

Discussion on Micro Insurance

Based on the suggestions from the National Think Tank for PSIG, the Fourth Think Tank meeting was organized in Delhi on October 18, 2013. Micro Insurance was the core theme which was discussed in detail during the meeting. The idea of organizing the Think Tank meeting around micro insurance was to give the members an opportunity to interface with practitioners and deepen their knowledge on issues and challenges in advancing the Financial Inclusion agenda.

Participants:

National Think Tank Members

1. Brij Mohan, Sector Expert (Former Executive Director, SIDBI)
2. Vijay Mahajan, Chairman Basix Group
3. Nupur Mitra (Chairman and Executive Trustee, SASF, IDBI Bank),
4. Jennifer Isern (Regional Business Line Leader, Access to Finance Advisory, South Asia, IFC),

DFID India

Sam Sharpe (country Head), Ragini Choudhary, Anjali Sablok

SIDBI

NKMMaini (DMD), Prakash Kumar, Surendra Srivastava, Richa Sharma.

ACCESS ASSIST

Vipin Sharma, Radhika Agashe, Deepak Shandilya

Leave of Absence

Four Think Tank members had sought leave of absence from the meeting- SKV Srinivasan (ED, IDBI Bank); N Srinivasan, Sector Expert and Consultant; Mathew Titus, Executive Director Sa Dhan; Dr. (Ms) Joy DeshmukhRanadive (Global Head, Corporate Social Responsibility - Tata Consultancy Services)

Special Invitee

Mr Arvind Kumar, IAS, JS, IF, Ministry of Finance, GOI

List of other participants in the Micro Insurance consultation meet is enclosed in the annexure.

Summary of Proceedings

- a. Opening Remarks - Sam Sharpe

In his opening remarks, Mr. Sam Sharpe informed that PSIG programme which focusses on improving financial access to low income families combines institutional and client level initiatives along with policy work. The program particularly aims to address key constraints faced by the sector. He explained that the focus of the day's discussion was to understand the key issues in the micro insurance sector and the possible interventions that PSIG can undertake in its program states in this area. He emphasized that the impact of microfinance will be greater if the program can provide other financial services to the unbanked population besides credit. He re-instated that Access to insurance is a key financial need of the poor household and still the same has not been fully addressed in India.

b. Micro insurance Discussion: Key points

a. State of the Micro insurance sector

- i. India is critical for global micro insurance work. World's largest agriculture insurance scheme runs out of India even though it insures only around 19% of Indian farmers. 60% of the world's total micro insurance coverage is in India even though in absolute numbers the percentage of Indians that is covered is low.
- ii. India has mandated regulatory targets but it has not been able to achieve the same. iii.

India has good examples in microinsurance which has demonstrated innovation and viability.

- iv. A majority of rural and social insurance in India is being done presently by the public insurers primarily due to two reasons- regulatory and history of having wider spread of branch network across the country.
- v. A very innovative private sector which through innovative models and by way of leveraging technology has caused a dent in the space predominantly covered by public insurers.
- vi. Top 9 players have 93% of the rural business.
- vii. Tinkering with what is already known is required rather than reinventing the wheel.
- viii. Regulatory challenge- No clarity on what type of legal entities can become micro insurance agent.
- ix. In recent years insurance companies are doing more than they are expected to do out of compulsion. This in a way hints that the companies are gradually moving towards viability.
- x. Key challenge being faced by the insurance industry-
 - a) Road to habitation ratio is critical for the institutions which are distributing insurance products in the rural areas. Hence penetration of micro insurance products in low density pockets remains a challenge.
 - b) Limited household affordability
 - c) Developing insurance plus services

d) Tinkering and localization of the product

b. Viewpoints of Different players- Risk carriers, Aggregators and enablers:

Risk Carriers:

- i. Public sector risk carriers like AIC enjoy the luxury of distribution through a vast network of Regional Rural Banks. All loanee farmers have to get crop insurance done. The challenge is to ensure expansion of crop insurance to farmers who have not accessed loans which currently are close to negligible.
- ii. One of the major challenges currently for the insurance sector is to move from the subsidy regime to a commercially viable arrangement where the user realizes the value of the product and is willing to pay the full premium on his own.
- iii. Institutions who are rooted in the rural economy and have the credibility to sell to the farmers are the ones who will facilitate distribution in the best way.
- iv. Service tax is a concern that insurers are facing and the sector wants the service tax to be waived off given the nature of business it is engaged in.
- v. TATA AIG is trying to explore tie ups with Common service centers to distribute insurance policies. With 1, 26,000 active CSCs in the country if this model works micro insurance can really expedite.
- vi. Creating awareness about insurance amongst the target group is critical. Towards this financial literacy plays a critical role. Educating the customers will help in greater buy in for the product.
- vii. Technology needs to play a major role in making the distribution channel more efficient and in client identification but technology will always be an enabler. There is no substitute for human interface.
- viii. General Insurance companies have been given target to tie up with BCs for distribution of Micro insurance products.
- ix. Health Mutuals have shown very high renewal rate thus illustrating that good services pay off well.
- x. Combo product can be a good option as they will reduce transaction cost and make product more lucrative. For example- United India Insurance Company bundles product. It is the largest cattle insurer in the world. One of its strategies has been to bundle cattle insurance with hut insurance, accident insurance, etc.
- xi. Data availability for the insurance companies is key and a centralized pool of data should be made available which can be used by the companies for their expansion plan.

Aggregators

- i. Client servicing is of utmost importance and the aggregators feel that the risk carriers should be able to have good client servicing mechanism in place.
- ii. Customised products should be made available to the target population.

Enablers:

- i. Sum assured in micro Life insurance should increase to 1-1.5 lakh and not get restricted to a size of 10-15,000 which was primarily to support MFIs for credit risk earlier.
 - ii. Product innovation is required in the health and life domain.
 - iii. BC channel has huge potential to offer for scaling up microinsurance but the challenge lies in expansion with the help of BCs since they are themselves very fragile.
 - iv. Providing good services to clients is important more so when it comes to claim settlement.
 - v. Insurer should simplify products
 - vi. Social fabric, economic fabric and infrastructural constraints across the states are different. Hence customized product is required.
 - vii. Insurance is credence good. Credence good means that if I do not believe that a transaction will occur and that a contract will be honored when the time comes than I do not get into it. Most people do not trust interlocutors they do not know. Technology cannot solve this fundamental issue.
 - viii. Insurance has to be contributory and it has to be voluntary.
 - ix. People do not like and consider useful most of what is done today by way of advertisement. Instead people like human interaction and discussion in small groups when it comes to selling micro insurance.
 - x. Mutuals and pooling is a very strong institution to leverage.
- c. Comments by Mr. Arvind Kumar, IAS, JS
- i. A study was initiated by the Government to understand whether the poor are willing to pay for insurance. A Combo product-Life, health and old age security was designed and taken to the target segment to understand their buying behavior in two poorest districts of U.P. The study results showed that in one of the district customer were willing to pay Rs 578 per annum while in the other district they were willing to payRs 700 per annum. This shows that poor are willing to pay for insurance products.

- ii. Claim settlement process needs to be more robust and insurance companies should make best possible efforts to provide better services to the customer.
- iii. Beneficiaries though covered under insurance schemes like AamAadmiBimaYojana are not even aware that they are covered by the schemes. These instances call for compulsory co contribution by the insurers. Beneficiary contribution must be there for any micro insurance scheme. We cannot have a scheme which is entirely funded by Government or any agency.
- iv. People in rural areas have imperfect knowledge about the market and about various products that are available. This gap needs to be addressed by aggregators on the ground.
- v. Government is in discussion with the regulator that insurance companies be allowed to come up with products for which they do not need to take approval. Such products are called “use and file”. Insurance company will just launch product and inform IRDA that they have come up with the product. Insurance companies should us this opportunity to come out with simpler products.
- vi. Emphasis should be on developing innovative ways of clubbing Existing products and sold as combo product- For example RSBY and life insurance
- vii. Sri Arvind Kumar warned that caution should be exercised in interpreting numbers on coverage. Rather the focus should be on qualitative coverage of the insurers.
- viii. MFIs and SHGs should play a more proactive role in microinsurance distribution. People will gain from genuine insurance product and MFI/SHPI will have alternate income source.Trust factor is extremely crucial for micro insurance distribution and with good aggregators on the ground this can be taken care of.
- ix. Suggestions for the PSIG program
 - a. PSIG should focus on developing a model where good aggregators are developed at the village level.
 - b. Under PSIG, SIDBI should get involved with state Government and SRLM and explore convergence. Besides PSIG can also explore the opportunity of becoming an independent aggregator under micro insurance and try to build sustainable and viable business model which can be further replicated.
 - c. PSIG should act as a bridge between the demand and supply side by taking the concerns of the demand side to the insurers which can facilitate in better product development and efficient customer servicing.
 - d. PSIG should look for gaps in the existing system and build on those rather than reinventing the wheel. For example awareness about insurance and availability of the products are 2 critical issues. PSIG should look at ways of addressing some of these issues.
 - e. Sri Arvind Kumar said that he is willing to facilitate any meeting with the regulator to make them aware about the challenges being faced by the implementers on the ground. He insisted to have a follow up review with some of the implementers in the

field in PSIG state on some of the challenges being faced by them and then the Government can take it up subsequently with the regulating agencies.

Annexure 1: List of Participants

Sl No	Name	Designation	Organisation
1	RupaleeRuchismita	Director	CIRM Design Search Lab
2	Girish Nair B	Operatios Officer	IFC
3	Amit Walia	Product Manager	FINO
4	Dr. Ajay Verma	Head-Rural Insurance	Future Generali
5	Rajeev Sachdev	Regional Manager-Microinsurance	LIC of India
6	G. M. Garg	Regional Manager	UIIC
7	G. Senthil Kumar	Director-Livelihood	CARE India
8	Anita Sowane	Project Head	Annapurna Pariwar
9	Surendra Srivastava	RGM-PSIG, SIDBI, New Delhi	SIDBI
10	Richa Sharma	AM-PSIG,SIDBI	SIDBI
11	P.J. Joseph	CMD	AIC
12	Sam Sharpe	Head	DFID-India
13	N K Maini	CMD	SIDBI
14	Prakash K R	GM	SIDBI
15	Nupur Mitra	Chair Person	SASF
16	Gobinda Banerjee	GM	Bandhan
17	Kumar Shailabh	Exe Director	Uplift Mutuals
18	AchlaSavyasaachi	Vice President	Sa-Dhan
19	Deepti Gupta	Senior Manager	Satin Credit Care
20	Prof. David Dror	Chair Man	MIA
21	Brij Mohan		
22	Pompy Sridhar	Consultant	GIZ, Planindia
23	Rakesh Kumar	GM	New India
24	Manoj Sharma	Director	Microsave
25	Vijay Mahajan	Group CEO	BASIX
26	Jenifer Isern	Regional Manager	IFC
27	Anjali Sablok	Program Manager	DFID-India
28	Ragini Chaudhary	Adviser	DFID-India
29	Deepak Arora	AUP-FISG	ICICI Lombard
30	Charu Trehan	Area Manager	Future Generali
31	Navneet	Senior Manager	Future Generali
32	MadhusudanLagisetty	AUP-R&MI	Tata AIA Life
33	SubhankarSengupta	VP-Rural & MI	TATA AIA