

**SELF EMPLOYED WOMEN'S
ASSOCIATION'S (SEWA)
Experience in Providing Micro-
Insurance Services to Poor
Informal Sector Workers**

**Paper prepared for the Global Microcredit Summit
2006 workshop entitled
"Effective Micro-Insurance and Micro-Health
Insurance Programs to Reduce Vulnerability"**

By:

JAYSHREE VYAS
Managing Director
Shri Mahila Sewa Sahakari Bank Ltd
109, SAKAR-II, 1ST floor, Opp. Town Hall, Ellisbridge,
AHMEDABAD – 380 006 INDIA
Phone : 0091-79-26581652/0091-79-26581597
E-mail : mdirector@sewabank.com ; mail@sewabank.com
Fax 0091-79-2657 5965

INTRODUCTION

In India, millions of women workers are working in the informal sector. They are mainly small vendors, home based producers, labour and service providers. These women contribute a lot to the economy, working very hard. Their common characteristics are described below.

(1) LABORIOUS WORK AND LONG WORKING HOURS:

The majority of them are involved in manual/physical labour. For example, a vegetable vendor collects and carries vegetables on her back from the wholesale market to the retail market, and sells the vegetables the whole day under the heat of the sun or walking around the city with a hand cart. A rag picker walks approx. 18 to 20 kilometers per day, carrying 40 kilos of rags on her back, or a salt worker walks in the desert, bare-footed, for many hours. Their work day is very long, averaging fifteen to eighteen hours per day.

(2) POOR LIVING CONDITIONS:

The majority of these women live in small 'Kachha', mud huts in congested slums with large families, in low level houses without adequate ventilation, water, drainage and electricity facilities. Often their roofs are leaking and insects roam in the huts.

For home-based workers, like bidi workers and ready-made garment workers, their living conditions are even worse because their "home is workplace".

Such living conditions make the lives of these women very difficult because they make the homes susceptible to fires, potable water sources are far

away, and the inhabitants are exposed to ill health (breathing tobacco), unhygienic living conditions, and mosquitoes due to water logging.

(3) LOW AND IRREGULAR INCOME, LACK OF CAPITAL AND ASSETS:

These women are not regularly employed. They earn a daily wage or work on contract and do not have regular incomes. Some of these workers, particularly those who are engaged in seasonal work, remain unemployed for many days. Irregular and low-level incomes do not give them opportunities for capital formation or asset building.

(4) INDEBTEDNESS, BORROWING AT EXPLOITATIVE RATES OF INTEREST:

The existing vulnerable financial situation of persons with low- or irregular incomes, who lack capital and assets, becomes serious in the case of emergencies such as illness, accidents, floods, cyclones, the death of family members, or events such as maternity or social occupations. In these circumstances the poor have to borrow. Their lack of collateral and non-existent track record with the formal financial institutions compels them to borrow from money lenders at very exploitative interest rates.

(5) LOW BARGAINING POWER:

These women are working in a very competitive market, and are in a very vulnerable situation. Their lack of linkages with formal markets gives them a very low bargaining power. Moreover, they often borrow from the same traders from whom they buy their trade goods, e.g. vegetable vendors often borrow from the same traders from whom they buy vegetables or they borrow from the same landlords under whom they work. This situation puts them in an even weaker bargaining position.

(6) LACK OF SOCIAL SECURITY PROTECTION:

Due to their vulnerable living, working and financial conditions, these women are susceptible to illness, accidents, and other natural and manmade calamities. As informal sector workers, they do not have any social security protection, and have to spend a lot in such contingencies. They lose their productive assets, which disturbs their income and often forces them to borrow at very high interest rates or sell/mortgage their assets.

(7) CAUGHT IN THE VICIOUS CYCLE OF POVERTY:

These women are dragged into a vicious cycle of poverty by lack of capital and assets, low and irregular incomes, aggravated by frequent accidents, illnesses and other contingencies, poor working and living conditions, low bargaining power and lack of outside linkages and opportunities. They are caught in the process of "decapitalisation" -- and the poor are becoming poorer.

There is a need to start a *capital formation* process.

PROCESS OF CAPITAL FORMATION

The steps for reversing the decapitalisation process, or forming capital at individual poor women's level, are:

(1) {a} **Bringing them out of debt** by providing them loans for repayment of old debts. Since the interest charged on such loans will be much lower than the interest charged by the money lenders, they will be able to save interest cost which will mean increase in their real income.

{b} Rescuing mortgaged/pledged assets. Often these women have mortgaged or pledged their productive assets such as land, handcarts or

sewing machines. By providing loans for rescuing these assets, they can be helped to earn from the rescued productive assets.

So the first step is to bring them out from the negative capital situation, i.e borrowed capital or mortgaged/pledged assets.

(2) **Building Savings:** Women may be motivated to facilitate building savings at individual level. A portion of real income or actual income earned from repayment of old debts as well as from rescue of asset can be saved. In addition to these savings, women may be encouraged to save even in small amounts, but at regular intervals.

(3) **Providing working capital credit for expanding business:** Normally these women borrow on daily basis from money lenders at very high interest rates. Moreover, they buy in small volume on daily basis. If they are provided working capital credit for buying in bulk at a comparatively lower rate of interest, they will be able to save on interest and will also be able to earn more. Part of the increased business earning also may be saved which will help them to further their savings and will be the first step towards capital formation at individual level.

(4) **Providing credit for buying trade equipments:** Providing credit for buying trade equipment, such as hand carts or sewing machines or other productive machines to build their productive assets and earn more income is the fourth stage of capital formation at the individual level.

(5) **Improving living conditions** by providing credit for repairing/extending house or buying a new house. This is the fifth step in the process of capital formation.

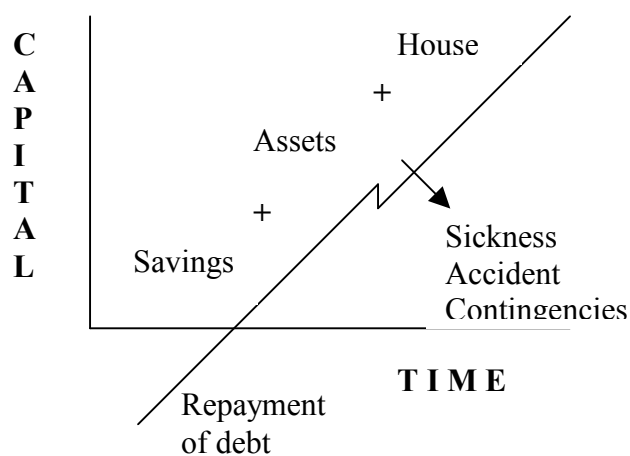
Reducing interest expense, building savings, expanding and building business and other assets and improving living conditions are the components of capital formation at micro level.

NEED FOR INSURANCE:

This capital formation process at the micro-level plays an important role in alleviating poverty. However, as mentioned, this process is often hindered by many contingencies in these women's lives, such as sickness, accidents, widowhood, riots, flood, cyclones, maternity, etc. During these contingencies, it is not only that they are not able to earn a living, but they have to spend, for example on hospitalization and medicines. Their productive assets or huts are destroyed. During such periods they either have to withdraw savings, borrow or mortgage/sell assets. Any of these acts would hinder their capital formation process or reduce the capital already formed through the capital formation process. By compensating losses during these contingencies, insurance helps keep the capital formation process to continue growing.

The role of insurance is very crucial in the economic life of these poor women. It works as a safety net, reducing their financial vulnerability.

Path of Capital Formation of a typical SEWA BANK member



IMPORTANCE OF INSURANCE:

The life of women in the informal sector is full of risks. There are different types of risks, both personal, occupational and at the family-level. The risks include loss of property, loss of life, sickness, etc. The effect of all such risks brings mental, physical and financial stress on the women. Various types of risks are:

- (1) Sickness – individual as well as of family members (especially husband & children)
- (2) Accident
- (3) Death – individual as well as of family members, especially of husband
- (4) Contingencies such as flood, riots, draught, cyclone etc.
- (5) Maternity
- (6) Crop-failure
- (7) Cattle loss

The financial impact of such risks leads to:

*** Sickness**

- Cannot work for the period for which she is sick, i.e. loss of income
- Has to spend on medicines & hospitalization, i.e more expenses
- In order to meet these expenses or compensate her loss of income, she has to either spend savings, borrow, sell or mortgage/pledge assets, or a combination of the above.

As a result there will be:

- Reduction in income
- Reduction in savings
- Increase in interest expense
- Reduction in assets which will eventually reduce income
- Indebtedness

Eventually they will be caught in the vicious circle of poverty.

*** Accident**

- Cannot work for the period till they are recovered, i.e. loss of income
- Have to spend on medicines, hospitalization, and other expenses
- Often they suffer injuries, which make them unable to work for a period or permanently (permanent disability)

For meeting these expenses or compensating loss of income she has to either:

- spend her savings,
- borrow,
- mortgage/sell assets,
- Or a combination of the above.

As a result there will be

- Reduction in income or no income at all,
- Increase in expense on interest,
- Reduction in assets which will eventually reduce income.
- They will be caught in vicious cycle of poverty.

*** Death**

Death of a husband, child, or any other family members leads to:

- Loss of income of the member who has died (if he/she is an earning member)
- Expense of death ceremony (funeral)
- Has to spend savings, borrow or sell/mortgage assets.

The result is

- Permanent loss of income
- Reduction in savings
- Increase in interest expenses (cost)

- Reduction in assets

*** Flood, Cyclone, Drought, Riots**

- ❖ Loss of assets (household & business equipment)
- ❖ Destruction of home

As a Result

- ❖ Expense of house repair,
- ❖ Cannot work until new equipment is bought,
- ❖ Loss of income if new assets are not bought.

*** Maternity**

- ❖ Cannot work for some time i.e. loss of income,
- ❖ Spend on medicines i.e. more expense,
- ❖ Have to borrow i.e. interest expense.

Result is:

- ❖ Reduction in savings
- ❖ Reduction in income
- ❖ More interest expense

Insurance compensates these losses by:

- ❖ **Reimbursing expenses due to illness, accidents, maternity, etc.**
- ❖ **Compensates loss of income during illness, accident, maternity.**
- ❖ **Compensates loss of assets in case of flood, riots, cyclone & fire.**
- ❖ **Compensates wages and covers other expenses in case of death.**

Current Outreach

Total SEWA Membership as of January 2005: 141,079

a. Membership break-down

Annual members					
	Gujarat		Other states		Total
	Rural	Urban	Rural	Urban	
Women	32313	11965	12389	122	56789
Men	17744	6494	9226	44	33508
Total	50057	18459	21615	166	90297

Fixed-linked members					
	Gujarat		Other states		Total
	Rural	Urban	Rural	Urban	
Women	19868	6440	3	23	26334
Men	1998	3799	2	12	5811
Total	21866	10239	5	35	32145

Total Membership

Annual Membership	90297
Fixed-linked membership	32145
Total Membership	122442
Total Children	18630
Grand Total	141079

Vimo SEWA's Integrated Insurance Schemes as on 1-1-2005

Scheme - 1				
	Member	Spouse	Children	Total
Annual Premium	100	70	100	270
Fixed Deposit	2,100	1,500	-	3,600
Natural Death	5,000	5,000	-	
Health (Hospitalization)	2,000	2,000	2,000	
Asset & Loss	10,000	-	-	
Accidental Death	40,000	25,000	-	
Accidental Death (spouse)	15,000	-	-	

Scheme - 2				
	Member	Spouse	Children	Total
Annual Premium	225	175	100	500
Fixed Deposit	5,000	4,000	-	9,000
Natural Death	20,000	20,000	-	
Health (Hospitalization)	6,000	6,000	2,000	
Asset & Loss	20,000	-	-	
Accidental Death	65,000	50,000	-	
Accidental Death (spouse)	15,000	-	-	

N.B:

1. Rs.20 discount would be given to insurees taking family packages (member, spouse and child insurance).
2. Additional benefits for fixed deposit members:
 - (1) Maternity benefit: 300/- (2) Denture: 600/- (3) Hearing aid: 1000/-
3. Children's Health Insurance :
 - a. Covers children of women members between 3 months to 18 years.
 - b. Premium amount : Rs. 100/-
 - c. Sum Insured: Rs. 2000/- for hospitalization (for total number of children, not per child)
 - d. Premium covers all children in family irrespective of number of children per family.

VimoSEWA offers its insured members two different schemes, as shown above, from which they can choose, depending on their capacity to pay. Each covers a package of risks: sickness (hospitalization), personal accident, life, widowhood and asset loss. In both, women are the policyholders, and it is through them that their spouses and children are covered. Coverage for family members is optional and involves the payment of bigger premiums. Children's health insurance coverage has been offered as an option since January 2003. The coverage for husbands includes sickness, life and accident.

To facilitate long-term coverage of our members, there is a special arrangement with SEWA Bank, whereby a woman makes a one-time payment, which is placed as a fixed deposit in her own name. The interest accrued then goes towards her insurance premium payment, both for herself and, if she so desires, for her husband. There are added incentives for the insured woman choosing this mode of premium payment. (See table above).

Engaging the services of an actuary well-versed in setting up insurance cooperatives, SEWA Insurance or VimoSEWA has developed a business plan for providing life coverage to the poor with women workers as the policy-holders. While our insurance services currently provide both life and non-life coverage through partnerships with nationalized and private insurers, the IRDA requires separate licenses for life and non-life business. For the present, we have decided to develop our business plan for life coverage, as this product has not only been viable, but also generates profit for the insurer with whom we currently have a tie-up. We also plan to continue to provide non-life coverage through our current system of partnerships with insurance companies. Thus, poor women and their family members will get comprehensive life and non-life coverage through one window.

Over the past year, and especially after cooperatives have been permitted to provide insurance, SEWA has stepped up its efforts to obtain permission for setting up its own cooperative. We have argued that:

- a) Our experience of over a decade shows that the poor, and especially women, are insurable;
- b) Insurance by and for the poor, and with women taking the lead, can be viable; and,
- c) When poor women own, run and control their own organization, such as a cooperative, they ensure its viability by developing a system of checks and balances against fraud, moral hazard and adverse selection. Our experience with SEWA Bank, a cooperative, shows that

women can develop their own organization into a vibrant, growing and sustainable enterprise, fully committed to the twin goals of serving the poor and being self-reliant.

Through our own registered cooperative, VimoSEWA, we hope to reach out to the poorest of women workers and their families, and in a viable manner.

- **Health Insurance**

Health insurance is the most urgently required of all insurance coverage for the poor. Women workers across the country time and again express health issues as the maximum cause of stress in their lives. It also causes indebtedness and leads to decapitalisation. Among the poor, sickness is a common event leading to expenditures ranging from Rs 300 per month in urban slums (Source: Study by SEWA's Social Security Team) to Rs 800 per episode of illness (Source: SEWA Academy Research Team).

While coverage for illness, particularly hospitalization, is the most pressing need of the poor, it is also the most complex risk to cover. There are many reasons for this, including their access to health care (whether they have access at all, both for geographical and economic reasons), the high cost of private health care which has a bearing on the viability of health insurance, and the fact that health insurance is prone to fraud all over the world.

Small but significant experiences of health insurance for the poor, both in India and abroad, reveal that coverage is indeed possible if certain critical issues are taken in to account. The most important of these issues is developing a mechanism of implementation that is specially tailored to the reality of the poor, and organized according to their convenience.

Another contentious issue is the fact that 80% of our people seek care with private providers. And the private health sector is unregulated, especially in terms of standardizing regimens, fees and diagnostic tests. It is a growing

sector. Costs are escalating in a manner that is leading to the greater indebtedness of the mass of India's people.

SEWA's experience based on insuring over 140,000 workers and their families over fourteen years (See Appendix) suggests that for health insurance to be viable, it has to be controlled and run by the users themselves, the very women who are the insured. Their organization then negotiates fees, treatment regimens, etc. with providers, both public and private. Those providers that adopt poor quality care or fraudulent practices are black-listed. This has already led to providers improving the quality of their care and revising some of their prices.

It has also resulted in the public health system gearing itself up to provide the care required, with the public charitable trust hospitals serving as a back-up or alternative to the public and private-for-profit health providers.

Finally, our experience with health insurance has encouraged us to develop "cashless" systems with providers, both public and private, enabling women and their families to seek quality care of their choice without having to pay upfront immediately. This new system is being tested out in eight Talukas in Gujarat, as well as in two working-class neighbourhoods of Ahmedabad city.

All of the above experiences point to the need to develop appropriate mechanisms to extend health insurance to the poorest. But first let us see what package we can suggest, based on affordability for both workers and the government.

Our experience suggests the need for a comprehensive insurance package, one which covers both life and non-life risks. This is advisable both because a holistic approach to risks and shocks faced by the poor is required, and also because this will lead to overall viability of insurance for the poor.

Further, maternity benefits of Rs.500 per pregnancy and for all pregnancies must be provided to all poor women. No extra premium is required. It is built into the package outlined below.

Implementation mechanism

In order to ensure that as many workers as possible can obtain the services, we should adopt and adhere to an approach which

- a) Is as close as possible to the workers—i.e. decentralized, and preferably at their doorsteps.
- b) Involves workers directly in ensuring that the services reach them—either through
 - implementation by triparty/multiparty boards and committees
 - by workers' organisations (unions, cooperatives), membership-based organizations of the poor
 - by (MBOPs) and NGOs.

In keeping with the above, all sources of social security services (worker's welfare funds, general social security fund and social assistance) should be decentralised to the states. Direct state-level contributions should be actively solicited and added to the funds available from the centre.

In order to plan, implement and monitor the outreach and quality of social security, each state will constitute a state-level Social Security Board with the following representatives:

- Workers' unions and cooperatives
- Employers and their associations
- State Labour, Health, Social Welfare, Rural Development & Finance representatives.
- Central Labour, Health, Social Welfare, Rural Development and Finance representatives.
- NGO representatives.

This Board will be employed to make all decisions relating to the provision of social security in the state, and will strictly monitor all activities. However, the actual planning and implementation will be conducted at the district-level.

A district-level committee will be constituted for planning, implementing and monitoring social security provision. It will be triparty or even multiparty in nature, with the Collector as convener.

The committee will include:

- Members of workers' organisations
- Representatives of employers
- Representatives of Panchayati Raj institutions
- Other Government representatives
- District labour officer
- NGO representatives

This district-level committee will undertake the following:

1. Issue identity cards to all workers in the district. This identification, preferably through smart cards, will help workers get social security services even when they migrate to other districts and states.
2. Implement workers' welfare schemes of the workers' welfare funds, ensuring timely and whenever possible, provision of services at the workers' doorsteps.
3. Implement other social security services from the Social Security Fund.
4. Ensure that support under social assistance programmes reaches the poorest of workers. Collect contributions from workers and employers towards the contributory workers' welfare fund as well as the general social security fund. These contributions, topped up with funds made from the centre and the State, will be maintained at district level. All financial records will be maintained at the district level.

5. Maintain all financial records for the above programmes and present these at monthly committee meetings.
6. Invest funds collected from contributions to maximize returns and maintain the solvency and security of all funds.
7. Strictly monitor the implementation to observe efficiency, quality and full benefits reaching the poorest of workers, especially women.
8. Provide a forum for feedback from workers, employers and others, and undertake necessary action to maintain high performance levels.
9. Collect and collate data to be presented to the State Social Security Board and to the national advisory board. Ensure that desegregated data from other districts, as well as aggregate figures, reach committee members so as to monitor progress.
10. Suggest changes and improvements in the schemes of the welfare funds, general social security fund and social assistance. Additionally suggest new, locally relevant social security programmes.
11. Periodically undertake performance reviews.
12. Identify training and capacity-building needs of workers and others.
13. Identify people's organizations and NGOs to actually implement social security programmes. For example, local midwives' cooperatives to implement maternity benefits and health programmes.

Administrative expenses for the state and district boards will be met through a combination of resources: 50% from the centre and 50 % from the state. Special financial arrangements may be considered for the poorer states of India. Each state board will develop norms for functioning and a manual which will be discussed in the central Social Security Board before finalization and adoption.

In sum, the overall approach to implementation is a decentralised, flexible one with district-level control over both the finance of programmes and the implementation itself. Programmes will be tailor-made for the workers. At all times, fullest efforts should be made towards maintaining both the quality of

social security services and their outreach. Speed and efficiency of district-level committees should be suitably recognised and rewarded. Also, the implementation of social security must be in a manner which encourages organizing of workers in the district and the building of their own people's organizations. This would be significantly facilitated if the actual implementation of services is delegated to local membership based organisations of the poor (MBOPs) and NGOs.

LESSONS LEARNED:

- (1) Poor women are insurable. They do contribute towards premiums, provided they get suitable services.
- (2) Deposit/savings linked insurance scheme is a better option.
- (3) There is a need for integrated insurance schemes.
- (4) Insurance service is a part of the overall financial services required by poor women and should be linked with other financial services such as savings and credit.
- (5) Poor women need simple, flexible mechanisms.
- (6) There is a need for explaining the insurance concept to women.
- (7) For the poor, who are always accustomed to think on a day to day basis, it is difficult to plan for the future. Insurance is basically planning for the future and insuring future risks and it is difficult to make them understand this concept and enroll them in the scheme.
- (8) Insurance works as a safety net for the poor. It builds their capacity to sustain financial shocks.
- (9) Systematic study of insurance claims experience should be done and preventive measures should be designed/taken to ensure non-recurrence of such claims. E.g. Workshed for vegetable vendors to prevent death due to sun-strokes or cement houses in slums near the river band to prevent destruction during floods.
- (10) Insuring poor can be a viable activity.
- (11) Old age pension scheme should be a part of the financial security scheme for the poor.