

State Financial Inclusion Forum (SFIF), Odisha: 3rd Meeting
Theme: “Financial Inclusion through Micro Insurance in Odisha: Issues & Challenges”
Date: 20th June 2014
Venue: Hotel New Marrison, Bhubaneswar

Summary of Proceedings

Odisha has achieved good progress in terms of reducing poverty and illiteracy; harnessing natural resources; and reforming laws and administrative reforms for development. However, the state still lags behind the national averages of economic indicators. It has lower Per Capita Income with higher Poverty Ratio (37%) and lower rank in the Human Development Index (22nd position). The state has not achieved good results in terms of spreading banking and financial services to a vast section of the society. Eighteen districts have CD ratio of less than 60% (of which six have less than 40%). As per Census 2011, in Odisha, out of 9.6 million households, 4.35 million households constituting 45% of the total are availing of banking facilities, leaving 5.30 million households unbanked.

Among other important efforts towards development, it requires an effective cooperation amongst regulators, government agencies, financial institutions, service providers, and other stakeholders to strengthen financial inclusion efforts. Assisted by DFID, the Poorest State Inclusive Growth (PSIG) programme is working towards improving the access of financial services to low income households in 4 poorest states viz. Bihar, Madhya Pradesh, Odisha and Uttar Pradesh. The project has 3 components viz. – policy advocacy, improving access to finance, and financial literacy. SIDBI is the implementing agency for PSIG.

ACCESS-ASSIST has been assigned by PSIG to coordinate the initiatives on policy advocacy in the above four states as well as at the National level. Setting up of multi-stakeholders State Financial Inclusion Forum (SFIF) in each PSIG focus state has been agreed as one of the key mechanisms to achieve the objectives under the policy advocacy component at the state level. The SFIF is expected to act as a platform to facilitate effective coordination and synergy among all stakeholders in creating an enabling environment and accelerating the process of financial inclusion in the state. The list of SFIF members and other participants of the meeting is provided in **Annexure 1**.

As proposed in the 2nd SFIF meeting held in March 2014, the 3rd meeting was organized on the focus theme of “Micro-insurance: issues and challenges”, and accordingly various key stakeholders from the micro-insurance sector was also invited as special invitees to share their input.

SUMMARY OF PROCEEDINGS

1. Action Update from the 2nd SFIF Meeting

The key theme of the 2nd Odisha SFIF meeting was “*SHG- Bank Linkage: NABARD-NRLM/OLM Convergence and possibility of Innovations in Odisha*”. In line with the deliberations in the 2nd SFIF meeting a few Action Points were made. *ACCESS-ASSIST*, which serves as the SFIF Secretariat, has undertaken some follow-up actions on that in consultation with the State SIDBI-PSIG team. The Secretariat has facilitated a strategic meeting with the Chairman of Regional Rural Bank- Utkal Gramya Bank (UGB) to initiate the piloting of credit bureau capturing SHG data in partnership with the High Mark Credit Bureau. The Secretariat also undertook a pilot study on NPAs in SHG lending by bank in collaboration with another Regional Rural Bank-Odisha Gramya Bank (OGB). The main purpose of the

study was to understand and ascertain the reasons behind the increased NPAs in SHG portfolio at the bank level. The key findings were shared with the SFIF members in the meeting. With a view to prepare the Background Note on the focus theme-micro insurance, multiple meetings and visits were made to both the public and private sector insurance companies. The details of the Action Taken Report and summary of findings of the NPA study are available in the attached presentation (**Annexure 2**).

2. Organizational Perspectives in Micro-insurance – Setting the Context

Real financial inclusion includes risk management and security, but attention so far has been only on savings accounts and credit. Insurance is a much more complicated service than credit and savings. Percentage of insurance premium to GNP is very low in India. Despite a huge need, however, insurance has not yet realized its full potential in the country. No doubt that micro insurance has been an important component of financial services, but unfortunately sizable populations, especially the poor households in rural areas still don't have access to good value insurance products. Even in case of registrations for insurance products by the poor, the renewals in second year are extremely low. Along with low demand, the lack of affordability by poor are considered as key constraints. The demand for micro insurance depends on the individual and household income capacity. Lack of serious efforts to design appropriate products, suitable for the low income groups that cover their real risks has been an important limitation for the growth of micro insurance services.

MFIs, which are one of the few existing at the last mile, is primarily offering loan linked insurance, which does not effectively cover the lives and other risks of the clients. Insurance Regulatory and Development Authority (IRDA) has been supportive in terms of framing a specific policy (IRDA micro-insurance) regulation, 2005).

3. Presentations & sharing of experiences by Insurance Companies:

Opening presentations and sharing of experiences by representatives from Insurance Companies and practitioners provided an overview of the current products being offered, issues and challenges-operational as well as regulatory, faced in providing micro insurance to the poor.

- a. **Presentation of LIC by Mr. S. Hansda, Sr. DM, LIC of India:** (PPT attached): As a public sector company, LIC of India has been taking multiple measures to provide micro insurance services for the low income group. In Odisha, LIC is serving the clients directly as well as through Govt. and corporate agents. It has two prime products viz. Jeevan Madhur, and Jeevan Mangal. Jeevan Madhur is commonly offered to SHGs.
- b. **Presentation of Birla Sun Life by Mr. Suraj Bali Painkra, Area Manager** (PPT attached). Started its Rural Insurance Business-micro insurance in 2008. Currently offering two micro insurance products-Bima Suraksha Super and Grameen Jeevan Raksha mainly through a partnership model with NGOs & MFIs. Odisha has been a focus state the company. Although its progress is good, the company faces a few challenges to expand its micro insurance coverage (these are covered in the next section).
- c. **Presentation of Annapurna Microfinance Ltd by Mr. Satyajit Das, Chief Finance Manager,** (PPT attached): Most of the MFIs including AMPL offer micro insurance- mainly credit line products to their borrowers in collaboration with the mainstream insurance companies. Integrating micro insurance with their credit and savings activities help MFIs to reap economies of scale in financial management, provides them with a captive market, and enables them to use their

existing network and distribution channels to sell insurance. However, they also experience a few operational & regulatory issues in the process (these are covered in the next section).

- d. **Experience sharing by Oriental Insurance Co. Ltd by Mr. R. P. Blah, DGM and Mr. A. K. Patnayak, Manager:** Oriental Insurance operating in 14 locations (allocated by National Insurance Corp, which is the nodal agency for Eastern Region) in Odisha and provide non-life insurance services for people. For awareness building and marketing of general insurance products, the insurer is organizing “Insurance Fest” and distributing well drafted leaflets in vernacular language.

4. Issues and challenges for expanding the outreach of Micro Insurance in Odisha:

- I. **Operational:** The issues of awareness-building among all stakeholders, specifically the poor in the community, designing appropriate products, availability of distribution partners for up scaling, lack of effective MIS and monitoring etc. pose challenges for offering and expanding micro insurance.
- Conducting financial literacy and awareness building on the benefits of an insurance policy has been an expensive proposition. It is far more difficult to convince the community on the benefits of general insurance, as there is no full assurance of benefits if no casualties take place within the insurance tenure.
 - Lack of dedicated human resources and high operational costs involved in the service delivery, especially in the remote rural areas affects the operational viability of the insurance business.
 - Absence of any effective coordination among existing distribution channels and inadequate BCs & NGOs, especially in the difficult areas has been another key constraint.
 - Policy directives to open micro-offices by Insurance companies without assessing ways of making these viable
 - The assets created through microfinance are either not insured or not inadequately insured. Although agriculture and livestock have been important livelihood activities in which clients are involved, no sincere efforts are made to cover them under the micro insurance.
- II. **Issues pertaining to Partnership Model-through MFIs:** The experience of MFIs in Odisha for delivering the micro insurance services to their respective clients, although progressed well initially along with the microfinance sector, the pace of that was not maintained for a longer period, especially after the crisis in the sector. Some of the issues identified under this model are:
- The commission earned by the aggregators (mostly small MFIs) from the sale of credit-life products does not constitute a substantial fee income for them. This has reduced the interest of the aggregators in micro insurance.
 - Amount of commission is very limited -which is now only 2% of the premium. Also, there is no allowance for market development.
 - MFIs interested only in credit linked bundled product. Voluntary insurance is not popular on account of effort required and low remuneration.
 - Claim processing time and effort is usually very long.

The MFIs also face a few **Regulatory Challenges** in the process. As per the current practices, NBFC- MFIs are not allowed to become MI Agents. Similarly NGOs can become MI Agent only for one company as per the present IRDA norms. Due to lack of qualified and trained staff on micro insurance many of the MFIs fail to be corporate agent of the insurance companies. In addition to that as most of the MFIs offer credit-life products, they cannot claim the settlement in their names as IRDA's directive says that the claims must be settled in the name of the Nominee only. Similarly, MFI/MI Agent has to deposit the collected premiums to the insurance company within 24 hours, or on extreme cases within a maximum of 48 hours. So, some of the MFIs find it difficult to comply with the current IRDA norms. Thus, it is also becoming increasingly clear that micro-insurance needs a further boost and guidance from the regulator, push from the service providers and infrastructure building by the Government.

5. Suggestions and Recommendations:

To expand micro insurance and reach the benefits of that to poor, due attention should be given to various key issues and challenges including the ones mentioned above. Concerted efforts must be made by all stakeholders' to address these issues by taking appropriate remedial measures. The insurance companies should make sincere efforts to design affordable products for the poor along with provisions for clients' education for reaching out to the financially excluded communities through their partners-MFIs. They should adopt better disclosure practices and disseminate information in a transparent manner. As a patron, Government has an important role to play in developing public-private partnerships for delivering its insurance schemes through NGOs/MFIs and should also invest in financial literacy of poor in the state. The Govt should promote the Citizen Assistance Mechanism to support poor communities on micro insurance related issue. It also should create an "Insurance Fund" to assist the very poor and vulnerable groups. Similarly, Insurance regulators-IRDA & other concerned policy making institutions can help create an enabling environment that facilitates the pro-poor and viability of micro insurance delivery mechanism. Some of the specific suggestions that came out of the deliberations among members include the following points;

- Status review of micro-offices of insurers to understand the level of business, partnerships and potential for viability.
- Dialogue with the Finance department to push for better coordination and networking among all the existing financial service providers at the field level.
- Compiling specific regulatory issues related to micro insurance and undertaking advocacy with IRDA on those
- Banks and insurance companies need to coordinate in creating more delivery models/distributors, especially in the underserved areas
- Recruiting local community cadre as agents and training them for remote areas (backward and tribal areas)
- To understand the costs involved in designing and offering good micro-insurance products in backward regions, there is a felt need to undertake study on costs so that allocation of development funds for such areas can be done to bridge the viability gap
- Encouraging competition in backward areas – not to have just one company operating in the area
- Strengthening of BCs through insurance training, appropriate incentives along with assignments

6. Action points:

Following action points were agreed in the post SFIF de-brief meeting of DFID, SIDBI and ASSIST teams based on suggestions received in the SFIF meeting. These will be undertaken in the next 3 months and an action taken report will be presented in the next SFIF meeting:

- Mapping: Undertake mapping of micro-offices of insurance companies and branches (regular as well as Ultra Small Branches) of banks at district and block level in order to understand the extent of overlap between network of insurance companies and banks. This data may then be used to explore potential for support from the bank branch network in outreach of insurance companies in underserved and remote regions of the state. This mapping will also be useful for considering the study on status of micro-offices.
- Policy recommendation: ASSIST will seek representation from MFIs and insurance companies on policy issues being faced in micro insurance. These representations will be consolidated and shared with Finance department at the state level as well as with IRDA at national level.
- Cost Analysis: ASSIST will explore with insurance companies active in the state whether they undertake cost analysis of their respective MI products, and also any specific analysis of delivery of insurance in backward districts/pockets. A summary of this exploration will be shared with the SFIF, based on which next steps may be suggested.
- The Finance Secretary, who is also one of the Additional Chief Secretaries, may be invited during the next SFIF meeting (at least for an hour or so). Besides apprising him on the development so far the forum can also seek his advisory in addressing the issues and challenges faced in the process of financial inclusion and expanding micro insurance services for the poor. **The theme proposed for the next meeting is: “Micro-pension for the Poor”**
- **SFIF Secretariat** will meet the relevant players working on micro-pension, understand the status of progress in the state and develop a background note and agenda based on the information and share that with all.
- Next SFIF meeting will be scheduled in September 2014

Annexure-1**List of Participants-SFIF Members**

Sl. No	Name & Designation of SFIF Member	Representing Institution	Present
1	Mr. Jagadananda, Chair & Member Secretary	Sa-Dhan & Centre for Youth and Social Development (CYSD)	Member
2	Mr. P. K. Biswal, Director	Institutional Finance, Govt. Of Odisha	Member
3	Mr. S Ramakrishnan, GM/Regional Head	SIDBI	Member
4	Ms. Supriya Pattanayak, State Representative	DFID India	Member
5	Mr. S. Hansda, Sr. Divisional Manager	LIC of India	Member
6	Dr. Haribandhu Panda, Pro-Vice Chancellor	Centurion University of Technology and Management	Member
7	Ms. Nayana Mohanty, CEO	Swayanshree Mahila Samabaya Ltd	Member
8	Mr. Manas Pani, Head	Dhanei- KGFS	Member
9	Mr. Govinda Pattnaik, MD & CEO	Annapurna Microfinance Pvt. Ltd	Mr. Satyajit Das, Chief Finance Manager
10	Dr. S. K. Nandi, Convener-SLBC	UCO Bank	Mr. Jagadish Dash
SFIF Members (Absent)			
11	Mission Director, OLM		Odisha Livelihood Mission
12	Mr. S. K. Kale, Chief General Manager		NABARD
13	Mr. Ambika Prasad Nanda, State Program Officer,		UNDP India
14	Dr. H. K. Pradhan, Professor		XLRI Jamshedpur
Special Invitees			
15	Mr. R. P. Blah, DGM		The Oriental Insurance Co. Ltd.
16	Mr. A. K. Patnayak, Manager		The Oriental Insurance Co. Ltd.
17	Mr. S K Rajak Mahamad, AGM		Canara Bank
18	Mr. Suraj Bali Painkra, Area Manager		Birla Sunlife Insurance
19	Mr. Prabhakar Singh, Area Manager		Royal Sundaram Alliance Insurance Co.
20	Mr. A. Motilal Sarab		Royal Sundaram Alliance Insurance Co.
Other Delegates			
21	Ms. Ragini Bajaj, Technical Advisor Private Sector		DFID, India
22	Mr. Srikant Das, State Director-PSIG		SIDBI
23	Mr. Pravanjan Mohapatra		SIDBI
24	Ms. Radhika Agashe, Executive Director		Access-Assist
25	Dr. Amulya Mohanty, Vice President		Access Development Services
26	Mr. Narendra Nayak, Associate Director		Access-Assist
27	Mr. Arjun Pagal, Sr. Project Co-ordinator		Access-Assist

