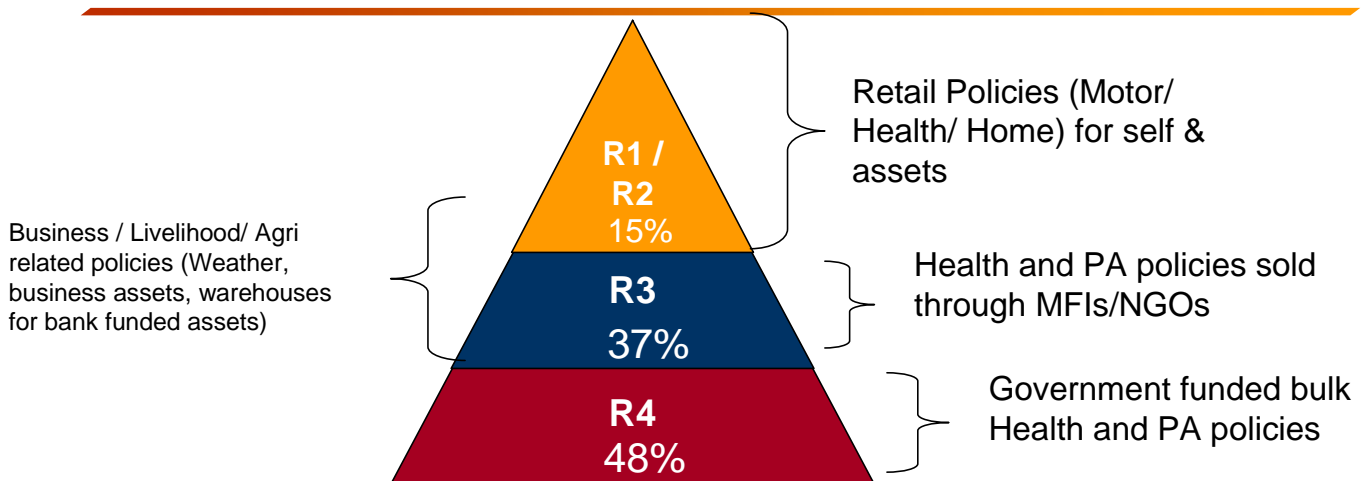


Role of Micro-Insurance in Financial Inclusion: Focus on Index based Insurance

Mumbai,
November 14, 2007

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Rural Market Segmentation- The Rural Pyramid



- R1/R2 customers –Demand of insurance is no different from those of urban customers
- R3- 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
- R3/R4 customers – Unique requirement with customized product needs and innovative distribution strategy

Agriculture in India



Farmer at the mercy of rains

- Agriculture contributes **24% of the Indian GDP**
 - Employment to **57% of work force**
 - Raw material source to large number of industries like (textiles, silk, sugar, rice, flour mills, milk products)
- Any change in this sector has a **multiplier effect on the economy**
- High dependence on weather
 - 40% of net sown area irrigated, **60% dependent on rains**
 - Most irrigation from non-perennial sources
 - Affects adoption of improved crop production techniques because of high risks and low margins
- Dwindling ground water resources



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Process of making index based product

- Peril identification
- Weighted index setting for each phase of the crop
- Back testing for payouts
- Pricing
- Monitoring
- Claims settlement



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Initiatives in Weather Insurance

- Launched in 2003 with support from the World Bank and reinsurance support of Swiss Re
- Pilot was launched for Castor and Groundnut crop in Mehbubnagar in Andhra Pradesh against deficit rainfall with the help of a microfinance institution: BASIX
- Over the last four years:
 - Executed approx 100 Weather Insurance deals
 - In 140 locations in 13 states
 - Covered 200,000 farmers with an acreage of over

| Crops covered | Weather perils |
|--|--|
| <p>Field Crops: Soybean, Paddy, Cumin, Cotton, Coriander, Fenugreek, Wheat</p> <p>Horticulture crops: Oranges, Grapes, Apples, Peach</p> | <p>-Deficit, excess and unseasonal rainfall</p> <p>-High relative humidity (RH)</p> <p>-Excessively high and low temperatures</p> <p>-Prolonged dry spell</p> <p>-And combination of above</p> |



Reducing Basis risk - Automated weather stations at Block level

- **Basis risk –Inability to measure weather data at precisely the customer location**
 - Tie up with National Collateral Management Services Limited for installing Automated Weather Station (AWS) at block level
 - Supplements India Meteorological Department's district level weather stations
 - AWS provides real time daily data through automated calling process
 - Covering 113 locations to reduce basis risk (up from 64 locations in previous years)

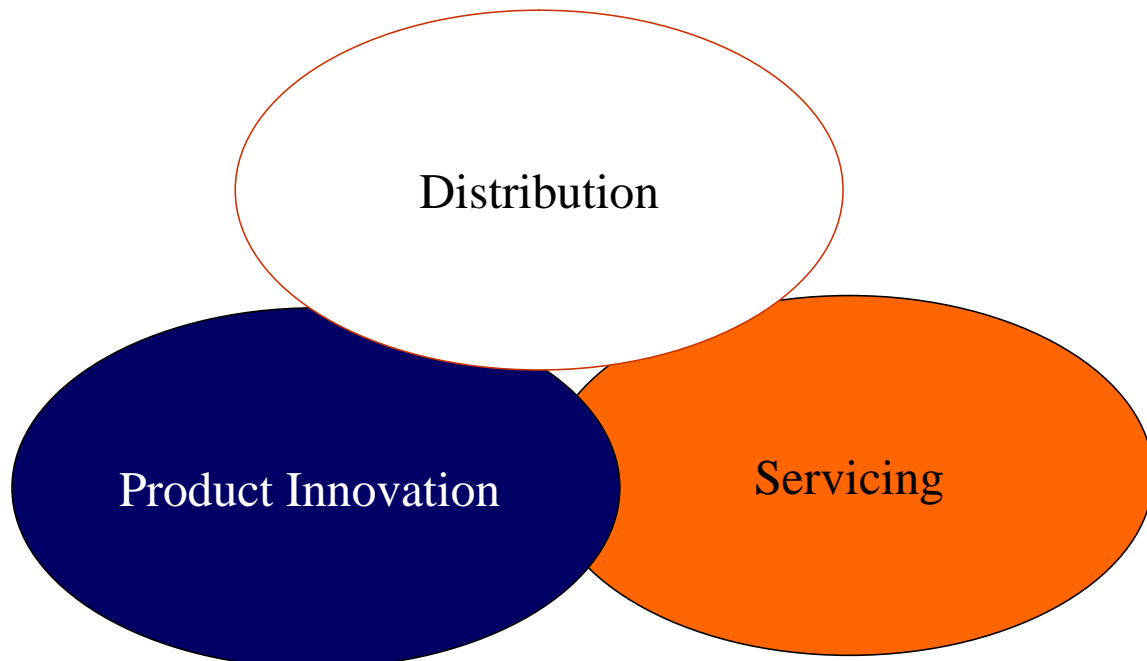


Snapshot: last two years

| Crop | Risk Details | States | Number of farmers covered | Area covered (in acres) | Sum Insured (Rs mn) |
|--------------|---|---------------------------------------|---------------------------|-------------------------|---------------------|
| Soybean | Deficit rainfall | RJ, MP | 5850 | 16418 | 66 |
| Oranges | - Deficit rainfall, Prolonged dry spell | RJ | 453 | 1223 | 6 |
| Generic | - Deficit & Excess rainfall | AP, MP, MH, TN, RJ, Jharkhand, Orissa | 22500 | 26000 | 88 |
| Grapes | - Deficit & Excess rainfall, Temp | MH, AP | 365 | 395 | 20 |
| Paddy | - Prolonged dry spell - Excessive rainfall | Punjab, Chhattisgarh | 2500 | 12092 | 43.8 |
| Cumin | - High relative humidity | RJ | 4025 | 4587 | 37 |
| Coriander | - Frost like temperature - Unseasonal rainfall | RJ | 7500 | 14800 | 40 |
| Fenugreek | - Excessively high temperature during days with high RH | RJ | 770 | 995 | 8 |
| Kinnu | - Excessively high temperature | RJ | 265 | 435 | 8.5 |
| Wheat | - High temperature - Unseasonal rainfall | Punjab, Haryana, MP, Rajasthan | 15000 | 25375 | 115.6 |
| Cotton | - Deficit rainfall | MH | 10000 | 10000 | 60 |
| Total | | | ~200000 | ~250000 | |

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Key Success Factors – Microinsurance



Challenges for Product Development

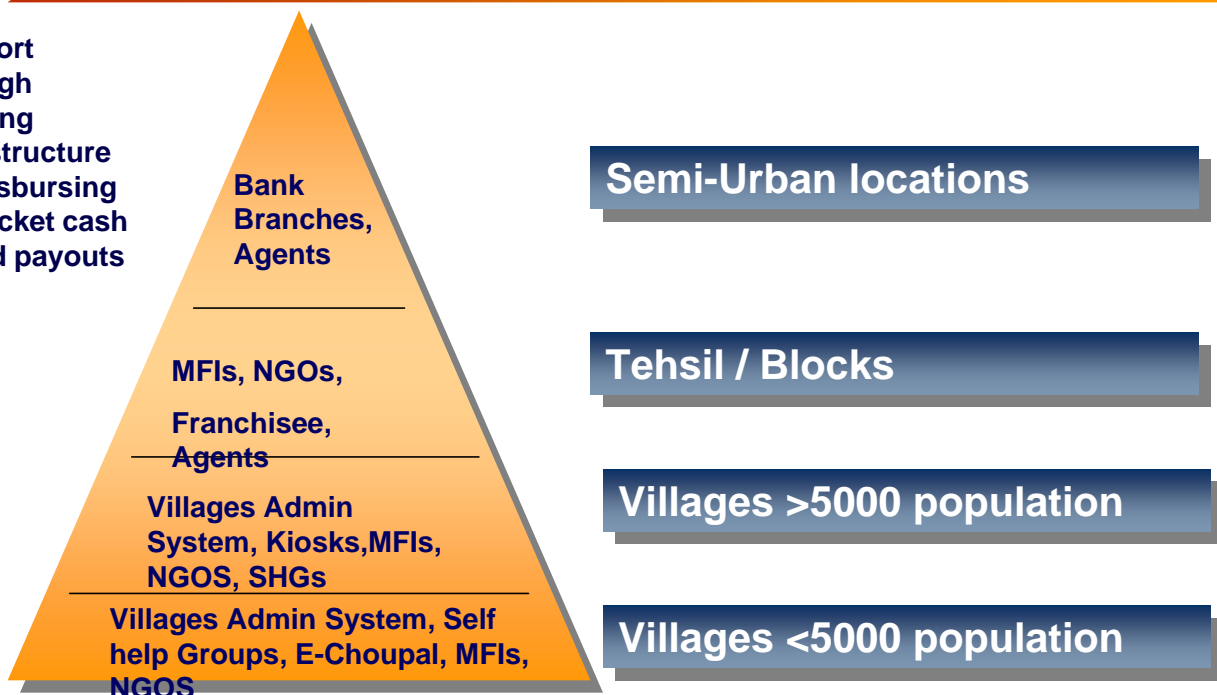
- “One size does not fit all”
- Product needs to be made for each location/ district individually, hence scale is an issue
- Involvement of local agencies critical for peril identification and testing of models
- Work closely with international re-insurers for models, pricing of the policy based on historical data and working out a mechanism for monitoring of the policy
- Getting relevant data a big challenge : currently whole dependence on IMD
- Expanding to use local bodies like agriculture universities, state disaster management cells



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Cost effective distribution – Channels -synergy for servicing

Support through banking infrastructure for disbursing low ticket cash based payouts



*Locally available channels are effective
Trust is the cornerstone of relationships*



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Thank You



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