MicroSave India Focus Note 86

Microinsurance Product Types in India

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India is home to many experiments in microinsurance. Though officially there are 23 registered microinsurance products filed by 15 insurance companies, there are a host of registered and non registered microinsurance products in India. This Note briefly introduces these products[1] and their characteristics.

Microinsurance products in India can be classified into four different types:

1. Products registered as microinsurance products;
2. Rural and social products not registered as microinsurance products;
3. Community based products in partnership with insurance companies; and
4. Independent community based microinsurance products.

In 2005, ILO[2] identified 83 microinsurance products (filed by 19 insurance companies) in India. Of these, 42 were life and 41 were general (mostly health) insurance products. Some MFIs, cooperatives, health mutuals and health service providers also provided life, health and other general insurance products either independently or through some partnership with insurance companies. ILO[3] reported 60 such insurance products, of which 9 were sold without any insurance company partnership. IRDA appeared to exercise "benign neglect" towards such programmes, since they are negligible in outreach.

Products Registered as Microinsurance Products

Since the Microinsurance Regulation of 2005, 15 companies have registered 23 microinsurance products with IRDA. The characteristics of these products are:

- All of these products are registered by life insurance companies, who sell them primarily to achieve the rural and social sector obligation of IRDA;
- Though most of them are individual policies, the premium collection and underwriting is done at a group level;
- The products are mostly distributed through the MFI channel, where the MFIs bundles the product for their microcredit clients. Since the loan products of the MFIs are mostly of one year in tenure, these products work as credit-life policies, if not renewed.
- MFIs receive a commission of 20-40% on the first year premium of the policies.
- Officially, the term of the policies is kept at 5-10 years because of regulatory requirements. In reality, the persistency rate of most of these products is negligible. The reasons for such low persistency are:
  - The insurance companies cannot count renewed policies as part of their annual rural and social sector obligations. Hence instead of renewing the policy, they prefer to issue new policies, even if the same client takes a loan from the same MFI.
  - In order to continue same policy for a client when she takes a follow-on loan, the MIS of the MFI and the insurance company would need to match and maintain data for each client. This is challenging and costly for small premium microinsurance policies.

Rural and Social Products not Registered as Microinsurance Products

Approximately 64 products are offered (by both public and private life and general insurance companies) to low income rural and social sectors, not registered as microinsurance products. These belong predominantly to four classes:

1. ***Individual life insurance products***, which were registered prior to the microinsurance regulation in 2005. Most of the life insurance companies have discontinued such products as they have registered microinsurance products of similar nature. However, some life insurance companies are still continuing these products since they do not wish to invest in developing new microinsurance products, as they would not significantly contribute to their profitability.[4] There are about 6 such products presently operating in the market.
2. ***Savings linked individual life insurance products***, which are piloted through unique technology and distribution channels. For example, the Max New York Life Insurance Company uses mobile phone-based transactions and ICICI Prudential has tried to start Unit Linked (ULIP) pension products for workers of Tea Estates of Assam.
3. ***Individual and group general insurance products***, which are distributed through channels which do not necessarily qualify for MIA[5]. Most of the general insurance products are distributed through specific retail distribution channel (e.g.

[1]This Focus Note does not deal with Agriculture Insurance (including crop, rainfall and livestock insurance) and the pension products for the unorganized workforce.

[2] ILO Special Study, "Insurance Products Provided by Insurance Companies to the Disadvantaged Groups in India", 2005. Note: the report is as of 2005, before the Microinsurance Regulation; post regulation, most of these products have been discontinued and some new products are added.

[3]ILO, "Community based Microinsurance Schemes of India"; Working Paper#2, 2005

[4]HDFC Standard Life Loan Cover Term and Om Kotak Mahindra's Gramin Bima Yojana are examples of such polices.

agriculture input suppliers, tractor dealers etc.) and individual agents. These rural products constitute 20-25% of annual premium of the general insurance companies.

4. ***Group term (life) assurance products***, which are becoming increasingly popular among life insurance companies because:
   - With the advent of rural agency channels (and other alternative rural channels), the dependence of most insurance companies on microinsurance products to meet their rural and social sector obligations is decreasing. Hence the companies are switching towards more profitable group products, which involve much lower transaction costs.
   - The premium of the group products are low as compared to individual microinsurance products for the same sum assured. The low premium enables the MFIs (and rural banks) to charge less for insurance on the loans disbursed. Thus MFIs (and rural banks) are attracted to group policies, rather than individual policies.
   - The premium can be negotiated and terms can be customised (for profit sharing, service level agreements etc.) according to the requirement of the MFIs and the insurance company.

Community Based Products in Partnership with Insurance Companies

Currently, there are approximately 40 insurance schemes run by different NGO, MFI and community based organisations in partnership with insurance companies. These schemes are not registered as unique microinsurance products, and IRDA does not regulate them separately since they are partially or fully in partnership with insurance companies. However, these products are distinctly different from the other type of products:

- The schemes are initiated by MFIs (47.5%), NGOs (40%) and community based organisations (12.5%) instead of by insurance companies, and hence are largely responsive to the needs of the MFI or NGO beneficiaries.
- Many of these insurance schemes offer both life and non-life cover. The MFIs or NGOs plan the coverage, premium and distribution mechanism in these schemes and keep a certain part of the collected premium as reserve. Often these policies are an amalgamation of three or more group insurance policies of different insurance companies, each covering specific types of risk. For example, VimoSEWA, offers a package of insurance benefits, which includes life, hospitalisation, asset and accidental insurance, each covered by different insurance companies.
- These schemes are limited to 1-2 states only and are replicated in new areas only if the initiating organisation moves to the other state as part of their mainstream operations.
- 90% of the schemes are concentrated on the southern Indian states of Tamil Nadu (30%), Andhra Pradesh (35%), Karnataka (15%) and Maharashtra (10%) since the majority of the MFIs are concentrated in these states.

Independent Community Based Microinsurance Products

There are nearly ten community-based health microinsurance products run independently by health service providers and health mutuals. The health service providers (e.g. hospitals or network hospitals) usually partner with other organisations that have a substantial client base, to offer these products. The administration of the scheme is looked after by a third party administrator in most cases. Some unique features of some of these schemes are:

- These are very concentrated experiments. The outreach of all the schemes is limited to only one state. However, in terms of client enrolment, some of them (e.g. Yeshasvini Health Scheme) have crossed 3 million clients.
- In some schemes, the contribution (premium) is taken in kind instead of cash to match to the transaction pattern of the clients; for example in "Jowar Arogya Yojana" (run by Kasturba Hospital, Sevagram), the clients contribute sorghum grains instead of cash.
- Health mutuals work on the principle of risk pooling from different client groups. For example, Uplift Mutual pools funds from the clients of different MFIs, and maintains a reserve to fund outpatient and hospitalisation expenses of the members. The success of such schemes depends on effective client selection and claims monitoring.

Conclusion

The regulation in India has only been able to respond to specific needs of certain types of institutions. Most of the customised experiments in insurance still fall outside the purview of the regulation. India is a laboratory of microinsurance experiments, but it has yet to develop a replicable insurance model based on standard insurance practices. Unless the regulators create space for these multiple experiments, the valuable learning from these efforts may be lost.

[5] According the Microinsurance Regulation (2005), only NGOs, SHGs, Cooperatives and Section 25 companies are allowed to become Microinsurance Agents (MIA). For detail of the regulatory limitations, please refer to "IFN 49: Trends of Microinsurance in India"