

# Regulation of Micro-insurance

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Member



# Outline

- Bridging the “Demand-Supply” gap - *response of IRDA.*
- Proposed *Micro-insurance* regulation - *idea and objective.*
- Proposed mechanism of Supervision.
- Development role of IRDA in *Micro-insurance* area.
- Challenges envisaged in implementing the new Micro-insurance regulation.

# Bridging the “Demand-Supply” Gap

- Despite its teeming one billion population,
  - India still has a low insurance penetration of 2.88 per cent (premium as percentage to GDP)
  - 51<sup>st</sup> in the world.
- Around 300 million people or about 60 million households, are living below the poverty line.
- Only about 20 percent have access to credit from the formal sector.

# Bridging the "Demand-Supply" Gap

- The segment of the rural population above the poverty line but not rich enough to be of interest to the formal financial institutions does not have proper access to the formal financial intermediary services, including savings services.
- A group of micro-finance practitioners have estimated annualised credit usage of all poor families (rural and urban) at over Rs.45,000 crores, of which some 80 percent is met by informal sources. *This figure has been extrapolated using the numbers of rural and urban poor households and their average annual credit usage (Rs 6000 and Rs 9000 pa respectively) assessed through various micro studies. (source SIDBI)*

# Bridging the “Demand-Supply” Gap

- Credit and insurance on reasonable terms to the poor can bring about a significant reduction in poverty.
- Opportunities for the unskilled and the illiterate are not increasing fast enough, as compared to the rest of the economy thereby leading to a lopsided growth.
- Institutions involved in micro-finance and micro-insurance have a significant role to play to reduce this disparity and lead to more equitable growth.

# Bridging the "Demand-Supply" Gap

- India is a predominantly rural country and will continue to be so in the near future.
- New players may tend to favor the "creamy" layer of the urban population. But, in doing so, they may well miss a large chunk of the insurable population.
- A strong case in point is the current business composition of predominant market leader – the Life Insurance Corporation of India. The lion's share of its new business comes from the rural and semi-rural markets.
- In a country of 1 billion people, mass marketing is always a profitable and cost-effective option for gaining market share. The rural sector is a perfect case for mass marketing.

# Bridging the "Demand-Supply" Gap

- Competition in rural areas tends to be "kinder and gentler" than that in urban areas, which can easily be termed cutthroat.
- Smaller policy size in rural areas would be more than offset by the higher volume potential in these areas in contrast with urban areas.
- Identifying the right agents to harness the full potential of the vibrant and dynamic rural markets will be imperative.
- Rural insurance should be looked upon as an opportunity and not an obligation.
- A smaller bundle of innovative products in sync with rural needs and perception and an efficient delivery system are the two aspects that have to be developed in order to penetrate the rural markets.

# Role of Micro-insurance

- Protection of assets and lives against insurable risks of target populations through formal, semiformal and informal institutions - *micro-entrepreneurs, small farmers and the landless, women and low-income people.*
- To be an integral part of the insurance system.
- Micro-insurance procedures and services should be set by insurers rather than the regulator.

# Proposed Micro-insurance Regulations

- Enable insurers to design, distribute and service micro-insurance products.
- Insurer transacting **life insurance business** to provide life micro-insurance products
  - *also general micro-insurance products - provided it ties up with an insurer transacting general insurance business, and vice versa.*
- New concept of “**micro-insurance agent**”
  - *in addition to insurance agent or corporate agent or insurance broker .*
- New concept of “**micro-insurance product**”.

# Life Micro-insurance Product

- Any 'term insurance' contract with or without return of premium.
- Any 'endowment' insurance contract or 'health insurance' contract, with or without an accident benefit rider
  - *Either on individual or group basis.*

# Life Micro-insurance Product

Table A:

Type of Cover	Minimum Amount of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Term Insurance with or without return of premium	Rs. 10,000	Rs. 50,000	5 year	7 years	18	60
Endowment Insurance	Rs. 10,000	Rs. 50,000	5 year	7 years	18	60
Health Insurance Contract	Rs. 10,000	Rs. 15,000	1 year	7 year	18	60
Accident Benefit as rider	Rs. 10,000	Rs. 50,000	1 year	5 years	18	60

*NOTE: The present average sum insured is around Rs. 5,000. This is highly inadequate to provide any tangible relief even to a individual below the poverty line. Therefore, it is suggested that the minimum amount of cover of Rs. 10,000 appears more realistic.*

# General Micro-insurance Product

- Any 'health insurance' contract.
- Any contract covering the belongings such as hut, livestock, any personal accident contract, or tools or instruments
  - *Either on individual or group basis.*

# General Micro-insurance Product

Table B:

Type of Cover	Minimum Amount of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Hut or livestock or Tools or implements or other assets— against all perils	Rs. 10,000	Rs. 20,000	1 year	1 year	18	70
Health Insurance Contract	Rs. 10,000	Rs. 15,000	1 year	1 year	18	60
Personal Accident	Rs. 10,000	Rs. 50,000	1 year	1 year	18	60

# Micro-insurance Agent

- **Non Government Organisation (NGO)**
  - *a registered non-profit organization under the Society's Act, 1968*
  - *proven track record of working with marginalised groups*
- **Self Help Group (SHG)**
  - *an informal group or registered under Societies Act, State Co-operative Act or as a partnership firm*
  - *consisting of 10 to 20*
- *Proven track record with marginalised groups.*
- *Clearly stated aims and objectives, transparency, and accountability outlined in memorandum, rules and regulations.*
- *Minimum number of members comprising a group should be **atleast ten** for insurance of individuals, and **atleast fifty** for group insurance.*

# Proposed mechanism of Supervision

- Appointed by an insurer
  - *Deed of Agreement or Memorandum of Understanding*
  - *Clearly specified terms and conditions, duties and responsibilities.*
- Work either for one life insurer and/or for one general insurer.
- Agreements/ MOU must have prior approval of the Head Office of the insurer .
- Option to terminate the Agreement/ MOU after giving a notice of three months.

# Proposed mechanism of Supervision

- **Functions of Micro-insurance Agents**
  - Maintenance of register of all members and their dependants covered under the insurance scheme
    - *Name, age, address, nominees and thumb impression/signature*
  - Collection of
    - *proposal forms*
    - *self declaration from the member that he is in good health*
    - *monies for issuance of contract or remittance of premium*
  - Distribution of policy documents
  - Assistance in
    - *settlement of claims*
    - *Nomination*
    - *any policy administration service*

# Proposed mechanism of Supervision

- **Remuneration/ Commission**
  - Entitled to receive a fee from insurer to cover for all services rendered
  - Fee shall not exceed:
    - *Life insurance contracts:* Twenty per cent of the premium- *both new and renewal*
    - *General insurance contracts:* Seven and half per cent of the premium
  - In case of termination of agreement no future commission/ remuneration payable

# Proposed mechanism of Supervision

- Employment of specified persons
  - Employment of specified persons with *prior approval of the insurer* for the purpose of discharging all or any of the functions
  - *Corporate agent or individual agent licenced by the Authority shall be prohibited to employ any specified person*

# Proposed mechanism of Supervision

- Code of Conduct
  - Micro-insurance agent and every specified person shall abide by the code of conduct
    - *IRDA (Licensing of Insurance Agents) Regulations*
    - *IRDA (Insurance Advertisements and Disclosures) Regulations.*
  - Responsibility of the insurance company to ensure compliance of the code of conduct, advertisements and disclosure norms.
  - Any violation of code of conduct shall lead to termination of the Agreement/ MOU with the insurer forthwith and shall attract the penal provisions.

# Proposed mechanism of Supervision

- Duties and responsibilities of Insurers
  - Micro-insurance products subject to **“file and use”**
  - Insurance contracts to micro-insurance policyholders to be issued
    - *in the local language*
    - *simple and easily understandable*
    - after satisfaction about the condition of the insured
  - No insurer shall authorize any micro-insurance agent to underwrite any insurance proposal

# Proposed mechanism of Supervision

- **Duties and responsibilities of Insurers**
  - Impart atleast 25 hours of training at its expense through its designated officer in the local vernacular to all micro-insurance agents and their specified persons
    - *insurance selling, policyholder servicing, claims administration*
  - Not additional payments by way of fee or remuneration or compensation in any form other than specified
  - Transactions in accordance with the Acts and Regulations
  - Furnishing information in respect of micro-insurance business to the Authority
  - Handle and dispose complaints against a “micro-insurance agent”

# Proposed mechanism of Supervision

- Obligations to Rural or Social Sectors
  - All micro-insurance policies to be counted for the purposes of social obligations to be fulfilled by an insurer
  - A micro-insurance policy, if issued in a rural area and comes under social sector definition, may be counted both under rural and social obligations separately

# Development Role of IRDA in Micro-insurance

- Recognition of non-formal institutions.
- Developing institutional linkages with rural credit and cooperatives through regulations.
- Product design.
- Capacity building.
- Insurance Awareness.

# Challenges

- Mismatch in terms of the relative merits of insuring lives for higher sum assured as compared to insuring assets only for higher sum insured.
- Mis-selling.
- Moral Hazard.
- Channel conflicts.
- Competition of insurance schemes of insurers with government/ state government schemes.
- Development and Design of new products.
- Simplified policy wordings.
- Managing Distribution costs.
- Servicing of insurance policies/ administration of claims.

***Thank You***