



A Study on Awareness and consumer preferences about Microinsurance

Abstract:

As economies are growing and experiencing financial liberalization, there is rapid introduction of new financial products in the financial markets. Lack of awareness, education and literacy of these financial products has slowed down the adoption of these products. One of the products is insurance for the poor or in other terms; Microinsurance, it is important tool of risk management of economic marginalised people in many underdeveloped and developed countries and specifically microinsurance products are designed for the protection of low income households to cover certain risks. The present paper has tried to study the scope and awareness of microinsurance products and preferences for microinsurance products. This research is an empirical study based on the responses of 182 respondents (92.8 % response rate). Analysis was done using Descriptive statistics and Chi-square analysis in SPSS 20. The research has concluded that awareness for Microinsurance products availability is very poor; only 7 percent are aware about availability of Microinsurance products in the market and mere 3 percent hold such risk management products but 75 percent are interested in purchasing Microinsurance policies and products, provided detail information explained to them. Respondents prefer endowment and health plan offered by Government companies and their preference are dependent on demographic factors like age, gender, annual income and education whereas age, education and annual income have significant impact on premium payment capacity of respondents.

Key Words: financial liberalisation, microinsurance, risk management, economic marginalised.

1. Introduction:

In recent years we have noticed a large amount of Microinsurance companies and products in the market. The reason for this large growth has been the increasing activity of governments, insurance companies, and worldwide geographic scope and range of insurance products to economically marginalised people. Microinsurance is, essentially, an important tool, albeit a low profile service than its umbrella service: the microfinance, which majorly features savings, investments and credit operations for the low income segment of the populations in the developing economies across the globe.

Considering various types of risk, a wide range of insurance products are introduced to protect against risks like; health, life, disability, agriculture, livestock, funeral, property, credit, disasters (natural and man-made). The product availability also depends on geography and cultural local risk. It also depends on technology requirement specifically for agriculture and weather insurance products.

1.1 Meaning:

Microinsurance term carries two concepts; Micro and Insurance. Insurance is a concept involving a contract under which an insurer shall pay specific pre-defined compensation when financial damages are caused by pre-defined cost-generating events, in exchange for up-front payments of a premium by the insured. Basically it is based on the principle of 'risk-shifting', by paying premiums insured shift fair amount of risk to insurer (insurance company). The term Micro is; insurance for low income (financially marginalised) people and it can even be interpreted that insurance offering limited benefits for small amount of premiums.

Microinsurance is essentially-

"A financial service which uses risk pooling to provide compensation to low income individuals or groups those are adversely affected by a specified risk or event."

(Brown 2001)

India is one of the first countries to adopt micro insurance formally through the Microinsurance Regulations Act in 2005. The regulation sets boundaries for the cost and coverage of the product, refereed "Microinsurance as insurance offerings with claim payments less than Rs 50,000 (IRDA 2005)" and provides clarity about distribution mechanisms. Although targeted towards low-income (and informal sector) people in India, this definition referenced the product offering, not the targeted sector.

1.2 Scope of Microinsurance:

Of the Globe, Central & Latin American States, African states, Asian states majorly India, and its neighbors and a few qualify for the developing economy label require micro- insurance for all of their population in the low-income bracket. More than 70 percent Microinsurance schemes are working in parts of Asia. In India, after implementing the obligations of insurers to rural and social sectors by the Indian Insurance Regulatory and Development Authority (IRDA) in 2002, schemes of microinsurance are introduced and after India in many developing countries microinsurance products are made available.

India is enjoying rapid growth and benefits from a young population. Its middleclass is growing rapidly but 70 percent of the population is still rural, often very poor, handicapped by poor health and health services, and low literacy rates. Although the type of risks faced by the poor such as that of death, illness, injury and accident, are no different from those faced by others, they are more vulnerable to such risks because of their economic circumstance.

Based on small premiums and proportionately small benefits, microinsurance products have emerged in India with low-cost premiums that are underwritten in advance. This approach references regulatory microinsurance definitions as they are expressed in terms of regulatory frameworks or charters. These types of frameworks are growing in number across developing countries.

1.3 Microinsurance Delivery Models:

(i) Partner-agent Model: A partnership is formed between the microinsurance scheme and an agent (insurance company, microfinance institution, donor, etc.), and in some cases a third-party healthcare provider. The microinsurance scheme is responsible for the delivery and marketing of products to the

clients, while the agent retains all responsibility for design and development. In this model, microinsurance schemes benefit from limited risk, but are also disadvantaged in their limited control.

(ii) Full- service Model: The microinsurance scheme is in charge of everything; both the design and delivery of products to the clients, working with external healthcare providers to provide the services. This model has the advantage of offering microinsurance schemes full control, yet the disadvantage of higher risks.

(iii) Provider-driven Model: The healthcare provider is the microinsurance scheme, and similar to the full-service model, is responsible for all operations, delivery, design, and service. There is an advantage in the amount of control retained, yet disadvantage in the limitations on products and services.

(iv) Mutual / Cooperative Insurance Model: The policyholders or clients are in charge, managing and owning the operations, and working with external healthcare providers to offer services. This model is advantageous for its ability to design and market products more easily and effectively, yet is disadvantaged by its small size and scope of operations.

2. Literature Review:

Ali (2000) emphasized on the need of microinsurance in developing countries to handle the risk. Insurance companies utilize methods of assumption, combination, transfer, or loss prevention activities to pool the risk of large group to minimize overall risk. Michael J. McCord (2008) advised many inputs like knowledge of activities, coordination, intermediaries, delivery channels, governments, donors are required to reach microinsurance to billions of poor people's and to maximize effectiveness. Improved products and processes are also required that recognize the needs of economically marginalised families and satisfy their needs with value, innovation in processes that can be improved by technology. In order to develop and serve a massive market, it requires financial and regulatory facilitation, and an openness to offer such technology on a public platform, careful development of regulation that effectively balances the need for consumer protection with the flexibility. As per World Bank study reports about one-fourth of hospitalized Indians fall below the poverty line as a result of their stay in hospitals. It also reports that more than 40 percent of hospitalized patients borrow finances or sell assets to pay for hospitalization (Peters et al. 2002). So, increasing the ability of the poor to deal with various risks should be considered, integral to any poverty reduction strategy (Holzmann and Jorgensen 2000, Siegel et al. 2001). In one of the article "Micro Insurance in India – Protecting the Poor", Ratna Kishore (2013) has notified that the vast market for micro-insurance in India has remained untapped. The potential market size for micro insurance in India is estimated to be between Rs.62,000 and Rs.84,000 million. He explained micro insurance as social security cover for the poor and brought out the problems and challenges in micro insurance.

In empirical study conducted by Oscar Joseph Akotey, Kofi A. Osei, Albert Gemegah (2011) investigated important determinants of micro-insurance demand are premium flexibility, income level and nodal agency but apart from these; insurance knowledge, expectation and marital status were also found to have positive and significant impact on the demand for micro insurance. They also specified that formal education is not a significant determinant for demand but level of insurance knowledge has a positive impact on microinsurance demand. Ramesh Bhat and Nishant Jain (2006) analysed the factors affecting

microinsurance purchase decisions and they noted that amount of income and healthcare expenditure are major determinants of health insurance plans and income of person have significant effect on amount of health insurance purchase but there is nonlinear relationship between them; number of children in family, age, and perception regarding future health care expenditure were also significant. Banthia et al. (2009) in their study emphasized that women in developing countries are family's primary caregiver and resource manager and manage urgent household health or income uncertainties. So the need of purchasing insurance may differ across gender. D. Srijanani (2013) studied that the availability of credit and insurance to the poor in rural India not only helps them but also allows the financial intermediaries to increase their business and insurance industry can develop microinsurance with economic development, improved healthcare and education, and political stability. Stefan Hochrainer, Reinhard Mechler, Daniel Kull, (2010) in their study analysed that microinsurance products can help low-income farming households to manage drought risk and in avoiding poverty traps but changing drought risk under climate change would be a threat to the sustainability of such micro-insurance products.

Some insurance companies privately held in South Africa have become profitable by selling number of policies to financially marginalised households. But it is noticeable; some policyholders did not understand what they were purchasing or the claim procedure so they could not take any benefit from the schemes (Brown 2001).

3. Research Methodology:

Objectives:

The basic objectives of this research paper-

- To study awareness level of microinsurance
- To study about the scope of the microinsurance
- To study the factors affecting microinsurance purchase decisions

The study was conducted in the Ahmedabad district of Gujarat, and a sample size of 196 respondents was selected on judgmental basis to meet the objective of the study. As the study is about the awareness and scope of microinsurance products; sample respondents were selected who belongs to economic marginalised groups. Responses were taken from calculated sample size and out of the 196 responses some responses were discarded due to missing responses and as final 182 questionnaires were taken for the research study. Thus the response rate was 92.8 % which is considered to be acceptable for a research study.

Of these respondents, 139 (76 percent) were male and 43 (24 percent) were female. The survey was carried out in February - March, 2016. The profile of the respondents with respect to demographics **like age, gender, marital status, numbers of family members, annual income and education qualification have** been presented in the data analysis section.

4. Data Analysis:

The research design for the study is descriptive in nature. The questionnaire constructed for the study included several questions which were categorical in nature. The survey consisted of questions that covered demographics, awareness about microinsurance and preferences for microinsurance purchases.

Table 1: Demographics of Sample Respondents

Demographics	Category	Counts	Percentage
Age	18-25	16	9 %
	26-35	43	24 %
	36-45	33	18 %
	46-55	54	30 %
	Greater than 55	36	20 %
Gender	Male	139	76 %
	Female	43	24 %
Marital Status	Single	24	13 %
	Married	94	52 %
	Divorced	23	13 %
	Widow/'er	41	23 %
No of family members	1 to 3	83	46 %
	4 to 6	61	34 %
	more than 6	38	21 %
Annual Income	less than 30000	4	2 %
	30000-60000	98	54 %
	60000-90000	67	37 %
	more than 90000	13	7 %
Education	Illiterate	63	35 %
	Primary	81	45 %
	Higher Primary	21	12 %
	High School	15	8 %
	Graduate	2	1 %

Objective-1

To study the awareness of Microinsurance products among respondents.

Table-2 Awareness of Microinsurance products

		Yes	Percentage	No	Percentage
Insurance	Awareness	44	24 %	138	76 %
	Holding	138	5 %	183	95 %
Microinsurance	Awareness	13	7 %	169	93 %
	Holding	6	3 %	176	97 %

Out of total responses only 24 percent were aware about Insurance products and only 5 percent have purchased some of insurance products. Awareness for microinsurance products availability was even found very poor; only 7 percent were aware about availability of microinsurance products in the market and mere 3 percent hold such risk management products.

Objective- 2

To study about the scope of the microinsurance

Table- 3 Perception towards usefulness of Insurance product

	Counts	Percentage
Yes	106	58 %
No	19	10 %
May be	57	31 %

To study the scope of microinsurance, respondents were asked about the usefulness about these products and it was found that 58 percent of the total respondents accepted that such products may helpful in adverse and contingent events of life and 10 percent were not agree on the statement whereas 31 percent were not sure about it due to lack of detailed knowledge of insurance products or their attitude towards the same was not positive.

When specifically respondents were asked about their interest in microinsurance policy the response was found very positive.

Table- 4 Interest in Microinsurance

	Counts	Percentage
Yes	137	75 %
No	45	25 %

As mentioned in Table 4, 75 percent are interested in purchasing microinsurance policies and products, provided detail information explained to them by agents and insurance companies. Only 25 percent responded negatively for investment in microinsurance.

Further to their interest, respondents' perception towards various aspects of microinsurance was also checked. They were asked questions related to type of organisation (Private company offer/ Public company offer) as per their current needs, premium payment capacity, numbers of premium payments and mode of premium payment. Questions asked for to check perception were dichotomous and multiple choices.

Table- 5 Preference of Organisation

Type of Organisation	Counts	Percentage
Public	139	95 %
Private	8	5 %

As per responses availed, 95 percent of the total respondents would like to invest or purchase policy from Public sector companies offering microinsurance products whereas only 5 percent shown their consent to invest in Private-company offerings. From these findings it can be inferred that people have more trust in Government offerings rather private sector.

Table- 6 Preference of Microinsurance Product

Type of Policy	Counts	Percentage
Term Insurance policy	20	14 %
Endowment Policy	76	53 %
Health Insurance Policy	34	24 %
ULIP (Unit Linked) policy	12	8 %

As mentioned in Table- 6, most of the respondents (53 percent) are interested in purchasing Endowment plan, followed by Health Insurance Plans (24 percent), Term Insurance Policies (14 percent) and very few (8 percent) had shown their preference for Unit Linked Policies (ULIPs).

Table-7 Premium payment capacity

Premium Payment Capacity (Annual)	Counts	Percentage
Less than 1000	81	57 %
1000-3000	50	35 %
3000-5000	8	6 %
More than 5000	4	3 %

As per the analysis, more than 50 percent respondent i.e. 57 percent has capacity of paying premium capacity of only 1000 Rs. per annum for any type of microinsurance policy. 35 percent of total respondents have financial capacity of 1000-3000 Rs. for premium payment. Very few of the respondents have capacity of paying premium more than 3000 Rs. From these it can be analysed that people do not have amount of financial capacity for premium payment.

Table- 8 Frequency of Premium payment

Option	Counts	Percentage
Quarterly	17	12 %
Semi annually	11	8 %
Monthly	42	29 %
Weekly	23	16 %
Daily	50	35 %

From further data it can be conferred that major respondents prefers to pay daily premiums as most of them earn daily wages and some of them may pay monthly premiums. In question of the mode of payment 94 percent want premiums should be collected at door step by insurance company person and only 6 percent shown their interest of paying at bank.

Objective-3

To find out impact of various demographic factors on interest in investing in microinsurance policy and premium payment.

Hypothesis-1

H1.1= There is a significant impact of age on investment in microinsurance.

H1.2= There is significant impact of gender on investment in microinsurance.

H1.3= There is significant impact of marital status on investment in microinsurance.

H1.4= There is significant impact of number of family members on investment in microinsurance.

H1.5= There is significant impact of annual income on investment in microinsurance.

H1.6= There is significant impact of education on investment in microinsurance.

Chi-square has been applied to find out the association between different demographic factors and interest in investing in micro insurance policy.

Table- 9 Chi-square analysis

Demographic factors	Value	Df	Asymp. Sig. (2-sided)	p=0.05	Analysis
Age	1.213	4	0.001	Not Accepted	Preference of purchasing microinsurance is dependent on Age
Gender	0.233	1	0.000	Not Accepted	Preference of purchasing microinsurance is dependent on Gender
Marital status	0.349	3	0.658	Accepted	Preference of purchasing microinsurance is independent of marital status
Number of family members	2.791	2	0.248	Accepted	Preference of purchasing microinsurance is independent of number of family members
Annual Income	0.838	3	0.003	Not Accepted	Preference of purchasing microinsurance is dependent on Annual Income
Education	1.098	3	0.000	Not Accepted	Preference of purchasing microinsurance is dependent on Education

Study found (Table 9) that preference of purchasing microinsurance policy ($p < 0.05$) is dependent on demographic factors like age, gender, annual income and education. It can be inferred that different age groups, male- female, different income earner and respondents with different education background are differing in their preference for purchasing microinsurance policies. Marital status and number of households ($p > 0.05$) are independent to decision and not have any association with insurance purchase decisions.

Hypothesis-2

To find out relationship between various demographic factors and capacity of premium payment of micro insurance policy

H2.1= There is a significant impact of age on capacity of premium payment.

H2.2= There is significant impact of gender on capacity of premium payment.

H2.3= There is significant impact of marital status on capacity of premium payment.

H2.4= There is significant impact of number of family members on capacity of premium payment.

H2.5= There is significant impact of annual income on capacity of premium payment.

H2.6= There is significant impact of education on capacity of premium payment.

Chi-square has been applied to find out the association between different demographic factors and capacity of premium payment amount of micro insurance policy.

Table- 10 Chi square analysis

Demographic factors	Value	Df	Asymp. Sig. (2-sided)	p=0.05	Analysis
Age	2.354	4	0.000	Not Accepted	Capacity of premium payment of microinsurance is dependent on Age
Gender	0.074	1	0.304	Accepted	Capacity of premium payment of microinsurance is independent of Gender
Marital status	.989	3	0.786	Accepted	Capacity of premium payment of microinsurance is independent of marital status
Number of family members	3.329	2	0.133	Accepted	Capacity of premium payment of microinsurance is independent of number of family members
Annual Income	0.935	3	0.003	Not Accepted	Capacity of premium payment of microinsurance is dependent on Annual Income
Education	1.751	3	0.000	Not Accepted	Capacity of premium payment of microinsurance is dependent on Education

As per significance values (Table 10) age, education and annual income ($p < 0.05$) have significant impact on premium payment capacity of respondents whereas the rest demographic variables viz., gender, marital status and number of family members ($p > 0.05$) are independent of premium payment capacity or don't have any impact on the same.

5. Conclusion:

Insurance is essential requirement of everyone's life, specially for people who are not financially prepared to face certain risks associated. The present study throws light on the awareness of microinsurance policies and their preferences in Ahmedabad. The study concludes that there is very low awareness about micro-insurance among the population. Although awareness is low but 75 percent are interested in purchasing Microinsurance policies and products, provided detail information explained to them and agents can play a major in creating awareness as well as the major influencer for taking micro-insurance policy. Respondents prefer endowment and health plan offered by Government companies and their preference are dependent on demographic factors like age, gender, annual income and education; whereas age, education and annual income have significant impact on premium payment capacity of respondents.

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