

# Good and Bad Practices in Micro insurance

Munich October 19<sup>th</sup>  
James Roth and Vijay Athreye



## Private Insurance in India - Background

- Categories – Life and General (Non Life).
- Before 2001 - Public monopoly
  - 1 Life Corporation and 4 General Corporations
- Post 2001 under IRDA act
  - 13 Private Life Companies + 1 Public
  - 8 Private Non Life Companies + 6 Public
- Licensing Requirements
  - Foreign Partner – 26% ; Capital - \$ 22 mn
- New Business Annual Premiums (2005 provisional)
  - Life Private --\$1200 mn , Public -- \$ 4400 mn
  - Non Life Private -\$770 mn , Public -- \$ 3190 mn



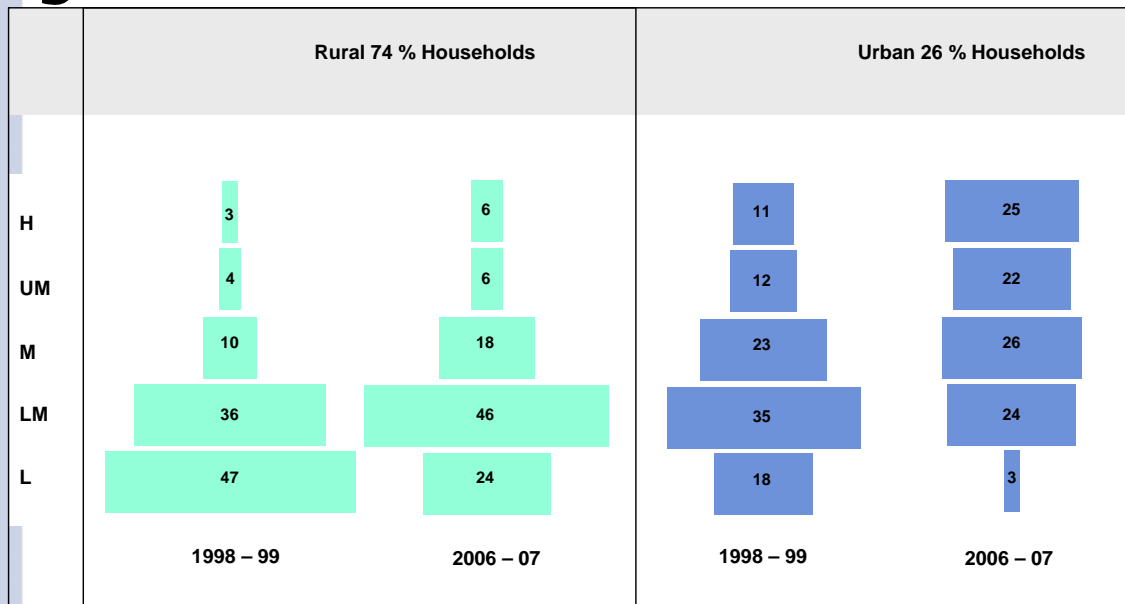
# IRDA Mandate on Rural and Social

- Rural For life Insurance
  - 7 to 16 % of total policies from year 1 to 5 and 18 % thereafter from Rural areas.
- Rural For General Insurance
  - 2 to 5 % of total premium from year 1 to 3 and 5 % thereafter from rural areas.
- Social for Life and General
  - 5000 to 20,000 lives from year 1 to year 5 and 25,000 thereafter from Social sector.
- *Compliance to regulation requires all Insurers to sell to the Rural and Social sector. Rural ( and Social ) households are all not poor but largely so.*

# TATA-AIG Life Foray into Micro insurance.

- Potentially huge untapped market for term products (most profitable ).
- Heterogeneity of rural markets could lead to rub off effect for bigger ticket sales.
- Perhaps a model that could be scaled and replicated.
- CSR reasons
- Year on year Regulatory compliance

# Rural Markets are no longer ignorable !!



Source : NCAER



## Rural Services

### Socio Economics' Rural

Class	Income Range (000's) ---- 98/99 prices	92-93 % HH	95-96 % HH	99-00 % HH
Low	< 35	65	57	44
Lower Middle	35-70	22	29	35
Middle	70-105	8	8	12
Upper Middle	105-140	3	3	4
High	>140	1.5	2	3.5

Can Community Service Providers be formed here ?

Most Rural Service Providers belong here

Poor Uptake of Services by Lower Lower Middle



# TATA-AIG Insurance Distribution in Rural Areas

- Multi channel approach -- Traditional
  - Agency operations in Rural areas – Regular Insurance Products
  - Alternate channels operations in Rural areas – Regular Insurance Products
    - Corporate agents viz Financial Intermediaries
    - Insurance Brokers.
    - Rural Banks
- Rural and Social channels – New
  - Micro insurance and Rural Insurance products.
- *Regulation notwithstanding TATA-AIG Life views Rural Micro insurance as an integral part of its business development activity in India*

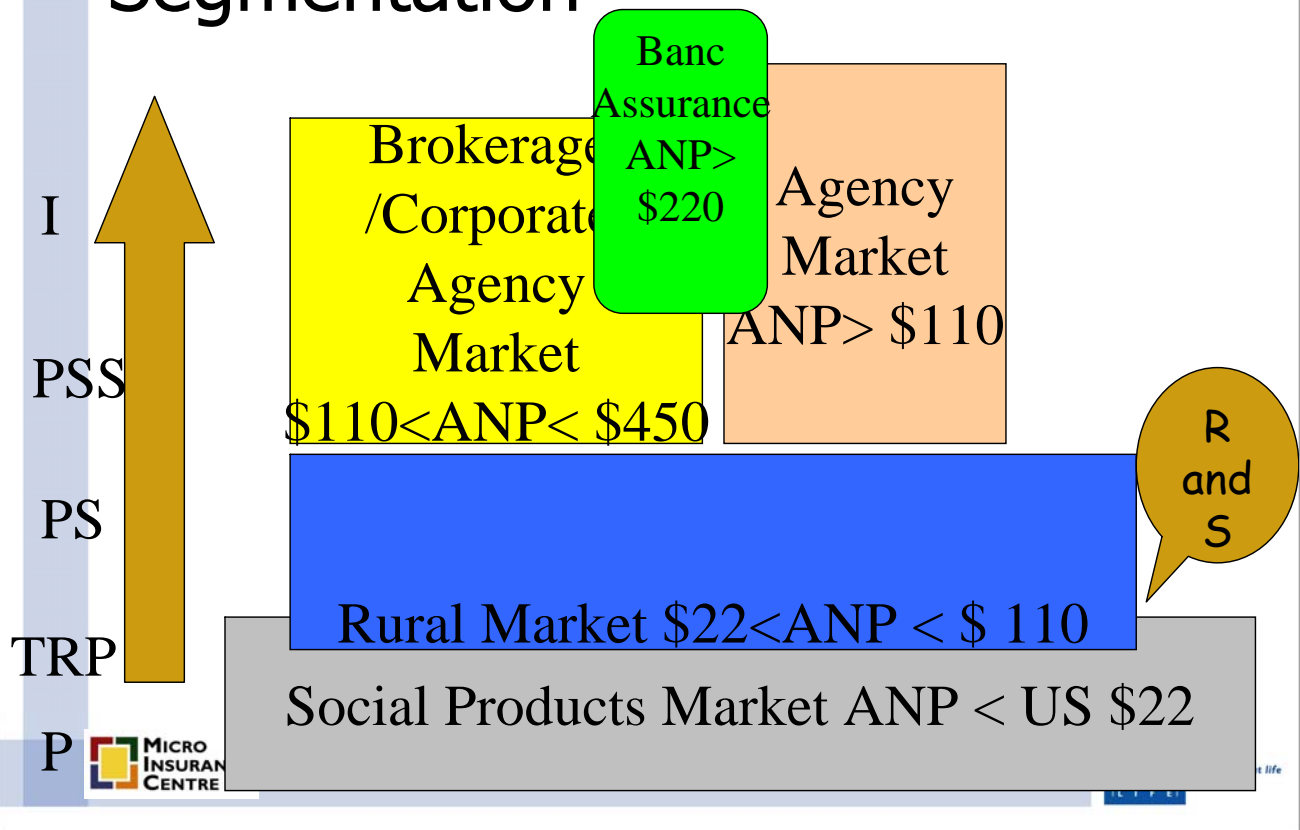


## Components of TALIC MI Retailing Strategy

- Affordable and relevant Products.
- Simplified proposal forms and U/W.
- Specific front end processes.
  - Batch applications
  - Processing – Policy Servicing ,Claims
  - Capacity Building and Retention – Training and retraining.
  - Vans -- Mobile offices , Internet Portal
- Outsourcing of Distribution mentoring and monitoring
- Grass root level Sup. Livelihood based Micro agents
- Integration of back end processes.
- Addressal of market heterogeneity
  - Bottoms up approach .



# The Product /Market Segmentation



## Social ( Micro insurance ) Product Details (Read Rs 1000= US \$ 22)

• *Kalyan Yojana ( Five year renewable term protection plan*

Age	Sum Assured	Ann.Prem..
20	\$330	\$ 1.7
30	do	\$ 1.8
40	do	\$ 3.0
50	\$220	\$ 4.0
55	do	\$ 6.0

• *Karuna Yojana (( 15 year protection plan with maturity benefits -- Premium Rs 75 per qtr.( \$ 1.65 )*

Age	Projected maturity Benefit	Sum Assured (SA in Rs )		
		Pure Term	term with Rop	Total
20	\$115	6000.00	19000.00	25,000.00
30	\$100	10,000.00	15,000.00	25,000.00
40	\$70	13,000.00	7,000.00	20,000.00

• *Jana Suraksha Yojana ( 15 year protection plan with maturity benefits -- Premium Rs 180 per qtr.( \$ 4.0 )*

Age	Projected maturity Benefit	Sum Assured (SA in Rs )		
		Pure Term	term with Rop	Total
20	\$ 290	6000.00	48,000.00	\$1190
30	\$ 270	11,000.00	40,000.00	\$1120
40	\$ 235	15,000.00	23,000.00	\$ 835

# Partner Agent Model with MFI's and MI Retailing

- MFI's target market – limited by their outreach
- MFI's market exclude the better off – insurance needs high and low premium policies.
- Moral hazard with MFI Loan officers. (premiums versus loan payments etc. )
- MFI's loan tenures are not compatible with LT MI products. No returns possible.
- Possible Conflict of MFI Interest with Insurance Company.( claim declines leading to loan delinquency )
- Limited number of reputed MFI's.
- Difficult to pull loan officers out to provide training (regulatory issue).
- 2 % commission allowed on 1 year and single premium products .
- MFI's best suited for wholesale penetration of single premium or annual term health and life products.
  - Sustainability ?
  - Profitability ?



## Micro agent Model for MI retailing

- Not limited to MFI's.
- Revenue for the NGO Partner.
- Supp. Livelihood based
  - Developmental impact – livelihoods.
  - Target market Development– awareness ,choice etc.
  - Based on geo. Jurisdiction – bigger inclusive market.
  - Service infrastructure leveraging possibilities.
- More compliant implementation and control for Company.
- Not dependent on NGO post critical mass of MI policies. Higher premium policies ups agents income. Company can plan on long term business strategy.



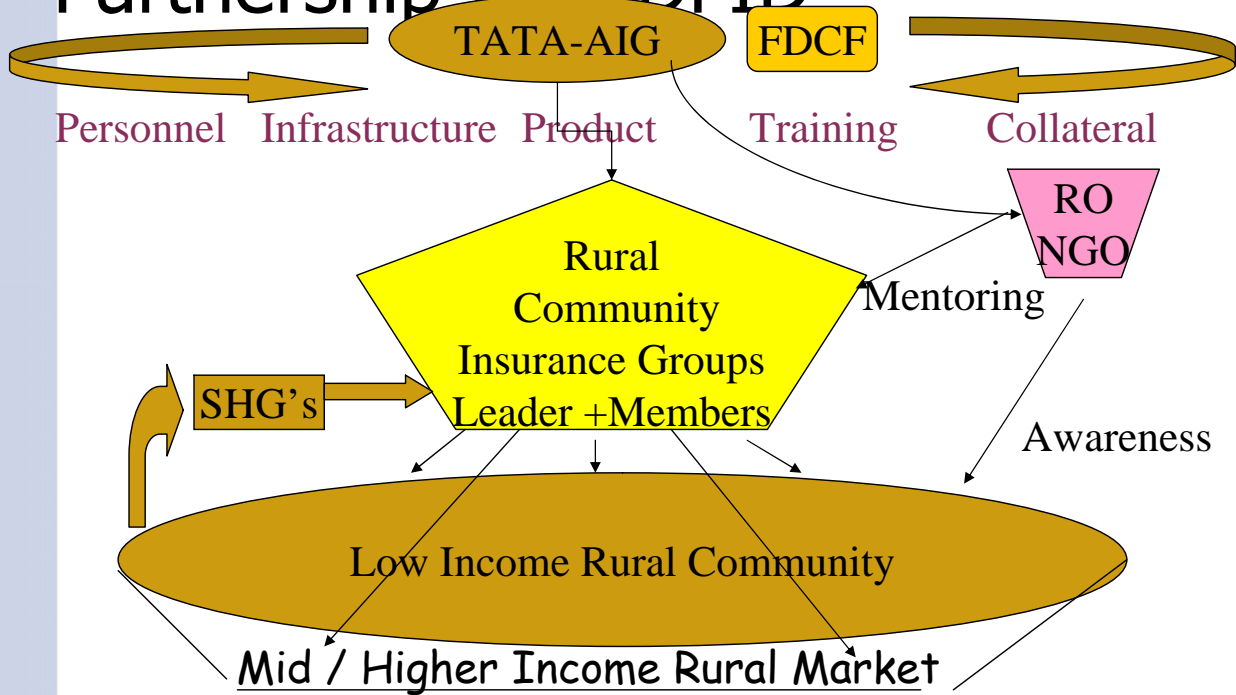
# Challenges in Micro agent model

- Profiling process for MA's in a diverse country.
- Higher initial costs of training ,promotion and implementation. Partially offset by reduced office costs!!
- Retention of micro agents.
- Greater initial monitoring and audit to counter cash remittance frauds.
- Potential channel conflict later on.
- Locating and retaining Business Development and training staff in Insurance Company.
- Results consistent with time required for Social change.
- Organizational buy in – catalyst required.

# Compensation in MI retailing

- In Partner Agent model
  - First years Commission + Override + Renewal Years Commission+ Persistency Bonus – To Agent
- In Micro agent model
  - To Micro agent : First year Commission + Renewal Years Commission
  - To Business Associate – Override + Persistency bonus
- FYC ; 26-30 % ,RYC ; 4-6.5 % ;Persistency bonus ( year 2 and year 3 ) ;6 %

# Catalyst :Public Private Partnership with DFID



## Results MI vs. Rural and Company

Numbers and Premium - Micro insurance/Rural

Details	Dec 01-- Nov 02	Dec 02 -- Nov 03	Dec 03 -- Nov 04	Dec 04-Jun 05	Jun 05-Nov 05	Dec 05 -- Nov 06
FYP ( Rs ) 000s	600	580	1458	2374	3126	12500
Numbers	7380	3232	10073	13388	17427	64000
Total Rural	NA	NA	34000	33934	37100	135000
Micro insurance percent in Rural	NA	NA	30	9.1	45	48
Microinsurance percent of Company numbers	NA	NA	5	9.1	9.3	12



# Results Regulatory Mandate versus Actual

Mandate/Achievement	Parameter	Year 1	Year 2	Year 3	Year 4	Apr 05 to Mar 06 YTD Jun	Proj.	Yr 6 onwards
<b>Rural</b>								
Requirement	Percent of New Policies	5%	9%	12%	14%		16%	18%
Achievement	Percent of New Policies	10.60%	10.30%	14.30%	17.85%		21%	23%
<b>Social</b>								
Requirement	No. of New Social Sector lives	5000	7500	10000	15000	20000		25000
Achievement	No. of New Social Sector lives	9000	9344	10758	16117	100000	40000	Will be met
details		Donated TATA Tea	Donated TBF	Adjusted TBF	Sold	WIP	WIP	Will be sold



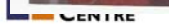
## Other Results

- Quantitative
  - Money Spent : US \$ 234,000
  - Premiums collected :US \$ 122,000
  - Individual Social Policies Sold till 06/05 :34,100
  - Ratio of policies ( \$2.5:7.5:16) : 36:48:16
  - Policies of Total Social sold by Micro agents :60%
  - Persistency of Micro agent sales : 70 %
  - Avg. Monthly income of CRIG members :Rs660
- Qualitative
  - New Business Line
  - Visibility and Rub off on higher ticket sales.
  - CSR benefits
  - Regulatory benefits.
  - Learning value.
  - Developmental impact



# Learning's

- The poor are willing to pay for relevant and affordable Insurance products.
- The poor prefer larger ticket sizes in the event product has a savings component.
- MI Services to the poor if integrated into mainstream can be sustained.
- MI needs to be retailed to create value for company channel and customer.
- Regulatory mandates , FDCF type funding support can catalyze the adoption of MI program by a committed Companies.
- Grassroot level Social Sector organizations support is needed to further MI penetration.
- Pockets of Intense MI distribution are required to for long term sustaianance of MI retail.
- Mi retailing should be attempted as a complete strategy rather than as a product or a type of distribution .
- MFI can best sell MI products when bundled with loans as a single premium collected upfront or clubbing insurance premiums with EMI's.



*There is fortune at the bottom of the pyramid. The key question -- **how businesses can become more inclusive to reach this segment ?** When rural development becomes a key business concern we should have a win-win situation !!*

Thank You  
James Roth and Vijay Athreye

