MicroSave India Focus Note 49

Trends of Microinsurance in India

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Introduction

Microfinance in India has largely been driven by credit products of microfinance institutions (MFIs), and microinsurance has remained a secondary choice for financial inclusion. However, recently, many important developments have taken place in the Indian microinsurance sector. This note aims to capture the overall trends in Indian microinsurance industry.

With the rapid growth trajectory in recent years, India has achieved an insurance density of US$46.6[1] (144% over 2003) and an insurance penetration of 4.7% (36% over 2003) in 2008. However, 90%[2] of the Indian population, and 88%[3] of the Indian workforce (the majority of unorganised workforce) are still excluded from any kind of insurance cover and pension cover respectively. Hence, the importance of microinsurance[4], both from social security and business opportunity points of view can hardly be over-emphasised.

Potential Market Size of Microinsurance in India

Life: Rs.15.39 to 20.14 billion per year

Health: Rs.13.42 to 17.89 billion per year

Crop: Rs.9.76 to 13.01 billion per year

Livestock: Rs.5.86 to 8.2 billion per year

Total Microinsurance market:

- Rs.62.30 to 84.27 billion per year

Pension for unorganised workforce:

- Rs.201.3 billion (US$2.5billion) per year

Source: "Potential and Prospects of Microinsurance in India; UNDP Regional Centre of Human Development Unit 2009, "Pension Reforms for Unorganised Sector; ADB, 2006 and IIMS DataWorks Survey 2008

Microinsurance Regulation – Evolution and Present

The microinsurance regulation of 2005 was a pioneering approach by the Insurance Regulatory Development Authority (IRDA). India is among the few countries to draft and implement specific microinsurance regulations. In 2002 IRDA developed rural and social sector obligation norms that mandated every insurance company to achieve:

- Percentage of polices to be sold in rural areas; and
- Number of lives to be covered in the social sector[5].

A consultative group on microinsurance was set up in 2003 to look into the issues which highlighted the:

- Non-viability of standalone microinsurance programme;
- apathy of insurance companies towards microinsurance; and
- the potential of alternative channels.

In 2004, RRBs were allowed to sell insurance as "corporate agent", and in 2005, IRDA came up with the microinsurance regulation which suggested:

1. Stipulation of product boundaries in terms of minimum and maximum sum assured, the term of product, the allowable age group and the maximum commission to agents;
2. SHGs, MFIs and NGOs were allowed to become Microinsurance Agents (MIA), a status that has simple agency clearance process and sustainable long term earning potential; and
3. Fulfilment of both rural and social sector obligation through microinsurance products.

The definition of microinsurance products according to IRDA, is shown in the table below:

Type	Sum Assured (Rs. '000)	Term (Years)	Age (Years)
Term Life	5-50	5-15	18-60
Endowment	5-30	5-15	18-60
Health (individual)	5-30	1-7	Insurers' discretion
Health (family)	10-30	1-7	
Accident rider	10-50	5-15	18-60
Livestock/assets	5-30	1	NA
Accident (non-life)	10-30	1	5-70

The regulation was an important accelerator for the Indian microinsurance industry. By 31st March, 2009, 7,250 MIAs were registered with IRDA. However, the regulation has certain restrictive aspects, for example:

- Exclusion of Non Banking Financial Companies and Section 25 companies from acting as MIAs;
- Service tax on all commissions earned;
- Lack of clarity about MIA status of Regional Rural Banks and cooperatives; and
- Restriction of one life and one non-life partner for each MIA.

Life Microinsurance

Due to the ease of linking claim assessment, resistance to moral hazard and comfort in cross-selling, life microinsurance has been dominant worldwide. Though life, accident and disability benefits and savings and annuity liked products fall into the realm of life microinsurance, in India, credit-life insurance is dominant among life products. LIC of India, the market leader, in 2008-09 covered 14.71 million lives with a cumulative microinsurance premium of Rs.2.43 billion Though, life insurance, is a very popular savings medium in India, most of the insurance companies have not taken initiative for developing market driven and scalable savings linked microinsurance products[6].

[1] Sigma Report, Swiss Re, March 2008
[2] Mare Socquetl, October 2005, ILO/STEP, Microinsurance workshop, India
[3] "Pension Reforms for Unorganised Sector", ADB, TA IND-4226, 2006
[4] Defined by International Association of Insurance Advisors as: "protection of low income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved"
[5] Defined as ""unorganised workers, economically vulnerable or backward classes in urban and rural areas": IRDA 2002
[6] See *MicroSave*'s India Focus Note 48 "Who Says You Can't Do MicroSavings in India? Part 4: Practical Next Steps"

Innovation in Life Microinsurance: Max Vijay

The salient features of Max-Vijay are:

- It is a 10 year investment product with five times of annual premium as Sum Assured
- 60-90% of investment is in government securities
- Renewal premium can be submitted any time, in any denomination of Rs.10, sold as Vima Coupon
- Sold through referral agents, which are grocery shops, neighbourhood shops and *kirana* shops
- Premium submission can be done through scratch cards and mobile top-ups

Health Microinsurance

In India health microinsurance is dominated by government subsidised schemes and localised Community Based Health Insurance (CBHI). The best known CBHI is the Yeshaswini trust, which uses the cooperative network of Karnataka (Karnataka Milk Federation) and has reached nearly 3 million farmers.[7] The Karuna Trust (also in Karnataka), another CBHI, has adopted partner agent model. *Uplift Mutuals* is another experiment, which aims at community managed, self sustaining health insurance across states. Government of India has conceived the "Rashtriya Swasthya Bima Yojana" (RSBY) in April'2008, to reach 300 million poor (Below Poverty Line) by 2012[8]. As on 31st May, 2010, approximately 15.72[9] million people have been enrolled in the programme across 21statesof India.

Rashtriya Swasthya Bima Yojana

RSBY is targeted at the Below Poverty Line market. Features of the scheme include:

- Contribution by central and state government is 75:25 and clients pay only Rs.30 for registration.
- GTZ[10] is helping governments in implementation and monitoring of the scheme.
- It covers annual health expense up to Rs.30,000 for a family in 3,717 enrolled hospitals.
- Biometric health cards are issued on enrolment.
- 21 states and 11 insurance companies have enrolled

Though it has been realised that most of the low income people are willing to pay (on an average 1.35%[11] of their annual income) for health insurance, much of this need is not converted into demand due to poor health service coverage and imperfect implementation plans. For Example, the 2010 review of the National Rural Health Mission shows that only 53.1% of primary health clinics are active. The development of client centric, need based and innovative micro health insurance product is still not common.

Agriculture Insurance

The National Agriculture Insurance Scheme, the most prominent crop insurance scheme has reached approximately135 million[12] farmers covering 17% of Indian farm holdings. However, high geographical concentration (7 states constitutes 80% of coverage) and a high claim ratio of 3:1 has necessitated index-based crop insurance products. Some of the new trends in crop insurance in India are:

- A combination of weather index and remote sensing based vegetative index (NDVI[13]) is being developed[14] to address the issue of basis risk[15],
- Re-insurers (e.g., SwissRe) are directly partnering with MFIs and banks to provide satellite and NDVI based crop insurance.
- Crop insurance is getting bundled with agri-inputs (e.g., Pioneer seeds) and agro advisory services (e.g. BASIX and WRMS) to create demand from farmers.
- Index-based insurance is implemented in alternate livelihood insurance, e.g. in lac (a type of natural resin) farming, Tsar (a kind of silk) farming.

Invest India Micro-Pension: A Case

Invest India MicroPension (IIMP) was born in 2007 to scale up the UTI and SEWA Bank programme of providing pension for unorganised sector. Some major initiatives of IIMP till date have been:

- Implementation of web-based centralised transactional and administrative platform (called sCube) for micro pension and microinsurance in 7 states of India.
- Pension scheme for auto rickshaw drivers of Delhi.
- Launch of co-contribution based micro pension with Rajasthan Government (Vishwakarma Yojana).
- Technical assistance to Pension Funds Regulatory and Development Authority (PFRDA) for implementation of New Pension Scheme to informal sector.
- Working with Ministry of Overseas India Affairs to develop a contributory pension scheme for low income migrants in 17 countries.

Conclusion

Though India has experimented a lot with microinsurance, the sector is still driven by supply-led interventions. Moreover, the insurance providers, still, seek government subsidies and donor funding in order to achieve financial viability in preference to designing market-led, sustainable schemes. Hence, a strategic perspective towards microinsurance together with innovations in technology and assessment of client demand, probably holds the key to the future of microinsurance in India.

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[7] GTZ: Deutsche Gesellschaft für Technische Zusammenarbeit
[8] Working Paper 2, Global Development Network, September 2009
[9] **Nagpal**, Dr. Somi, "MicroHealth Insurance in India"' 2009
[10] http://www.rsby.in/Overview.aspx
[11] David Mark Dror et al. 2006
[12] NAIS Business Statistics as on 30th September 2009
[13] NDVI: Normalised Difference Vegetative Index
[14] CIRM-IFMR presentation in National Microinsurance Conference' December 2009
[15] The mismatch between the amount received because the index has been triggered and the amount actually lost by the client: **McCord** Michael, and Jim Roth, "Agricultural Insurance, Global Practices and Prospects", Microinsurance Centre, 2008