

Taking the Lead – Market Stimulation through Government Involvement **INDIA**

Arup Chatterjee
Principal Administrator



International Association
of Insurance Supervisors

**FSI Meeting on Microinsurance – Promoting
Successful Regulatory and Supervisory Approaches
for Increased Access to Insurance**

**Basel, Switzerland
6-8 July 2010**

Financial inclusion and insurance

Promote 'Financial Inclusion' by stimulating
Financial Services for the Poor -
Manmohan Singh, India's Prime Minister
(June 23 2006)

Popularize Microinsurance for Financial
Inclusion - *Pranab Mukherjee, India's Finance*
Minister (June 9, 2010)



Agenda

- Policy options for supervisors and lessons from regulatory approaches
- Incentives vs mandatory rules

Agenda

- Policy options for supervisors and lessons from regulatory approaches
- Incentives vs mandatory rules

Policy options for supervisors

- The Insurance Regulator (IRDA) has the role of regulating, promoting and ensuring orderly growth of insurance and reinsurance business.
- Obligations to rural and social sector is a licensing requirement, since 2002.
- Objective is to bring low income people under the ambit of insurance.
- Targeted sectors - Life, non life, pension and health.
- Sanctions for failing to meet quota targets include fines and possible revoking of licences.

Rural sector obligations

“Rural sector” – a) Population of less than 5000
b) Population density < 400/sq.km
c) > 25% males pursue agriculture

- Life Insurers – **7,9,12,14,16,18,18,19,19 & 20% of total policies** in first ten years of operations, as rural obligations.
LIC (public insurer) - 25% of the policies in 2008-09 & 2009-10.
- Non-Life Insurers – **2,3,5,5,5,5,5,6,7&7% of gross premium** in first ten years of operations, as rural obligations

Social sector obligations

“Social Sector” – unorganised and informal sectors & economically vulnerable or backward classes

- 5000, 7000, 10000, 15000, 20000, 25000 lives as social sector obligations by all insurers in first six years of operation. 25,000 in 7th, 35,000 in 8th, 45,000 in 9th, and 55,000 in 10th years respectively.
LIC - 25 lakh lives till 2009-10.

Mandatory obligations

Pros:

- Surge in product innovation and experimentation with new distribution channels.

Cons:

- Some insurers offering products with little value apart from satisfying the letter of the law.
- Not all insurers consider low income markets as a profitable
- A significant proportion of the six and ten million lives covered may not even be in the low income markets.
- The penetration of the microinsurance market in India remains only at an estimated 2% of the adult population.
- The total market for microinsurance in India is estimated between 140 and 300 million policies.

Consultative Group on Microinsurance 2003

- Govt of India set up a consultative group in 2003 to examine the existing insurance schemes for the rural poor.
- Main findings of the group –
 - Standalone micro insurance companies are not viable
 - Partner-Agent model is best suited for MI
 - IRDA to examine existing regulations with a view to promote microinsurance portfolio
 - Availability, Accessibility & Affordability should be the key features of micro insurance initiatives

Microinsurance regulations in India

- The existing regulations on rural and social sector obligation was thought to be not sufficient to cover the low income group at desired level.
- In order to meet the specific objectives, the IRDA issued Microinsurance Regulations on 10th November, 2005.
- All MI policies sold recognized for the fulfillment of obligations to rural and social sector.

Microinsurance regulations 2005- Products

- Microinsurance Products - Integration of Life & non life insurance products through a tie up between insurers permitted
 - *A single window approach*
- Scope of coverage expanded from individual to an individual's family
- Minimum and maximum quantum of insurance prescribed – to ensure tapping of the targeted segments and to ensure viability
- Microinsurance Products subject to File and Use procedure – Expected to be self supportive

Microinsurance product features

- Both on individual and Group basis
- Individual
 - Pure Term
 - Pure Term with return of premium
 - Endowment Assurance on Non-par basis
 - Accidental death rider only
- Group: Only pure term and yearly renewal basis
- Minimum size of group is 25

Microinsurance regulations – product design (life)

Type of cover	Min. Amount of Cover	Max. Amount of Cover	Term of Cover Min.	Term of Cover Max.	Min. Age at entry	Max. Age at entry
Term Insurance with or without return of premium	Rs.5,000	Rs.50,000	5 years	15 years	18	60
Endowment Insurance	Rs.5,000	Rs.30,000	5 years	15 years	18	60
Health Insurance Contract (Individual)	Rs.5,000	Rs.30,000	1 year	7 years	Insurer's discretion	Insurer's discretion
Health Insurance Contract (family)	Rs.10,000	Rs.30,000	1 year	7 year	Insurer's discretion	Insurer's discretion
Accident benefit as arider	Rs.10,000	Rs.50,000	5 years	15 years	18	60

Microinsurance regulations – product design (non-life)

Type of cover	Min. Amount of Cover	Max. Amount of Cover	Term of Cover Min.	Term of Cover Max.	Min. Age at entry	Max. Age at entry
Dwelling and Contracts, or livestock or tools or crop insurance against all perils	Rs.5,000 Per asset / cover	Rs. 30,000 Per asset/ cover	1 year	1 year	NA	NA
Health insurance Contract (Ind.)	Rs 5,000	Rs30,000	1 year	1 year	Insurers' discretion	
Health insurance Contract (family) (Option to avail limit for Individual / Float on family)	Rs.10,000	Rs.30,000	1 Year	1 Year	Insurers' discretion	
Personal Accident (per life earning member of family)	Rs.10,000	Rs.50,000	1 Year	1 Year	5	70

Microinsurance product statistics

Year	No. of Products approved
2006-07	5
2007-08	11
2008-09	6
2009-10	1
Total	23

Microinsurance regulations 2005- Distribution

- Existing channels allowed to participate
- Micro Insurance Agent open to only MFIs, NGOs & SHGs
- Definition of NGOs relaxed vide circular dtd 12.5.08 to include all non-profit organisations.
- Proven Track record – A pre-requisite for a micro insurance agent
- Micro Insurance Agency through a deed of agreement – No licensing/pre-licensing test



Microinsurance regulations 2005- Distribution

- Empowerment of Microinsurance Agents with more service functions through specific authorisation in the deed
- Level remuneration across the term of the policy
- No compromise in capacity building – Mandatory training norms to Micro Insurance Agents
- Microinsurance Agents subject to prescribed code of conduct
- IRDA Monitors grievances against Microinsurance Agent
- Vigilance by IRDA – Microinsurance agent subject to inspection by IRDA

Microinsurance remuneration

Comparison of remuneration to Microinsurance agents

Parameter	Micro-insurance	Traditional
Single Premium	10%	2%
Regular Premium		
First Year	20%	40%
Second Year	20%	7.50%
Third Year	20%	7.50%
Subsequent Years	20%	5%

Microinsurance product statistics

Year	Individual	
	2007-08	2008-09
Premium (INR Mn)	182.31	365.656
Growth rate	65%	101%
Proportion to total New premium Income	0.04%	0.08%
Number of Policies	0.9 Mn	2.2 Mn
Growth rate	72%	129%
Proportions of New lives covered	2.21%	4.79%

Microinsurance product statistics

Year	Group	
	2007-08	2008-09
Premium (INR Mn)	2012.75	2059.53
Growth rate	1.2%	2%
Proportion of total New premium Income	1.70%	1.50%
Number of Policies	12.2 Mn	12.5 Mn
Growth rate	1.5%	3%
Proportions of New lives covered	42.67%	36.65%

Agenda

- Policy options for supervisors and lessons from regulatory approaches
- Incentives vs mandatory rules

Rural sector business (life)

Life Insurer	2001-02		2008-09	
	Target	Achieved	Target	Achieved
Bajaj Allianz	5.00	18.13	19.00	31.20
ING Vysya	5.00	7.40	19.00	20.67
Reliance Life	5.00	7.50	19.00	21.97
SBI Life*	5.00	4.00	19.00	27.17
TATA AIG	5.00	11.00	19.00	38.14
HDFC Standard	7.00	4.50	19.00	12.85
ICICI Prudential	7.00	7.04	19.00	29.37
Birla Sun life	7.00	11.42	19.00	30.99
Aviva	-	-	18.00	20.97
Kotak Mahindra	5.00	7.51	19.00	20.86
Max New York	7.00	8.67	19.00	25.00
MetLife	5.00	7.90	19.00	19.32
LIC	-	16.05	25.00	24..27

Social sector business (life)

Life Insurer	2001-02		2008-09	
	Target	Achieved	Target	Achieved
Bajaj Allianz	2500	2528	35000	6145044
ING Vysya	2500	3500	35000	40000
Reliance Life	1250	Nil	35000	68295
SBI Life*	3958	Nil	35000	555440
TATA AIG	5000	7500	35000	80343
HDFC Standard	7500	4959	45000	46327
ICICI Prudential	7500	7604	45000	132625
Birla Sun life	7500	8174	45000	90517
Aviva	-	-	25000	872244
Kotak Mahindra	4375	6023	35000	70922
Max New York	7500	7649	45000	58391
MetLife	1250	Nil	35000	47661
LIC	-	754816	2500000	11064454

Rural sector business (non- life)

Insurer	2001-02		2002-03	2008-09	
	Target	Achieved	Target	Target	Achieved
Royal Sundaram	2.00	2.12		6.00	7.94
TATA AIG	2.00	3.98		6.00	7.13
Reliance	2.00	2.00		6.00	7.29
IFFCO Tokio	3.00	6.82		7.00	7.52
ICICI Lombard	2.00	0.83		6.00	10.40
Bajaj Allianz	2.00	2.14		6.00	9.36
New India		6.60		7.00	7.16
National		3.10		7.00	7.05
United India		4.92		7.00	12.47
Oriental		3.00		7.00	7.35
Health Insurers					
Star Health				5.00	5.32
Apollo DKV				2.00	0.06

Social sector business (non-life)

Insurer	2001-02		2006-07	2008-09	
	Target	Achieved	Achieved	Target	Achieved
Royal Sundaram	5000	6064		35000	47134
TATA AIG	5000	0		35000	37425
Reliance	5000	0		35000	39406819
IFFCO Tokio	7500	5879		45000	1067552
ICICI Lombard	2917	2902		35000	2165620
Bajaj Allianz	5000	5000		35000	40515
Private Total	30417	19845		285000	47131648
New India		11140487		15337189	32389489
National		1341854		2108219	2456156
United India		5744000		622263	5059019
Oriental \$		3427276		605000	66665613
Public Total	0	21653617		18672671	106570277
Grand Total	30417	21673462		18957671	153701925



Arup.Chatterjee@bis.org



www.iaisweb.org

