International Journal for Multidisciplinary Research (IJFMR)

E-ISSN: 2582-2160 ● Website: www.ijfmr.com ● Email: editor@ijfmr.com

A Study for: Socio-Cultural environment and the Microinsurance

Abhishek Kumar

Dr Shyama Prasad Mukherjee University, Ranchi.

Abstract:

The poor are much more exposed to the dangers from their surroundings. They live in unhealthy environment where even proper sanitation is not available. Natural calamities like floods, drought, earth quake etc. hit them the hardest. An unfortunate event like Illness or death in the family can change the living standard of the poor for the worse. Cost of medical care being prohibitive, s/he consumes lots of (already diminished) resources from the family. Since they do not have adequate savings, such an episode drives them to either sell their assets or borrow money from local money lenders at high interest rates. According to World Health Organization report (2006), out of total health expenditure in India, 73% happens through out-of pocket spending. This is a very precarious situation as it exposes the poor household to sudden spurt in unplanned and unexpected medical expenses. So, how do we ensure that the poor, or the 'excluded' face this ever-threatening risk to their lives and livelihood? Insurance as a concept was introduced in 19th century to do exactly that - protect the poor! But over a period of time, it became a financial tool for the rich. Affordability being one of the prime reasons but exposure and access being other important reason for low penetration in this segment.

Keywords: - Microinsurance, Socio-Culture, Socio-Environment, Consumers

1. INTRODUCTION

The poor are still facing the harsh economic conditions. Traditional insurance companies do not typically approach this segment because of their own rigidity. Microinsurance, on the other hand is proposed to be 'The Solution' to this problem. Microinsurance is a low-premium-low claim insurance plan meant for low income group targeted at rural or social sectors. In microinsurance, the premium (and consequently, the claim) has got to be low by design as it is targeting that particular segment. The potential of microinsurance to reduce the risks in the life of the poor will go a long way to establish an equitable society. They will be freed to use their resources for better purposes. The idea of bringing insurance to the poor emanated from the success of microfinance. Successful experiments by the Grameen Bank led by Nobel Prize winning Mohammed Yunus in Bangladesh gave the world a new vision to look at the poor. Microinsurance is in a way an attempt to replicate the success of the microfinance story, after all insurance planning is also a part of financial planning. Also, just like formal financial institutions, formal insurance institutions too have not shown active interest in prospecting the poor. Thus, it makes common sense to use a Microfinance-like approach to make insurance accessible to the poor. While microinsurance benefits the poor, it is not an exercise in charity or corporate social responsibility. Companies wanting to give out a portion of their earnings as charity will not help the cause of the poor in the long run. To help sustain the interest of all stake holders, it has be a successful business model with a potential for growth. The potential for microinsurance is huge in the developing world and the market for insurance is clearly untapped. Microinsurance is a business model on its own and those who want to get into it should do so because it makes business sense in doing so. The big difference that insurance companies need to realize is that this is catering to a completely different target audience. Insurance companies need to get out of their rigidity and innovate since there are immense challenges in this market. As C K Prahlad has shown, *the poor can be served and served profitably.* The utility of microinsurance as a tool to help the poor has also been understood by the government. While bringing in reforms in the insurance sector, the Insurance Development Regulatory Authority (IRDA) has made it compulsory for insurance companies to get a percentage of their business from rural and social sectors.Though attempts have been made to understand Microinsurance from Demand side, there is a big gap in available literature. This study tried to fill this gap and understand Microinsurance from the buyer's point of view. As suggested by Iddo Dror, the social dynamics underlying the buying process needs to be studied so that design and implementation of Microinsurance schemes can be much more effective. The present study has taken the social capital concept to much more detail and explored the behavior of the consumer as buyer or non-buyer of Microinsurance in the social context. The research are based on microinsurance, socio-factors and personal factors.

2. LITERATURE REVIEW

The insurance company sells specific information regarding the insured object to the customer. The information consists of the *guarantee to pay a monetary equivalent for the object insured in case a defined event (accident, fire, etc.) occurs.* The customer pays a certain premium and transfers the risk of having a monetary disadvantage due to potential damage to the insurance company.1 Security is a fundamental need of all human beings and need for insurance arises from this basic need. Black and Skipper (1994) say that the study of human history and civilization reveals a universal desire for security.What would consumers do, if they did not take up insurance? According to Data Monitor (November 2009), "Consumers can adopt risk management strategies such as 'Self-Insurance' whereby an eligible risk is retained, but a calculated amount of money is set aside to compensate for the potential future loss. However savings are not a sure way to guarantee protection in the same way that insurance can, thus reducing the benefit of this option".3 In today's world, Insurance is the best 'bet' against any future insecurity. Ponreka and Rao (2009) claim that Insurance is the best form of fortification against risk that has been formulated by man. Since its emergence, insurance has become unavoidable to every aspect of human life from health disorders to building properties, from household articles to multimillion - dollar projects.4There cannot be two opinions about the necessity of insurance in the world we live in today. A UNDP report (2007) says that a well developed insurance sector has both micro implications for households and macro implications for the economy as a whole. At the household level, insurance serves as a tool for addressing ex ante risks as opposed to coping with a disaster after an unfortunate event has occurred. At the macro level, insurance provides long term funds that can be used for infrastructure development. 5 The concept of insurance in India is not new and it has been in existence for almost two centuries According to Dr P.K.Gupta (2004), "The first Indian Life Insurance Company – The Oriental Life Insurance Company was established in Kolkata in 1818 followed by Bombay Life Assurance Company in 1823." But, Insurance in India has had a chequered history. Though the sector quickly grew to 250 companies, it was plagued by unethical practices by some companies when the government decided to regulate the sector. The Indian Life Assurance Act, 1912 and later The Indian Insurance

Companies Act 1938 were the first measures to regulate the insurance industry. Dr. Gupta (2004) says that "the regulations were further consolidated in 1938 by the Insurance Act, 1938.The act was further amended in 1950 resulting in far reaching changes in the insurance sector." While insurance seems to be on a major 'bull run' in India, it is still a privilege of the upper and middle classes, particularly in the urban areas. The rural and the lower income people are ironically left behind in this business of providing security. Subir Ghosh (2008), while explaining the concept of rural insurance says that rural insurance helps to safeguard rural income against probable danger involved in rural activities. Insurance business is spreading mainly in urban areas. But in rural areas, income generating activities like agricultural operations, livestock productions etc. for survival of human being are very much dependent on various unpredictable factors or risks like flood, drought, storm, earthquake etc. Therefore rural activities need protection and should come under insurance coverage. In this context, the concerned government either should provide protection to the rural people directly or should encourage private or foreign insurers to bring the rural population under the insurance coverage in safeguarding their income.10 The concept of insurance for the poor may seem to be the solution for all the ills of the poor population; it has to be applied very cautiously. Not every one categorized as poor can be the immediate target for insurance. The 'poorest of the poor' have little to lose in their life. Even the UNDP report (2007) suggests that while the utility of insurance for the poor is evident, market based insurance may not be immediately applicable for all categories of Bottom of the Pyramid (BOP) population. Its potential is likely to be greater for those with income streams and assets to protect, at least in early days of market development. 11 According to insure.org 12 and Rochester Investment Consulting Pvt. Ltd 13, commercially insurable risks typically share seven common characteristics. 1. A large number of homogeneous exposure units. The vast majority of insurance policies are provided for individual members of very large classes.The existence of a large number of homogeneous exposure units allows insurers to benefit from the so-called "law of large numbers," which in effect states that as the number of exposure units increases, the actual results are increasingly likely to become close to expected results. 2. Definite Loss. The event that gives rise to the loss that is subject to insurance should, at least in principle, take place at a known time, in a known place, and from a known cause. The classic example is death of an insured on a life insurance policy. Fire, automobile accidents, and worker injuries may all easily meet this criterion. Ideally, the time, place and cause of a loss should be clear enough that a reasonable person, with sufficient information, could objectively verify all three elements. 3. Accidental Loss. The event that constitutes the trigger of a claim should be fortuitous, or at least outside the control of the beneficiary of the insurance. The loss should be 'pure,' in the sense that it results from an event for which there is only the opportunity for cost. Events that contain speculative elements, such as ordinary business risks, are generally not considered insurable. 4. Large Loss. The size of the loss must be meaningful from the perspective of the insured. Insurance premiums need to cover both the expected cost of losses, plus the cost of issuing and administering the policy, adjusting losses, and supplying the capital needed to reasonably assure that the insurer will be able to pay claims. For small losses these latter costs may be several times the size of the expected cost of losses. There is little point in paying such costs unless the protection offered has real value to a buyer. Affordable Premium. If the likelihood of an insured event is so high, or the cost of the event so large, that the resulting premium is large relative to the amount of protection offered, it is not likely that anyone will buy insurance, even if on offer. Further, as the accounting profession formally recognizes in financial accounting standards, the premium cannot be so large that there is not a reasonable chance of a significant loss to the insurer. If there is no such chance of loss, the transaction may have the form of insurance, but not the substance. 6. Calculable Loss. There are two elements that must be at least estimable, if not formally calculable: the probability of loss, and the attendant cost. Probability of loss is generally an empirical exercise, while cost has more to do with the ability of a reasonable person in possession of a copy of the insurance policy and a proof of loss associated with a claim presented under that policy to make a reasonably definite and objective evaluation of the amount of the loss recoverable as a result of the claim. 7. Limited risk of catastrophically large losses. The essential risk is often aggregation. If the same event can cause losses to numerous policyholders of the same insurer, the ability of that insurer to issue policies becomes constrained, not by factors surrounding the individual characteristics of a given policyholder, but by the factors surrounding the sum of all policyholders so exposed. Typically, insurers prefer to limit their exposure to a loss from a single event to some small portion of their capital base. Where the loss can be aggregated, or an individual policy could produce exceptionally large claims, the capital constraint will restrict an insurers appetite for additional policyholders. The classic example is earthquake insurance, where the ability of an underwriter to issue a new policy dep ends on the number and size of the policies that it has already underwritten. In extreme cases, the aggregation can affect the entire industry, since the combined capital of insurers and reinsurers can be small compared to the needs of potential policyholders in areas exposed to aggregation risk. As seen in the earlier section, insurance is a pro-active action to deal with any unforeseen eventuality. The insured person does not wait for the event to happen and then find out ways and means to deal with the situation. “Insurance is an ex ante risk management tool through which individuals and businesses hedge potential financial losses in exchange for fixed premium payments”. While microinsurance is defined as - “a set of market based insurance products and processes designed to address both life and non-life risks faced by the people at the bottom of the socio-economic pyramid (BoP)”. 14 The key words here are: ‘Market based’ and ‘Bottom of the Pyramid’. In effect, Microinsurance is like any other financial product which depends on the vagaries of the market where the market is the ‘Bottom of the Pyramid’. Thus we see that the difference between insurance and microinsurance is the customer segment that the company chooses to target. “The difference between microinsurance and regular insurance is that microinsurance is available to those who have social or business affiliations with much smaller groups”. 15 Though insurance is an age old business, microinsurance is a recent phenomenon. Markus Loewe (2006) has described Micro-insurance as “a rather new concept, which emanated just a few years ago”. The concept evolved as a result of efforts from the self help groups and efforts of insurance companies and micro finance institutions.

3. APPROACH TO THE PROBLEM

1. Objectives of the study or theoretical framework

To understand factors influencing buying behaviour of Microinsurance prospects with regards to Personal influences

- Motivation
- Perception
- Learning
- Personality
- Attitude

2. To understand factors influencing buying behaviour of Microinsurance
prospects with regards to social influences

- Reference groups & Opinion Leaders
- Other non-commercial sources
- Social Class
- Cultural influences

2. The consumer decision making process consists of 3 distinct stages:

1. The Input Stage
2. The Process Stage and
3. The Output Stage

"The *input* stage influences the consumer's recognition of a product need and consists of Two major sources of information: the company's marketing efforts (the product itself, its price, its promotion and where it is sold) and the sociological influences on the consumer (family, friends, neighbors,, other informal and non-commercial sources, social class, and cultural and sub cultural memberships. The *process* stage of the model focuses on how consumers make decisions. The psychological factors inherent in each individual (motivation, perception, learning, personality and attitudes) affect how the external inputs from the input stage influence the consumer's recognition of a need, pre-purchase search for information, and evaluation of alternatives. The experience gained through evaluation of alternatives, in turn, affects the consumer's existing psychological attributes. The *output* stage of the consumer decision making model consists of two closely related post decision activities: purchase behavior and post purchase evaluation".

4. DEFINITION OF THE INFORMATION NEEDED

Motivation

1. Percentage of sample who have savings account (ii) Savingshabit of the sample.
2. Loan status of the sample.
3. Loan sources of the sample.
4. Major items of expenditure and amount spent on it.
5. Spending of surplus income.

Perception

1. Understanding of the term insurance.
2. Belief that insurance company will settle claim.
3. Perception about health insurance.
4. Perception that insurance is necessity
5. Perception that insurance is unaffordable
6. Perception that insurance people are untrustworthy (vii) Perception that insurance brings bad luck.

Learning

1. First source of knowledge about insurance.
2. Percentage of sample who have met insurance agent.
3. Awareness about private insurance companies.
4. Awareness about marketing communication of private insurance companies.
5. Marketing communication leads to purchase or not.

Personality/Lifestyle

1. Savings habit
2. Spending habit
3. Spare time habit
4. Influence of opinion leaders on medical and financial decisions.
5. Individualistic vs. family values.
6. Media habits

Attitude

Positive or negative attitude towards insurance by measuring what insurance means to the sample and what it does to them.

Family

1. Impact of family size
2. Decision maker in the family

Reference Group/Opinion Leader

1. Opinion leader for medical advice
2. Opinion leader for financial advice.
3. Reference group for spare time spending.

Urban exposure (other non-commercial sources)

1. Family members staying in city
2. Remmitances received from relatives staying in city.

Social Class

1. Annual income
2. Education
3. Professional Status
4. Landholding

Cultural Influences

a. Cultural values regarding health/illness/insurance

5. SUMMARY AND CONCLUSION

Family Influences:- More than 75% of the sample population lives in families up to 6 members.

With an increase in family size, the probability of being insured decreases. Thus, larger the family size, less the probability of being insured. Decision making in the family is still male dominated. Women have very little say in running household expenses or making a new purchase. Joint decision making by husband and wife is getting accepted in few homes. Parents have a sufficient say in any household decisions. Family values are still very strong and the respondents would prefer to insure the entire family than just him. Just as family lays a critical role in their decision making, friends and family too are very important. They are preliminary advisers in case of any illness. But, importantly, advice regarding medicines is taken only at the behest of Doctor (Allopathic) other sources are negligible. Thus they do not risk self medication or medication by quacks. Overall, almost everyone (85%) knew at least 1 person who has bought some kind of Insurance. There is also a strong desire to buy insurance since others in their group have bought it. This shows that there is a need to identify with the reference group members. Insured status (respondents) and Insured status (reference group) are correlated. The reference group is thus very influential. The respondents show a strong desire to buy insurance on the advice of the opinion leader. Other Sources (non-commercial) Urban exposure influences the respondents' opinions about people and things. Urban exposure was measured using (1) family member staying in city and (2) Remittances received from the family member staying in the city. A family member staying in the city gives a lot of urban exposure to the person staying in the village. It makes them more acceptable to newer ideas since their family person in the city seems to think so. Add to that, if he receives regular remittances from the family member then it surely brings some surplus money that changes his lifestyle. More than 51% of the rural respondents have some of the family member staying in city. This study found out that awareness of insurance and Urban exposure (1) are correlated. And also, Insured status is correlated to urban exposure (1). Thus family member staying in the city has a positive influence in insurance awareness and buying of insurance. The urban exposure (studied as non-commercial sources) has an influence on buying of insurance. Social Class Education, Income, professional status and Landholding are the prime indicators of social class. Education is not highly prevalent amongst the targeted segment with only thirteen percent reported as graduates. Eighty-two percent (cumulative) of the sample population has income below Rs one lakh per annum and thirty five percent has no land holding while 59% has less than 10 Acres. 46% of the sample population is in service category while 38% are self employed. Those who are employed are more likely to be insured than those who are self-employed. This may also be attributed to greater exposure to outside world while at work and insurance provided by the employer.Education is also positively related to Insured status, with higher theeducation, more the chances of the person being insured.Land ownership and Insured status, though show a positive association, therelation does not seem to be very significant. This may be attributed tomajority of respondents chosen from weaker economic section (the target of Microinsurance). The results are further ratified by the test of Binary LogisticRegression applied to demographic variables of Social Class. Land holding isnot a significant predictor of Insurance status. Annual Income is positively associated with Insurance status, with higher the income, higher the probability of being insured. Again, borne by high significance of Annual Income in the Binary Logistic Regression test applied to demographic variables of Social Class.Education Annual Income are the most significant predictors of social class factors for buying of Insurance while Land ownership and professional status are not so significant in the given sample.Culture Cultural beliefs play a very important role in our lives. These beliefs are a strong indicator of what a consumer will buy and the reason for his decision. The societal belief system about Disease, Accidents, Destiny, Integrity of medical profession etc is important to understand how they value Insurance. Age, Education, Income and location are low to moderately correlated with Cultural Beliefs. None of the demographic variables (except one) are very highly correlated to cultural beliefs. This means that overall; the cultural beliefs are independent of Age, Education, Income and Location 'Diseases and Accidents are destiny' is the only belief that is related to all the demographic variables. This plays an important role even in predicting purchase of Insurance as depicted by the Logistic Regression test. Thus

'Diseases and Accidents are destiny' is a common cultural belief across age, education, income and location Motivation More than 80% of sample population has a savings A/c but more than 45% do not save anything at all in that account. Having a savings A/c and having Insurance are related. Of the total number of respondents who had a savings amount, 81% were insured while those who did not nave a savings account, only 19% were insured. Savings amount is correlated to annual income. Savings amount reduces for the same income category when there isa loan liability. Current loan status and Spare income spending are also correlated. As discussed earlier, though prevalence of savings A/c is high, savings habit is negligible. This shows in relation between savings amount and Insured status. More than 70% of the sample population has no loan liabilities on them. This response seems to have a respondent bias and has been checked in further sections. Loan liability is related to buying Insurance. Major source of loan is 'others', which means the local moneylender or a 'shrimant' (trader). Major expenditure for this segment happens for buying land/Rebuilding house. This is followed by spending on marriage/festivals. 20% of the sample spent less than Rs 25,000 on these major expenses while on the other hand, a whopping 14% spent more than Rs 1, 00,000. Query on 'Spending spare income' brought surprising results. While 40 % were conventional enough to use it for home improvement purposes, a big chunk (22%) would spend it on self or for entertainment. Health Insurance does not give any returns and the premium may be sunk cost if the respondent does not fall ill. Only, 30% of the population said a definite yes after understanding the concept of Health Insurance. 90% of the sample population is sufficiently motivated to buy Insurance. They believe Insurance is a necessity. There is a positive correlation between those who are motivated and those who have Insurance. The sample population (70%) has seen people suffer due to lack of Insurance. This has motivated them to get insured. There is a positive correlation between those who have seen others suffer and buying of Insurance. A small 39% has ever seen anyone get their claims from Insurance companies, but it is also a motivating factor to buy Insurance. Insured status has a positive correlation with those who have are witness to claims settlement. Motivation to buy insurance is high. It is fuelled by positive reinforcement of seeing others get their claim and negative reinforcement of seeing others suffer due to no insurance.

REFERENCES

1. Ahuja, R "Micro-Insurance for the Poor: Policy Choices", *Economic and Political Weekly*, November 29, 2003, pp 5034.
2. Ahuja, R, and Narang, A "Emerging Trends in Health Insurance for Low-Income Groups" Economic and Political Weekly, September 17, 2005, pp 4152
3. Ahuja, R. and Jutting, J. "Are the poor too poor to demand health insurance?" *Working paper no. 118*, Indian Council for Research on International Economic Relations, January 2004, pp 6, 17
4. Ahuja,R. *Insurance and Risk Management*, Birla Institute of Management Technology, Allied Publishers Pvt. Ltd. 2005, pp362
5. Bhattacharya, A. "Micro-Insurance in the Indian Market", *The Journal*, January-June 2008, 2008, pp 19, 31.
6. Bhattacharya,S, Banerjee, S and Mukherjee, S. "Group lending and self-help groups: joint benefit as an alternative governance mechanism", *The Journal of International Trade & Economic Development*, Vol. 17, No. 1, March 2008, pp 2,16
7. Biswas, S. and Devi,R. "Making Health Microinsurance work", ICFAI Journal of Risk and Insurance, Vol V, No 1, Icfai university press, 2008. pp 50, 51,52.
8. Blanchard-Horan,C. and McCord, MJ. "Working to solve Healthcare disparities in developing countries" , *International Journal of Public Administration*, Vol 30 (8 &9), 2007, pp 727–735
9. Bodla, BS. and Verma, SR. "Life Insurance Policies in Rural Area: Understanding Buyer Behavior", *The Icfai Journal of Services Marketing*, Vol. V, No. 4, 2007, PP 18-25
10. Brenzel, L. and Newbrander, W. "Linking Ability and Willingness to contribute to Microinsurance", *Social Re Insurance, A new approach to sustainable community Health Financing* edited by David

M Dror and Alexander S Preker, ILO and World Bank, 2002, page 300

11. Brown, W and McCord, MJ "Summary of discussions: USAID Microenterprise Best Practices Virtual Conference on Microinsurance", USAID, November 2000, pp 9.
12. Carrin, G. and James, C, Social health insurance: Key factors affecting the transition towards universal coverage *International Social Security Review*, Vol 58, 1/2005), World Health Organization,2005.
13. Chandhok ,GA. "Insurance – A Tool to Eradicate and a Vehicle to Economic Development", *International Research Journal of Finance and Economics*,
ISSN 1450-2887 Issue 24 (2009),Euro Journals Publishing, Inc. 2009, pp 71 - 75.
14. Chatterjee, A., Journal of Risk Management, Pravartak Vol 4, issue I, Jan 2009
15. Christian, J. et al "The social Protection Perspective on Microinsurance ", *Protecting the Poor: A Microinsurance Compendium* (edited by Craig Churchill), ILO, 2006, pp 62-64
16. Balachandran, S. *Life Insurance*, IC-33, New Syllabus, Insurance Institute of India