MicroSave India Focus Note 87

Microinsurance in India: The Evolution of Market Trends

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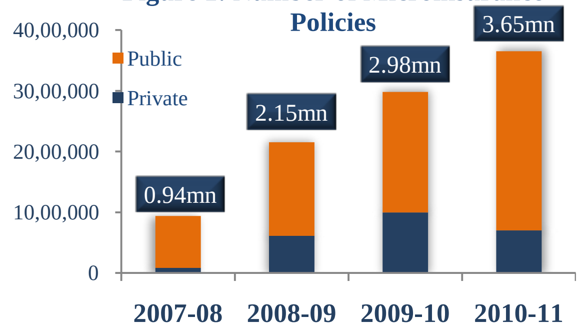
The Microinsurance Regulation (2005) has helped the growth of regulated microinsurance in India. According to the IRDA Annual Report, 2010-11, 3.65 million microinsurance policies were sold in India in the year 2010-11 covering lives of 18.9 million people. The cumulative premium collected from microinsurance was Rs.2.86 billion. Hence, microinsurance constituted 4.59% of the total lives covered, 7.6% of total number of policies and 0.23% of premium collected by the insurance industry of India.

After half a decade of microinsurance regulation, there are clear trends in the way business is conducted. This Note analyses these trends in the microinsurance sector in India.

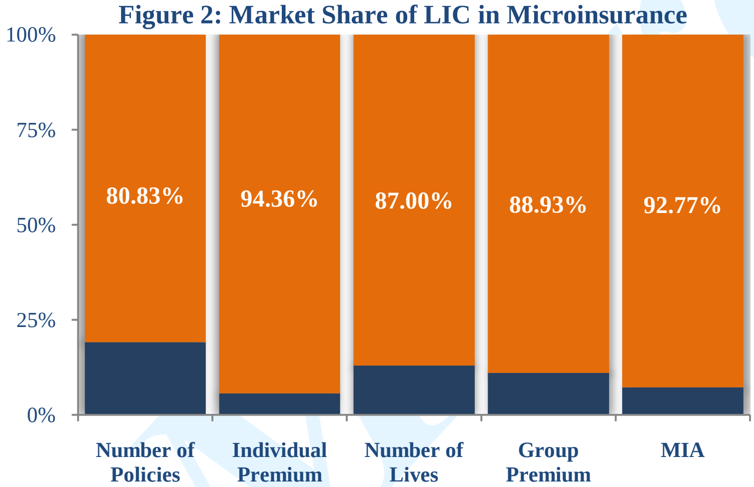
Figure 1: Number of Microinsurance Policies



The Public Life Insurer Is The Market Leader

With a premium collection of Rs.2.61 billion, the public insurer (LIC of India) is the market leader. LIC's microinsurance business is generated through 9,724 Microinsurance Agents (MIA).

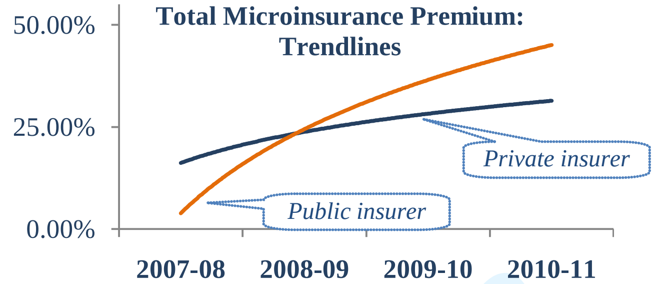
Figure 2: Market Share of LIC in Microinsurance



Group Policies Are Preferred By Private Players

Figure 3 also shows that LIC is focusing on individual microinsurance policies, whereas the private players increasingly prefer group portfolios.

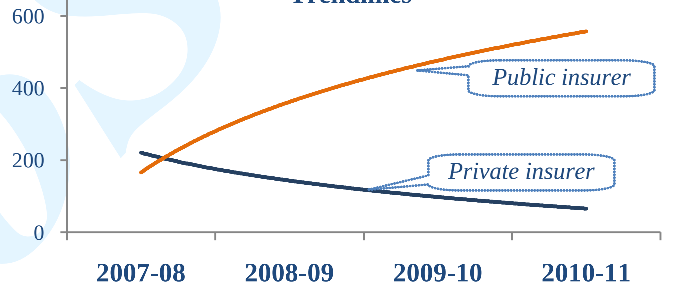
Figure 3: Individual Premium as % of Total Microinsurance Premium: Trendlines



Group term insurance products; enjoy obvious benefits over the individual products, in terms of cost of distribution and suitability to the distribution agents[1]. Still, the public insurer (LIC of India) has reduced its focus on group policies over years, because:

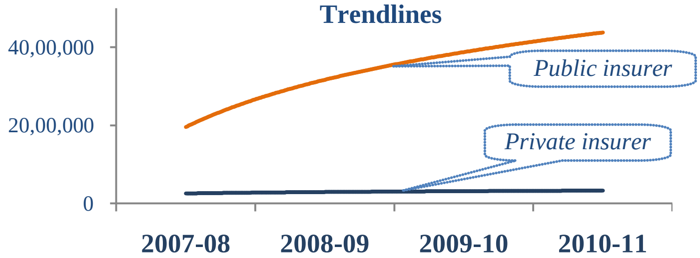
- LIC has increasingly focussed on high ticket size savings-linked microinsurance policies, over term products. Premium per LIC individual microinsurance policy is Rs.417, compared to Rs.105 for the private company policies. Hence LIC can manage the transaction costs of individual microinsurance policies.

Figure 4: Premium per Individual Policy: Trendlines



- Unlike private players, LIC sells its group credit-life microinsurance even through the small MFIs, This has reduced its premium per group scheme.[2] Hence, LIC

Figure 5: Premum per Group Scheme : Trendlines



does not enjoy the reduction in transaction cost in group policies that private players gain through their larger transactions.

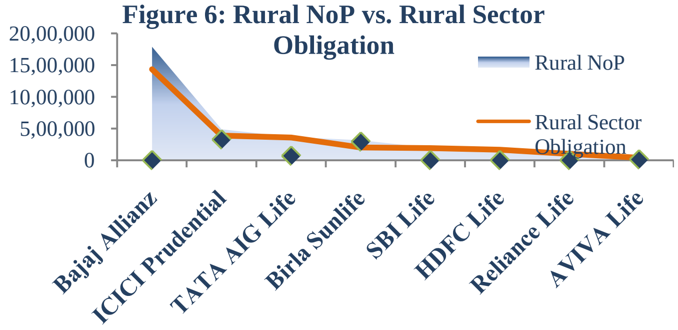
[1] The reasons for the advent of group products is detailed in the *MicroSave* IFN 86: "Microinsurance Product Types in India"

[2] Private players have gradually increased premium per group scheme to Rs.3.2 million in 2010-11, whereas the same for LIC is only Rs.253,464

Most Insurers Adopt A "Just Achieve Targets" Approach For Microinsurance

The regulators assumed that the "rural and social sector obligation" would drive microinsurance innovation by the insurance companies. However, Indian insurers, mostly private players, have focussed on high value business from beginning. Most insurers, adopt a "just achieve target" approach in microinsurance, so that they only achieve the mandatory number. See Figure 6, which examines number of policies (NoP) sold in rural areas and compares these with the number of microinsurance policies (MI NoP) sold.

Figure 6: Rural NoP vs. Rural Sector Obligation



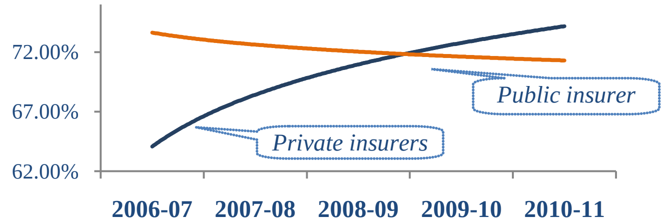
The only company missing the mandatory number in 2010-11, also missed the obligation by a mere 0.2%. It can be deduced that microinsurance is still viewed by these companies as a "necessary evil".

"Rural Sector" Is No More Microinsurance Centric

Though every life and general insurance company needs to fulfil their mandatory rural and social sector obligation, only 14 companies (of a total of 47 companies)[3] have registered microinsurance products with IRDA. Of these, only 7 companies[4] have actually sold microinsurance products in 2010-11. However, except for one,[5] none has under-achieved the rural and social sector obligation. While all the market leaders have achieved their rural sector targets, very few have sold microinsurance products to do this. Clearly, the insurers do not depend on microinsurance products to achieve the mandatory number anymore. The influence of the mandatory rural targets, which was responsible for the growth of microinsurance in India, has reduced over the years. This can be attributed to:

- Increasing penetration of private life insurers in the rural areas using their conventional high value products. Though, private players have increasingly focussed on alternative channels[6], the number of their semi-urban and rural branches have increased over the years.
- Products not registered as microinsurance products are more commonly used to penetrate the rural sector and this suits the insurers.[7]

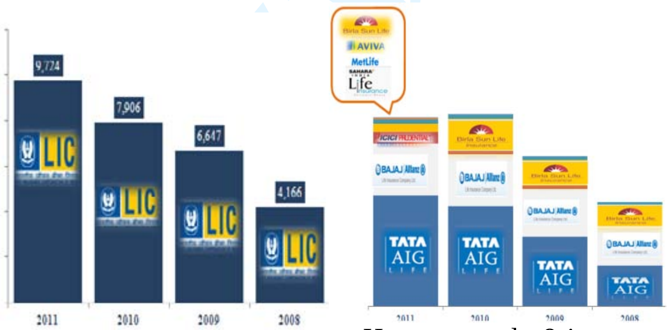
Figure 7: Number of Life Insurers'Offices in Semi-urban and Rural areas: Trendlines



Microinsurance Distribution Is Not Uniform

The Microinsurance Regulation of IRDA (2005) proposed specialised distribution channel for microinsurance through the Micro Insurance Agents (MIA).

Figure 8: Micro Insurance Agents of Insurance Companies



However, only 8 insurance companies have actually registered MIAs in last 5 years. Some private players have even decreased their number of MIAs in recent years. Some of the trends in microinsurance distribution are:

- Some insurers use MIAs more actively than the others. Some companies initially created a pool of MIAs, before realising the benefit of group credit-life and the distribution cost of individual microinsurance products. These companies have shifted their focus away from individual policies, so their MIA pool remains idle.
- In rural areas, most of the general insurance products are distributed through specific retail distribution channels (e.g. agriculture input suppliers, tractor dealers etc.) and individual agents. These distributors do not qualify to be MIAs, but constitute 20-25% of the general insurers' business. For this reason none of the general insurers have MIAs, whereas they consistently over-achieve their rural and social sector targets.

Conclusion

It is evident that the microinsurance sector will soon cease to be influenced by the rural and social sector obligations. It is fortunate that the insurers have innovated products and distribution beyond the regulatory requirement to conduct business in the low income segment. However, the regulator needs to respond to the new realities of the sector. Group based policies, alternative microinsurance products and distribution innovations have to be brought under the regulation of microinsurance to protect and accelerate the growth of microinsurance in India.

[3] Excluding the re-insurer GIC Re
[4] Including LIC, all of them are life insurance companies
[5] Bharti Axa Life Insurance Company
[6] Corporate agency, bancassurance, brokers and direct channel contributed 63.52% of the new life and 68.94% of non-life business premium of private insurers in 2010-11
[7] Alternative to registered microinsurance products are explained in the *MicroSave* IFN 86: "Microinsurance Product Types in India"