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**EXAMINING PENETRATION OF INSURANCE IN
MICRO AND SMALL ENTERPRISES (MSEs)
FINANCED BY MICRO FINANCE INSTITUTIONS**



**Singh Archana & V Sathyakumar
National Insurance Academy
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Examining Penetration of Insurance in Micro and Small Enterprises (MSEs) Financed by Micro Finance Institutions

25.08.2023



STUDY TEAM

Dr. Archana Singh



Dr. Archana Singh, Faculty, National Insurance Academy, Pune. She has eighteen years of experience in inclusive finance. She is passionate about development approach to insurance. She has worked at grass root level in development sector before joining NIA and with insurance companies and EY on consulting projects. She is National Resource Person, DAY –NRLM and Specialist trainer with UNDP. She is also member of IEC committee of PHFBY, Ministry of Agriculture and Farmers Welfare, GoI. Her Doctoral Thesis was on Agrarian Crisis and India from IIT Bombay on Farmers' suicides. Alumna of IRMA and Associate of IIM, Mumbai.

V Sathyakumar



Mr. V Sathyakumar is Chair professor, Financial Inclusion and Social Security at National Insurance Academy. He superannuated as Executive Director, LIC of India before joining NIA. He headed The Micro Insurance vertical of LIC of India for three years from 2012 to 2015. He was CEO of LICHFL Care Homes Ltd. for three years which enriched him with knowledge about senior living concepts. He also has experience in the Training Domain having headed the Apex training institute MDC Mumbai and ZTC Hyderabad of the Corporation.

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EXECUTIVE SUMMARY

MSMEs play an important role in economic growth of country especially to low-income population. They also play an important role in the equity and inclusion in economic growth of the nation by providing employment and livelihood to the low income and rural population. It is important to find out ways to increase financial robustness of the sector. Insurance can play an important role in this direction. This study was conducted with the intention to understand the reach of insurance, need and risk management behaviour of MSEs. The study started with desk research to examine the past work in this direction followed by a survey based on structured questionnaire. Primary data was collected from 421 enterprises across 18 states. The micro enterprises in the sample were 35% and small enterprises accounted for rest 65%.

The observations from the analysis are presented below:

- The percentage of enterprises enrolled with any of the schemes such as EFPO, ESIC and NPS is 67% and 33% have not enrolled in any of these social security schemes.
- The uptake of compulsory schemes is very high. Fire insurance is taken by 94% of the enterprises and motor insurance is taken by 100% of enterprises owning vehicle.
- Uptake of voluntary enterprise level insurance is observed to be low in the data. Only 13% enterprises have taken loss of profit insurance, 24% have taken machine breakdown insurance.
- The uptake of group employee benefit insurance is also low. The percentage of enterprises having group insurance for their employees is 44%, and incidence of Employee's Group Health Insurance (EGHI) is 40%.
- The uptake of personal line insurance is varied across Lines of Business. Life insurance policies is taken up by 65% of the enterprise owners. The percentage of enterprise owners taking health insurance is 24%.
- Rajasthan has highest uptake of insurance followed by Kerala and Karnataka.
- Life insurance is first preference across all income categories among enterprise owners followed by health insurance.
- Group Life and health insurance uptake is high among enterprises owned by professionals & technically educated and post-graduates.
- Higher percentage of women headed enterprises have taken loss of profit insurance and machine breakdown insurance. However, there is no difference when it comes to uptake

of health insurance. Men headed enterprises have high uptake of group health insurance.

- The percentage of owners aware about tax benefit on insurance premium is 68%.
- The reasons mentioned for not taking group life insurance are high turnover of employees, lack of awareness, high cost of insurance and small number of employees for a group scheme.
- The major losses faced by these enterprises in last three years are machine breakdown, fire, business interruption due to COVID 19 and pandemics, worksite accidents and employee injury, fluctuations in raw material price credit risk, natural calamities.
- Major risks identified for which enterprises need insurance are machine breakdown, pandemic, accidents, fire, theft, flood, and natural calamities.

Recommendations

Based on the above observations the study team makes the following recommendations:

- There is significant difference in the profile of micro and small enterprises. Insurance companies need to take cognizance of this reality and design products suited to both the categories.
- There is an urgent need to increase awareness among the owners of the enterprises on both enterprise risk, risk management practices and role of insurance in risk management.
- The enterprise owners also need to be made aware about the basic features of insurance products, which will help in taking decision to insure.
- The group insurance schemes need to address specific needs of the enterprise, especially looking at their small size floating workforce.
- The employees of the enterprises are not interested in getting covered under group insurance because of the nature of their employment as well as cost implications. Innovative, simple, and cost-effective product can deal with this challenge.
- Insurance companies need to reach out to the sector as the potential of growth seems to be high as current uptake of insurance is low.

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EXAMINING PENETRATION OF INSURANCE IN MICRO AND SMALL ENTERPRISES (MSEs) FINANCED BY MICRO FINANCE INSTITUTIONS

1. Background

MSMEs play an important role in economic growth of India by contributing significantly to Gross Domestic Product (GDP) of the country and generating employment, especially to low-income population. They contribute 30.3 per cent to the GDP, and 40 per cent of exports of the country. MSMEs contribute 33.5 percent to the GVA of the country, 45 per cent of the manufactured output of India.

As per the data provided by Ministry of MSME, Govt of India (MSME annual Report, 2021-22), India has 6.34 crore registered MSMEs out of which Micro Enterprises are - 6.3 Cr (99.47%), Small Enterprises are 3.3 lakhs and Medium Enterprises are 0.5 lakhs.

The classification of MSMEs as per the composite criteria of Investment in Plant & Machinery/equipment and Annual Turnover according to Ministry of MSME is as per the table below.

Table1: Classification of MSME

Classification	Investment in Plant and Machinery / Equipment	Annual Turnover
Micro	Not more than Rs.1 crore	Not more than Rs. 5 crores
Small	Not more than Rs.10 crore	Not more than Rs. 50 crores
Medium	Not more than Rs.50 crore	Not more than Rs. 250 crores

Source: Ministry of MSME (Revised Classification applicable w.e.f 1st July 2020)

The MSMEs are uniformly spread across rural and urban areas and are equally represented in the manufacturing, trade, and services sectors. It is interesting to note that 74 percent of MSMEs are concentrated in ten states of India. These ten states with their respective contribution in terms of numbers are presented in the table below:

Table 2: Stagewise distribution of MSMEs

Sr. No	States	Share of MSMEs
1	Uttar Pradesh	14%
2	West Bengal	14%
3	Tamil Nadu	8%
4	Maharashtra	8%
5	Karnataka	6%
6	Bihar	5%
7	Andhra Pradesh	5%
8	Gujarat	5%
9	Rajasthan	4%
10	Madhya Pradesh	4%
	Total	74%

They also play an important role in the equity and inclusion in economic growth of the nation by providing employment and livelihood to the low income and rural population. MSME Sector employs around 50% of industrial workers (Chaurey, Chiplunkar and Soundararajan, 2020). As per the National Sample Survey (NSS) 73rd round conducted during the period 2015-16, MSME sector has been creating 11.10 crore jobs across the country. Out of this, Micro enterprises account for around 97% of total employment generated by the sector. Two thirds of MSMEs are operated by socially vulnerable groups (Scheduled Caste/Scheduled Tribe/Other Backward Classes) and 20 per cent by women (Chaurey, Chiplunkar and Soundararajan, 2020).

2. Legislation/Regulatory Framework for MSMEs in India

MSMEs in India are governed under legislation for micro, small and medium enterprises known as the Micro, Small and Medium Enterprises Development Act, 2006.

The Act notified in 2006 revised the coverage and investment ceiling of the sector. The Act also made provision for establishment of a National Board for Micro, Small and Medium Enterprises. The primary responsibility of promotion and development of MSMEs is of the State Governments. The Ministry of MSME, Government of India, reorganised in 2007,

supports the State Governments through various initiatives. The Ministry of MSME, Government of India, notified a 'Framework for Revival and Rehabilitation of Micro, Small and Medium Enterprises'. Reserve Bank of India also issued guidelines to the Banks in 2016 for revival & rehabilitation of MSMEs (M/o MSME, GoI, 2022). Though MSMEs are present in both formal and informal sector, MSMEs form the larger part of India's unorganised sector (FE online, 2021; FICCI & KPMG, 2017). Registration of MSMEs on the Udayam portal has played a significant role in inclusion under the formal economy (Economic Survey 2022-23).

The legislation defines enterprises having less than 10 employees as unorganised sector (Code for Social Security, M/o Labour and Employment, 2021). In this case, it is not mandatory for the enterprises to enrol under schemes such as Provident fund, Employees' State Insurance Corporation (ESIC), Gratuity etc. These enterprises come under preview of social security for unorganised workers act of 2008.

The social security needs of the workers engaged in the Unorganised sector are taken care of through the Unorganised Workers' Social Security Act, 2008. This becomes alternative for taking insurance for these enterprises. The Act empowers the Central Government to provide Social Security benefits to unorganised sector workers by formulating suitable welfare schemes on matters relating to life and disability cover, health and maternity benefits, old age protection etc. The State Governments are also empowered to formulate suitable welfare schemes on the matters regarding housing, provident funds, educational schemes, skill upgradation, old age homes etc. (PIB, M/o Labor and Employment, 2021)

3. Insurance and MSME Sector

While importance of MSME sector is undebatable, COVID 19 crisis has exposed the vulnerability of the sector. Insurance cover is essential for MSMEs because of their vulnerability to supply chain crisis, geopolitical issues, inflation, economic slowdown, and other such issues which increased the risks around exports in post-pandemic world (Pandey, 2023). As per an Asian Development Bank report, the pandemic had severe impact on the employment and the sustainability of MSME businesses (Sonobe, Takeda, Yoshida, and Truong. 2021).

It is important to find out ways to increase financial robustness of the sector. Insurance can play an important role in this direction. However, only 5 per cent of MSMEs are covered by

insurance (George Mathew, 2020). MSME sector especially, Micro and Small Enterprises are usually found to be averse of taking insurance seriously because of financing stress they go through. The majority of MSMEs see insurance as an unnecessary expense and desist from buying it (Pejawar, 2022). Few MSMEs subscribe to insurance products only when it is mandated by a buyer or a bank, or to meet some regulatory compliance (The Economic Times, 2023).

Report of Expert Committee on MSMEs by RBI (Sinha Committee, 2019) has recommended 'Access to Finance and Insurance' as one of the seven components of the MSME ecosystem. Availability of suitable and cost-effective products is another challenge in this direction. The Regulator has taken various steps to facilitate availability of insurance for MSMEs. The MSME term was introduced in the definition of Microinsurance in the Microinsurance Regulation of 2015. The regulator also introduced "IRDAI (Trade Credit Insurance) Guidelines 2021" to address to evolving insurance risk needs of MSME and SME sectors. It is to be noted that about 18% of Credit Insurance business in India is conducted by general insurance companies, both public and private, which are governed by the Trade Credit Insurance guidelines. The rest portion of business is conducted by ECGC (IRDAI Working Group, 2020). Health Insurance is not available to 86 per cent employees of MSMEs (FICCI & KPMG, 2017). It is difficult to find coverage data on MSMEs as data on MSMEs covered by insurance is not maintained with IRDAI (FE Online. 2021.).

The regulator also made efforts in recent years to nudge general insurance companies to explore possibilities of working with MSMEs sector to offer health cover to their employees. IRDAI introduced two standard insurance products suitable for the MSME sector namely Bharat Sookshma Udyam Suraksha and Bharat Laghu Udyam Suraksha in April 2020. The products cover perils like fire, natural catastrophes, riots and strikes. The two policies have policyholder-friendly features and simple policy wordings (Pejawar, 2022).

Though there are few studies on SME sector, there is lack of studies examining this aspect on Micro and Small Enterprises (MSEs). This study was conducted with the intention to understand the reach of insurance, need and risk management behaviour of MSEs.

4. The Study

The MSME segment is set to thrive in the coming years. The complexity of the market will grow with growth of the segment. To capture the potential open in the segment, insurers need to pay attention to the sector (Binder *et. al*, 2022). Accordingly, it is important to create knowledge about the sector to develop understanding of the requirements.

The study attempts to understand Incidence/penetration of Insurance in Micro and Small Enterprises by examining what percentage of Micro and Small Enterprises have insurance? The general perception is that Micro and Small Enterprises sector is averse of taking insurance. The study attempts to examine why Micro and Small Enterprises are not interested in taking insurance and what is their take on insurance? The study also attempts to examine what are the major risks faced by MSEs? What are the risk management practices followed by MSEs and what role insurance plays in the risk management of MSEs?

Hence, objectives of the research study are to examine the incidence/penetration of Insurance and the extent of under insurance in MSEs and to understand risks faced by MSEs.

Methodology

The study started with desk research to examine the past work in this direction followed by a survey based on structured questionnaire. Two separate questionnaires were prepared for proprietors/ owners of the enterprises and employees of the enterprises. The study focused on MSEs associated with microfinance institutions. The SIDBI facilitated the study by reaching out to enterprises for data collection. Data was collected through google forms.

Following areas were covered in the two questionnaires:

- Demographic profile
- Employment details
- Financial details
- Details of insurance available
- Major Risks faced.
- Reasons for not taking insurance.

After pilot of the questionnaire, the survey of employees was dropped because of low response rate. It was difficult to reach out to the employees of MSEs as they were working on ad hoc basis and owners of enterprises were not interested in facilitating the survey.

5. Data Analysis and Discussion

The questionnaire had two parts, the first part was about enterprise and the second part was focussed on the profile and uptake of insurance amongst owners of the enterprises. Accordingly. This section has two parts, the first part presents data about enterprise and the second part presents the data about owners.

5.1 Enterprise Data

This section presents the findings of data analysis and discussion on inferences around it on enterprise data.

5.1.1 Enterprise Sample profile

Total responses received from the survey was 421 from 18 states. The micro enterprises in the sample were 35%(n=147) and small enterprises accounted for rest 65% (n=274). The number of enterprises reporting turnover of Rs one to five crore was 317(75%) and less than Rs one crore was 104 (25%).

The maximum number of responses (about 70% responses) were received from four states namely Tamil Nādu, Karnataka, Maharashtra, and Haryana.

Table 3: Sample Distribution

Name of State	Number	Percentage
Tamil Nadu	102	24%
Karnataka	87	21%
Maharashtra	60	14%
Haryana	40	10%
Uttar Pradesh	33	8%
Rajasthan	24	6%
Kerala	16	4%

Gujarat	15	4%
Punjab	14	3%
Other states	30	7%

Majority of the enterprises covered in the study were in manufacturing sector (n = 384, 91%). The enterprises are registered as three types - proprietorship (45%), company (28%) and partnership (27%).

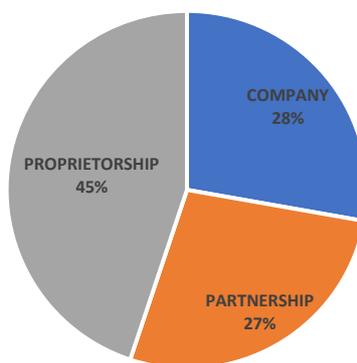


Figure 1: Legal Status of Enterprises

Out of 421 responses received, number of enterprises with more than 10 years of experience are 239 which is 57% of the total. The enterprises operating between 5 years to 10 years are 125 which is 30% of the total, between 3 years to 5 years are 43 which is 10% and enterprises operating not more than 3 years are 14 which is 3%.

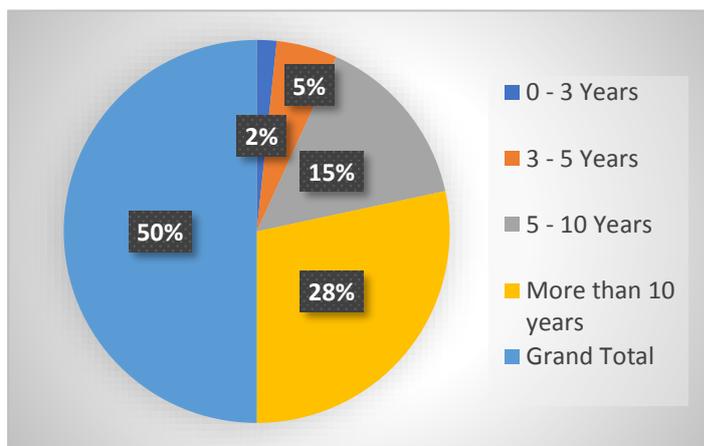


Figure 2: Years of operation

Out of 421 responses received, number of enterprises with more than 150 employees as permanent are 15, enterprises having employees between 100 to 149 are 15 (4%). Enterprises having employees between 50 to 99 are 40 which is 10% of the total sample. Enterprises having employees below 49 are 285 which is 68% of the total. Thirteen companies (3% of total) have all contractual employees and number of companies having only permanent employees is 53 which is 15% of the total.

Table 4: Employee Distribution

No of Employees	No of Companies	Percentage
0-49	285	68%
50-99	40	10%
100-149	15	4%
150 and above	6	3%

The category-wise work force distribution of the enterprises is presented in the table below. The data shows that 61% of total enterprises covered in the study have more than 15 employees. The percentage of small enterprises having more than 15 employees is 73% and that of micro enterprises is 25%.

Table 5: Employee distribution among enterprises

Category of Enterprises	Number of employees			
	0 to 5	5 to 10	10 to 15	More than 15
Small Enterprises	2%	12%	13%	73%
Micro Enterprises	13%	37%	25%	25%
Grand Total	5%	18%	16%	61%

In the total sample 77% enterprises have more than 10 employees, this indicates that these many enterprises qualify as organised sector as per the legislation.

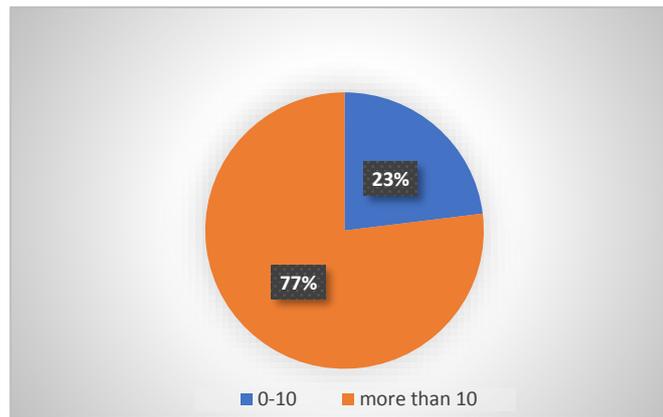


Figure 3: Percentage of enterprises in organised sector

The number of enterprises which have taken loan is 410, which is 97% of the total and 11 enterprises have not taken any loan which is 3% of the total response collected.

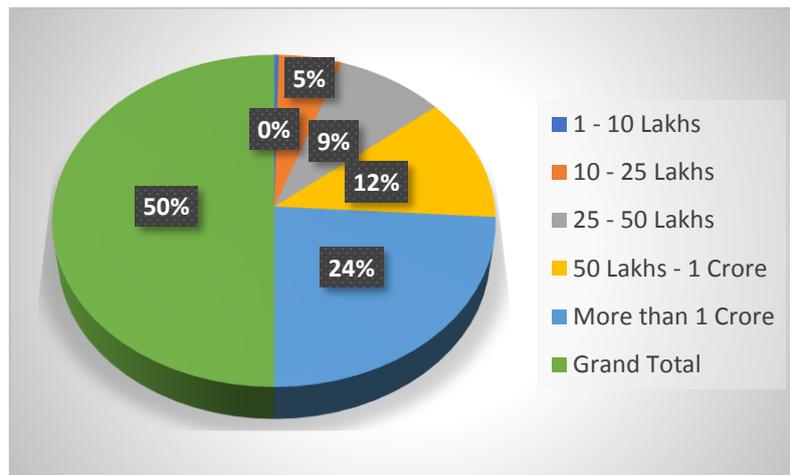


Figure 4: Amount of loan taken

The number of enterprises taken loan more than 1 crore are 202 which is 48% of the total, enterprises with loan between 50 lakhs to 1 crore are 101 which is 24 % of the total, loan between 25 lakhs to 50 crores are 73 which is 17% and between 10 lakhs to 25 lakhs are 42 which is 10% and between 1 – 10 lakhs are 3 which is 1%.

The table below presents the summary of profile of the sample enterprises.

Table 6: Summary of sample demography

	Small Enterprises	Micro Enterprises	Total (n=421)
Category wise distribution	65%	35%	
Sector wise distribution			
Manufacturing	93%	86%	91%
Other	7%	14%	9%
Legal Status			
Company	25%	3%	28%
Partnership	23%	4%	27%
Proprietorship	28%	17%	45%
Loan taken	97%	97%	97%

5.1.2 Adoption of Social Security and Insurance

Out of 421 enterprises, 67% have enrolled with a social security scheme and 33% have not enrolled in any of the schemes such as EPFO, ESIC and NPS. The percentage of enterprises covered under EPFO is 38%, under ESIC is 28% and under NPS is 1%. The category wise data is presented in the figure below.

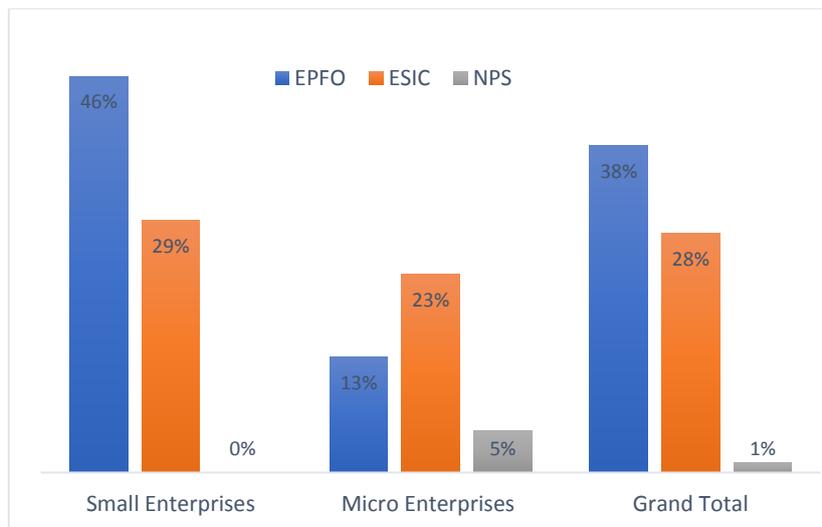


Figure 5: percentage of enterprises covered under Social Security and Insurance

5.1.3 Incidence of Insurance Policies

Fire insurance is taken by 94% of the enterprises. The category wise data shows that 95% of small enterprises and 92% of the micro enterprises covered under survey have taken fire insurance.

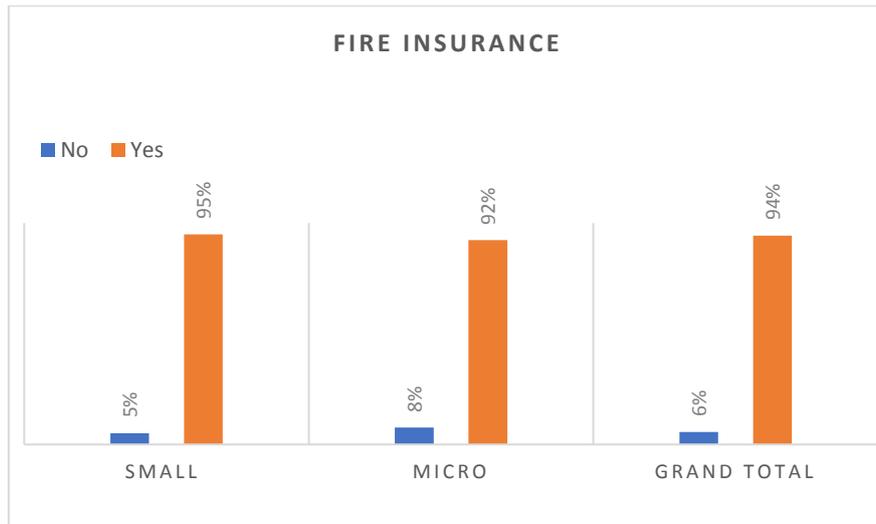


Figure 6: Incidence of Fire Insurance

5.1.4 Loss of Profit Insurance

Overall, 13% enterprises have taken loss of profit insurance, 12% of small enterprises and 17% of micro enterprises have taken this policy.

The percentage of response to the question if the profit loss cover was adequate was yes by 84% (n=56), no by 7% and not aware by 9%.

The reason for not taking loss of profit insurance appears to be lack of awareness. The number of responses citing 'not aware' as a reason was 267 (63%) of total 421 responses.

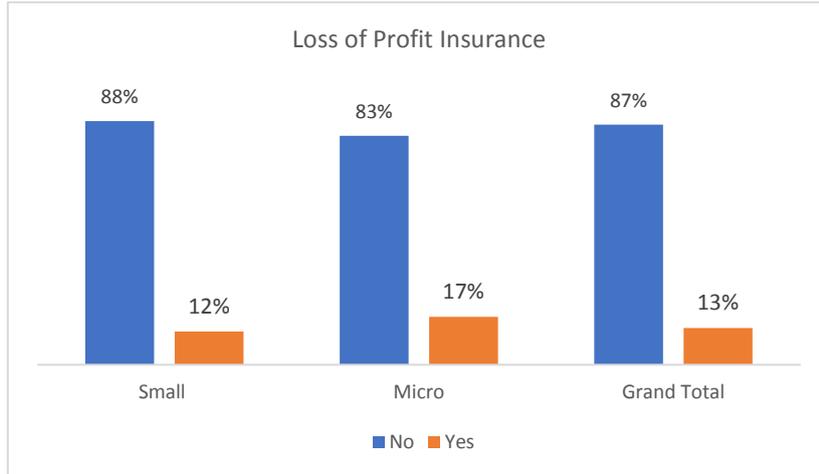


Figure 7: Incidence of Loss of Profit Insurance

5.1.5 Machine Breakdown Insurance

The percentage of enterprises taken ‘machine breakdown’ insurance is 24%. If we look at disaggregated data 23% of small enterprises and 29% of micro enterprises have taken this policy.

The percentage of response to the question if the profit loss cover was adequate was yes by 83% (n=102), no by 5% and not aware by 9%.

The reason for not taking machine breakdown insurance appears to be lack of awareness. The percentage of responses citing ‘not aware’ as a reason was 54% of total 421 responses.

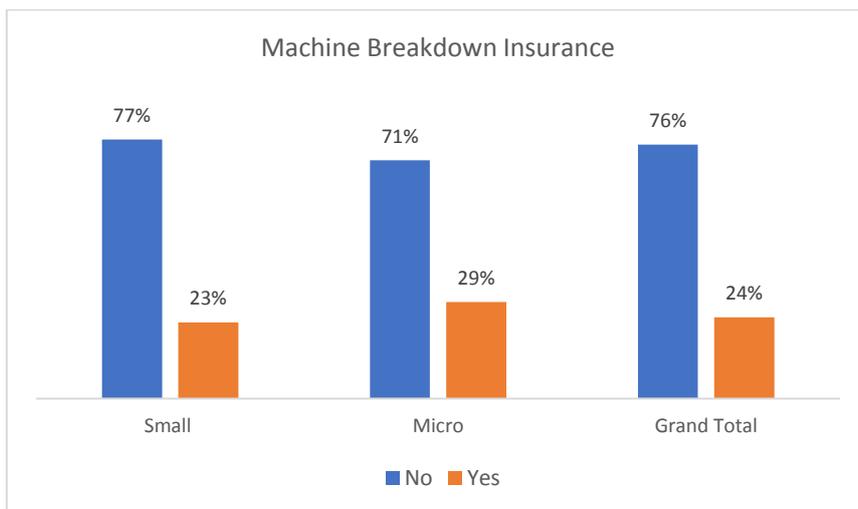


Figure 8: Incidence of Machine Breakdown Insurance

5.1.6 Motor Insurance

Out of 421 enterprises covered in the study 321 (76%) have vehicles, out of which 320 have taken motor insurance, which means 100% enterprises have covered their vehicles under motor insurance. This may be because of mandatory requirement of motor policy.

5.1.7 Group Life Insurance for Employees

The percentage of enterprises having group insurance for their employees is 44%, the percentage for micro enterprises is 38% and for small it is 46%. It is interesting to note that a greater number of small enterprises have group insurance compared to micro enterprises which indicates financial strength of enterprise may have impact on uptake.

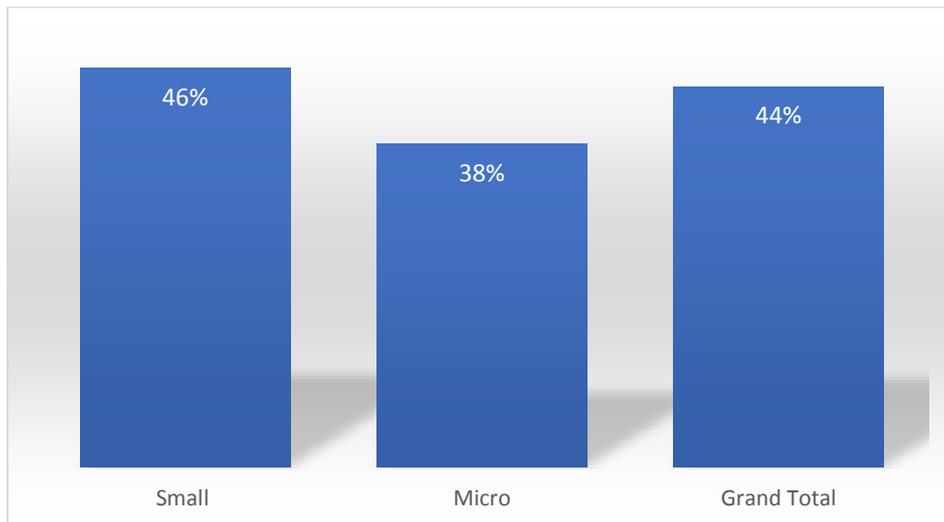


Figure 9: Incidence of Group Life Insurance

5.1.8 Employee's Group Health Insurance

The Employee's Group Health Insurance (EGHI) is present in 40% of the enterprises, 42% of the small enterprises and 35% of micro enterprises have taken this EGHI for their employees.

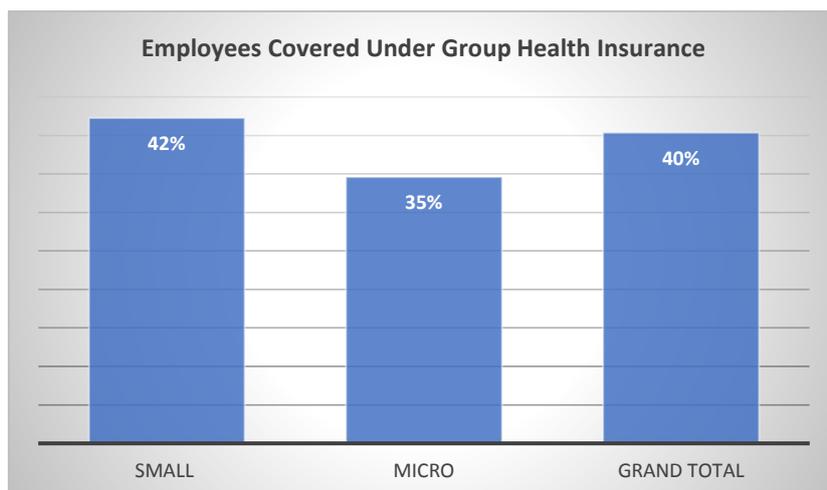


Figure 10: Incidence of Group Health Insurance

The major reasons cited for not taking EGHI are that they are already covered under ECIS and ESI. Other reasons are high turnover of employees, lack of awareness, financial constraints. Few of them also said that they are planning to take it in near future.

5.2 Enterprises Owners Data

This section covers the profile of owners and uptake of personal lines of insurance products.

5.2.1 Profile of Owners of the Enterprises

Majority of the owners fall in age bracket of 35 to 50 years, followed by age bracket 50 years and more. Interestingly, the percentage of owners in 25 to 35 years bracket is only 10%. There is significant difference of 8% in this distribution in the two categories of enterprises, micro enterprises having more number (80%) of young owners compared to 57% in small enterprises.

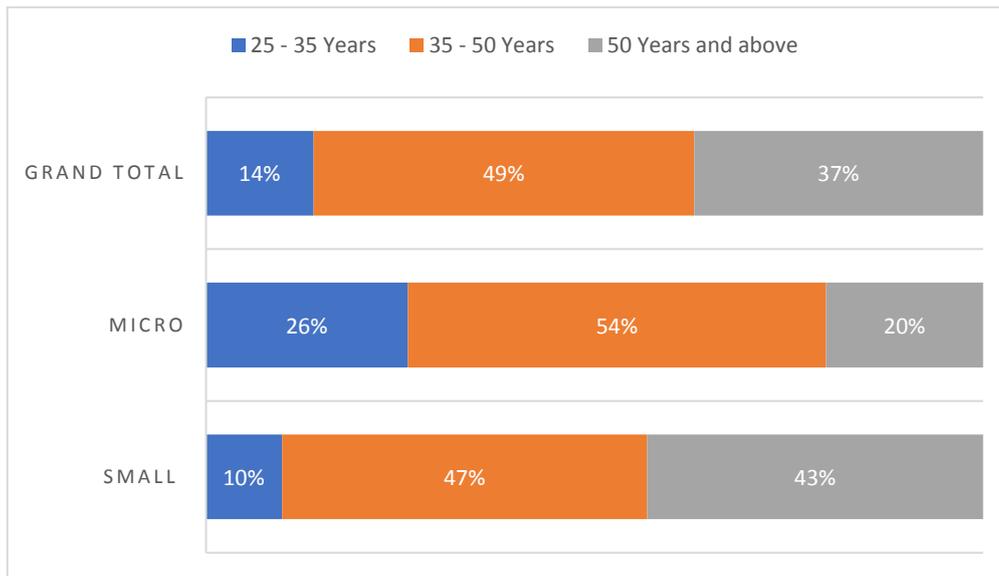


Figure 11: Age Distribution of Owners of Enterprises

The gender wise distribution shows that 11% of owners are women.

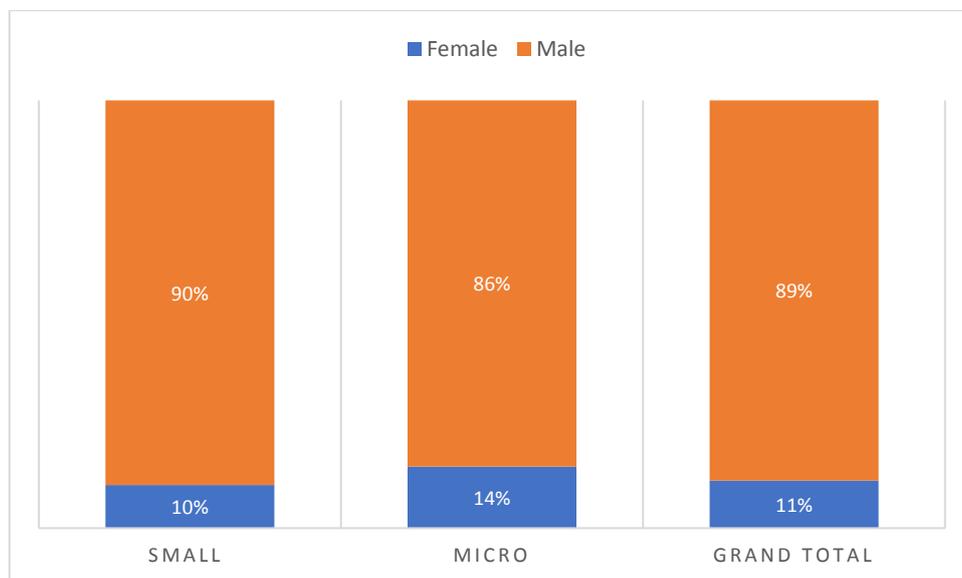


Figure 12: Gender Distribution Owners of Enterprises

Majority of owners hold graduation degree (47%), followed by technical and professional qualification (26%). This has implications for awareness about insurance.

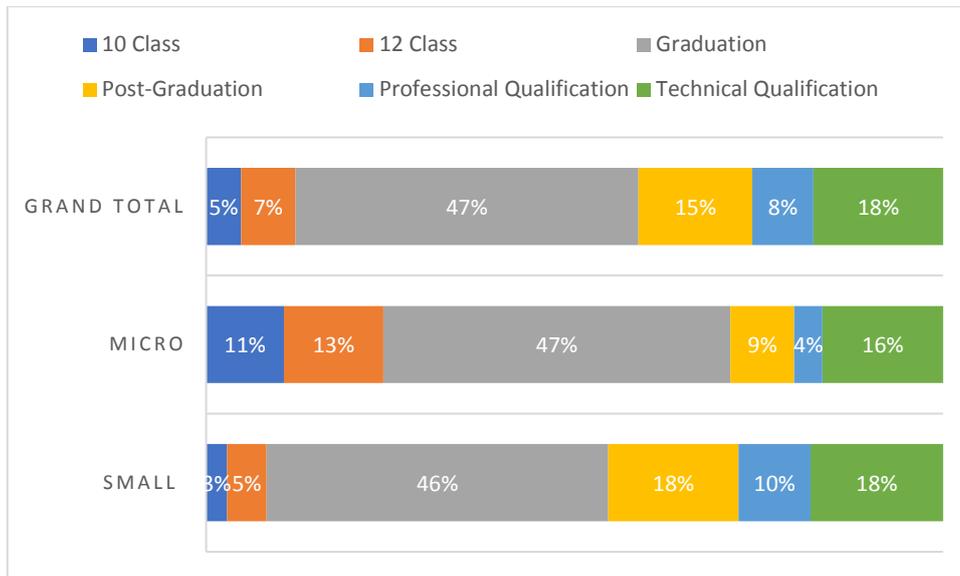


Figure 13: Educational Profile of Owners of Enterprises

The data indicates that 65% of the owners have taken life insurance, 24% health insurance and 4% personal accident insurance policies in personal capacity.

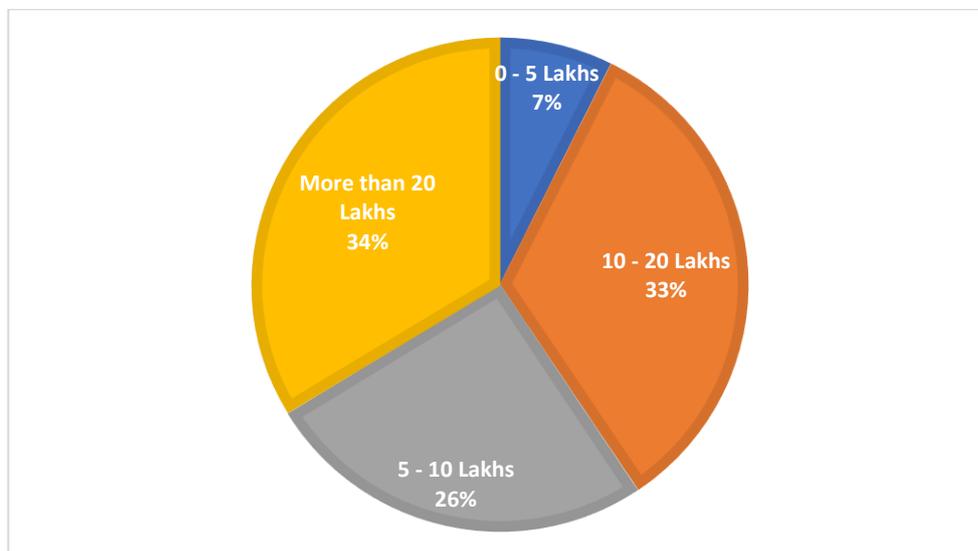


Figure 14: Income Distribution of Owners of Enterprises

5.2.2 Uptake of Personal Lines of Insurance Products

Uptake of life insurance is highest among owners at 65%. The percentage of enterprise owners taking health insurance for self and family is 24%, and 4% have taken personal accident policy. About 7% of the owners have taken other insurance policies including individual pension policy.

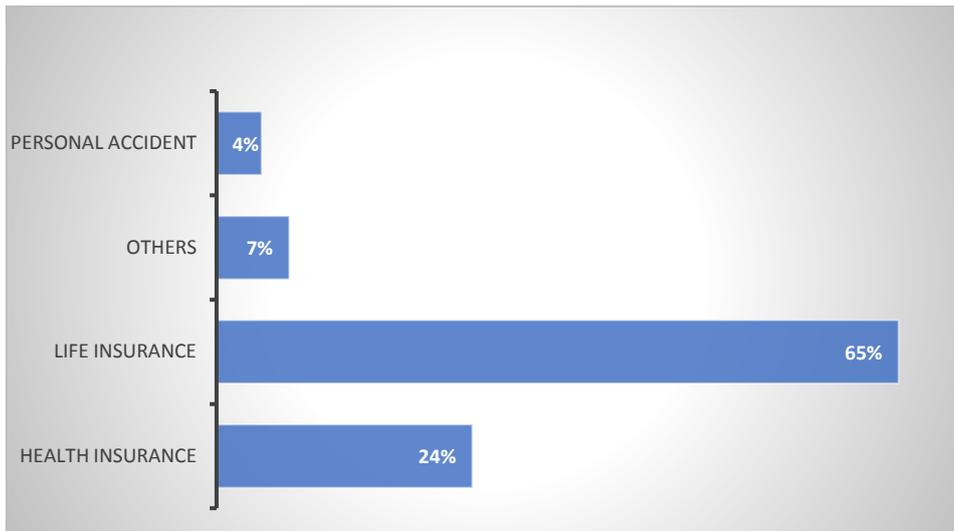


Figure 15: Personal Line of Insurance Uptake by Owners

5.2.3 Uptake of Pension

Overall, 26% of the owners have taken a pension policy, out of which 29% are small enterprise owners and 19% of micro enterprise owners.

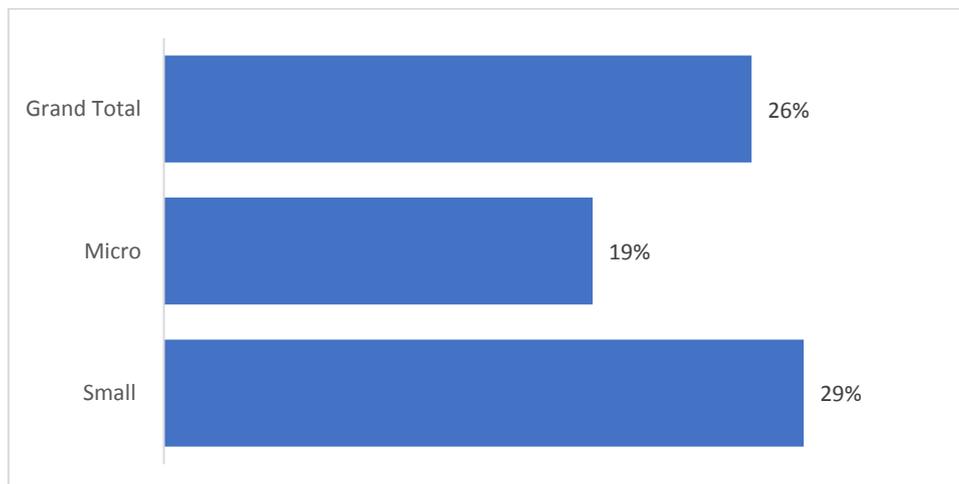


Figure 16: Categories Pension Uptake by Owners

Out of 110 respondents who have taken pension policy, 60 % of them have taken individual pension policy, 23% NPS Trades and 9% have taken NPS and 5% have taken PM SYM.

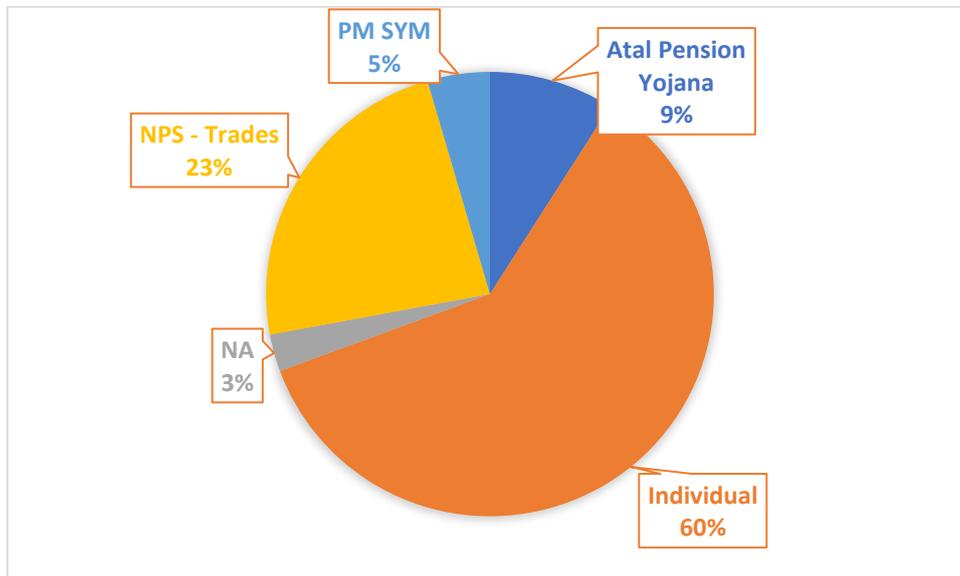


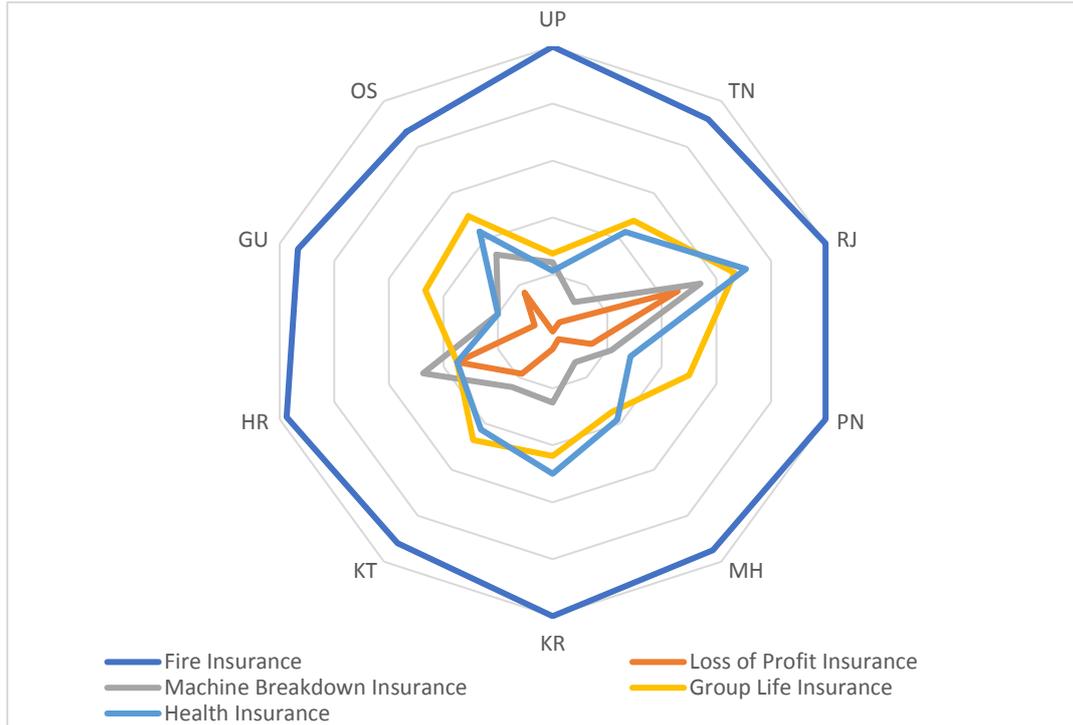
Figure 17: Categories Pension Uptake by Owners

5.2.4 Factors Impacting Uptake of Insurance in MSEs

To understand the factors impacting uptake of insurance in MSEs we tried to see if there are significant variations in uptake of insurance according to the profile of enterprises and profile of owners. In this section we present the perspectives of uptake of insurance by MSEs.

5.2.5 State wise Distribution of Uptake of Insurance Products

There is state wise significant variation in uptake of insurance in the data. Rajasthan has highest uptake of insurance followed by Kerala and Karnataka though there is product wise variation among the states. However, uptake of insurance is high in Rajasthan across all Lines of Business.



State	Uttar Pradesh	Tamil Nadu	Rajasthan	Punjab	Maharashtra	Kerala	Karnataka	Haryana	Gujarat	Other States
Code	UP	TN	RJ	PN	MH	KR	KT	HR	GU	OS

Figure 18: State wise Distribution of Uptake of Insurance Products

5.2.6 Income Distribution and Uptake of Insurance

The data indicates that life insurance is first preference across all income categories followed by health insurance. Health insurance uptake is higher in 10-20 lakh family income category, life insurance uptake is highest in 0-5 lakh family income category and personal accident uptake is highest in 5-10 lakh family income category.

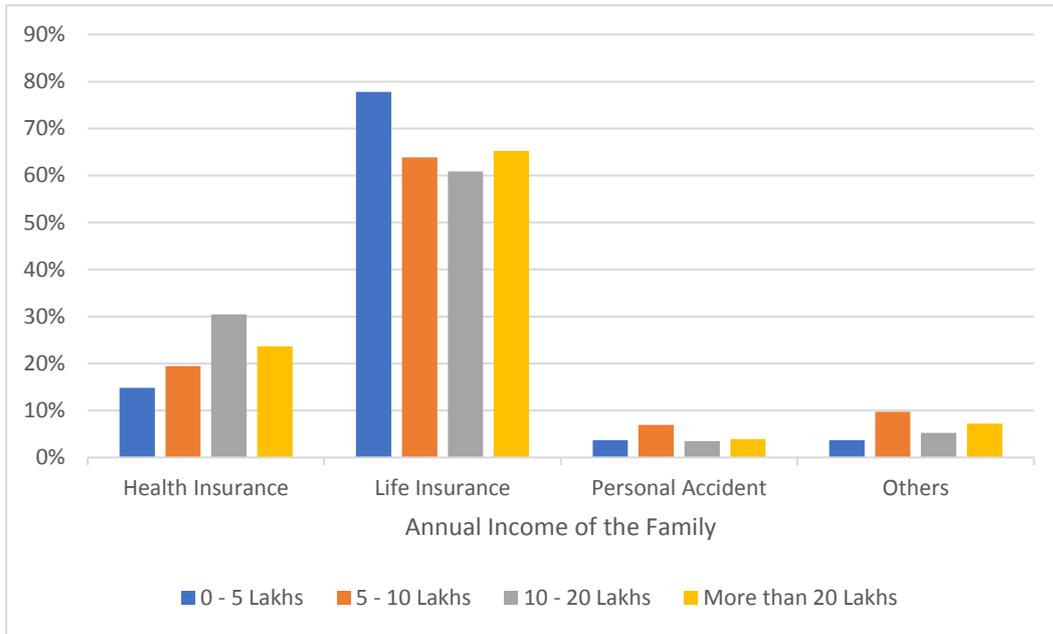


Figure 19: Income wise Distribution of Uptake of Insurance Products

5.2.7 Insurance Uptake and Educational Profile of Owners

There is comparatively high uptake of insurance amongst the owners with higher qualification. There is no impact of educational qualification on uptake of fire insurance. Group Life and health insurance uptake is high among enterprises owned by professionals & technically educated and post-graduates.

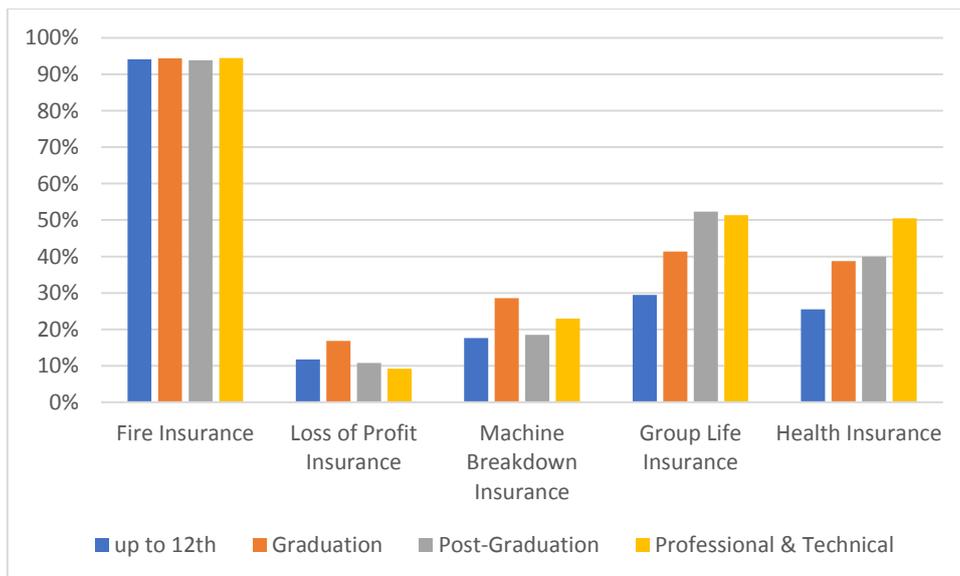


Figure 20: Overall Product wise Uptake Percentage

5.2.8 Gender wise variation in uptake of insurance

There is apparent variation in uptake of insurance when we consider gender. Women headed enterprises are 11 % in the sample. When we compared what is the percentage uptake of insurance both genders (male and female), the data indicates higher percentage of women headed enterprises have taken loss of profit insurance and machine breakdown insurance. However, there is no difference when it comes to uptake of health insurance. Men headed enterprises have high uptake of group health insurance.

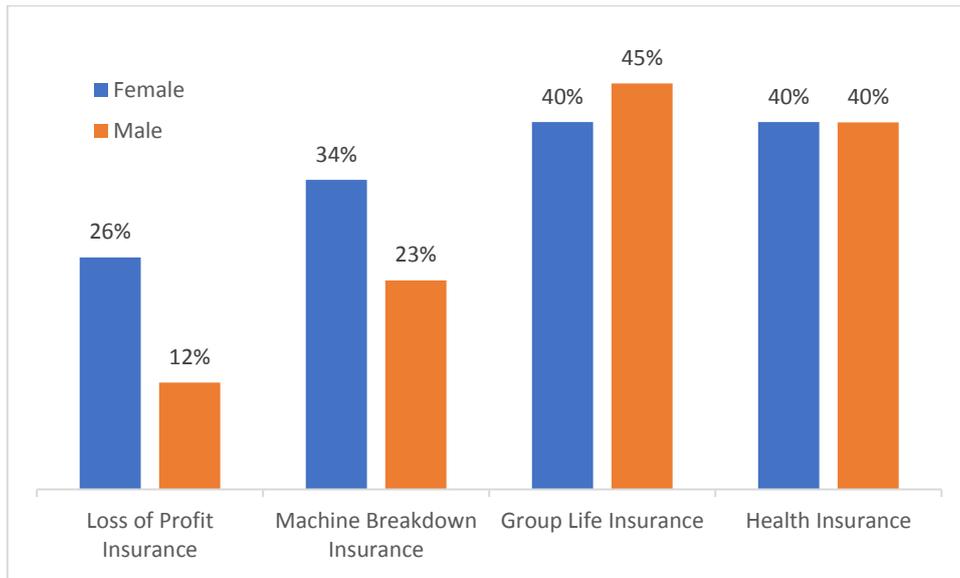


Figure 21: Gender wise uptake percentage

5.2.9 Awareness of Tax Benefit and Uptake of Insurance

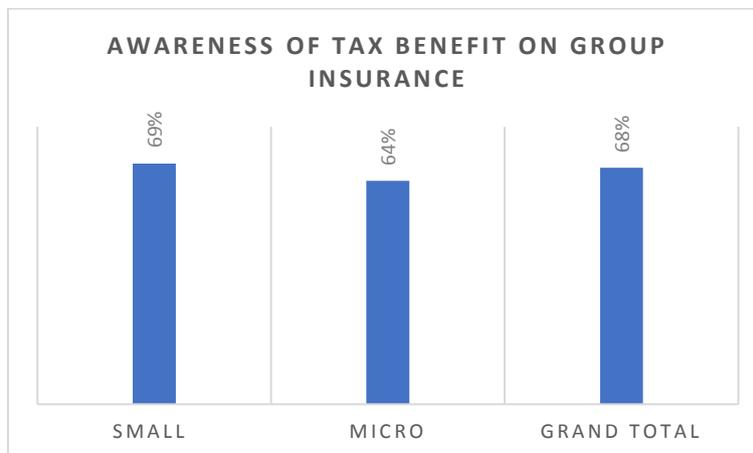


Figure 22: Awareness about tax benefit on Insurance premium

A good 68% of enterprises are aware that insurance premium paid on the lives of employees qualify as a business expenditure under the income tax act. Awareness of among small enterprises (69%) are higher than micro enterprises (64%). As expected, the awareness level about tax benefit is high in the sample which has already availed the group insurance.

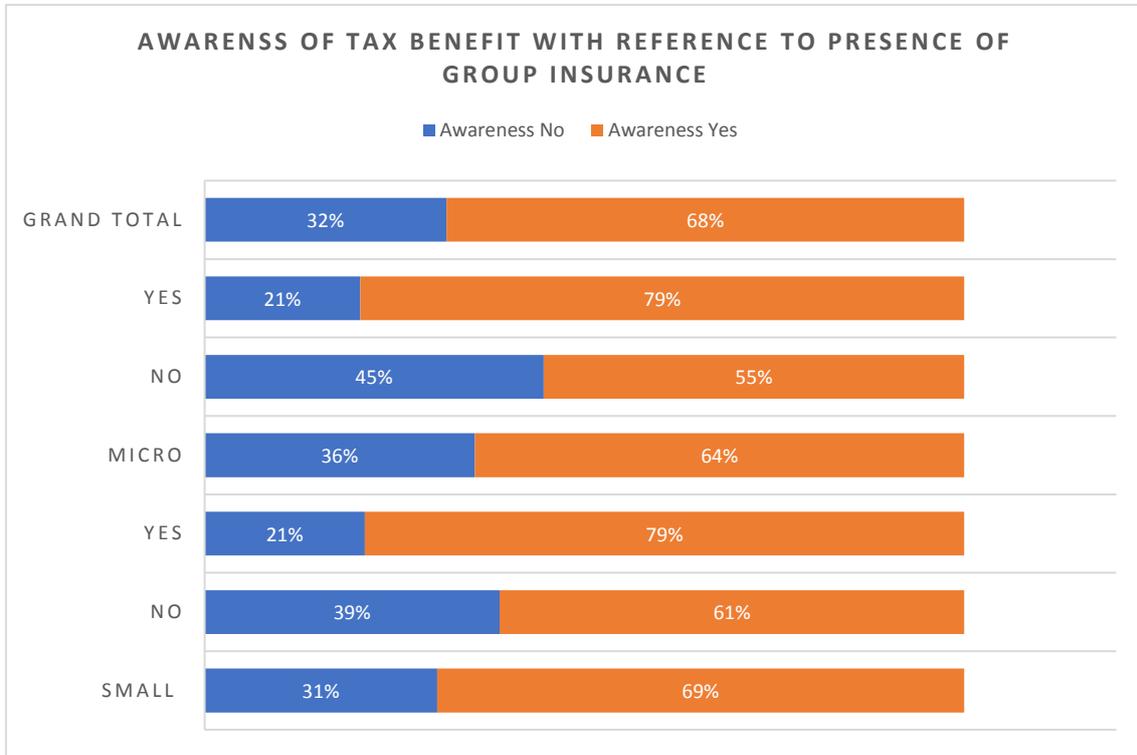


Figure 23: Awareness about tax benefit on Insurance premium vs uptake of insurance

The data show high correlation about awareness of tax benefit and uptake of group insurance scheme as in the graph below.

6. Reasons for Low Uptake of Insurance

The response rate to the question why you have not taken insurance ranged between 23 % to 37 %. The reasons mentioned for not taking group life insurance are high turnover of employees, lack of awareness, high cost of insurance and small number of employees for a group scheme.

Table 7: Reasons for low uptake of insurance

Reasons	Frequency	
	Group Life Insurance	Group Health Insurance
Covered under Other Schemes (ESICI)	47	47
Employees not interested	14	10
In process of taking	11	10
High turnover of employees	9	4
Not Aware	6	14
High cost of insurance	5	8
Small number of employees	4	4
Others (eg. low profitability)	3	2

7. Risks Faced by MSEs

The major losses faced by these enterprises in last three years are machine breakdown, fire, business interruption due to COVID 19 and pandemics, worksite accidents and employee injury, fluctuations in raw material price credit risk, natural calamities, market risk etc. The credit risk is from both sides; owners taking loan and goods sold on credit.

Table 8: Major losses faced by these enterprises in last three years

Reasons	Frequency
No Risk	22
Pandemic & lockdown	19
Machine breakdown	18
Fire	16
Worksite Accidents and Employee injury	13
Fluctuations in raw material price	12
Credit & customer payment delay	11
Natural Calamity esp. flood	7
Loss in business	5
Transit loss	3
Theft	3
Working Capital	3
Market risk	3
Raw material damage and rejection	3
Labour issues	3

When asked to identify major risks, the majority responses are machine breakdown, pandemic, and accidents. Apart from this, fire, theft, flood, and natural calamities are other risks named by the respondents.

8. Observations and Recommendations

We have the following observations emerging from the data analysis and discussions:

Fire insurance uptake is highest at 94%, which is mandatory for taking loan. In voluntary Lines of Business, group life insurance uptake is highest at 44%, followed by health insurance at 40%, Machine break down insurance at 24%, and loss of profile insurance 13%.

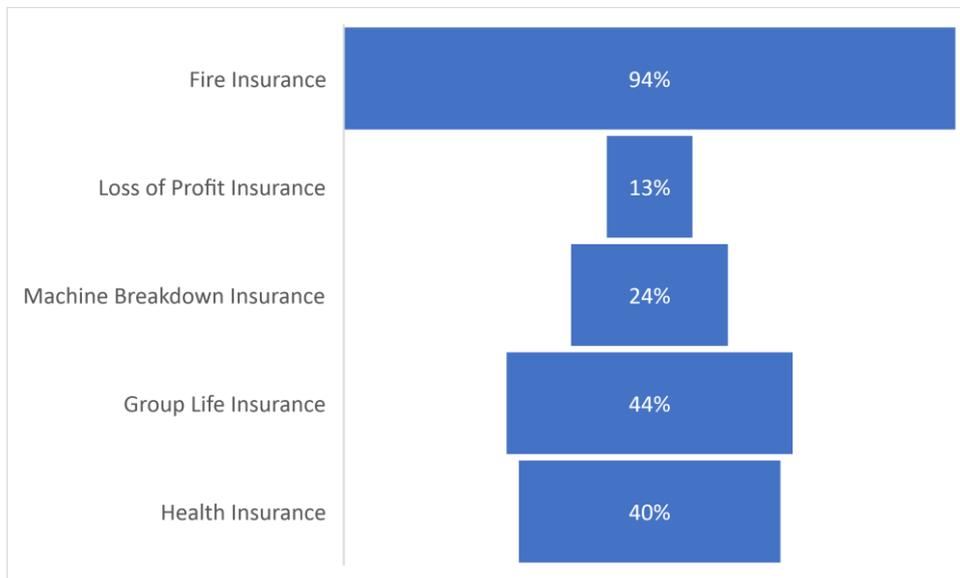


Figure 24: Overall Product wise uptake percentage at enterprise level

- The percentage of enterprises enrolled with any of the schemes such as EFPO, ESIC and NPS is 67% and 33% have not enrolled in any of these social security schemes.
- The uptake of compulsory schemes is very high. Fire insurance is taken by 94% of the enterprises and motor insurance is taken by 100% of enterprises owning vehicle.
- Uptake of voluntary enterprise level insurance is observed to be low in the data. Only 13% enterprises have taken loss of profit insurance, 24% have taken machine breakdown insurance.
- The uptake of group employee benefit insurance is also low. The percentage of enterprises having group insurance for their employees is 44%, and incidence of Employee's Group Health Insurance (EGHI) is 40%.

- The uptake of personal line insurance is varied across Lines of Business. Life insurance policies is taken up by 65% of the enterprise owners. The percentage of enterprise owners taking health insurance is 24%.
- Rajasthan has highest uptake of insurance followed by Kerala and Karnataka.
- Life insurance is first preference across all income categories among enterprise owners followed by health insurance.
- Group Life and health insurance uptake is high among enterprises owned by professionals & technically educated and post-graduates.
- Higher percentage of women headed enterprises have taken loss of profit insurance and machine breakdown insurance. However, there is no difference when it comes to uptake of health insurance. Men headed enterprises have high uptake of group health insurance.
- The percentage of owners who are aware about tax benefit on insurance premium is 68%.
- The reasons mentioned for not taking group life insurance are high turnover of employees, lack of awareness, high cost of insurance and small number of employees for a group scheme.
- The major losses faced by these enterprises in last three years are machine breakdown, fire, business interruption due to COVID 19 and pandemics, worksite accidents and employee injury, fluctuations in raw material price credit risk, natural calamities.
- Major risks identified for which enterprises need insurance are machine breakdown, pandemic, accidents, fire, theft, flood, and natural calamities.

Recommendations

Based on the above observations the study team makes following recommendations:

- There is significant difference in the profile of micro and small enterprises. Insurance companies need to take cognizance of this reality and design products suited to both the categories.
- There is an urgent need to increase awareness among the owners of the enterprises on both enterprise risk, risk management practices and role of insurance in risk management.

- The enterprise owners also need to be made aware about the basic features of insurance products, which will help in taking decision to insure.
- The group insurance schemes need to address specific needs of the enterprise, especially looking at their small size and a floating workforce.
- The employees of the enterprises are not interested in getting covered under group insurance because of the nature of their employment as well as cost implications. Innovative, simple, and cost-effective product can deal with this challenge.
- Insurance companies need to reach out to the sector as the potential of growth seems to be high as current uptake of insurance is low.

9. Conclusion

The study was intended to provide insights about the approach of Micro and Small Enterprises towards uptake of insurance and challenges faced by them in covering their risks. It also examined the need of insurance and felt risks by the enterprises and people employed by Micro and Small Enterprises.

The data indicates that there is wide variation in uptake of insurance across business lines. The incidence of fire and motor insurance is high. Overall, 94% of all the enterprise units surveyed have taken Fire Insurance and 100 % of enterprises owning vehicles have taken motor insurance. This high percentage level may be because Fire Insurance is part of the conditions imposed by the financial institution granting the loan and motor insurance is mandatory under Motor Vehicle Act. This is contrasted with the low number of enterprises having taken a Group Insurance scheme for their employees (24%) and Group Health policies (40%). This is despite the fact that the awareness about the income tax benefit for the premium paid for this purpose stands higher at 68%.

It is to be realized that most of the firms are either proprietorship or partnership firms. Most small businesses tend to be entrepreneurial ventures where the promoter has either invested their savings or borrowed funds to start their dream venture (Carvalho, 2022). So, the enterprises are vulnerable to the vagaries of the condition of health of the owners. A single unfortunate health episode may set back the owners financially and this may lead to losses, sometimes leading them to ruin. The fact that only 24% of them have health insurance is worrisome. Micro and Small segments function with limited number of employees. The employees also belong to low-income group who work on daily wages. Any health issue of

employees may impact the enterprise negatively at least for some time. With timely and proper care that can be enabled by health insurance will minimize the impact by lowering the recovery time of the employee.

This clearly points to the opportunity available in this segment which can be capitalised through insurance education and aggressive marketing campaigns aimed at the enterprise owners who are also employers. Also, innovative group products which are modular in nature specific to this segment may be rolled out. The insurance companies must address to the challenges posed by this segment if they are to claim that they are doing yeoman service to the people. Insurance companies need to put in untiring efforts in product development with products which are simple in design and tailored to the needs of this segment.

This study is an important contribution to knowledge creation about incidence of insurance in MSEs. It can be used by the regulator, government agencies and insurance providers to take necessary action in the direction of increasing access of insurance to one of the sectors which is largest employment generator of the country. The study faced limitations in data collection as response rate was low in selected States. Thus, we cannot draw conclusive general inference as the sample cannot be called as representative one. The future studies may take care of this aspect as it has financial implications regarding resource allocation in data collection.

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Annexure

Questionnaire for Employers- Micro and Small Enterprise Unit

Details of Business

1. Name of the Organisation
2. Sector/Business type
3. Details of activity
4. Location
5. Is it Company/ Partnership / Proprietorship
6. Years of operations
7. No of places from which business is carried out.
8. Respective Addresses
9. Number of employees
 - 9.1. Permanent
 - 9.2. Ad hoc
10. Capital
11. Turnover of the company for the last financial year
12. Net Profit for the last financial year
13. Total value of the assets
14. Amount of loan outstanding
15. Whether loan is taken –
 - a) In Individual capacity
 - b) As part of Joint Liability Group (JLG)
Number of members in JLG
 - c) As part of self-help group (SHG)
Number of members in SHG
16. Is your enterprise enrolled with any of the following?
EPFO/NPS/ESIC

Incidence of Insurance

17. Whether assets are secured by Insurance
 - 17.1. If yes, details of Insurance (Write amount in rupees)
 - a) Plant & Machinery

- b) Land & Buildings
- c) Inventory & work in Progress
- d) Fire Insurance
- e) Loss of profits policy

17.2. If no, what is the reason?

18. Number of vehicles owned by the organisation.

18.1. Are they insured?

18.2. If yes, third party / comprehensive.

18.3. If no, what is the reason?

Personal Details of owner

- 1. Name
- 2. Age
- 3. Gender – M / F
- 4. Educational Qualification
- 5. Address

Family Details

- 19. No of members in your family
- 20. No of members from your family working for this organisation

Income Details

- 21. Annual income of the Owner
- 22. Family income of the Owner

Incidence of insurance- personal and family

23. Whether you have personal accident policy?

23.1. If yes, amount?

23.2. If no, what is the reason?

24. Whether you have life insurance policy?

24.1. If yes, amount?

24.2. If no, what is the reason?

25. Details of Life insurance policies for family members

25.1. If yes, amount?

25.2. If no, what is the reason?

26. Whether having health Insurance policy?

- 26.1. If yes, Individual / Family floater.
 - 26.2. Amount?
 - 26.3. If no, what is the reason?
6. Are you subscribing to any pension scheme?
- 6.1. If yes, which scheme
 - a) Atal Pension yojana
 - b) National Pension Scheme (NPS)- Traders
 - c) PM SYM
 - d) Individual (own policy)
 - 6.2. If no, what is the reason?

Incidence of insurance- Business and Employees

7. Are your employees in your firm covered under a group insurance?
- 7.1. If yes, please give details- premium, sum assured, benefits.
 - 7.2. If no, what is the reason?
8. Are your employees covered under any Group Health insurance?
- 8.1. If yes, please give details- premium, sum assured, benefits.
 - 8.2. If no, what is the reason?
9. Are you aware that Insurance premiums paid on the lives of employees qualify as a business expenditure under the income tax act?

Need Assessment

10. What are the major risks faced by your business in last five years for which you need insurance?
11. Where do you face frequent losses in the business?
12. What are the major risks you see in coming five years for your business for which you need insurance?



**NATIONAL
INSURANCE
ACADEMY**

25, Balewadi, Baner Road,
NIA P. O, Pune 411045

Tel.: +91-020-27204000, 27204444
Website: www.niapune.org.in