Demand & Distribution of Micro Insurance in India

November 10th, 2011
Agenda

- Micro Insurance Outreach in India
- Indian regulatory framework
- About us : ICICI Prudential Life Insurance Company Ltd.
- Our Micro Insurance Strategy: Infancy, start up, growth & way forward
- Our learning's
## Agenda

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## Insurance Outreach in India

<table>
<thead>
<tr>
<th>Insurance Outreach</th>
<th>2000</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Penetration</td>
<td>2.32</td>
<td>5.2</td>
</tr>
<tr>
<td>Density</td>
<td>9.9</td>
<td>54.3</td>
</tr>
</tbody>
</table>

Source: Annual Report 2009-10, IRDA

<table>
<thead>
<tr>
<th>Micro Insurance performance 2009-10</th>
<th>*USD Mn</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microinsurance Policies (in mn)</td>
<td>Premium</td>
</tr>
<tr>
<td>Individuals</td>
<td>2.98</td>
</tr>
<tr>
<td>Group</td>
<td>16.84</td>
</tr>
</tbody>
</table>

Source: www.ftkm.com/newsletter & IRDA

*Conversion rate considered as Rs 50
Potential of Micro Insurance in India

90% of the population, and 88% of the workforce are still excluded from any kind of insurance cover.

Potential market size in India

<table>
<thead>
<tr>
<th>Category</th>
<th>Potential Market Size (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Life</td>
<td>0.30 to 0.40 bn/year</td>
</tr>
<tr>
<td>Health</td>
<td>0.26 to 0.35 bn/year</td>
</tr>
<tr>
<td>Crop</td>
<td>0.19 to 0.26 bn/year</td>
</tr>
<tr>
<td>livestock</td>
<td>0.11 to 0.16 bn/year</td>
</tr>
<tr>
<td>Total Micro Insurance market</td>
<td>1.24 to 1.68 bn/year</td>
</tr>
</tbody>
</table>

Source: “Potential and Prospects of Micro insurance in India; UNDP Regional Centre of Human Development Unit 2009, “Pension Reforms for Unorganized Sector; ADB, 2006 and IIMS Data Works Survey 2008. & MicroSave India Focus Note 49 Trends of Microinsurance in India 2010
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Indian regulatory framework

Regulatory Definition Of Rural
Any place which fulfills the following three criteria as per the Census of India 2001 is classified as rural.

- Population of less than 5000.
- The density of population is less than 400 per sq km.
- More than 25% of the male working population engaged in agricultural & allied activities.

Regulatory Obligation for Insurers
Percentage of total policies required to be sourced from rural areas. Currently it is 20% of total business done.
Agenda

Micro Insurance Outreach in India

Indian regulatory framework

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About Us: ICICI Prudential LIC Ltd.

Our Parentage

ICICI Bank (74% stake)
- Infrastructure
- Customer base
- Brand strength
- Market innovators

Prudential Plc (26% stake)
- Operation
- Product
- Expertise
- Reputation

Started operation in December 2000.

USD 12.9 Mn of Asset Under Management.**

Market leaders amongst private players 9 years in a row.

1000+ No. of distribution touch points & 50+ Cooperate & Bancassurance tie ups.

*Voted India’s most trusted life insurance player 3 years in a row.

More then 13 Mn policies written since inception.

*The Economic Times - AC Nielsen ORG Marg survey of ‘Most Trusted Brands’.
**As on June 2011
Our Channel Mix

<table>
<thead>
<tr>
<th>Year</th>
<th>Retail Plan</th>
<th>NGO</th>
<th>Cooperative</th>
<th>MFI</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY '10</td>
<td>13%</td>
<td>4%</td>
<td>9%</td>
<td>63%</td>
</tr>
<tr>
<td>FY '11</td>
<td>7%</td>
<td>3%</td>
<td>8%</td>
<td>78%</td>
</tr>
<tr>
<td>FY '12 (YTD)</td>
<td>2%</td>
<td>3%</td>
<td>5%</td>
<td>90%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Year</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 02</td>
<td>6,940</td>
<td>29,736</td>
<td>64,764</td>
<td>101,267</td>
<td>156,933</td>
<td>434,005</td>
<td>637,867</td>
<td>774,725</td>
<td>423,670</td>
<td>352,899</td>
</tr>
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2.98 Mn lives covered since inception.
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ICICI PRU Micro Insurance Strategy

Endowment products
- Low sales volume
- Poor persistency
- Servicing challenges

Credit Life & retail products
- Bundling with micro credit
- High value sales to offset operational expenses
- Regulatory guidelines for Micro insurance
- Supply chain innovations
- Technology innovation to improve the policy administration and claims process

Credit Life, Savings linked plan & retail
- Rural channel up-scaled
- 1087 micro offices set up
- ILO Grant received
- ULIP savings plan launched
- Technology usage for increased efficiency during client interface

Channel Mix
- NGOs
- MFIs
- NGOs
- RRBs
- Cooperatives
- Retail Chains
- IT Kiosks

Channel Mix
- RRBs
- Producer Companies
- Banks
- MFI

Acceptability of Micro Insurance

2001-2003
Infancy Stage

2004-2008
Start up stage

2009-2011
Growth Stage

2011 onwards
Way forward
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Our Learning’s

Channel Partners

Things that worked

- Distributors with large client/customer base.
- Sales driven: Financial services/Producer companies.
- Frequent client/member & distributor interface.
- Professionally managed organizations.

Things that did not work

- Organizations having no sales experience.
- Poor client/member interface.
- Presence of multi stake holders.
Thank You
## Indian Regulatory Framework

### Micro Insurance Regulations 2005

<table>
<thead>
<tr>
<th>Products</th>
<th>S.A. Range in Rupees</th>
<th>Term in Years</th>
<th>Age Band</th>
</tr>
</thead>
<tbody>
<tr>
<td>Term Insurance ROP &amp; WROP</td>
<td>5000 – 50,000</td>
<td>5-15</td>
<td>18-60</td>
</tr>
<tr>
<td>Endowment Insurance</td>
<td>5000 – 30,000</td>
<td>5-15</td>
<td>18-60</td>
</tr>
<tr>
<td>Health Insurance (Individual)</td>
<td>5000 – 30,000</td>
<td>1-7</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Health Insurance (Family)</td>
<td>10,000 – 30,000</td>
<td>1-7</td>
<td>Discretionary</td>
</tr>
<tr>
<td>Accident Benefit as Rider</td>
<td>10,000 – 50,000</td>
<td>5-15</td>
<td>18-60</td>
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### Distribution
- Non-Government Organization (NGO)
- Self Help Group (SHG)
- Micro Finance Institution (MFI)

### Legal Vehicle
- Societies Act / Charities Act / Companies Act (Section 25)

### Training Mandate
- 25 Hours

### Product Commissions

<table>
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<tr>
<th>Single Premium</th>
<th>10%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regular Premium</td>
<td>20% of total premiums for the premium paying term</td>
</tr>
</tbody>
</table>
Our Experience


Distribution through NGOs

Product

Endowment Plans

Access to un-reached masses

Limited reach

Good at concept selling

Non economic relationship

Servicing challenges
Our Experience

Start up Stage (2004 - 2008)

Distribution through Agri Input retailers & Procurers

Product: Credit Life & retail

- Access to rural locations
- Aligned to their income activity
- Channel at its infancy
- Margin sensitivity so low focus on MI products

Distribution through Financial Intermediaries

Product: Credit Life

- Scale & low transaction costs
- Premium payment matches cash flow
- Credit risk coverage focus
- Push Vs pull sales strategy
Success Story

Uttaranchal Cooperative Marketing Federation

- Registered under Cooperative societies act.
- Governing body for all the PACS in Uttaranchal.
- Client base consists of farmers.
- Associated with ICICI Pru since 2003.

Objective
- Agricultural Growth
  - Adequate & timely supply of agricultural credit & inputs.
  - Client base of more than 8 lakhs across 762 centers.
  - Administering insurance schemes to farmers.

Experience
- Micro Insurance
  - Captive customer
  - Multi-stakeholder set up
  - Maintaining relationship with key personals at branch Level.
Our Experience

Growth Stage (2008-2011)

Distribution through Producer companies

Product

Savings Plan

Access to large producer base

Efficient Servicing

Premium payment matches cash flow

Customer centric approach

Economically viable relationships

Our Experience
Insurance for Tea garden Workers

1. Welcome kits uploaded in Soft copy in the software & given to client. (T+6 months, 9 days)

2. Cluster managers selects 100 workers who takes part in manpower hiring and project Promotion. (T+3 month)

3. Our RM meets head of company & cluster managers and explain financial perspective of project. (1 month) T

4. Train the trainer conducted for 7 key influencers and Ipru Manpower. (T+4 month)

5. Premium deducted from wages. Customer details captured online and policy issuances are done. (T+6 month, 7 days)

6. Household visits & mass awareness conducted and consent collected from clients for insurance enrollment. (T+6 month)
Product Innovation

Need based product
Catalyzing financial habits
Minimized future concern

Use of specialised software for insurance data processing and document printing

### Anmol Nivesh

**Capacity**
- A policy with premium in line with cash-flow - as low as Rs. 100 a month
- Premium deduction weekly – Matching wage deduction
- Hassle free servicing >> No requirement of documentation

**Need**
- Free partial withdrawals after 3 years; bonus unit allocation at 5% of annual premium every 5 yr
- Assured maturity benefit & insurance cover

Serves twin purpose of risk mitigation and building assets

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Consumer Awareness

Community Video Unit (CVU)

- Local production unit run by local people.
- Trained with video production & researching social issues.
- Organizing campaigns on financial & social matters through media.
- Made short films & video magazine on importance of savings habit.
- Each CVU has video cameras, computers, TV & projectors.

- Carry out research through Participatory rural appraisals to identify social issues.
- Frequent household visits.
- Street plays on themes like Malaria, education, hygiene & sanitation by Community members.
- Focus group discussions among community members on social issues and financial Services.
- Organize training of trainers, workshop on financial service for key influential people of community.
Results of IMRB Market Research

ICICI Prudential enjoys a positive imagery across parameters.

- With insurance enjoying a high awareness, at a spontaneous level, most understand insurance as a good financial option (87%), for high returns and savings.

- At a spontaneous level, product knowledge low, but on aiding, they understand the basic product concepts of insurance well with high agreement on ‘you have to pay premium regularly every month (85%)’, ‘You get a big amount after some years (84%)’ or ‘In the event of my death, my family gets the money (88%)’.

- Those holding an insurance policy and those intending to take an insurance policy are driven mainly by ‘Family security’ and ‘For children’s education / marriage / future’.

- Those aware but not invested in insurance suffer on understanding but consider it high on utility.
  - The main reason for not investing is lack of money.
  - On probing for the amount they would be willing to pay as premium, 50% give a range of USD 1.02 – 4.
Our Approach

Way forward (2011 onwards)

Distribution through RRBs / Producer Companies / Banks/MFIs

Product

Term & Savings

Regionalisation

Efficient Servicing

Technological Interface

Flexible product features
Technological interface: Business Correspondent (BC)

FINO Fintech foundation set up by FINO provides BC services to customers.

- FINO Smart cards & point of service devices used for service delivery.
- Client handover his smart card to Customer Service Provider.
- Smart card contains information about insurance plan along with a/c details.
- BC agent only require Biometric information for insurance enrollment/withdrawal/deposits.
- Once transaction is complete, receipts are given to client.
- Premium amount deducted during remittances from clients a/c.
- Insurance at customers doorstep.

Reduction in time lag

Quick after sales services to customer

No need for documentation

Fraud risk eliminated due to use of Unique identification card containing biometric details.
Flexible Product Features

Group Savings linked Insurance Plan
(Formal groups)

- Savings
- Insurance benefit

Notional a/c linked to policy
Policyholder makes contribution into the a/c
Minimum 10 members & contribution of Rs 1lakh
Min 18 year & max 85 years

• Contribution to be invested in debt instruments.
• Policy holder can withdraw amount from the a/c.
• Annualized interest rate applicable to policy.
• On death members gets Sum assured & fund value.

• Tax benefit to customer.
• Option for additional insurance cover.
• Withdrawals will lead to reduction in a/c value.
• Contribution to policy can be made in Installments.
• Benefits payable on death /retirement/resignation/exit from service.
High Claim Ratios

A/E Claim Ratio
Total number of claims paid divided by premiums earned.

Product-wise Claim Ratio

<table>
<thead>
<tr>
<th>Products</th>
<th>Claim Ratio (Cases)*</th>
<th>Claim ratio (Amount paid)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sarv Jan Suraksha</td>
<td>150%</td>
<td>154%</td>
</tr>
</tbody>
</table>

*Ratio of more than 100% signifies loss to company
## Terms & Terminologies

<p>| | |</p>
<table>
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<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>1) NGO (Non Government Organization)</strong></td>
<td>A legally constituted organisation created by natural or legal persons that operates independently from any government.</td>
</tr>
<tr>
<td><strong>2) MFI (Micro Finance Institution)</strong></td>
<td>They offer financial services to underprivileged and impoverished communities.</td>
</tr>
<tr>
<td><strong>3) Cooperative banks</strong></td>
<td>These are government sponsored banks who does banking business mainly in rural and agricultural sector.</td>
</tr>
<tr>
<td><strong>4) RRB (Regional Rural Bank)</strong></td>
<td>They are jointly owned by government of India, the concerned state government and sponsor bank. They mobilize financial resources to small marginal farmers.</td>
</tr>
<tr>
<td><strong>5) Producer Companies</strong></td>
<td>They are engaged in production, harvesting, processing, procurement, grading, pooling, handling, &amp; marketing of various products.</td>
</tr>
<tr>
<td><strong>6) Credit Life</strong></td>
<td>A life insurance policy designed to pay off a borrower's debt if that borrower dies.</td>
</tr>
<tr>
<td><strong>7) Bancassurance</strong></td>
<td>Partnering with Banks for insurance cross-sell.</td>
</tr>
<tr>
<td><strong>8) Retail Plan</strong></td>
<td>Individual market linked insurance plans.</td>
</tr>
<tr>
<td><strong>9) PACS (Primary Agricultural Cooperative Societies)</strong></td>
<td>They are engaged in short term agricultural lending to marginal farmers for purchase of farm inputs.</td>
</tr>
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