

Impact of Microfinance on the Insurance Industry: A Study on Human Psychology and Attitude

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Abstract

The financial sector in India has seen its share of ups and downs in recent years, but its significance to the country's economy remains outstanding. Due to the existence of microfinance institutions, even those with little to no credit history are able to get access to credit and have a say in the insurance industry. The effects of microfinance on the Indian insurance industry are the focus of this research. The study includes survey responses from 155 people working in the microfinance industry and 138 have responded back. The effects of microfinance on the insurance sector are laid bare in the paper. The study concludes that the insurance industry may benefit from microfinance and investment. impact of micro finance on insurance companies is significant.

Keywords: Micro-finance, finance, Insurance industry, people attitude, perception of people.

1. Introduction

Investors require more market understanding to increase their financial security every year. Investors often seek advice from bank and financial specialists. Personal finance advice and planning includes prioritising and achieving long-term financial goals using existing and future resources. Comprehensive financial planning entails maximising intangible assets like insurance, stocks, and bonds. Changes allow practically everybody in India to invest. Previously, only government and institutional treasuries could participate. Bank and financial professionals' actions affect their own and others' wealth. It's hard to define what financial product designers and sellers do. Professional financial advisers should prepare for this fast-growing business (Agarwal, 2007). In 16th-century Britain, the modern insurance business was born. (Khan and Kumar 2021) The most common types of insurance are marine, life, and fire. Queen Elizabeth I created the Chamber of Assurance at the Royal Exchange in 1575 to monitor maritime commerce. A 1601 law addressed marine insurance issues. British pioneered modern marine insurance in India about 1700. The Sun Insurance Office opened in Calcutta in 1710. Current stationary property insurance dates to the Great Fire of London in 1666, which destroyed 13,200 homes. Nicholas Barbon founded a structure-focused insurance business following the disaster. In 1680, he founded the "Fire Office" the first fire (universal) insurance business in England (Agiomirgianakis et al, 2003). Once the maritime insurance market evolved, captains, crew, and merchants were covered. Early insurance coverage only covered a few years. William Gibbons acquired a 12-month London-based life insurance policy in 1583. 18th-century Britain saw the rise of life insurance societies. West Minster Society (1689), Equitable Assurance Society (1762), and Amicable Society (1705) were examples (1792). Two British expatriates founded The European and the Albert, India's first life insurance firm, in 1870. This is when Bombay Mutual Assurance Society Ltd. began (1870). Life insurance firms proliferated across.

2. Literature Review

In 1993, a group headed by former RBI chairman R. N. Malhotra was formed to advise insurance market improvements (Malhotra, 2012). Examining insurance committee procedures and structures. To attract foreign investment. In its 1994 report, the committee recommended (a) opening the Indian insurance sector to foreign investors, (b) establishing IRDA to oversee and ensure the growth of the insurance sector, and (c) IRDA's primary goals include encouraging competitiveness to maximise customer satisfaction via an expanded offering of products at lower premiums while guaranteeing financial security. The committee's recommendation was followed. IRDA was formed in 1999 on the Malhotra Committee's proposal. 1999's IRDA Act opened India's insurance sector to private players.

Kumbhar (2013) says India's banking sector harmed life insurance. According to the report, several overseas corporations have joined the Indian insurance industry since 1999. This study analysed IRDA statistics to show that the life insurance industry's financial resources grew in 2007-08 and are expected to continue.

Meena and Aravamudhan (2014) analyse the expansion of India's insurance business. According to 2000 research, private insurance businesses influenced India's insurer landscape. This move from public to private ownership was triggered by the government's displeasure with public sector insurance and government-controlled insurance companies. (Mittal and Kamal 2021) noted that microfinance is vital to India's economy and society. In India, MFIs are rising swiftly with the goal of economic viability and social participation. Mix Market and Forbes put several Indian microfinance institutions among the world's top. Eight Indian MFIs made the MIX top 50 (with the highest rating at #4) and seven made Forbes' top 50 (with the highest ranking at #2).

Bandhan, a microfinance organisation in Kolkata, is in the top 10 of both rankings. Different raters utilise different criteria while judging. MIX market examined companies' reach, efficiency, and transparency. Forbes considered size, efficacy, hazard, and profit. Pawar (2017) analyses Indian insurance policy and regulation's influence on the economy. Foreign investors are ready to invest in India despite numerous uncertainties and socio-economic dangers; c) economic liberalisation has brought in new investments, which poses a long-term challenge for India; d) finance plays a key part in the country's economic progress. The research revealed that (a) international investors have restricted access to the country's markets, (b) insurance sector liberalisation gives long-term contractual money for infrastructure improvements, and (c) as supply expands, prices decrease, benefitting consumers. F) India should require foreign investors to reinvest part of their profits abroad. India should pass laws to ensure insurance corporations follow best practises for internal structure and profit usage. If (a) finance limits are raised and the number of insurers rises, and (b) the quantity and quality of insurance products are improved, the insurance market will be more active and dynamic.

Venkataramani (2015) surveyed clients and insurance brokers regarding raising the country's insurance finance ceiling. This author polled between 26.0% and 49.0% of the population. Chennai, Tamil Nadu's capital, hosted interviews. Customers and insurance agents were surveyed. This study examined how finance may benefit firms, customers, and the economy. Respondents were split on whether the public was happy with private insurers' service and if the service would improve as competition expanded, but they were agreed that increasing the finance limit in the insurance market would have the biggest influence on insurers' service level. The study's small sample size and urban environment make it unrepresentative of the insurance sector as a whole.

Objectives of the research study

The goals of this research are twofold

- 1) to learn how microfinance might help spur the creation of microinsurance investment, and
- 2) to analyse the impact microfinance has had on the growth of the microinsurance sector.

Hypotheses

Microfinance plays an important part in the development of microinsurance products. Microfinance plays a little part in the development of micro-investments and micro-insurance, although this is not considerable. Microinsurance has grown in part because of microfinance. Contrary to popular belief, the growth of the micro insurance market has been significantly aided by microfinance.

3. Research Methodology

The research study is conducted based on quantitative research design. A total of 155 employees from top MFIs were surveyed, and 138 responded to the questions. Primary sources are used in the data gathering process. A poll

was taken of the staff and distributed over social media and other internet mediums. The study's focus informs the questionnaire's design. Secondary sources, such as scholarly articles and databases, are also mined for information. Since the chi-square test is a non-parametric test, it is used to analyse the data.

Analysis of Data

Microfinance plays a crucial part in the development of microinsurance as a 1st hypothesis. Microfinance has a little role in the initiation of microinsurance investments, hence this argument fails. The respondents were asked to elaborate on the function of microfinance inside their insurance firm.

	Male	Female	Total
Financial sector has a significant role in their insurance company	85	53	138
Financial sector does not have any role in their insurance company	85	53	138

The above table shows that there are total of 138 employees and out of this 85 are males and 53 are females. Their insurance firm is heavily reliant on the financial industry.

Chi-Square Analysis	
Chi-Square Value	0.044
Level of significance	5%
Degree of freedom	1
Table Value	3.84

Applying chi-square test on the outcomes, it is shown that 0.044 is calculated value at 5 percent significance level. As the calculated value is lower than tabular value which is 3.843, it can be said that the impact of micro finance on insurance companies is significant. Thus, the 1st hypothesis is accepted.

2nd hypothesis: Micro finance has significant role in the development of micro insurance industry.

Null hypothesis: Micro finance has significant role in the development of micro insurance industry.

Chi-Square Analysis	
Chi-Square Value	0.127
Level of significance	5%
Degree of freedom	1
Table Value	3.84

With 1 degree of freedom and a 5% level of significance, the chi-squared test yields a computed value of 0.127. Because their calculated value is less than their tabulated value of 3.841, MFIs play a significant role in the development of the insurance business. According to the survey's respondents, individuals living below the poverty line have a poor perception of insurance because of a lack of education and access to modern technologies, which in turn creates barriers to effective product communication. Life insurance education is quite simple compared to other forms of insurance like health and livestock.

4. Result and discussion

Through an analysis of primary data, we see that the financial sector has made a considerable investment in the insurance business. Using a chi-square test, we can see that MFIs have a substantial effect on the expansion of the insurance sector. Insurance services were also a sore spot for those who took part in the poll. The survey also indicated that microfinance institutions have difficulties in managing money and developing new products due to factors such as a lack of competent personnel, illiteracy, antiquated technology, a shortage of cash, and a lack of financial incentives from insurance companies.

5. Conclusion

It follows that the financial industry has to demonstrate the value of insurance to the lower-income population so that they include it into their own risk management strategies. They should collaborate more with SHGs to improve their services for the disadvantaged. Insurance firms should provide assistance to their customers in the form of resources and staff to help them work more effectively. To get the most out of them, you should offer them greater responsibility and motivate them to maintain high morale. By offering affordable premiums and a streamlined claims procedure, microfinance banks help businesses cater to the specific needs and wants of their clientele.

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