

# MicroSave India Focus Note # 109

## Insurance for Contractual Workers of Micro and Small Enterprises in India – A Conscience Call

Premasis Mukherjee, Lisa Chassin, Anup Singh, Abhay Pareek  
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It is estimated that 91 per cent<sup>1</sup> of the Indian population and 88 per cent<sup>2</sup> of the Indian workforce (the majority of unorganised workforce) are excluded from any kind of insurance and pension cover. Contractual workers employed at micro and small enterprises (MSEs) constitute the second largest group of the unorganised workforce, contributing roughly 18-20 per cent to this pool of 340<sup>3</sup>-393<sup>4</sup> million.<sup>5</sup> The importance of securing this vast uninsured population is beyond doubt, given that the majority of these people come from the low income sector. In this Note, we detail the context and need to develop customised insurance solutions for the contractual workers of MSEs.

### Identifying the Target Segment- Who are they?

In India, there are 1.8 million registered, and 29.3 million unregistered, MSEs.<sup>6</sup> Together, they employ over 71 million people. On account of seasonal and cyclical variations in demand, irregular orders, rigid labour laws, and to optimise costs, MSEs rely heavily on contractual workers. It is estimated that over 93 per cent of MSEs' workers in India are contractual workers. While employing contractual workers brings in significant cost reduction for these enterprises, these workers are deprived of the benefits that accrue to regular employees.

### Regulatory Perspectives – Are there any safeguards?

Unorganised workers are defined by the Government of India as: “Persons employed in the unorganised sector by one or more employers, directly or indirectly, for cash or in-kind remuneration on contractual, casual or temporary basis”. The Contract Labour Regulation and Abolition Act, 1970, stipulates payment as per the Minimum Wage Act and provisions for health and welfare such as safe drinking water, canteen facilities, and first aid facilities. The act also specifies provision of social security in terms of pension, provident fund and medical

facilities. In addition, contractual workers are covered under the Unorganised Workers Social Security Act, 2008. This act specifies a list of social security schemes for life and disability cover, health and maternity benefits, old age protection, and any other benefit as determined by the government.

It is observed that while the law provides protections, often these are not adhered to in practice. It is estimated that less than 3 per cent<sup>7</sup> of informal sector workers are covered by some form of social security measures. Lack of adequate remuneration and social security cover exposes contractual workers to lifecycle related stresses and vulnerabilities. Their vulnerability is further aggravated as they belong to the weaker sections of society.

### How Good are the Current Social Security Schemes?

The acts stipulate that unorganised workers should be covered by fully or partially subsidised insurance schemes, such as:

- Government social assistance programmes, e.g. Indira Gandhi National Old Age Pension Scheme (IGNOAPS), National Family Benefit Scheme (NFBS)
- Government sponsored Social Microinsurance Schemes,<sup>8</sup> e.g., *Aam Aadmi Bima Yojana* (AABY), *Janshree Bima Yojana* (JBY), *Rashtriya Swasthya Bima Yojana* (RSBY)
- Co-contributory Workers' Welfare Board schemes.

Of these, RSBY, AABY and JBY have pan-India implementation covering 37.2 million, 20 million and 22 million families, respectively.<sup>9</sup> However, it is estimated that less than 5 per cent of contractual workers in the MSE sector are covered under these schemes, since most of them focus on the below the poverty line population. The story is similar in case of IGNOAPS, which otherwise covers 19 million people.<sup>10</sup>

<sup>1</sup> [Landscape of Microinsurance in Asia and Oceania, Mukherjee Premasis et al., Munich Re Foundation and GIZ, 2014](#)

<sup>2</sup> [Pension Reforms for Unorganised Sector: ADB, TA IND-4226, 2006](#)

<sup>3</sup> [National Commission for Enterprise in the Unorganised Sector \(NCEUS\) report, 2006](#)

<sup>4</sup> [National Sample Survey 2004-05](#)

<sup>5</sup> Farmers constitute the largest group at about 52 per cent

<sup>6</sup> [Quick Results Fourth All India Census of MSMEs 2006-07; Annual Report of Ministry of MSME, 2011-12](#) projected

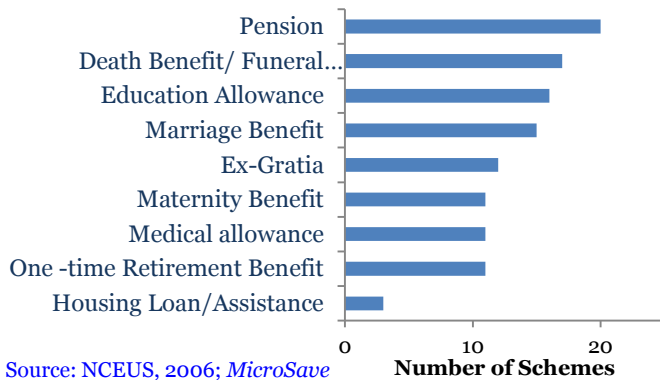
<sup>7</sup> [Rethinking Social Protection for India's Working Poor in the Unorganised Sector, Babu P. Remesh](#)

<sup>8</sup> For definition of Social Microinsurance, see [Landscape of Microinsurance in Asia and Oceania, Mukherjee Premasis, Munich Re Foundation and GIZ, 2014](#)

<sup>9</sup> [www.rsby.gov.in](http://www.rsby.gov.in)

<sup>10</sup> Press Information Bureau, Government of India, 21<sup>st</sup> March 2012

## Benefit in Welfare Board Schemes



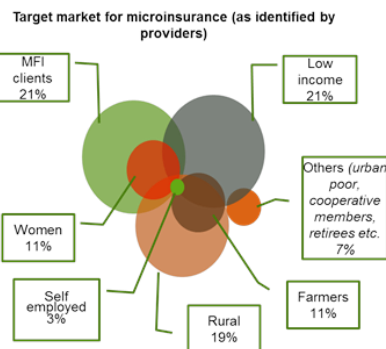
Source: NCEUS, 2006; MicroSave

In addition, nearly 30 co-contributory schemes have been established by six state governments, which are available to a broad spectrum of unorganised workers. Nearly 8.85 million people are covered by these schemes.<sup>11</sup>

In spite of attractive benefits and generous government co-contributions, many of these schemes have not achieved their intended scale. Moreover, with the current fiscal allocation, a scheme like RSBY has covered only 45-60 per cent of the intended below the poverty line (BPL) families in the country. Similarly AABY and JBY managed less than 10 per cent of their intended target. Hence, it is over optimistic to expect the exchequer to cover the whole universe of unorganised workers (and in particular those not belonging to the BPL segment) under subsidised insurance and social security schemes. Voluntary and contributory insurance for the MSE target segment therefore is an unavoidable requirement for the market.

## Whither Microinsurance?

India leads the global microinsurance market in terms of outreach. A landscape analysis<sup>12</sup> observes as many as 159 microinsurance products from India covering 111.1 million individuals. Nearly 14.7 per cent of people living between USD 1.25-4.00 per day are covered by microinsurance in India. However, the sector does not recognise unorganised workforce and contractual MSE workers as a unique target customer segment. There is serious lack of customised products and services for the segment due to systemic, as well as client-level, issues.



Source: Landscape of Microinsurance in Asia and Africa, by MicroSave on behalf of MunichRe Foundation and GIZ

## Systemic Issues

- **Strategy Issue:** Microinsurance is largely a compliance formality for insurance companies of India, which is fulfilled by tagging basic term life insurance with microcredit loans of microfinance institutions (MFIs). For the channel partners (mostly MFIs) too, the commission income is inadequate, compared to their main revenue source, to motivate them to demand suitable cover for their clients. Neither insurers nor their channel partners are convinced of microinsurance as an independent revenue generator or value-add over their existing services.
- **Product Issue:** Owing to lack of interest and incentive of supply side stakeholders, very few initiatives are client centred. Lack of publicly available client information further confounds the environment and manifests in limited innovation on product lines.
- **Delivery Issue:** Variable revenue and projected income/client numbers often cannot justify the fixed cost of administration and distribution of microinsurance in the short term. Regulatory bias towards MFIs and partner-agent model has resulted in the unfortunate trend of non-innovative distribution and service models of microinsurance in India.

## Client Level Issues

There is little known about the preference and choice of insurance products amongst contractual workers of MSEs. The uncertainty of demand arrives from three aspects as follows:

- **Risk Perception:** Insurance products are more commonly purchased if they link to the most important risk perceived by the target clientele. Though broad risks are researched, there is very little awareness on the specific risks faced and how they are perceived by contractual workers of MSEs.
- **Insurance Awareness:** Insurers lack insights into the knowledge, perception and attitude towards insurance by contractual workers of MSEs as they belong to the low-income category.
- **Insurance Affordability and Willingness to Pay:** There is hardly any awareness of what triggers the willingness to pay (W2P) and how the contractual workers perceive the affordability of insurance.

## What Needs to be Done?

While systemic issues are long term in nature, it is understandable that any information on the adequacy and nature of demand might unlock the readiness of suppliers to innovate in microinsurance. In the next India Focus Note in this series, we detail a behavioural research exercise focussed on building insights into client-level intricacies and translating these into relevant product attributes for Indian MSE contractual workers.

<sup>11</sup> Securing the Silent Vol. III Securing Old Age – The Indian Story, Mukherjee Premasis and Piggot Rosalind; MicroSave, 2013

<sup>12</sup> Landscape of Microinsurance in Asia and Oceania, Mukherjee Premasis, Munich Re Foundation and GIZ, 2014