The Children	19	14.07
Daughter's Marriage	7	5.19
Increase In Present Activity	41	30.37
Increase of Present Activity& Reduction of Risks	9	6.67
Reduction In Impact of Seasonality	10	7.41
Reduction of Risks	49	36.29
Total	135	100

Source: Field Survey

As per the respondents, microinsurance is associated with a lot of benefits.

Table 13: Difficulties Faced

Opinion	Frequency	Percentage
Product Design	1	1.16
Claim Settlement	22	25.58
Premium	26	30.23
Product Awareness	37	43.02
Total	86	100

Source: Field Survey

Some respondents who are continuing with their present microinsurance policies however indicated the difficulties faced by them. It appears that the objective of the

MFIs to reach the poorest and who are in greatest need of microinsurance continues to remain a challenge.

Table 14: Suggestions for Improving Microinsurance Policies

Opinion	Frequency	Percentage
Easy Claim Settlement	-	-
Flexibility In Collection	32	23.70
Less Premium	81	60.00
Greater Awareness	1	0.74
More Products	21	15.56
Total	135	100

Source: Field Survey

With respect to the suggestions for improving microinsurance policies, majority of the respondents mentioned the

need for reduction in premium amount, followed by the need for flexibility in premium collection.

Table 15: Reasons for Not Continuing Microinsurance Policy

Opinion	Frequency	Percentage
Collection Period	8	30.8
Lack of Flexibility In Payment of Premium	4	15.4
Premium Amount	10	38.5
Too Many Policies	4	15.4
Total	26	100.0

Source: Field Survey

The respondents, who were dissatisfied with the microinsurance policies and had discontinued their policies, had mentioned the reasons for their discontinuation, the main reason being the premium amount. Given their irregular and uncertain income, lower premium amount and flexibility in collection will help those

people to again purchase microinsurance products. Moreover, comprehensive policies covering a variety of risks may be suitable for those who are unable to purchase too many policies. The MFIs have to expand their activities net far and wide.

Conclusion

It is fortunate that the insurers have innovated products and distribution beyond the regulatory requirements to conduct business in the low income segments. However the regulator needs to respond to the new realities of the sector. Group based policies, alternative microinsurance products and distribution innovations have to be brought under the IRDA regulation of microinsurance to protect and accelerate the growth of microinsurance in India.

It is observed that till today the penetration of microinsurance for both life and non-life products are at a very low level in India in spite of tremendous efforts from the LICI. Some insurers are even dumping poorly serviced microinsurance products on clients solely to meet their targets. As soon as their targets were met, they immediately stopped selling microinsurance products.

Although the microinsurance sector has huge potential for growth, but till today insurance companies are not very willing to promote diverse products of microinsurance like other traditional insurance products. Only the LICI is taking some positive initiatives in this regard and most of the private insurers are just maintaining regulatory requirements.

Recommendations

- There is a need to establish a council consisting of microinsurance representatives, the IRDA and the government. This body should meet

on a regular basis to discuss the issues and formulate the strategies to develop this sector. This body can also help frame regulations. It should help facilitate the sharing of information among insurers.

- The mixing of subsidized microinsurance products from the public sector insurers with unsubsidized products from the private insurers has the danger of adversely affecting the market. The regulator and the government should think about less harmful subsidies. For example, they may provide a subsidy either for marketing of products or building infrastructure. The government may also consider allocating subsidies for designing of new products, such as health products.
- The regulator should take the responsibility of creating awareness among low-income people about microinsurance as it is for the public good. The regulator should take more active responsibility for developing this sector. The regulator may publicize by developing audio-visual and other insurance-literacy programmes.
- The public body that has largely driven microinsurance in India has been the IRDA. It would be helpful if microinsurance provided by the private sector insurers can be explicitly made a part of the government's social security mechanism. This suggestion in no way implies a reduction in the duty of the state to be responsible to its

citizens for social safety nets. There are many ways in which this collaboration could work for the benefit of both the parties. For example, if the state collects relevant actuarial data, the insurers would be more likely to provide types of insurance they find difficult to price, e.g., health insurance. With active state intervention, there may also be new possible roles of the state health-care facilities in private health insurance.

- It is necessary to understand the gender-specific demand for microinsurance in India. It is important to know what women want from microinsurance and what they are willing to pay for. In particular, it is crucial to consider the benefit package. In life insurance, for example, it may be important for the beneficiary to be the daughter rather than the husband. In health insurance, it may be important to ensure that the entire family is covered rather than just the women.

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