



**Value Creation through bundling
Microinsurance with Microfinance:
“Creating a Long Term Impact”**

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November 2009

***“You ought to have a commercial justification for doing business,
You ought to then be able to scale it up”....
K.V. Kamath, Chairman, ICICI Bank***



Agenda

Overview of Indian Market

Business Fundamentals

Leveraging Synergy

Summary

Agenda

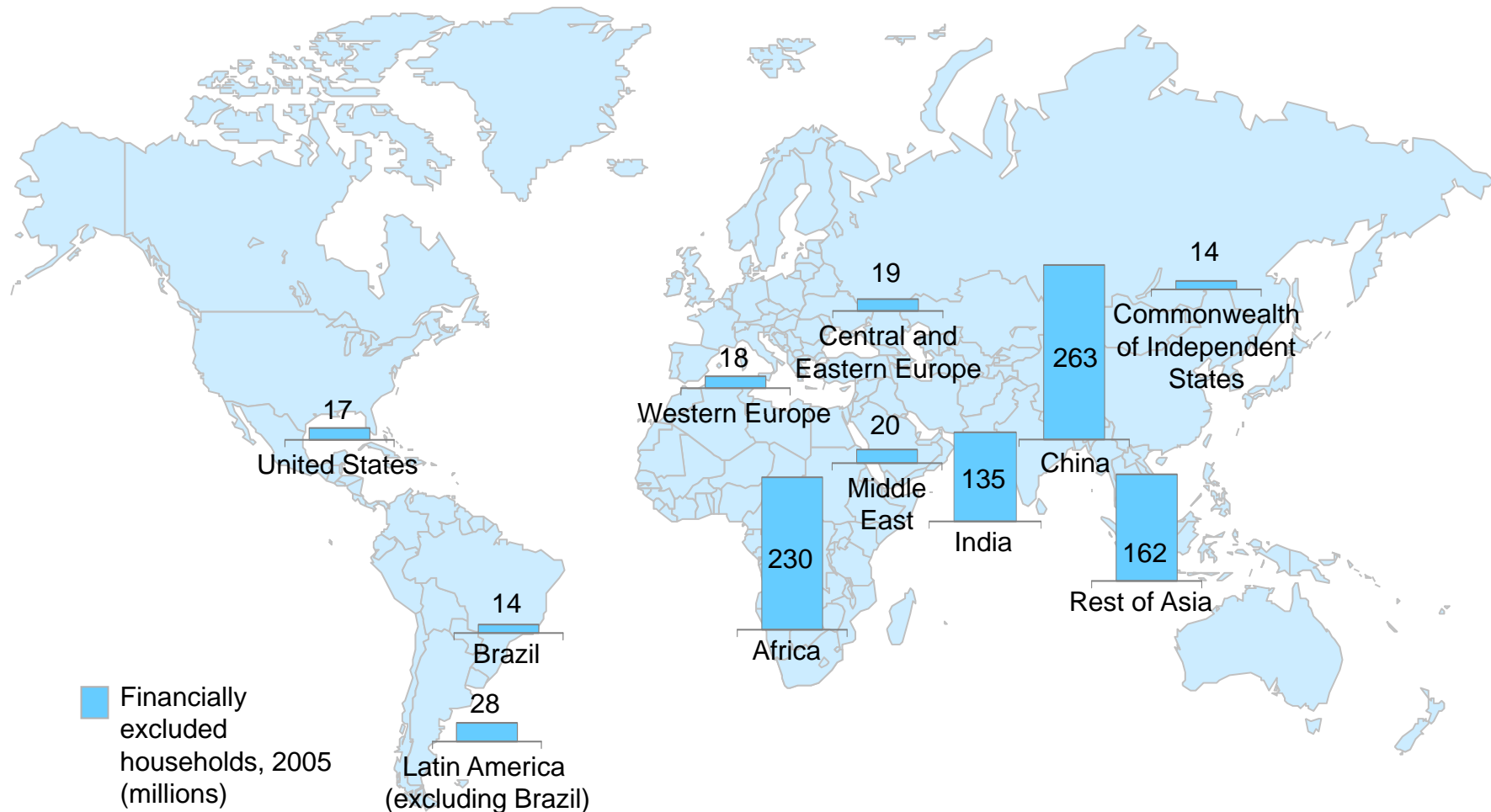
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2nd highest number of excluded households in India



Note: These numbers are only approximations; financial inclusion is based on ownership—not usage—of a banking account.

Sources: United Nations Development Program; Economist Intelligence Unit (EIU); World Bank reports; Credit Suisse; banking regulators of various countries; press search; BCG analysis.

Microfinance: Growing in an Evolving Market

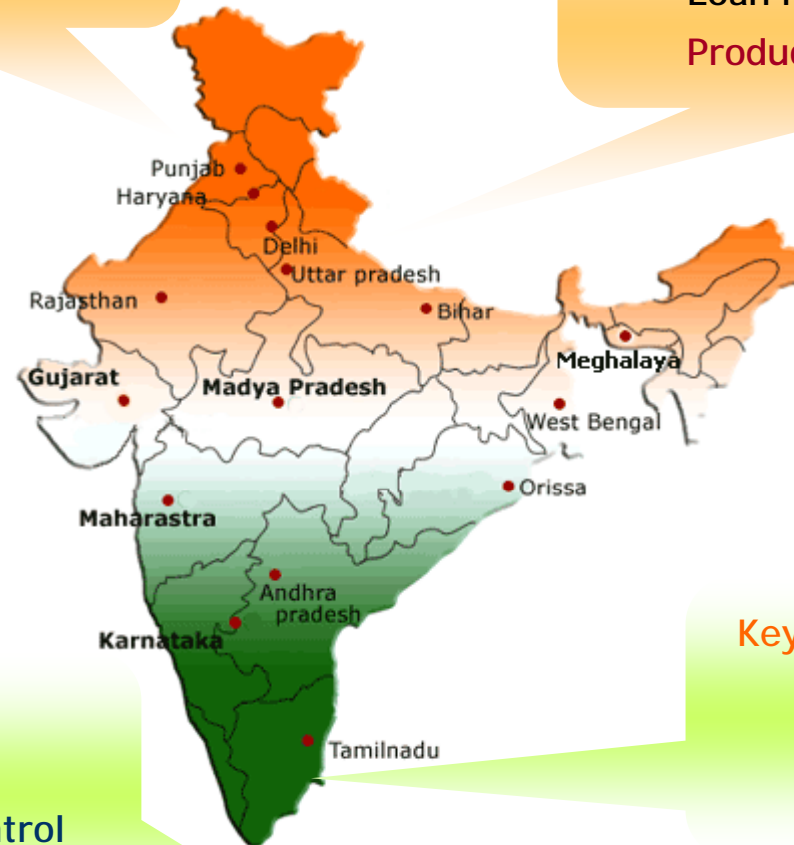
135 million households - face financial exclusion: credit demand of around 1.2 trillion INR

The Differentiating Factors of MFIs

Lending Model

Loan repayment structure

Product offerings



Challenges

Access to capital;
Absence of Regulatory Control
Portfolio Management

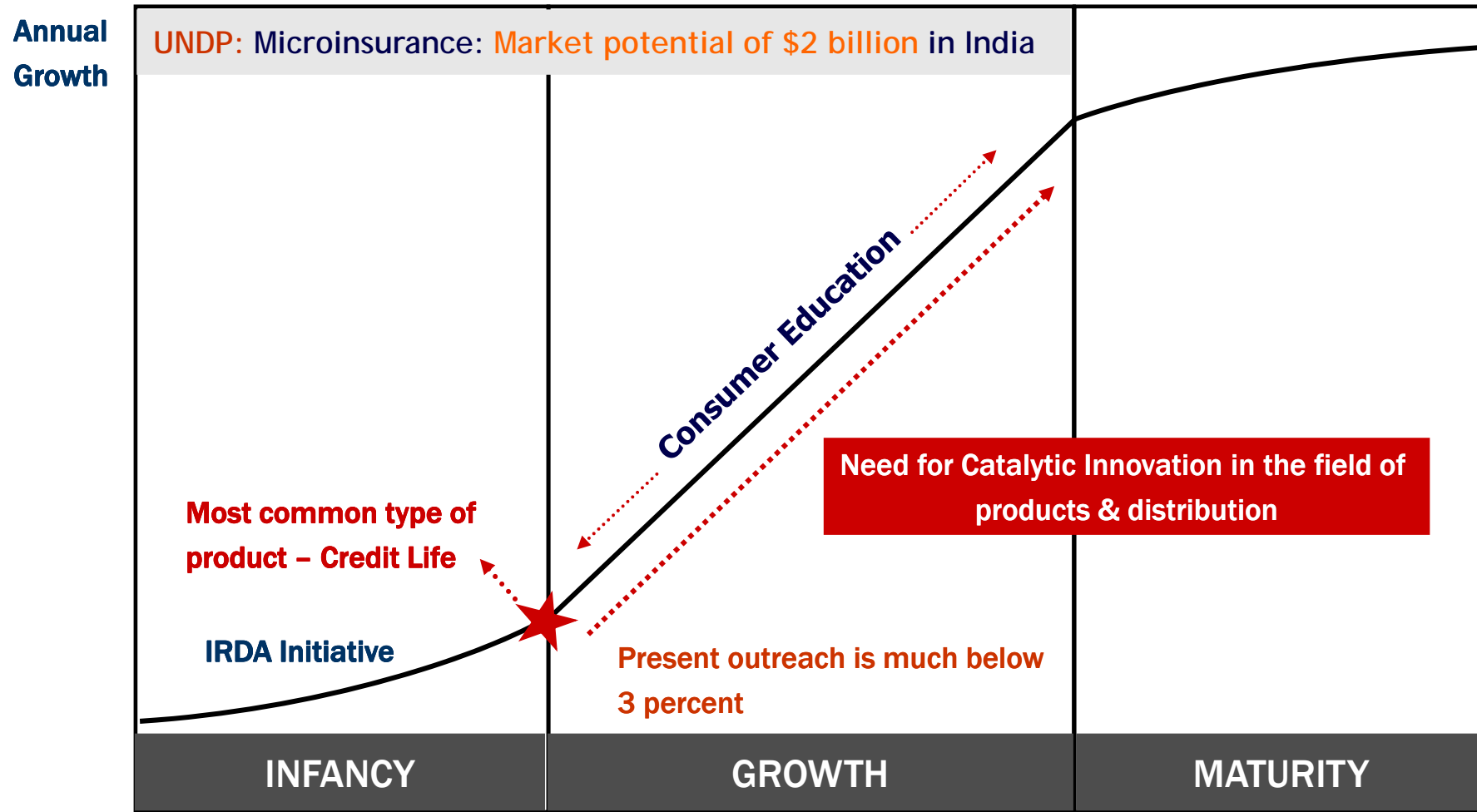
Key strengths of Indian MFIs

Strong business growth
Geographic diversity
Asset quality



MFI models shifting from the purely credit life insurance product

Where is Micro Insurance sector in its life cycle?



UNDP: Microinsurance: Market potential of \$2 billion in India

Annual Growth

Most common type of product - Credit Life

IRDA Initiative

Consumer Education

Need for Catalytic Innovation in the field of products & distribution

Present outreach is much below 3 percent

INFANCY

GROWTH

MATURITY

2005 November

2009 November

???

IRDA's Microinsurance Guidelines

Development Goal



Agenda

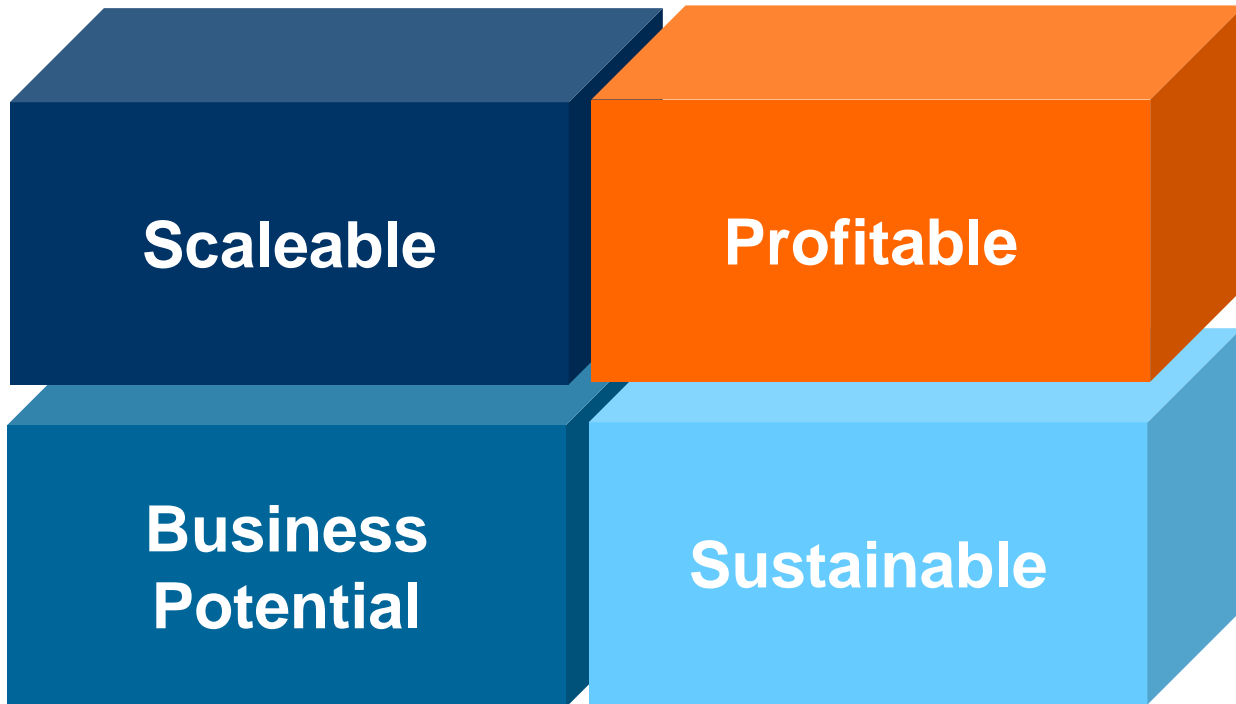
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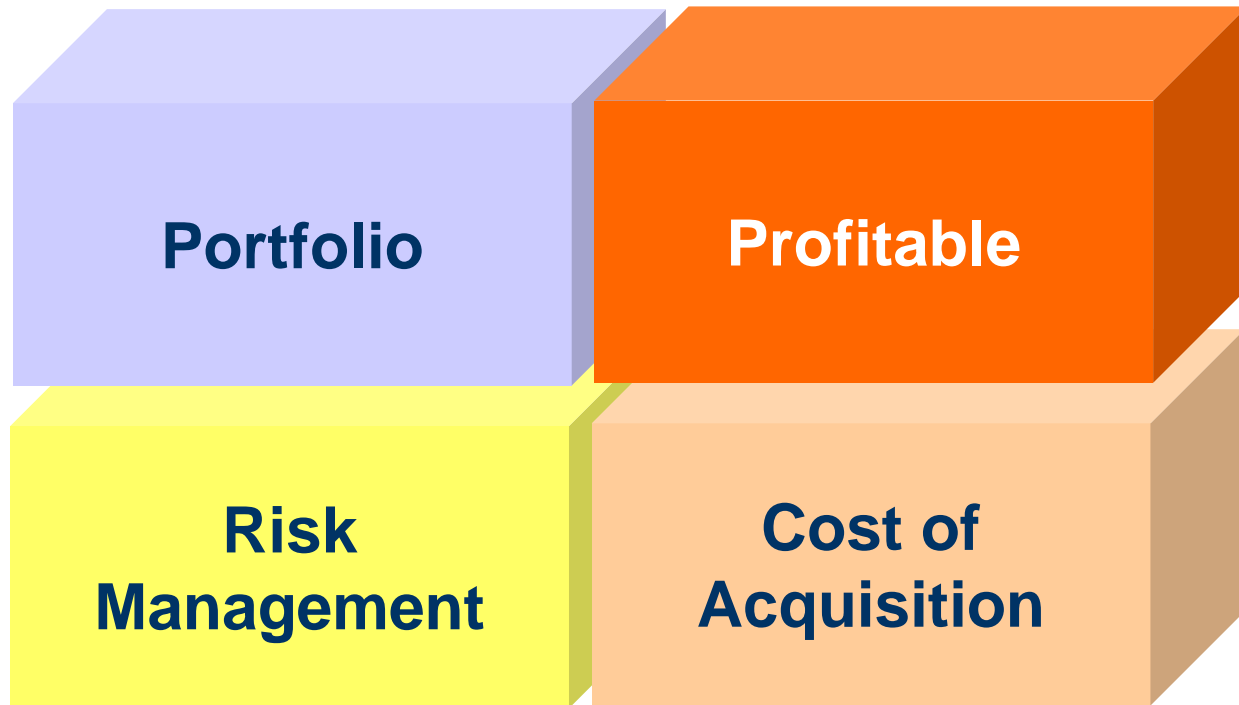
Leveraging Synergy

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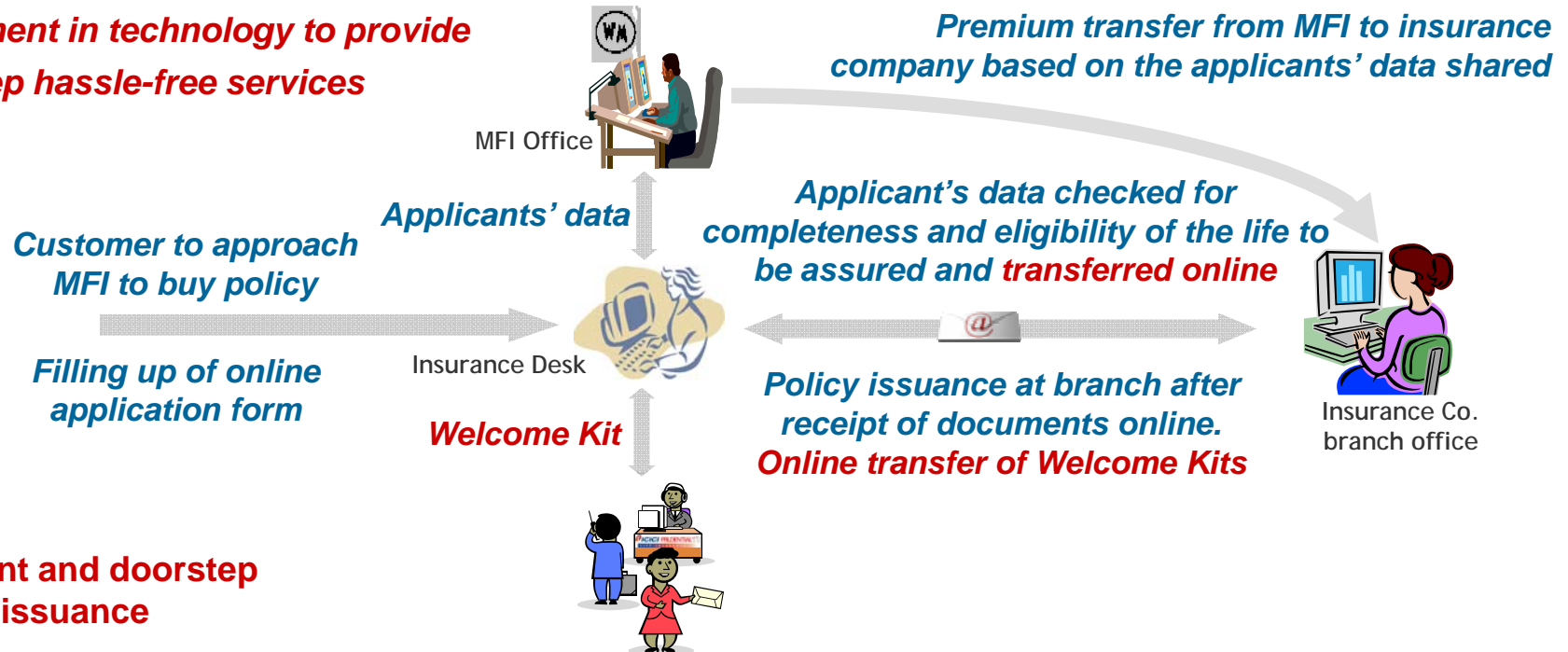
Leveraging Synergy >> Cost of Acquisition



KEY FACTORS	CHALLENGES	MITIGATION
	Diverse client groups	Target clients: High regionalization
	Lack of accessibility	Extensive reach
	Lack of financial literacy	Savings culture
	Business volume	Large client base (Group)
	Servicing cost	Technological integration
	Lack of coordination & knowledge	Strongly committed staffs of local origin

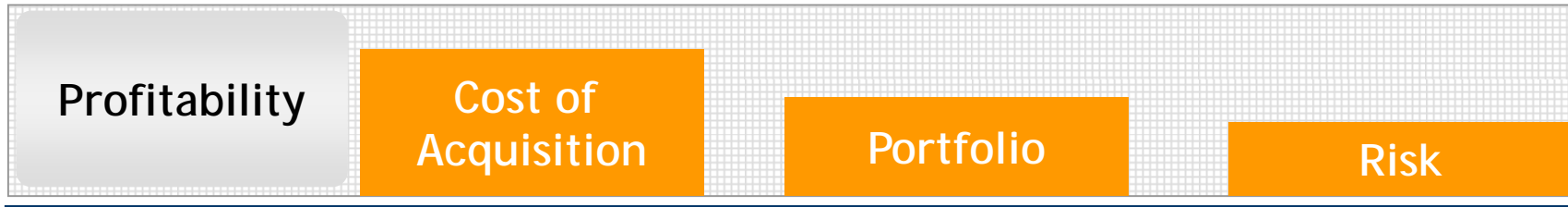
Case Study: Usage of Technology

Investment in technology to provide doorstep hassle-free services



Features	Existing Process	Online Service Delivery Model	Benefits
Data Entry / Transfer	Physical dispatch of Application forms	Data entry on offline module (product rules) transferred through internet	Lesser Rejection Faster Issuance
Welcome Kit	Manual Process	System generated	Low Transaction Cost
Servicing	Premium due date reminders manually managed sent through post	Reports on renewal; lapsed; unit statement through system	Transparency with better servicing

Leveraging Synergy >> Portfolio



KEY FACTORS	CHALLENGES	MITIGATION
	Product design	Customer need & demand estimation
	Competitive pricing	Client related data
	Limited product offerings	More coverage through bundling
	High lapsation rate	Cash collection mechanism
	Unstable income of target population	Credit available - income generation
	Claim settlement	Initial adjudication; less documentation

Case Study: Institutional Arrangement

- The Government of AP promoted an autonomous entity called “**Society for Elimination of Rural Poverty (SERP)**” financially aided by the World Bank with the sole objective of reducing poverty, harnessing the potential of the people by organizing them into Self Help Groups (SHGs) and their federation so as to make them self-reliant in all aspects.
- The Govt. through SERP promoted 0.85 Million Self Help Groups with a membership of 10 Million rural poor women.

Universalization of Insurance Interventions

- SERP with the experience in pilot Districts, **universalized Micro-Insurance Interventions** in all the Districts with uniform protocol & and Operational procedures by creating mass awareness, signing MoU with LIC, developing Social Capital like Bima Mithras and establishing Web-Based Call Centres to provide quick and quality insurance services to the poor.

Details: Enrolment Process & Community Ownership



Leveraging Synergy >> Risks



KEY FACTORS	CHALLENGES	MITIGATION
	Moral hazard	Long relationship; visit and monitoring
	Adverse selection	Set group of clients
	Fraud	Client's credit history
	Complex underwriting (Individual)	Portfolio based underwriting
	Less risk coverage	Comprehensive coverage - bundling
	Over utilization (Health business)	Control & tie up with providers

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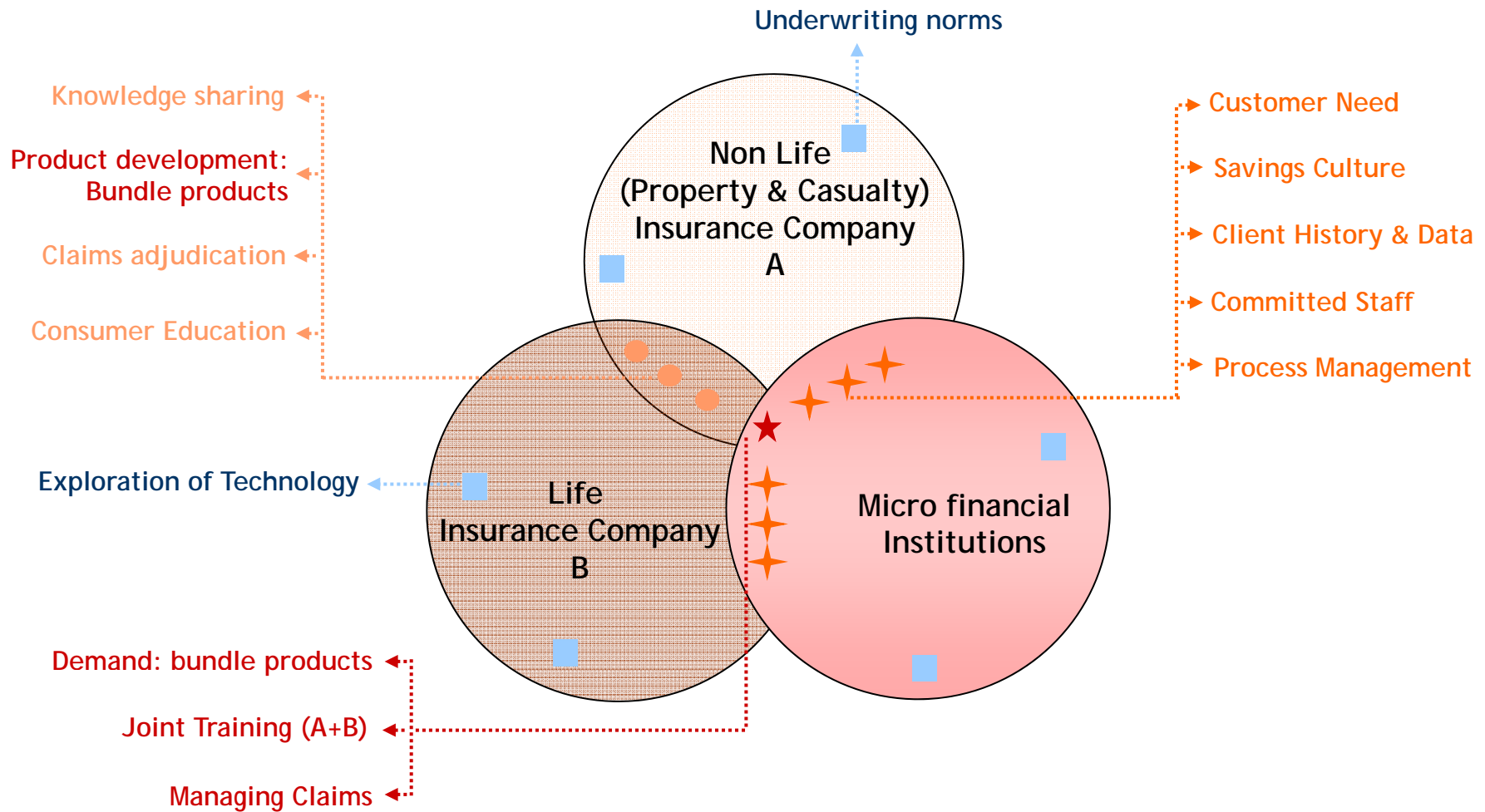
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Creating microinsurance culture...



★ e.g. Life Coverage + Health+ OPD (Wellness Program)

Summary & Conclusions

- MFI business models shifting from the purely credit life insurance product to various innovative insurance solutions
- Micro insurance programs acts as a guarantor of microfinance industry and an appropriate tool for poverty alleviation and inclusion
- Insurance products should respond to the prioritized needs of clients, who make choices and have opinions
- Empowerment of the intermediary and involvement of the local people working at the grassroots level; will gain in transparency, client awareness, enhanced trust and lower costs



**You'll learn more
about a road by
traveling it rather
than by consulting
all the maps in the
world.**

Thank You



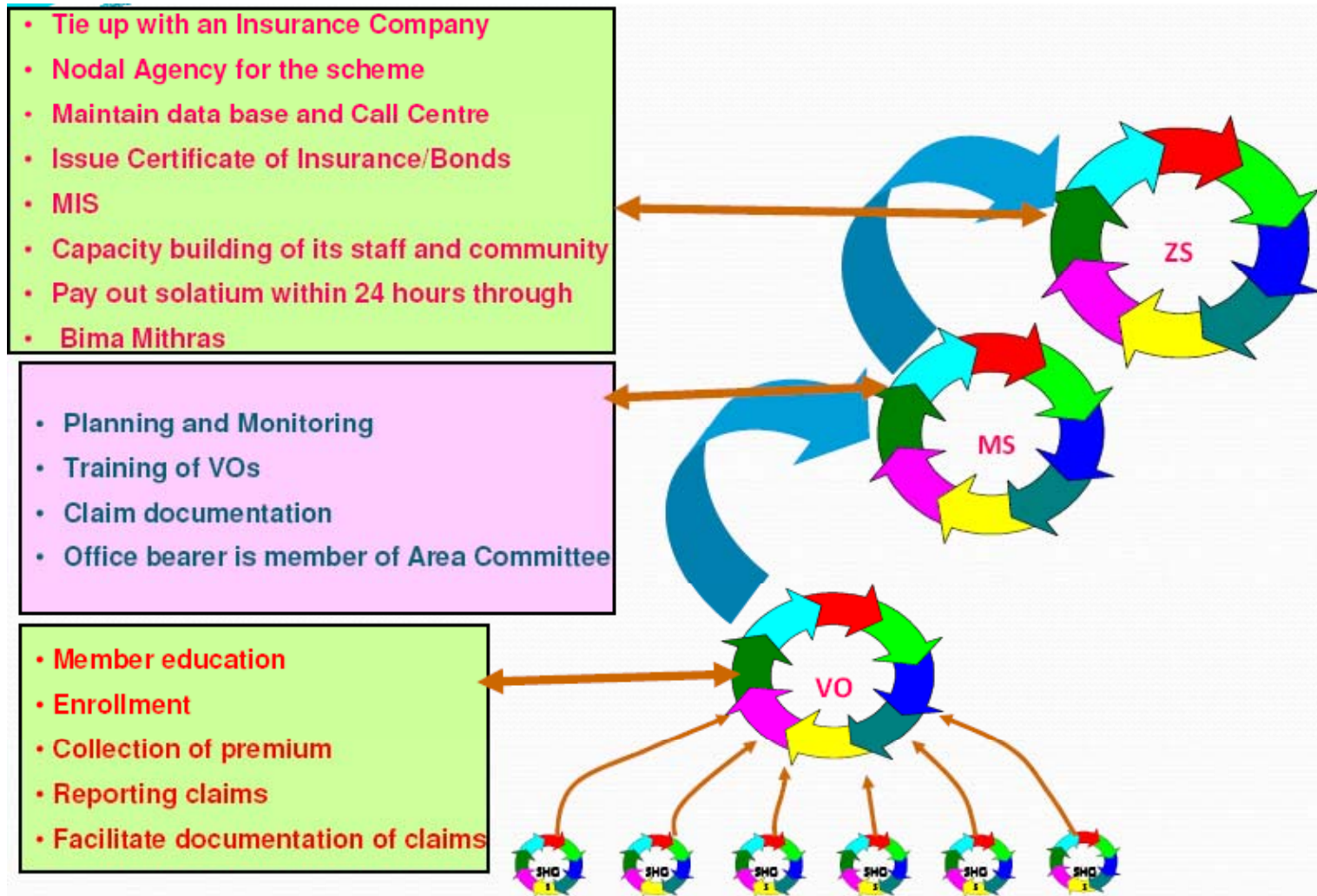
Development...in true sense

- Adopting formal insurance arrangements to the needs of the micro – economy
- Upgrading non – formal (compromising semi formal and informal) insurance arrangements with the insurance companies
- **Linking formal and non formal insurance institutions with banks and self help groups**
- Establishing new local institutions providing micro insurance services

However, the role of microfinance institutions has not clearly been mentioned in the strategies envisaged in this section



Enrolment Process & Community Ownership



VO: Village Organization

MS: Mandal Samakhya

ZS: Zilla Samakhyas

