

The Consequence of Savings without Insurance: The Case of Sumathi & Shanthi

from

**“Evaluation of saving strategies between the urban and rural ultra poor
A study in Tamil Nadu, India”**

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Driving down 45 km from our Institute was a cutting to the right on the main OMR road that connects Chennai to several cities down South. Deceptively green and supposed to be urban but just a few kms. into the long winding path we could see no proper roads, just mud tracks that led us to Sumathi's dwelling. She had been allotted this small piece of land with a house about four years back by the government of Tamil Nadu as she was identified as a 'below poverty line beneficiary'.



Sumathi's House

She recollected that she had migrated to this village, S V Chataram about 17 years back from interior Tamil Nadu. Till about 5 years back she used to work as a coolie or as a housemaid but the work was never regular and her income was abysmally low. She never could meet both ends as her husband too never worked or felt the need to contribute to the house, not that he is an alcoholic as most men in the surrounding neighborhood are, created a racket, demanded money for his personal needs but he never felt a sense of responsibility towards his two children, a boy and a girl. Their son now works as a coolie and earns about \$ 60 per month and their daughter lives away from them after marriage. So the responsibility of feeding the family, providing a shelter or a need for emergency fell entirely on Sumathi.

The arrival of Eswari 5 year's back, the local person responsible for forming SHGs (Self Help Groups) from a local NGO, intrigued Sumathi who watched other members in the village make groups and prosper in the process. To her, her illiteracy seemed an impediment to joining such

groups but the success of some of her peers coupled with an improvement in their family's living standard prompted her to join a group 3 years after micro finance (MF) became active in her village. Her first loan from the NGO was \$ 100. She decided to start a petty shop outside her home with the loan. Using bulk of the loan money she bought initial inventories for the shop. She hoped to sell these items to her neighbors' as the goods were everyday need items. However to her dismay, she found that most of her customers bought goods on credit! Competition from other petty shops, having no unique selling strategy, and her benevolent nature might be some apparent reasons for the failure of her business.



Sumathi with her shop remnants

However she was not one to take the loss seriously. She took the second loan of \$ 200 and bought a few goats. Typically a good breed goat cost about \$ 50. She used the loan to buy four goats and sold the baby goats every six months. This she found rather profitable. This business picked up steadily and she felt comfortable at the smell of success. Additionally she also worked under the MNREGS (Mahatma Gandhi National Rural Employment Guarantee Scheme a scheme that guarantees 100 days work to the poor). Pay for guaranteed work, access to low cost food grains supplied through fare price shops(another government scheme for the ultra poor), plus success in her livelihood activity gave her confidence and enabled her to provide at least two square meals for her family regularly. In other words consumption smoothing was achieved with the combination of the above. Did savings play a role? She compulsorily saved with the NGO, other than that she never could save much as she says she was the sole earning member till a couple of years back. Only about a year back her son has started working regularly as a coolie. He is a daily worker and so the income is not continuous.



Sumathi with her Goats

The crisis in her life began two years back when her husband was diagnosed with cancer. She ran from pillar to post for spending close to \$ 1000 for his treatment. Later on, she was told about the State Chief Ministers Scheme that allows families like her to get funds up to about \$ 2000 for lifestyle diseases. She availed the same in a premier hospital in Chennai and to her dismay the insurance amount got over very soon. Later on scenarios forced her to mortgage her house for getting a loan amounting to about \$ 3500 at 3% interest per month. Between her and her son, they manage to just pay the interest while the principal amount remains unpaid. They continue to treat him as they try to work too. With one person in the family falling sick if it can push the entire family into a quagmire of poverty and loans and motgage, what can ensure their progress?



Sumathi's Husband



CM's Health Insurance Scheme

Having struggled for 17 years with extreme volatilities in income, MF as well as the government schemes did make a difference to Sumathis life. It had brought stability to her life but now her life has become quite tricky. She is now facing the possibility of losing almost everything that she saved and is most likely to fall into a debt trap. The probability of critical illness is low among the poor but when it affects one of the family members, its effect is devastating. The only solution that is practical is critical illness insurance. The question that arises is that can the poor afford the premium for this policy? The Chief Minister of Tamil Nadu has started an innovative scheme for the 'below poverty line' people but this seems insufficient for Sumathis needs. Is it a limitation of the scheme or of the way it is being utilized? There must be many like Sumathi struggling to utilize schemes while trying to save the lives of their near and dear ones. However we think the essence is to protect what she has earned as well as her dignity.

Our next stop was Ms. Shanthi at Sriperambadur about 20 km. from Sumathi's house. Her house was part of a rural location but buzzing with activity. Yet her home was located in a by lane where there was no drainage facility, no piped water and impermanent electricity though everyone were given a color television by the government similar to Sumathis area of dwelling. However her house was far superior in construction, design with concrete roof and walls. Her mother had migrated there about 21 years back from the village with her and her brother and had started a flower business which was doing well.



Shanthi's House

Over the years she took an active interest in the flower business and with small loans she was able to expand the business. Today she makes anything from \$2-3 per day. She was one of the first persons to join a group when SHGs were formed about seven years back by an NGO. Her reasons for joining the group were simple. She said that being only semi-literate without collateral, her only source of loans was the local moneylender with whom she had no bargaining power. To her the membership in the SHG has helped her graduate from small loans to large loans at reasonable rates facilitated by the person at the SHG. Her first savings started as compulsory but that was the first

time she realized that she could save and accomplish what she wanted. This led her to save small sums in a recurring deposit in SBI (State Bank of India) at a nearby branch. She also started saving in a post office scheme. With a further SHG loan she could set up a fruit business for her son. She was quick to add that she refused to take the optional health insurance scheme offered by the MF as she felt the premium was a waste of money and the benefits to her seemed marginal even unknown. She however has taken a life insurance policy. With her savings she could make a down payment and take a loan to buy a house presently worth \$ 10,000. From penury to asset building, the sky seemed the limit to her now!



Shanthi in her Flower shop

However about a year back her mother started getting a stomach ache. What started as routine visit to the doctor followed by tests seemed never ending without any respite for her mother or her. Presently she has taken loans up to \$ 5000 from friends, moneylenders as well as the SHG to treat her mother. She has not yet received the Chief Ministers Insurance Scheme card. What worries her most is that her mother's illness is still undetected in spite of all the hefty expenditures and as we talked to her we realized in her eyes her worry that all she had built up carefully will come crumbling down.

The case of Shanthi is one where she seems directionless again with no insurance. She has saved in several forms, namely in the MF, banks, post office etc. Why did she not find the need to take insurance and that too health insurance? Her claim to have taken the life insurance policy is that it gives an assured return while she was not sure of the use of the health insurance scheme. Though she has been very successful in her business, its expansion, diversification (through her sons fruit

business) and in asset building (construction of her house single handedly) she has not taken care of understanding the risk she puts all that she has accumulated by not taking an insurance cover.

Both Sumathi and Shanthi have tried hard against all odds and have made use of the recourses provided by the government as well as the NGO (micro finance) to try to first smooth their consumption and then their income. It is clear that opportunities in terms of income and savings are higher for Shanthi. Was is the choice of her business that made her better off than Sumathi? Or was it the market conditions? Could market linkages play a part by the NGO catalyzing the process of their income rise? Whatever be the case, Shanthi could save and build her asset (house), however a single medical emergency eroded years of their hard toil. If the plight of the poor is such what would be the case of the others. For them losing a single day's job is a day's income lost. What kind of insurance can mitigate this kind of risk, the risk of losing everything you have built? The question pertinent to ask is: Is it worth saving for the poor? Or maybe what kind of policy will suit their needs so that in their progress the MFI can aid them making the right choice of medical insurance policy that can minimize their risk and yet the premium not be a drain on their resources? Finally as a larger issue is health insurance taking precedence to health care, and so do we need to revisit our "health policy".

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