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Insurance For Financial Inclusion And Well Being

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ABSTRACT

Insurance cover is critical for individuals to safeguard themselves against life's risks. One of the key jobs of insurance is shielding the economic soundness of small and medium sized endeavors. Insurance cares, and comforts, provides security, protection, safety, prosperity, success, good fortune, and has its own edge in the society. People are frequently dealing with various forms of debt and at the same time they lack sufficient assets for retirement and face unexpected risks that could result in a major financial setback. Though India is currently undergoing a recession like phase, there is confidence that its economy will overcome this temporary setback.

Need for managing financial risks has given birth to a number of micro credits, micro insurance products and many other financial services that are micro in nature. Financial inclusion refers to people's access to a vast range of financial products and services at affordable cost. Over the years, micro finance as a financial service innovation is fast emerging as an important method of bettering the lot of the poor and the downtrodden. It can be defined as provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban or urban areas for enabling them to raise their income levels and improve living standards. Technology and internet have given ample scope for rural population to adapt to the changing new technology landscape. For more than a decade the penetration level of insurance is stagnant, except for a few intermittent small spikes. In the article, we explore the role insurance plays in bringing financial inclusion and wellbeing in India.

Key words: Insurance, Risks, Financial Inclusion and well being

INTRODUCTION

Every year different parts of our country go through calamities, leading to loss of life, crop, vehicle, home, factory, workshop, go down etc. the poor are hit the most as they have no life insurance cover, no home insurance cover, no health cover. Those having the foresight to have insured themselves are able to return to their previous life styles owing to insurance claims. This has led to the government itself coming up with several schemes to protect the vulnerable sections of the society and launched schemes like PMFBY (Pradhan Mantri Fasal Bima Yojana), an insurance scheme to take care of the farmers when the crop gets destroyed impacting the yield or earning. Decision under uncertain situations is very difficult. It all depends upon the skill and the judgement of the decision-maker. Risk is a measurable uncertainty.

People express risk in different ways. It is a condition in which there is a possibility of an adverse deviation from a desired outcome that is hoped for. Here comes the importance of insurance in one’s life. In simple terms insurance is a contract between two parties to cover the risk. It is an arrangement by which a company or the state undertakes to provide a guarantee of compensation for specified loss, damages, illness or death in turn for payment of a specified premium. There were times when people were actually happy with their financial risk covered by their insurance provider but the time has changed. The standard of living of the people has increased after the globalization. People are asking for wellbeing instead of sick care. Customers are now expecting more of a personalized care from their insurance providers than only covering their financial losses. The focus is shifting from curing any disease to preventing it in the first place.

Objectives

1. To understand the interdependence of insurance, wellbeing and financial inclusion
2. To examine the extent of financial inclusion especially among the rural population that leads to the wellbeing of the people.
3. To create awareness among the uninsured and financially excluded about the benefits of having insurance coverage.

LITERATURE REVIEW

Khan H R (2011) Expanding financial inclusion coverage, he believes, would boostthe poor people’sstandardof living, especially among vulnerablegroups. He notedthat financial inclusion works as a multiplier in the growth phase of an economy. As aresult of the rural sector's rapid growth, there will be more revenue and, as aresult,more savings. He also argues that in an equitable environment, distribution processeswould be faster, which would benefit the macro economy and, as a result, the well-beingoflow-incomegroups.

PrabhakarNandruandAnandByram(2015) Thesignificanceofinsuranceproducts in fostering financial inclusion is unmistakable. Insurance companies are alsoadvised to effectively meet the needs of rural people and raise awareness of variousinsuranceproductsamongIndia'sruralpopulation.Itwasdiscoveredinhisresearchthat using electronic channels to receive financial services had a significant effect onfinancialinclusion.Accordingtotheauthor,amorerobustandsecurepaymentinfrastructurereduces transactioncosts, allowing for theuseof electronic paymentproducts. In addition, they found that increasing the value proposition for consumersimprovedfinancialaccess.

RoshanAra(2015) In herresearchintotheinsuranceindustry'sjourneyfollowing privatisation, the author discovered that the insurance industry will certainlyprogressandgrowinthefuture.Theauthoralsoexpressedconcernsabouttheshortcomingsintheprivatisationprocess.Thatthegovernmentmustprovideguidelinesandresolveconcernsconcerningsocialsecuritysothatsocietycanachieveits desiredgoalandprogress.

VivekRaj(2019) Incontrasttoothernations,Indiahasthelowestinsurancepenetration rate of 3.69 percent, according to their technical articles. The score wasmuch lower before the market was opened to private insurers. The author investigatedfactors influencing insurance penetration, such as informationavailability, businessenvironment, agent performance, inflationrate, real interest rate, literacy rate, and soon, and discovered that digitization would increase customer literacy and knowledgeavailability, given that over 72 percent of Indians use the internet. According to him,with the availability of mobile applications, life insurance firms can now offer micro,portable, and short-term life insurance policies to consumers, enabling them to extendtheir area of operations and attract customers with lower annual income. When thesefactorsarepairedwithtechnology,theyarecapableofeliminatinginsurancepenetrationproblems.

RamNeelamegam(2020)

studiedaffordable insurance rates, flexible premium payment,agentsatisfaction,frequentcommunicationbetweenagentsandpolicyholders,andlower penalties are all important factors in persuading respondents to purchase microinsuranceplans, according totheir research. According to their findings, thefactorsthat determine whether or not people buy micro insurance policies are crucial. Theyargue that insurance officials and agents should pay special attention to respondents'levels of education, age, family size, place of residence, and annual income in areaswherethereisahighdemandformicroinsurance.

P.Revathi(February2020)conductedastudyontheroleoftechnologyininsurance and discovered that insurers are already using technology in a number ofways. One of the most recent trends is the expansion of insurance distribution in ruralareas. Several startups are focusing on using advanced data analytic tools to analyzerisks, detect fraud, and identify coverage expansion opportunities in specific micro-segments of various industries. She goes on to say that the sector will grow due tofactors such as younger people opting for pure protection plans, efforts to increaseinsurance penetration in rural areas, product innovation, and tax breaks. The paperindicates low persistence, low income of individual agents, and other concerns. Thegovernment is expected to take action to make insurance plans more widely available.Theaboveissuesmustbeaddressedtoexpandtheindustry'sreach.

What exactly we mean by wellbeing?

Wellbeing has become an important part of everyone’s life nowadays and changing lifestyle is impacting the same enormously. Oxford describes wellbeing as a state of being comfortable, healthy or happy; and have several synonyms for wellbeing viz. welfare, happiness, safety, good health, comfort, security, protection, good fortune, successfulness etc. Wellbeing is the condition of an individual or group. It highlights the condition as positive or negative for an individual or a group depending upon their level of wellbeing. It is also known as wellness. It refers to diverse and interconnected dimension of mental, social, psychological and physical wellbeing that is beyond the traditional definition of health. It includes choices and activities aimed at achieving physical vitality, mental alacrity, social satisfaction, a sense of accomplishment and personal fulfillment.

Wellbeing provides a way to understand what is needed and how best we can improve our lives in a complex world. Holistic wellbeing is a combined outcome of physical, emotional and financial wellbeing. Physical wellbeing refers to health and fitness; emotional wellbeing refers to generating emotions that lead to good feelings; financial wellbeing refers to managing the finances for wealth creation to secure financial needs. Wellbeing can be helpful in the following ways:

- It helps in integrating physical and mental health resulting in more holistic approaches in prevention of diseases and promotion of health.
- Wellbeing can provide a common ground that can help policy makers to shape and compare the impact of different policies.
- Measuring, promoting and tracking wellbeing can be useful for multiple stakeholders involved in prevention of diseases and promotion of health.

The most crucial and important impact of wellbeing is on one’s health as it allows a person to stay healthy and also to keep him with the society which helps him in keeping happy. However, there is no precise way or indicator to measure what are people’s thoughts and feelings about their lives such as the quality of their bond with others, their positive emotions and resilience, the realization of their potential or their overall satisfaction with their life.

Interdependence of Insurance, Wellbeing and Financial Inclusion

Insurance plays a major role in achieving financial inclusion. In India, liberalization of the economy as created new opportunities for insurance to reach the vast majority of the poor. The insurance sector has made a significant contribution to rural development even though there have been issues related to the penetration of insurance in rural areas and absence of covers to meet the specific needs of the villagers. Villagers in India are primarily concerned about access to clean drinking water, the marriage of their children and having proper roof over their head. They are often ignorant about the benefits the past, successive Indian governments have taken efforts to use insurance as one of the tools to promote socio-economic development in rural areas. Although the government has launched rural development schemes to improve the quality of life of the rural population, rural development interventions are needed to uplift the rural population and achieve

offered by insurance. Generally, villagers tend to think that money spent on insurance is a waste. Much more, low income households may not understand what the risk protection is all about. They may feel that unless the insured event happens, the money that they spent for premium may be a waste.

Rural populations are characterized by mass poverty, low levels of literacy and income and high levels of unemployment. Absence of health care facilities have been a perennial problem in the rural areas. In

inclusive growth**.** A wide variety of covers are now available for the rural areas. Rural health insurance is also a priority area that the government is strongly focusing on as part of Integrated Rural Development Programme. Given below is the wheel of wellbeing; it could be emotional, intellectual, occupational, social, financial, physical, spiritual and environmental.

Figure: 1-Various aspects of wellbeing

It is in this context that financial inclusion gains importance. Financial inclusion is one of the most talked about agendas towards holistic development of the country. The essence of financial inclusion to ensure delivery of financial services at low cost, for productive, personal and other purposes, financial advisory services, insurance facilities (life and non-life) etc., says Dr. Raghuram Rajan in 'A Hundred Small Steps – Report of the Committee on Financial Sector Reforms'.

RELEVANCEOFINSURANCE

Insurancehasbecomeanessentialcomponentofanycompanyorindividual'sexistence. The ambiguity of the future motivates every segment of society to purchasesome kind of insurance policy. Insurance compensates for losses incurred as a result ofthe occurrence of a specific contingency.

It also guarantees the payment of a fixed sumin the event of death. When a businessman's uncertainties are covered, he can workfreely.Onlytheavailabilityofriskcoveragehasallowedfortheexpansionofnational and international business and trade. Insurance benefits not only the customer and thecompany, but also society as a whole. The following points can be made about thesignificanceandvalidityofinsurance:

1. **Relevance and usefulness for the individual**: Insurance provides safety and security,acts as a motivator becauseitis a security against adversesituations and providespeace of mind to the person, encourages savings, eliminates reliance on others to meetyour needsinthe event of death or property damage, profitable investment– becausethe insured receives higher sums than the amount of policy at the time of maturity, andfulfilsfamilyobligations.
2. **Business relevance and usefulness:** Insurance plans are beneficial to businesses in avariety of ways,includinglending, partnershipcompanies, containing theuncertaintyofbusinesslosses,employeewellbeing,andincreasing motivation.
3. **Societalrelevanceandusefulness:**Insuranceisbeneficialtosociety intermsofeconomic development and asset preservation. That is, insuring losses against perils inmanufacturing,agriculture,andothersectorshelpstopropeleconomicgrowthforward.Whenitcomestowealthsecurity,itmeanswhenthenation'swealthislostdue to natural disasters, accidents, humanmistakes, industrial mishaps, andsoon.When such assets are protected against a variety of risks, the insurers will cover thelosses. Similarly, theloss of humanlifeisinsuredby promising a monetary reward.As a result, insurance aids in the protection of the nation's human and physical capital.

Thesignificanceofgeneralinsuranceinparticularcanbesummarisedasfollows:

1. General insurance is a realistic solution for someone who wants to live a risk-freelifestyle. Sincerisk is associatedwith everything, itis critical to protect everythingthatoneowns, andinsuranceprovidesthatprotection.
2. Generalinsuranceplanscoverthings likearson,othertypesoffraud,andsoon.Personalinsurance,suchashealthanddisabilityinsurance,arealsoincludedingeneralinsurance.Furthermore,socialinsurance,suchastechnicalindemnityinsurance,falls intothiscategory.
3. Thefact that general insurance has growninvalue is due to thefact that itcoversalmostall,includingone'shouse, vehicle,andhealth.
4. Insurance offers peace of mind in the event of a risk. Throughout the insurance, theburdenoflossisalmostnon-existentsinceitislater coveredbytheinsurancepolicy.
5. Payinginsurancepremiumsissimilartoputtingmoneyintoasavingsaccountbecauseitwillcomeinhandylateronifanythinggoeswrong.
6. Itallowsacompanyownertomakemoremoneybecausetheinsurancecoverspotentialrisks. Businessesinvolving thetransportation of goodsandservicesshouldbe secured, and none of the parties must bear the damage in the event of a mishap.Hospital costs and medical check-ups are partly protected by general insurance in theeventofahealthdecline.
7. Car repair expenses can beclaimedtoa large degree under car insuranceinthe eventofacaraccident.
8. The general insurance policy also covers any unexpected liabilities. When two or threepartiesenterintoaninsurancepolicyarrangement,intheeventofadefault,thesameiscompensated

byboth partiesratherthananyoneofthem.

How important is financial inclusion?

As India is vast country with a large population living below the national poverty lines and is extremely poor, financial inclusion has become an urgent need of the hour. Financial inclusion broadens the resource base of the financial system by developing a culture of savings among large segment of rural population and plays its own role in the process of economic development.Financial inclusion refers to universal access to a wide range of financial services at an affordable cost.Further, by bringing low income groups within the perimeter of formal banking sector; financial inclusion protects their financial wealth and other resources in exigent circumstances. Also, it mitigates the exploitation of vulnerable sections by the money lenders by facilitating easy access to formal credit. India has made a massive contribution to the economic development by finding innovative ways.

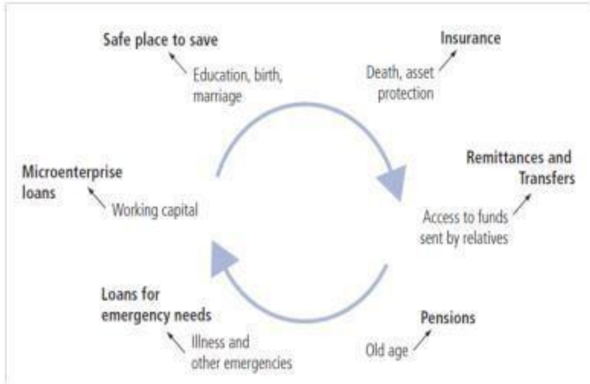

Figure 2: Financial Inclusion

Building inclusive system can be through any of the following ways:

- ❖ Remittances and transfers (access to funds sent by relatives)
- ❖ Microenterprise loans (working capital)
- ❖ Insurance (life and assets protection)
- ❖ Loans for emergency needs (illness and other emergencies)
- ❖ Safe place to save (education)
- ❖ Pensions (old age)

Financial inclusion is a process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players. Financial inclusion and financial literacy are twin pillars. While financial inclusion acts from supply side providing the financial market/services what people demand, financial literacy stimulates the demand side making people aware of what they can demand. Financial exclusion is a barrier to attaining a high growth rate.

A developed financial system broadens access to funds and banking facilities conversely in an underdeveloped financial system high cost informal sources as moneylenders proliferate. Lower the availability of fund and higher their cost fewer are the economic activities that can be financed and hence lower the resulting economic growth. Today we are painfully aware that there are a vast number of unreached people excluded from formal financial services. Potential entrepreneurs and small enterprises fail to grow and prosper due to capital constraints. Financial deepening is thus necessary for economic growth.

Since Independence, the Indian government has introduced a slew of policies and developmental programmes for upliftment of rural population. Insurance is one of them. However, we need to emphasize the fact that insurance is only a risk mitigating mechanism and not something that can generate income for livelihoods. The objective of insurance is to protect people and assets from risks. Expansion of insurance in rural areas and growth of customer base can help in generating local employment opportunities which in turn can lead to rural development. Wellbeing provides a way to understand what is needed and how best we can improve our lives in a complex world.

Every year different parts of our country experience calamities and hard times leading to loss of life, crop, home, assets, factory, vehicle etc. such calamities result in losses in different parts of the country periodically. Those having the foresight to have insured themselves are able to return to their previous lifestyles owing to insurance claims. The poor are hit the most as they have no insurance cover. This has led the government to come up with several schemes to protect the vulnerable sections of the society and launched schemes like Pradhan Mantri Fasal Bima Yojana, an insurance scheme to take care of Farmers when the crops get destroyed impacting the yield or earning.

In a survey of 200 villagers 80 were insured; 50 were happy and satisfied in life while 85 of the uninsured were also unhappy. The following is the tabular form of responses.

Contingency Table

	Insured	Uninsured	Total
Happy & satisfied	50 (45)	35 (25)	85
Unhappy & unsatisfied	30 (35)	85 (95)	115
Total	80	120	200

Expected frequencies are given in the brackets and chi square value is calculated by multiplying row total by column total and dividing it by gross total. (Value of 'χ^2' for 1 df is 3.841). Let the null hypothesis be that the insurance has no effect in the wellbeing of the insured.

Oi	Ej	Oi – Ej	$(Oi – Ej)^2$	$(Oi – Ej)^2$ /Ej
50	45	5	25	25÷45 = 0.56
35	25	10	100	100 ÷25 = 4
30	35	–5	25	25 ÷ 35 = 0.71
85	95	–10	100	100 ÷95= 1.05
		0		$\sum\chi^2$= 6.32

$\chi^2 = \sum(O_i – Ej)^2/Ej$,

Where O_i = observed value (actual value) and Ej = expected value. It is evident from the above table that the total of chi-square value is 6.32. Since the calculated value is higher than the table value 3.841, we reject the null hypothesis. Therefore, it is evident from the above calculations that the insurance plays a great role in the wellbeing of the people.

Afinanciallyliteratepopulationwillefficientlyuseresources available to it and will effectively implement basic tools of risk management.It has beenstatistically provedthat those with micro finance training have higher financialliteracylevels.Indiaisnotonlyamarketwithhugepotential,butalsowithacomplicatedinvestmentenvironment. Though great improvements have taken placeduring the past decade, the overall market situation cannotyetbeconsideredtobematureandliberalized.Theimportanceofmicroinsurancecannotbeoverlooked.

Conclusion

In achieving wellbeing, in its various aspects, insurance and financial inclusion play a vital role. There is a kind of correlation existing between insurance and financial inclusion and also between insurance and wellbeing. Now a days insurance companies are focusing on providing multidimensional services to their customer which includes health wellness programmes, health check-ups and speedy settlement of the claims. All the micro insurance products are meant for the inclusion of the underprivileged and financially excluded ones of the society. As a well-informed and financially literate consumer, adds to economic stability becausewell-informed consumers make sound investments which help to inject funds into the economy.In other words, have the capacity to be a lender and not a borrower. It is time to set aside thefinancialanxietyandtakeone'sbankbalanceintoone's ownhands. Thus insurance helps in achieving financial inclusion and wellbeing. Government of India has been proactive in ensuring wellbeing of people in the country. In this direction many initiatives or new schemes have been launched from time to time.

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