A STUDY OF FINANCIAL PERFORMANCE OF MICRO INSURANCE IN PRIVATE AND PUBLIC SECTOR LIFE INSURANCE COMPANIES

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Abstract:

Insurance is indispensable to financially protect from uncertainties. Public and private insurance companies are taking efforts to insure every potential customer. Micro insurance is such an effort where public and private insurance companies are using multiple strategies to sell policies having sum assured of 50000 and below. The premium is also affordable for financially vulnerable people. Micro insurance is also a tool for financial inclusion. The present study tries to find out which sector of life insurance is performing financially well in selling micro insurance.

Keyword- Microinsurance, underprivileged, sum assured, premium.

Introduction:

Insurance is to protect the policyholders against contingencies. Irrespective of income level, every individual must purchase an insurance policy. At least the earning member should buy insurance at the right time of his age. Insurance companies and government make every possible effort to reach out to potential customers in India. Multiple distribution channels are being used for selling insurance policies.

There are around ten distribution channels used by Indian insurance companies to market their various products. It includes individual agents, corporate agents including bancassurance, brokers, direct selling, micro insurance agents, common service centres, web aggregators, insurance marketing firm, online, point of sales. This particular study gives emphasis on one distribution channel i.e., micro insurance agents operating in the life insurance sector. It is a study to find out the financial performance of micro insurance of individual person policies between public sector life insurance and private sector life insurance companies. Group insurance under micro insurance has not been covered in this study.

Microinsurance is governed as per IRDA microinsurance regulation Act 2005. Such micro policies are made for economically vulnerable people and especially for people who are deprived from access to financial facilities like banking and insurance. The sum assured of the products are 50000 and below. The premium amount is also nominal which can be paid by low-income group people. Term and endowment plans are popular in life insurance which are sold under micro insurance. Micro insurance is an opportunity for lower-income group people to save money and also for insurers to reach out to a big chunk of underprivileged population of India.

Thirty-Eight micro insurance products of Eighteen life insurers were in the market at March 31, 2021. Of these 38 products, 14 are Individual products and the remaining 24 are Group products. The individual new business under the micro insurance segment for the year 2020-21 stood at 10.69 lakh new policies with a premium of ₹355.27 crore.

The number of micro insurance agents as at March 31, 2021 stood at 93,748 of which 21,547 agents were from LIC and the remaining 72,201 pertained to private sector life insurers. Out of the total Micro Insurance agents, NGOs form 7.08 percent, Self Help Groups (SHGs) form 0.38 percent, Micro Finance Institutions (MFIs) form 0.36 percent, Business Correspondents (BCs) form 0.15 percent and other MI Agents form 92.03 per cent.

Objectives of the study

- To understand the importance Micro-Insurance.
- To study the financial performance of micro insurance in private and public sector life insurance companies

Main peculiarities of Insurance

Following are main peculiarities or characteristics of insurance.

1) Sharing of risk :

The basic concept and soul of insurance is dividing the risk among policyholders. In case of any uncertain event or contingency, the loss due to death or damage will be shared by all the policyholders by way of premium. It may be loss of head of the family, fire in the property, marine-peril, theft, accident or sickness etc or any other reason, the risk is shared.

2) Co-operative Device :

It is the customer who decides whether to purchase the insurance or not. When such a large number of persons insure themselves in one company then only it becomes possible for the insurer to bear the risk of claim payments on an uncertain event. No insurance company would compensate for the loss from their own pocket. They collect it from policyholders through premium.

3) Payment at contingency :

In the insurance contract the payment is made only when any uncertain event occur or at the time of maturity of policy in specific plans. In term life insurance, claim is settled only if policy holder dies in specified term and in the endowment policy the payments of claims done either at maturity of policy or at death of policy holder in specified period, whichever is earlier. In fire, marine, health and vehicle insurance, if contingency happens then only payment of claims made otherwise no payments.

4) Value of risk :

Insurance is protection against uncertain events. The loss is compensated by the insurer against the receipt of premium. So, while deciding the premium, actuaries considered and evaluate the risk of that particular event. The quantum of risk must be taken into account at the time of selling insurance. Hence, for high risk, high premium and for low risk, low premium.

5) Amount of Payment :

Amount of payment if fixed in life insurance. It may be at the death of the policyholder or at the time of maturity of the policy. The loss of the contingency can be measured in general insurance but not in life insurance. In property and general insurance, the happening of the loss and the amount of the loss needs to be proved.

6) Follows certain principles :

Insurance is based on certain principles. It has acceptance all over the world. As a universally available service, insurance follows predetermined principles. It includes, utmost good faith, insurable interest, contribution, indemnity, subrogation. Insurance companies are operating under the ambit of these principles.

7) A large number of policyholders :

To keep the premium at low or minimal level, the persons taking insurance must be large in numbers. The risk of loss must be spread among a large number of customers. Every insurance company tries to get insured as many people as possible. Insurers can transfer the benefit of huge clientele by way of minimum premium.

Analysis of secondary data

Table no.1 New business performance of micro insurance agents in life insurance

Figures in percentage of premium

Year	Public sector life insurance companies	Private sector life insurance companies
2014-15	0.05	0.003
2015-16	0.06	0.01
2016-17	0.03	0.01
2017-18	0.03	0.00
2018-19	0.48	0.00
2019-20	0.43	0.002
2020-21	0.63	00

(Source: IRDA annual reports)

New business premium includes first year premium and single premium.

The Table no.1 indicates year wise premium contribution of micro insurance distribution channel in the percentage form. Data for 6 years starting from 2014-15 to 2020-21 has been taken into consideration for the study. There are some years where private sector micro insurance has not performed. The study has considered the premium contribution of new business of micro insurance in life insurance.

Table no.2 Sector wise mean score of micro insurance.

	Life Insurance sectors	N	Mean	Std. Deviation	Std.Error Mean
Contribution of Micro Insurance	Public Sector Life Insurance	7	.24429	.258963	.097879
	Private Sector Life Insurance	7	.00357	.004541	.001716

The Table no.2 indicates that the mean score of micro insurance in public sector life insurance is 0.24429 and mean score of private sector micro insurance is 0.00357. It shows that the mean score of public sector micro insurance is higher than private sector and therefore researcher concludes that the financial performance of public sector micro insurance is higher than private sector.

Conclusion : Insurance penetration is abysmally low in India. Researchers and industry experts have written much about this issue of low insurance penetration. Several countries of the world are in the higher ranks as far as good insurance penetration is concerned. LIC and private life insurance companies are trying their best to insure the poorest of the poor in India. There is one strata of the society which do not have financial capacity to purchase insurance policies which are made for the middle- and higher-income class. Therefore, IRDA designed a small sum assured insurance policies where premium is also affordable for lower income groups. The present study indicates that private insurance companies are lagging behind in selling micro insurance. Micro insurance in the public sector is performing better compared to micro insurance of private life insurance sector.

Micro insurance of the private sector needs to take more efforts and chalk out marketing strategies to sell micro insurance policies. India has a large number of poor people and for those poor, financial security is essential to safeguard their family in contingencies.

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