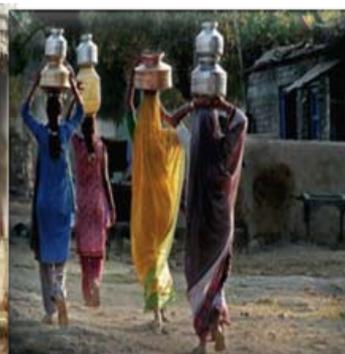




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Innovation in Distribution of Micro-insurance Products and use of technology in claims servicing



राष्ट्रीय स्वास्थ्य बीमा योजना
Rashtriya Swasthya Bima Yojana
Issued: Jan. 2008

XXXX (Vernacular)
XXXX (English)
AGE: 42 yrs.
GENDER: MALE

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Some Thoughts...

- **“Inclusive Growth” is the path to progress..**
 - **Giving the poor an opportunity which is equal**
 - **Making a difference to the way they live their lives today**
 - **Needs Vs Aspirations of the poor**
- **The debate is...Return on Investment Vs Social Returns?**
 - **Growth and Profits...Is it justified at all costs?**
- **Is this an opportunity in making?**
- **Today equity share in inclusion is the buzz word**
- **Uncertain environment....muted growth....How do we grow profitably?**

Beyond Financial Protection ...

Creating desired social Impact...Innovation is the Key

- Micro insurance aims at reducing vulnerability, Creating wealth at the BOP
 - Risk disproportionate and amplified
 - Difficult and challenging business
 - Long Terms sustainability depends on trust & turn around times
- Profit is a motivation, critical to long term success
- Commercialization is the way to massification
- Insurance business depends on fluctuation
 - Important to infuse sustainability from the start
- Asset quality is important- Risk mitigation essential
- Operational excellence critical for growth

Big Companies are good to bring innovations to scale

In-house Challenge-Passion and Drive from the top to get and keep things Moving



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Building an Effective Ecosystem...Critical to Commercial Success



Regulatory and Supervisory challenges

Policy and Regulation can support to...

- Expand definition of micro insurance products to allow
 - Higher limits in line with growing need
 - Comprehensive products
 - Composite offerings for possible synergies
 - Saving's linked products
- Facilitate packaging of products
- Promote regulation eg. Hospitals, Quality standards etc.
- Promote uniform definitions and processes
- Portability will allow healthy competition
- Agency commission should be so defined to attract agents

The India Case - Regulation Catalyzed Growth...



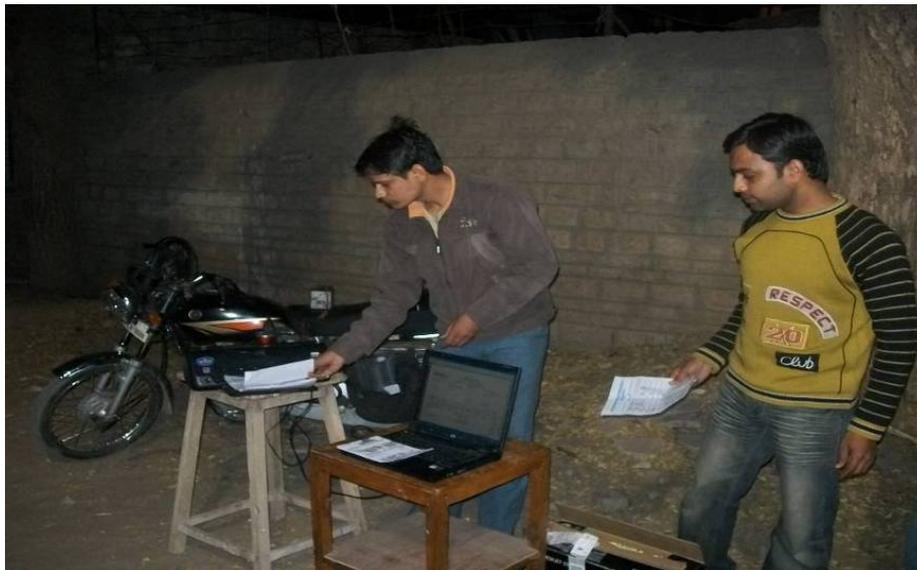
Micro Insurance Products



The Technology Approach to Challenges...

- **Distribution**
 - Point of sale terminal ILPOS (Hybrid online-Offline solution)
 - Handheld devices
- **Policy administration-Smart Cards used to administer health insurance**
 - Premium Collection / store customer's health history/claims
 - Authenticate using biometrics
 - Validate patient's insurance details
 - Digitize claims management process and reduce costs
- **Tracking**
 - RPOS-Rural Point of sale
 - SOT-Online application for ambulatory care
- *Not just connectivity but cost of connectivity is a deterrent more often*

Innovative Approach to Last Mile Connectivity...



Multi-channel delivery model

Rural Agents

Micro Finance
Institutions

E- enabled Kiosks
and Rural Financial
Institutions

Government fun
ded/promoted
Schemes”

- *Field, Field, Field*
- *Trust is the key factor*
- *Direct Contact, Doorstep Reach*
- *Financial literacy*
- *Cultural factors play an important role*
- *Community grievance redressal*

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Technology used in Health Micro Insurance : Enhancing reach using smart cards Increasing client value through OPD products

- Addresses 2 key challenges
 - Connectivity and identity
- Planned integrated field approach
- Adequate scale of operations
- Awareness through Health Camps
- Insurance literacy



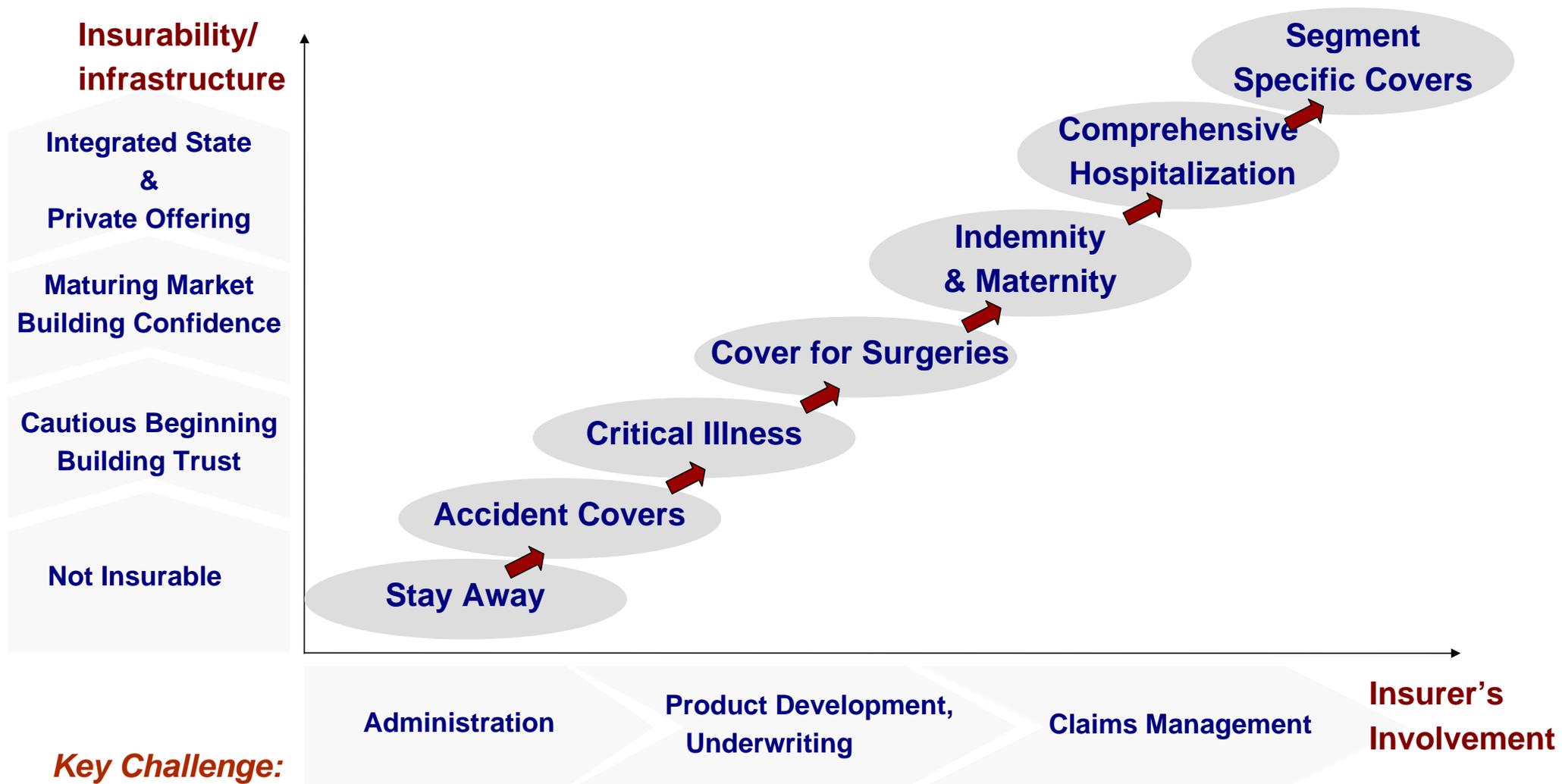
Changes in Demand and Supply- Some Considerations

- **Simple products and Simple methodologies**
 - **Sales Process**
 - **Claims process**
- **Right operative Model**
 - **Outline responsibilities of key stake holders**
 - **Attention to back office costs**
- **Right partner-**
 - **Flexible, Reputed, Board support, Aggressive, Large scale operations**
- **Strong but adaptive controls**
 - **Separation of data**
 - **Performance Indicators**
 - **Claims indicators**

Devising Demand Driven Affordable Products

- **Stupidly simple products**
 - **An answer to the real needs**
- **Identify Client needs and translate them to reality**
 - **↑ Demand**
- **Never stop asking questions**
 - **Be near the client, add value to the products offered**
- **Importance of innovation**
 - **Need for tweaking micro insurance offerings based on the market/government initiatives**
- **Importance of client communication**
 - **Rise awareness**

Micro Health Insurance: Product Strategy in line with Consumer Demand and Administrative Capabilities



Key Challenge:
Controlling costs, effective administration, containing inflation, consistent service levels and quality



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An Integrated value chain for cost effective Delivery



- Minimize Costs of Distribution and Servicing
- Control Adverse Selection and Moral Hazard
- Increase overall value for the client



ILGIC initial learning's

Enrollment and distribution:

ILGIC used NGOs& MFIs Distribution channels as ILGIC had limited outreach in rural geographies.

Learning's were :

- Aggregation of risk proved to be a challenge .
- Unnamed risk was the available option.
- Geographical challenges were immense .
- No positive identification of family and members.
- Enrollment remained in patches hence increasing the anti-selection risk .
- No reliable aggregation machinery



ILGIC initial learnings

Service learnings

- Awareness and Utilization: Utilization of the scheme plays a very critical role in the sustainability and success of the scheme.
- Cost of claims and servicing cost: The claim size and the average claim serving had to be optimized as this is a resource incentive job and controlling of Frauds
- Reach and access: Sufficient Manpower in the field to have a ready access to the all the geographic spread of policy so as to have direct contact with the field.
- Grievance Module: The non accessibility of the entire field proved to be a challenge to address consumer grievance

How ILGIC progressed :

● Plan: Simplicity of the Product

- Eases the understanding of the product and avoids the miss-selling of the product, as it can lead to dissatisfaction and losing trust in the scheme.
- Avoid adverse risk pooling by appropriate terms and conditions
- Moved to a Named risk model

● Pricing: Sustainability of the scheme

- Predict the probability of claims ,challenge being absence data to build on experience based models.
- Operation Cost component is high for servicing such products

Plan, Pricing & No of members are all interlinked and form a complicated vicious cycle (maximum member coverage implemented)

How ILGIC progressed : product..

- Initial Survey of the product (Plan & Price) to check on the acceptability of the product in the field.
- Limited covers that clearly define the diseases shall be included for coverage
- Sub –Limits so that the coverage under the scheme is not miss utilized.
- Insisted on Minimum no of lives to be covered as pricing to based on the same and to make the product sustainable.
- Introduction of Co-Payment & Minimum deductibles so as to optimize on the Average Claim Size (ACS)
- A suitable waiting period in the policy so as to negate the anti selections.

How ILGIC progressed : enrollment...

- Optimized scheduling for Enrollment as this is a Human intensive job.
- Capturing of data based on some existing ID proof at the time of enrollment. as this is critical and becomes the foundation of the data base. Converted to common English language and supported this by an efficient enrollment IT module
- While enrolling for insurance, each member was given a brief / pamphlet, mentioning all the important policy terms. Exclusions was mentioned specifically.
- Health cards were issued as soon as possible to avoid cases of DNF(data not found). Card were printed in local language as well
- All the above activities are huge in number and hence had to validated with QC at all levels and supported by technology .

How ILGIC progressed : Other bare necessities...

- Awareness and Utilization: ILGIC spent considerable time and resources and included innovative reach initiatives like linguistic print material, local kiosks ,radio outreach etc.
- Cost of claims and servicing cost: The claim size and the average claim serving cost where optimized. (moved to a specific claims team and in-house service model)
- Reach and access: invested in training partner manpower to achieve effective reach to remote corners
- Grievance Module: Local language toll free Numbers. special relation ship managers / Regular meeting in the field local help desk/kiosks
- Realized that Technology has to be used for all processes otherwise the scheme would not be scalable.

How ILGIC progressed : service delivery last leg

- Realization that cashless was the way forward
- Massive and challenging service tie-ups with rural providers to provide cashless.
- Training of rural providers to adapt to processes and technology to deliver cashless
- Introduced rural providers to technology ,filing process, billing process and payment re-con hygiene and audit processes.
- Reengineered in-house claims teams and processes to interact with 2000 plus rural service providers

How ILGIC progressed : service delivery last leg

- Invested on a comprehensive claim servicing software which is the platform for Claims and enrollment.
- Followed Simple processes for claim processing and work with minimum documentation (this can be miss utilized too)
- Promote Cashless Vs Reimbursement
 - No time lag in settlement for Beneficiary
 - Easy to control Fraud
 - Reduces Grievances due to Queries/Rejection/Deductions
- System generated MIS & analytical reports so as to monitor the policy and to plug the shortcomings.
- The staff of the NGO/MFI/CBO where trained on the basic documentation and the claim processing methodology so as to act a QC and reduce on TAT's.

Product evolution

Though the Product evolution on the health side was In line with the markets understanding of products and maturity .

The weather scenarios saw some swift and interesting developments

Initial experiments on crop insurance

1972	1979	1985
First formal scheme	Pilot Crop Insurance Scheme	
<ul style="list-style-type: none">● H-4 cotton in Gujarat● Launched as an individual approach, on limited scale● Covered 3110 farmer	<ul style="list-style-type: none">● On voluntary basis● Limited to crop loans● Food-crops, Oil-seeds, Cotton & Potato● Covered 0.6 million farmers in 13 states	
Premium: Rs. 0.5 million Claims : Rs. 3.7 million	Premium: Rs.19.7 million, Claims: 15.7 million	

More recent attempts

1985	1999	2010...
Comprehensive Crop Insurance Scheme (CCIS)	National Agricultural Insurance Scheme (NAIS)	
<ul style="list-style-type: none"> ● Limited to loanee farmer ● Limited to crop loans ● Food-crops and oil-seeds ● Claims shared in 2:1 (central and state) ● Covered 71.0 million farmers across 19 states 	<ul style="list-style-type: none"> ● For loanee and non-loanee farmers ● Food-crop, oil-seeds and horticulture crops ● Claims shared on 50:50 (central and state) ● Covered 13.46 billion farmers 	
Premium: Rs. 4.00 billion Claims : Rs. 23.00 billion	Premium: Rs. 45 billion Claims : Rs. 149 billion	

High claims ratio in yield based crop insurance/ delay in claims settlement

Limitations of NAIS

- **Larger unit area, unrealistic assessment of crop loss and claims**
- **Low indemnity level and unfavorable threshold yield**
- **Limited coverage**
 - **perennial crops**
 - **pre-sowing and post-harvest losses not covered**
- **Delay in payment of claims**
 - **late submission of yield data**
 - **share of funds by Centre/State**
 - **discrepancies/disputes in the claims**
 - **Inadequate infra-structure in the field.**

1st time in India by
ICICI Lombard

Weather Insurance

Pilot in
Kharif
2003

Groundnut crop in Mahboobnagar of AP
Deviation in index despite best rainfall in
the last 4 years
Claims paid to an extent of 50% of
premium
Claims paid within 15 days of cover
closure

Rajast-
-han
2004

Successfully launched in kharif 2004 for
orange crop
Successfully launched in rabi 2004-05 for
corriander crop

Weather Insurance

FY 2005

Product launched and sold in
Grape – Maharashtra
Cotton – Maharashtra (1 Lac policies by one Agri major)
Groundnut – Andhra Pradesh, Karnataka
Paddy – Punjab
Soybean and Orange – Rajasthan
Paddy – Punjab
Stevia – Punjab

Weather Insurance

FY 2006

Orange crop of Rajasthan

Successful retail campaign of weather insurance

One to one contact of farmers by

Direct sales trainees

Internet kiosks

Ngo's

Intermittent claims paid out

Groundnut in Andhra Pradesh

Sold by federation of SHG's / MFI

Women SHG's / MFI done one to one campaign to sell to members

Benefits of Weather Insurance

Transparent claim settlement

- Pre-decided payout chart
- Published rainfall data

No hassle of crop cutting experiments and surveys

Immediate claim settlement

- Paid within a month after data release
- Intermittent claims settlement

Builds confidence of farmers

- Higher investments
- Better yields and incomes

“Weather Insurance” Over “Yield Insurance”

Source of loss can be clearly identified as an “act of god” as opposed to an “act of bad management”*

Parameter	Yield Insurance	Weather Insurance
<ul style="list-style-type: none"> ● Transparency ● Claim ● Administration ● Adverse Selection 	<ul style="list-style-type: none"> ● Farmer is unsure about quantum of payout ● Can take between 6 to 24 months ● Significant Administrative resources, Human element exists ● Prone to adverse selection 	<ul style="list-style-type: none"> ● Payout is scientifically pre-determined and conveyed ● Claims are settled within month's period ● Lesser resources, completely objective ● Actuarial rate calculation minimize adverse selection

* Skees, 1999

Experience of WBCIS

Particulars	Kharif 2008	Rabi 2008-09	Total FY2009	Kharif 2009	Rabi 2009-10	Total FY2010
States	5	4	7	5	6	6
Districts	16	24	28	24	38	38
Loanee						
States	-	-	-	-	5	5
Districts	-	-	-	-	13	13
No of farmers insured	62,000	47,000	109,000	38,000	600,000	638,000
Area insured (in acres)	208,000	251,000	459,000	360,000	2,000,000	2,360,000
GWP(Rs million)	93.0	120.0	213.0	182.0	700.0	882.0

Adaptation of technology in weather service delivery.

Channel

- Only through licensed rural agents and through Regional Rural Banks
- New Innovations
 - Weather POS
 - Sales through Smart Card

Services

- Claims settlement within 30 days of expiry of policy.
- Claims settlement through Banks
- Smart Card

Adaptation of technology in weather service delivery

TOPS
Model

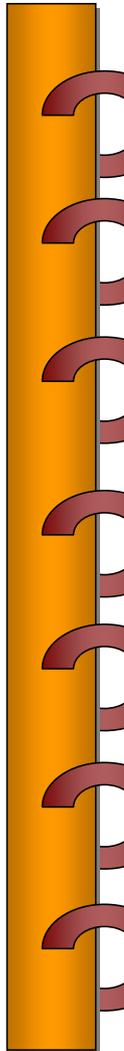
- Terrestrial observation and predication system (TOPS) will provide weather data for 1x1 Km surface area
- Lower vulnerability
- Lower costs/losses
- Achieve policy objectives at lower cost
- New markets

MNAIS

- Reduction in the unit area of Insurance
- Coverage of pre-sowing/planting risks
- Coverage of post harvest losses
- On account payment of claims etc
- Indemnity levels will be 90% for low risk areas/crops and 80% for other areas/crops

Demand of Micro insurance...is there enough Supply?

The India Story...

- 
- Population of over 1.16 billion (17.5% of world's population), growing at the rate of 1.54%
 - 72.2 % live in 638,000 villages and the rest in 5100 towns
 - Median Age of 25.1 Years, Literacy rate of 61%
 - Because of inadequacy of social security people view children as old age support- Difficult to contain population growth
 - Consumer spend moving to discretionary buys
 - 500 million mobile connections, expected to grow to 60% by 2012, Over 100 Million automobile owners
 - Yet Insurance penetration 0.6% of GDP attributed to low consumer preference, untapped rural market, constrained distribution channels

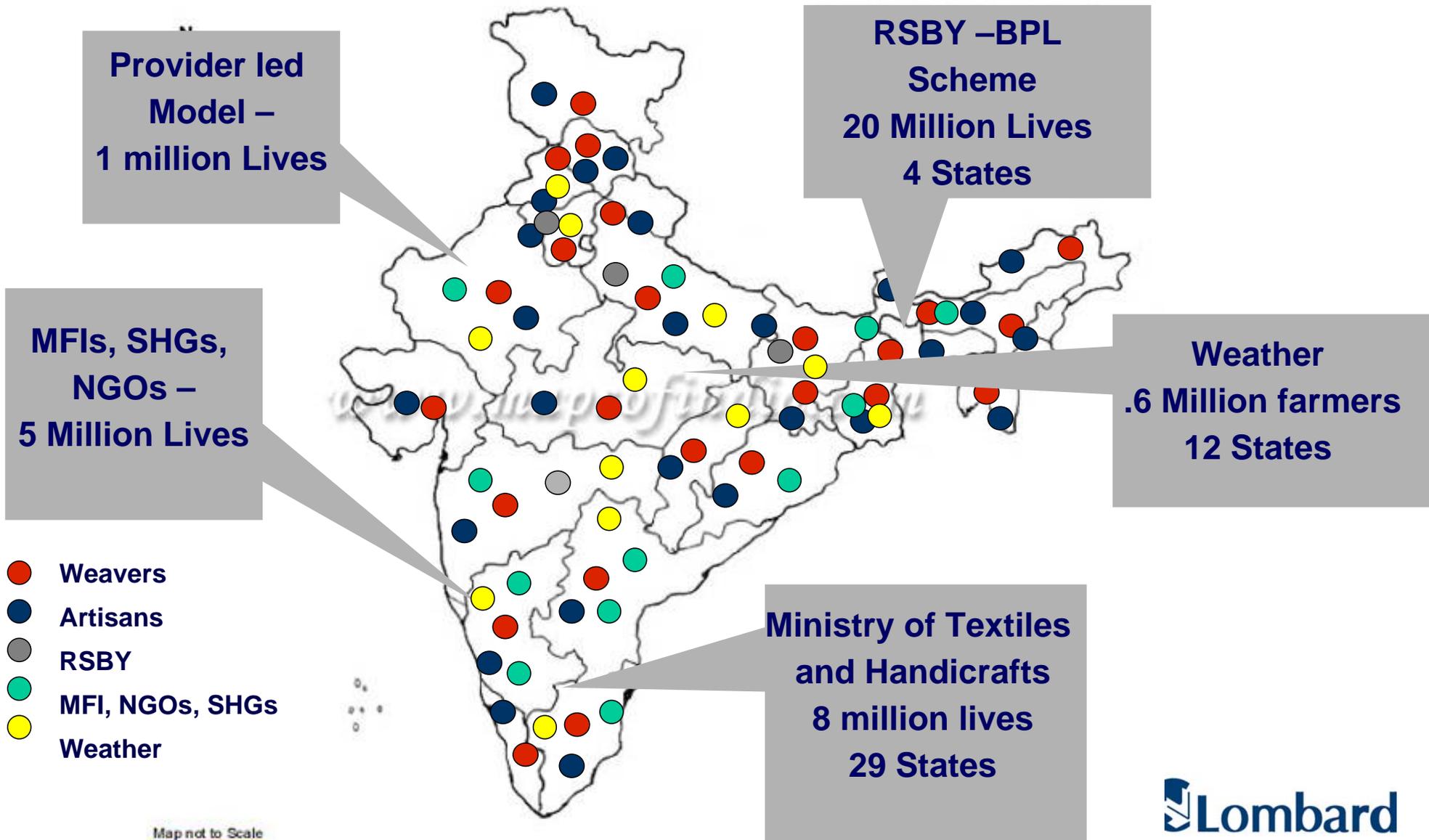
CIA World Fact book demographic statistics

Supply of Micro Insurance...

Challenge is to Reach Profitably in long term

- Significant strides taken in Health and Weather Insurance
- Government subsidy fueling growth and penetration of insurance
- RSBY- a micro health scheme supported with central and state government subsidy has made path breaking contribution to health access
- Other Government agencies reaching welfare measures through health insurance (products include Out patient services also)- Weavers, Handicraft, Sericulture
- Government propagating Weather Insurance-has made insurance mandatory for loanee farmer supported with subsidy up to 75%
- RFID chips used for Livestock Insurance
- Distribution challenge being addressed by technology solutions using holistic platforms for delivery in a secure manner

The Micro insurance Footprint



Map not to Scale

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Consumer Protection and Redressal as a result of increased uptake

- The consumer need to be protected as the market expands
 - Should understand the product before buying it
 - Access is the key-Should be able to claim benefits when required in a seamless manner
- Controls will help grow in a sustained manner
- Transparency should be enforced through regulation
- Communication in local language a must- Brochures, Helplines etc.
- Speedy Resolution of cases in the court
- TRUST IS THE KEY FACTOR FOR GROWTH

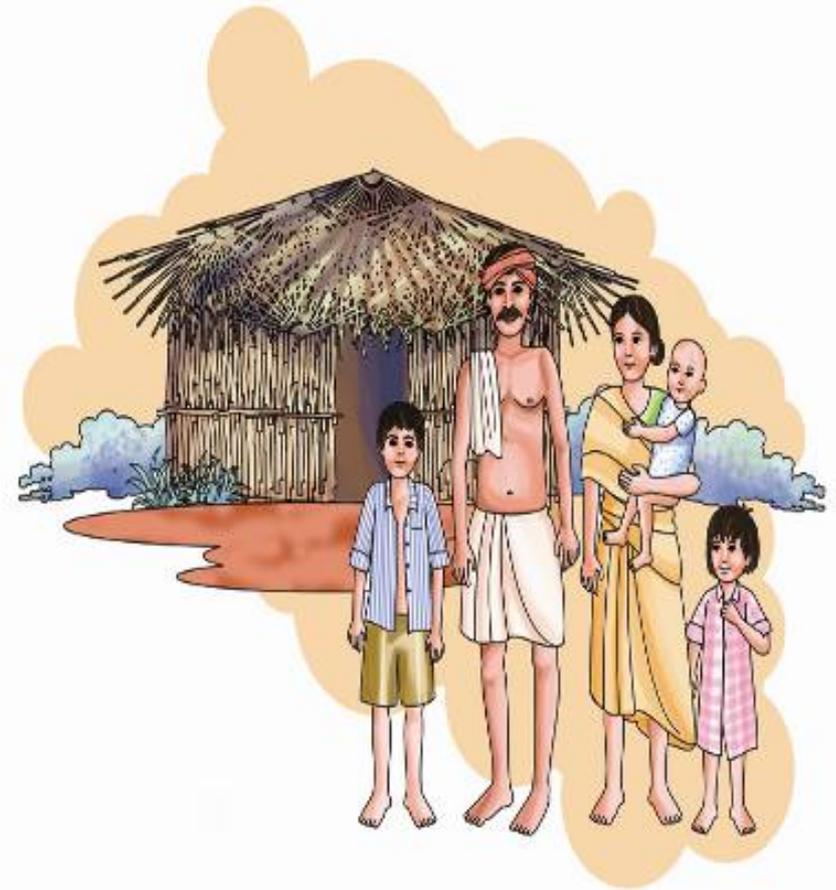
We are encouraged to strive for Excellence...

- Health has the maximum potential for growth
- Goes beyond basic needs... addresses aspirations
- Product mix needs to be attractive and viable for the channel,
- Good Idea to be conservative in the beginning
- Rapid growth obscures potential problems
- Social Returns on Investment
- Important to infuse sustainability and quality specially when there is competition



Thank you

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