# CHAPTER-I

# INTRODUCTION

## 1.1 Insurance – Theoretical Background:

The concept of insurance can be simply stated as a contract of security from damage or loss caused by a particular risk to a person, a group or a body of persons to compensate the loss against the risk occurred of an event.

According to Riegel and Miller, "insurance is a social device whereby uncertain risks of individuals may be combined in a group and thus made more certain; small periodic contributions by the individuals providing a fund out of which those who suffer losses may be reimbursed."

Insurance is defined as a co-operative device to spread the loss caused by a particular risk over a number of parsons who are exposed to it and agree to ensure themselves against that risk.[1]

Insurance play an important role in economic development. It is said that when economy grows, insurance also grows. But it can also be said that when insurance grows, economy also grows. Insurance also contributes to development of financial sector whether it is financial stability, risk-transfer or investment for further capital development, insurance extend its help. Various risk encountered by industrialists and entrepreneurs are transferred to insurance companies on payment of small contribution called premium. Insurance relives the industrialists and entrepreneurs from the worries of various risk and help in continuation of economic activities. Risks of natural calamities, viz. earthquake, flood, storm, landslide etc. can be covered by various insurance policies offered by insurance companies.

## 1.2 Origin and Development of Insurance

The earliest form of insurance was in the nature of marine trade. Evidences are also on record that arrangements embodying the ideas of insurance were being

[1] Revised edition Insurance Principles And Practice twentieth Revised Edition, M.N.Mishra and Dr.S.B.Mishra, S.Chand & Company pvt. Ltd. New Delhi; p.4.

practiced in Babylone and India, centuries ago. The word 'YOGAKSHEMA' used in Rig Veda – a most sacred book of Hindus suggests that some form of community insurance was being carried by the Aryans in our country well over 3,000 years ago. The existence of burial societies during the Buddhist period also acknowledges the existence of insurance which used to help the family of a deceased person by building a house and protecting the widows.[2]

Insurance in its present form actually started in England sometime during the 12th and 13th centuries with Marine Insurance to come up first in the list. The casualties of ships and cargoes in high seas concerning trade between England and Italy basically created demand for such protection and Lombard Street of London gradually became the nerve centre of marine insurance. The next class of insurance to start was Fire Insurance during 14th Century, although the demand for such insurance started becoming prominent as a result of the Great Fire of London in 1666. The third in the list of development was Life Insurance during 15th and 16th Century and the last in line as Accident Insurance during the 19th Century prompted by Industrial Revolution of 19th Century giving birth to various scientific developments and associated accidents.[3]

**1.3 Micro insurance:**

Poor people are more vulnerable to risk and they know all the risks that they would to mitigate. But they are not insured themselves. They may be making harsh choice, such as reducing food consumption; withdrawing children from school, depleting productive assets to cover the expenses related to the risk event, when they exposed to financial shocked. They have no any protection against adverse event. They are not knocking on insurance company's door. Because, first, the absence of active sales agent in their midst. Second, the lack of affordable products offered by insurers. Third, the biggest obstacles to demand are ignorance of what insurance can and cannot do.

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[2] Ibid.

[3] Principles and Practice of Insurance; M. Motihar, Sharda Pustak Bhawan, Allahabad, Fourth Revised Edition: 2011: p.4

When thinking about demand of insurance, one should remember that insurance is not the only way of dealing with financial risk. There are two strategies of risk management –ex-ante and ex-post. Ex-ante risk mitigation strategies involve taking actions that reduce the probability of the risk occurring. For example, buying a lock to prevent valuable one from being stolen or use of boiling water to avoid illness. Ex-post risk coping strategies are concerned with reducing the impact of the risk after it has occurred. For example, an emergency loan to pay for the unexpected funeral of a family member.

A poor people's property may be limited to a few animals or crops and modest shelter, but the destruction of any of these may be a great blow to the family's economy. Even small sums insured can ensure some protection and peace of mind for a poor person. Whether poor people want insurance, and if so, only micro insurance products are beneficial to the poor.

Insuring against the adverse situation is one of the options before the poor. Insurance can assist them to manage and diversify their risks at the adverse situation. But it is difficult to be insured in the formal market, because of high risk and affordable premium for poor. Generally credit and insurance market are non-existent for the poor in the developing countries. Therefore, insurance benefits are modified for the low income group to suit their needs and it is named as micro insurance.

Micro-insurance, a subset of microfinance can be defined as "a financial product that pools risk by collecting relatively small premiums from a large population and funding relatively large payouts to the small population that suffers losses from a specified risky event".[4] The overarching goal of micro-insurance is to provide insurance designed for low-income individuals within low-income countries. The idea of insurance is to protect an individual, household, or business against unforeseen or unlikely occurrences. In other words, when the probability of an event occurring is low, but the financial impact is high. As opposed to savings, where the probability of it

[4] Bamako 2000, *Innovations in Microfinance: Insurance as a Microfinance Product,* 2001: p.1.

occurring is high—such as a child's educational fees—while the financial burden isn't as great.[5]

Micro-insurance has many facets depending which depend on the type offered. This can include but is not limited to: life, property and casualty, typhoon, accident death or dismemberment, health, and crop insurance.

There are few households and businesses in poverty stricken countries that have access to the formalized insurance that most industrialized nations have. These individuals struggle to protect themselves against risks and vulnerabilities that affect their day-to-day lives. If these events were to occur, leaving their land, livestock, or even lives destroyed, many of these households and businesses would not be able to sustain the devastation financially, and would fall deeper into poverty and ill-health.

Micro-insurance, in many instances, is related to risk-sharing by pooling risks to redistribute the costs of risky events within the pool: much like micro-finance lending. Here, individuals are incentivized to take care of what is insured, be it crops, land, livestock, or life, as other individuals in the community finance the arrangements. The premium that individual households or businesses pay for the insurance is returned to the pool and when a call-to-action is required because of devastation, the household or business is reinsured from said pool.

These products are becoming increasingly available, especially in third world countries. However, micro-insurance is still a new field, and is classified in its experimental stage.[6] Many microfinance institutions (MFIs) are beginning to develop into these products to diversify their offerings to their low-income client base, as well as diversify their portfolio of investments. In many instances, micro-insurance products are provided by MFIs partnering with third party insurance companies to create customized products and gain access to the market. Also, MFIs have begun setting up cooperative or community-based insurance organizations as a way for poor households and business to access insurance, in most cases, for their land and

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[5] Churchill, Craig (Ed.) *Protecting the Poor: A Microinsurance Compendium*. 2006. p. 28.

[6] CGAP. "*Microinsurance Overview* from <<http://www.microfinancegateway.org/p/site/m/template.rc/1.11.48248/>> (Last accessed August 8, 2017)

livestock. Many development experts believe that now is an ideal time for micro-insurance to thrive alongside MFIs and their existing protocols. "People work themselves out of poverty using micro-lending, micro-insurance helps prevent them from falling back into it," Dr. Reinhard, vice chairman of the Munich Re Foundation.[7] However, even still, micro-insurance has been slow to pick up in most developing countries around the world. Many believe it is due to the fact that micro-insurance has so far followed along the same lines as micro-lending. Innovation is what can save micro-insurance and make it both "socially and economically viable."[8]

A question that arises when discussing micro-insurance as a formal financial service for low-income individuals is the existence of informal insurance and financing. This issue can be addressed by analyzing the means by which the informal sector in these economies is sustained. Many times, the informal financial services offered to low-income individuals are insufficient to fully protect them from the financial hazards and realities of their daily lives. In these informal schemes, the risk management strategy is to spread financial and human resources across many different income-generating activities, which results in low returns. Because of these low returns, the informal insurance sector can only partially cover the cost of damage that an individual may experience, leaving the rest of the community to become a support system for that individual, many times forgoing their own savings. Finally, this informal protection does not stand up well against a series of misfortunes, which has a likelihood of occurring. The poor barely have recovered from one crisis and are forced to stand up to another. Therefore, a formal micro- insurance industry in these poverty-stricken areas can help alleviate the risks associated with recovery, and gives a verifiable and concrete contract which the company and individual must abide by.[9] Further, in terms of geographical breadth, micro-insurance has a large market to penetrate.

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[7] Knowledge@Wharton. "*Micro-Insurance: A Safety Net with Too Many Holes*." *Forbes*. <http://www.forbes.com/2009/10/10/micro-insurance-bangladesh-entrepreneurs-finance-wharton.html> (Last accessed August 1, 2017)

[8] Ibid

[9] Churchill, Craig (Ed.), *Protecting the Poor: A Micro insurance Compendium*. 2006: p.21.

The market for micro insurance is nascent, needed, and penetrable. In fact, in November of 2009, a report produced by Lloyd's 360 Risk Insight and the Micro-insurance Centre; *Insurance in Developing Countries* explored micro-insurance opportunities throughout different countries around the world. The report estimated the size of the market to be between 1.5 billion and 3 billion policies, "with significant demand for a range of products including health, life, agriculture, and property insurance."[10] Also, the report outlined that about 135 million individuals are covered by micro insurance, meaning 95% of the potential market a waits. Being a first mover in this industry has the potential to lead to sustained growth, reputational advantages amongst the poor and strong business prospect in the future.

**1.4 Evolution of Micro Insurance:**

Micro insurance is not a new phenomenon. In most markets, including emerging markets, one finds a variety of micro insurance schemes. For example, mutual health care schemes or funeral associations may have started many years ago, but many have remained informal.

More recently, micro insurance has expanded through community-based and other local initiatives, some promoted by donors. Bilateral and multilateral donors are helpful in providing technical and financial assistance to micro insurers and have promoted the conceptual discussion on micro insurance. The donor community cannot yet rely much on lessons of effective micro insurance promotion and therefore, is still studying effective ways (do's and don'ts) to promote micro insurance. However, some valuable lessons can be drawn from microfinance, which has a longer history and a broader global reach.

The growth and success of microfinance – which was originally seen as the provision of savings, transactions (including remittances) and credit services to low-income households and micro enterprises before the inclusion of micro insurance – has been responsible for creating a delivery channel to help regulated insurers target the low-income segment in an efficient manner. Later, new rules have motivated

[10] *Insurance in Developing Countries: Exploring Opportunities in Micro-Insurance*. Lloyd's 360 Risk Insight. November 2009. P. 4

commercial insurers to move into the low-income market or informal micro insurers to formalize. At the same time, insurers have also recognised the opportunity in this market segment.

**1.5 Features of Micro Insurance:**

Micro insurance schemes mainly targeted low income households, while traditional products targeted middle to higher income households. These are mostly group insurance schemes and groups may be women's associations, co-operatives, small business associations, etc.

The following are key features of micro insurance:

***a) As inclusive as possible*****:** While insurance companies tend to exclude low-income households, micro insurance schemes generally strive to be inclusive. Since the sums insured are small, the costs of identifying high-risk persons, such as those with pre-existing illnesses, may be higher than the benefits of excluding them in the first place.

***b) Grouping for efficiencies and access*****:** Group insurance is more inclusive and cost effective than individual coverage. Even though the informal economy is frequently seen as disorganized, there are groupings available, such as women's associations, informal savings and credit groups, cooperatives, small business associations and the like. Some micro insurers use these groups effectively by enlisting their support in member selection and reducing insurance risks such as fraud, over-usage and moral hazard.

***c) Clearly defined and simple processes, rules and restrictions*****:** Insurance contracts are generally full of complex conditions, conditional benefits, and written in strong legalese. Although the rationale for the fine print may be consumer protection, if the consumers do not understand what is written, it's very purpose is defeated. Micro insurance contracts have to be in plain language, (preferably local language) and kept as simple so that everyone has a clear understanding of what is covered and what is excluded. The product and the processes associated must then be simple to sell and administer. Technology can contribute to achieving this goal. However, in some cases, access to internet or other infrastructural requirements such as an electrical supply may be scarce or inexistent in some point of services and operations may have to be performed manually.

***d) Wariness of customers*: ** In general, low-income households are apprehensive about insurance. Therefore, consumer education is important to raise awareness about how insurance works and how it can benefit them. However, upholding promises and fulfilling obligations, and creating positive experiences with insurance services among the low-income segments of the population are equally important.

***e) Limited data*:** Even when there are relevant longevity, mortality and morbidity data, which is infrequent, these tables do not typically reflect the risk of low-income households that are more exposed to a wider variety of risks.

***f) Premium collection*:** Premiums must be efficiently collected, and with flexible payment terms that closely fit the income streams of the low-income segment. For example, a small farmer may prefer to pay once or twice a year, just after harvest, whereas a petty trader may prefer monthly or even weekly payments.

***g) Alternative delivery channels*:** Traditional brokers/ agents typically do not want to sell micro insurance with its relatively small premiums (and thus small commissions). Thus, many micro insurance delivery channels are unlicensed and unregulated agents. Often the regulator allows the insurer to take on the risk of agents so may not need to be directly regulated. New delivery channels include a) developing a group of "barefoot" agents from local markets dedicated towards this specific market segment; b) using microfinance institutions, credit unions, and cooperative staff to sell basic micro insurance products; c) selling micro insurance products through retailers, cell companies and other agencies having access to low-income households (d) adapting the sales process to rely less on high cost advice based models but more on clear and transparent disclosure.

### 1.6 Micro insurance in India:

Traditionally in India, rare micro-insurance schemes were introduced, either by non- governmental organizations (NGO) due to the felt need in the communities in which these organizations were involved or by the trust hospitals. These schemes have now gathered momentum partly due to the development of micro-finance activity, and partly due to the regulation that makes it mandatory for all formal insurance companies to extend their activities to rural and well-identified social sector in the country (IRDA 2000). As a result, increasingly, micro-finance institutions (MFIs) and NGOs are negotiating with the for-profit insurers for the purchase of customized group or standardized individual insurance schemes for the low-income people.

#### 1.6.1 Micro Insurance Regulatory Framework in India

Indian insurance sector is regulated under the Insurance Act, 1938 and the IRDA Act, 1999. The Insurance Act, 1938 defines insurance in four categories – life, fire, marine and miscellaneous. In general, the Act, 1938 are licensed two categories of insurers – life and general (covering the fire, marine and miscellaneous insurance product). The regulator does not allowed insurers to offer life and general insurance together except relation somewhat for micro insurance products. Health insurance may be provided under either a life or a general insurance license.

Regulations on micro-insurance were officially gazette by the IRDA on 30 November 2005. The regulation provides definitions of micro-insurance products covering life and general insurance *“General micro insurance product”* means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule-I appended to these regulations. *“Life micro insurance product”* means any term insurance contract with or without return of premium, and endowment insurance contract or health insurance contract, with our without an accident benefit rider, either on individual or group basis, as per terms stated in Schedule-II appended to these regulations.

(a) “micro-insurance policy” means an insurance policy sold under a plan which has been specifically approved by the Authority as a micro insurance Product.
(b) “micro-insurance product” includes a general micro-insurance product or life insurance product, proposal form and all marketing materials in respect thereof.
(c) Every insurer shall be subject to the “file and use” procedure with the IRDA.
(d) No one other than insurer – be it a micro-insurance agent or anyone else – can underwrite a micro-insurance proposal.
(e) Rural business transacted under micro-insurance by an insurer will be counted for quota fulfillment both for rural as well as social sector obligations.

India is one of the few developing countries in the world which has a special micro insurance 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 (IRDA) which provided that any micro insurance 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 customers and form socially marginalized groups has created opportunities for partnership between NGOs and insurance providers. Recognizing NGOs, MFIs, and SHGs as agents of micro insurance by the IRDA regulations, the rural insurance penetration has increased. In addition, the IRDA regulations prescribe that these intermediary institutions as micro-insurance agents should have a clean track record and by-laws with relevant aims, objectives, and accountability. About 9,250 micro insurance agencies were registered with IRDA by 31st March 2012 (NABARD, 2012)[11]

The Indian regulator (IRDA) has bought in specified micro insurance regulations in November 2005, in which the regulator has undertaken the product design,

[11] NABARD (2012), “Micro insurance”, NABARD Report, p.98.

specifying a distribution channel in form of NGO, Self Help Group or a MFI and the pricing mechanism to insurers as follows:

(i) "Life micro-insurance product" means any term insurance contract with or without return of premium, any endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis, as per terms stated in Schedule-II appended to these regulations;

(ii) "micro-insurance agent" means – (I) a Non-Government Organisation (NGO); or (II) a Self Help Group (SHG); or (III) a Micro- Finance Institution (MFI), who is appointed by an insurer to act as a micro-insurance agent for distribution of micro-insurance products.

(iii) "micro-insurance policy" means an insurance policy sold under a plan which has been specifically approved by the Authority as a micro-insurance product.

(iv) "micro-insurance product" includes a general micro-insurance product or life insurance product, proposal form and all marketing materials in respect thereof;

**1.6.2 The Terminology:**

The following terminologies were adopted for the study. Most of the definitions were taken from Insurance Regulatory Development Authority (IRDA) as it is the pioneering institution in the field of providing, regulating and controlling the business of insurance in India.

Micro Insurance: "Protection from specific risks, paid for by regular premiums, specifically designed for low-income individuals", Churchill (2006)[12].

Micro Finance Institution: Any institution or entity or association registered under any law for the registration of societies or cooperative societies, as the case may be, inter alia, for sanctioning loan/finance to its members (IRDA Regulations, 2005)[13].

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[12] Churchill. C (2006), "What is insurance for the Poor? In Protecting the Poor: A Micro insurance Compendium, International Labour Organization, Geneva.

[13] IRDA (Micro-Insurance) Regulations, (2005), "Notification", Hyderabad, the 10th November.

Micro Insurance Agent: A micro-insurance agent may be a nongovernment organization (NGO); or a self-help group (SHG); or a micro-finance institution (MFI), who is appointed by an insurer to act as a micro insurance agent for distribution of micro-insurance products (IRDA Regulations, 2005)[14].

Micro Insurance Policy: An insurance policy, sold under a plan, which has been specifically approved by the authority as a micro insurance product (Micro Insurance Regulations, 2005)[15].

Life Micro Insurance Product: A term insurance contract with or without return of premium, and endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis (IRDA Regulations, 2005)[16].

Self-Help Group: A group with an average size of about 15 people from a homogenous class. They come together for addressing their common problems. They are encouraged to make voluntary thrift on a regular basis. They use this pooled resource to make small interest bearing loans to their members. The process helps them imbibe the essentials of financial intermediation including prioritisation of needs, setting terms and conditions and accounts keeping (NABARD, 2005)[17].

Non Government Organisation (NGO): Non-government Organization means a non-profit organization registered as a society under any law, and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency, and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people.[18]

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[14] IRDA (2005), "Insurance Regulatory and Development Authority (Micro insurance) Regulations".

[15] M-CRIL (2008), "Micro-Insurance regulation in the Indian financial landscape-A Case study", Micro-Credit Ratings International Limited, M-CRIL, March, p.18.

[16] IRDA (Micro-Insurance) Regulations, (2005), Notification, Hyderabad, the 10th November.

[17] NABARD (undated),"Micro-insurance", NABARD Report, pp. 96. Retrieved from http://www.nabard.org/pdf/report_financial/Chap_XI.pdf

[18] Kapoor. S and Raj Kumar Ojha (2006), "Vulnerability in Rural Areas: Potential Demand for Micro insurance", International Journal of Rural Management, Sage Publications, Vol.2 (1), 2006. p.69.

**Micro-insurance Agent**

A micro-insurance agent shall be appointed by an insurer by a deed of agreement or memorandum of understanding which should clearly specify the terms and conditions, duties and responsibilities of both the micro-insurance agent and the insurer, and he shall abide by the following:-

1. He shall work either for one life insurer or for one general insurer or for one life insurer and one general insurer;
2. He shall be specifically authorized to perform one or more of the following functions:--

i) Maintaining a register of all members and their dependants covered under the insurance scheme along with details of name, age, address, nominees and thumb impression/ signature;

ii) Collection of proposal forms;

iii) Collection of *self declaration* from the member that he is in good health;

iv) Collection of premiums for issuance of contract or remittance of premium;

v) Distribution of policy documents;

vi) Assistance in the settlement of claims;

vii) Nomination; and

viii) Any policy administration service.

3. The micro-insurance agent or the insurance company shall have the option to terminate the agreement/ MOU after giving a notice of three months.
4. All such agreements/ MOU must have the prior approval of the Head office of the insurance company.
5. He shall be entitled to receive a fee from the insurer to cover for all services rendered, and which shall not exceed:
   a) Twenty per cent of the premium in case of life insurance contracts; and
   b) Seven and half per cent of the premium in case of general insurance contracts.
   c) In case of termination of agreement no future commission/ remuneration shall be payable.

Insurance Regulatory Authority of India (micro insurance) Regulation 2005 has been stated mainly two types of micro insurance:

# General micro insurance product; and

# Life micro insurance product.

General micro insurance product means any health insurance contract, any contract covering the belonging, such as hut, livestock, or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in schedule-I appended to the regulations,

Schedule-I

| Item | Type of cover | Min Amt. of cover | Max Amt. of cover | Term of cover Min | Term of cover Max | Min age at entry | Max age at entry |
|---|---|---|---|---|---|---|---|
| 1 | Dwelling & contents, or livestock or tools or implements or other named assets/ or Crop insurance against all perils. | Rs.5,000 per asset/ cover | Rs.30,000 per asset/ cover | 1 year | 1 year | NA | NA |
| 2 | Health insurance contract (individual) | Rs.5,000 | Rs.30,000 | 1 year | 1 year | Insurers discretion | |
| 3 | Health insurance contract (family) (option to avail limit for individual/ float on family) | Rs.10,000 | Rs.30,000 | 1 year | 1 year | Insurers discretion | |
| 4 | Personal Accident (per life/ earning member of family) | Rs.10,000 | Rs.50,000 | 1 year | 1 year | 5 | 70 |

Note: The minimum number of members comprising a group shall be at least twenty for group insurance.

Life micro insurance product means any term insurance contract with or without return of premium, any endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis, as per terms stated in schedule-II appended to the regulations.

Schedule-II

| Type of cover | Min Amt of cover | Max Amt of cover | Term of cover Min | Term of cover Max | Min age at entry | Max age at entry |
|---|---|---|---|---|---|---|
| Term Insurance with or without return of premium | Rs.5000 | Rs.50000 | 5 year | 15 years | 18 | 60 |
| Endowment Insurance | Rs.5000 | Rs.30000 | 5 years | 15 years | 18 | 60 |
| Health Insurance contract(individual) | Rs.5000 | Rs.30000 | 1 year | 7 year | Insurer's discretion | Insurer's discretion |
| Health Insurance contract (family) | Rs.10000 | Rs.30000 | 1 year | 7 year | Insurer's discretion | Insurer's discretion |
| Accident Benefit as rider | Rs.10000 | Rs.50000 | 5 years | 15 years | 18 | 60 |

Note: 1. Group insurance products may be renewable on a yearly basis.

2. The minimum number of members comprising a group shall be at least twenty for group insurance.

### 1.6.3 Change of name of IRDA to IRDA of India:

The Insurance Regulatory and Development Authority (IRDA) shall henceforth be known as " Insurance Regulatory and Development Authority of India (IRDA of India) in view of amendment to section 2(1)(b) of the Insurance Regulatory and Development Authority Act, 1999 vide Chapter –IV, section 105 of "The Insurance Laws (Amendment) Act, 2015".

### 1.6.4 Different Micro Insurance Model in India:

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 incentivize the insurer to venture into this segment viewing it as a genuine market opportunity. Micro-insurance is a low-value, high-volume business. The following three approaches have emerged in India to provide insurance to low income populations (only regulated channels are included here, not in-house schemes):[19]

6. Partnership model
7. Agency model
8. Micro-agent model

**<u>Partnership model (The partner-agent model):</u>**

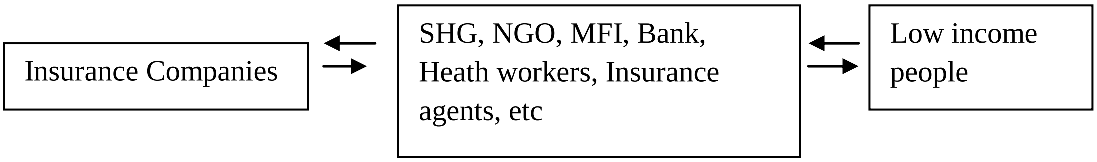
As the name implies this model involves a partnership between an insurer and an agent that provides some kind of financial service to large numbers of low-income people. This could be a microfinance organization, an NGO, or a business that supplies pre-cuts to large numbers of low income people, such as a fertilizer supplier. This party is an agent, selling insurance policies to the clients on behalf of the insurance provider (usually) in exchange for a commission or fee. The insurance provider utilizes the established distribution channels of this agent and its financial transactions with low-income groups that would otherwise be too costly to set up. The partnership model uses the comparative advantage of each partner so that each can focus on its core business: the insurance provider is responsible for designing and pricing the product, the final claims management, and the investment of reserves, and absorbs all the insurance risks. In addition to selling the policies, the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management.

In “partner - agent” or “linked” model, an NGO or MFI act as the intermediary between the end population and an insurance company. It is supreme that agents caught up in insurance schemes have very close contact with the poor. The advantages are that it eliminates agent risk and allows the institutions involved in focusing on their

[19] Shill, Porag (2013), *Distribution Channels for Micro-insurance products in India*, International Journal of Marketing, Financial Services & Management Research, Vol.2, No.1, January,2013, pp. 72-75.

particular strengths and the insurers utilize MFIs delivery mechanism to provide sales and basic services to clients'.[20]

Figure: 1.1 Partnership Model of MI




<u>Merits:</u>

1. The system works better than in-house because the synergies are maximized, enabling both organizations to focus on their core business and expertise;
2. With a single partnership agreement it is possible to sell micro-insurance to over a quarter of a million low-income people;
3. Requires fewer skills for the agent than an in-house model;
4. Uses legally recognized insurance companies that have adequate reserves, adhere to capital requirements, employ certified insurance professionals, and operate under the insurance law;
5. Insurer has access to reinsurance;
6. The overhead costs of both the organizations, the agent and the insurance company, are reduced: the agent can use its infrastructure for collecting premiums, etc.; the insurer provides the expertise on product development, etc;
7. It reduces the need to build the capacity of agents such as NGOs and MFIs to sell insurance because the insurer can do some of this;
8. The insurer assumes all the risks;
9. The agent earns commission without risk, while the insurer earns profits.

<u>Demerits:</u>

1. Because of the quota system, the most well-known agents are already taken and have existing relationships with insurers. There are still many other organizations, however, that could act within a partnership;

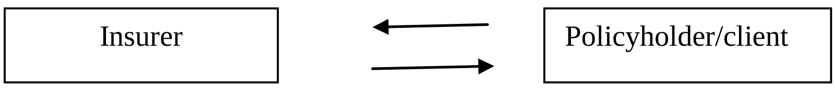
[20] Maleika, Marc and Anne T. Kuriakose (2008), "*Micro insurance: Extending Pro-Poor Risk Management through the Social Fund Platform*", Social Funds Innovations Notes, October 2008, Vol.5 (2), The world Bank, p. 5.

2. The insurance provider is dependent on the quality of the agent;
3. NGOs in particular are often ‘here today, gone tomorrow’, relying on donor recognition and goodwill for their survival;
4. Conflicts of interest may occur, especially when working with non-financial institutions. NGO or MFI staff or management may develop compassion for a client and be lax about underwriting or claims verification. It should be noted that this is less likely to occur with an MFI partner that is used to financial discipline with its lending activities.

**Agency model (Full service model):**

In this model the insurer uses its normal agency office and sells micro insurance products directly. The client comes to the agency office for sales and servicing of the product. An NGO or other organization operates the insurance scheme and fully absorbs risks, profit, and losses arising from the same[21]. The micro insurance scheme is in charge of everything: both the design and delivery of products to the clients and working with external healthcare providers to provide services to the clients. This model is the most demanding in an organization in terms of capacity, expertise, and investment required to make it work, which entails the financial risk for the organization at its maximum and are wholly responsible for all insurance related costs and losses.

Figure 1.2 Full services Model of MI




Merits:

1. Does not require much additional investment in infrastructure;
2. Better control of the quality of the agent is possible than with the partnership model.

[21] Sinha. A, Sudipto Das. (2010), “*Micro insurance – A Viable Safety Net for the Bottom of the Pyramid*”. AIMS International Conference on Value-based Management, Institute of Productivity and Management, August, pp.11-13

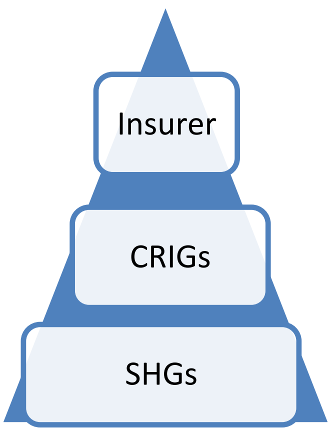
Demerits:

1. Difficult to reach large numbers especially in rural areas where clients may be unwilling to travel to the office;
2. Agents will need special training in dealing with low-income clients;
3. Offices may intimidate poor clients;
4. Individual policies only would be sold; generally such micro insurance policies have not proved commercially viable.

**Micro-agent model:**

The micro-agent model is the invention of Tata-AIG, specifically an employee of Tata-AIG. The central building blocks of the model are Rural Community Insurance Groups (CRIGs) supervised by rural organizations such as churches, NGOs or MFIs. CRIGs are a partnership firm formed of five women from a self-help group (SHG). The leader of the CRIG is licensed as an agent. The CRIG is a de facto brokerage firm (in the technical, not the legal sense of the term). All CRIGs in the same geographic area meet in a single centre, usually organized with the assistance of the rural organization, and receive training and assistance from Tata-AIG. This practice reduces training costs. Most CRIGs consist of four to five members. These members are usually women who are part of an SHG. The CRIG leader and members are involved in promotion, sales and collection of insurance proceeds and maintaining records. The CRIG leader will document all fortnightly CRIG meetings and all weekly meetings with the NGO concerned.

Figure 1.3 Model of micro-agent



Merits:

1. The model creates an insurance distribution infrastructure in low income neighbourhoods. In addition, it creates a new profession, that of micro -agent, with new livelihood opportunities in his/her vicinity;
2. Sustainability: Because the position is a commercial one with financial incentives, it will last in the long term, facilitating the sale of long-term products. As mentioned under the partner-agent model, NGOs and MFIs are often dependent on the goodwill and public recognition of aid flows, and so their long-term existence is precarious. Chances are good that CRIGs, being registered firms, will survive, in the event of a member or leader dropping out. The leader could be replaced by another from the community, thus mitigating the risk of orphaned policies;
3. In the event that a CRIG disbands, the orphaned policies can be taken over by another CRIG that operates under the same NGO.

Demerits:

1. Training is costly, especially in relation to premium values;
2. The transaction costs of the sales agent are cheap at first but increase as soon as the agent has sold to all the peoples/he knows and needs to sell to strangers, especially to those living far away;
3. In many cases in the partnership model, when a claim is arises the MFI or NGO investigates the claim, pays the benefit immediately, and then claims it back from the insurer. Immediate payment of claims helps maintain client confidence, and this is not possible under the CRIG system;
4. This model is new, and much more experience is needed before it can be reasonably evaluated.

### 1.6.5 Micro Insurance Providers in India:

At present, out of 24 life insurance companies only 17 companies are providing micro insurance products. Below the list of life insurance companies providing micro insurance products:

Table-1.1

*Insurance companies operating micro insurance in India*

| Public sector | Private sector |
|---|---|
| Life Insurance Corporation of India | 1. AVIVA Life Insurance Co. India Pvt. Ltd.<br>2. Birla Sun Life Insurance Co. Ltd.<br>3. ICICI Prudential Life Insurance C o. Ltd.<br>4. HDFC Standard Life Insurance Co. Ltd.<br>5. PNB Met Life India Insurance Co. Pvt. Ltd.<br>6. Kotak Mahindra OM Life Insurance Ltd.<br>7. SBI Life Insurance Co. Ltd.<br>8. TATA AIA Life Insurance Co. Ltd.<br>9. Sahara India Life Insurance Co. Ltd.<br>10. Bharti AXA Life Insurance Co. Ltd.<br>11. Shriram Life Insurance Co. Ltd.<br>12. IDBI Federal Life Insurance Co. Ltd.<br>13. Canara HSBC Oriental Bank of Commerce Life Insurance Company Ltd.<br>14. DHFL Pramerica Life Insurance Co. Ltd.<br>15. Edelweiss Tokio Life Insurance Co. Ltd.<br>16. Bajaj Allianz Life Insurance. |

Source: IRDAI Annual Report 2015-16

### 1.6.6 Micro Insurance Products in India:

There are 24 life insurance companies are present in India but only 17 companies are providing micro insurance products this clearly give an idea of low attraction of majority of companies towards these products. Below is the list of micro insurance products along with the name of companies:

Table-1.2

*LIST OF MICRO INSURANCE PRODUCTS OF LIFE INSURERS AS AT 31. 03.2016*

| Name of Insurer | Name of the Product | |
|---|---|---|
| | Individual Category | Group Category |
| AVIVA Life | Aviva Nayi Grameen Suraksha | |
| Bajaj Allianz Life | Bajaj Allianz Life Bima Dhan Suraksha Yojana.<br>Bajaj Allianz Life Bima Dhan Saral Suraksha Yojana.<br>Bajaj Allianz Life Bima Sanchay Yojana. | |
| Bharti AXA Life | | Bharti AXA life Jan Suraksha |
| Birla Sun Life | BSLI Bima Suraksha Super.<br>BSLI Grameen Jeevan Raksha | |
| Canara HSBC OBC Life | | Canara HSBC Oriental Bank of Commerce life Insurance Sampoorn Kavach Plan |
| DHFL Pramerica Life | | DLF Pramerica Sarv-Suraksha. |
| Edleweiss Tokio Life | Edleweiss Tokio Life Suraksha Kavach<br>Edleweiss Tokio Life Dhan Nivesh Bima Yojana | |
| HDFC Standard Life | HDFC SL Sar Grameen Bachat Yojana | |
| ICICI Prudential Life | ICICI Pru. Sarva Jana Suraksha<br>ICICI Pru Anmol Bachat | |
| IDBI Federal Life | Termsurance Sampoorn Suraksha Micro Insurance Plan | IDBI Federal Group Micro insurance Plan |
| Kotak Mahindra Life | Sampoorn Bima Micro Insurance Plan | |
| LIC of India | Bhagya Lakshmi<br>New Jeevan Mangal | |
| PNB Met Life | Met Life Grameen Ashray | |
| Sahara Life | Sahara Surakshit Pariwar Jeevan Bima | |
| SBI Life. | SBI Life Grameen Bima | SBI Life Grameen Super Suraksha.<br>SBI Life Grameen Shakti |
| Shriram Life | | Sri Sahay (SP). |
| TATA AIA Life | TATA AIA Life Insurance Navkalyan Yojana.<br>TATA AIA Life Insurace Sat Saath | |

Source: IRDAI Annual Report-2015-16

### 1.6.7 Growth and Development

Micro insurance is a new concept In India, adopted in 2005, as per the Insurance Regulatory and Development Authority of India (IRDA) guidelines to enhance insurance coverage to people around the poverty line. Basically, micro insurance covers the people working in the informal economy and are financially excluded as compared to the rich people of the society.

The concept of micro insurance, in developing countries like India, has originated from the concept of microfinance. Microfinance institutions face high risks of default through death or physical disability of the borrower. As a result they (Microfinance institutions) began to associate with insuring bodies, both public and private.

**<u>Growth of micro insurance in India</u>**

The micro insurance business in India has made a continuous progress in both public insurance and private insurance companies. More life and group operations and many fresh policies have been lunched during the study period. The distribution system of policies has also been strengthened substantially, and the new business of micro insurance has shown a sufficient growth though the mass is still very low.

Table-1.3

**Growth of Individual Micro Insurance Business** (premium in Rupees Lakh)

| Year | | Public Insurance Company | | | | | | Private Insurance Company | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Policies | % change in growth rate of policies | Composite growth rate of policies | premium | % change in growth rate of premium | Premium per policy | policies | % change in growth rate of policies | Composite growth rate of policies | premium | % change in growth rate of premium | Premium per policy |
| 2007-08 | 854615 | - | | 1613.36 | - | 188.78 | 83153 | - | | 209.74 | - | 252.23 |
| 2008-09 | 1541218 | 80.34 | 44.55 | 3118.74 | 93.31 | 202.36 | 610851 | 634.61 | 86.39 | 537.81 | 156.42 | 88.04 |
| 2009-10 | 1985145 | 132.29 | 56.95 | 14982.5 | 828.65 | 754.73 | 998809 | 1101.17 | 91.67 | 839.78 | 300.39 | 84.08 |
| 2010-11 | 2951235 | 245.33 | 71.04 | 12305.8 | 662.74 | 416.97 | 699733 | 741.50 | 88.12 | 735.09 | 250.48 | 105.05 |
| 2011-12 | 3826783 | 347.78 | 77.67 | 10603.5 | 557.23 | 277.09 | 793660 | 854.46 | 89.52 | 964.22 | 359.72 | 121.49 |
| 2012-13 | 4340235 | 407.86 | 80.31 | 9949.05 | 516.67 | 229.23 | 695904 | 736.90 | 88.05 | 1,018.54 | 385.62 | 146.36 |
| 2013-14 | 2205820 | 158.11 | 61.26 | 8635.77 | 435.27 | 391.50 | 561339 | 575.07 | 85.19 | 929.29 | 343.07 | 165.55 |
| 2014-15 | 400341 | -53.16 | -113.47 | 1640.23 | 1.67 | 409.71 | 416027 | 400.32 | 80.01 | 1249.22 | 495.60 | 300.27 |
| 2015-16 | 452291 | -47.08 | -88.95 | 1953.78 | 21.10 | 431.97 | 458655 | 451.58 | 81.87 | 1217.95 | 480.69 | 265.55 |

Source: IRDA Annual Reports (2007-2008 to 2015-2016)

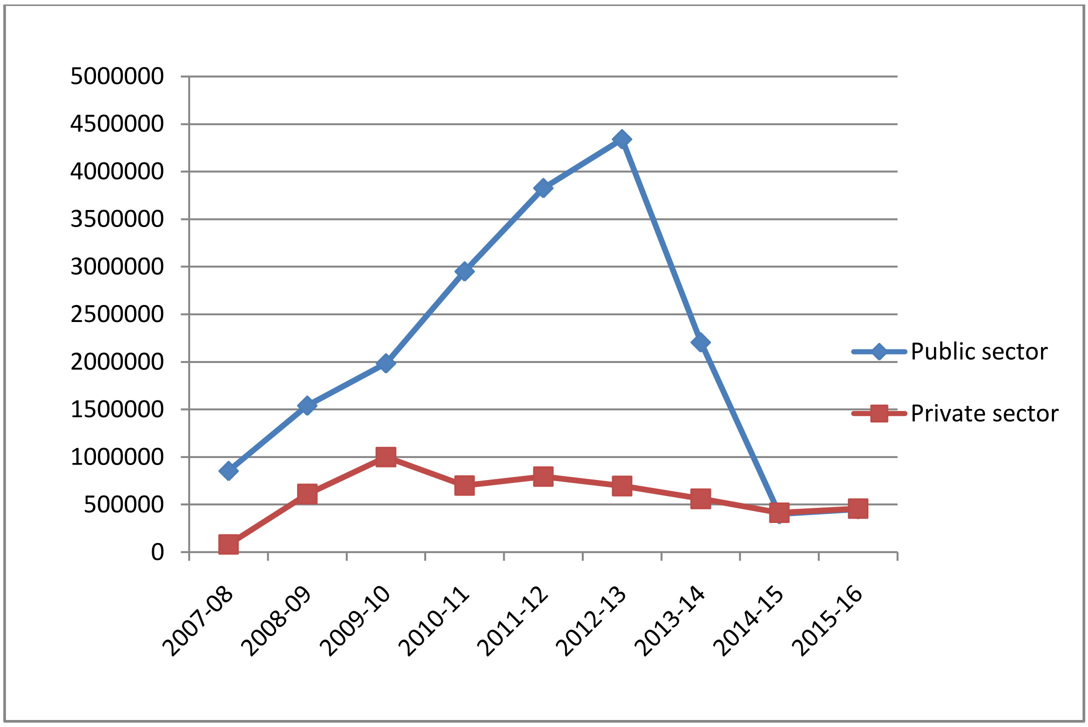
Average growth rate of policies:

Public Insurance Company: 158.93 (Based year 2007-08)

Private Insurance Company: 686.95 (based year 2007-08)

**Figure 1.4**

**Growth of Individual Micro Insurance Business in Policies**




The Table no. 1.3 shows the percentage change in the growth rate of individual micro insurance business of public and private insurance companies. For calculating the percentage change in the growth rate during year 2007-08 has been taken as base year. The Table clearly revealed that public insurance companies have increased the percentage of policies in first six years but in the last two years it is negative growing rate. On the other hand, private insurance companies have increased percentage policies not less than 400% whether it is some time increased or decreased. Similarly public insurance companies have increased growth rate for premium from the first six year satisfactory but in the last two years the growth rate of premium is very low. But the private insurance companies have maintained a satisfactory growth rate in case of the premium amount.

Table-1.4(A)

**Growth of Group Micro Insurance Business** (premium in Rupees Lakh)

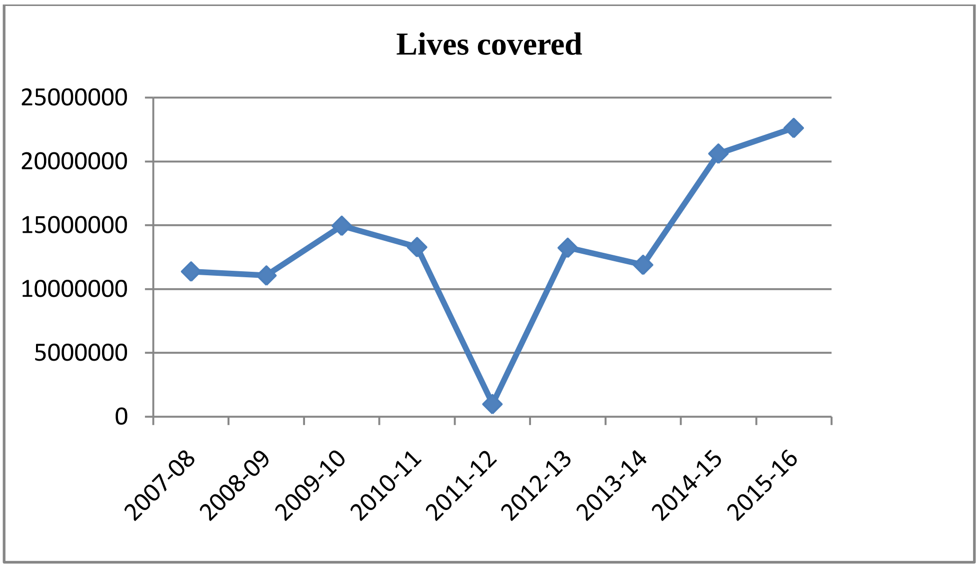
A. Public Insurance Company:

| Year | Scheme | % change in growth rate of Scheme | Lives Covered | % change in growth rate of lives covered | Composite growth rate of lives covered | Premium | % change in growth rate of premium |
|---|---|---|---|---|---|---|---|
| 2007-08 | 7583 | | 11367126 | | | 19256.23 | |
| 2008-09 | 6883 | -9.23 | 11052815 | -2.77 | -2.84 | 17268.54 | -10.32 |
| 2009-10 | 5190 | -31.56 | 14946927 | 31.49 | 23.95 | 22869.72 | 18.77 |
| 2010-11 | 5446 | -28.18 | 13275464 | 16.79 | 14.37 | 13803.67 | -28.32 |
| 2011-12 | 5461 | -27.98 | 983163 | -99.91 | -1056.18 | 94443.49 | 480.30 |
| 2012-13 | 5325 | -29.78 | 13223872 | 16.33 | 14.04 | 21045.76 | 9.29 |
| 2013-14 | 5292 | -30.21 | 11887303 | 4.58 | 4.38 | 12581.45 | -34.66 |
| 2014-15 | 5417 | -28.56 | 20596725 | 81.19 | 44.81 | 28193.80 | 46.41 |
| 2015-16 | 4844 | -36.12 | 22603919 | 98.85 | 49.71 | 25426.39 | 32.04 |

Source: IRDA Annual Report (2007-2008 to 2015-2016)

Figure 1.5

**Growth of Group Micro Insurance Business (Public Insurance Co.)**



B. Private Insurance Companies:

Table-1.4(B)

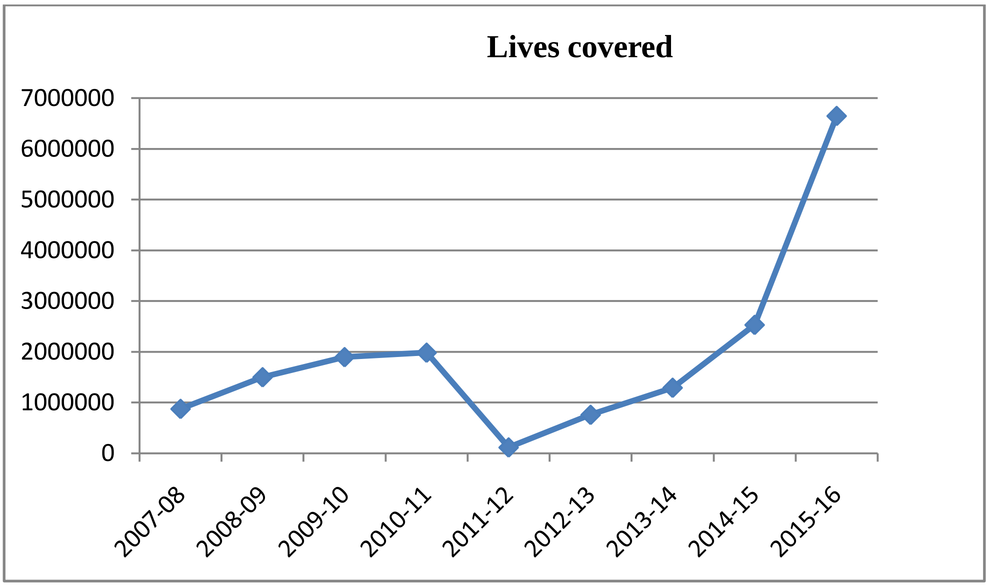
**Growth of Group Micro Insurance Business** (premium in Rupees Lakh)

| Year | Scheme | % change in growth rate of Scheme | Lives Covered | % change in growth rate of lives covered | Composite growth rate of lives covered | Premium | % change in growth rate of premium |
|---|---|---|---|---|---|---|---|
| 2007-08 | 15 | | 874901 | - | | 871.23 | |
| 2008-09 | 14 | -6.67 | 1498994 | 71.33 | 41.63 | 3326.8 | 281.85 |
| 2009-10 | 17 | 13.33 | 1895143 | 116.61 | 53.83 | 1472.09 | 68.97 |
| 2010-11 | 23 | 53.33 | 1983537 | 126.72 | 55.89 | 1719.14 | 97.32 |
| 2011-12 | 112 | 646.67 | 115067 | -99.87 | -660.34 | 7505.55 | 761.48 |
| 2012-13 | 151 | 906.67 | 7,57,450 | -13.42 | -15.51 | 756.89 | -13.12 |
| 2013-14 | 164 | 993.33 | 1291741 | 47.64 | 32.27 | 1595.23 | 83.10 |
| 2014-15 | 62 | 313.33 | 2531436 | 189.34 | 65.44 | 3366.22 | 286.38 |
| 2015-16 | 153 | 920.00 | 66,50,805 | 660.18 | 86.85 | 4816.67 | 452.86 |

Source: IRDA Annual Reports (2007-2008 to 2015-2016)

Figure 1.6

**Growth of Group Micro Insurance Business (Private Insurance Co.)**




The table no. 1.4 examine the percentage change in the growth rate of group micro insurance business during the last nine years i.e., from 2007-08 to 2015-16. In case of group micro insurance business, public insurance companies have been negative growth rate of percentage in schemes. Whereas the private insurance companies have decreased their schemes in their 2008-2009 from 15 to 14 schemes but again increased in next five years and again decreased in the year of 2014-15. Similarly, in case of lives covered by public & private insurance companies there has been an increased trend of micro insurance from 2007-08 to 2015-2016. While in case of premium collection by public insurance companies, they had been rising trend premium amount from 2007-2009 but decreased in 2010 that again increases in 2011-2012. Same Condition is there with private insurance companies for the premium amount.

Therefore, the tables reveal that in case of individual micro insurance business the overall policies issued by private insurance companies is more than public insurance company but the premium collection rate of public insurance companies is higher.

Similarly in group micro insurance business private insurance companies overall growth rate is higher in number of schemes issued and premium collection but negative in lives covered then public insurance companies.

Table-1.5

Micro Insurance Agents of Life Insurers 2015-16

| Insurer | As on 1$^{st}$ April,2015 | Additions | Deletions | As on 31$^{st}$ March,2016 |
|---|---|---|---|---|
| Private | 3382 | 6392 | 1307 | 8,467 |
| LICI | 19379 | 997 | 1802 | 18,574 |
| Total | 22761 | 7389 | 3109 | 27,041 |

Source: IRDA Annual report 2015-16.

In 2015-16 the private insurance agent increased from 3382 to 8467 there were an additions of 6392 and deletions of 1307 agents and the LIC agents were decreased from 19379 to 18574 there were an additions of 997 and deletions of 1802 agents. From the table- 5 it reveals that private insurance companies are give more importance on micro insurance than public company.

**Micro Insurance in Assam:**

LIC started Micro insurance business in the financial year 2006-2007 by the product of JEEVAN MADHUR POLICY- Table No. 182. The following table shows the present LIC's micro insurance business in Assam.

Table-1.6
Growth of LICI's Micro Insurance Business in Assam

| Year | DIVISION | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | GUWAHATI | | | | BONGAIGAON | | | | JORHAT | | | |
| | Policies | % change in growth rate of policies | Composite growth rate of policies | FPI | Policies | % change in growth rate of policies | Composite growth rate of policies | FPI | Policies | % change in growth rate of policies | Composite growth rate of policies | FPI |
| 2010-11 | 9,067 | -- | | 18,00,855 | 7,315 | -- | | 10,56,446 | NA | -- | | NA |
| 2011-12 | 27,053 | 198.4 | 66.48 | 23,55,727 | 9,316 | 27.4 | 21.48 | 14,77,660 | 75,110 | -- | | NA |
| 2012-13 | 32,025 | 253.2 | 71.69 | 20,89,818 | 13,624 | 86.2 | 46.31 | 8,45,123 | 77,798 | 3.6 | 3.46 | NA |
| 2013-14 | 18,463 | 103.6 | 50.89 | 16,24,199 | 4,463 | -39.0 | -63.90 | 11,10,510 | 5,530 | -92.6 | -1258.28 | NA |
| 2014-15 | 4,060 | -55.2 | -123.33 | 6,30,605 | 1,563 | -78.6 | -368.01 | 4,40,310 | 3,159 | -95.8 | -2277.65 | 9,92,910 |
| 2015-16 | 4,177 | -53.9 | -117.07 | 9,37,682 | 2,929 | -60.0 | -149.74 | 22,04,334 | 2,401 | -96.8 | -3028.28 | 14,98,920 |
| 2016-17 | 4,258 | -53.0 | -112.94 | 8,43,774 | 3,030 | -58.6 | -141.42 | 16,95,703 | 2,467 | -96.7 | -2944.59 | 18,56,450 |

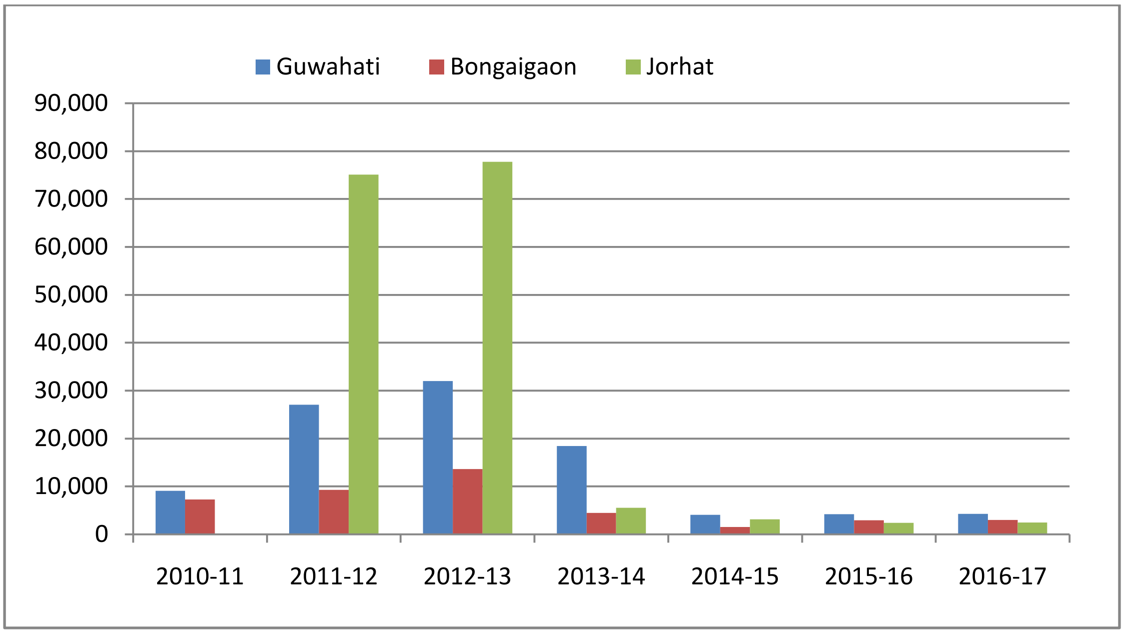
Source: Collected Data.(2010-2011 to 2016-2017)

Average growth rate of policies:

Guwahati= 65.52%, Bongaigaon = - 20.43%, Jorhat = - 75.66%

**Figure 1.7**

**Growth of LICI's Micro Insurance Business in Assam**




The Table-1.6 clearly revealed that public insurance companies have increased the percentage of policies in years 2010-11, 2011-12 and 2012-13 but in the last three years i.e. 2013-14, 2014-15 and 2015-16 it is decreasing the no. of policies and first premium installment

Table-1.7

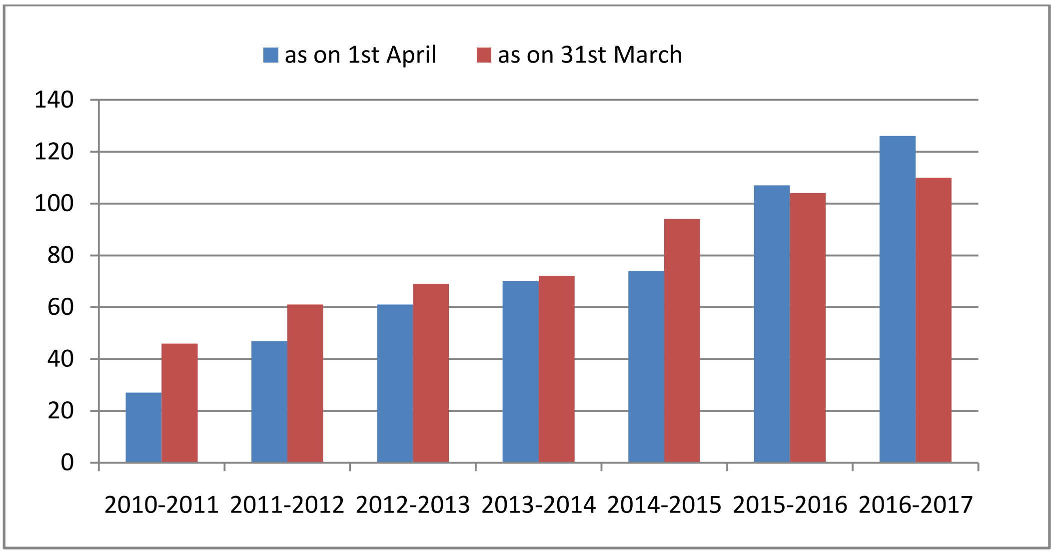
Micro Insurance Agent ( LICI, Guwahati Division)

| YEAR | As on 1st April | Additions | Deletions | As on 31st March | Activate |
|---|---|---|---|---|---|
| 2010-2011 | 27 | 19 | 0 | 46 | 37 |
| 2011-2012 | 47 | 15 | 1 | 61 | 40 |
| 2012-2013 | 61 | 8 | 0 | 69 | 31 |
| 2013-2014 | 70 | 5 | 1 | 72 | 16 |
| 2014-2015 | 74 | 22 | 2 | 94 | 25 |
| 2015-2016 | 107 | 10 | 13 | 104 | 26 |
| 2016-2017 | 126 | 6 | 22 | 110 | 23 |

Source: Collected Data

Figure 1.8

Micro Insurance Agent (LICI, Guwahati Division)




In table-1.7 it is clearly revealed that the Life insurance Company of India, Guwahati Division insurance agent increased from 27 in the year 2010-11 to 126 in the year 2016-17 but only 23 insurance agents are working actively in the year 2016-17. It focuses that the public insurance company cannot attract the mass people to micro insurance in Assam.

Table-1.8

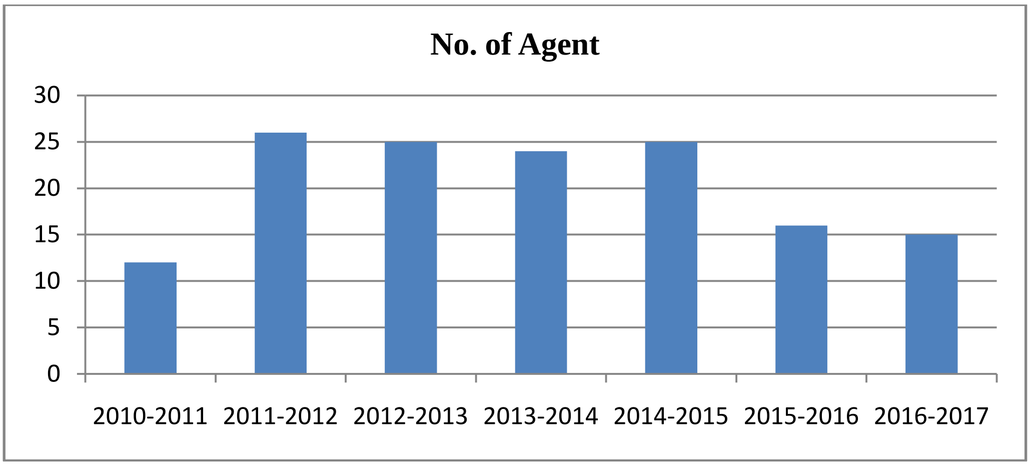
Micro Insurance Agent (LICI, Jorhat Division)

| YEAR | As on 1$^{st}$ April | % change in growth rate of Agent |
|---|---|---|
| 2010-2011 | 12 | --- |
| 2011-2012 | 26 | 116.7 |
| 2012-2013 | 25 | 108.3 |
| 2013-2014 | 24 | 100.0 |
| 2014-2015 | 25 | 108.3 |
| 2015-2016 | 16 | 33.3 |
| 2016-2017 | 15 | 25.0 |

Source: Collected Data

Figure 1.9

Micro Insurance Agent (LICI, Jorhat Division)




In table-1.7 it is clearly revealed that the Life insurance Company of India, Jorhat Division insurance agent increased from 12 in the year 2010-11 to 26 in the year 2011-12 but it is started to decrease from 2012-2013. In 2016-2017 only 15 insurance agents are working. It focuses that Jorhat Division of Life Insurance Corporation of India cannot attract the mass people to micro insurance.

**1.7 Micro insurance for Social Protection**

Social protection generally consists of policies and programs designed to reduce poverty and vulnerability by promoting efficient labor markets, diminishing people's exposure to risks, enhancing their capacity to protect themselves against hazards and interruption/loss of income. The five main areas that are there in the social protection are

1. Labor Market.
2. Social Insurance
3. Social Assistance
4. Child protection
5. Poverty reduction (Micro and area based schemes).

In social protection to reduce the poverty we are diminishing people's risk and improving their capacity to protect themselves. Social protection refers to the benefits that society provides for its members including:

1. unemployment and disability benefits,
2. universal healthcare,
3. maternity benefits,
4. old-age pensions,
5. Protection for children and the disabled.

**1.8 Social Protection and effects on the poor**

1. Social protection reduces the poverty through its positive impact on economic performance and productivity.
2. It helps people to cope with important risks and loss of income.
3. Used as a critical tool in managing change in the economy.
4. It will stabilize the economy by providing replacement income.
5. Enhancing the principles such as solidarity, dignity and equality.

**1.9 Micro insurance for Social Security**

A Social Security System (SSS) is one whereby the state provides various benefits to those who are unable to provide the same for themselves. Such a system is generally meant to serve the socially deprived conditions, such as poverty, old age, disability, and unemployment, etc. The most important forms of social security system are retired-worker benefits, and dependents' benefits. Therefore, SSS is a means of living independently during the old age and supporting the dependents in the family. Individuals while working are expected to set aside a part of their income as long term savings to take care of their needs in post-retirement years. Apart from the increased cost of living, the steeply rising cost of medical treatments in recent times and the need for personalized services in the old age, there are always apprehensions that the savings made during the working life will be inadequate unless some institutional arrangements are in place.

Social security is of two types

1. Social assistance : A method to provide benefits to persons usually for the vulnerable groups of community ( Children, mothers, disabled, old age people etc.) from general revenues of the state, it is non-contributory.
2. Social insurance: A method to provide benefits to person through contributions of beneficiaries with contribution/subsidies from employer and state.

The term social security came into general use only after 1935 when United States passed the social security Act. Then the issue occupied important place in the Atlantic Charter of 1941. The concept of social security has since spread rapidly and it has now been widely accepted through the world.

Social security is a programme of protection provided by society against, the contingencies of human life such as sickness, unemployment, old age, dependency, industrial accident and invalidism which the individual cannot be expected to protect him and his family by his own ability.[22]

According to the ILO (2000), social security is the protection which society provides for its members through a series of public measures:

*To compensate for the absence or substantial reduction of income from work resulting from various contingencies (notably sickness, maternity, employment injury, unemployment, invalidity, old age and death of the breadwinner),

* To provide people with healthcare

* To provide benefits for families with children.

**1.10 Social security in developing countries**

Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner.[23] Social security has a powerful impact at all levels of society. It provides workers and their families with access to health care and with

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[22] Watkison 1949

[23] Bamako 2000, *Innovations in Microfinance: Insurance as a Microfinance Product*, 2001. p.1

protection against loss of income. It provides older people with income security in their retirement years.

In sub-Saharan Africa and south Asia, more than 90% of workers are not covered by social security, while internationally only 20% of people are adequately covered by social security[24]. There is a large discrepancy in levels of cover in Latin America, ranging from 10% to 80% of workers. This is in contrast to the situation in developed countries, where, until fairly recently, with the exception of some East European countries, almost all workers have access to social security.[25] This trend of almost complete cover has been decreasing in recent years with the influence of informalisation and increasing flexibility of labour markets, which leaves workers outside of social security systems.[26]

Many of the newly independent countries in Africa had extensive social security systems in place after independence which provided free or heavily subsidised healthcare.[27]

However, as a result of the economic effects of the international economic crisis of the 1970s and the impact of structural adjustment programmes, countries have reduced their social spending, which has led to the demise of many of the social protection programmes, as well as a reduction in the state's capacity to implement the remaining programmes.[28] Reform processes often are introduced to protect the interests of the incumbents of power. Similarly to the motivation that convinced Bismarck to introduce state controlled health insurance in Germany,[29] argues that

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[24] Van Guinneke, (2003), p.7

[25] Sabates-Wheeler, Rachel and Kabeer, Naila. (2003) *Gender equality and the extension of social protection*. ESS Paper no 16. Geneva.p.5 www.ilo.org/public/english/protection/socsec/download/esspaper16.pdf

[26] Ibid.

[27] Atim, Chris. (1998) *The contribution of mutual health organisations to financing, delivery and access to healthcare: Synthesis of Research in nine West and Central African Countries*. STEP/ILO. P. 1

[28] Steinwachs, Luise. (2002) *Extending health protection in Tanzania Networking between health financing mechanisms*. ESS paper no. 7. ILO. Geneva. p.15 www.ilo.org/public/english/protection/socsec/download/esspaper7.pdf

[29] Hickey, Sam. (2005) *Thinking about the politics of social protection in Africa: Towards a conceptual and theoretical approach*. Institute for Development Policy and Management,

some social protection programmes in developing countries undergoing structural adjustment were introduced to reduce the sway of opposition political parties who were resisting the adoption of social adjustment.

Developing countries found themselves besieged by contrasting demands by foreign donors. Donors both provided financing for social programmes to reduce the impact of structural adjustment programmes, and also supported the systematic reduction of the size and role of the state and hence its capacity to deliver.[30]

According to a 2000 WHO report,[31] in 1997 the country wise health care expenses of its GDP are estimated as follows:

Table No. 1.9

*Percentage of healthcare expenses out of GDP*

| Name of the country | % of healthcare expenses |
|---|---|
| Indonesia | 1.7 |
| Thailand | 5.7 |
| India | 5.2 |
| Vietnam | 4.8 |
| Philippines | 3.4 |
| Malaysia | 2.4 |
| Belgium | 8.0 |
| Canada | 8.6 |
| France | 9.8 |
| Garman | 10.5 |
| Sweden | 9.2 |
| UK | 5.8 |
| USA | 134.7 |

World Health Report (2000); WHO

University of Manchester.p.9 www.sed.manchester.ac.uk/idpm/research/events/february2005/documents/Hickey.pdf

[30] Ibid. p.28

[31] WHO. World Health Report. (2000) *Health Systems: Improving Performance*. WHO. Geneva, pp. 192-195 www.who.int/whr/2000/en/

It is also important to interrogate the distribution of a country's health spending. According to the World Development Report 2004 (p. 3), the bulk of public health spending is generally enjoyed by the 'non-poor'.

In considering the ability of countries to expand social security coverage it is important to distinguish between middle income and poor countries in the developing world given the varying abilities of the state to raise revenue required for state support for social security programmes.[32]

By 1993, almost all sub-Saharan Africa countries had introduced some form of cost-recovery system for healthcare provision, to the extent that this is now accepted uncritically as the legitimate way of financing healthcare[33], even though these systems present an often insurmountable obstacle to the poor in accessing healthcare.[34] Few of these countries have developed goals of universal comprehensive protection even subject to progressive realisation within available resources.

A rapid increase in urbanisation in developing countries has led to a diminution in the role of traditional community based or family based safety nets that provided various forms of security in the past.[35] Growing poverty in Africa, exacerbated by the effect in part of the reduction in the real terms of trade between countries in the South and the North,[36] has led to the rise of informal economies, with workers forging livelihoods for survival in an environment that is usually beyond the ambit of state regulation and protection.

Bloom argues that policy makers should ensure that new policies do not push out existing systems that work. It is important, however, to interrogate whether

[32] Reynaud, Emmanuel, (2002) *The extension of social security coverage: The approach of the International Labour Office*. ESS Paper no. 3. Geneva.p.3 www.ilo.org/public/english/protection/socsec/download/esspaper3.pdf

[33] Atim, Chris. (1998) *The contribution of mutual health organisations to financing, delivery and access to healthcare: Synthesis of Research in nine West and Central African Countries*. STEP/ILO. p.1

[34] Sabates-Wheeler, Rachel and Kabeer, Naila. (2003) *Gender equality and the extension of social protection*. ESS Paper no 16. Geneva. p.40 www.ilo.org/public/english/protection/socsec/download/esspaper16.pdf

[35] Ibid. p.10

[36] Estivill, Jordi, (2003) *Concepts and strategies for combating social exclusion: An overview*. Geneva. p.7 www.ilo.org/public/english/protection/socsec/step/

existing systems that have been established, for instance in the face of state absence, are beneficial or purely survivalist responses. If the latter, the question may be how to improve and develop what has been developed by people through increased financing and resources.[37]

Poverty denies people free choices, including whether to choose traditional healing or hospital based healthcare; preventative or remedial.[38] The articulation of preferred choices by the poor is essential to the development of strong, appropriate and accountable institutions.[39]

It is also important to consider *how* public funds are spent, including both the question of whether funds favour preventative or curative responses to healthcare, and whether state policies favour supply-side or demand-side financing. Many argue that the latter, through for instance cash transfers, empowers poor people by enabling them to choose their preferred healthcare provider, and in this way also forces healthcare providers to provide high levels of service through the threat of competition.[40]

**1.11 Social security status in India:**

For employers and enterprises, social security helps maintain stable labor relations and a productive workforce.[41] The Indian Constitution adopted in 1951 contains all the ingredients obliging the state to move towards the realization of socio-economic rights under Article 41, 42, 43 & 47.[42]

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[37] Bloom, Gerald. (February 2005) Health and Social Protection: meeting the needs of the very poor. P.11

[38] ILO. (2002) *A case Study of Lalitpur Medical Insurance Scheme (LMIS), Nepal*. Working Paper. Geneva.p.7 www.ilo.org/public/english/protection/socsec/download/714p1.pdf

[39] World Development Report. (2004) *Making services work for poor people*. World Bank.p.1

[40] Bloom, Gerald. (February 2005) *Health and Social Protection: meeting the needs of the very poor*. p.9 www.sed.manchester.ac.uk/idpm/reserach.events/february2005/protection-papers

[41] Social Security, Ministry of Labor and Employment, Government of India. Available from http://labour.nic.in/content/division/socialsecurity.pdf.[Last accessed July30, 2017]

[42] Social Security In India: Constitutional And Legal Framework. Available from http://shodhganga.inflibnet.ac.in/bitstream/10603/6251/9/09_chapter%205.pdf.[Last accessed July 30, 2017]

The workforce in India is of two types-organized and unorganized. In India 92.4% is unorganized workforce and 7.6 % is organized workforce. 51.4% of the workforce is in Agriculture.[43]

### 1.11.1 Schemes for Organized Sector

Social security is the protection that a society provides to individuals and households to ensure access to health care and to guarantee income security, particularly in cases of old age, unemployment, sickness, invalidity, work injury, maternity or loss of a breadwinner. Social security has a powerful impact at all levels of society. It provides workers and their families with access to health care and with protection against loss of income. It provides older people with income security in their retirement years.

India's social security system is composed of a number of schemes and programs spread throughout a variety of laws and regulations. Keeping in mind, however, that the government-controlled social security system in India applies to only a small portion of the population.

Generally, India's social security schemes cover the following types of social insurances:

- Pension
- Health Insurance and Medical Benefit
- Disability Benefit
- Maternity Benefit
- Gratuity

*Pension or Employees' Provident Fund*:

The employees' Provident fund Organisation, under the Ministry of Labor and Employment, ensures superannuation pension and family pension in case of death during service period. Presently only about 35 million out of labor force of 400 million

[43] Social Security, Ministry of Labor and Employment, Government of India. Available from http://labour.nic.in/content/division/socialsecurity.php. [Last accessed July31, 2017]

have access to formal social security in form of old-age income protection in India. Out of these 35 million 26 million workers are members of the Employees Provident fund Organisation, which comprises private sector workers, civil servant, military personnel and employees of State Public Sector Undertakings (PSUs).

The scheme under the Employees Provident funds Organisartion apply to business with at least 20 employees. Contributions to the Employees Provident Fund Scheme are obligatory for both the employer and the employee when the employee is earning up to Rs. 15,000 (US$220) per month, and voluntary, when the employee earns more than this amount. If the pay of any employee exceeds this amount the contribution payable by the employer will be limited to the amount payable on the first Rs. 15,000 (US$220) only.

The Employees' Provident Fund Organisation includes three schemes

- The Employees' Provident Fund Scheme 1952,
- The Employees' Pension Scheme 1995, and
- The employees deposit Linked Insurance Scheme 1976

The Employees' Provident Fund (EPF) Scheme is contributed to by the employer (1.67 – 3.67 percent) and the employee (10-12 percent).

The employee Pension Scheme (EPS) is contributed to by the employer (8.33 percent) and the government (1.16 percent) but not the employee.

Finally the Employees' Deposit Linked Insurance (EDLI) Scheme is contributed to by the employer (0.5 percent) only.

Four main types of pension (all monthly) are offered:

- Pension upon superannuation or disability,
- Widows' pension for death while in service,
- Children's pension, and
- Orphan's pension.

In addition, there are separate pension funds for civil servants, workers employed in coal mines and tea plantations in the state of Assam, and for seamen.

*Health Insurance and Medical Benefit*:

India has a national health service, but this does not include free medical care for the whole population. The Employees' State Insurance )ESI) Act creates a fund to provide medical care to employees and their families as well as cash benefits during sickness and maternity and monthly payments in case of death or disablement for those working in factories and establishments with 10 or more employees.

The Employees' State Insurance (Central) Amendment Rules, 2016 – notified on December 22, 2016 – expanded coverage to include employees earning Rs. 21,000 (US$313.53) or less in a month from January 1, 2017 previously the wage limit for ESI subscribers was Rs.15,000 (US$223.95) per month. Subsequently the Employees' State Insurance (Central) Amendment Rules, 2017 was notified on January 20, detailing new maternity benefits for women who have insurance.

Sickness benefit under ESI coverage is 70% of the average daily wage and is payable for 91 days during two consecutive benefit periods.

*Disability Benefit*:

The employees' Compensation Act, 1923, formerly known as the Workmen's Compensation Act, 1023, requires the employer to pay compensation to employees or their families in case of employment related injuries that result in death or disability.

In addition, workers employed in certain types of occupations are exposed to the risk of contracting certain diseases, which are peculiar and inherent to those occupations. A worker contracting an occupational disease is deemed to have suffered an accident out of and in the course of employment and the employer liable to pay compensation for the same injuries resulting in permanent total and partial disablement are listed in parts I and II of Schedule I of the Employee's Compensation

Act, while occupational diseases have been defined in parts A, B and C of Schedule III of the Employee's Compensation Act.

Compensation calculation depends on the situation of occupational disability

(a) Death: 50 percent of the monthly wage multiplied by the relevant factor (age) or an amount of Rs. 80,000 (US$ 1,246.20), whichever is more.
(b) Total permanent disablement: 60 percent of the monthly wage multiplied by the relevant factor (age) or an amount of Rs. 90,000 (US$ 1,401.98), whichever is more.

*Maternity Benefit*:

The Maternity Benefit (Amendment) Act, 2017 came into force on April 1, 2017 and increases some of the key benefits mandated under the previous Maternity Benefit Act of 1961. The amended law provides Women in Organized sector with paid maternity leave of 26 weeks up from 12 weeks for the first two children. For the third child, the maternity leave entitled will be 12 weeks. India now has the third most maternity leave in the world, following Canada (50 weeks) and Norway (44 weeks).

The Act also secures 12 weeks of maternity leave for mothers adopting a child below the age of three months as well as to commissioning mothers (biological mothers) who opt for surrogacy. The 12 week period in these cases will be calculated from the date the child is handed over to the adoptive or commissioning mother.

In other provisions, the law mandates that every establishment with over 50 employees must provide crèche facilities within easy distance which the mother can visit up to four times a day. For compliance purposes, companies should note that this particular provision will come into effect from July 1, 2017.

The Maternity Benefit (Amendment) Act introduces the option for women to negotiate work-from-home, if they reach an understanding with their employers after the maternity leave ends.

Under the pre-existing Maternity Benefit Act of 1961, every woman is entitled to and her employer is liable for the payment of maternity benefit at the rate of the average daily wage for the period of the employee's actual absence from work. Apart from 12 weeks of salary, a female worker is entitled to a medical bonus of Rs. 3,500 (US$ 54.45).

The 1961 Act states that in the event of miscarriage or medical termination pregnancy, the employee is entitled to six weeks of paid maternity leave. Employees are also entitled to an additional month of paid leave in case of complications arising due to pregnancy, delivery, premature birth, miscarriage, medical termination or a tubectomy operation (two weeks in this case).

In addition to the above, the 1961 Act states that no company shall compel its female employees to do tasks of a laborious nature or tasks that involve long hours of standing or which in any way are likely to interfere with her pregnancy or the normal development of the fetus, or are likely to cause her miscarriage or otherwise adversely affect her.[44]

*Gratuity*:

The payment of Gratuity Act, 1972 directs establishment with ten or more employees to provide the payment of 15 days of additional wages for each year of service to employees who have worked at a company for five years or more.

Gratuity is provided as a lump sum payout by a company in the event of the death or disablement of the employee, the gratuity must still be paid to the nominee or the heir of the employee.

The employer can, however, reject the payment of gratuity to an employee if the individual has been terminated from the job due to any misconduct in such a case

[44] Maternity benefit act 1961.Available from www.ilo.org/dyn/travail/docs/678/maternitybenefitsact1961.pdf. [Last accessed August 1, 2017]

of forfeiture, there must be a termination order containing the charges and the misconduct of the employee.

Gratuity is calculated through the formula mentioned below-

Gratuity= Last Drawn salary x 15/26 x Years of Service, where

- The ratio 15/26 represents 15 days out of 26 working days in a month
- Last Drawn Salary= Basic salary+ Dearness allowance
- Years of Service are rounded up or down to the nearest full year. For example, if the employee has a total service of 10 years 10 months and 25 days, 11 years will be factored into the calculation.

Gratuity is exempted from taxation provided that the amount does not exceed 15 days salary for every completed year of service calculated on the last drawn salary (subject to a maximum of Rs. 10 lakh or US$ 15,467.62). It is important to note that an employer can choose to pay more gratuities to an employee, which is known as ex-gratia and is a voluntary contribution. Ex-gratia is subject to tax.

### 1.11.2 Schemes for Unorganized Sector

*Minimum Wages Act, 1948*:

The Central Government has fixed the National Floor Level Minimum Wages from Rs.115/- to Rs.137/- per day w.e.f. 01.07.2013.

*Labour Welfare Funds*:

The Ministry of Labor & Employment is administering five Welfare Funds for beedi, cine and certain categories of non-coal mine workers. The Funds have been set up under the following Acts of Parliament for the welfare of these workers: - [45]

1. The Mica Mines Labour Welfare Fund Act, 1946;
2. The Limestone and Dolomite Mines Labour Welfare Fund Act, 1972;

[45] Laws related to Labor Welfare -Ministry of Labor and Employment, Government of India. Available from http://labour.nic.in/content/innerpage/labour-welfare. php [Last accessed August 1, 2017]

3. The Iron Ore, Manganese Ore and Chrome Ore Mines Labour Welfare Fund Act, 1976;
4. The Beedi Workers' Welfare Fund Act, 1976;
5. The Cine Workers' Welfare Fund Act, 1981.

From these funds a 15 bedded Hospital for Beedi Workers at Yadgiri (Karnataka) has been constructed on 10.07.2012. and another 15 bedded Hospitals for Beedi workers at Sircilla, Karim Nagar District, Hyderabad on 15.09.2012.

*The Unorganized Workers Social Security Act, 2008*:

Ministry of Labor & Employment has enacted the Unorganized Workers' Social Security Act, 2008. The Act has come into force with effect from 16.05.2009. National Social Security Board was constituted on 18.08.2009. Government of India has approved a proposal for Convergence of 3 major Social Security Schemes for Unorganized Workers on a single smart card platform based on a single unified data base – RSBY, AABY, IGNOAPS for old age protection through a common data base and single Smart Card valid across India.

*Schemes For The Building And Other Construction Workers*:

The Government has enacted the following two legislations for the construction workers:

1. The Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996.
2. The Building and Other Construction Workers' Welfare Cess, Act, 1996

The Act is applicable to every establishment which employs 10 or more workers in any building or other construction work. Welfare Fund at the State level to be financed by contribution made by beneficiaries, levy of cess on all construction works at rates between 1 to 2% of the construction cost incurred by an employer (the Government has notified the cess @ 1%).

*Schemes For Migrant Workers And The Interstate Migrant Workmen*:

The Inter-State Migrant Workmen (Regulation of Employment and Conditions of Service) Act, 1979 was enacted to protect the rights and safeguard the interests, of migrant workers.

*Legal Protection Of Children At Work:*

National Child Labor Project Scheme (NCLPs) initiated in 1988 to rehabilitate working children in labor endemic districts of the country. Under the NCLP Scheme, children are withdrawn from work and put into Special Training Centers, where they are provided with bridge education, vocational training, mid-day meal, stipend, health-care facilities etc. and finally mainstreamed to the formal education system.

*National Social Assistance Program:*

Presently there are 5 schemes under this program. i) Indira Gandhi National Old Age Pension Scheme (IGNOAPS): BPL persons aged 60 years or above are entitled to a monthly pension of Rs. 200/- up to 79 years of age and Rs.500/- thereafter. ii) Indira Gandhi National Widow Pension Scheme (IGNWPS): BPL widows aged 40-59 years are entitled to a monthly pension of Rs. 200/-. iii) Indira Gandhi National Disability Pension Scheme (IGNDPS): BPL persons aged 18-59 years with severe and multiple disabilities are entitled to a monthly pension of Rs. 200/-. iv) National Family Benefit Scheme (NFBS): BPL household is entitled to lump sum amount of money on the death of primary breadwinner aged between 18 - 64 years. The amount of assistance is Rs. 10.000/-.v) Annapurna scheme: Under the scheme, 10 kg of food grains per month are provided free of cost to those senior citizens who, though eligible, have remained uncovered under IGNOAPS. [46]

*Atal Pension Yojana:*

Previously this scheme was run under the name of National pension scheme – swavalamban (NPS-S). Atal Pension Yojana is a government backed pension scheme in India targeted at the unorganised sector launched on 9 May 2015 in Kolkata. Depending on the contribution made by a person in the age between 18 – 40 yrs , at the age of 60 a sum of Rs.1,000, Rs. 2,000, Rs.3,000, Rs.4,000, or Rs. 5,000 will be paid monthly. Central govt. contributes 50% of the amount contributed by the employee or Rs 1000/- whichever is less. This scheme will be linked to the bank

[46] NSAP, Ministry of rural development. Available from http://nsap.nic.in/. [Last accessed August 3, 2017]

accounts opened under the Pradhan Mantri Jan Dhan Yojana scheme and the contributions will be deducted automatically.[47]

*Indira Gandhi Matritava Sahyog Yojana (Igmsy)*:

This was approved on 8/11/2010 on pilot basis in 52 districts. This is a Centrally Sponsored Scheme under which full grant-in-aid would be provided to State Government (SGs)/Union Territories (UTs). Under this Cash incentive of Rs. 4000 will be provided directly to women 19 years and above for the first two live births subject to the woman fulfilling specific conditions relating to maternal child health and nutrition.[48]

*Rashtriya Swasthya Bima Yojana – RSBY*:

Initially this scheme was applicable to BPL Families but now Bidi workers, Construction workers, Railway porters & vendors, MNREGA workers, Domestic workers, Street vendors have also been covered under this scheme. Rs30/- as registration fee is paid by beneficiaries at the time of enrolment and also at the time of renewal. Key features of this scheme are Sum insured of Rs 30,000 per BPL family on a family floater basis, Coverage of 5 members of a family, No age limit, Transport allowance @ Rs.100 per visit up to maximum of Rs 1000.[49]

### 1.12 LICI's Micro Insurance Policies

LIC's first MI policy in individual category 'Jeevan Madhur' was launched in September, 2006 byDr. A.P.J. Abdhul Kalam to mark the fiftieth anniversary of LIC for economically under-privileged segments of society.LIC was conferred "**Skoch challenger Award 2008**" for financial inclusion in insurance sector through Jeevan Madhur initiatives.

LIC is using MIAS (micro insurance Agency software) to communicate with its MI intermediaries. The software will enable the micro insurance intermediaries to

[47] Atal Pension Yojana. Available from http://financialservices.gov.in/APY. asp. [Last accessed 3 August 2017]

[48] Indira Gandhi Matritva Sahyog Yojana. Available from http://wcd.nic.in/SchemeIgmsy/scheme_igmsy .htm. [ Last accessed August 3, 2017]

[49] Rashtriya Swasthya Bima Yojana. Available from http://www.rsby.gov.in/about_rsby.aspx .[Last accessed August 3, 2017

completely manage their insurance portfolio and provide them with reporting capabilities. It will facilitate information exchange with LIC's systems and be a desktop-based full -fledged application with local repositories of information pertaining to the agents.

Table-1.10
LIC's Micro Insurance Policies

| Name of Product | Date of Launch |
|---|---|
| Jeevan Madhur* | 28th Sep,'06 |
| Jeevan Mangal* | 3rd Sep, '09 |
| Jeevan Deep * | 27th Aug,'12 |
| New Jeevan Mangal** | January 2014 |
| Bhagya Lakshmi** | December 2014 |

Source: IRDA report 2015-16

* These 3 policies were closed by LIC on December 2013 and introduced a policy.

** Existing policies at present under Micro insurance plan

**1.12.1 LIC New Jeevan Mangal Plan (Table No. 840)**

LIC New Jeevan Mangal Plan (Table No. 840) is a new Term Plan introduced by Life Insurance Corporation of India as per new guidelines of IRDA. The Unique Identification Number of the LIC's Jeevan Mangal Plan is 512N287V02. This UIN no. should be quoted in all relevant documents provided to the policyholders. The LIC Micro Insurance Plans are not plans but opportunities that knock on your door once in a lifetime. Also, these plans are a perfect combination of insurance, investment and a lifetime of happiness. The LIC New Jeevan Mangal Micro Insurance Policy was customized to provide the distinct needs of the most vulnerable low-income sections of the Indian population.

The LIC's Jeevan Mangal is a protection plan with return of premiums on maturity, where you can pay the premiums either in a lump sum or regularly over the tenure of the policy. This Jeevan Mangal Term plan has an in-built Accident Benefit which provides for double risk cover in case of accidental death. This New online term plan from LIC provides double benefits to their customers, i.e., In the case of something unfortunate event has occurred, the policy provides financial security to their family, and pays back the total premiums paid during the policy term to the insured. The Key Features, Eligibility Conditions of LIC New Jeevan Mangal Plan are mentioned in detail below.

Features of LIC New Jeevan Mangal Plan

LIC Jeevan Mangal Plan is a new Micro Insurance Plan with Term Insurance Plan features. Any life insurance policy with a sum assured of Rs. 50,000 or less is called Micro Insurance policy. And, Term insurance plans usually provides protection to your family in case of unfortunate and unforeseen circumstances. So, these plans are the best option for those who wish to lead a stress-free life on their families. Below are the key features of LIC New Jeevan Mangal Plan.

1. It is a protection plan, so offers life covers with small payments.
2. The New Jeevan Mangal comes with two premium options such as Single Premium and Regular Premium to help the individuals to choose one option according to their needs.
3. Yearly, Half Yearly, Quarterly, Monthly, fortnightly or weekly intervals are the different modes of premium payment for this LIC New Term Plan 840. The Single Premium mode is available for terms from 5 to 10 years.
4. The insured can choose one from the flexible policy term, i.e., he/ she can choose the policy tenure ranging from 5 to 10 years for the single premium mode and 1 to 15 years for the regular premium mode.
5. The Policyholder can pay the premiums either in a lump sum or regularly over the term of the policy.

When any person takes this policy, the corporation pays dual risk cover in the case of unfortunate death.

LIC Jeevan Mangal New Term Plan Eligibility Conditions

| Sl.no. | Eligibility Conditions & Restrictions | Details |
|---|---|---|
| 1. | Minimum Entry Age for Insured | 18 years (Completed). |
| 2. | Maximum Entry Age for Life Assured | 55 years (nearest birthday) for policy term 20 years. |
| 3. | Policy Term | Regular premium: 10 to 15 years.<br>Single Premium: 5 to 10 years. |
| 4. | Premium Payment Mode | Yearly, Half-Yearly, Quarterly, Monthly, Fortnightly, and Weekly. |
| 5. | Basic Sum Assured (in multiples of 10,000) | Minimum: Rs. 10,000/-.Maximum: Rs. 50,000/-. |
| 6. | Maximum Maturity Age | 65 years (Nearest Birthday). |
| 7. | Minimum Installment Premium | For Monthly Mode: Rs. 60/-.<br>For remaining modes: No specific minimum installment premium. |

LIC New Jeevan Mangal Plan Buying Process

The Customer can buy the LIC New Jeevan Mangal Plan from the LIC Agent or nearest LIC Branch Office. The Proposal form required to purchase the policy is available on the official website of Life Insurance Corporation. The Documents needed for buying the LIC's Jeevan Mangal Plan are listed below.

- Proposal Form with a photo.
- Age Proof of the Life Assured.
- Address Proof.
- Medical Reports (if any required).

### 1.12.2 LIC Bhagya Lakshmi Plan (Table No. 829)

LIC Bhagya Lakshmi Plan (Table No. 829) is a new Term Plan introduced by Life Insurance Corporation of India as per new guidelines of IRDA. The Unique Identification Number of the LIC's Bhagyalakshmi Plan is 512N292V01. This UIN no. should be quoted in all relevant documents provided to the policyholders. LIC

New Bhagya Lakshmi Plan is a non-participating limited payment protection oriented plan with 110% of total amount of premiums payable on maturity are returned. Where the premium paying term for this LIC New Term Plan 829 is 2 years lesser than the policy term. The policy also pays out a death benefit to the dependents of the life assured in the case of his/ her demise.

Micro Insurance is a special category created by IRDA to increase the coverage of insurance for an economically vulnerable section of society. Any life insurance policy with a sum assured of Rs. 50,000 or less is called micro insurance. LIC India has introduced this New Bhagyalakshmi policy for providing the distinct needs of the people with low income. The Key Features, Eligibility Conditions of LIC Bhagya Lakshmi Plan are mentioned in detail below.

Features of LIC Bhagyalakshmi Plan

LIC Bhagya Lakshmi Plan is a new Micro Insurance Plan with Term Insurance Plan Features. Any life insurance policy with a sum assured of Rs. 50,000 or less is called Micro Insurance policy. And, Term insurance plans usually provides protection to your family in case of unfortunate and unforeseen circumstances. So, choosing these plans are the best option for those who wish to lead a stress-free life on their families. Below are the key features of LIC New Bhagyalakshmi Plan.

1. The Bhagyalakshmi Plan of LIC is a non-participating limited payment protection oriented plan.
2. It offers good life cover with low premium payments.
3. Policy term will be the premium paying term plus two years, i.e., if the policy term is 5 years then the premium paying term is 7 years.
4. If the death of the policyholder before the end of the policy term, then the insured family will receive Sum Assured as a death benefit.
5. 110% of the premiums will be paid to the individuals on Maturity by excluding taxes and extra premium.

6. Yearly, Half-Yearly, Quarterly, Monthly, or through Salary deductions are the different premium payment modes available for this plan.
7. The Insured can revive the lapsed policy within a period of 2 consecutive years from the date of first unpaid premium (FUP).
8. The Grace period available for premium payment in all modes is two calendar months, i.e., less than 60 days.

LIC New Bhagya Lakshmi Plan Eligibility Conditions

| **Sl.no.** | **Eligibility Conditions & Restrictions** | **Details** |
|---|---|---|
| 1. | Minimum Entry Age | 18 years (completed). |
| 2. | Maximum Entry Age | 55 years (nearest birthday). |
| 3. | Maximum Maturity Age | 65 years (nearest birthday). |
| 4. | Policy Term | Premium Paying Term + 2 years. |
| 5. | Premium Payment Modes | Yearly/Half-Yearly/Quarterly./Monthly/ Salary Deductions. |
| 6. | Minimum Basic Sum Assured | Rs 20,000/-. |
| 7. | Maximum Basic Sum Assured | Rs. 50,000/- (in multiples of Rs. 1000). |
| 8. | Minimum Premium Paying Term | 5 years. |
| 9. | Maximum Premium Paying Term | 13 years. |

LIC Bhagya Lakshmi Plan Buying Process

The Customer can buy the LIC New Bhagya Lakshmi Plan from the LIC Agent or nearest LIC Branch Office. The Proposal form required to purchase the policy is available on the official website of Life Insurance Corporation. The Documents that are needed for buying the LIC's Bhagyalakshmi Plan are as under.

1. Proposal Form with a photo.
2. Age Proof of the Life Assured.
3. Address Proof.
4. Medical Reports (if any required).

### 1.12.3 Aam Aadmi Bima Yojana:

This plan was approved by the Ministry of Finance of India and merged with Aam Aadmi Bima Yojana and Janashree Bima Yojana.

The features and benefits of this plan are as follows:

1. The minimum entry age is 18 years and the maximum is 59 years.
2. The minimum premium amount is Rs.200 per month.
3. Sum assured is paid if the member dies during the policy term.
4. A free add-on benefit, Scholarship benefit is provided to 2 children studying between 9th and 12th Standard. Rs.100 is paid every month per child, which is paid on a half-yearly basis.
5. Benefit will be provided for total or partial disability caused due to accident to the members of the plan.

## 1.13 Need of study:

The IRDAI has framed and notified Micro-Insurance Regulations on November 10, 2005, under the powers vested on it vide Sections 114 A of the Insurance Act, 1938 and Section 26 of IRDA Act, 1999. The insurance companies are asked to make innovative insurance products to meet the needs of the people involved in micro-finance. The micro-insurance coverage targets the low income groups with irregular and unstable income patterns.

It is important to know the lower income peoples' perception by the insurance companies while they design various micro insurance products. The concept behind the micro insurance would drive targeted the poor people. It is further important to observe that what the main factors are considered by the poor people to purchase a micro insurance policy, whether purchasing micro insurance are related to educational qualification, age, income etc. of the low income people.

In addition, different issues like; insurers perception and understanding level, policyholders perception and understanding level, location of market, execution behaviour of intermediaries to be considered to design a successful distribution channel and regulatory framework on micro insurance. In this concern, this project prepared to study on the role of micro insurance in providing social security and to attempt to contribute to the present body of literatures on the field of micro insurance.

Insurance plays the important role in the economic development of the country. It helps for the mobilization of savings of people, especially from middle and lower income group. But low income people are considered uninsurable, given the wide variety of risks they face. To face with risks such as health problems, crop failure, loss of livestock, death of a family member, loss of asset, and income and employment is much harder to low income groups than others. Many poor households involve in smaller scale activities but carrying higher degree of risk and uncertainty. Micro-insurance is believed to work as a powerful risk management tool for low income and vulnerable groups by preventing them from falling into the poverty trap. But not much is known about trends and efficacy of micro-insurance in Assam. Further, the researcher has not gone through any study in relation to promoting activities and implementing plans of micro insurance in Assam especially in upper Assam. The researcher has intended to undertake a research programme on "A study on role of micro insurance in providing social security".

**1.14 Objectives of Study:**

In order to identify the strategies and problems of the micro insurance companies in developing micro insurance market and acceptance of micro insurance by the low-income people, the researcher has identified six objectives based on research gap and need of the study. These objectives are aimed to view the respondent's perceptions in regarding micro insurance, identifying the role intermediaries and on a final, establishing awareness level of micro insurance among the poor people.

Thus the study aimed to fulfill the following objectives:

1. To study the awareness level of micro insurance among the poor people.
2. To study the growth of micro insurance.

3. To study the model of micro insurance scheme offered by LIC of India and selected micro insurance providing agencies.
4. To study the role of insurance intermediaries in extending micro insurance.
5. To examine the policy measures and regulation of IRDA in providing micro insurance towards lower income group.
6. To study the micro insurance as a tool for financial inclusion.

**1.15 Limitation of Study:**

This study is limited to the following:

1. Cover only poor people of the study area who belongs to below poverty line.
2. The Study covers only rural area of selected two districts, viz. Dibrugarh and Sivasagar.
3. Only Micro life insurance coverage is included in the study.
4. Coverage only LICI's Micro Insurance Policy.

**1.16 Research Methodology:**

The research study is explorative and descriptive in nature. The study is based on both primary and secondary sources of data. Primary data are collected through an interview schedule and secondary sources are collected through related literature from Journals, Books, Reports, Articles, Research reports, etc. Two districts of Assam i.e. Dibrugarh and Sivagar have been selected for the study.

Dibrugarh is extraordinarily famous for tea gardens and tea productions. There are altogether 118 tea gardens in the entire district while more than 85 Tea Factories are producing the Orthodox and quality tea and major portion of tea is exported to Western and South-Asian countries. Another important determinant of business and economy of the district is oil. Headquarter of the Oil India Limited is located at Duliajan, at a distance of about 50 km from Dibrugarh town. Dibrugarh is also known for three large industries—Brahmaputra Valley Fertilizer Corporation Limited (BVFCL)(located at Namrup), Assam Petro Chemicals Limited (located at Numrup) and Brahmaputra Cracker and Polymer Limited (located at Lepetkata). The primary occupations of the majority populations of this district are the farming of rice, sugar-cane, pulses and pisciculture. Besides, many rice and oil seed mills are at work. Out of the total population of the district only 29.53 per cent population are main worker and 12.74 per cent are marginal worker and a large number of population is nothing work anything i.e.57.74 per cent.

Sivasagar is famous for tea. Out of total 2668 sq. km area of Sivasagar district, about 52715.72 hectare areas are covered by tea estates where 97 tea estates of the district produced 49813 kilogram of tea in 2003[50]. Next to tea is oil. The Oil and Natural Gas Corporation Limited (ONGCL) is the oldest oil and gas exploring unit of this district. The entire district has many oil and natural gas rigs owned by the ONGCL. Tea and oil are the major revenue earners for the district. The main occupations of the majority population of this district are the farming of rice, sugar-cane, pulses and pisciculture. Besides, many rice and oilseed mills are at work in the Sivasagar district.

Therefore, Dibrugarh and Sivasagar districts have been considered as case covering villages and blocks of the districts being industrial and agricultural important districts of Assam, the researcher initiating a study on the level of micro insurance as social security to the poor.

### 1.16.1 Research Design:

A research design is a basic plan which guides the researcher in the collection and analysis of data required for practicing the research. Infant the research design is the conceptual structure which the research is conducted. It constitutes the 'Blue Print' for the collection, measurement and analysis of the data. The study is carried out to understand the role of micro insurance service in providing social security. The study is explorative and descriptive in nature.

[50] Sivasagar District at a glance, (2006), Department of Statistics, Sivasagar Division, Govt. of Assam.

### 1.16.2 Sample Design:

The process of drawing a sample from a large population is called sampling. Population refers to the total of items about which information is defined. Well selected samples may reflect fairly and accurately the characteristics of the population. For this study sample designed done in follows:

**1.16.3 Population of the Study:** The population of this study is all the below poverty line inhabitant of Dibrugarh and Sibasagar district of Assam.

### 1.16.4 Sampling Frame:

Sampling frame comprises the selected respondents of the selected areas. In this study the sampling frame is considered the list of Panchayat level Below Poverty Line inhabitant as follows:

| | | |
|---|---|---|
| State | : | Assam |
| District | : | Dibrugarh and Sibasagar |
| Block | : | Joypur Development Block (under Dibrugarh district)<br>Demow Development Block (under Sibasagar district) |
| Gaon Panchayat | : | Balimora Gaon Panchayat and Tipam Fakial Gaon Panchayat (under Joypur Development Block).<br>Athabari Gaon Panchayat and Khorahat Gaon Panchayat (under Development Block) |

### 1.16.5 Sample Size:

The sample size is 200 BPL people from four gaon panchayat namely, Balimara Gaon Panchayat, Tipam Fakial Gaon Panchayat, Athabari Gaon Panchayat and Khorahat Gaon Panchayat and 100 selected respondent from Mrinaljyoti Rehabilitation Centre (NGO). The researcher has applied multistage convenient sampling to select two (2) blocks from each district and two (2) gaon panchayat from each block and the respondent are selected in the ratio of BPL population of the gaon panchayat as below:

Selected sample size

| District | Development Block | Gaon Panchayat | BPL Population | Respondent |
|---|---|---|---|---|
| Dibrugarh | Joypur | 1.Balimara | 245(2.45 | 13 |
| | | 2.Tipam Fakial | 563(5.63) | 39 |
| Sibsagar | Demow | 1.Athabari | 1376(13.76) | 90 |
| | | 2.Khorahat | 865(8.65) | 58 |
| NGOs | | Mrinaljyoti Rehabilitation Centre | | 100 |
| Total | | | | 300 |

Source: collected from office.

**1.16.6 Sampling Technique Adopted:** Multistage sampling & convenience sampling

**1.16.7 Tools used for data collection of the study:** An interview schedule developed that includes 23 different questions for the respondent of 300 people in Dibrugarh and Sibsagar district of Assam, in the study period. The questionnaire is filled by the respondents in the presence of interviewer.

**1.16.8 Method of Analysis:** Collected data is classified and tabulated on the basis of various attributes like age, sex, income group, occupation, etc. and the data is analysis with the help of SPSS and based on that conclusion is drawn.

**1.16.9 Statistical Tools:** The descriptive statistics Table, Graph, Diagram etc are used for presentation of data and average, ratios, mean, weighted mean, correlation coefficient, regression analysis, chi-square test, ANOVA, etc. have been used to analyses the data.

**1.16.10 Source of data:**

After identifying and defining the research problem and determining specific information required to solve the problem the researcher will look for the type and sources of data which may yield the desired results, while deciding about the method of data collection to be used for the study, there are two types of data. They are as follows

**Sources of Primary Data:**

Primary data are those which are collected for the first time. Primary data is collected by framing questionnaires. The questionnaire contained questions which are both open-ended and closed-ended. Open-ended questions are questions requiring answers in the responders own words. Closed-ended questions are those wherein the respondent has to merely check the appropriate answer from a list of options available. Any doubts raised by the Respondents were clarified to get the perfect answers from the distributors. Open-ended questions yielded more insightful information, whereas closed- Ended questions were relatively simple to tabulate and analyze.

An interview-schedule and well-structured questionnaire is administered to the target respondents to collect primary data. Open and close ended questions are used in the questionnaire. The order of the questions is in such a manner that they begin with simple questions and lead on the questions that needed more involvement from respondents.

**Sources of Secondary Data:**

Secondary data means data that are already available i.e. they refer to the data which have been collected and analyzed by someone and can save both money and time of the researcher. Secondary data may be available in the form of company records, trade publications, libraries etc. In this study the sources of secondary data are-

(1) IRDA Annual Report,
(2) Websites,
(3) Economic survey of India,
(4) National Statistical Organization,
(5) Department of Statistics (Govt. of India),
(6) Statistical Handbook of Assam,
(7) Department of Industry,
(8) Published research papers/articles etc.
(9) LICI's Annual Reports

### 1.16.11 Field Work:

An interview-schedule and well-structured questionnaire is administered to the target respondents to collect primary data (Copy of questionnaire is attached in the appendix).Open and close ended questions are used in the questionnaire. The order of the questions is in such a manner that they begin with simple questions and lead on the questions that needed more involvement from respondents. The secondary data are collected from periodicals, magazines, journals and internet.

### 1.16.12 Research Hypothesis:

Hypothesis 1

$H_0 1$ = There is no significant relationship between Educational level and Micro Insurance Policy.

$H_a 1$ =There is significant relationship between Educational level and Micro Insurance Policy.

Hypothesis 2

$H_0 2$ = There is no significant relationship between Occupational pattern and Micro Insurance Policy.

$H_a 2$ = There is significant relationship between Occupational pattern and Micro Insurance Policy.

Hypothesis 3

$H_0 3$ = There is no significant relationship between Range of Earnings and Micro Insurance Policy.

$H_a 3$ = There is significant relationship between Range of Earnings and Micro Insurance Policy.

Hypothesis 4

$H_0 4$ = There is no significant relationship between Range of savings and Micro Insurance Policy.

$H_a 4$ = There is significant relationship between Range of savings and Micro Insurance Policy.

### 1.16.13 Chapter Design:

The research work is divided into six chapters. These are as follows:

1. **Chapter I:** *Introduction*, basically dealing with the theoretical background of micro insurance, growth and development of micro insurance in India, different micro insurance providers in India, Social security in developing countries as well as in India and LIC's micro insurance policies. Besides the theoretical background of micro insurance, this chapter also highlights the need of the study, objectives of the study and methodology used.
2. **Chapter II:** *Review of Literature,* This chapter of the thesis basically deals a review on earlier study on the Micro insurance as a whole and Life micro insurance in thematic order as, (a) Micro Insurance and economic development, (b) Model of Micro Insurance, (c) Micro Insurance and Intermediary, (d) Micro Insurance Regulation. It also highlights the research gap.
3. **Chapter III:** *Socio-economic profile of study area*, this chapter is an effort to give a picture reflecting the socio-economic profile of selected Blocks, villages and beneficiaries along with a brief outline of Dibrugarh and Sibsagar district. Socio-economic profile includes population by sex, areas, literacy rate, geographical location, important sectors of economy etc and demographical profile of respondents.
4. **Chapter IV:** Data *Analysis and Interpretation*, this chapter deals with the analysis of various collected raw data in qualitative technique; Table, Graph, Diagram etc are used for presentation of data and average, co-relation, ratios, mean, weighted mean etc, used for analysis of collected data and details of findings thereon.
5. **Chapter V:** *Summary, Conclusion and Recommendation*, in this chapter major findings, problems, recommendations and summary of the detailed research study is given to conclude the result on the research.

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