

Role and Impact of technology on Micro Insurance

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According to consultive group to assist the poor [cgap], micro insurance is defined as, “the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and costs of the risks involved.” In simple insurance products made for low-income individuals.

Micro insurance can be defined by the following characteristics: It is based on insurance principles and involves payment of premiums by the policyholders (or on the policyholder’s behalf by governments, developmental agencies) in exchange of the promise of indemnification by the insurer in the event of covered loss.

Accessibility: Micro insurance targets the segment of society with low and instable income who would not otherwise be able to afford conventional insurance.

Affordability: Premiums and coverage are kept at a low level in order to make products affordable for the target population. Premium subsidies provided by governments or developmental agencies also help to ensure products are affordable.

Flexibility: Since the low-income segment of the society is not homogenous cluster, micro insurance products require customization to meet the community requirements in a effective way. For instance, premium collections, can be tailored to suit the irregular income stream of policyholders.

Simplicity: Micro insurance should be structured simply in terms of product design, underwriting conditions, premiums collection, policy language and claims handling. This takes into consideration the lack of actuarial data in many cases and help to make the products easy understand and more acceptable.

The low-income households are facing the following main risks by: death or serious illness of a breadwinner, loss of the year’s harvest due to natural disaster, and property loss. One of the key strategies for eliminating poverty is equipping poor with right financial tools. Access

to the right financial tools at critical moments determine whether a poor household is able to capture an opportunity to move out of poverty or absorb a shock without being pushed deeper into debt. As per the Insurance Regulatory Development Authority of India [IRDA] guidelines in 2005, micro insurance has been adopted by many main stream players to increase insurance coverage to protect the people below the poverty line. Main objectives of this paper is to study how technology had made an impact on micro insurance development. The two biggest barriers to micro insurance are high operating costs and difficulty in accessing the poor who are physically spread out . Technology can help in cutting costs and bridge physical distance.

Objectives of the study:

1. To study the need and various products of micro-insurance
2. To study how technology is used by micro-insurance providers paving the way to poverty reduction and sustainable development

Research methodology

The study is qualitative study based on secondary data.

Need for micro-Insurance

Poverty and vulnerability reinforce each other in an escalating downward spiral. Often, the trigger for poverty is illness. Illnesses are a severe risk and can drain out most of the hard-earned savings. They are the number one route to bankruptcy. The Indian ministry of health found that a quarter of all people hospitalised were pushed into poverty by their hospital costs — not including the wages missed on account of absence to work. Micro insurance specifically addresses the risks faced by low income groups. Greater degree of protection against health, property, disability and death risk is provided by micro insurance as the risk of these events occurring is pooled over a large number of people, at a much lower cost or premium per person.

Micro insurance products:

There are growing number of micro insurance products globally, protecting a variety of assets against a number of perils. Most common are:

Life micro-insurance: Life micro-insurance provides protection against financial losses that occur to the family on the death of the earning person of the family. Although life insurance is generally provided for a long period but poor people generally buy it for short-period i.e. 1 year and with no guarantee of renewal. The benefits of life micro insurance also vary, and often combine two or more of the following:

- Cash payout to the beneficiary
- In-kind funeral services coverage of funeral costs
- Cancellation of the outstanding loan balance of the insured (credit life)
- Combined savings/pension product

Health micro-insurance: This type of micro insurance provides coverage against financial losses including ill-health and maternity. The financial consequences include direct medical and non-medical costs. Health micro-insurance schemes mostly provide cover for direct medical costs with a specified list of risk.

Disability micro-insurance: This type of micro-insurance provides protection against the financial consequences of lack of validity, which can be either temporary or permanent, depending on the contract of micro-insurance. In case when the physical loss can be reversed and it lasts only for a limited period of time which is generally up to three years than the disability is called temporary disability. Disability micro insurance covers different variety of disabling events. The financial compensation provided is proportional to the seriousness of the disability which is also known as disability rate.

Property micro-insurance: property or asset micro-insurance provides protection against the financial losses that a person has to incur due to the damage or loss of personal assets (livestock, housing etc.), work premises and tools. The person who takes the insurance is generally the owner of the assets and/or tools. In this the amount of compensation depends on the loss caused to the insured so it is accessed after the damage has happened.

Crop micro-insurance: This type of micro insurance is made to protect the farmers in case of crop failure. It provides a financial compensation to the farmers in the case of crop failure due to uncontrollable factors like drought, crop pest floods etc. Since the assessment of the loss caused is very difficult so the financial compensation is calculated once the damage has occurred.

Micro-insurance or the insurance which is designed to serve low-income segment of the society, has become a popular strategy to eliminate poverty in the last ten years. The rural health delivery and micro insurance scheme developed by care focuses mainly on training the local health care providers to use highly technological diagnostic devices.

According to the world resources institute, “technology does two key things that help drive the development of financial services: it cuts costs, and bridges physical distance”, which are generally two big barriers in the development of micro-insurance.

The software used by CARE (Cooperative for Assistance and Relief Everywhere)and AVVAI (AVVAI VILLAGE WELFARE SOCIETY)“mf-insure” is a web-based system designed to support the various dimensions of the insurance business – health, life and general insurance. The software’s “product configurator” provides a parameterised and table-driven approach with the benefit of creating the most common insurance product specifications and features in advance. The day-to-day user of the software benefits in that in many cases it is unnecessary to enter data manually in the system because the most common data terms to be used are already selectable from the system. The user needs to only select the applicable option from dropdown menus. Examples of available data are address type, payment mode, payment frequency, bank & branch details, state, district, product type, relationship etc.

Handheld devices: the software is enabled to handle transactions with handheld devices such as the point of sale terminal, mobile phones, biometric devices etc. In the case of AVVAI this means that the field staff can use a mobile phone for member enrolment, premium payments and claims. A small application is installed on the mobile, enabling the same menu structure as on a desktop to be seen on the mobile phone. This offers the significant advantage that the user can enter data in the software from any location. Henceforth, when the field staff attends a self-help group meeting for enrolment, there is no need to first write the details on paper sheet, return to the AVVAI office and re-enter the data in the software, increasing the margin of error in the process. Consequently, AVVAI can do its work much more efficiently.

Depending on GPRS connectivity, which is not always available, the entered data will either directly be sent to the backend software or stored locally on the mobile phone until the moment it connects with the internet. There are also benefits for the members of AVVAI,

with field staff able to use a mobile phone but also a mobile and very small printer. This printer connects with the mobile phone and immediately provides the member with proof of the transaction made (enrolment, premium payment or claim statement).

Technology success factors CARE and AVVAI mentioned a number of success factors for the technology. The most important ones are the reduction of transaction costs and shortened turnaround time (in enrolment and claims settlement).

Enhancing transparency at different levels and transactions through technology was seen by CARE as another important goal. They wanted to build trust and to do this it seemed very important for the member to be able to see exactly what happens e.g. At the point of premium payments, grievances, claims and renewals.

This could be done by using technology, for instance by providing a receipt on the spot to the members showing the amount paid, the insurance product bought and the policy number. The technology used also helped to track the performance indicators, one important aspect to monitor the financial and social performance of the insurance product selected.

Technology in Micro Insurance at BRADESCO

Data from the developing world are becoming increasingly valuable to aid agencies, governments, and insurers and an asset for the base of the pyramid. For insurers, for example, it is crucial to have access to target group data in order to develop a (micro) insurance product. Mobile technology is becoming more prominent in supporting the collection, validation and packaging of micro insurance data. In the case of BRADESCO (a Brazilian insurer providing micro life and non-life insurance), this will require its staff at the various distribution channels to be trained in the use of such technology for insurance. It will thus turn data collection into a routine, low cost and complementary activity, eventually replacing traditional surveys. Mobile technology will address the critical problems associated with data collection activities such as: bridging paper-based and electronic data collection integrating professional surveys with community-based data collection overcoming constraints posed by inadequate support infrastructure reducing the cost of continuous data collection in remote locations one of the main objectives of mobile platforms is to integrate data collection with existing professional insurance delivery methodologies. Because applications will run on mobile phones, their acceptance should be well received by the target group, who are for the most part familiar with mobile telephones.

The penetration of mobile phones across the world, especially at the lower end of the pyramid, has opened up multitudes of possibilities for many ancillary technologies that can change the way problems have been visualised thus far.

Technology will play an overarching role in the smooth and efficient delivery of products and services across the value chain. It can be leveraged to buy a product and provide services like changing address, nomination, coverage value, etc. One of the largest service offerings that leverage technology could be for making payments through a unified payment interface. Awareness and education activities about insurance and other financial solutions can be made accessible to everyone using technology. Needless to say, all of the above, if made available through mobile phones, could totally change the paradigm. While technology becomes the new oxygen that slowly pervades the micro insurance space. Further awareness can be generated by using fm radio based contests and gamifying key concepts on the importance of protecting one's self, family and other assets against the vagaries of life.

Conclusion

Above study highlighted how the technology can bring drastic change in the reach and cutting costs of micro insurance. Micro insurance is like a magic treatment for the main disease (poverty) prevailing in the economy. The development of micro insurance is both a moral and an economic imperative, not only for achieving the inclusive financial systems but also for the equitable mitigation of risks.

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