

RURAL FINANCE PROGRAMME INDIA

**Learning from Micro Insurance for SHGs  
of Pragathi Gramin Bank Chitradurga Unit (PGBCU)  
in Karnataka**

*by Ajit Kanitkar*

Final Draft

**December 2005**

**gtz**



gtz

Rural Finance Programme  
L-20, Green Park Main  
New Delhi 110 016 / INDIA

Phone +91-11-2652 6024  
Telefax +91-11-2652 8612

Email Marie.Haberberger@gtz.de  
Homepage [www.gtz.de](http://www.gtz.de)



microcredit Innovations Department  
NABARD, Head Office  
Plot No. C-24, "G" Block  
2nd Floor, "E" Wing, Bandra Kurla Complex  
P.B. No. 8121, Bandra (East)  
Mumbai 400 051 / INDIA

Phone +91-22-2653 9244  
Telefax +91-22-2652 8141

Email [nabmcid@vsnl.com](mailto:nabmcid@vsnl.com)  
Homepage [www.nabard.org/roles/microfinance](http://www.nabard.org/roles/microfinance)

## Table of contents

List of Abbreviations	4
<b>1. Introduction</b>	<b>5</b>
<b>2. Background Information</b>	<b>5</b>
2.1. PGBCU – The implementing agency and its context	5
2.2. Introduction of the Sangha Kshema Vima Yojana (SKVY) in PGBCU	7
2.3. Highlights of the SKVY product	7
<b>3. Present Situation</b>	<b>8</b>
3.1. Overview of the implementation of SKVY	8
3.2. The outlook for renewals and the potential for inclusion of new members	8
<b>4. Observations</b>	<b>10</b>
4.1. Some observations on the performance of SKVY in the first year	10
4.2. Experiences of the two RRB branches in SKVY implementation	11
4.3. Another product offered by a competitor	11
<b>5. Initial Lessons Learned</b>	<b>13</b>
<b>6. Conclusions</b>	<b>14</b>
6.1. Sharing of experiences	14
6.2. Creating awareness about micro insurance for SHG members	14
6.3. Capacity building and training for service providers	14
6.4. Appropriate micro insurance product	14
6.5. MIS for service providers	14
Annex 1: List of individuals and institutions met during the field visit	15
Annex 2: Selected Micro Insurance Products of LIC	16
Annex 3: Process documentation	18
Annex 4: Note on legal issues on micro insurance and important notifications	20

## List of Abbreviations

BPL	Below Poverty Line
CGB	Chitradurga Gramin Bank
CMRC	Community Management Resource Centre
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ), GmbH (German Technical Cooperation)
IRDA	Insurance Regulatory and Development Authority
JBY	Janashree Bima Yojana
LIC	Life Insurance Corporation of India
mCID	microCredit Innovations Department
MoU	Memorandum of Understanding
MYRADA	Earlier known as Mysore Resettlement and Development Agency
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organisation
NIC	National Insurance Company
NPA	Non Performing Assets
PGB	Pragathi Gramin Bank
PGBCU	Pragathi Gramin Bank Chitradurga Unit
RBI	Reserve Bank of India
RRB	Regional Rural Bank
Rs.	Indian Rupees (1 Euro = 54.21 Rupees as on 1 <sup>st</sup> December 2005)
SHG	Self Help Group
SKVY	Sangha Kshema Vima Yojana

## 1. Introduction

With over 1.6 million SHGs linked to the formal financial institutions by March 2005, an important landmark has been reached in terms of enabling access to savings and credit services for a large number of poor women and men in India. While celebrating this achievement of the SHG-Bank Linkage concept, several new challenges need to be addressed in the coming years. Providing micro insurance services to the poor in general and to the SHG members in particular is one of them.

This note attempts to present the experiences of Pragathi Gramin Bank, Chitradurga Unit (PGBCU) in implementing a micro insurance product called Sangha Kshema Vima Yojana (SKVY). The SKVY was introduced by PGBCU in May 2004 and this is an appropriate time to review the experiences of the first year of the implementation of SKVY and draw lessons from these experiences. This note is prepared by Dr Ajit Kanitkar, Consultant, based on his field visit along with Ms Sharmila Patel, mCID, NABARD Bangalore Office, to PGBCU during September 2005.

## 2. Background Information

### 2.1. PGBCU – The implementing agency and its context

The PGBCU is sponsored by Canara Bank with its head office at Chitradurga, a district headquarter about 180 kms north of Bangalore in Karnataka. The PGBCU earlier known as the Chitradurga Gramin Bank was established in August 1981. It operates in two districts of Karnataka (Chitradurga and Davangiri) covering 9 blocks and has 91 branches. The following Table 1 presents a brief overview of PGBCU.

**Table 1: PGBCU at a glance as on September 2005**

<b>Sponsor Bank</b>	Canara Bank
<b>PGBCU Branches</b>	91
<b>Branches associated with micro insurance</b>	79
<b>No. of personnel</b>	449
<b>Deposits</b>	Rs. 2,770.4 million
<b>Number of deposit accounts</b>	324,583
<b>Total loans/advances</b>	Rs. 2,995.5 million
<b>Number of loan accounts</b>	83,793
<b>Recovery</b>	87%
<b>NPA</b>	Rs. 97.5 million (approx. 5% of total outstanding)
<b>SHGs linked cumulative</b>	6,897
<b>This year SHG linked</b>	1,600
<b>SHG advances</b>	about Rs. 140 million (about 5% of total advances)

With effect from 1<sup>st</sup> October 2005, all the four Regional Rural Banks (RRBs) in Karnataka sponsored by the Canara Bank are merged in a new entity called Pragathi Gramin Bank (PGB). The merged banks are Tungabhadra Gramin Bank, Chitradurga Gramin Bank, Kolar Gramin Bank and the Sahyadri Gramin Bank. The Chitradurga Gramin Bank is now called as Pragathi Gramin Bank, Chitradurga Unit (PGBCU). It is assumed that the management control of the PGBCU would continue to be vested with Canara Bank. The PGB would have its head office at Bellary in North Karnataka. The PGB is expected to have a deposit base of Rs. 13,380 million and advances of Rs. 12,980 million.

The PGBCU in its portfolio offers multiple insurance products though SKVY is unique in terms of offering insurance cover to SHG members. For instance, the PGBCU offers insurance cover to:

- Farmers (Kisan credit card holders): about 40,000
- Artisans and self-employed persons (Swarojgar credit card holder): 1,000
- Farmers for crop insurance (Rashtriya Krishi Bima Yojana): 40,000

In addition to the above three national schemes, PGBCU has designed two insurance services for its depositors.

- Rakshit Saving banks (about 6,000 depositors, minimum balance needed Rs. 1,500, premium amount Rs. 120 per year).
- Sanjivani Saving Bank (about 12,000 account holders; minimum balance Rs. 250) annual premium Rs. 7.

### ***Box 1: Banking, Insurance and the Regulatory Environment***

Insurance is a federal subject in India. The primary legislation that deals with insurance business in India is the Insurance Act, 1938 and Insurance Regulatory & Development Authority Act, 1999. As per the section 4 of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA) is the regulatory authority for the Insurance sector in India. The act specifies the composition of Authority. The IRDA notification of October 16, 2002 licensed banks, Regional Rural Banks and cooperative societies to enter into insurance business as corporate agents or composite corporate agents (both life and non-life business).

The Reserve Bank of India (RBI) is the central apex regulatory authority for the banking sector in India. In the past five years, the RBI has issued several policy guidelines permitting the entry of commercial banks in the Insurance sector. Following are the important announcements of the RBI:

- Modified guidelines for entry of Banks into insurance, notification of March 16, 2000
- *Entry of banks into insurance business*, notification of August 12, 2000 permitting commercial banks to undertake insurance business as agent of insurance companies on fee basis subject to satisfying of certain eligibility criteria
- *Entry of banks into insurance business*, notification of September 22, 2003 exempting banks to obtain prior approval of the RBI for engaging into insurance business provided they comply with IRDA regulation for acting as composite corporate agent
- Permitting RRBs to undertake insurance business as corporate agents, notification of October 27, 2004
- Entry of State Cooperative Banks and District cooperative banks into insurance business, notification of February 17, 2005

In August 2004, IRDA circulated a Concept Paper on Need for Developing Micro-Insurance in India. This paper set out the objective and salient features of the proposed “micro insurance” regulation and invited comments on the various aspects of micro-insurance, before finalisation and notification of the regulation.

In November 2005, IRDA issued detailed guidelines on Micro Insurance. These guidelines define micro insurance products, micro insurance agents and enable SHGs, MFIs and NGOs to distribute micro insurance products on behalf of the insurance companies. A note on legal issues on micro insurance and all the important notifications of both the RBI and the IRDA referred above are enclosed in the Annexure 4.

## **2.2. Introduction of the Sangha Kshema Vima Yojana (SKVY) in PGBCU**

The Sangha Kshema Vima Yojana is a combined insurance product providing life and health insurance to the SHG members. It was introduced out of a felt need of the PGBCU senior management to introduce savings products for SHGs. The trigger came after an initial meeting at NABARD regional office in October 2001, where conclusions of the NABARD-GTZ study “Savings Products for the Poor – a demand perspective” were presented. During 2002, a specially constituted PGBCU task force designed three saving products for SHGs and their members. However, their launch in early 2003 did not take place due to various reasons. One of the proposed product designs, the Jenugudu flexi-deposit account included an insurance option based on the LIC Janashree product. The women SHG members appeared particularly interested in insurance. The NABARD GTZ Project facilitated the PGBCU management’s efforts to provide additional services to its SHG members, accelerated saving mobilisation were one of these services. Design and offer of a composite life and health insurance product was also conceived as another service for the SHG women members.

The SKVY was tested and launched for a few days in two branches in March 2004. The initial response of 25 SHGs to this pilot was positive. Encouraged by this response, the PGBCU management decided to launch the SKVY in all its branches from 30<sup>th</sup> May 2004 for a period of 26 days. This was done to synchronise start and renewal dates as much as possible.

## **2.3. Highlights of the SKVY product**

The SKVY sought to combine three features namely:

- Life Insurance for natural and accidental death for SHG members under the Janashree Bima Yojana of LIC.
- Health Insurance for hospitalisation benefits offered under the Mediclaim scheme of the National Insurance company (NIC), and
- A Government of India sponsored scholarship scheme Shiksha Sahayog Yojana for members of Janashree Bima Yojana.

Each member paid an annual premium of Rs. 220, Rs. 100 for the health insurance and the remaining Rs.120 for life insurance. The Government contributed an additional Rs. 100 per member as subsidy for the balance of the life insurance premium. The hospitalisation cover was a maximum of Rs. 10,000 per member on a floater basis for the SHG member, spouse and first two children. The life cover (only for the member) was Rs. 22,500 for natural death and Rs. 52,500 for accidental death. The SKVY was thus modification of the Janashree scheme of the government with that of health cover. Details of the Janashree Bima Yojana are presented in Annexure 2.

### 3. Present Situation

#### 3.1. Overview of the implementation of SKVY

*Table 2: Overview of the implementation of the SKVY in the first year*

<i>Life Insurance and scholarship</i>	
<b>Total number of SHG members covered</b>	12,197 <sup>†</sup> (from 700 SHGs of 79 branches)
<b>Insurance premium paid by members</b>	Rs.1,463,640 (12,197 x Rs. 120 per member)
<b>Insurance premium as subsidy by the Government</b>	Rs.1,219,700
<b>No. of death claims settled</b>	4
<b>Claim amount paid</b>	Rs. 90,000 (Rs. 22,500 per claim)
<b>No. of death claims to be settled (pending)</b>	2
<b>No. of scholarships paid</b>	1,048
<b>Amount of scholarship disbursed</b>	Rs. 1,257,600 (1,048 members x Rs. 1,200)
<i>Hospitalisation / health insurance</i>	
<b>Total number of members covered</b>	11,320 <sup>†</sup> (from 700 SHGs of 79 branches)
<b>Premium amount paid</b>	Rs. 1,132,000
<b>No. of claims received</b>	450
<b>No. of claims settled</b>	337
<b>Claim amount paid</b>	Rs. 642,000
<b>No. of hospitals whose services were used</b>	30

#### 3.2. The outlook for renewals and the potential for inclusion of new members

Since the insurance cover under SKVY was for one year, the group insurance policy has to be renewed at the end of every year. The data shared by the field managers of the PGBCU and the insurance companies indicate that from a membership of 11,320 in the first year, the enrolment for the second year has been for 9,880 SHG members, thereby showing a decline of about 10%. However, out of the enrolment of the second year, approximately 3,000 (about 40%) are renewals from the first year. After extending the time for coverage up to August 2005 end, additional numbers could be mobilised.

The performance of SKVY during the first year of implementation is compared with the untapped potential of SHGs served by the PGBCU is presented in Tables 3 and 4.

*Table 3: Micro insurance outreach during the first year*

<b>SHGs participating in the first year implementation</b>	700
<b>Total number of participating women</b>	12,000
<b>Participating PGBCU branches in the first year</b>	70

<sup>†</sup> The numbers mentioned in the LIC and the NIC are different possibly because of the different time periods taken as the "first" year, for NIC it is June 2004 to July 2005 whereas for the LIC it is from 2004 till date



**Table 4: Untapped potential for micro insurance outreach**

<b>SHGs holding saving accounts with PGBCU</b>	10,000
<b>Untapped potential of SHG members</b>	140,000 (approx.)
<b>Credit linked SHGs (cumulative)</b>	6,897
<b>Total number of PGBCU branches</b>	91

## 4. Observations

### 4.1. Some observations on the performance of SKVY in the first year

During the field visit the following observations were made:

- In the first year, both the insurance companies, the LIC and the NIC, have received more revenues from premiums compared to the claims settled.
- For the SHG members, it seems that the insurance cover has helped those members who had to incur either hospitalisation expenses or their nominees who received insurance claim after death of a member.
- More than 1,000 SHG members received scholarship grant of Rs.1,200 each. The total amount of scholarship disbursed was Rs. 1,248,000. This grant might have acted as a significant incentive for some members (with school going children) to enrol in the scheme in the second year.
- Though the overall enrolment has declined by about 10%, PGBCU has managed to enrol about 10,000 members in the second year of the scheme. The interesting aspect in the process is that about 7,000 new members have enrolled in place of those who did not continue. The illustrations of PGBCU branches in Horakere Devara Pura and Kakkargolla are presented in detail. In Horakere Devara Pura branch, the renewal was zero per cent declining from the first year number of 511 members. In Kakkargolla branch, in the second year, enrolment for SKVY increased from 531 to 659 members.
- There are several factors for low renewal rates. One possible factor that might have impacted the renewal process is the transfer of key personnel (branch managers) in the PGBCU. The timing of the renewal process of SKVY coincided with the routine transfer of branch staff (during months of April-May every year).
- PGBCU management had entered into a Memorandum of Understanding (MoU) with both the insurance companies. According to the MoU, in the first year, the PGBCU received a processing fee (commission) of Rs. 4 per life insured from the LIC. This amounts to Rs. 45,280. (11,320 x 4 Rs.) PGBCU did not receive any fee/income from the NIC (Health Insurance Company).
- According to revised MoU with the LIC, in 2005-2006, PGBCU would receive a commission of Rs. 2 per renewal subject to a minimum of 250 lives per issuing unit (usually a branch). This would mean a commission of approx. Rs. 20,000. The reduced commission was agreed upon in the MoU.
- During the first year, all the costs associated with staff time both in branches and head office, stationery costs, postage, marketing the micro-insurance concept need to be included and then compared against the gross income of Rs. 45,000. In addition to the costs mentioned the transactions costs related to the disbursement of scholarships are also substantial. All these responsibilities are assigned to the staff of the RRB branch on behalf of the LIC. This may also include helping SHG members to fill up claim settlement forms (in English). All this shows that the total costs incurred by the PGBCU are substantial and not fully covered by the fee-based income of this micro insurance product.

#### 4.2. Experiences of the two PGBCU branches in SKVY implementation

In the following Table 5, an overview of the implementation from the perspective of two PGBCU branches is presented. The branch staff was the key link in the launching of the pilot product and also implemented the SKVY. None of the SHG members had ever directly interacted with the representatives of both the insurance companies. The PGBCU, in a way, had performed a major role in selling the concept of micro insurance and promoting this new product. A small size PGBCU branch normally employs a branch manager, an accountant cum cashier and a peon. The performance in implementing the SKVY needs to be appreciated in this specific context.

**Table 5: Overview of the implementation of two sample branches of PGBCU**

	<b>Horakere Devara Pura</b>	<b>Kakkargolla</b>
<b>Background Information</b>		
Staff	3 officers (including Branch Manager+ 2 clerks + 1 sub-staff (peon))	1 Branch manager + 2 clerks + 1 sub-staff (peon)
Operational Area	26 villages	16 villages
Deposits	Rs. 35 million	Rs. 17 million
Loans/Advances	Rs. 65 million	Rs. 43 million
SHG Saving Accounts	190	99
Balance outstanding	Rs. 911,000	Rs. 495,000
SHG Linked	69	62
Loan Outstanding	Rs. 3.5 million	Rs. 2 million
<b>Implementation results of SKVY</b>	<b>1<sup>st</sup> year</b>	
Enrolment -	<b>511</b> members from <b>36</b> SHGs	<b>531</b> members from <b>38</b> SHGs
Life insurance	No claim	2 claims/1 settled
Health Insurance	18 claims sent/13 claims accepted for Rs. 24,376 (min. Rs. 544; max. Rs. 3,883)	46 claims sent/31 claims accepted for Rs. 62,630 (min. Rs. 357; max. Rs. 6,800)
Scholarship	A list of 130 eligible students sent/Nil accepted (at least 10 %: 51)	82 (from 22 SHGs) applications/all accepted (at least 10%: 53)/Rs. 73,800 disbursed
Gross Income for PGBCU branch	Rs. 2,044	Rs. 2,124
<b>Implementation results of SKVY (first three months)</b>	<b>2<sup>nd</sup> year</b>	
Enrolment -	<b>Nil</b> – All switched over to Birla Sun Life (see below)	<b>659</b> members from <b>49</b> SHGs

#### 4.3. Another product offered by a competitor

All SHG members in Horakere Devara Pura branch decided not to renew the SKVY. The reason cited for not renewing was non-receipt of any scholarship grant from LIC for their children. The SHG members perceived that they did not receive this benefit in spite of being eligible for the same. As a result, the members decided to approach through MYRADA a Mumbai based private insurance company. The respective SHGs are promoted by MYRADA and federated for providing support services by the Community Management Resource Centre (CMRC) which handles all insurance related work for them.

The salient features of the new product are presented in Box 2.

**Box 2: Birla Sun Life Insurance in partnership with MYRADA**

- 1,000 SHGs, average 15 members, 15,000 members in 6 blocks<sup>†</sup> of Chitradurga.
- 12 Community Managed Resource Centers (CMRC) to support SHGs.
- Accidental death and life cover (No hospitalisation cover)
- For members below 50 years of age only.
- Premium amount Rs. 50/100/200 per member for 3 years.
- Additional separate cover would be taken for spouse, children.
- If there is no claim during the policy period, then after 3 years
  - Rs. 50           ⇒       Rs. 55 returned to members
  - Rs. 100        ⇒       Rs. 110
  - Rs. 200        ⇒       Rs. 220
- SHG members get a personal copy of the agreement with the insurance company (In SKVY, the document is a Master Policy in the name of PGBCU and not for an individual)
- Insured amount Rs. 5,000, Rs. 10,000 and Rs. 20,000 respectively.
- Premium money collected in SHG meetings with a resolution by all members.
- Payment by SHGs to CMRC, CMRC to send one bank draft to Mumbai (Head office of the Insurance Company)
- Scheme started in July 2005, would continue up to December 2005.
- Enrolment up to September 2005, 1500 members, Rs 150,000 premium.
- Expected enrolment till December 2005: 3,000 members.
- Incentive/commission for CMRC (yet undecided)

---

<sup>†</sup> A block is an administrative unit in India consisting of about 50 – 60 villages.

## 5. Initial Lessons Learned

- **Delinking and unbundling life plus health insurance and educational scholarship** – The existing SKVY combines three different products/services in one scheme. This has created confusion in the minds of the SHG members. In fact, SKVY is probably perceived as a scholarship scheme (to receive grant of Rs. 1,200 every year) rather than a mechanism for health and life insurance. In Horakere Devara Pura branch of PGBCU, 131 members forwarded their applications for scholarship. None was accepted by the LIC. The LIC official admitted some kind of oversight in follow up from their side. It was observed in the SHG meeting that the delay from LIC and subsequent inability of SHG members to receive scholarship grant had resulted into a major disappointment for women. This was in spite of the fact that the health (hospitalisation) claims and insurance (for death) claims had been promptly settled. The SHG members did not make any mention of this service that they had availed. The same situation was, witnessed in, Kakkargolla Branch. It was evident that the scholarship grant had distorted the insurance component for some members in some locations.
- **Revenue model for the implementing agency** – Revenues generated by the PGBCU are not fully cost covering that is why one senior functionary in the PGBCU summed up his observations on the first year, *“Yes, I agree, In SKVY, there is a great business potential for the insurance companies; SHG members have also benefited but I am not sure how profitable is it for us at PGBCU to do this business”*.
- **Heightened expectations and challenges in educating SHG members** – The SKVY has generated many expectations in the minds of SHG members. It seems that these expectations are sometimes not matched with appropriate awareness about the benefits and limitations of an insurance product. Awareness is needed both at the level of branch personnel of the PGBCU as also SHG members. The lack of awareness was visible especially in the claim settlement process for hospitalisation. Claims were found to be rejected because of (i) discharge card not filled in by hospitals, (ii) claims that involved general treatment (and not hospitalisation), (iii) hospitals not issuing printed receipts, (iv) bills not in line with the medical prescription, (v) claims in respect of pre-existing disease. Many members probably perceived that once insured, they were “entitled” to a benefit of Rs. 10,000 whether or not hospitalisation was involved. Similarly, a large number of members seem to have perceived a notion of “losing” premium and “not getting any benefit” in the absence of any claim from them. These require a continuous education and awareness building process.
- **Competition benefiting the SHG members** – SHG members through their federations are exploring alternate schemes with different insurance companies (LIC and Birla Sun Life). The increased competition and resultant choices should lead to better benefits for the SHG members provided the SHG members and their community owned institutions are able to bargain for better quality products.

## **6. Conclusions**

### **6.1. Sharing of experiences**

The experiences available so far about the implementation with the PGBCU should be shared among insurance companies, bankers, MFI and other service providers. Such sharing of experiences would be useful for a better product design and enhanced quality services.

### **6.2. Creating awareness about micro insurance for SHG members**

Effective micro insurance services require a greater awareness levels among prospective SHG members and clients. There is a tremendous need to sensitise field staff of banks, MFIs, NGOs and insurance companies to recognise the special needs of rural communities. A comprehensive communication strategy for marketing the concept of rural micro insurance is very much needed.

### **6.3. Capacity building and training for service providers**

The capacity building and training of bank staff as service providers is needed. Leaders of SHGs and their federations could also be trained as micro agents in different aspects of micro-insurance.

### **6.4. Appropriate micro insurance product**

Insurance companies could use the experience in refining and designing appropriate products matching the specific needs of the rural communities.

### **6.5. MIS for service providers**

The service providers should maintain a suitable database of insured/un-insured SHG members based on one's own MIS needs.