

# Odisha Inclusive Finance Bulletin

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## Third Meeting of the State Financial Inclusion Forum



The third meeting of the State Financial Inclusion Forum in Odisha was organised at Hotel New Marrion in Bhubaneswar on 20th June 2014. The key theme for the meeting was “Financial Inclusion through Micro-Insurance: Issues & Challenges”, and was attended by most of the SFIF members and special invitees

from Canara Bank, Oriental Insurance, Birla Sunlife and Royal Sundaram. The discussion at the meeting centered around the status of micro-insurance in the State, various distribution channels, its benefits for the poor to protect them from various risks and issues and challenges faced by the service providers including MFIs. The half-a-day deliberation came out to be a very successful and purposeful one.

Based on the above identified issues and priorities the following action points were prepared through discussion with DFID and SIDBI for follow-ups.

- Undertake mapping of micro-offices of insurance companies and branches (regular as well as Ultra Small Branches) of banks at district and block level.

- 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 the finance department at the state level as well as with IRDA at national level.
- 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.

## Bankers’ MFI Exposure Programme in Odisha



The 1st Bankers’ MFI exposure visit under PSIG initiatives in Odisha was organized on 23rd August’2014. Annapurna Microfinance Pvt. Ltd. (AMPL), a leading NBFC-MFI in the eastern region and the largest among the Odisha based MFIs, was chosen for this visit. It was very encouraging to see that as many as fourteen senior bankers from various PSU banks viz. State Bank of India, Bank of India, Union Bank, Canara Bank, IDBI Bank, Syndicate Bank, Indian Bank, Central Bank of India, Oriental Bank of Commerce and Dena Bank participated in the event. Smt. Puspamitra Sahu, DGM-RBI joined the team in the meeting at Hotel Trident, listened to the feedback shared by bankers and provided her valuable inputs.

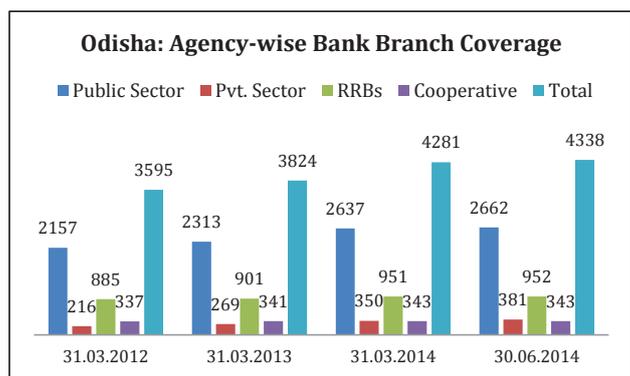
While the first half was mainly utilized for field-Branch & SHG visits, the post-lunch session was devoted to interactive deliberations among participants at Hotel Trident. Besides getting them familiarized with operational methodologies of AMPL, the bankers were glad to see the operations of Women SHGs taking up various individual and group activities including weaving saris, making candles, incense sticks etc. Although there was common concern among bankers about the higher interest rate charged by MFIs, many of them after the visit also felt that it is reasonable to some extent, to charge a little higher interest rate (within RBI approved limits) while supporting the poor and excluded women, where banks are yet to make their presence. They also suggested the MFI to facilitate better market linkage for SHG products. Appreciating the efforts made by AMPL, some of the bankers advised their senior management to prepare and submit proposals for bank lending.

### PSIG-SIDBI State Program Updates

- Training on monitoring & evaluation of microfinance program, loan appraisal & processing, delinquency management etc. was organised in Bhubaneswar for branch managers and other senior staff members from five PSIG partner MFIs. Twenty nine people from the five MFIs participated in the programme.
- Training program on Developing Risk Management Systems for operation heads of PSIG partner MFIs was organised during the last quarter in Bhubaneswar, Odisha. As many as 30 participants from the MFI operations attended the program.
- Training program on Responsible/Fair Lending Practices and Adherence to RBI guidelines under the changing business environment was organised for 133 participants in various PSIG partner MFI locations in Odisha.
- Following the request from the Directorate-Institutional Finance, Govt. of Odisha, two rounds of consultations on the draft MFI Bill-2012 were held and the consolidated feedback on that provided to the Directorate.

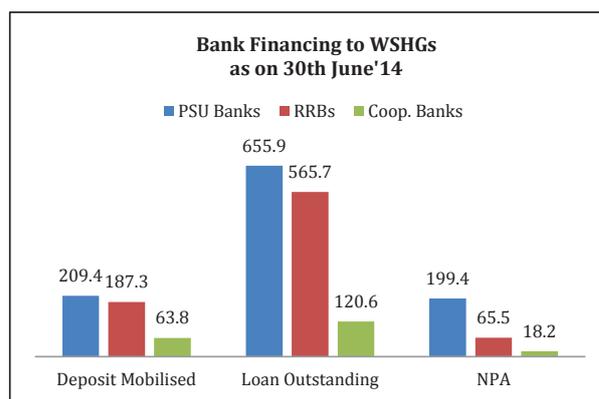
## Financial Inclusion in Odisha-Update

The graph below shows that a total of 743 new bank branches have been opened between Mar'12 and June'14. The scenario is more or less same in comparison to the last quarter. The majority of branches (505) were opened by public sector banks. The contribution of the Pvt. Sector Banks has been reasonable (165). Although, there has been a gap between the total figures of public and pvt. banks in the last four years; when we compare figures from the last quarter, pvt. banks were able to open as many as 31 branches where as public sector banks have opened 25 branches in the State. Co-operative banks have been able to establish only 6 branches during the period. Area wise these banks have opened more branches in rural areas than urban pockets during the last quarter. This is a very good sign and shows the intent of the banks in reaching the underserved section of the population.



## SHG-Bank Linkage Status in Odisha

The diagram below shows the financing to Women Self Help Groups (WSHGs) by the banks as on 30th June'14. As reflected in the diagram, private banks are yet to open their account for the SHGs. As many as 251454 SHGs and 102598 SHGs have been saving and credit linked respectively by the three categorized banks in the state. In toto, about 21% of the total loan outstanding is under NPA of all the banks together. Lack of strong and established group norms and leadership, internal conflict, subsidy-linked loans, multiple borrowing by members, mis-utilization of group funds by group leaders and sometimes by middlemen etc and lack of regular loan monitoring by the lenders-banks are found out to be the major reasons of NPA. Exploring methods and procedures to overcome such high NPAs with proper monitoring and follow-ups is of prime importance now. Better coordination and efforts among stakeholders in planning, monitoring and follow-up along with periodical financial literacy for SHGs can help reduce the NPA level substantially and also enhance the effectiveness of SHG-BLP in the State of Odisha.



## MFI Coverage in Odisha

MFIs	As on 30th June, 2014				
	No. of Borrowers	Amount of Loan O/S (Rs Crore)	No. of Districts Covered	No. of micro insurance clients	No. of micro pension enrolled
AMPL	164826	158.96	22	164826	-
Mahashakti	8426	10.09	6	2618	123
SMSL	16321	17.26	3	17974	163
Sambandh	22823	21.78	4	-	281
SMCS	28744	29.7	13	37877	2429
GU	63818	55.58	11	63818	-
Adhikar	49697	46.38	15	49697	8500
KGFS	29049	52.98	1	51697	10866
Ujjivan	38624	49.21	6	38624	-
Asmita MF	97531	81.38	22	97531	-
Suryadoya	24300	27	12	-	-
L&T MF	145000	110	17	-	-
Spandana	185257	147.87	25	40907	-
SKS	442000	445	27	442000	-
BSFL	17580	33.57	14	35160	-

The table alongside gives a list of MFIs operating in the state. It captures growth rates of active borrowers, loan outstanding and outreach in terms of no. of districts covered by MFIs. There is an increase in the overall portfolio outstanding of the MFIs (7.9%) in comparison to the last quarter. It is also encouraging to see that some of the MFIs including local ones are expanding their outreach in the state. A few PSU banks such as IDBI, OBC, and Canara bank etc. have also started on-lending to some MFIs in the state. Among the private banks, YES Bank is leading in the state by extending loan funds to MFIs through its BC model.

Data from the table suggests that most of the MFI clients are covered under various micro insurance schemes. As many as five MFIs started distributing micro pension to their clients where Dhanei KGFS lead the lot with over 10,866 borrowers enrolled under micro pension.

## What's happening in other PSIG Focus States

### Bihar -

- Meeting between GM, PFRDA and two State Govt. Departments (Social Welfare & Labour Resource) held on 11th Aug'14; both the departments agreed to implement the Swavalamban scheme.
- Aggregators' Forum on micro-pension formed in Bihar; first meeting of the Forum was held on 2nd September'14.
- MicroSave has conducted a "Drill-Down Study on the BC Model in Bihar" in support with SIDBI-PSIG. To share findings from the study and seek recommendations, a workshop was organised on 9th June'14. The study findings will be shared with all on 18th September'14.

### Madhya Pradesh

- Bankers' exposure visit to Samhita organised on 24th July'14. Senior bankers from five Public Sector Banks and three RRBs attended.
- Formation of a State Financial Inclusion Forum (SFIF) is in process.

### Uttar Pradesh

- State Financial Inclusion Forum (SFIF) in Uttar Pradesh with distinguished members from various sectors has been formed, the inception meeting was held on 26th August'14.

## Micro Insurance for the poor-LIC's Initiatives in Odisha



**M**icro Insurance as its name suggests is meant for the economically weaker section of the society who are otherwise unable to purchase insurance policies because of their poor economic conditions. In order to mitigate hardships to the families caused by the untimely death of a bread winner, Govt. of India has brought in the financial inclusion programme in which Micro Insurance Policy is an important part.

LIC has been providing insurance cover to these under privileged classes since 2006-2007. It has the cheapest insurance available in the Insurance Market. Currently LIC is offering pro-poor micro insurance policies including Jeevan Mangal policy. In the distribution channel, we have partnered with NGOs and SHGs who have a very close reach to the rural and urban poor who in fact are the target groups for this product. The product is

especially designed with features like longest grace period and auto cover facility just to ensure that the insurance coverage is not ordinarily lost in case the premium is not paid in the stipulated time. The mode of payment of the premium is monthly, quarterly, half yearly, yearly and single premium. Males and females literate or illiterate within the age group of 18 to 55 years are eligible to take this policy. The minimum policy term is 10 years and the maximum is 15 years. The minimum and maximum Sum Assured is Rs.10,000 and Rs.50,000 respectively. The micro insurance policy also contains an inbuilt Double Accident Benefit without any extra cost which ensures payment of an additional Sum Assured in case of death due to accident.

This is a product which is elegantly tailor-made in terms of its pricing and striking features for the under-privileged class of the society. There is a huge market for this product. LIC is continuously striving to simplify the procedures of its procurement and servicing making it more acceptable in

the market. The Aam Adami policy has been another such policy meant for the poor and disadvantaged group of clients.

Right from the inception of the scheme in 2006-07 till the end of the Financial Year 2013-14, we have sold 1,77,85,690 micro insurance policies on all India basis, out of which 375,613 policies have been sold in Odisha. LIC has prepared an excellent vision document "A Policy in each pocket by 2020" that will take this micro insurance product a long way in fulfilling this vision.

LIC can also handle social security needs of the poor like National Pension Scheme (NPS), a micro-pension. State as a major stakeholder, should subsidise such pension schemes. LIC with premium contribution from the state can also handle the latest "JANDHAN YOJANA" of Govt. of India to cover comprehensive financial inclusion for the poor as a whole.

**Mr. S. Hansda,**  
**Sr. Divisional Manager, LIC of India**

## Challenges to Micro Insurance-a Practitioner's View



**I**ndia is a pioneer in the field of micro insurance in Asia Pacific. IRDA introduced micro insurance regulation leading to a revolution in the field which made regulators in other jurisdictions also think in this direction. Subsequently they have brought in regulations in their too.

Micro insurance has assumed importance in poverty alleviation programmes and is now looked at as a tool to prevent the poor that are in a state of socio economic transition, to fall in to poverty trap due to various physical risks they face in their sojourn.

The MI tool has even found its way into public policy making and has been patronised heavily through government subsidies and participation. The examples are Cattle Insurance, Weather Index based crop insurances, Weather and Yield index based crop insurances, Yield based crop insurance, health Insurance etc.

Looking back, from 2005 to date, micro insurance as a concept and in practice has come a long way. The practitioners of Micro Insurance still have huge challenges to face and mitigate operational impairments. The two sides of any insurance policy are; policy issuance and claims payment. Both have their challenges. Policy issuance is challenged by the logistics of distribution and aggregation. Claims service is challenged by processes of verification.

### Logistics of Distribution and aggregation

The logistics of cost effective distribution and aggregation in micro insurance have always been a challenge to commercial insurers. This very often is met by government subsidies and their machinery. The ticket size is very small to pay for the cost of distribution and aggregation and the legalities of insurance process throw this challenge. It is a cycle of solicitation-proposition-offer-counter offer-acceptance-exchange of consideration-agreement-policy issuance, which needs to be completed before a policy to an individual is issued. The process is same and has similar costs for a large ticket policy too. The challenge is mitigated through an aggregation process. But the aggregator, unless subsidised, does not find this proposition cost effective. Hence dependence on a subsidy provider, be it the government or a donor organisation, always remains.

If presold policies based on self underwriting through accessible platforms with payment gateways could be permitted by the regulators, the challenges of micro insurance distribution and aggregation logistics could be mitigated. Some jurisdictions have adopted this delivery mechanism through Mobile Hand held device driven solutions. Pre-written policies are bought through exchange of text messages/SMS and deduction of premium through mobile balances/talk time available through the network provider. Customer identification needs and documentation are provided by the network provider at a small fee to the insurers. Health, Personal Accident

Insurance policies, Weather Index based/Yield Index/Yield + Weather Index/yield based Crop insurance policies could be easily sold through this mechanism.

### Claim Payments:

The greatest of the challenges in micro Insurance is the claim services. It is a challenge to make a claim with the insurer. Once made it is a big challenge for the insurer and the claimant both to establish the claim. Once established again it is a challenge to effect the payment of claim proceeds.

The traditional claim process assumes that all agencies of the government and such other certifying authorities are accessible to insured entities since such services are provided in an urban setup. Access to facilities that can produce certificates or documents of evidentiary value is urban. It is also dependent on the socio economic and political capability of the individual. It also may sometimes depend on the community based facility availability. The target group in micro insurance programmes/ policies is almost always the rural poor. Access to government entities for certification like the Police, Tehsildar, block officer, registrar, District Medical authorities, fire brigade etc is very difficult. If at all access is available, it comes at a huge personal cost on time and money. The indemnities that arise from insurances, often do not justify such cost on time and money on part of the claimant. Even for the urban poor access to these certifying entities is very difficult and equally cost intensive.

To resolve this challenge the commercial insurers need to be sensitised. The regulator needs to intervene and smoothen the claims process for micro insurances policies. The strict application of documentation and evidencing process of claims in micro insurances defeat the very purpose of micro insurance. The situation has worsened to a state where large NGOs have started looking at micro insurance distribution/ aggregation as a burden. They are of the opinion that micro insurance distribution impairs their main activities and erodes their brand, due to very high level of claims repudiation and related dissatisfaction among their customers. The Challenge of administration of a robust Fraud and Abuse Management System (FAMS) is another extreme challenge in micro insurances. The remoteness of the events, non availability of certifying agencies, time delays in communications often render FAMS processes incapacitated.

The regulator, government, non government entities and the commercial insurers need to come together and build mutually integrated processes in distribution, aggregation, claims and FAMS, easily accessible to each other at nominal or zero cost. This would facilitate implementation of micro insurance at a large scale.

**Mutuals**

The Mutual/Cooperatives is another solution to the challenges faced by the field of micro insurances. The mutuals if promoted with adequate access to loss protections by the commercial insurers, the challenges could be mitigated to a great extent. Some successful models are available in India. Tata Dhaan foundation is a pioneer in this field. Their experience is worth emulating all over India. This model needs regulatory cognisance and due support to be taken further and replicated elsewhere.

Micro insurance is the only tool available to prevent poor falling in the trap of poverty, while in the endeavour and sojourn to come out of poverty. This needs adequate support from the regulators to mitigate the challenges it faces. This needs a wide spread capacity building and sensitisation process on a continuous basis. This also needs a sensitive approach from all the stakeholders. Hopefully the recent CSR initiative taken by the GOI will take micro insurance to a different level.

**Mr. Manoj Satapathy,**  
**Business Head-Odisha, IFFCO-TOKIO**  
**General Insurance Co.**

*\*The opinions expressed here are personal and do not necessarily reflect those of IFFCO-TOKIO.*

## Recent Developments in the Financial Inclusion Space

**PM’s Jan Dhan Yojana: Odisha responds with remarkable figures!!** More than 500,000 accounts were opened against a target of 400,000 in the state. The day of the launch saw a whopping 62,720 new accounts being opened. UCO Bank (SLBC Convener) opened the most number of accounts (89,720) followed by State Bank of India with 81276 accounts. Talking about the total figure, public sector banks have opened the majority of accounts (431,734), while private sector banks were able to open 4495 accounts and the RRBs opened the rest (61394).

**New KYC Norms:** In light of the problems being faced by customers in producing proof of address (especially migrant workers, transferred employees etc.) under KYC norms; the RBI has revised its guidelines regarding the same. From now on customers may submit only one documentary proof of address (either current or permanent) while opening a bank account or undergoing periodic updation. For customers whose proof of address is not the local address or

where the customer is currently residing, the bank may take a declaration of the local address from the customer.

**NBFCs (NBFC-ND) as BCs:** Regarding appointment of BCs, banks will now be permitted to engage non-deposit taking NBFCs (NBFC-ND) as BCs provided there is no comingling of bank funds and of the NBFC-ND appointed as BC; all possible conflicts of interest between the bank and the NBFC-ND are adequately taken care of; banks ensure that the NBFC-ND does not adopt any restrictive practices regarding savings and forced bundling of services offered by the NBFC-ND. As per the circular, the location restriction on base branch of 30kms has been relaxed, banks can now decide on where to situate their BCs as long as they adhere to objectives of adequate oversight of BCs.

**SREI Sahaj e-Village,** a business integrator in the field of IT infrastructure, has recently partnered with SIDBI to support the progress of the PSIG programme in Odisha, Bihar

and Uttar Pradesh. Sahaj, a well-known business correspondent to several banks already has over 14,500 IT-enabled centers at the Gram Panchayat level in the above three states. These centers now offer more than 50 Government and consumer services to the rural poor.

**IFMR Capital structures India’s first Collateralised Bond Obligation (CBO):** In keeping with its mission of providing access to debt capital for financial enterprises serving the financially excluded communities, IFMR Capital announced India’s first Collateralised Bond Obligation (CBO) – the IFMR CBO of Rs. 98 Crore, comprising of multi-issuer pooled non-convertible debentures. The CBO includes eleven issuers which include Annapurna Microfinance, Asirvad Microfinance, Arohan Financial Services, Disha Microfin, Future Financial Services, India School Finance Company, Intrepid Finance & Leasing, Pahal Financial Services, Suryoday Microfinance, SV Credit Line and Svasti Microfinance.



**The Poorest States Inclusive Growth Program (PSIG):** The DFID supported Poorest States Inclusive Growth (PSIG) programme, implemented by SIDBI, aims to increase access of financial services to 12 million low income clients in the 4 State of UP, MP, Bihar and Odisha. This £30m, 7-year project has three distinct outputs – policy advocacy, capacity building and financial literacy & women empowerment. ACCESS-ASSIST is managing the policy component of the programme.

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