Micro Insurance as a Tool for MSME Resilience

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Abstract: In Manipur, the micro, small and medium enterprises (MSMEs) sector acts as an important contributor in the region's fostering employment opportunities and economy, socio-economic development and income generation. Surrounded by the unique socio-economic landscape of Manipur, MSMEs face multifaceted challenges ranging from limited vulnerability against natural calamities to access to finance. Micro insurance comes into view as a promising tool to mitigate these risks, promoting resilience and providing financial protection among MSMEs. Micro insurance provides protection against risks such as accidents, natural disasters, illness, and other unforeseen events. Micro insurance enables MSMEs to sustain their operations, maintain livelihood and safeguard assets by providing financial security and mitigating the adverse impacts of risks. This study aims to unveil the opportunities and barriers in integrating micro insurance within the sector by analyzing the current state of micro insurance penetration and its impact on MSMEs in Manipur. The study explores the accessibility, affordability and awareness of micro insurance products among MSMEs through qualitative and quantitative analysis, addressing the factors influencing their adoption. Moreover, the study examines the effectiveness of micro insurance schemes in addressing the specific vulnerabilities and needs of MSMEs in Manipur.

Introduction: Micro, Small, and Medium Enterprises (MSMEs) play an important role in the economic landscape of Manipur, generating employment, fostering entrepreneurship and contributing to socio-economic development. Regardless of their importance, MSMEs often work in a perilous environment characterized by limited access to formal financial services and vulnerability to various risks such as health emergencies, natural disasters and market fluctuations. These risks can threaten the survival and growth of MSMEs, underscoring the need for effective risk management strategies.

For economic development of any nation, MSMEs have become an inevitable and crucial factor. The best representatives of economic activities are MSMEs (Congregado, 2010). In developed as well as developing and underdeveloped countries, the importance of MSMEs have grown simultaneously. A major share in domestic trade and simultaneously plays a significant role in the international transactions directly or indirectly taken up by the MSMEs. Estimated that more than 90% of the enterprises across the world are MSMEs, employing around 60% of the workforce in the private sector. To enhance economic growth and equitable development, MSMEs are considered as an engine. It's a bottom-up approach wherein the process of growth is initiated at root, so that the benefits are derived by the deprived segment which is unable to enjoy the fruits of large-scale industrialization (Chakraborty 2019).

In Indian economy, 96% of the industrial units belong to small companies. Companies account for 40% of the nation's overall industrial production and 42% of all Indian exports are from small companies. Also, in the rural and urban areas of the country, the small companies have offered various opportunities. Small firms have helped increase the employment chances for the people.

The most familiar way to categories enterprises is the number of people employed in the firm. 250-plus people are employed by large enterprises. medium-sized businesses with a range of 50 to 249 employees and small businesses have a range of 10-49 employees. Less than 10 employees work for micro- enterprises. The second largest employment providers in the Indian economy are the small businesses.

Micro Insurance: The draft paper prepared by the Consultative Group to Assist the Poor (CGAP) working group on micro-insurance defines micro-insurance as "the protection of low income households against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved."

In India there is existence of intense circle of poverty. Poverty makes poorer, to the poor people. So, in this scenario micro insurance is the emerging instrument to breaking this intense circle of poverty and insured them from the specific perils which make them more exposed and underprivileged. Now, the insurable hazards that should be insured are:-

- Sickness. Reduces the working days, and thus productivity, and also generates expenses, though at a smaller level then critical illness.
- Asset loss, especially those assets used to generate income.
- Risk of lowered agricultural productivity or returns e.g., through drought or flood.
- Critical illness. This has the dual impact of loss earnings/household labour as well as treatment expenses.
- Loss of life: Most household members contribute to household income, except those too young, old or infirm to work.
- Old age. There are few income options for the elderly. In addition, there is some evidence of emerging social trends in which the obligation of the young to take care of the old is weakening.

A framework for insurers to design suitable micro insurance products has been provided by IRDA. It allows the sale of both term assurance as well as savings-linked insurance policies along with riders, on the life insurance side. Non-life covers crop insurance, personal accident covers, tools and implement, livestock and dwellings. However, both life and non-life insurers can offer Health Insurance. In 2006, Life Insurance Corporation of India (LIC) started life micro insurance and after that many private players came to distribute life micro insurance to the weaker sections in India. Since the day it started life micro insurance business in India, LIC is leading.

Life micro insurance is one approach to protect the impact of risks such as death, old age, and illness. An opportunity to buy appropriate insurance for small premium and thus to provide themselves for their own future has given by it to the people of low income. Life micro insurance helps to increase individual savings. This makes it easier for them to cope with crises.

Each and every poor of the society will have financial security against their daily risks and also the insurers fulfill their social obligations through life micro insurance. Hence, at present, the relevance of micro insurance has increased in India.

The life micro insurance can sustain itself only if there is continuous growth in the number of policies it sells and the premium income it earns. It mainly concentrated on the weaker sections. Hence, the company's life micro insurance products success depends on the consolidated effort of its marketing activities. Prompt and efficient service from the side of agents and employees can motivate people for repurchasing the policies. All these things lead to the success of life Micro Insurance. In India life micro insurance industry is still at an early stage of development, in spite of its huge population.

1. Overview of MSMEs in Manipur:

i) **Sectoral Composition:**

a) MSMEs in Manipur are diverse and cover various sectors including handloom and handicrafts, food processing, tourism, and manufacturing.
b) Handloom and handicrafts are particularly prominent due to Manipur's rich cultural heritage.

ii) **Employment Contribution:**

a) MSMEs play a significant role in employment generation, providing livelihoods to a large segment of the population, especially in rural areas.
b) MSMEs helps to reducing unemployment and underemployment in the state.

iii) **Challenges Faced by MSMEs:**

a) **Access to Finance:** Most of the MSMEs struggle to access formal credit due to strict requirements and lack of confirmatory.
b) **Infrastructure:** The growth and operations of MSMEs have been hindered in remote areas because of poor infrastructure.
c) **Market Access:** Poor linkages with the market and unable to access modern marketing techniques affect their competitiveness.
d) **Limited Access to Finance:** Many MSMEs find it difficult to access affordable credit from financial institutions and insurance services from insurers.
e) **Vulnerability to Risks:** MSMEs operations are expose to significant risks such as political instability, natural disasters and economic uncertainties.
f) **Lack of Awareness:** MSMEs lacks awareness about the benefits and importance of insurance coverage.

iv) **Initiatives By the Government:**

Various schemes and programs have been initiated by the Government of Manipur in order to support MSMEs, which include skill development, financial assistance and infrastructure development. It aims to enhance the sustainability and competitiveness of MSMEs in the state.

v) **COVID-19 Impact:**

After the COVID-19 pandemic, most of the MSMEs in Manipur find it difficult to operate and face significant challenges such as disrupted supply chains, reduced demand, and financial distress. Cash flow issues and a lack of reserves make them struggle to survive.

vi) **Prospects for Future:**

Even though there are challenges, MSMEs in Manipur have potential for growth, especially with support in infrastructure development, skill enhancement, and technology adoption. Some of the emerging sectors that provide opportunities for diversification to the MSMEs are IT-enabled services, renewable energy and healthcare.

2. Micro Insurance Role in Enhancing Sustainability:

To address the specific needs and challenges faced by MSMEs in Manipur, Micro insurance offers a viable solution:

- **Risk Mitigation:** Micro insurance provides financial protection against unexpected events such as fire, theft, accidents, and natural calamities.
- **Promoting Resilience:** By mitigating risks, micro insurance enhances the resilience of MSMEs, enabling them to recover quickly from setbacks and continue their operations.
- **Access to Finance:** Insurance coverage can improve MSMEs' creditworthiness, making it easier for them to access loans and investments.
- **Support for Growth:** Insured MSMEs are better equipped to expand their businesses, create more jobs, and contribute to local economic development.

3. Challenges and Solutions on Implementation:

The implementation of micro insurance in Manipur faces several challenges in spite of its potential benefits:

- **Low Awareness and Trust:** Many MSMEs are unaware of micro insurance products and may be skeptical about their benefits.
- **Infrastructure and Distribution Channels:** Limited infrastructure and inadequate distribution channels hinder the delivery of insurance services to remote areas.
- **Regulatory Environment:** Complex regulatory frameworks and compliance requirements may deter insurance providers from offering affordable products tailored to MSMEs.

To overcome these challenges, stakeholders must collaborate to:

- **Raise Awareness:** Conduct targeted awareness campaigns to educate MSMEs about the importance of insurance and its role in business sustainability.
- **Develop Innovative Products:** Design micro insurance products that are affordable, easy to understand, and meet the specific needs of MSMEs in Manipur.
- **Strengthen Distribution Networks:** Expand distribution networks through partnerships with local organizations, banks, and microfinance institutions.

- **Policy Support:** Advocate for policies that promote inclusive insurance markets and facilitate the growth of micro insurance in Manipur.

In Manipur's economic landscape this paper aims to serve as a foundation for discussions on enhancing MSME resilience through micro insurance and catalyzing positive change.

Micro insurance can be highly beneficial for Micro, Small, and Medium Enterprises (MSMEs) during times of difficulty in several ways:

1. **Affordability**: Micro insurance attempts to bring affordability for small businesses, by introducing small denomination and easy payment terms.
2. **Business Continuity**: Compensation can be provided in case of difficulties such as loss of inventory, property damage or disruptions in operations. At the time of such difficulties micro insurance helps MSMEs to recover and resume quickly into business activities without prolong
3. **Creditworthiness**: MSME's creditworthiness can enhance by having micro insurance coverage. Insured businesses are often considered as lower risk by the lenders, that's why it makes it easier access to credit when needed for business expansion or recovery.
4. **Customized Coverage**: Flexibility are there to choose coverage that best suits their unique circumstances for MSMEs. Policy can be tailored to meet the specific needs of the MSMEs, whether it's covering specific liabilities, assets, or key persons within the business.
5. **Employee Welfare**: Health and life micro insurance plans are available, which cover the employees, providing benefits to them. It enhances employee loyalty and retention within MSMEs and also supports the workforce.
6. **Peace of Mind**: MSMEs can focus on their core business activities rather than worrying about potential risks and their financial implications, as they are covered by insurance can give them peace of mind.
7. **Risk Mitigation**: Market fluctuations, natural disasters and operational challenges are the various risks often faced by MSMEs. Coverage against these risks, offering financial protection and stability during unexpected events, can be provided by Micro insurance.

Altogether, micro insurance plays a vital role in supporting MSMEs by enabling them to navigate through difficulties more effectively and safeguarding their financial health, thereby promoting resilience and sustainability in their business operations.

Conclusion:

In Manipur, MSMEs are important for employment generation and economic development. Still, they face challenges like infrastructure constraints and access to finance, and supportive policies and government initiatives play a crucial role in enhancing their sustainability. Above all, identifying emerging opportunities will be essential to unlocking the full potential of MSMEs in Manipur and managing these challenges.

Providing MSMEs with essential financial protection against risks, Micro insurance holds immense potential to enhance the sustainability of MSMEs in Manipur. Efforts from policymakers, financial institutions, insurers and MSMEs themselves for the implementation of effective micro insurance. By addressing challenges and leveraging opportunities, Manipur can foster a resilient MSME sector that contributes robustly to economic growth and development. Manipur can foster a resilient MSME sector that contributes robustly to development and economic growth by leveraging opportunities and addressing challenges.

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