Role of Micro Finance Institutions in Micro Insurance

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Abstract

Micro finance has emerged as an important financial service in the Indian rural economy. It is a provision of providing financial services to low income people, very poor and self employed people. It has been able to reach areas where conventional banking could not reach over the past few decades. But now micro finance institution has started looking beyond micro credit areas, many micro finance institution are now engaged themselves in promoting and distributing micro insurance products which can be leveraged with their core activity with a view to provide more and more service and products to prospective customer.

Micro insurance is a powerful tool in helping low income people by providing insurance coverage but it has not achieved substantial scale as compare to micro finance. Hence micro finance institution are stepping their foot forward in distributing micro insurance products. In this context the present research paper will deliberate on micro insurance from the perspective of micro finance institution. Objectives behind the present research paper is to analyse the role of micro finance institution in promoting and distributing micro insurance products in Allahabad district and to suggest measures in improving their efficiency. The present research paper is mainly based on primary data taken from 140 respondent of both urban and rural areas. Statistical tool has been used to analyse proposed hypothesis. The present study reveals that though they play a major role in micro insurance products but they have somehow failed in achieving their objectives. It is suggested that they should be mere authorised and motivated to promote micro insurance products for bringing about economic growth among the people below poverty line.
1. Introduction
Insurance however is not always accessible and affordable to everyone. In many countries it is generally, the salaried income earners, middle class and the wealthy who are insured. The poor, rural dwellers, small businesses and irregular wage earners often do not get covered by insurance because (1) they have other pressing bread and butter issues to worry about (2) they are not Aware of the availability of these products (3) they cannot find affordable insurance products to suit their needs (4) they cannot find proper delivery channel. The best way to provide insurance to low income households is through Micro-Insurance.

Thus the term micro-Insurance is used to refer to a low value insurance product designed for low income earners. Thus availability of micro-insurance would in some ways provide the poor with some protection, peace of mind and dignity. Building on the recommendations of the consultative group, IRDA notified Micro-Insurance Regulations on 10th November 2005 to promote and regulate micro-insurance product. The regulation focuses on following distribution channel viz Partnership model, Agency model, Micro-agent model.

The present paper seeks to focus on partner-agent model in which micro finance institution, NGO’s, SHG’S are chosen as agent for promoting and distributing micro insurance products. Micro finance institutions are institutions engaged in providing loans and financial services to people below poverty line at reasonable cost. Apart from providing credit micro finance institutions, are also engage in other activities like deposit payment services, leasing, remittance, and insurance services. It provide insurance coverage to their client in two main form firstly by providing their own insurance products and secondly and most common is partner agent model, by distributing products of insurance companies. In the competitive scenario insurance companies are alleging with MFI’s for increasing their penetration in insurance sector. Microfinance institutions get involved in insurance for a variety of reasons, like some organizations offering insurance to protect the poor, to ensure that workers in the informal economy and their family members have access to an appropriate menu of affordable social protection, risk prevention and coping mechanisms. Other MFI’s primarily want to protect themselves. They want to offer insurance to reduce credit risks stemming from the death or illness of borrowers.

2. Role of micro finance institutions in micro insurance
The micro insurance industry faces significant challenges in distribution of its products in spite of the potentially large market for its products across the developing world. These challenges include high transaction costs, high upfront investments to reduce
Risk so that premiums are affordable, lack of reinsurers’ interest in this market, and technical know-how, all of which make commercial marketing become a dream. MFIs are well placed to deal with a number of these challenges, given their experience in scaling up micro finance. MFIs act as agent and distribute the insurance product to its own client and through its own distribution network. The insurance companies’ acts as a partner providing actuarial, financial and claim processing expertise and absorbs the risk, with their successful delivery mechanisms and cash management expertise, MFIs are natural aggregators of clients. Moreover, bundling micro insurance with credit reduces overall portfolio risk, allowing MFIs to lower their interest rates on lending. MFIs should focus towards insurance services in order to secure not only risk and bring more poor people under insurance coverage.

3. Research Methodology

3.1 Objectives of the study

To analyse the role of MFI in creating awareness of micro insurance products.
To analyse the role of MFI in distributing micro insurance products.
To suggest measures in increasing awareness and efficiency of MFI in micro insurance.

Research design
Universe: finite
Sample technique: purposive sampling
Sample size: 157 beneficiary of two leading MFI i.e. Sonata and Utkarsh were approached 140 respond to the questionnaire out of which 78 were male and 62 female
Parameter selected: Awareness includes (awareness about micro insurance and its product and features), insurance services includes (claim settlement, premium collection, encashment of sum assured , change in assured amount )
Hypothesis framed
Hypothesis 1- H0 role of MFI is insignificant in creating awareness Of micro insurance product
H1 role of MFI is insignificant in creating awareness and micro insurance product
Hypothesis 2 - H0 role of MFI is significant in distributing micro insurance product
H1 role of MFI is insignificant in distributing micro insurance product
AREA OF STUDY: Allahabad district has been selected as Allahabad as sample for the present research. The district has been selected on the basis of higher percentage of people living below poverty line .two leading MFIs i.e SONATA and UTKARSH had provided credit to poorer section in this district

Data collection
The data has been collected from primary data. Data is being collected through questionnaire and personal interviews. To study the objectives research was conducted in two phases

Phase -1 an exploratory research was carried out to interact with 140 beneficiary of MFI

Phase -2 an exploratory research was carried out to interact with select MFI

Analysis of data

Phase 1

Data has been analysed through chi –square test as it is a non parametric test. Out of 140 respondents 37.1% were aware and 62.8 % were unaware about micro insurance and its features.

Testing of hypothesis 1-

H0 - role of MFIs is insignificant in creating awareness about micro insurance products.

H1 - role of MFIs is significant role in creating awareness about micro insurance products.

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<th>Male</th>
<th>Female</th>
<th>Total</th>
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<tr>
<td>Aware</td>
<td>30</td>
<td>22</td>
<td>52</td>
</tr>
<tr>
<td>Unaware</td>
<td>48</td>
<td>40</td>
<td>88</td>
</tr>
<tr>
<td>Total</td>
<td>78</td>
<td>62</td>
<td>140</td>
</tr>
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By applying chi square test it is found that calculated value is 0.129 at 1 degree of freedom and at 5% level of significance. Since the calculated value is less than tabular value i.e 3.841 null hypothesis is accepted it means role of MFIs is insignificant in creating awareness especially among female respondents.

Regarding insurance services which includes (claim settlement, premium collection, change in sum assured, encashment of sum assured) data revealed that only 34.6% were satisfied and 65.3% were unsatisfied.

Testing of hypothesis -2

H0 – role of MFIs is insignificant in distributing micro insurance products

H1 - role of MFIs is significant in distributing micro insurance products

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<tr>
<th></th>
<th>Male</th>
<th>Female</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Satisfied</td>
<td>10</td>
<td>08</td>
<td>18</td>
</tr>
<tr>
<td>Unsatisfied</td>
<td>20</td>
<td>14</td>
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</tr>
<tr>
<td>Total</td>
<td>30</td>
<td>22</td>
<td>52</td>
</tr>
</tbody>
</table>
By applying chi square test it is found that calculated value is 0.044 at 1 degree of freedom and at 5% level of significance. Since calculated value is less than tabular value i.e 3.841 null hypothesis is accepted it means role of MFIs is insignificant in creating distribution of micro insurance products.

In the phase 2 interaction was done with the manager of sample MFI regarding challenges they face while creating awareness. The respondents were of view that there is a negative approach towards insurance among people below poverty line as they consider it as a extra expenditure, illiteracy and lack of modern technology create problem in communicating the message about product. They face more problem in creating awareness about health, livestock and other type of insurance as compare to life insurance products.

Regarding distributing of product the manager were of opinion that there exist problem of staffing, lack of resources, no standard guideline for claim settlement and low incentives by insurance companies leads to low motivation towards micro insurance products.

4. Findings
Through the analysis of primary data it is found that awareness about micro insurance products is very less and female respondents were found less aware then male respondent and by applying chi square test it is found that role of MFIs is ineffective in creating awareness among respondents. Regarding insurance services also respondents were found unsatisfied and chi square test revealed that role of MFIs is ineffective in distributing product also. The analysis also revealed that MFIs also faces problem in creating awareness and distributing products i.e lack of staffing, illiteracy, lack of modern technology, lack of resources, less incentives by insurance companies, negative approach towards micro insurance.

5. Suggestions
It is suggested that MFIs for creating awareness should create demonstration effect in which poor people see insurance as a part of their risk management strategy. They should more align with SHGs as they more in touch with people below poverty line. For increasing effectiveness insurance companies should provide support in terms of resources and human resources. Their role should be made more authorised and better incentives should provide to them for boosting up their morale. Companies should design the product considering needs and preference of poor people at low premium rates and claim settlement process should be simplified which become quite easy for MFIs.
6. Conclusion
The present research seeks to study the role of MFIs in creating awareness and distributing micro insurance products. The analysis witness that their role is ineffective in creating awareness and distributing products. It is suggested that micro finance institution consider their insurance opportunities carefully and laid the foundation of insurance among below poverty line people and companies should motivate them and designed product for life and health insurance in order to increase market share.

References

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