2020

MICRO INSURANCE IN INDIA
CHALLENGES AND SOLUTIONS

NATIONAL
INSURANCE
ACADEMY

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ACKNOWLEDGEMENT

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Sa-Dhan
The Association of Community Development Finance Institutions

We thank SA-DHAN in helping us to reach out to the financial institutions for the survey conducted for this study.

Executive Summary

Micro Insurance is defined as "the protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved". The definition is the same as one might use for regular insurance except that the target group is low income people. Low income people live in unfavourable environments and vulnerable to many perils like sickness, accident, death and loss of property. They are more vulnerable to these risks than the rest of the population.

The first Micro Insurance Regulations came in 2005 which was amended from time to time. IRDAI Micro Insurance Regulations 2015 was notified in July 2015 with an objective to develop the micro insurance market in India. However, outside of Govt's Social Security Schemes and the Govt. sponsored or initiated schemes like PMJJBY, PMSBY, PMSYM Yojana and PMJAY (Ayushman Bharat), coverage through Micro Insurance remains abysmally low.

Liberalisation of the insurance sector and the Govt. Schemes have created awareness, demand and new opportunities for micro insurance. However, market penetration of Micro Insurance is seen to be very low in India. There is a huge rural market but the protection gap is equally huge.

The study attempts to examine various issues and challenges facing micro insurance and what needs to be done by the insurers, intermediaries, regulators, policymakers and other stakeholders to increase the penetration of micro insurance. The study relied on both primary and secondary data. The findings and recommendations are based on interviews and interactions with both the public and private insurers, people from formal and informal sectors, MFIs, NGOs and so on. A questionnaire was sent to 170 organisations consisting of NGOs, Charitable trust, NBFC-MFIs, Section 8 companies and so on. Thirty such organisations responded. Together they have provided insurance coverage to nearly 30 lakh people mostly from the under privileged and low income groups. The findings and recommendations form part of the report.

Issues and Challenges in the growth of Micro Insurance

The Target Segment:

- Lack of awareness and knowledge among clients regarding the very concept of insurance, results in low demand for insurance, difficulty in renewal of policies and low willingness to pay. Low willingness to pay also results from high premium, lack of trust and presence of cheaper social security (insurance) Schemes.
- There is a lot of misconception about insurance among the masses. Most of the time people who buy insurance are looking for some guaranteed returns. People generally do not distinguish between insurance and savings more so in rural areas. Insurance products are generally complex and difficult to understand for the masses. This results in misconception about insurance and also mis-selling.
- Low income market is looking for immediate and tangible returns for the investments they are making. Insurance products are generally designed in a manner that they fail to create value proposition for the buyers in the short term.
- When it comes to buying preferences and financial condition of customers there is a general lack of awareness about this segment of the market. There is also an overlap between social insurance schemes and micro insurance products as they both have the same target market.

Insurers:

- Lack of sufficient data especially relating to mortality and morbidity pertaining to low ticket size market impacts product innovation by the insurers for this segment. Presence of Social Insurance Schemes like PMJJBY, PMSBY and PMSYM and easy enrolments under these schemes make micro insurance products unattractive.
- Distribution network in rural areas is weak. CSCs – RAPs/VLEs say that insurance selling is time consuming and claim settlement process is also perceived to be cumbersome and complex. IRDAI Common Public Service Centre (CPSC) Regulations 2019 which allows micro insurance products, government schemes underwritten by life & general insurers and products that are allowed to be distributed by Point of Sales Person (both life & general) at the outlets of CSCs/ CPSCs will help in improving the coverage.
- High cost of delivery makes micro insurance unviable for insurers. The market is yet to develop a delivery model where transaction cost is low.

- C. K. Prahalad's "Twelve principles of Innovation for BOP markets" can be applied to Micro Insurance. In a BOP (Bottom of Pyramid) model the basis for return on investment is volume. Law of Large Numbers will bring economies of scale.
- Some of the insurance companies find that restrictions under the Micro Insurance Regulations hinder product innovation. For micro insurance, it can be said that the low income market requires better quality products including quick claim settlements and few if any, claim rejections.
- A Content Analysis of the websites of Insurance companies was done to examine how many of them had micro insurance products in their product offerings. The analysis revealed that only fourteen of them offered micro products

Intermediaries

- Agents selling insurance products lack in knowledge and professionalism often resulting in mis-selling, wrong selling and under selling.
- Intermediaries feel that the commission in micro insurance is not commensurate with the time and resources spent in selling. Ticket size under micro insurance is low and there is a cap on commission as per the regulation.
- According to one study being conducted by National Insurance Academy, CSCs-VLEs indicated that they are not sure that insurance companies will support them in providing services to customers especially in claim settlement.
- The study found that VLEs are doing very well in enrolment in Pradhan Mantri Fasal Bima Yojana (PMFBY) for farmers. The on-line enrolment process through agri-insurance portal is seamless and fast. Volume translates into good commission.
- Regulation is a hindrance for institutions engaged in financial intermediation to become Corporate Agent / Broker

Recommendations

The recommendations are compilation of views of various stakeholders interviewed for the purpose of this study.

- New Products – Only few products are available today and most of them are life insurance products with term insurance features. There is a dearth of innovative products which are simple and affordable with convenient payment terms. A single product covering multiple risks can address the needs of this segment.

- Service Delivery – Insurers should put in place an efficient service delivery mechanism. This can be done by using new solutions through digital platforms, mobile applications and innovative I.T. solutions. Quick Claim Settlement will create trust among the people.
- Simplification of product guidelines: This will give flexibility to insurers in product innovation and product designing.
- Micro Finance Sector: The sector believes that, they operate at a low margin and find the micro insurance business in the present form unviable.
- Mutual Model:
  - Mutual Models are one type of community based organisation which have successfully worked in India for more than a decade and managing health risks for low income groups. These are member owned community models which allow members to participate in decision making.
  - Since the regular distribution model has not worked well in India mutual models and community based models are suggested. They are highly successful models of community based micro insurance programme leading to empowerment of low income and underprivileged groups.
  - Mutual Model provides a comprehensive package of micro insurance and medical services.
- Under the CPSC Regulations 2019, Rural Authorised Person (RAP) and Village Level Entrepreneurs (VLE-Ins) can now sell micro insurance products of both life and general insurance companies, under the CPSC – SPV model. The network of CPSC – SPV should be leveraged by insurers for distribution of micro products especially in rural areas.
- Access to Digital Platform: Digital platforms are playing a significant role in financial inclusion. Their extensive use in distribution of micro products can bring ease and scale in distribution, operation and servicing.
- Awareness Drive: Lot of efforts have been made in the last few years to create awareness about insurance. This should be sustained. Increasing awareness at household level about insurance and social insurance schemes through all modes of media in local language may help. Learnings can be drawn from schemes like PMJDY. The number of accounts under PMJDY has touched a staggering 37.36 Crore as on 31.10.2019.

- Including insurance early in curriculum will make new generation familiar with concept of insurance and increase awareness and demand for insurance.
- Skill India: Insurance education can be made part of Skill India initiative for Insurance Agents.
- Tax Benefits: Micro Insurance premium is exempt from service tax which acts as an incentive for policyholders. Similar exemptions may be considered for insurers selling micro insurance products.

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List of Abbreviations

AABY – Aam Aadmi Bima Yojana

CBO – Community Based Organisation

CPSC – Common Public Service Centre

CSC – Common Service Centre

FMCG – Fast Moving Consumer Goods

GDP – Gross Domestic Product

GST – Goods and Services Tax

IAIS - International Association of Insurance Supervisors

ILO – International Labour Organisation

IRDAI – Insurance Regulatory and Development Authority of India

MFI – Micro Finance Institution

MIS - Management Information System

NBFC – Non Banking Finance Company

NGO – Non Governmental Organisation

NIA – National Insurance Academy

NPA – Non Performing Asset

PMFBY - Pradhan Mantri Fasal Bima Yojana

PMJDY - Pradhan Mantri Jan Dhan Yojana

PMJJBY – Pradhan Mantri Jeevan Jyoti Bima Yojana

PMSBY – Pradhan Mantri Suraksha Bima Yojana

PMSYM - Pradhan Mantri Shram Yogi Mandhan

RAP – Rural Authorised Person

RFID – Radio Frequency Identification

SFB – Small Finance Bank

UPSRLM - Uttar Pradesh State Rural Livelihood Mission

VLE – Village Level Entrepreneur

1. MICRO INSURANCE: AN INTRODUCTION

Small ticket size market is playing an important role in driving growth in sectors like FMCG, CPG, telecommunication and automobile. The credit market is abuzz with small ticket loans. New ways are being explored to make money transfer and banking easily available at low cost to masses at their doorsteps. Mutual funds are trying to make inroads in mass market. At a time when every other sector is making progress in low ticket market; micro insurance sector has not been able to grow at the same pace. Insurers do not find the micro insurance business viable and profitable. When it comes to assessing market potential, there seems to be large volume of untapped potential as insurance density and penetration is low in India compared to peer countries. Low ticket insurance market can be identified as blue ocean market. Still the response of insurance companies have been lukewarm in tapping this market. Insurers are largely confined to urban centres in high income group and their reach in low income and rural India is limited.

India has an estimated 39.14 crore i.e. 82.7% of the working population engaged in unorganised sector and more than 50 % of GDP of India comes from unorganised sector. According to the recent agricultural census (2011) 85% of farmers fall in Small and Marginal category. More than 61 % of rural households are categorised as deprived (Socio Economic Caste Census,

PROTECTION GAP

Insurable population in India: 610.0 Million

Lives covered under Micro Insurance: 111.1 Million

Micro Insurance Coverage Ratio: 9.22 %

Only 14.7 % of Micro Insurance Market Covered

Micro Insurance Network, (2012-13)

Number of Individual Policies in Force (Life): 331.5 Million,

No of Policies Issued (General): 158.5 Million

No of Persons Covered under PA: 82.9 Million (Including Govt. Schemes)

No of Persons Covered under Health Insurance: 48.2 Million (Including Govt. Schemes)

No of Micro Insurance Policies Sold (Life): 0.84 Million; FY (2017-18)

No of Micro Insurance Policies Sold (General): 0.01 Million; FY (2017-18)

IRDAI (2017-18)

2011). The insurance requirements of rural India are different from their urban counterparts and cannot be met by formal insurance policies. The rural poor requires insurance cover which is reasonable and affordable. It was with this objective that IRDAI came out with Social and Rural Sector Regulation 2002(revised in 2015 and Micro Insurance Regulation 2005 (revised in 2015). However, reach of Micro insurance has been limited despite these efforts done in last one and half decades by the regulator. Only 14% people are covered under insurance in rural India (PWC, 2017).

Insurance companies have probably treated micro insurance primarily either as CSR activity or to fulfil social and rural obligations mandated by IRDAI. The launch of Jan Suraksha Schemes and PMFBY scheme has further impacted growth of this segment. Since insurance companies are able to meet their obligatory business requirements through these schemes, micro insurance has lost focus and space in their portfolio of products. Micro insurance products are by and large missing from the product offerings of the insurance companies. The study did a content analysis of websites of the insurance companies to examine the space of

Rural Market

6.5 Lakh villages are inhabited by about 850 million consumers making up for about 70 per cent of population and contributing around half of the country's Gross Domestic Product (GDP).

19.2 % increase in monthly per capita expenditure in rural markets during 2009 and 2012, surpassing urban consumption growth by two percentage points.

Rural FMCG market accounts for 40 per cent of the overall FMCG market in India, in revenue terms www.ibef.org

33% of villages, numbering about 200,000, account for 80% of all rural fast moving consumer goods (FMCG) sales

Percentage Rural Contribution

- Telecom Revenue: 45%
- FMCG Revenue: 36%
- Two Wheelers (Units): 50 %
- Four Wheelers (Passenger) (Units): 30 %

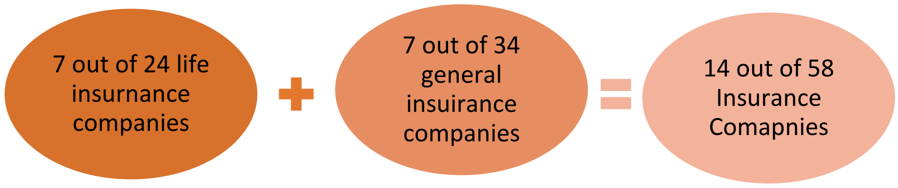
www.nielsen.com

DECLINING INTEREST OF INSURERS: WHAT CONTENT ANALYSIS SAYS

The study team did a content analysis of websites of insurance companies to examine space of micro insurance in their product portfolio. The analysis revealed that only 14 insurance companies have micro insurance in the product list on their websites and rest of them have no mention of micro insurance products.

micro insurance in their product portfolios. The analysis revealed that only 14 out of 58 insurance companies have micro insurance in the product list on their websites and rest of them have no mention of micro insurance products. Data from IRDAI public disclosures also indicate that out of 34 general insurance companies only seven companies have procured business through micro insurance channel in the year 2018-19. The number of life insurance companies having presence of micro insurance agents in individual business is 7 out of 24. Products in offering for group business it is only three out of 24 life insurance companies.

Presence of Micro Insurance in the Product Portfolio



At the same time, many alternative models were developed by NGOs and MFIs to collectively cover risks of people at the bottom of pyramid. These initiatives represent the informal sector insurance. IAIS in its application paper (2012) defines informal sector insurance as the initiatives that use insurance principles to cover risks of their clients but do not fall under the preview of the regulator. However, the reach of these initiatives have remained limited because of issues related with replicability and scalability; despite their sustained growth in last one decade.

Micro insurance is a low ticket size insurance for low income group and micro enterprises. Micro insurance can play an important role in taking insurance to the masses. Insurance protection for the masses and inclusive growth of society are vital for social and economic development of India. Insurance is an indicator of not only economic progress but also social development of a country. Insurance provides a very powerful risk management mechanism for industries, businesses and a social safety net for individuals. Insurance is extremely necessary for low income and marginalised sections of the society as these people are extremely vulnerable to consequences of sickness, accidents or mishaps and do not have sufficient resources to fall back upon. It is necessary for a country like India to make sure that insurance reaches every individual to provide resilience to fight back in exigencies. In India about 66% of the population earns between USD 1.9 to USD 5.5 per day. As per ILO, the target market for micro insurance is the population earning between

USD 1.9 to USD 5 per day. As per a survey conducted by Insurance Institute of India (III) in collaboration with GIZ on micro insurance in 2014, out of 1.25 billion population 40% of rural and 45% of urban households earn between Rs 5000 to Rs 12000/- pm. The study concludes that outside of government schemes the insurers and intermediaries are yet to identify sustainable and scalable business model.

In the background of huge under penetration of micro insurance, there was a need to conduct a study on micro insurance. This study was conceived with the intention to examine various issues and challenges faced by the micro insurance sector and to explore & suggest measures. The study also examines what regulatory changes can give impetus to the growth of micro insurance and make micro insurance viable and sustainable.

2. RESEARCH METHODOLOGY

The aim of this study is to examine what changes can bring impetus to the desired growth of micro insurance. The study also examines what the key stakeholders can do to make micro insurance market more attractive for insurers and the intermediaries. The study also examines what is the take of target market towards insurance, why it has not been able to make space into their to do list.

Aim of the study is to understand how regulatory changes can create enabling environment and how the insurers can bring the required focus in terms of product, distribution channel, servicing and various other aspects to promote growth of micro insurance in India.

This report is based on the views of industry experts and select insurance companies both in the space of life insurance and general insurance (two life and four general insurance).

Data for the study was collected through in-depth interview of various stake holders based on a list of questions. The questions were framed around five major areas - willingness to participate, ease of business, viability and profitability, operational issues, challenges and regulatory environment. The challenges faced by micro insurance market was examined through literature review and the views of the stakeholders. The challenges included product, distribution and market environment. The questions asked to these key players are appended in annexure.

The secondary data related to performance of micro insurance through insurance companies for this study was derived from the annual report of IRDAI and the IRDAI Hand Book. The Annual report publishes data of life micro insurance under two categories- individual business and group business. Apart from this, there is also a brief mention of number of policies sold under micro insurance - general. The IRDAI hand book shares data on business done through micro insurance agents under the channel wise data.

The study also captures views of important players in the field of micro finance. The view of micro finance sector was important to capture as it was assumed that micro lending will become a vehicle for growth of micro insurance, which does not seem to have happened.

The respondents are experts from Micro insurance/micro finance field, rural/micro business heads of insurance companies and business heads of NGOs/MFIs/NBFCs/SFBs.

The study also presents views of the organisations offering financial security solutions to socially and economically backward sections of the society in the form of informal insurance or self-insurance or community based insurance. Primary data was collected through a questionnaire based survey of MFIs/NGOs/NBFCs. The questionnaire captures profile of the institution, services offered by them, initiatives in financial inclusion, insurance services offered and their experiences in working on insurance.

This study also draws insights from another study conducted by NIA to understand how CSCs can be leveraged to increase the reach of insurance and to contribute to Financial Inclusion.

3. DISCUSSION AND ANALYSIS

This section presents the status of micro insurance in India. The discussion is organised in three sections. The first section assesses the status of micro insurance in formal sector, i. e. micro insurance done through insurance companies. Data for this section is taken from IRDAI. The second section presents experiences of informal sector in micro insurance, i.e. Micro Finance Institution (MFIs), Non-Governmental Organisation (NGOs) and Community Based Organisations (CBOs) which are working in the space of financial inclusion. Data for this section of the study is collected through a survey of institution which are members of SA-DHAN. SA-DHAN is a network of institutions working in the space of financial inclusion. The third section discusses challenges faced by these organisations (both formal and informal sector) in growth of micro insurance.

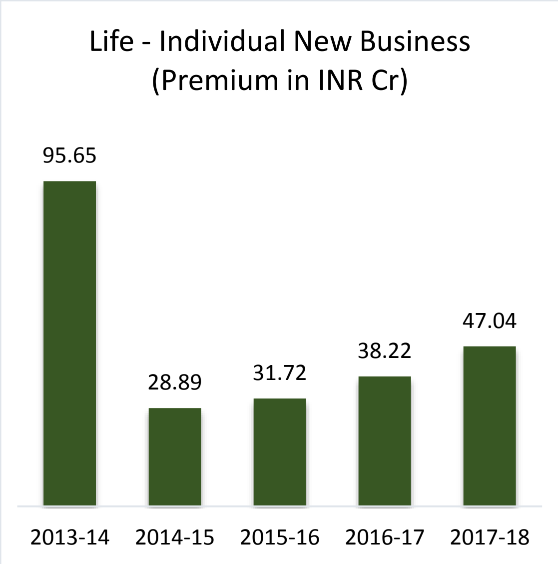
3.1. Status of Micro Insurance in India in Last Five Years

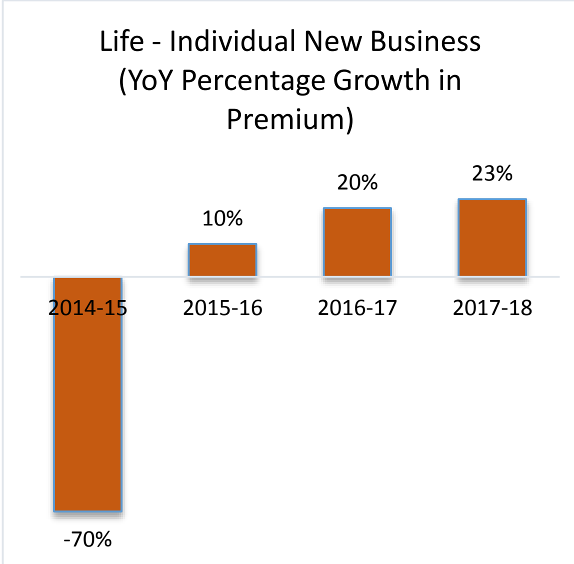
This section presents analysis of data for the last five years and inferences drawn thereof. This data of micro insurance is presented separately in three categories – individual micro insurance business, group micro insurance business and business done through micro insurance agents. Market share of the major private insurers who have more than 5% of market share amongst the private companies is also presented separately.

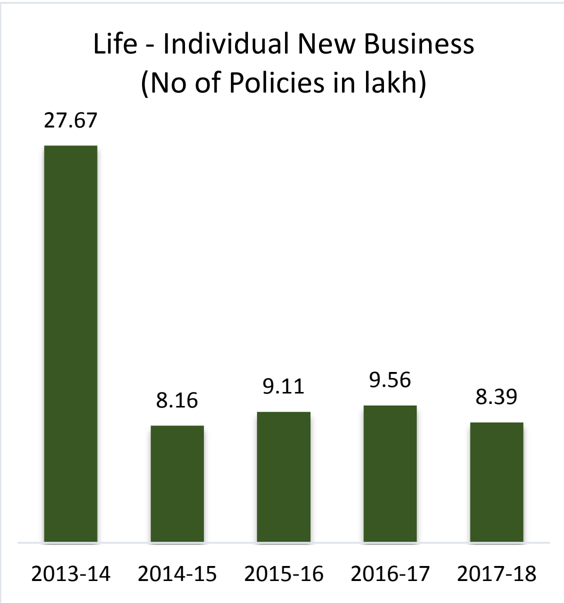
The analysis of the data provided by IRDAI for life micro insurance business shows two trends – majority of business is done by the public sector insurer, which is LIC and under private sector only few companies are doing majority of the business. Detailed data is available only for life micro insurance, indicating contribution of general insurance companies in growth of micro insurance is not significant. The numbers indicate poor performance of micro insurance business by insurance companies in a country like India where about 66% of the population is a target market for micro insurance.

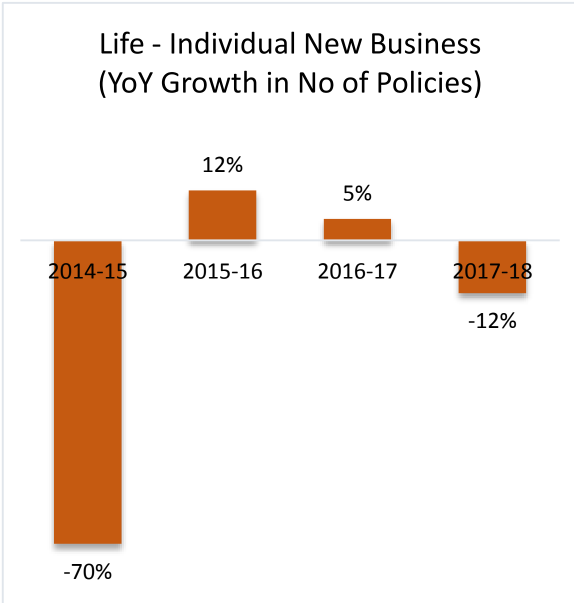
3.1.1 New Business under Life Individual Micro-Insurance Portfolio

Micro insurance individual life policies sold in the year 2017-18 were 8.4 lakhs and the premium earned were Rs 47 crore. The growth in premium in individual business has remained 20 % and 23 % in last two years, whereas, the number of lives covered has declined in the last year 2017-18 indicating increase in ticket size of the policies.



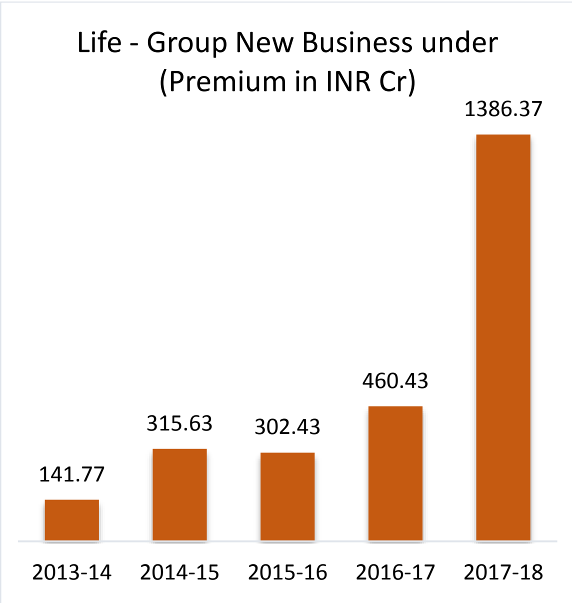


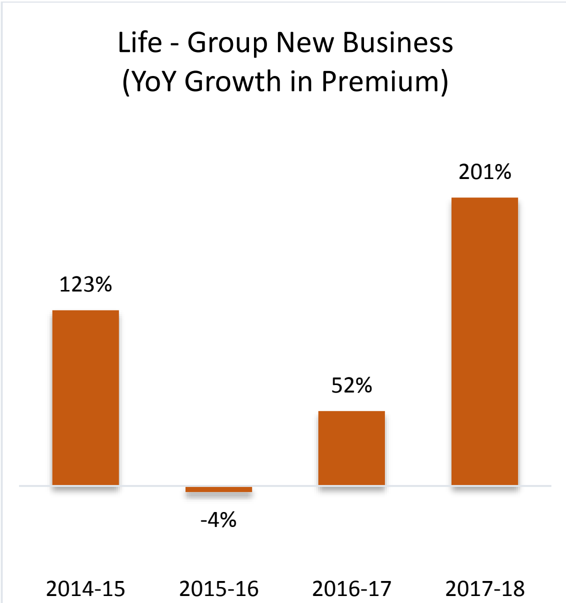


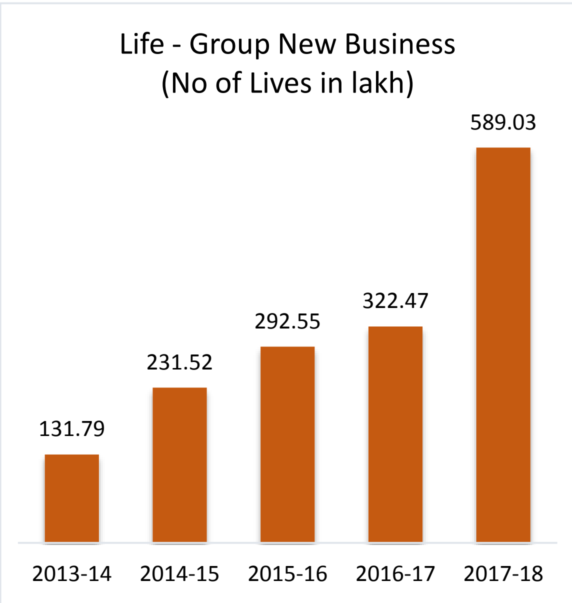


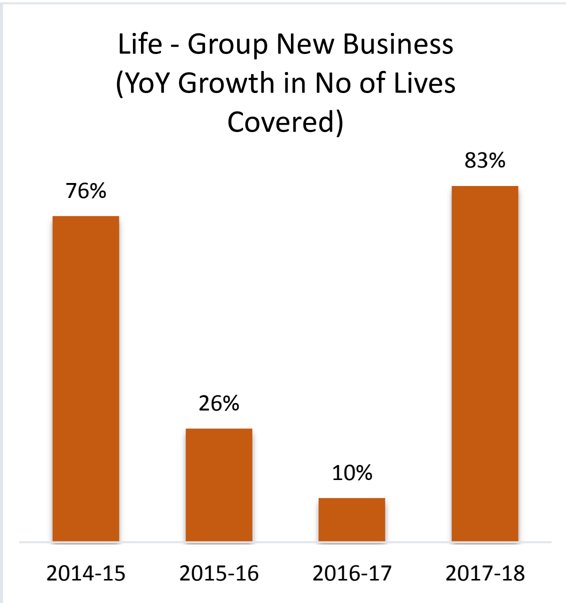
3.1.2 New Business under Life Group Micro-Insurance Portfolio

The number of lives covered under micro insurance group business was 5.89 crore and the premium of group business was Rs.1386 crore (IRDAI Annual Report 2017-18). Here it is to be noted that group polices under micro insurance reported are majorly social insurance schemes which include PMJJBY and AABY (modified PMJJBY). Social Insurance is subsidized, whereas we expect people to buy micro insurance which is a commercial product like any other insurance product. The group insurance business has shown unprecedented growth in number of lives covered and premium collected in the year 2017-18.







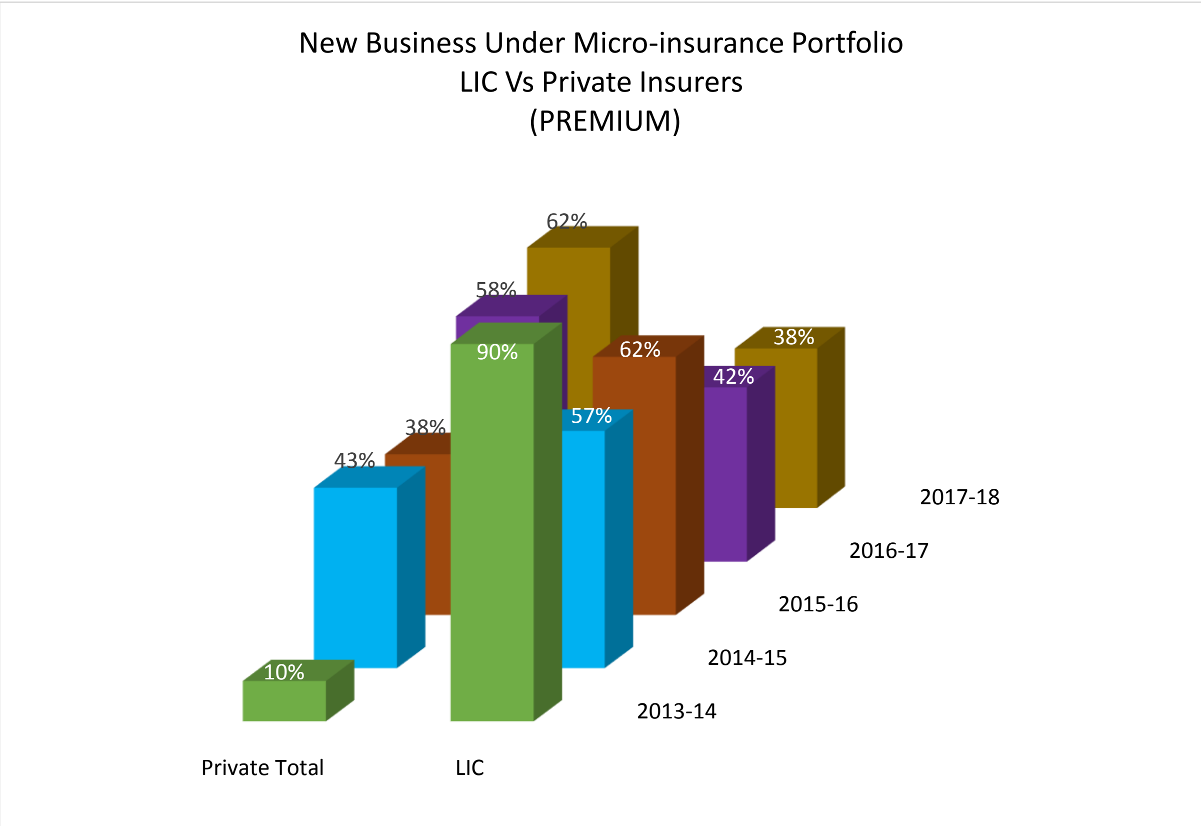


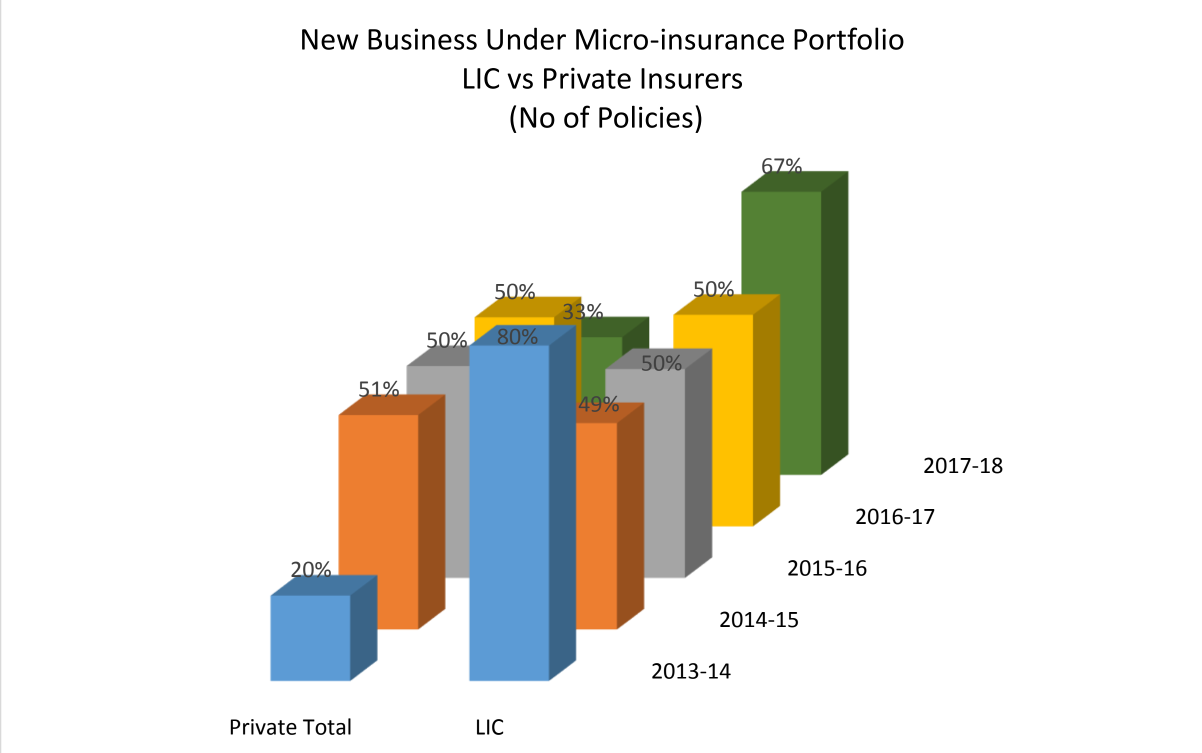
Based on IRDAI Data

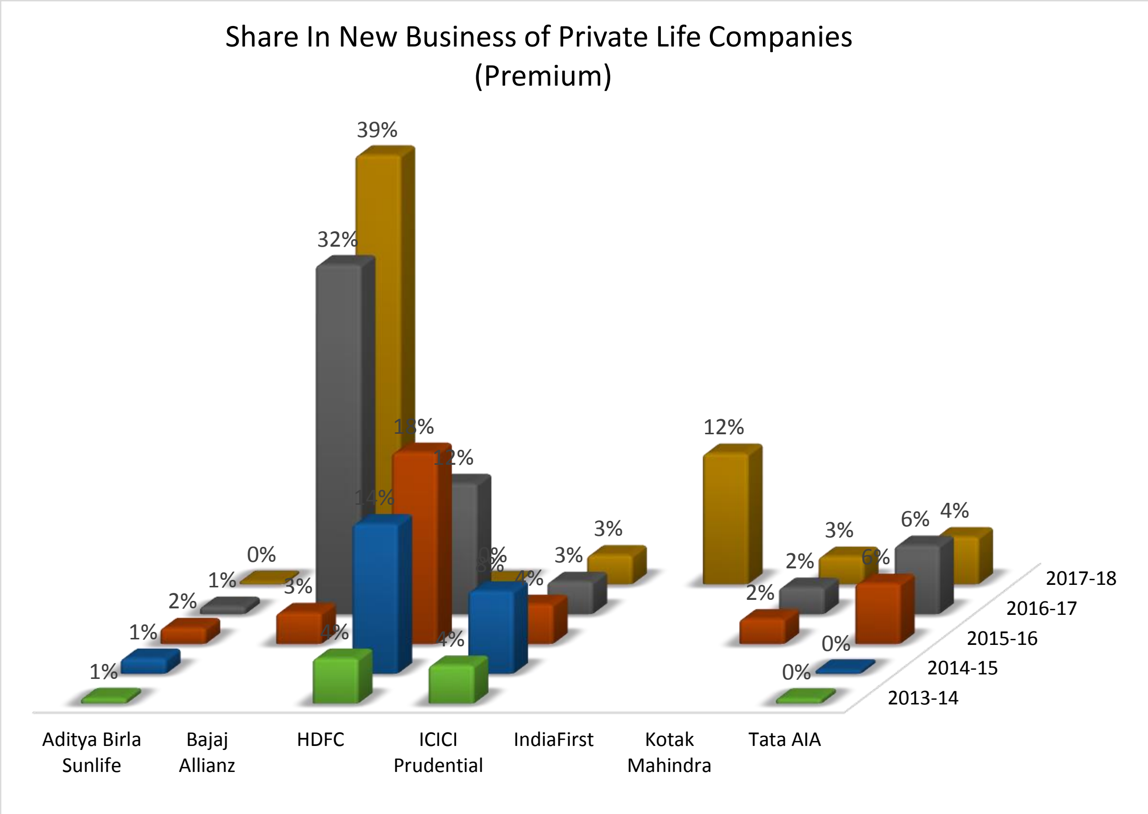
3.1.3 Company Wise Share In Life Micro Individual New Business

A company wise analysis of data indicates that LIC of India has remained the main contributor to the life individual micro insurance business. However, the market share of LIC has substantially declined in last five years. LIC was contributing 90% to the individual micro insurance business of about Rs.100 Cr business in the year 2014-15, which reduced to 38% of Rs.47 Cr business in the year 2017-18. The share of LIC in number of individuals covered came down from 80 % to 67%. A comparison of the average premium per policy indicates that LIC has lower ticket size compared to private insurers. The reason for this decrease possibly could be that in micro insurance, targets in LIC are fixed as number of lives covered and not premium income.

Among private insurers, the main contributors in terms of premium in last two years were Bajaj Allianz Life Insurance, HDFC Life Insurance and India First Life Insurance. Whereas the main contributors in terms of number of policies sold are HDFC Life Insurance, ICICI Prudential and Kotak Mahindra Life Insurance.




New Business Under Micro-insurance Portfolio
LIC vs Private Insurers
(No of Policies)
67%
50%
33%
50%
80%
50%
51%
49%
50%
20%
2017-18
2016-17
2015-16
2014-15
2013-14
Private Total
LIC


Share In New Business of Private Life Companies
(Premium)
39%
32%
12%
12%
3%
3%
3%
6%
4%
0%
1%
2%
1%
1%
3%
2%
2%
0%
0%
2017-18
2016-17
2015-16
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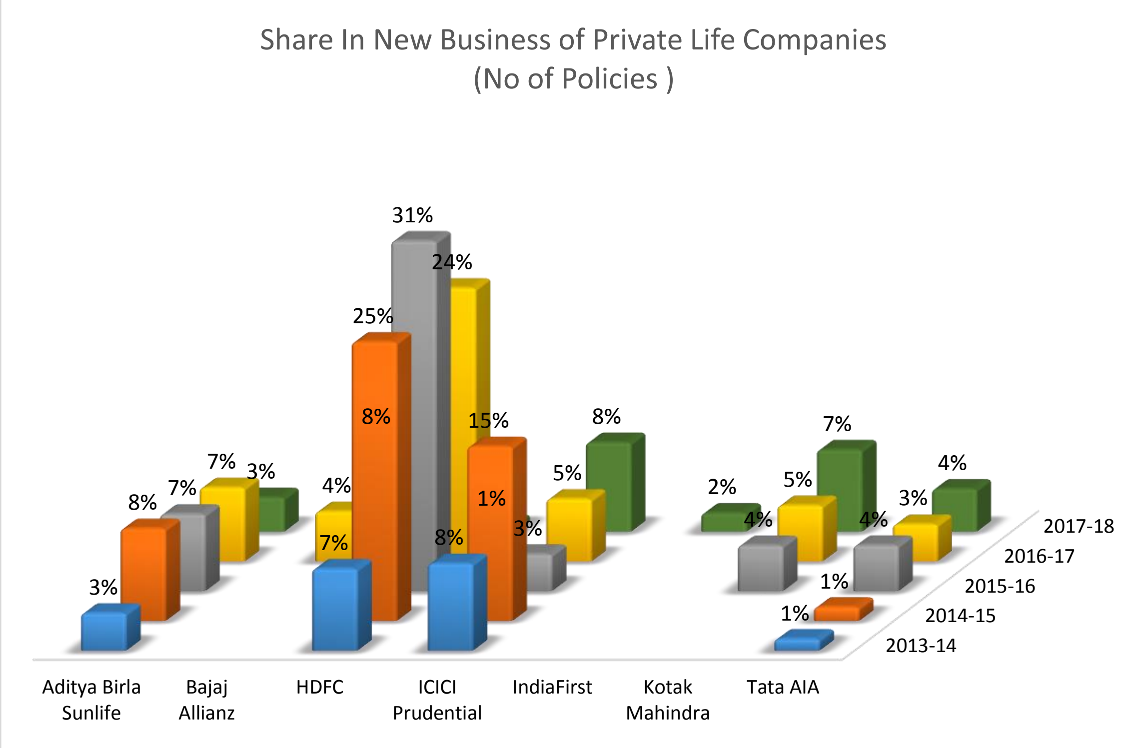
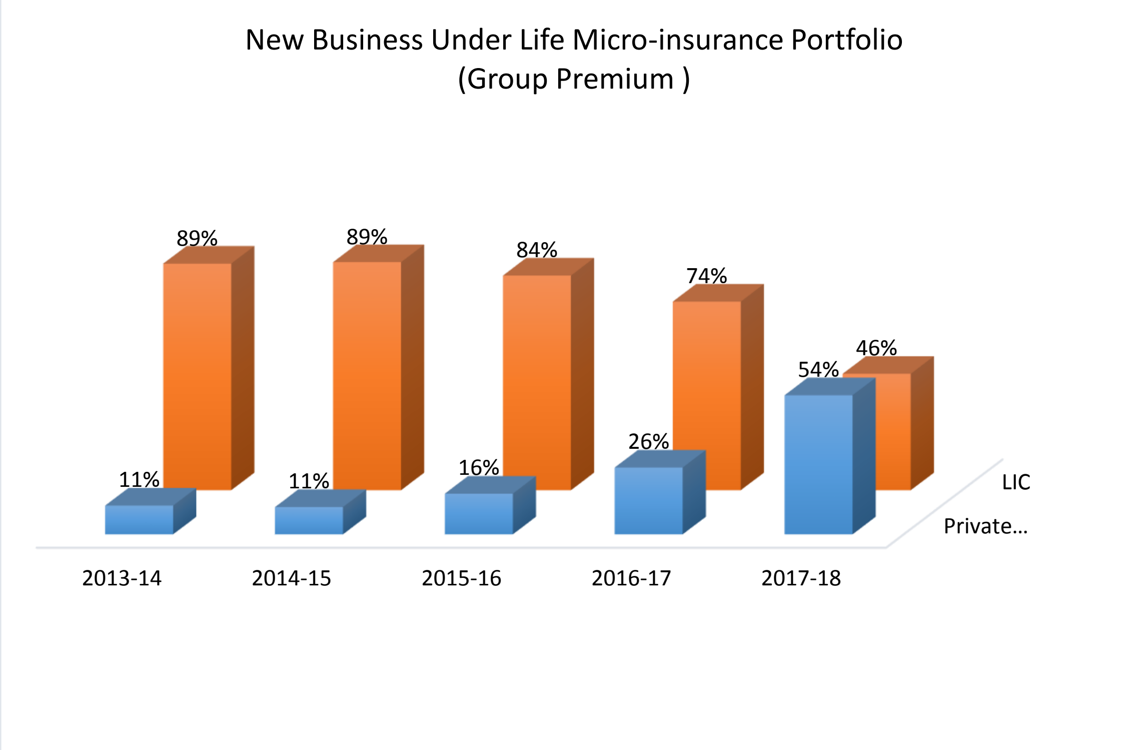
IndiaFirst
Kotak Mahindra
Tata AIA

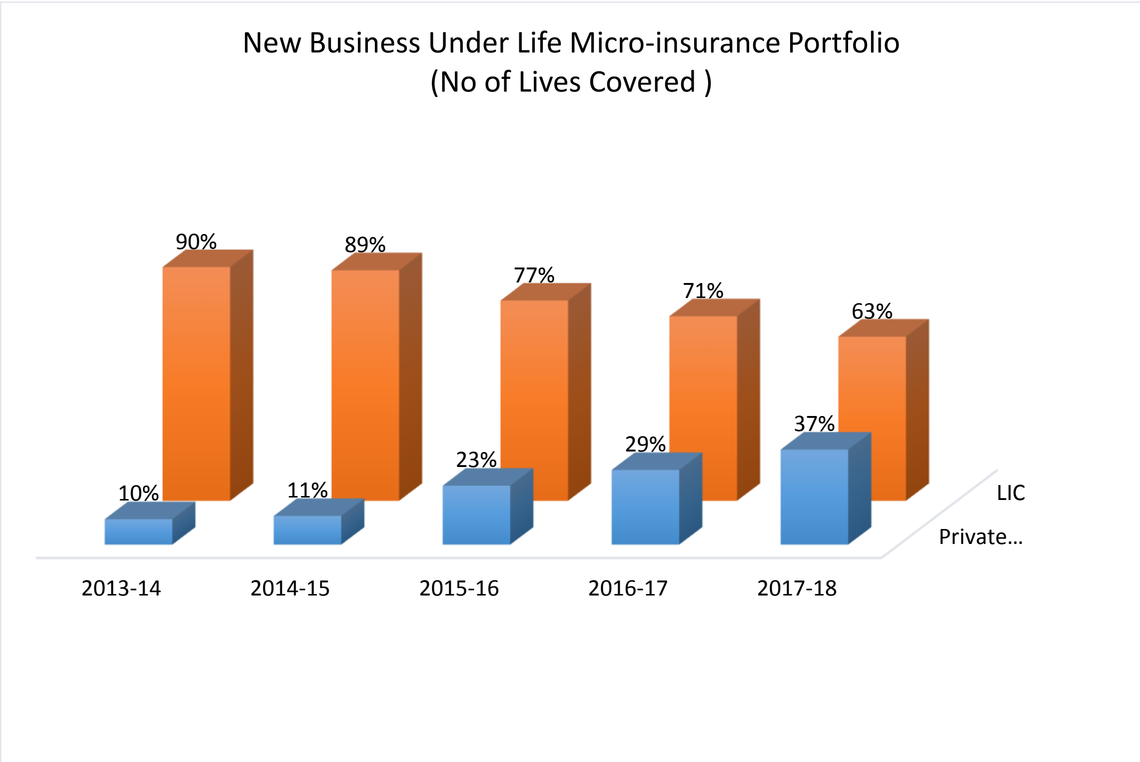


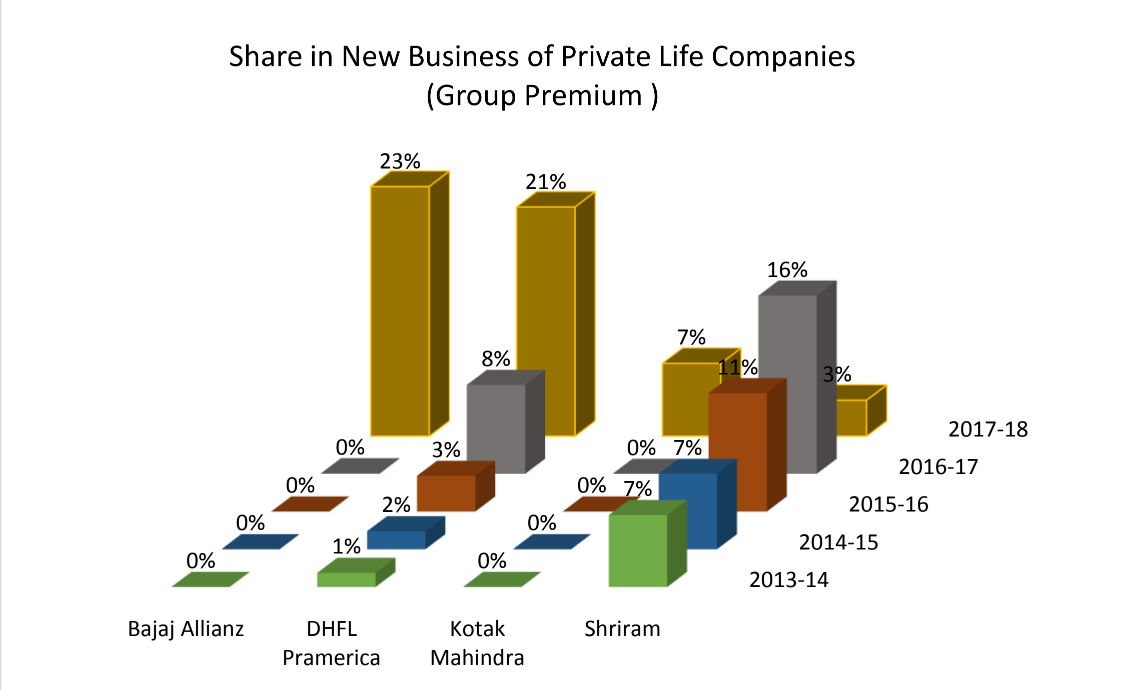
3.1.4 Company Wise Share in Group Life Micro-Insurance New Business

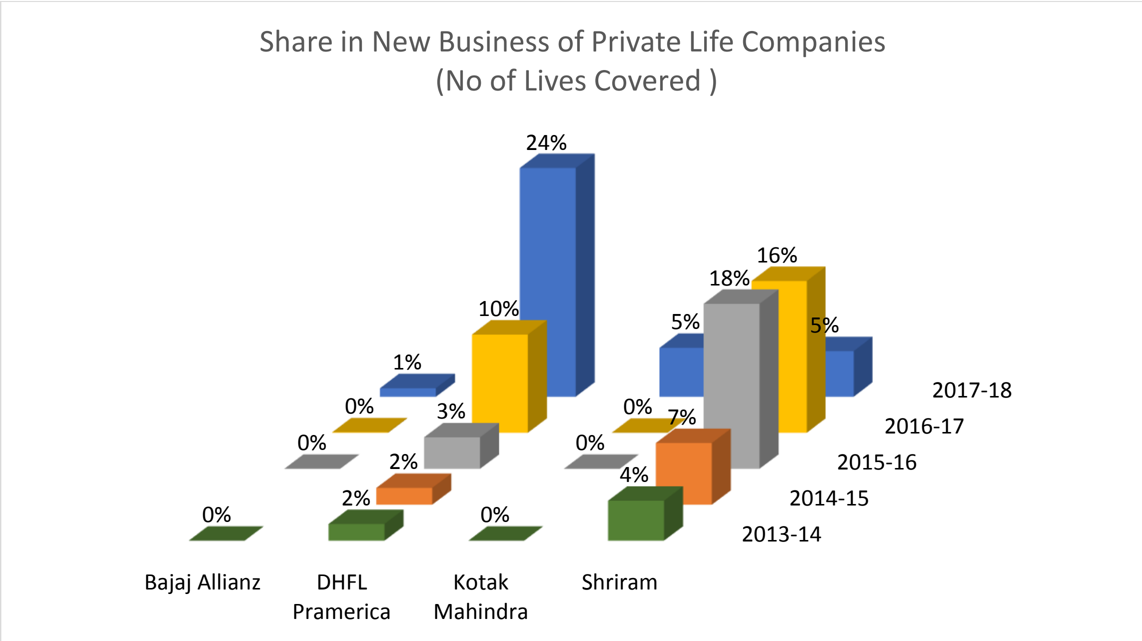
Company wise analysis of group business indicates that LIC's share in the group business in terms of premium has reduced from 89% in the year 2013-14 to 46% in the year 2017-18. The major decline is observed in the year 2017-18. A comparison of premium and number of lives covered indicates that the share of private sector companies in terms of premium is 54%, whereas in terms of number of lives covered this share is 37% in the year 2017-18.

The major private players in last three years are Bajaj Allianz Life Insurance Company, DHFL Pramerica life Insurance, Kotak Mahindra Life Insurance and Shriram Life Insurance Company Ltd. Interestingly, Bajaj Allianz's share amongst private players in terms of premium in the year 2017-18 was 23% whereas in terms of number of lives covered it was only 1%.


New Business Under Life Micro-insurance Portfolio
(Group Premium)
89%
89%
84%
74%
46%
54%
26%
11%
11%
16%
LIC
Private...
2013-14
2014-15
2015-16
2016-17
2017-18

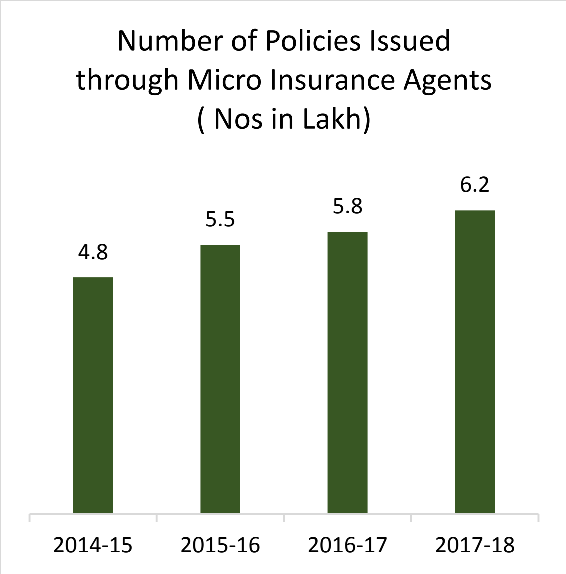

New Business Under Life Micro-insurance Portfolio
(No of Lives Covered)
90%
89%
77%
71%
63%
37%
29%
23%
10%
11%
LIC
Private...
2013-14
2014-15
2015-16
2016-17
2017-18

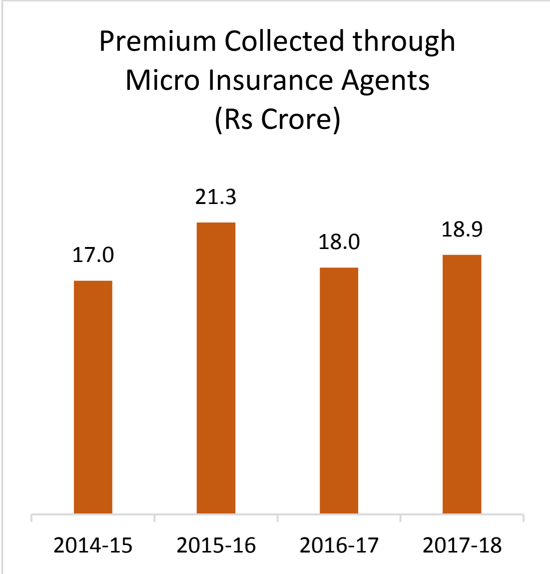


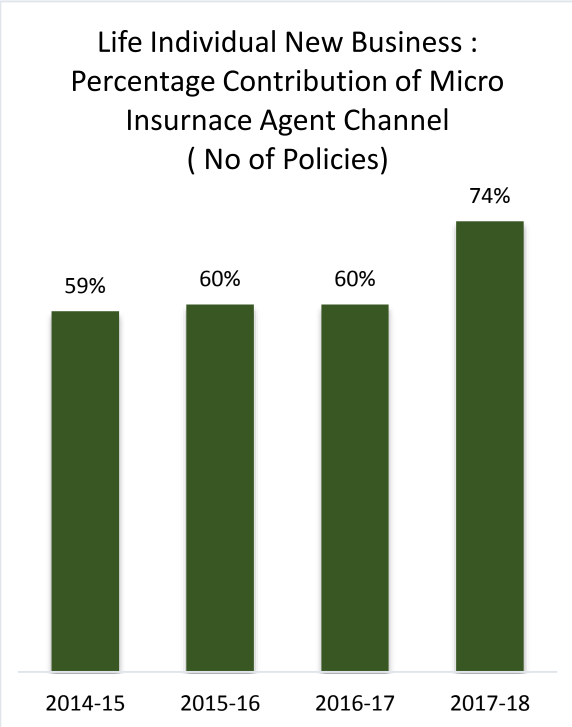


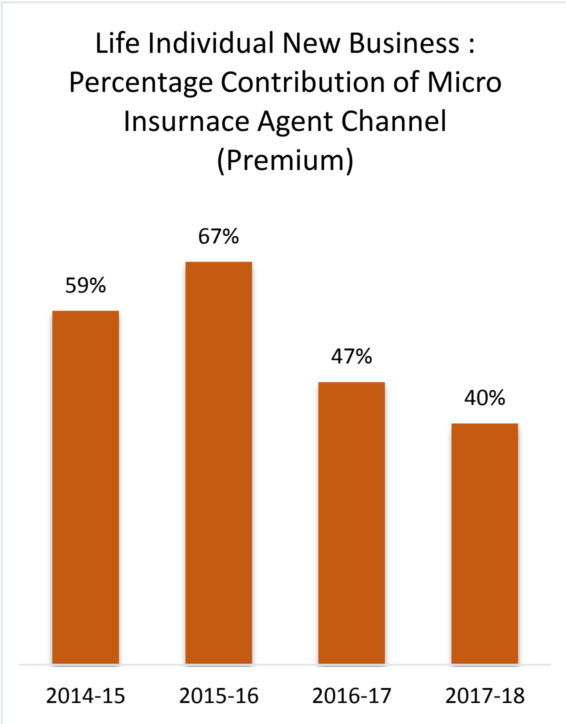
3.1.5 Life Individual New Business through Micro Insurance Agent

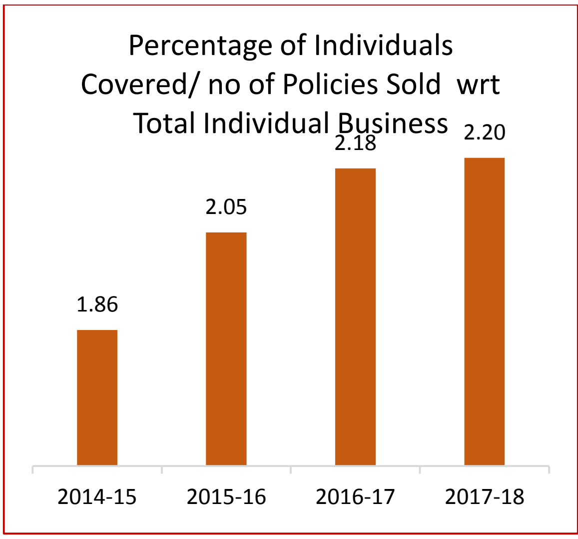
The insurance business done through micro insurance agents was Rs 19 Crores in the year 2017-18 which constituted 40% of the premium earned under micro insurance individual business. However, the percentage of policies sold by micro insurance agents was 74 % in the same year. The balance 26 % business is drawn from other channels like brokers and corporate agents. The Micro insurance channel contributed to about 2% in terms of number of individuals covered or policies secured and .02 to .04 % in terms of premium when compared with the total business done through various channels.

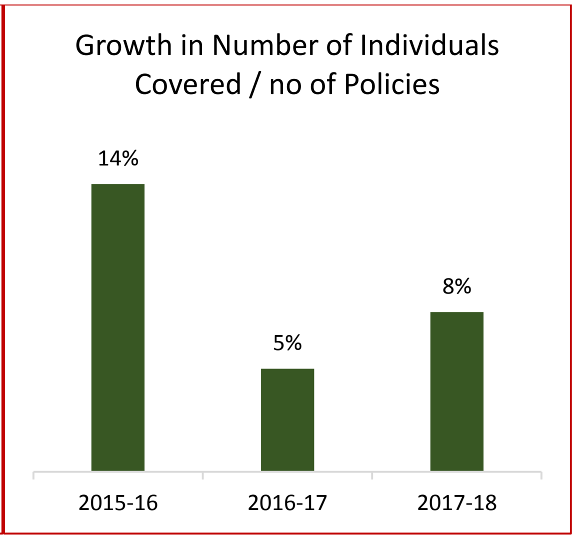


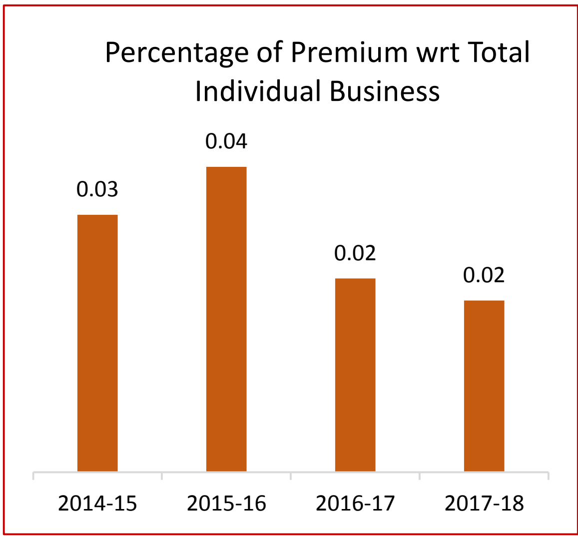


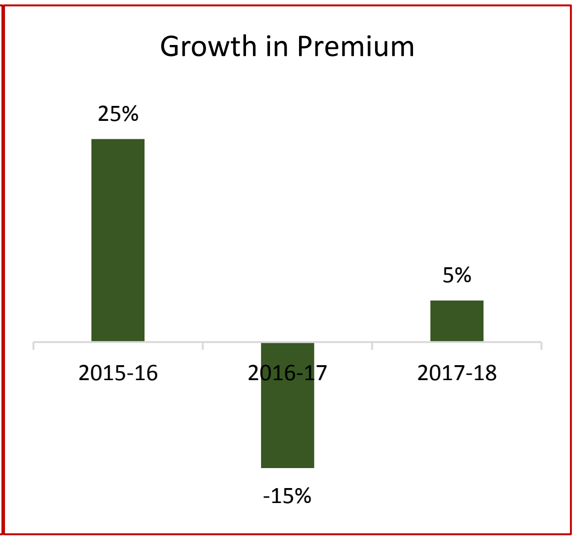






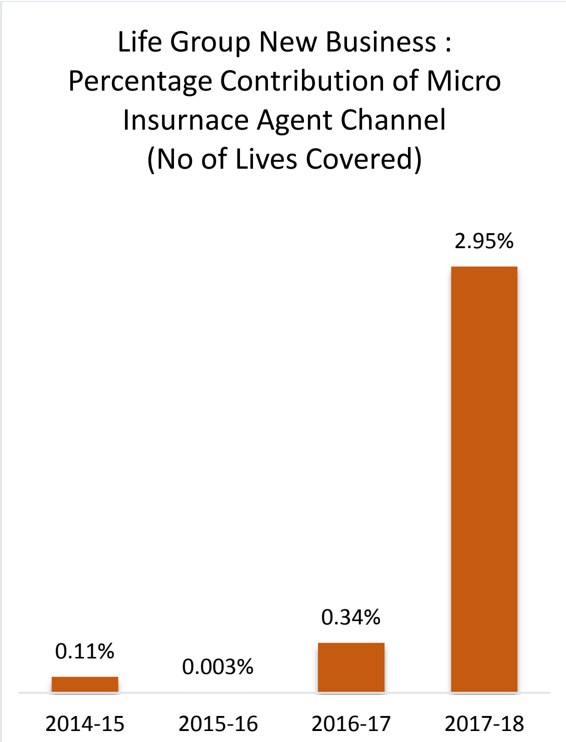


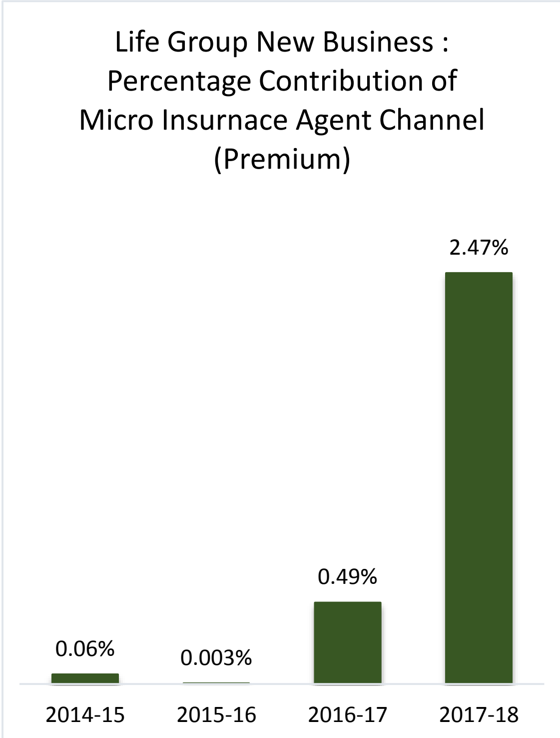


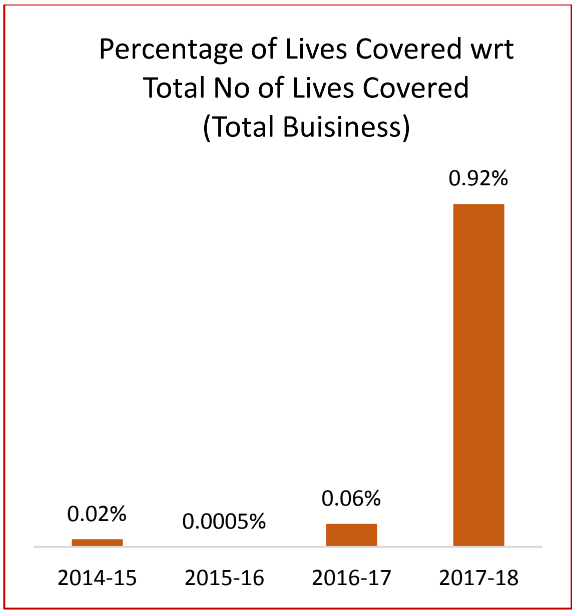


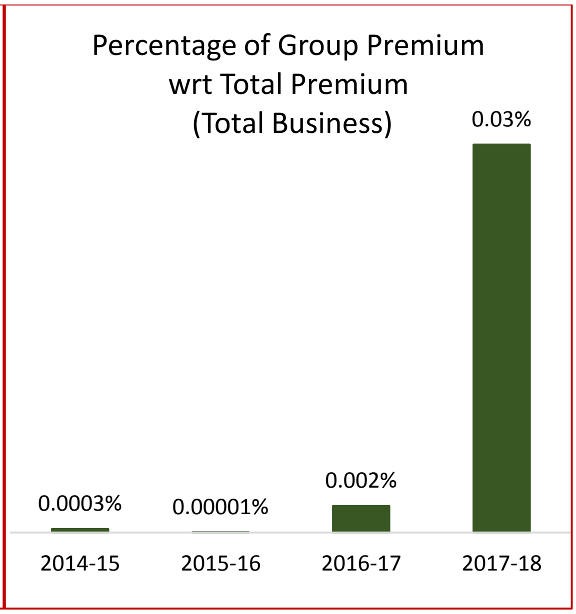
3.1.6 Life Group New Business through Micro Insurance Agents

The life group micro insurance business done through micro insurance agent is negligible, though parentage has increased to 2.95% in terms of Lives covered and 2.47% in terms of premium in the year 2017-18. The majority of business is procured through aggregators like banks and cooperative banks. The group business through agents compared to total life insurance business is less than 0.05%.





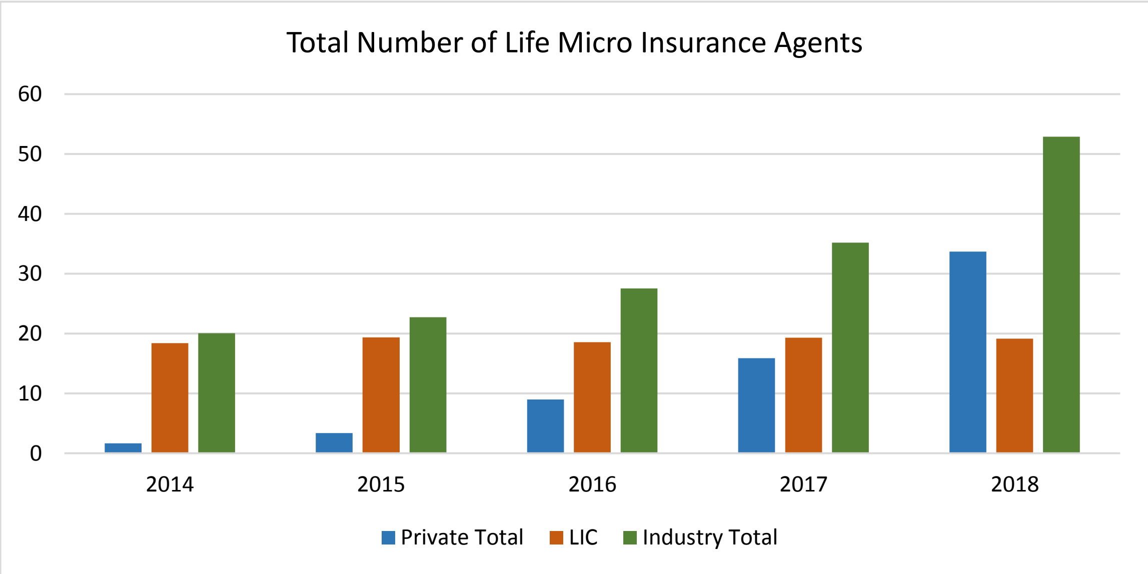


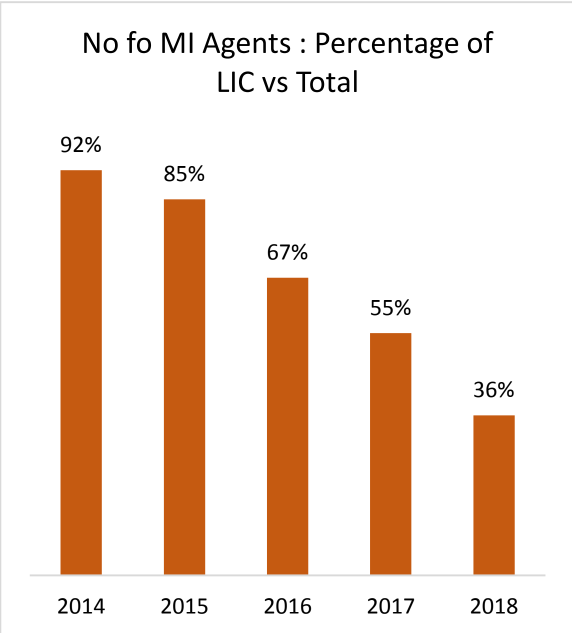


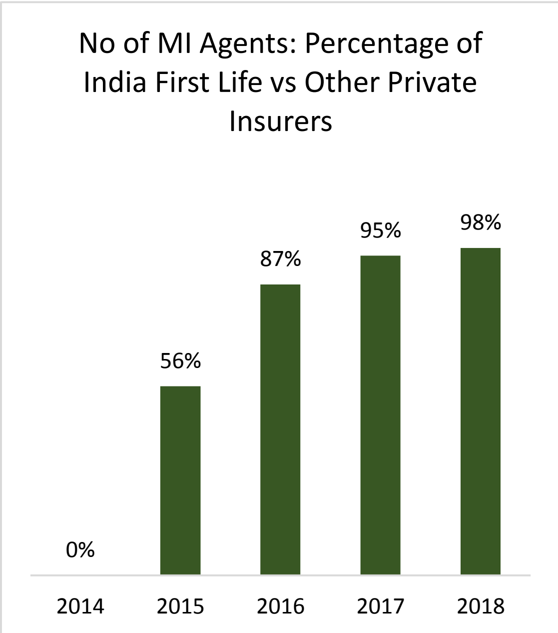
Source: IRDAI

3.1.7 Micro Insurance Agents in Life Insurance Companies

The total number of micro insurance agents in the year 2018 was 59000 in life insurance sector out of which LIC had 36% of agents. The percentage of MI agents in LIC reduced from 92% in the year 2014 to 36% in the year 2018. In private sector companies, 98 percent of the agents are working for India First Life Company. Apart from this, Bajaj Life and Tata AIA have a small micro insurance agent force.

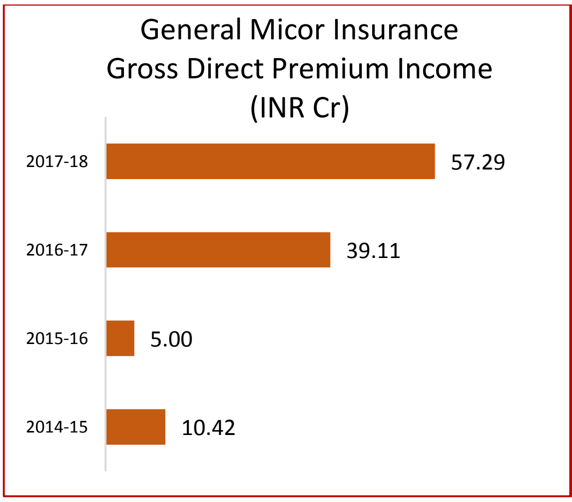


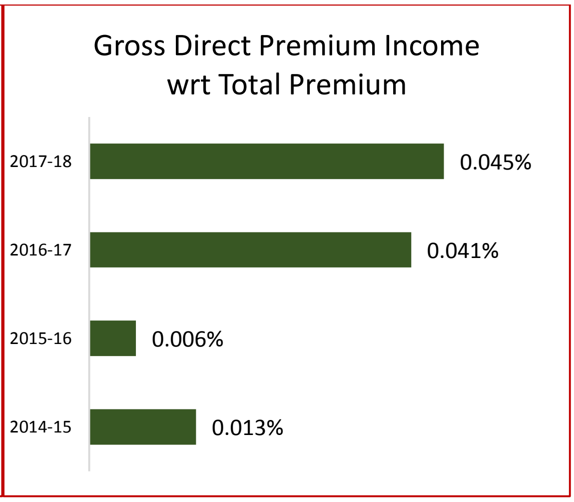


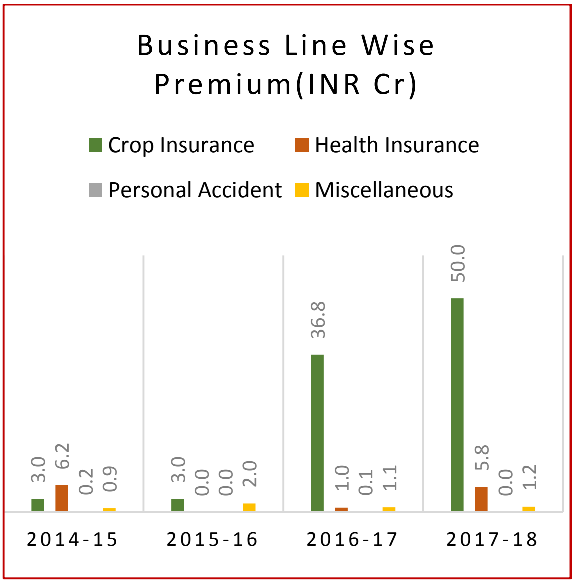


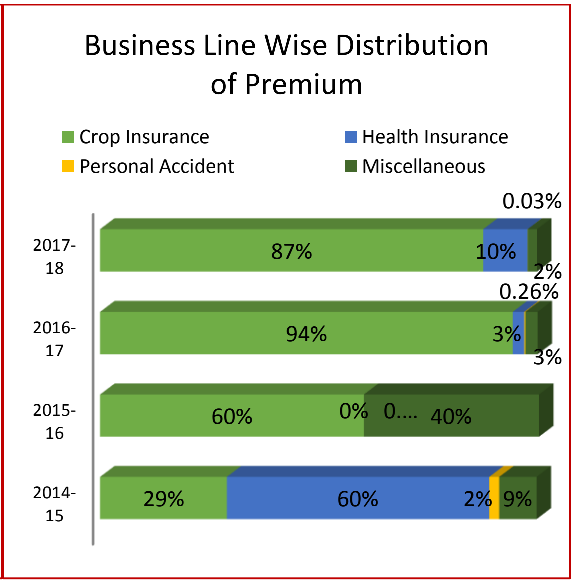
3.1.8 General Insurance Business through Micro Insurance Agent

In the year 2017-18 number of general micro insurance policies sold was only one lakh. The total General insurance premium done through micro insurance agents was Rs 57.3 crore for the same year. Majority of this business was crop insurance in last two years. The other lines of business in micro insurance for which data is available are health, personal accident and miscellaneous. The general insurance business done through micro insurance agents is again negligible in comparison to totals general insurance business.









3.2 Experiences of Micro Finance Sector

IRDAI came out with first micro insurance regulations in 2005 wherein the role of micro finance sector was envisaged as a vehicle of growth for micro insurance. The regulation created space for micro finance institutions as an effective distribution channel. Since these MFIs were working on financial inclusion, it was expected that it will lead to natural extension of micro insurance in their services. MFIs and informal organisation like NGOs/CBOs working on economic empowerment by taking credit services to the doorsteps of their clients readily accepted credit insurance as a risk management tool for their credit risk. This arrangement was also beneficial to the borrowers to some extent as it reduced burden of repayment of loan in case of death of the borrower. However, these financial institutions did not extend other insurance products to cover the lifecycle risks and health risks of their clients. The study team conducted a survey of about 30 micro finance institutions which are members of SA-DHAN, a network of microfinance institutions. This survey was aimed to understand experience of MFIs/NGOs in extending

Micro Finance in India

Self Help Group - Bank Linkage Programme run by NABARD is the largest microfinance programme in the world Highlights of the program are:

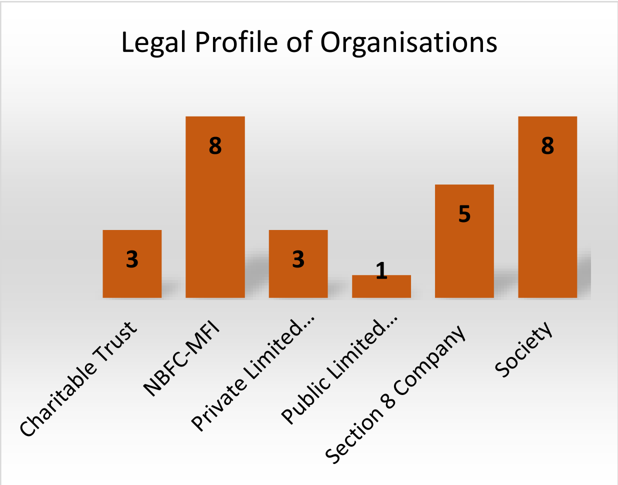
- 11 crore households associated
- More than 87 lakh SHGs
- Deposits of over Rs 19,500 crore
- Annual loan offtake Rs 47000 crore
- Loan outstanding of over Rs 75,500 crore
- More than 100 Scheduled Banks, 300 DCCBs, 27 State Rural livelihood Missions engaged
- Over 5000 NGOs engaged

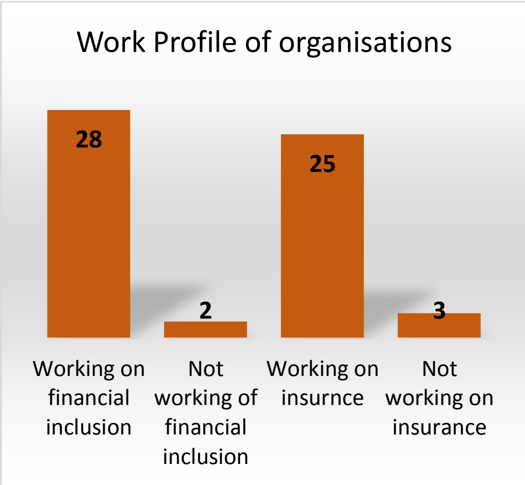
As per MFIN, as on 31 March 2018 the microfinance industry has

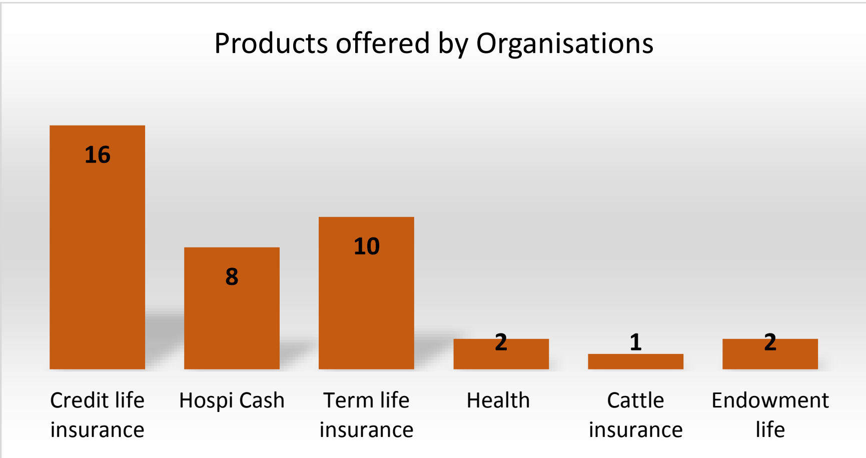
- Total loan portfolio of Rs 136,633 crore
- Year on year growth is 27%
- The share of various players
  - Bank: 37% (Rs 50,418 crore)
  - NBFC MFIs: 28% (Rs 44,890 crore)
  - Small Finance Banks : 27% (Rs 30,019 crore)

insurance services to their clients. The findings of this survey is discussed in the following section.

A questionnaire was sent to 170 organisations associated with SA-DHAN. Thirty organisations responded to the survey questions sent to them through google forms. Profile of these organisations in the inset. Twenty eight of these organisations are working on financial inclusion. Twenty five organisation (i.e. 83 %) are providing insurance to their clients. Together they have covered about thirty lakh people, mostly poor and ultra-poor under insurance. Sixteen of these twenty five organisations are providing credit life insurance, ten are providing term life insurance, and ten are providing health insurance. Three are providing other insurance covers. Out of ten organisations that are providing health insurance, eight are offering hospi-cash, indicating growing popularity of the product.

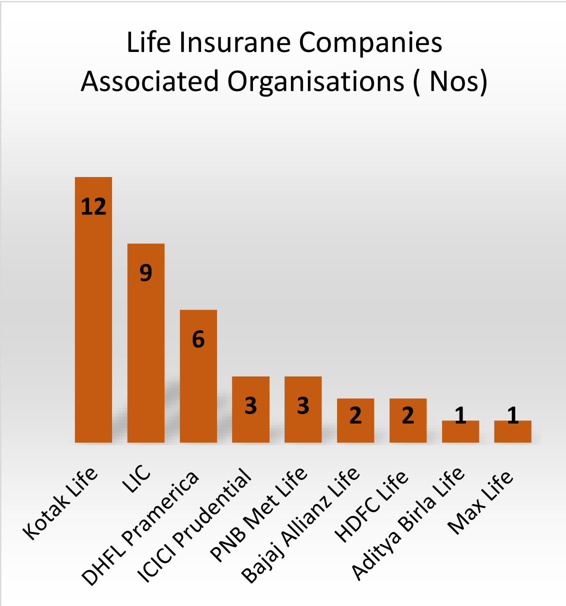


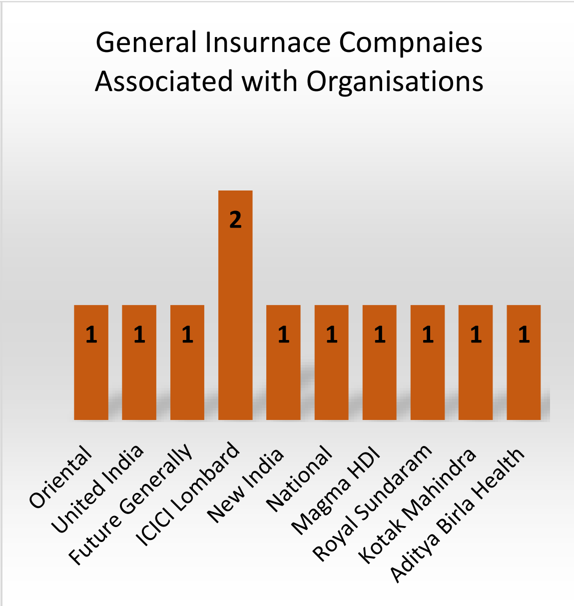




The insurance companies most popular among these organisations are Kotak Life Insurance (12 organisations), LIC of India (9 organisations), DHFL Pramerica Life

Insurance (6 organisations). Other life insurance companies working with these organisations are ICICI Prudential, PNB Met Life, Max Life, Bajaj Allianz Life and HDFC Life. The associated general insurance companies are New India Assurance Company, National Insurance Company, United India Insurance, Oriental Insurance Company, Magma HDI, Royal Sundaram, Future Generally, ICICI Lombard, Kotak Mahindra General Insurance Company Ltd and Aditya Birla Health. These insurance companies are working with one or two organisations each.





3.2.1 Experience of Organisations in Extending Insurance Services

Twenty out of thirty organisations responded to the questionnaire regarding their experience in extending insurance to their clients/members. Fourteen of them consider insurance important for the beneficiaries as well as for the organisation, as it helps the households in dealing with exigencies and helps organisations in managing loan default. Eight of the organisations said that extending insurance to the microfinance clients is challenging. The organisations which do not offer insurance cited the reason as bad past experience. Only two of the

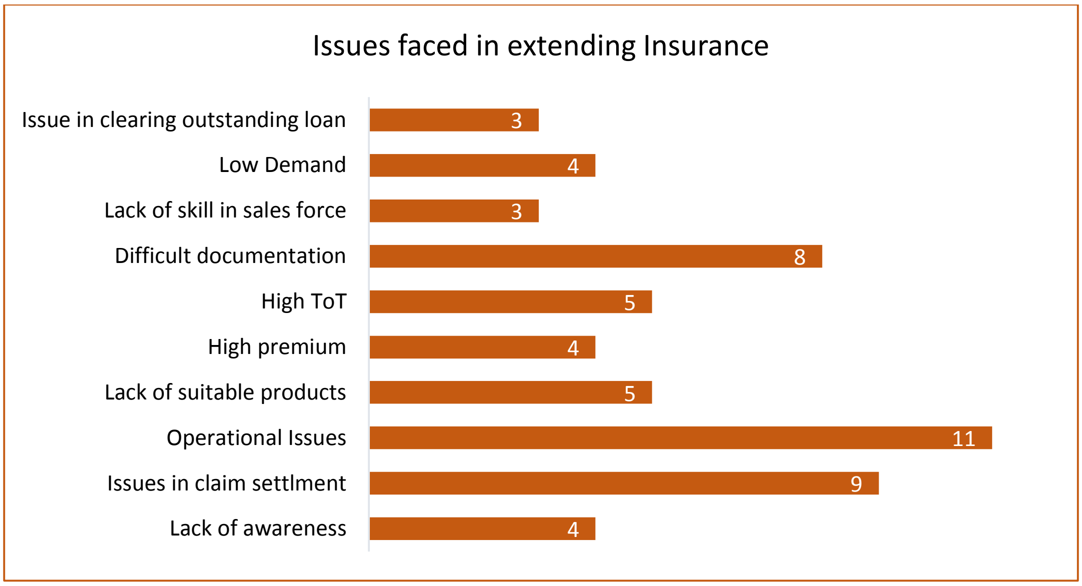
twenty households said that their experience in insurance was positive. The two organisations which had positive experience said that their communication with clients is categorical about benefits and claim settlement process. They were happy with the support extended by the respective insurers.

3.2.2 Challenges Faced by Organisations in Extending Insurance Services

The main challenges mentioned are lack of awareness, issues in claim settlement, operational issues, lack of suitable products, high premium (especially for poor households). Out of these nine organisations faced challenges in claim settlement.

The main issues highlighted in claim settlement are high turnaround time, issues in documentation and activating bank account of nominee.

Lack of awareness and knowledge among clients regarding concept of insurance results in low demand of insurance, difficulty in renewal and low willingness to pay. Low willingness to pay also results from high premium, lack of trust, and presence of cheap social security (insurance) schemes.



The main operational issues faced by organisations is problem in clearing outstanding loan by transferring claim benefit from nominee to the organisation, as claim is transferred directly to the nominee's account. The main purpose of MFIs extending insurance cover is to reduce the burden of loan default, which is not served because getting back money from nominees becomes difficult even though the organisation has to spend resources on claim settlement procedure. The other operational issues are difficulty in renewal and documentation. Organisations also face challenges due to low employee motivation as most of the sales force lacks skills and knowledge to sell insurance. They feel that the commission from insurance is not sufficient to cover the operational cost.

The products offered by insurance companies do not meet the requirements of the organisations. The age limit does not commensurate with the age of borrowers, as many of them are more than 55-60 years of age. The credit insurance products do not match with the loan duration.

3.2.3 Initiative to Support Insurance Services

In response to the questionnaire as to what will help them in extending insurance services to the clients, the main suggestions relate to extending the services in alignment with the issues faced. The organisation think that the following initiatives/ steps can help –

- Ease of operations by reducing documentation.
- Reducing cost of operations by removal of GST on all insurance products for the poor.
- Increasing the age of admission for entry under the scheme.
- Collaborating in meeting the service costs of the intermediaries.
- Incentivising sale of insurance to poor.

The organisations also indicated that better engagement of insurers in staff training and creating awareness will help in their better functioning. Reducing cost of insurance (premium) for the poor will also help in increasing the offtake of insurance.

3.2.4 Regulatory Changes Expected

The response to a question about desired regulatory changes to boost the off take of insurance at the grassroots level is discussed in this section. Organisations seek change in rules regarding claim settlement to cover the outstanding loan, as it helps in covering their cost of operations and reducing NPA. Organisations also suggested that the eligibility criteria related to maximum age need modification. The maximum age for taking insurance should be increased to 65-70 years in the case of micro insurance. The life expectancy of people has increased and people in rural areas especially the poor continue to work till advanced age and hence continue to borrow. Reducing exclusion will also help both organisations and people in covering risks arising out of natural calamities. Encouraging digital insurance will also help organisations in increasing ease of operations and reducing operational costs.

3.3 Challenges in Growth of Micro Insurance

Micro insurance is facing challenges at every stage of value chain. The target population is unable to connect with the market and does not find relevance in the products offered. The provider - the insurance companies do not find it an attractive & viable business proposition. The financial sector is still struggling to find out how financial services firms might design products and services with broader experiences that would be effective in reaching this low income segment. The market is clueless about what products are needed to accommodate the mismatch in income and expenditure and fluctuation in income depending on the cropping season prevalent in agrarian economy. The market is facing challenges related with lack of awareness, problems associated with asymmetric information, lack of data and lack of distribution channels. The following section lists down major challenges faced by target population in the access and utilisation of micro insurance and by insurance providers in making this business viable.

3.3.1 Challenges Faced by the Target Market

- **Lack of Complete Understanding of Products**

  Majority of the people do not understand the concept of insurance. Even if they have preliminary information about it, they are not able to differentiate between various general and life insurance products. They find it difficult to make a buying decision as to which product and which company to choose.

- **Low Awareness**

  There are many people already covered under insurance indirectly but they are not aware of it. Ex: all credit/debit cards have some inbuilt insurance but people do not know about it. Same is the case with PMJDY account holders wherein there an inbuilt risk cover for RuPay card holders. Awareness about PMJJBY and PMSBY is also low.

Social insurance schemes serve the purpose of financial education and bringing in a habit of buying insurance along with bringing financial security to the vulnerable. Low awareness reduces the impact of these schemes.

- **Misconception about Insurance**

  There is lot of misconception about insurance among the masses. They think that all insurance is LIC and LIC is an investment product. They do not understand the difference between term/pure risk and endowment insurance.

  Most of the time people who buy insurance are looking for some guaranteed return. People generally do not distinguish between insurance and savings. Insurance products are generally complex and difficult to understand for masses which results in misconception about insurance.

- **Perception about Value for Money**

  Low income market is looking for immediate and tangible return for the investment they are making. Insurance products are designed in such a manner that they fail to create value proposition for the buyers in the short term. They find it difficult to comprehend how insurance products can deliver value for money, even if there is no guaranteed pay out. They do not understand concept of risk management and are not interested to take insurance as they feel they did not get any value in case of no claim.

- **Lack of Long Term Planning**

  Low income households have short term focus and inclination towards short term financial decisions because of constantly changing and unpredictable circumstances and job insecurity. A Harvard study done by Sawady and Tescher (2008) posits that investing in long-term financial actions is difficult for low income households, even when their value is understood and desired.

- **Lack of Suitable Products**

  Low ticket size market has different needs compared to conventional market. The buying behaviour of this market is also different. In rural areas there is seasonality in income and expenditure coupled with uncertainty of income associated with farming.

  At the same time, people living in urban slums have very different needs. The migrant population has its own set of issues like irregular income with no permanent address.

This market needs customised products that can address these specificity, peculiarity arising out of differences in demographic characteristics and buying behaviour.

The present products in offering have many limitations that make them unattractive. The cover is low in micro health insurance products. The same problem exists in case of fire insurance; a cover of one lakh rupees leads to under insurance of house property. In addition, presence of deductibles in fire insurance products make it complicated and unattractive for both insurers and insured.

Cattle insurance products do not cover risk of theft and infertility making it unattractive to customers. At the same time, traditional method of tagging and claim settlement makes the product difficult and increases the chances of fraud. Use of new technology like mobile phone, muzzle mapping, RFID tagging may bring about a breakthrough in this direction.

- **Lack of Efficient and Effective Service resulting in lapsation**

  The current systems and processes followed for policy servicing, especially premium collection in case of life micro insurance and payments of claims are not efficient. The renewal of life policies does not happen and majority of policies get lapsed because of this reason.

- **Complicated Claim Settlement Process**

  The only time insurance makes sense to masses is the time of claim settlement. That is the moment of truth. A common person feels lost at the time of claim filing because of lack of awareness about claim process. Complying with documentation/ requirements makes it further difficult and time consuming for the insured/ nominee/ legal heirs.

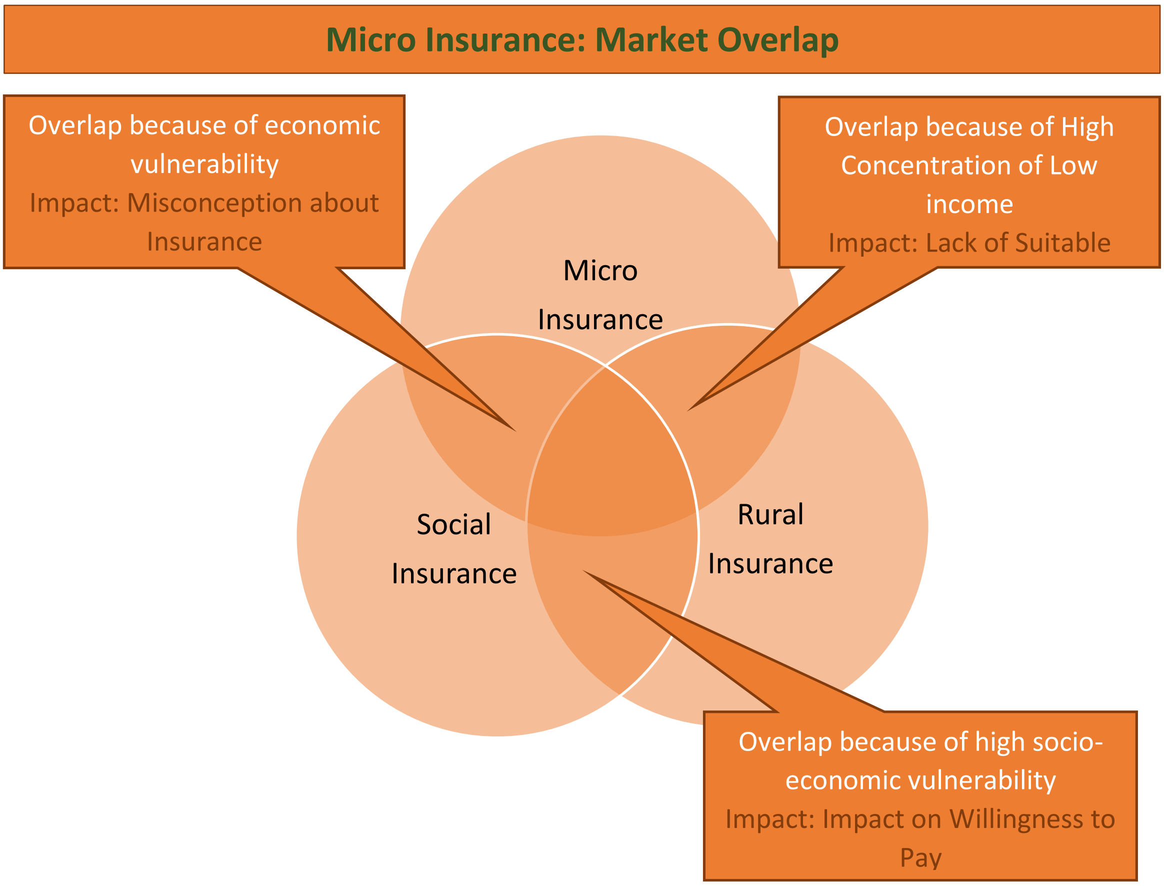
- **Grievance Redressal Mechanism**

  The present grievance redressal mechanism is not known, visible or accessible to the masses.

3.3.2 Challenges Faced by Insurance Providers

- **Lack of Knowledge about Low Ticket Size Market**

  There is a general lack of awareness about this market when it comes to financial condition and buying preferences of the customers. There is an overlap between social insurance schemes and micro insurance products as they both have the same target market. This results in lack of clear strategy for the market. In India, 96% of low income people live in rural areas, and as such rural insurance products have become synonymous with micro insurance. This complexity of market has led to lack of clear strategic push for the market.



The main difference between these three businesses is with regard to the approach taken and the target segment. Lack of clarity about these concepts creates mismatch in the strategy adopted by insurance companies. Social insurance is subsidised and is aimed at socially and economically vulnerable sections of the society. Majority of this population lives in rural areas and has low literacy rate and low awareness, because of which it becomes difficult to make them understand the concept of insurance. It also impacts the willingness to pay. This leads to overall low demand of micro insurance as the products look expensive and do not catch the imagination of the target market.

- **Lack of Pull in Market**

  Insurance is considered as a push product, which is an inherent problem in selling of insurance. It is an intangible and complex product. There is not much change in these aspects of insurance since a long time. There is not much attempt to demystify the concept of insurance that could lead to increase in interest in purchase of insurance.

- **Presence of Social Insurance Schemes**

  Schemes like PMJJBY, PMSBY are providing relatively high cover at low price. Together, both these schemes provide cover of Rs 4 lakhs at a cost of Rs. 342. Access to Government sponsored schemes are also made easy with minimum documentation as enrolments are done through bank accounts. These schemes have made current micro insurance products unattractive for both the insured and the insurers. For the insured, these schemes give better cover at a low price. On the other hand insurers can fulfil the Rural and Social Obligations in terms of rural and social sector business mandated by IRDAI through these products.

- **Lack of Reliable Distribution Channel**

  People in rural areas who can act as intermediaries have low awareness about insurance and lack necessary skill required for insurance selling. Micro insurance agents often lack professionalism and indulge in mis-selling. Agent turnover is high in rural and semi-urban areas leading to difficulty in building reliable sales force.

  In many instances intermediaries take undue advantage of distance and lack of connectivity. They misappropriate the premium amount collected from customers leaving insurance companies in bad light.

- **High Transaction Cost**

  High cost of delivery of insurance makes micro insurance unviable for insurers. In rural and suburban areas, the cost of selling and servicing is higher because of low demand, less density of population and long distance from point of sales. Servicing at the doorstep of the target market adds to the cost. At the time of claim settlement, cost of investigation is unaffordable for some insurers. The market is yet to develop a delivery model where transaction cost is low.

- **High Claim Ratio**

  Some insurers opine that the premium under micro insurance is too low and not commensurate with claim amount. They use social insurance as a proxy to explain this. One of the insurers mentioned during the discussion that in PMSBY one death claim results in wiping out premium of 16,667 policies and in case of PMJJBY, one claim is equivalent to premium collected from 6000 policies. Though the figures may look a bit exaggerated the point was made clear.

- **High occurrence of frauds**

  There is a general perception among insurers that number of fraudulent cases are high in Microinsurance. Especially, cattle insurance is perceived to be a loss making portfolio by most of the companies because of high cases of fraud. One of the reasons cited is that claim investigation is not conducted for such policies. It is difficult to find cost effective mechanism to reduce these losses.

- **High Lapsation Rate**

  Low awareness among policy holders and high instance of mis-selling leads to high lapsation rate of Micro insurance policies. Lapsation rate for Micro insurance polices is found to be as high as 80%-90% for some companies. High lapsation of micro insurance policy is also a serious impediment for insurers to design attractive products.

- **Lack of Data Pertaining to Low Ticket Size Market**

  Pricing of micro insurance products is also difficult as we do not have specific data of mortality and morbidity of this segment. This greatly impacts product innovation by the insurers.

- **Regulatory Handicaps**

  The insurance companies find it difficult to innovate with current restrictions on product under present micro insurance regulation. Restrictions of product development, restrictions on commission structure, lower cap on sum assured, and lower age limit for insured are few aspects of concern in this direction. The product filing process is also time consuming.

Numerous national and international studies have posited that intensive use of technologies and digital platforms are the way forward to make micro insurance accessible for target market and viable for insurance providers. However, current insurance and banking regulations do not leave enough space to experiment and innovate. There are few venues available in insurance regulatory sand box, but companies find it restrictive in terms of research and development in micro insurance market. Because they need to work with more number of people for a longer duration to find viability. It is to be noted that under the regulatory sand box (2019) the duration granted for experimentation only 6 month with clause of extension for six month. Together, the duration allowed for sandbox is maximum one year.

3.3.3 Challenges Faced by Intermediaries

The entities who have their presence in low income market, especially in financial inclusion and financial intermediation are expected to play an important role as intermediaries. These organisations like NGOs/MFIs/NBFCs/SFBs/Credit cooperatives to name a few are primarily operating in the space of micro finance. CSC is another entity promoted by the Government to deliver e-governance and services to the last mile. However, experience of insurance industry in last one and half decade has not been encouraging in this regard. This section of report examines the environment in which these intermediaries operate. It also attempts to understand the challenges faced by intermediaries in bringing about insurance inclusion.

- **Lack of Knowledge, Skill and Professionalism**

  Insurance selling requires in-depth knowledge of insurance products and selling skills. Intermediaries feel challenged in this regard. It also needs a professional approach in customer service. Lack of this results in mis-selling or underselling.

  The findings of the study being conducted by NIA on CSC -VLEs indicates that VLEs face difficulty in selling insurance. Majority of the 30 VLEs interviewed for the study expressed their inability to understand product features and claim settlement process.

- **Lack of Resources**

  Intermediaries are expected to do documentation and keep the records of the insured and provide various services. These institutions are constrained in infrastructure (especially MIS) as well as human resource to take care of these responsibilities.

- **Low Incentive**

  Insurance selling is a long drawn process where customers need to be convinced about the benefits of insurance. Intermediaries feel the commission in micro insurance is not commensurate with the time and resources spent in insurance selling.

  The scope to generate enough income for an individual or firm to sustain in the business for a long time is limited because of low ticket size. Micro insurance agents operate in limited geographical spread, which limits the scope of their business growth in the long term.

  The VLEs are not interested in selling insurance because they do not find it remunerative enough (NIA, 2019). However, few of the VLEs are successfully helping farmers in enrolment in crop insurance scheme because the on-line enrolment process through agri-insurance portal is easy and fast. Also, they get their commission faster and the commission is substantial because of volume they get in each season.

- **Lack of Trust on Insurance Providers**

  NGOs and MFIs were supposed to play an important role in the growth of micro insurance because of their strong presence in low income market. However, it did not happen as expected. Many NGOs had bad experiences with insurers. According to them insurance companies run away when losses were high. NGOs are left high and dry to take care of the grievance of the customers. Repetition of such events has impacted reputation of insurance companies amongst these intermediaries.

  Intermediaries sometimes find it difficult to trust the insurance companies when the time comes to deliver service or pay the claim. Lack of transparency in claim settlement also acts as deterrent. They are not clear about claim settlement process. They find documentation as cumbersome, costly and time consuming.

  The findings of the CSC -VLEs study conducted by NIA indicates that VLEs do not want to get into insurance business because they are not confident that insurance companies will support them in providing services, especially at the time of claim settlement. They expressed apprehension that delay in claim settlement will lead to dissatisfaction in their customers leading to strained customer relationship and tarnish their reputation.

- **Stringent Regulation for Intermediaries**

Interactions with institutions engaged in financial intermediation revealed that there are many MFIs interested in selling micro insurance. Few of them also attempted to become agent/broker/ corporate agents so that they can increase the width and scale of their product offerings and in turn add to their revenues. But they do not find any level playing field to operate in this direction. They find current regulations prohibitive in getting in the main stream of insurance selling. They find documentation required to become a corporate agent/broker as cumbersome because of which most initiatives to sell insurance fizzle out.

Micro finance sector feels that the Regulator is concerned that intermediaries like them will bundle insurance with micro credit and sell it in disguise. The regulator has put in place a lengthy and cumbersome compliances process to take care of this aspect. MFIs find this compliance intended for monitoring as a hurdle in diversification of their services.

4 RECOMMENDATIONS

The recommendations are compilation of the views of the various stakeholders interviewed for the purpose of this study. The suggestions are grouped under headings related with awareness, trust building, increasing pull in the market, improving access and bringing better customer protection. The recommendations are presented according to the role of various stakeholders, namely- Government, Insurance Companies, Regulator, intermediaries etc.

4.1 What Insurance Companies Can Consider

- **New Products**

  Innovative products that can catch the imagination of the low income segment will create pull in the market. These products shall be simple, easy to understand, cheap with convenient payment terms. Single products covering multiple risks can address the needs of the segment.

  Increased cover in health insurance, removing deductibles in fire insurance and covering more risks in cattle insurance can make it appealing to the market.

- **Segmentation of Micro Insurance Market**

  Micro insurance market is considered as a monolith, which ignores the diversity and complexity of needs of the target population. New approach of segmentation of low ticket market will help in designing relevant product and setting up effective systems for service delivery.

- **Service Delivery**

  Easy and fast service delivery will make insurance attractive for the segment. This can be done by using new solutions provided through digital platforms, mobile applications and other upcoming innovative IT solutions. The process has to be visible and transparent so that customers feel at ease to avail these services.

- **Claim Settlement Process**

  Easy, transparent system with lesser documentation in claim settlement process will go a long way in increasing the trust of people on insurance.

- **Reduce Turn - around - time**

  The micro insurance policyholders operates on thin financial resources. Their financial needs are urgent, especially if they suffer some losses. Reducing turnaround time for claim settlement will go a long way in creating interest and building trust in the market.

- **Responsive Grievance Redressal Mechanism**

  An accessible and fast grievance redressal mechanism will give assurance and help in trust building among low income group.

4.2 What the Regulator Can Consider

- **Removing/Simplifying Product Guidelines**

  It is recommended that micro insurance regulation provides guidelines restricted to only product features. Pricing can be left to insurance companies to decide and to compete in the market. Following additional suggestions came during discussion with insurance companies:

  - The cap on Sum assured should be either removed or made Rs 5 lakhs
  - Increasing maximum age for insurance to at least 65 years
  - The deductibles in Non-life especially fire should be removed.
  - Flexible commission structure should be introduced. A minimum fixed compensation for first three years can be allowed. It can accompany variable commission depending on business volume.
  - The regulator may allow insurers to 'use and file' for micro insurance products.

Take of Micro Finance Sector on Micro Insurance Regulation

Microfinance sector is currently operating on a thin margin of 2 - 4 %. The net interest margin in business is 10 % and cost of operations is 6 - 8%. RBI allows MFIs to operate at 26% rate of interest. This interest rate is high comparted to conventional bank rate but sufficient to cover cost of operations. MF sector started with 40 - 42% rate of interest and with time reduced to 24 - 26% rate. According to industry experts, any business that adds 2 - 4% to the bottom line will make sense to micro finance sector.

Source: Excerpt from Interview

- **Making Market Profitable**

  Micro Finance Sector

  Discussions with MFIs and other financial intermediaries indicated that they operate at a thin margin of 3-4%. They find micro insurance business in present form unviable as it adds to their cost without any return. If regulations allows them to operate at 10-15% margin, they will be able to cover the cost of operations and the business will become attractive for them. This margin is expected to reduce in future with development of market and increase in awareness in the manner it has happened in case of Microfinance sector.

- **Creating Space for Dedicated Institutions**
  Creating space for smaller organisations dedicated to serve low ticket size market is expected to bring growth to micro insurance market. Similar changes in banking regulations have helped in growth of micro finance sector in bringing financial inclusion. Learnings can be drawn from these experiments in banking sector.

  Creating Space for Community Based Models**:** Mutuals are one type of community based organisation which have successfully worked in India for more than one decade in managing health risks for low income groups. These are member owned models which allow participation of members in decision making. This model also allows creating reserves from the savings of the funds. Another characteristic of this model is that it is low claim-low fraud model which focuses on health care rather than hospitalisation (in case of health insurance). Chinese market is already taken by storm by mutual models which have covered more than ten million people in six months. Ant Financial, a dominant fintech player in China is one such example which launched mutual health aid plan recently. The mutual became famous across the globe as it enrolled 50 million users, mostly low-income, in a short period of time.

  Presently there are at least five peoples' mutual working across the country for more than a decade (details in annexure). These models are finding it difficult to scale - up their operations because they are not approved by the Regulator to sell insurance products. NBFCs do not enter into tie-up with them because they are not a registered body. Reinsurers also find it difficult to reinsure their business for the same reason.

The benefits and features of a cooperative or mutual model are

- They are customer centric rather than stakeholder centric
- Maintain fine balance of long term vs short term
- Follow collective decision making and governance
- Are transparent

In mutual societies owners are also insurers, hence these organisations enjoy high level of trust of policyholders. Social upliftment and wellbeing of the poor is their guiding principle. Profit becomes surplus which is retained for the sustainability of the society.

<u>Creating Space for not-for-profit organisations:</u> there are many NGOs/ MFIs working on financial inclusion which are interested in starting their micro insurance vertical. Regulatory space for these organisation can help these entities in three ways:

1. Venturing into insurance business as a dedicated player in low income market,
2. Up-scaling, and
3. In securing reinsurance arrangements.

<u>Creating Space for Small Micro Insurance Companies:</u> Right now capital requirement for setting up an insurance company is Rs 100 Cr, which is prohibitive for small players. If the capital requirement can be made proportional to liability carried by insurers across various business lines, it will take care of interest of insured as well as create space for small players who want to focus on low- income market. It is suggested that this capital requirement may be fixed to Rs 25 crore.

- **MIS Based Reporting**

  A simpler MIS based monitoring system for small new entrants may help in starting operations by Micro finance institutions in micro insurance.

- **Bringing Transparency**

  One of the major regulatory concerns in allowing small players seems to be monitoring. Monitoring can be simplified by allowing only those entities who have robust MIS and can submit monthly reports around various indicators to the regulator. Monitoring through IT Based Solutions will help in bringing transparency and provide opportunity for open public monitoring. Many community based organisations already have this process (tech based real time data) in place that provides periodic data to members and ensures transparency in operations.

- **Regulatory Sand Box for Micro Insurance to Promote Innovation**

  A dedicated sand box model created for experimentation in micro insurance for three to five years for a membership base up to twenty to thirty thousand members will go a long way in encouraging innovators. This will facilitate testing of innovative models and help in examining the model for viability and up-scaling. Re-insurers can be allowed to do business with these sand-box models so that a complete business environment can be simulated for the experimentation. This will also help in reducing gestation period for development of new models.

- **Promoting Digital Platform**

  Digital platforms are playing an important role in financial inclusion. Extensive use of digital platform in insurance distribution can bring ease and scale in operations and servicing.

- **Promoting New Age Financial Services/Intermediation Agencies like Payment Banks**

  Payment banks are successfully taking financial intermediation to the doorsteps of people. Role of payment banks in increasing access to micro insurance can become a game changer.

- **Dedicated Distribution Channel for Insurance**

  A separate channel for insurance needs to be developed to bring focus on insurance. Select CSCs and KVKs (Krishi Vigyan Kendra) can be developed for this purpose. These institutions can be assigned to insurance companies for a specific duration to extend their services. Though CSCs are currently allowed to work with insurance companies, but the heavy spread of services by them dilutes focus on insurance. Specialisation in insurance will create the required focus.

- **Simplifying Guidelines for Broking**

  Simplifying broking guidelines and reducing documentation to become a broker for micro finance institutions will help them to contribute in growth of micro insurance.

4.3 What Government Can Consider

- **Awareness Drive**

  Efforts have been made in last few decades to create awareness about insurance. The focus needs to shift towards increasing knowledge about insurance. So that people take informed decision. We need next generation awareness campaign which will focus on nuances of insurance like types of products, claim settlement process etc.

  > Today nearly 75 million rural adults are exposed to television regularly and many more to radio. These media can be effective in increasing awareness
  >
  > www.downtoearth.org.in

  Periodic efforts can be made to remove misconceptions about insurance. Increasing awareness at household level about insurance and social insurance schemes through all modes of media in local language may help in this direction. These awareness programs can also use social marketing concept. Also, learnings can be drawn from schemes like PMJDY which successfully inducted 3.3 Cr individuals in a short period of time and the total PMJDY accounts has touched a staggering 37 Cr by 31.07.2019. Insurance education can be made part of the Skill India initiative for insurance agents.

- **Introduction of Insurance in Education System**

  Including insurance early in curriculum will make new generation familiar with concept of insurance and increase demand for insurance. Insurance can be introduced in school curriculum from standard six along with introduction of banking concepts like interest rates and so on.

- **Incentives for working on Micro Insurance**

  Government can consider providing financial incentive by means of tax benefits to the small organisation which are venturing into micro insurance business.

4.4 Snapshot of Recommendations

Recommendations

Increase Awareness	Build Trust	Increase Pull in Market	Improve Access	Improve Customer Protection
• Awareness Drive • Introduction in Education System	• Improve Claim Settlement Process • Reduce Turn - around - time • Responsive Grievance Redressal Mechanism	• New Products • Removing/Simplifying Product Guidelines • Making Market Profitable • Promoting Innovation	• Create Space for Dedicated Institutions • Incentive in Distribution • Promote Digital Platform • Promoting New Age Financial Services/Intermediation Agencies like Payment Banks • Dedicated Channel for Insurance • Simplifying Guidelines for Broking	• MIS Based Reporting • Bringing Transparency

WHO IS SAYING WHAT

Insurance Industry

- Low awareness
- Low income market not ready for insurance
- No Strategic Push
- Business not attractive
- Difficulty in distribution
- Strict Regulation - no space for innovation
- Free Pricing should be allowed

Micro Finance Sector

- Low Awareness
- Low Margin- not viable
- Lack of Pull in the market
- Strict Regulation
- Suitable products not available
- Insurers not flexible to address needs of market
- Create space for micro insurance Institutions with lesser capital requirement

ANNEXURE

I. LIST OF CONTRIBUTORS

Formal Insurance Sector

LIC of India

SBI Life Insurance Company Ltd.

Bajaj General Insurance Company Ltd.

HDFC Ergo General Insurance Company Ltd.

Cholamandalam MS General Insurance Company Ltd.

Oriental Insurance Company Ltd.

Informal Insurance Sector/ Micro Finance Sector/ Intermediaries

Equitas Small Finance Bank

Uplift Mutuals

Annapurna Pariwar

Asirvad Microfinance Limited

Shiksha Finance

Vaya

Mandi Saksharta avam Jan Vikash Samiti

UPSRLM

Micro Insurance Industry Experts

Mr Arman Oza, Consultant

Mr Jayasheelan, Micro Insurance Expert, Ex- CEO, Hand in Hand

Mr F. X. Hay, Actuary, France

Mr Mayur Ankolekar, Actuary, Mumbai, India

II. QUESTIONNAIRES

A. Sample Questions for interview with insurance companies

- What is your take on MI business?
- What are your views on the current MI regulation?
- How things have changed after revision of IRDAI guidelines in 2015?
- Do you think separate organisations/ entities on the line of Micro finance Institutions will help in increasing the reach of insurance?
- What are tax implication on MI products? How they are impacting business?

B. Sample Questions for interview with MFIs and NGOs

- How things have changed after revision of IRDAI guidelines in 2015?
- What was impact of launch of PM security schemes on MI business?
- What will help in giving better services to the customers?
- What will help your organisation in developing tie ups with insurance companies?
- What are tax implication on MI products? How they are impacting business?

C. Sample Questions for Survey of MFIs and NGOs

- Name of the organisation
- Main area of work: financial inclusion/ employment generation
- No of members /no of people associated
- Does your organisation provide insurance to members?
- If yes, what was your experience? If no, what is the reason?
- Will your organisation be interested in taking up insurance for your members?
- What assistance you need to give insurance to your members?
- If you are working in financial inclusion, will the organisation be interested in including insurance in your activity?
- What needs to be done to include insurance in your activity?

III. EXEMPLARY WORK DONE BY MUTUAL ORGANISATIONS IN RISK MANAGEMENT FOR LOW INCOME AND VULNERABLE

1. Dhan Foundation

Development of Humane Action (DHAN) Foundation is a Madurai, Tamil Nadu based NGO registered as a trust in 1998. It strives to build community institutions of the poor and marginalised to promote initiatives on poverty reduction, self-reliance and gender equity. DHAN foundation is currently working in 78 districts of 14 states with about 16.5 lakh families. It has promoted about 86 federation mutual trusts in different locations. The foundation is successfully running five types of mutuals for more than a decade and has built a corpus of Rs 3 cr. These mutuals cover risks associated with life, health and asset. So far more than 5 lakh people are covered under these mutuals. The life mutual offers a pure term cover of Rs 10,000/- and covers people aged beyond 59 years. So far they have covered about one lakh people under life mutual. Health mutual covers primary health care needs. The livestock mutual covers loss of livestock due to disease, accidents. The role of veterinarians is replaced by a mutual livestock committee comprising farmers experienced in livestock rearing to expedite claim settlement process. Crops mutual covers loss of yield. People's mutual provides pension in old age.

2. Annapurna Pariwar

Annapurna Pariwar is a charitable trust working in 1200 slums pockets of Pune and Mumbai since 1993. It is a group of six organisations working in the area of micro finance, micro insurance, day care, education and training. One of these organisations is Annapurna Mahila Multi- state cooperative society which offers micro loans for business, education, house repair, asset creation and old debt payment. It also accepts savings of the members and pays interest. The second organisation Annapurna Parivar Vikas Samwardhan Company is a not for profit company registered under sec 8 of companies law runs micro insurance program using mutual model. The organisation runs three mutual- 1. Health mutual called community based health mutual fund, 2. Family, life and asset mutual called community based family life mutual fund and 3. Old age security mutual called Aadharpurna. Contribution for health program ranges between Rs 135 to Rs 260 per member per year and benefit rages between Rs 1700 to Rs 40,000. So far about 1.96 lakh members are covered under health mutual and their claim ratio has remained positive since inception. The benefit under family and life mutual are credit risk ranging from Rs 20,000 to Rs 5, 00,000/-; death benefit of Rs 15,000 to Rs 20,000 to family members and asset cover from Rs 5000 to Rs 7,000/-. The contribution amount ranges between Rs 220 to Rs 960. The pension program called Aadharpurna is available for members from 25 years to 55 years of age. The minimum monthly contribution is Rs 100 for a period of 40 years for a member of 25 years of age. The maximum contribution is Rs 500 per month for a duration of 10 years for a member of 55 years of age.

3. Uplift Mutuals

Uplift India is an NGO registered as a not for profit organization in 2004. Uplift is working in Maharashtra and Rajasthan to provide affordable health services by adopting mutual risk retention model. It has set up 9 local mutuals covering over 300,000 people across urban, rural and tribal geographies. Uplift covers both daily health expenses and hospitalisation expenses of the members. It offers cashless out-patient medical services and guidance for members in close vicinity. Apart from risk cover it offers value added services like 24 X 7 telephonic medical help, Medicines on discount and offers coaching to women members. About 14,000 members have availed cash less services worth 18 lakh rupees, 3500 have benefited from health screening, 14,000 have participated in wellness sessions and 500 have benefited from medicine discounts. Uplift also runs Children's mutual to cover school students from underprivileged families with donors support in premium.

4. VimoSEWA

Ahmedabad based organisation National Insurance VimoSEWA Cooperative Ltd also known as VimoSEWA is a multi-state cooperative society registered in 2009. It provides many insurance products offered by insurance companies to its members in partner agent model. VimoSEWA offers five different types of products that cover credit risk, life, health, and increasingly, income in a price/premium range of Rs 150-3,000. The average premium per policy is Rs 286 and sum assured ranges between Rs 10, 000 and Rs100, 000. In the year 2016 VimoSEWA sold policies worth Rs 21.4 million earned commission of Rs 2.4mn and reported profit of Rs 2.3mn on an aggregate basis (Inamdar, 2017).

Apart from offering conventional insurance solutions and acting as an agent, it also runs a health mutual. The health mutual offers daily cash allowance to its members in case of hospitalisation to cover loss of wages. The benefit is Rs 250 to Rs 1000 per day of hospitalisation. It is offered as a top-up product along with RSBY to the members in the age group 18 year to 59 years. Under this model the insured gets no claim benefit after three years equivalent to the premium paid.

5. SHEPHERD

Self Help Promotion for Health and Rural Development aka SHEPHERD was established in 1995 in Tiruchirappalli, Tamil Nadu as a society to promote pioneering initiatives on livelihoods promotion, poverty reduction and women empowerment. It also runs a health mutual that offers cashless hospitalisation to its members. It has entered into agreement with hospitals, which offers cashless health services to the members. Apart from this the mutual also offers preventive care to its members through health education and health camps.

Table: Select Community Based Mutual Insurance Programs in India

Institution	Mutual	Since	Risk Covered	Coverage (2017)	Other details
Dhan Foundation	Life Mutual	1990	Pure life/term insurance also for aged-more than 59 years of age	91,222 persons of which 51,196 are females	Rs.50 as annual contribution, Claim ratio of 76%
	Health Mutual		Primary healthcare needs	2.5 lakh persons	Premium receipt of Rs. 20 cr and claim almost equal to the premium
	Livestock mutual	2009		627 animals worth Rs. 94 lakhs	Contribution of Rs.3.3 lakhs, and benefits to an extent of Rs. 1,40,000 were paid
	Crop mutual		Yield	114.45 acres of groundnut cultivated by 203 farmers	Premium of Rs. 95680 for a cover of Rs. 2.29 lakhs
	People Mutual		Old Age/ pension	25000 individuals	
Annapurna Pariwar	Health Mutual	2003	Hospitalisation	1.96 lakh members	Contribution Rs 135 to 260 pa per member
	Family, life and asset mutual	2005	Credit, Life and Asset	91,000 members	Contribution of Rs 220-960 pa
	Old Age program	2016	Old age	20,000 members	Contribution Rs 1200 pa for a period of 40 yrs and 14,400 pa for 10 yrs
Uplift India	Uplift Mutual	2004	OPD and hospitalisation	34000 members	Also runs mutual for school children
VimoSEWA	Health Mutual	2009	Loss of wage	Approx. 20,000 individuals	
SHEPHERD	Health Mutual	1995	Hospitalisation	20,000 members	Cashless health care

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