ACTUARIAL SOCIETY OF SOUTH AFRICA

ACTUARIAL SOCIETY 2015 CONVENTION

Microinsurance in India

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Agenda

1. **The Indian insurance market**
2. Social Security, Social Insurance and Microinsurance – an Indian standpoint
3. Regulation in India
   a) Rural and Social Sector Obligations of Indian Commercial Insurers
   b) MI Regulations, 2005 and MI Regulations, 2015
4. Microinsurance delivery models
5. Situating social insurance, microinsurance, micro-pension in India's social protection
   a) 'Public-Private-Partnerships' in India's Social Protection – WBCIS & RSBY
   b) Recent Government Initiatives In MI - PM Jan Dhan Yojana and Jansuraksha Yojanas
   c) New Universal Pension Scheme - Atal Pension Yojana (APY)
6. Evaluating the initiatives
7. Recap and Conclusion

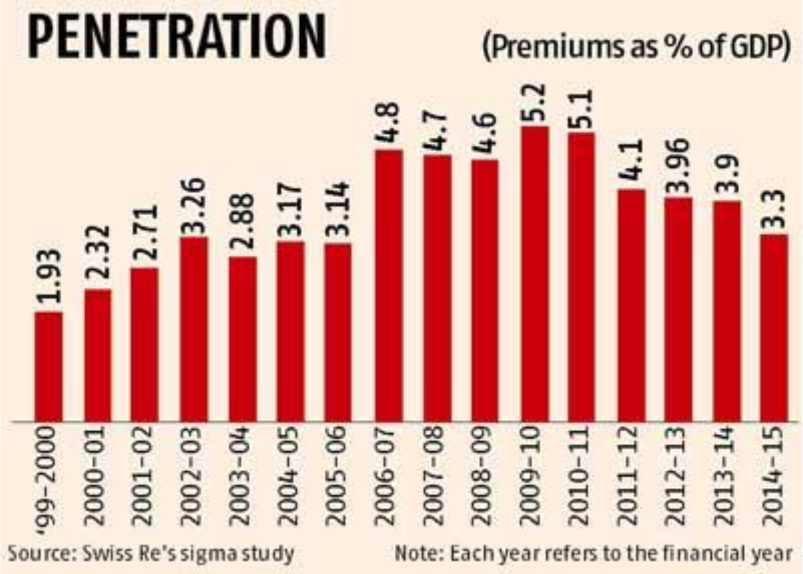
The Indian insurance market

Indian Insurers

Regulated by Insurance Regulatory and Development Authority (IRDA)

24 Life Insurers
(1 state owned)

28 General Insurers
(4 state owned)



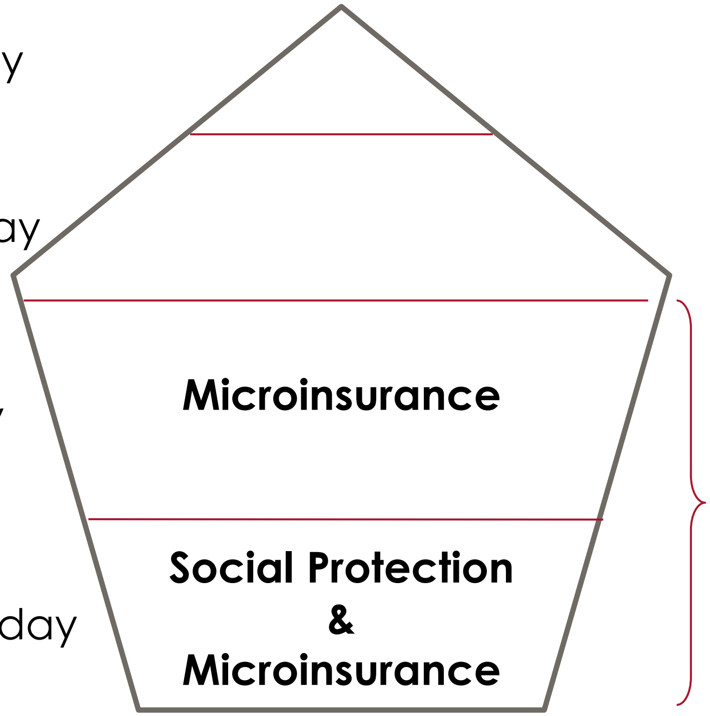
The Microinsurance Market in India

Upper Income > $6 per day

Middle Income $2-6 per day

Low Income $ 1- 2 per day

Very Low Income < $1 per day



- 65% of the 1.25 billion population are under 35 years
- 65% resides in villages, small farmers dominate
- Close to 1 billion mobile phone connections

India is arguably the largest microinsurance market in the world

Evidence points to increasing activity in formal and informal sectors

Huge Scope for Microinsurance intervention in India

- About 42% or 100 million households in India have no access to banking facilities (2015 release of the Ministry of Finance).
- About 45% of 168 million rural households and 33% of 79 million urban households do not have bank accounts.
- In urban areas, insurance penetration in the market is approx 65 % and is much less in the low-income unbanked segment.
- In rural areas, life insurance penetration in the banked segment is estimated at 40%, and is marginal in the unbanked segment.

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Social Security, Social Insurance and Microinsurance – an Indian standpoint

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Difference between commercial/ conventional insurance and social insurance & social security lies in:

- Who pays the premium: Govt. or Subscriber?
- Who underwrites the risk: Govt. or Insurer?

Social Security Schemes

- Government insures the risk itself – no insurer
- E.g. Mahatma Gandhi National Rural Employment Guarantee Act (guarantees 100 days of wage employment)

Social (micro) insurance schemes

- Government subsidises the premium, underwriter is the insurer
- E.g. Aam Admi Bima Yojana: Government subsidised personal accident insurance

Micro-insurance

- Entirely contributory with very limited direct subsidy
- E.g. Pradhan Mantri Suraksha Bima Yojana (Personal Accident insurance)

ROLE OF MICROINSURANCE IN SOCIAL PROTECTION

Social assistance

Includes cash transfer, health, education

Potential Microinsurance Intervention

Formal Private & Public Systems

Informal Systems

Co operative Systems/ CBHI

Self-help groups

- Alters Financing Mix
- Reduces pressure on Social Security
- Releases Fiscal Space
- Creates sustenance of SP Programs
- Builds capacity
- Develops Financial Markets

Regulation
Minimum Standards
e.g. Wage rate, labour protection, Health & Safety

The social protection strategy of the Government of India

Article 41 of the constitutional Directive Principles of State Policy

"The State shall, within the limits of its economic capacity and development, make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disablement, and in other cases of undeserved want."

- Indian system characterised by social assistance, welfare & social sector development programmes / schemes
- Federal structure leads to overlaps & fragmented initiatives
- Various ministries, welfare boards, & departments are involved
- Serious gaps exist in social protection policy for the informal economy

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Regulations in India

Government and IRDA has taken the following regulatory measures:

- **Required obligations:** 'Rural areas and the social sector' obligations for the private insurance industry
- **Regulatory updates:** IRDA Microinsurance Regulations, 2005 & IRDA Microinsurance Regulations, 2015
- **Agents:** Legalising new micro insurance delivery channels / agents such as self-help groups (SHGs), NGOs, and MFIs
- **Holistic model:** Officially incorporated insurance into social protection as a risk management mechanism for the larger population
- **Private Public Partnerships:** Entering into various PPP agreements between the Indian government and the insurance industry

Microinsurance Regulations, 2005

Product guidelines	• Distribution • Design • Issuance of policy contracts
Agents	• Appointment, Remuneration, Code of conduct, Capacity Building etc • A micro insurance agent shall not distribute any insurance product other than a microinsurance product
Life & non-life tie-ups	• A life insurer may offer general microinsurance products & vice versa
Required obligations	• Links to the ‘Obligation to Rural and Social sectors’ • Microinsurance policies issued eligible to be reckoned for social sector obligations

Changes in Microinsurance Regulations (2015)

Capacity building exercises expanded

- Additional 25 hours of training for micro agents licensed to distribute general insurance MSME policies
- Refresher training in three years

Appointment of Micro agents expanded viz.

Tie ups with AIC and health insurers permitted

Minimum of 5 (from previous 20) for group policies

Definition of micro-agents expanded with inclusion of-

- Regional Rural banks
- Primary agricultural and other co-operative Societies
- Bank correspondents of scheduled commercial banks (promoting the banking sector's role)

Changes in Microinsurance Regulations (in 2015)

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Increase in maximum amount of cover

Addition of Schedule III, which outlines-

- New features permitted in micro-insurance products
- Provision of instalments
- Regulation on discontinuance of policies
- Prohibition on offering unit linked platform
- Withdrawal of non-compliant products

Inclusion of MSME sector

General insurance policies issued to MSMEs will qualify as general microinsurance business, subject to certain conditions

Introducing 'Rural and Social Sector Obligation'

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Insurance Bill draft, 15th Lok Sabha

Increasing Insurance Penetration in Rural and to Economically Weaker Sections

Life Insurers should:

- Cover a certain % of the total number of policies in rural areas
- Insure a given number of lives in the social sector

Non-Life Insurers should:

- Cover a certain % of the gross underwritten premium (GWP) in rural areas
- Insure a given number of lives in the social sector

- Commenced in 2000 – when insurance industry opened up to private players
- The obligations have been stipulated for insurers based on the time completed after starting business but computed on the basis of business procured in the preceding year
- Fully subsidised schemes, AIC and ECGC excluded from regulation, otherwise no distinction between private / public
- Health insurers will have to achieve 50% of the non-life insurers obligations
- Penalties are levied for non-compliance
  - Fine,
  - Cancellation of license.

Targets met under ‘Rural and Social Sector Obligation’

- Industry overview from 2007-10:
  - Life Insurance
    - Rural Sector: 27.2% of the total no. of policies
    - Social Sector: 21.8 million lives
  - General Insurance
    - Rural Sector: 12.94% of gross premium underwritten
    - Social Sector: 9.5 million lives

Source: Insurance Bill draft, 15th Lok Sabha

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MI delivery models

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- **Self-insurance**
  - Community-based, informal insurance
  - Co-operatives, formal insurance
  - In-house & full-service providers (mostly for health)
- **Partnership with a licensed (private) insurer**
  - NGOs / MFIs / trade unions
  - Retailers or over-the-counter selling
  - Technology (e.g. mobile phones, call centres, smart cards/ATM etc)

- Partner-agent model involves MI delivery channels including the civil society sector
- New MI delivery channels (e.g., shopkeepers, mobile phone providers) that cater to individual clients are becoming increasingly important
- However, still a limited support structure available
- The partner-agent model that the IRDA promotes neglects the latter models in which NGOs or community-based groups independently operate insurance services

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Situating Social Insurance in India's Social Protection

'Public-Private-Partnerships' in Indian Social Insurance Schemes

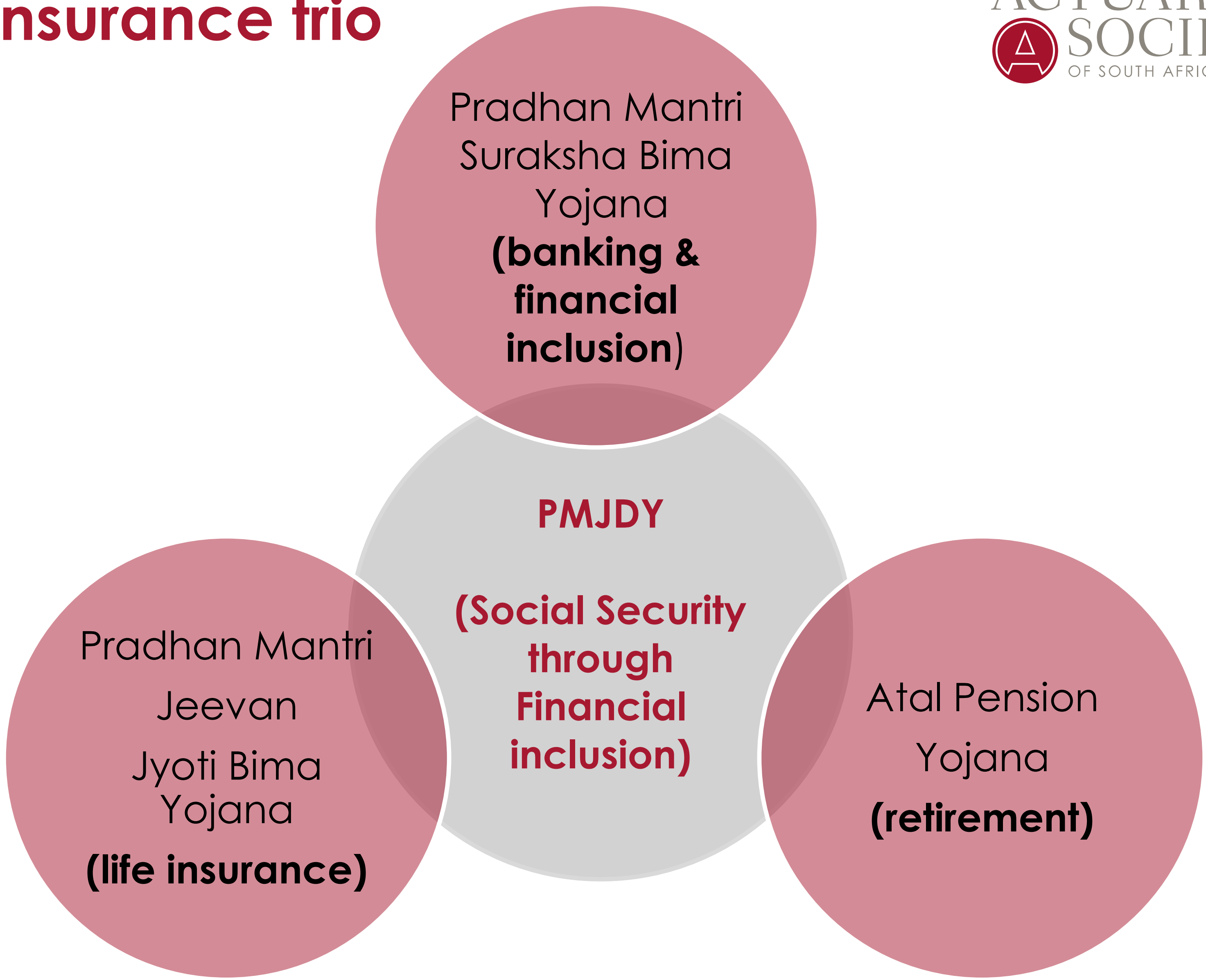
Weather Based Crop Insurance Scheme

- Developed originally by the private sector, then adopted by the State and subsidized in 2007.
- From 2009-2010, private sector firms were allowed to compete with the public insurer AIC to offer subsidized WBCIS products at a state level.
- 34,136,419 farmers covered and 46 million hectares insured as of May, 2015

Rashtriya Swasthya Bima Yojana (National Health Insurance Scheme)

- Implemented by different insurers in different districts.
- Governments have been easily able to shift contracts between commercial insurers and thus, competition allows the government to drive the programme at low cost.
- 36,307,787 families below the poverty line (BPL) covered i.e. around 50.1% of BPL families as of 19th October, 2015

The insurance trio

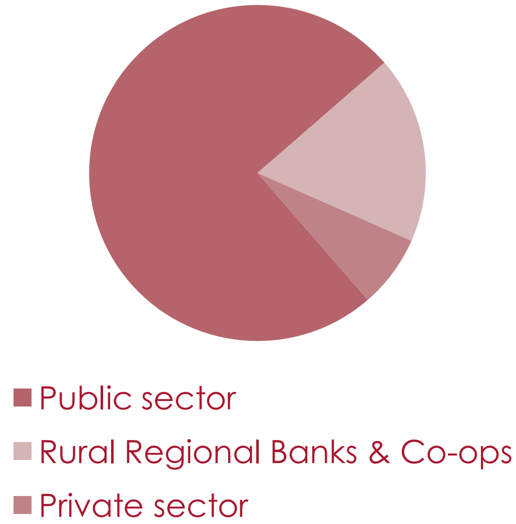


Situating Microinsurance in India's Social Protection

Pradhan Mantri Jan Dhan Yojana (PMJDY)

- **National Mission on Financial Inclusion:** integrated approach for comprehensive financial inclusion of all Indian households
- Initiated on 28th August, 2014
- The beneficiaries would get RuPay Debit card having built-in accident insurance cover of ₹ 1 lakh
- Similar to South Africa's Mzansi bank account initiative
- 188.6 million accounts opened up to 19th October, 2015

No. of participating banks:
27 Public Sector Banks
22 Regional Rural Banks
13 Private Sector Banks



Enrolment under PMJJBY & PMSBY as of 19th Oct, 2015

Scheme Name	Rural Male	Rural Female	Urban Male	Urban Female	Total
PMJJBY	8,919,861	5,475,385	8,939,271	5,039,101	28,373,618
PMSBY	27,634,391	18,101,895	26,933,850	15,754,235	88,424,371
Total	**36,554,252**	**23,577,280**	**35,873,121**	**20,793,336**	**116,797,989**

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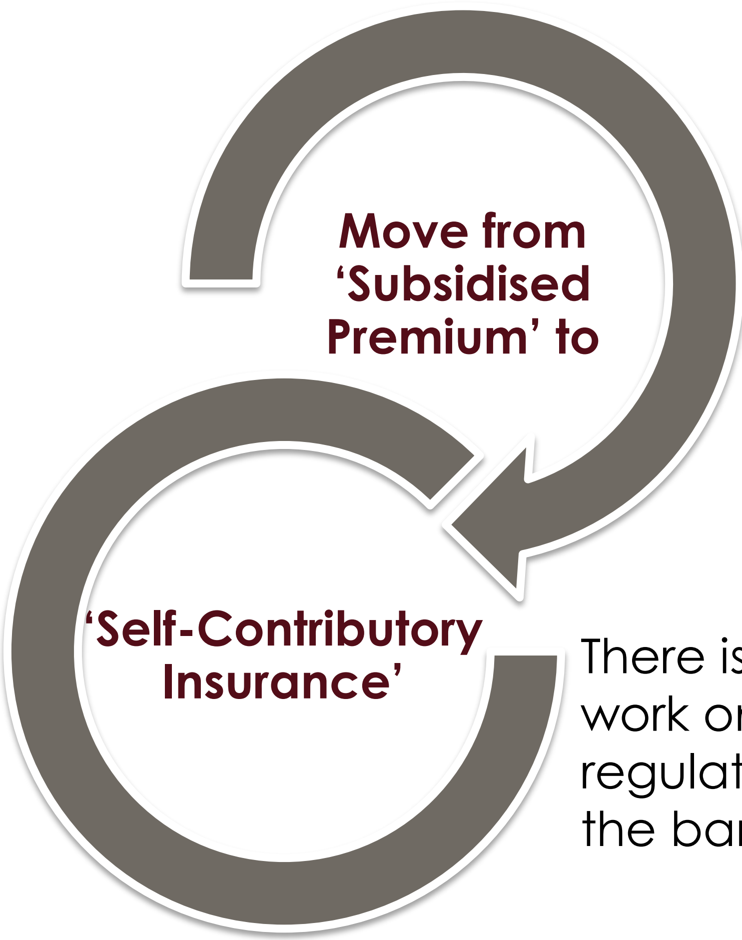
What is different in the current MI initiatives?



Though Aam Aadmi Bima Yojana was a fully subsidised scheme, only 20 million subscribers opted as compared with 117 million subscribers (within 4 months) for PMSBY and PMJJBY contributory schemes.

There is a focus on smarter subsidies, which work on the design of the schemes, price regulation and ensuring access through the bank network.

Situating micro-pension in India's social protection

THE GREAT INDIAN PENSION PROBLEM

With a 'formal sector first approach', the statutory pensions initiatives have actively targeted the organised sector, which constitutes ~7% of the working population

The unorganized sector, which constitutes the remaining 93% of the working population, lack formal pension provision

Background of APY:

New Universal Pension Scheme

National Pension System (NPS)

- Introduced in 2004 for new entrants to Central Government service, except for the Armed Forces
- NPS was then opened to all citizens from 1st May, 2009 on a voluntary basis

NPS - Swavalamban (NPS-S) launched in 2010

- Voluntary pillar of NPS was extended to cover the unorganised sector
- Temporary subsidy provided when member contributes towards NPS-S

Atal Pension Yojana (APY) launched in 2015

- Successor of NPS-Swavalamban
- The embedded effective interest rate for a 18 year old entrant is 6.8% p.a
- The older a subscriber, the lower the guaranteed rate of return

Atal Pension Yojana

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World Bank's 'Three Pillar System'

Pillar 1	• A mandatory, publicly managed, tax-financed pillar for social insurance
Pillar 2	• A mandatory, privately managed, fully funded pillar for old age savings
Pillar 3	• A voluntary pillar for those who want more protection in their old age **(APY fits here)**

Analysis: Are the Rural & Social Sector Obligations achieved?

Study across the commercial sector

- 8 life insurers and 8 general insurers analysed
- Year 2010-11 to 2014-15
- Hypothesis testing, rural sector performance & qualitative analysis

- Findings:
  - 6 Life insurers and 0 non-life insurers participate in microinsurance
  - Only 2 out of the 8 companies viz. Bajaj Allianz and ICICI Lombard undertook crop/ weather-index based insurance
  - The ratio of 'Rural average premium/ Urban average premium' crossed 100% (i.e. 5 of 8 general insurers)
  - Bajaj Allianz considered gross premium inclusive of renewal premium for 'Rural & Social sector' obligations, i.e. lack of uniformity with industry which considers only new business
  - Motor OD, followed by Motor TP is the highest contributing LOB for rural sector obligations for 5 of 8 general insurers
  - The role of micro-agents is negligible

Analysis of 5 year "Rural Sector" performance

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Life Insurer	Rural average premium / Urban average premium	Rural average SA / Urban average SA
LIC	55.73%	38.42%
ICICI Prudential	3.42%	4.08%
Kotak	28.42%	28.53%
HDFC Standard	1.96%	1.88%
Birla Sun	0.23%	1.55%
Max	69.52%	62.51%
SBI	71.88%	70.47%
Bajaj Allianz*	70.47%	55.59%

Non-Life Insurer	Rural average premium / Urban average premium
New India**	120%
ICICI Lombard	233.89%
IFFCO Tokio*	112.9%
HDFC Ergo	90.13%
Tata AIG	115.03%
Reliance*	85.4%
SBI	58.24%
Bajaj Allianz*	190%

*Data not available for one year **Data not available for two years

Informal sector case study:

Pension scheme

The state government of Andhra Pradesh introduced Abhaya Hastham pension scheme in 2009 for self-help groups.

Pension scheme for Self Help Groups

(90% of the BPL families are covered under SHGs)

Who is eligible?

White ration card holders (Both rural and urban)

18-59 year old

Eligibility for pension benefit:

Member of SHG for at least a year

Paid min contribution for 10 years or has accrued accumulated fund of Rs. 3,650/-

Co-contributory micro-pension for Rs1 per day , wherein government matches the contribution

- DB + DC pension
- Pension amount depends on age of entry (min Rs 500 & max Rs 2,118)

Janashree Bima Yojana – Personal Accident policy

Principle of return of capital (Return of capital after lapse/ closure of annuity)

Scholarship for subscribers' children (of Rs100 p.m.)

Analysing the demand for micro-insurance

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90% of the respondents said they would continue in the scheme even if the subsidy was not available

The overall satisfaction about the scheme is good as 80% respondents said performance was 'very good'/ 'good'.

94% of the respondents said 'they would recommend' the scheme.

The Dropout rate is 12% mainly due to:

- Lack of cash amongst members
- Lack of trust due to long gestation period
- Migration
- Death

CASE STUDY – UPLIFT HEALTH MUTUAL SCHEME, PUNE

Product type	In-patient health, mandatory, group, credit- and non-credit linked
Distribution	MFIs, Self Help Groups, Co-ops
Targeted segment	Mostly urban population, Pune and Mumbai, slum dwellers, microcredit clients, also now tribal areas in Rajasthan
Eligibility criteria	Membership with delivery channel partner, family of 4, no age limits
Enrolment	Voluntary at a group level, often linked to loans (less to savings)
Coverage	• Hospitalisation cover, only complex maternity (• 10 days pre and post hospitalisation (drugs included) • Discounts for OPD • INR 15,000 for IP, sub-limits pre and post IP • Reimburse 80-100% in public hospitals, 60% in network hospitals • Exclusions validated by the community • Minimum 24 hours hospitalisation • 3 year renewal necessary for pre-existing conditions
Value-added services	Health camps and health awareness campaigns, 24/7 call centre for health counselling, referral system, one free health check up per year, Investigation centres and medical shops offer low-cost services

Uplift Health Mutual Scheme, contd.

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Premium p.a.	INR 100-150 per person p.a., options to pay in instalments)
Proximity	• Service agents visits at doorstep • Health care providers are chosen by minimum service requirements, cost and location
Claim processing procedures	Reimbursement basis but clear guidance for communities. Uplift processes claims, community disburses and maintains IT system/ records
Claim processing time	1 month TAT with 9% rejection rate, web-based IT system to process claims
Cost structure and controls	60% claims ratio, accurate adverse selection and fraud measures; expenses subsidized by a donor
Policy administration	One month to issue a card and distribute discount coupons
Education system	Information sessions and training to new groups, constant support by Uplift staff, self-education through fund management by members equipped with guidelines and documents
Performance Indicators	Approx 200,000 lives 80% claims ratio, 5% rejection, 70% renewals

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Recap and Conclusion

1. The recent government initiatives resulted in a change in the mind-set of the people regarding insurance ("contributory ok")
2. RSBY (the universal PPP operated health insurance scheme) is a successful social insurance programme, which achieved extensive coverage with bio-metric identity
3. WBCIS, also a subsidized (social) insurance programme, is fraught with usual design problems around crop insurance e.g. basis risk
4. The commercial sector's participation has not resulted in any significant impact as can be seen from the results of rural and social sector obligations
5. Informal schemes are successful as they capitalize on social capital, but need institutional leadership.

Recap and Conclusion .. Contd.

1. Clear and differentiated role for social insurance and micro insurance
2. Regulations on commercial insurers has not provided the desired results on 'micro insurance'
3. 'Smart subsidy' design to provide an exit to government sponsored schemes
4. Using technology-driven aggregators is essential to generate volumes
5. Scope for various players to perform viz. formal and informal
6. Micro-Pension is necessarily a technology driven product
7. Fragmentation and overlap is an issue, especially in a federal political system.

Questions?

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