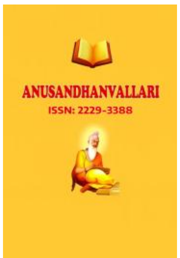

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Navigating the Unorganized Sector Through Digitalization in Insurance Industry

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Abstract Insurance is a very vital financial tool, which plays an important role in supporting our economy and people in times of dire need. Nowadays, insurance becomes one of the most important aspects of social security schemes. Government, and the insurance regulator have been working towards reaching out to the customers at the base of the economic pyramid. Products and processes were simplified and customized as per the needs of customers. With the help of transparent digitized processes and easy accessibility of products to the people, insurers are able to cover the most vulnerable sections of the society, the unorganised sector.Digitalization is a new force that is driving transformation in all sectors, including the insurance sector. For insurers, digitalization changes the entire landscape of insurance. New digital innovations and technologies are changing the way customers interact with insurers.As people belongs to unorganized sector almost don't have any social security schemes from their employers, they prefer insurance as the main social security to them. Through this paper, author tries to insist the importance of digitalization in insurance industry to the unorganized workers.

Keywords: Social security schemes, Digitalization, Unorganised workers, AI-Artificial Intelligence, ML-Machine Language

Introduction

The term unorganized worker has been defined under the Unorganized Workers' Social Security Act, 2008, as a home-based worker, self-employed worker or a wage worker in the unorganized sector and includes a worker in the organized sector who is not covered by any of the Acts mentioned in Schedule-II of Act i.e. The Employee's compensation act, 1923 (3 of 1923), The Industrial dispute act, 1947, The Employee's State Insurance act, 1948, The Employee's provident funds And Miscellaneous Provision Act, 1952, The Maternity Benefit Act, 1961, and The Payment of Gratuity Act, 1972.

The unorganized workers are engaged in casual, seasonal and scattered employments which prevents them to be unionized. The National Commission on Labour listed the categories of unorganized labours including contract labours working in the construction sector, casual labour, labour employed in small scale industry, handloom/power-loom workers, beedi and cigar workers, employees in shops and commercial establishments, Sweepers and scavengers, workers in tanneries, tribal labour and other unprotected labours.

In India prior to digitalization, those belongs to unorganized sector used the traditional methods of transaction in every course of their business. The important role of fintech during the period of pandemic in providing respite to vulnerable groups needs to be highlighted, particularly due to its contribution to enhancing digital financial inclusion, lowering inequality, and stimulating more balanced economic growth. The transformation to digitalization moved at a rapid pace at this point of time.

Objectives

1.To study about the Growth of digitalisation in India

2. To study about Potential impact of digitalization of insurance industry on the unorganized sector

Review of Literature

“The important role of fintech during the pandemic in providing respite to vulnerable groups needs to be highlighted, particularly due to its contribution to enhancing digital financial inclusion, lowering inequality, and stimulating more balanced economic growth. Due to the rapid response of fintech at the onset of the pandemic, communities in remote areas continued to be able to obtain crucial financial services, such as those related to the disbursement of government relief funds (Nathan et al. 2022).

In addition, fintech provided important support to the informal or “gig” economy, which is a sector that is typically underserved by traditional banking.” (Singh et al. 2023).

This unorganized sector faces many problems and challenges in regulation with employer, over time, exploitation, casual work culture and many more. The unorganized labour is engaged in casual, seasonal and scattered employment which are not unionized and because of their scattered employment nature, they do not take advantage of any labour law. It is not that there are no labour laws for the security and welfare of unorganized sector. These laws made for both organized and unorganized labours, but the conditions for the applicability of the labour laws are like that cannot be fulfilled by the unorganized sector. (Mrs. Varsha Goyal- International journal of multidisciplinary educational research Issn:2277-7881; volume:10, issue:1(4), January :2021

According to 1st National Commission on Labour ‘unorganized labour are those who have not been able to organize themselves in pursuit of common objectives on account of constraints like casual nature of employment, ignorance and illiteracy, small and scattered size of establishments and position of power enjoyed by employers because of the nature of industry. To this, poverty, indebtedness, working for below minimum wages, lack of bargaining power, using indigenous technology, compelled migration etc. may also be added.’ -Government of India, Report of National Commission on Labour, 1969.

Growth of the Digitalisation in India

In recent years, there have been huge advancements in digitalisation which has changed various components of human life. Now, there is penetration of information into rural unorganised areas as well, because without its presence in those areas, we cannot think about development of the entire country. Digital transmission persuaded the IT development, which increases productivity, competitiveness, socio- economic growth and human welfare by various sectors of the economy. Commencement of Digital India Initiative on 1st July, 2015 by the Honourable Prime Minister of India, was the beginning to prepare our Country towards an improved future. The prime focus of digital India is to connect the rural areas with high-speed of network in terms of Information Technology and also a step toward digital transformation. Most of the basic necessity like Communication & IT, rural empowerment, utilization of the resources, accessible health care etc. comes directly under this scheme. The use of IT application and Internet technology in various fields has been able to influence a larger section of society. In India, unorganized sector shares almost 90 percent of the total employment. This initiative opens up knew hitches to the unorganised sector people. Digital India initiative has dramatically evolved in transforming societies, cultures and economies in India.

Benefits of Artificial Intelligence and Machine Learning

A) AI -powered fraud detection systems can adapt to evolving threats and trends, providing a proactive defence against emerging risks such as identity theft and phishing attacks. There are a few things that make the insurance industry particularly attractive – and susceptible – to data breaches and cyber-attacks. They are:

* The sheer volume of information available:

* The highly-sensitive nature of the information:

* Large amounts of unstructured data

B) Research analysis

AI tools help insurance companies to undercover hidden market patterns to anticipate client needs.

C) Personalised marketing and customer experience

AI driven analytics provide valuable insights into customer behaviour and preferences, helping insurance companies to make informed decisions about product development, pricing strategies and marketing efforts.

D) Claims processing and automation

ML algorithms helps to streamline and automate the claims processing workflow, reducing manual intervention and improving efficiency. By analysing claim data and historical patterns, insurers can expedite the settlement process, leading to faster claim resolution for policyholders.

E) AI and ML algorithms assist the insurers in assessing risks more accurate way and pricing the products accordingly. By analysing multiple variables, such as customer demographics, historical claims data and external factors, insurers can optimize their pricing models and offer more competitive rates.

Potential impact of digitalization on the unorganized sector

According to the Government of India's Ministry of Labour and Employment Report (2015), almost 90% of the Indian workforce can still be categorized as informally employed. Challenges with data availability have made a rigorous analysis of the informal economy in India. Customer awareness of insurance has increased among unorganized sector due to collective efforts of the regulator, the Government and life insurance companies. Needless to add that the pandemic has made people aware of the importance of insurance in a great way. The transformation brought by digitalization of the insurance industry to the unorganised sector is significant. The following are some of the impacts:

1.Easy access

Due to digitalization, insurance products are more accessible to individuals in the unorganised sector, as they have easy access than traditional insurance. People can now browse through online platforms and mobile applications, then compare and purchase insurance policies conveniently as per their choice.

2.Affordability

Digitalization can make insurance much more affordable for those in the unorganized sector by cutting down on the administrative costs associated with traditional insurance processes. If administrative expenses are reduced, then it will reduce operational expenses of the product.

3.Customization

More customized insurance products to meet the specific needs of individuals in the unorganized sector are possible in digital platforms. These include micro insurance plans which are affordable to them and at the same time it covers the risks, that are suitable to their livelihoods.

4.Reduction in cost of the product

Online automated processes and transactions reduce the need for paperwork and physical infrastructure; this will also reduce the cost of the product.

5.Claims processing

Customers can file claims online, submit necessary documentation electronically, and track the status of their claims in real-time through digital platforms. Digitalization streamlines the process of claims.

6.Risk management

More accurate assessment of risk profile is possible as the Insurers can leverage data analytics and machine learning algorithms in this area. This is possible even for customers in the unorganized sector who may have limited financial records.

7.Financial inclusion

The integration of insurance offerings with digital payment applications, e-systems and mobile banking, insurers can reach customers who may not have access to the traditional banking service. Thus, digitalization plays an important role in advancing financial inclusion by bringing insurance services to unserved and underserved population.

8.Awareness

Digital platforms serve as very valuable educational resources, which helps to create awareness about the importance of insurance and financial planning among the unorganized sector.

Putting together, the digitalization of the insurance industry presents significant opportunities to better serve the needs of people in the unorganized sector, improving their financial resilience and contributing to overall socio-economic development.

Challenges of Digitalization in insurance industry

1. There is a very wide gap in digital literacy and access to technology between urban and rural areas, and among different income groups, which is hindering the inclusive adoption of digital services.
2. Due to the increased usage of digital transactions, risk of data breaches, cyberattacks, and privacy violations become more and more significant. This requires robust cybersecurity measures.
3. Rapid pace of digitalization requires more skilled workforce, but there is a shortage of individuals with the necessary technical and technological expertise in emerging technologies.Life insurance is always sold and not purchased by individuals on their own. Almost all Insurance companies rely on individual agents for most of their retail businesses which reflects the same.
4. Despite the digitalization of all the policy records and transactions, most of the customer services including final claim settlement require manual processes where customer has to visit the office. But nowadays insurance companies are taking many effective measures to avoid this.

Conclusion

The future of insurance is built around a digitally integrated system, which allows a seamless flow of processes and offer enhanced customer experience to the people especially to the unorganized sector. The technological advancements resulted the insurers to move from product centric to customer centric approach which will help the unorganized sector to get exclusive products for them. Increased customer acquisition, positive growth, empowerment of distribution channels, reduced cost of operations and seamless sharing of real time data will definitely help the unserved people, to take part in inclusive insurance. NGOs and community-based organizations can work to bridge the digital divide by providing digital literacy training and promoting digital inclusion among unorganized sector people.

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