Micro-Insurance in Rajasthan

Issues, Experiences and Challenges

Workshop Report

The Centre for microFinance (CmF) has been set up in Jaipur (Rajasthan) to widen, deepen and upscale the microfinance (MF) movement in the state. The objective of the Centre is to provide services, build capacities and support initiatives of various stakeholders—state government, banks and civil society organisations—in achieving their objective of strengthening the MF sector as a whole.

The Centre is seeded under *Sakh se Vikas*, the Rajasthan MF initiative of the Sir Ratan Tata Trust.

The Centre plays a significant role in enhancing the MF sector in Rajasthan by providing need-based quality services to practitioners, undertaking quality research, nurturing new ideas and promoting networking among agencies working in the MF sector. It works broadly in the following areas:

- **Resource agency**: CmF works for the quality enhancement of existing and new self-help groups (SHGs), and provides specialized and need-based services for banks, government departments, voluntary agencies, etc.
- **Knowledge hub**: CmF collects, compiles and makes available all research on MF, government policy documents, success stories and other experiences, which are useful for MF practitioners.
- **Idea incubation**: CmF conceives and incubates innovative ideas and practices for MF services to the poor. It works on these innovations through its spearhead teams in three districts, or in collaboration with other players in other districts, to demonstrate and to learn before upscaling.
- **Networking and collaboration**: CmF promotes networking and collaboration of various stakeholders to bring synergy into the efforts of various MF players.

SERVICES

The Centre builds and enhances the capacities of MF players to implement quality MF programmes through a wide range of quality, fee-based services in the sector. It provides specialized and need-based services to NGOs, Banks , government and others such as:

- Quality enhancement services
- Piloting innovations
- Market research
- Designing mF products
- Impact assessment studies
- Monitoring and Evaluation

I. Micro-Insurance: Charting New Territories

Micro-insurance has been of growing concern in Rajasthan for some time now. More so because of the state's peculiar geo-physical conditions—it's low and erratic rainfall and the almost perennial drought that affects the rural poor's major sources of livelihoods of agriculture and animal husbandry. It is the poor—the women, small and marginal farmers, artisans and wage labourers —who suffer the most in drought conditions.

This workshop, organized by the Centre for microFinance, should be the cradle of micro-insurance in Rajasthan.
—CS Rao, Chairperson, IRDA

During past a decade-and-a-half- about 1.5 lakh SHGs have been organised in Rajasthan and about 80,000 SHGs have active linkages with the formal financial system. While there is general concern on the quality of these groups, there is a need for understanding how micro-insurance can be better integrated with microfinance in the state given its geographical vagaries. It is also necessary to see how lessons from other programmes can feed into the design of these programmes in the Rajasthan context.

There is a need to share experiences from other states and constraints faced by the stakeholders in the state. The **State-Level Workshop on Micro-Insurance**, the first of its kind in Rajasthan (and the first by **Centre for microFinance** in the public domain), was an outcome of this demand. It was held in Jaipur on April 25-26, 2006 with the objectives of:

- Sharing and evaluating the experience of micro-insurance initiatives;
- Analysing the factors for successes and failures;
- Devising appropriate policies and products for the poor;
- Examining the challenges of extending insurance products to urban and rural poor; and
- Deliberating on strategies for increasing the outreach.

The workshop saw several eminent speakers sharing their experiences and opinions, including Sh. CS Rao, Chairperson, IRDA (Insurance Regulatory and Development Authority), who delivered the keynote address; Professor VS Vyas, Chairperson, IDS (Institute of

It is not often that we take note of these issues as we have done in this workshop. It is commendable CmF has taken up this initiative in its first activity of public concern. —VS Vyas, Chairperson, IDS Jaipur

Development Studies), Jaipur; Sh GC Chaturvedi, Joint Secretary, Ministry of Finance, GOI; and Dr. David Dror, lead expert, "*Social Re*" as well as managers from all major insurance companies and leading non-governmental organisations (NGOs) like SEWA, Ahemdabad and BASIX and LUPIN among others.

With only one per cent of the market having been tapped in India, there is need for need-based product research in the micro-insurance sub-sector.
—NS Sisodia, Chairperson, CmF

Several issues regarding the factors limiting the spread of micro-insurance services surfaced during the two days of sharing of experiences and animated group discussion, even as various players working for the promotion of micro-insurance got an opportunity to learn from each other. Most significantly, the workshop saw the emergence of recommendations that will be useful to practitioners, service providers, regulator and, finally, to the poor. This report is the outcome of this preparation of the roadmap for enhancing the outreach of micro-insurance in the state (*see Annexure I for micro-insurance issues peculiar to Rajasthan)* and elsewhere to the uninsured at the bottom of the pyramid.

INSURING THE BOTTOM OF THE PYRAMID

One of the truly remarkable phenomena in the annals of development has been the growth of microfinance (MF). A hundred million people all over the world (16 per cent of the world's population) are covered by MF—including credit, savings, social mobilisation, insurance and money transfer—today. However, only 1 per cent of the MF market share[1] has been tapped in this country. The sector needs to be deepened, widened and upscaled if development benefits are to trickle down to the rural and urban poor, especially women and other disadvantaged groups. The poor are the most vulnerable segment of the society and face greater financial, social and personal risks like disability, disease, death, theft and loss of life, property or assets from accidents or disasters. It is often difficult for poor households to insure themselves against these risks, as their income patterns are not stable and there isn't enough steady outgo towards insurance premiums. A study by Professor Anirudh Krishna states that people constantly move in and out of poverty.[2] The question is how do they survive and function when their incomes are small and they face

[1] India's financial system has evolved significantly in the last three decades or so with the development of a vast financial infrastructure—there are 54,000 rural bank branches; 14,000 Cooperative Bank branches and 98,000 PACS (primary agriculture cooperative societies). Yet, according to the Reserve Bank of India (RBI), the scheduled commercial banks' coverage of the country's rural population is only 18.4 per cent through savings/deposit accounts and 17.2 per cent of the rural households by way of loan accounts.

[2] "Household Poverty Dynamics in Northeast Gujarat," in *Journal of Development Studies*, 41(7).

uncertainties. This is where micro-insurance works with its concept of pooling of resources to mitigate risks, which, when aggregated, are economically viable to be insured commercially.

Micro-insurance means protection (from Rs. 5,000-50,000) of assets and lives from insurable risks faced by the target population of micro-entrepreneurs, small farmers and the landless, women and low-income groups through formal, semi-formal and informal institutions.
—CS Rao, Chairperson, IRDA

Why micro-insurance

It has been well documented and accepted that micro-insurance is a key service in the financial needs package of the people at the bottom of the pyramid (BOP). There exists an enormous demand for social protection among India's poor. But, though there are around 18 lakh SHGs in India linked with banks under the NABARD initiative, we do not see these groups maturing into enterprising units. Most of the loans taken for enterprising activities take the shape of consumption loans because there aren't any plans to mitigate unforeseen risks, in which case most of the loan amounts get exhausted. Unless mechanisms are in place to mitigate market and natural risks, these gaps and quality issues would continue to worry. Micro-insurance cannot be highlighted enough keeping in view the vicious circle of debt trap the poor fall into because of their thin asset base and recurring misfortunes. Risk mitigation is one of the most important areas, therefore, for micro-insurance and for the economy. (this para needs to be reworded. The issue is that the groups are mostly limited to credit and a bit of savings. There is a need for other financial services like micro insurance that the groups can provide.)

Micro-insurance is vital to overcome these and other obstacles and to provide insurance to the poor so that they are not sucked deeper into poverty when struck by catastrophe (not only catastrophe, but even in case of small setbacks, poor tend to fall in poverty trap) . Though—when compared with the existing demand and provision of micro-credit and savings—the micro-insurance sector in India is still at a nascent stage, it can, in conjunction with micro-savings and micro-credit, go a long way in ameliorating poverty.

However, it is also a fact that insurance companies have not been able to reach out to the rural poor and the disadvantaged, who do not have the disposable income essential for insurance. A major obstruction for this has been the associated distribution cost and the widespread perception that insuring the poor is not commercially viable. Even profit-making companies have not drawn on the poor

despite 60-70 per cent of the rural market remaining untapped.[3] It was to offset this shortfall that IRDA issued regulations on micro-insurance in November 2005 to provide a platform to this sub-sector. As per the Insurance Act of 1999, a percentage (what percentage, please mention) of a company's business is to come from the rural areas in terms of the number of policies and premium collected (*see Annexure II and III for terms of general micro-insurance products*).

Delivery: Thinking out of the box

Though micro-insurance is an insurance product and is developed in accordance with actuarial principals, it is significantly different from the traditional insurance product in its product features and delivery mechanism. A major part of an insurance product is the cost of delivery. It goes without saying that the delivery costs have to be contained if the cost of insurance is to be kept sufficiently low to attract the poor. It, therefore, needs all stakeholders to make determined and concerted efforts to upscale micro-insurance service delivery.

Since the territory is largely uncharted, especially in rural India with its complexities and challenges, it makes sense, as stipulated by the regulatory body, to have a partner-agent model for delivery. The model allows for the existing insurance companies to underwrite the risks and the civil society organisations (CSOs) to handle the distribution of micro-insurance. The reason this model has been adopted by IRDA is to exploit the economies of scale of insurance companies and the huge grassroots network of CSOs, like non-governmental organisations (NGOs), microfinance institutions (MFIs) and self-help groups (SHGs). This forges a partnership between the insurer and its distributors, which keeps the cost of insurance attractive enough for the poor to enter and remain in its fold and also addresses insurance companies' concerns about the 'low returns' of micro-insurance.

Regulation: Balancing act

The regulator has also provided for a tie-up between a life insurance and a non-life insurance company and vice-versa for distribution of a micro-insurance product. This is envisaged to help in the reduction of the delivery cost and thereby insuring life, health and household assets of the poor in a single stroke.

A new class of agents has been defined to ensure delivery of micro-insurance products—an NGO, MFI or SHG of repute can now be a

[3] Life Insurance Corporation's (LIC's) *Jan Shree* and the Government of India's (GOI) Universal Health Insurance Scheme are good examples of micro-insurance products, in which a part of the premium is offered as subsidy by GOI. Private sector banks and institutions have also taken this up and have seen some success. However, the true potential of these is yet to emerge, largely because people do not come forward to settle claims because of limited awareness about the product. Efforts are on now to step-up IEC on these products.

micro-insurance agent distributing only micro-insurance products. In a revolutionary departure from the existing regulation on licensing of agents, the mandatory 100 hours of training and the subsequent test have now given way to an initial capacity-building exercise of only 25 hours. This in turn would reduce the cost of insurance.[4]

Another radical change brought about is the commission payment to micro-insurance agents who sell micro-insurance products. To sustain the interest of the agents, the commission payable on products sold has been modified to stand at 20 per cent of the premium throughout the term of the policy. This would keep the micro-insurance agent interested in ensuring the renewal of policies thus keeping the targeted segment insured against the risks.

Critical issues

It remains to be seen if the existing regulations are conducive to the needs of the rural areas; obviously constraints exist. However, since micro-insurance on an institutional basis is a new concept (though it has been practised on a captive basis in some communities), there are some crucial issues, as have emerged from international experience, which need to be addressed first.

There is lack of baseline data that can help the insurers in pricing or designing micro-insurance products. Because there is insufficient data on the consumption and saving pattern of the target segment, the assessment of the insurance need is also crucial. At the same time, micro-insurance product has to be priced in a manner that it is affordable as also commercially viable. One critical task that has to be taken up by the insurers is the capacity building of the micro-insurance agents to enable them to tackle the additional function of servicing the policies. A major challenge for insurance companies is the retention of the insured population and a lot of effort has to be expended into educating the insured to ensure they remain within the insurance fold.

The products need to be designed with care and sensitivity towards the targeted BPL families with their localised issues and problems. At present, there are products that fulfil different needs of the poor. The answer may lie in clubbing the two with funding from two different sources (life and non-life), but sold as a single product to the beneficiary.

[4] Implicit in this is the understanding that all micro-insurance products would be simple to understand, by both the seller and the buyer.

II. The Experience: Impacting Lives Of The Poor

For micro-insurance to be successful, the roles of the three actors need to be clearly defined and played—the regulator, who needs to create an enabling environment for innovative approaches; the intermediaries, who need to function at the grassroots; and the people on the ground, who finally have to pay the premium and whose trust is vital. (what about the insurance providers/ companies? Are they covered in intermediaries? In this context, it is important to see the experiences of the insurance companies and the NGOs in implementing micro-insurance across the country.

On day one of the workshop, top managers of insurance companies, both public and private sector, shared their understanding of the sub-sector based on their experiences on the ground.

INSURANCE COMPANIES

The scope of micro-insurance lies in low-income groups, covering of assets like huts, livestock, and of livelihood loss due to accidents and natural disasters. With the country witnessing rapid economic growth, micro-insurance is an emerging market within which lies a vast potential of giving insurance coverage for natural disasters. Insurance coverage in poor countries presently stands at only 1 per cent of households and 3 per cent of businesses as compared to the 30 per cent coverage in richer countries. Experience shows that where there is no insurance only 20 per cent of the damages after a natural disaster are met by the government/CSOs/ family. Obviously, there is great need for insurance coverage.

Health and accident are the two most common micro-insurance schemes. One good example of micro-insurance schemes is the LIC's *Janshree Bima Yojna*. An important component of this is the *Shiksha Sahyog Yojna*, which provides a scholarship of Rs.

For the greater social good

That insurance companies can play a play role for social good beyond selling insurance is illustrated by the ICICI Prudential experience with two NGOs in Andhra Pradesh. Essaying a broader responsibility, the company helped two NGOs, the Star Youth Association and Gramasri, evolve into MFIs thereby the helping the micro-finance movement into the next level.

In an interesting exchange, the Star Youth Association introduced ICICI group offerings among its membership base, and in return the ICICI provided IRMA (Institute of Rural Management, Anand) trainees to re-structure the organization. Through this association, the insurer helped the organization mitigate the risk of bad debts due to borrowers' death. More than 25,000 lives were covered through this project in 3 years.

Gramasri is also an evolved MFI in coastal AP. In the beginning, Gramasri faced a lot of resistance when giving insurance products to its members, but when the residents experienced death and disaster on a large scale they could accept the importance of insurance. The main strength of this organization lay in its belief in spreading awareness and in the approach that the product should be demanded rather than *pushed*. The MFI covered more than 75,000 lives in 3 years.

100 per month to 2 children (of Class 9-12) of the beneficiary. So far, 67 lakh scholarships have been given. There are also the Oriental Insurance Company's UHIS and *Raj Rajeshwari Mahila Kalyan Bima Yojna*, which have proved highly successful. In Rajasthan, more than one lakh such policies have been issued with the premium touching Rs. 3 crore. Amongst the private sector companies, ICICI Prudential has insured more than 12,000 lives and has a network of more than 12 partners.

Lessons learnt

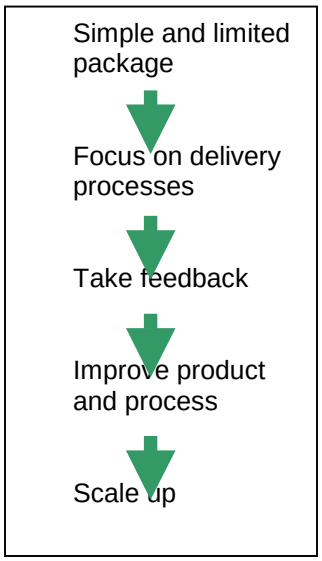
- Micro-insurance should not be the business of the small. The marketing procedures have to be revamped; the product has to be 'given' not 'sold'.
- The UHIS experience has shown that agents must be given a reasonable return for their services to make any policy successful. Also, it is necessary to change the attitude of the marketing personnel; they should derive satisfaction by giving insurance to the needy. The success of the product depends upon the commitment of the agents.
- In addition to NGOs/SHGs/MFIs, the *sarpanch* / *gram pradhan* should also be permitted to act as micro-insurance agents to better reach the rural masses.
- There have been some concerns raised about the possibility of assigning underwriting to insurance agents. However, experts feel this is a job best left to the companies since it is not feasible for the regulator to supervise so many agents turned into companies.
- Since micro-insurance products are primarily meant for the poor and weaker sections of the society, IRDA should take up the matter with GoI for exemption of service tax on premium.
- There is need for product rating that is made public and is accessible to the general client.
- Micro-insurance agents should convey the type of product needed by the community because they have the first-hand knowledge of its needs; it is up to IRDA to see if it is executable. On the other hand, some products—for natural disasters like floods and earthquakes, for instance—need to be standardized across the country.
- There is also need for more availability of literature clearly outlining policy conditions/covers and exclusions. Besides, the product should be in the local language for better understanding and response.
- At the same time, documentation needs to be reduced, made less cumbersome. Claims should be settled on the basis of the reporting done by the NGO/MFI/delegated authority thereby minimizing the complications and the hassles the beneficiary has to face.
- Though bringing the FMCG distributor to the table for distribution of these products has some merit with its specific catchment area

(customers residing in its locus of influence), the NGO/MFI brings into the partnership a membership base that has come together for a certain cause (health, education, credit or thrift). The NGO/MFI's base, in contrast to that of the FMCG distributor, is not transient and the body is largely into service delivery. A high involvement product like insurance needs to leverage a channel based on trust rather than selling.

MFIs / NGOs

The partner-agent model: The BASIX experience

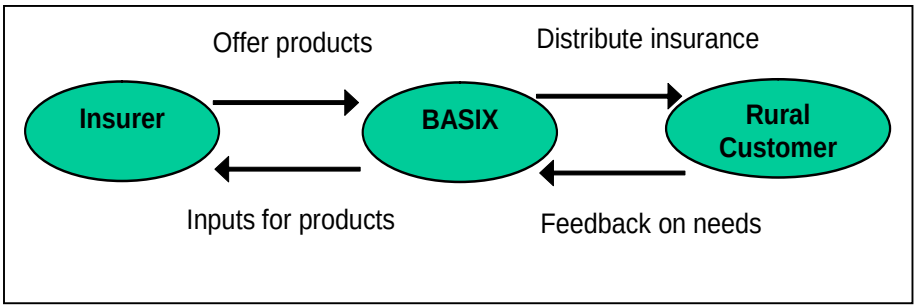
The BASIX case is illustrative of a successful **partner-agent** collaboration, where the insurer and the MFI have teamed up to exploit each other's comparative advantages in providing life and non-life cover to 2.5 lakh direct and indirect beneficiaries across eight states including Rajasthan.[5] As an International Market Research Bureau study shows, though micro-credit increased borrower income, asset ownership and social participation, micro-credit in isolation had a limited impact on livelihoods. Risks, however, remained unmanaged. Risks, especially health risks, resulted in wage loss, debt, distress sale of assets and, suicides.



A review of strategy under the BASIX-insurer tie-up in 2002 saw the introduction of risk mitigation services like insurance, derivatives, and non-financials like vaccination along with business development services for productivity enhancement, value addition and market linkages. Risks covered under life were death, disease/accident and, under livelihoods, agriculture, livestock and non-farm micro-enterprises.

Delivery issues & lessons learnt

The BASIX model followed a well-chalked out business model to get its rural insurance off the ground (*see box*). There were issues, however, of delivery that had to be resolved along the way. As it was learnt, customer education is a big challenge. While it may not result



in an immediate rise in participation, but if consistent, is an important prerequisite to build the long-term market and needs investment from insurance companies too. Though, who will invest the costs incurred remains an open question.

GIC would support all micro-insurance products with all types of reinsurance support to protect from abnormal fluctuations. MFIs can then move from grant dependency to financial self-reliance.
— R Chandrasekaran, General Manager, General Insurance Corporation

There is need also to spread the incentives along the distribution channel covering the distribution and service costs at all levels. In the absence of incentivisation, there is greater possibility of policy lapses. Very often, the MIS of insurance companies is frozen to past business practices. It is critical to have an effective MIS designed to meet the needs of channel where the business model dictates the MIS, not the other way round. There should be simplicity of product and process with convenient premium payment schedules; and minimal fine print, exclusions and documentation for both enrolment and claims. Simplicity is necessary not only to increase customer comfort levels, but also that of field advisors.

However, it was found that overall performance was still dependent on the ability of the sellers rather than the customers. Insurance still had to be sold. To reach and service the last mile in a cost-effective manner, it needs innovations in business processes. Unfortunately, most promotional literature is still in English and there are rarely in-house facilities for translation. It is vital to provide product literature, proposal forms and policy contract notes in different vernacular languages. Capacity building is also necessary if the business is to succeed. BASIX invested in the following:

- **People**
  - 120 professionally qualified (MBAs and M.Sc-Ag) people to sell insurance
- **Systems**
  - MIS to support diverse products
- **Partnerships** with 3 insurance companies
  - Life insurance with AVIVA (see *Box: Credit Plus*)
  - Health, livestock and micro-enterprise with Royal Sundaram
  - Weather insurance with Royal Sundaram

In March 2006, the model had covered 177,074 lives under the group policy and 117,000 customers under the health insurance scheme. Livestock, retail and rainfall insurance policies covered 22,547; 21,750 and 7,653 lives respectively. The average sum insured ranged from Rs. 5,000 to Rs. 36,500. The claim settlements amounted to Rs. 116.84 lakh (Rs. 11,68,400 million) on a total of 2,131 claims

Credit Plus

The Aviva Life Insurance India (ALII), in partnership with the microfinance institution (MFI) BASIX, is planning to bring one million (10 lakh) members of microfinance institutions in the rural parts of the country under the 'Credit Plus' insurance cover by 2010. Introduced three years ago, the scheme covers 1.5 lakh out of 2.5 lakh beneficiaries of BASIX.

A joint venture of Dabur and Aviva Plc of UK launched by ALII, Credit Plus is an enhanced version of a group credit-cum-life protection plan for rural people of 18-55 years. The low cost insurance plan is especially designed for BASIX, which is working with poor households in eight states in the country.

The sum assured under Credit Plus amounts to 1.5 times of the loan amount sanctioned by the MFI. In case, the customer dies before the repayment of the loan, BASIX deducts the pending loan amount and pays the balance of the sum insured to the beneficiary of the deceased customer. Aviva has so far received a premium amount of Rs. Rs. 1.2 crore and settled 307 claims worth Rs. 40 lakh. The premium amount is expected to touch Rs. Rs. 2 crore this year with the enhanced Credit Plus.

Full-service insurance model: Vimo SEWA

Vimo, which means to insure in Gujarati, SEWA is similar to the model followed by the formal sector insurers, where the provider is singly responsible for all aspects of product manufacturing, sales, servicing, and claims assessment (the insurer is wholly responsible for all insurance-related costs and losses, but then it also retains all profits). Vimo is an autonomous unit within SEWA started in 1992 with United Assurance India Ltd. and Life Insurance Corporation. Managed and run by women, it provides need-based composite insurance packages in four districts of Gujarat to 104,836 women, 47,815 men and 25,551 children. It is linked to AVIVA (life), LIC (life) and ICICI-Lombard (non-life).

Vimo has its own board of members and claim settlement committee. While women at the grassroots level are responsible for the formation and implementation of the policies, *agewan* (local women leaders) are appointed to settle the claims. The sums insured are modest and appropriate for SEWA members. Insurance products are priced with a margin for reserves and contingencies and the management monitors claims loss ratio and other key indicators on a monthly basis. All policy provisions are modelled on the basis of policies that are in longstanding use by leading Indian insurance companies.

Lessons learnt

The Vimo experience shows that the claim settlement for life policies was higher since the selection of the insured was faulty (bad-risk). With education and increased awareness, however, the claim ratio has come down. Experience also shows that the linkage of the insurance programme with bank savings schemes helped them the target groups meet their premium payment requirement. People were, therefore, encouraged to save. Some of the important lessons learnt were:

- Insurance is an essential economic support to workers during crises. In 13 years (1992-2005), 27,046 women got over Rs. 5 crore (Rs. 50 million) by way of claims.
- People's own insurance programmes can be viable.
- Linking insurance to other financial services (savings and credit) promotes long-term insurance coverage.
- Women begin future planning through insurance.
- Premiums can be increased gradually, but services must be appropriate and timely.
- Insurance promotion can be a source of employment—members can become insurance agents, incentives would enhance their income.
- Insurance by and for workers, encourages them to organize themselves and contributes to their economic security.

The challenges of insuring the poor are many with high servicing, promotional, marketing and claim costs. It is a fact though that increased outreach and expansion of insured members helps spread costs as does the promotion of family package.

Vimo plans increase its outreach to 500,000 by 2010 and to increase the number of renewals by existing customers. It plans a better viability through these as well as family packages, cost-cutting and cost-sharing, especially by strengthening linkages with livelihood groups. For the beneficiaries, it plans to have cashless tie-ups with hospitals soon.

Nav Yuvak Mandal Sansthan

Nav Yuvak Mandal Sansthan, Meethi Reduwali was founded in 1975 in Churu district of Rajasthan with the objective to link the youth to social development. It now works in Churu, Jhunjhunu, Sikar and Bikaner in education, health, environment and livelihood promotion. The organization launched Operation Sambal in 2004-05 with the objective to provide social security (through micro-insurance) to SHG members with limited sources of income. A total 23,250 lives have been covered so far through tie-ups with Birla Sun Life, ICICI Prudential and LIC.

The challenges

The NGO has adopted the strategy of awareness building among the SHGs and through the *panchayat samiti*, compulsorily insuring loan-holders and disseminating information about the Janshree Shiksha Sahyog Yojana in schools, etc. However, the going has not been easy because of several reasons:

- There is absence of demand because poor villagers are non-literate and lack understanding of the insurance concept (also because they are mostly unaware of the existing government insurance schemes due to their improper implementation).

- There is absence of trust in claim settlement procedure—glitches in one claim settlement triggers negative publicity, very often turning the entire village and surrounding villages against insurance.
- Income levels are low; therefore, there is less to go round.
- With only limited number of micro-insurance products available, there is little choice for the beneficiaries. Lack of awareness leads to lack of choice of cover. Also, since the products are not designed as per needs and demand, it leads to lack of interest among the poor. Group policies arouse avoidable scepticism because enough information has not been disseminated about them.
- Small premiums increase the administrative burden for providers and insurers.

Lessons learnt

- It is needed to organize awareness campaigns, including workshops with people's representatives, *gram sewaks*, *patwaris*, teachers and health workers.
- New products, which are also saving mechanisms, are needed.
- Grassroot NGOs should be funded for administrative expenses.
- Targets should be given to agents for micro-insurance.
- Policy-holders must be informed of the risk cover starting after 15 days of premium payment because of the time (15 days) it takes to reach the insuring company.
- Rural poor must be adequately informed on death claim procedures.
- NGOs need to link insurance with other programmes to cover administrative costs, which cannot be borne by premiums alone.

Lupin

Lupin, an NGO based in Bharatpur district, has been working in micro-insurance. The case of Meera illustrates how NGO efforts in this direction can support a family in the event of loss of its breadwinner. Calamity struck her family when her husband, Danvir, aged 30, died of an accident and livelihood now devolved upon Meera. Fortunately, Danvir's accident insurance from United Insurance Company came to her aid. The claim of Rs. 25,000 enabled her to purchase two buffaloes. Today, she earns Rs. 3,000 every month, which helps her to sustain her family with dignity. While this could not have happened if Danvir had not had accident cover, the NGO's efforts to redress her claim cannot be denied. Up till now, Lupin has insured 18,320 families under various schemes such as Raj Rajeshwari, Jan Shree and accident insurance.

Lessons learnt

- Greater emphasis is needed on health products for improvement of social indices—improving mortality rates but also the rural economy.

- Products need to cover greater number of risks.
- There should be greater flexibility in claim settlement procedures.

HEALTH INSURANCE

Health is a major risk in India, particularly in Rajasthan. A World Bank health study (Peters, *et al*. 2002) reports that about one-fourth of hospitalized Indians fall below the poverty line because of their stay in hospital. The poorer they are, the more liable to ill-health they are. For the very poor it becomes a cause of getting sucked deeper into the debt trap. One of the reasons for this is negligence towards health management.

While great stress is laid on life coverage and other products, little attention is paid to health insurance. Good health coverage has the most impact on all aspects of life. An unexpected health event can result in wage loss, indebtedness, sale of assets and sometimes suicide. And this is where the challenge lies, to convert the unexpected and unaffordable into the expected and affordable as David M. Dror opines. The answer is to develop health devices that help people through these calamities. The health insurance market is yet in its infancy and micro health insurance is of recent development. It is yet to take off in the true sense. This market represents more than two-thirds of the poor, hence huge potentialities lies here.

The poor find ways to resolve the problem of food. Food is an expected event and, at the end of the day, it is an affordable event. Health is a situation we do not know. Therefore, to fight the calamities we need a health device that will help us through them.

—David M Dror,
"Social Re" lead expert

However, micro-insurance for health is not an end in itself; it is a tool to provide something else, which is financial support in times of calamity. This can be illustrated by the case of Cambodia—80 per cent of families, who were landless, became land owners because of one single incident of health there. It was then that the people realized the value of having insured themselves. (graph below may come with write up on BASIX)

Are the poor insurable?

It then begs the question whether the poor are insurable. Conventional (read commercial insurer) wisdom would have it that the poor are bad risks (more prone to ill-health and exposed to calamities)—there aren't enough margins in the low premiums they pay and the administrative burden is too high to be worth the trouble. It is a fact that a lot of companies thrive on quota filling, to increase the numbers, obligated to do so by IRDA social and rural quotas. Most insurers are only interested in selling group insurance to state governments with unclear benefits to the targeted BPL families. But this leads to more problems than solving them.[6] In such cases, there is no interface between the insurer and the insured. Very often, the insured do not even know if they are insured at all and there are a lot of prior conditions that are often excluded by the insurance company.

World-class healthcare at one rupee a day

The Arogya Raksha Yojna is a laudable initiative to provide comprehensive healthcare to rural people through a network of renowned hospitals supported by leading doctors and surgeons. The scheme covers beneficiaries against hospitalization for all kinds of common and complex surgical and medical care and outpatient services, and entitles them to subsidized diagnostic tests and medicines at a low cost.

Promoted by Dr. Devi Shetty of Narayan Hrudalaya and Kiran Mazumdar-Shaw of Biocon Foundation, the trust collaborates with ICICI Lombard General Insurance Company to benefit residents in *taluks* around Bangalore. At an average premium of Rs. 125 per individual, the scheme has provided coverage to 56,000 people in the first phase. It includes bypass surgeries, fractures, common surgeries, maternity caesarean section and normal deliveries and allows people aged up to 70 years to join the scheme. The cashless hospital network service takes care of the financial burden and drugs and diagnostic services are offered at a discounted price while outpatient consultation can be obtained free.

Courtesy: BASIX

families. At present covering 44,278 families in the districts of Baran, Churu, Dausa, Dholpur, Jhalawar, Rajsamand and Tonk, the scheme has so far (Sept 2003–Aug 2005) collected a total premium of Rs. 4.75 crore and settled claims worth Rs. 0.75 crore (approximately 16 per cent).

The poor have buying power…

It is a myth that the poor cannot pay or are not willing to pay. In reality, they are willing to pay a lot. This can be demonstrated by the survey conducted by Dror on 5,930 households in 2005. It was found that illness and hospitalization were common and a major share of the household earnings went on healthcare expenses. All these households could understand the importance of insurance and 60-70 per cent of the sampled households were ready to at least one-two per cent of their annual household income for their health insurance.

… but want a customised product

The poor are willing to pay a lot if the product is designed as per their needs and priorities. They are savvy and they want return for their investment. The poor are not deprived of funds. They are deprived of choices. The solution, then, is to design the products that they want. But in doing so, we must be guided by strong moral values. To see what the poor want, Dror recommends adopting the CHAT method.

Vimo for health

Vimo's most popular policy provides health, life and assets insurance to women working in the informal sector and their families in collaboration with the National Insurance Company. Under this, a woman worker pays a premium of Rs. 85 per individual and, at an additional payment of Rs. 55, can insure her husband too. The insurer then receives Rs. 20 per member and provides coverage to a maximum of Rs. 2,000 per person per year for hospitalization. Upon hospitalization at a hospital of one's choice (public or private), the member submits the insurance claim to Vimo SEWA. The latter takes full charge of enrolment of members, processing and approving of claims. The company receives premiums from the provider annually and pays out a lump sum on a monthly basis for all claims reimbursed.

CHAT (Choosing health plan together): It was found in the survey that the poor want coverage for what they consider is expensive, i.e., drugs, hospitalization, outpatients consultation and/or diagnostic tests on first priority and maternity care, indirect costs of illness and preventive medication on second priority. But if the coverage they desire is excluded then why should they pay for it?

However, even though their priorities match with those of policy, there is imbalance between the demand and the supply. The understanding of micro-insurance, therefore, needs to be widened. Insurance companies need to look beyond the profit to see what the poor want. They need to understand that micro-insurance is not defined by the product, but it's underwriting value. The insurer has a financial incentive in the health of the insured. But what incentive (return for the premium) do the insured have in remaining healthy? There is need to give them the incentive to stay healthy. There is need to reverse the paradigm. The rules of insurance have to be adapted to the reality of where we want to implement it. But care has to be maintained that

there is no adverse selection while insuring because it may lead to loss.

Lessons learnt

Micro-insurance in the health sector works on three presumptions: existence of social capital, existence of community institutions and existence of linkage with external institutions. They reduce catastrophic health expenditures.

- One way of minimizing the loss and strengthening social capital is by generating accountability within the group and the community. And this awareness is generated by a person who knows the village and the group whom he is insuring.
- In order to improve health, health care prevention measures should be adopted.
- Community institutions are important: A case in point is that of the Universal Health Insurance Scheme in the non-life sector. Despite being highly subsidized, the scheme has not been able to attract the masses, resulting into a total coverage of 52,000 policies in 2004-05 and only 59,000 policies in 2005-06. Though the product was designed with a premium of Re. 1 a day, it remained uncollected because not only was the collection mechanism not in place, but also because it was not proximate (which also affected renewals).[7] Evidently, therefore, there is no micro-insurance where there are no community institutions. In all successful illustrations of micro-insurance, communities or SHGs are linked with external agencies that provide insurance. But groups should not be formed for floating insurance because this leads to distrust for insurance.
- It is more effective to rely on existing, trusted, close-to-client micro health insurance schemes.
- Further, there is need to work on a reinsurance model, which is presently unavailable to micro-insurance schemes, with a support mechanism. If allowed by IRDA, GIC is keen to support all micro-insurance products to protect them from abnormal fluctuations, frequency, severity, etc. since it has the financial strength and reinsurance expertise to design tailor-made solutions for specific schemes, such as aggregate loss cover per event or per annum or stop loss cover.
- There is need for creation of a micro-insurance academy because the subject needs complete understanding it cannot be learnt by trial and error.
- Health insurance creates demand for government health services.
- For viability of health insurance, ‘cashless’ tie-ups with hospitals are helpful.

[7] Even government intervention has not been able to make UHIS a success because the agents were paid incentive on the premium collected on the policy rather than on total (including the premium and the subsidy).

- Linkage with health programmes that is focused on prevention and promotion enhances the viability of health insurance.

In view of all of the above, it is clear that state alone cannot be depended upon for viable health insurance systems. There is a need to design an insurance model through which the poor can be benefited.

III. Lessons Learnt: Reaching The Unreached

The Indian poor are willing to pay, but they want the return for their investment.
—David M Dror, "Social Re" lead expert

It is challenging to design a sound micro-insurance scheme. The demand for it is often thin in poor areas because of the regular premiums that must be paid by customers. Usually, it is only by trial and error that institutions can figure out the right combination of prices and services, and this takes time, effort and skill. In fact, as far as the public sector companies are concerned, most insurance schemes are declared by the Central Government and the companies only market the product, which may not completely meet the needs of the poor.

Very often, the agencies/service providers are limited in their means. In most cases, the beneficiary is approached by various agencies usually because of the pressure to fulfil targets. There is little interest, therefore, in providing details of the product leaving the beneficiaries confused and ill-informed about the product most beneficial to them. With tough and lengthy claim procedures, exclusion of beneficiaries from the BPL list and lack of enough accredited hospitals, it is clear that we cannot depend on the state health insurance system alone. There is need to design an insurance model so that benefits actually reach the poor.

Therefore, it needs careful analysis and responsible research with extensive field surveys to profile the risks and the real needs in order to serve the very poor. Such products, designed after consulting the clients, would be far more useful to both parties and easier to market. The research can be done effectively by involving organisations that work closely with the people and should include the multiple risks faced by the rural poor, the existing coping mechanisms, awareness of and access to various insurance services. The future lies in policies that people really need, and which accurately focus on the end-users and their requirements. A look at the following shows the way forward for policymakers, implementers and the civil society organisations operational in the micro-insurance sub-sector.

Product design & development

While designing a product for the low-income and high-risk groups, it is critical to address multiple risks such as life, accidents that lead to disablement and death, health, assets and loss of livelihood. Unless there is customisation of highly innovative products, target groups will not be convinced.

- For insurance packages to be attractive, they need to have wider coverage and be more comprehensive. Linkage with savings is,

therefore, imperative, because savings facilitate the paying capacity of the target group.

- While life products are found to be reasonably adequate, they do need to include accident coverage. On the other hand, health cover should include hospitalization, drugs and investigation, transportation costs, cashless facilities and compensation for loss of livelihood in case of accident or illness. For the poor, their resources are critical, asset cover should, therefore, include dwelling, belongings, livestock and equipment/implements.
- Very often, discrepancies arise between the sum assured and the cost of reconstruction of the asset in case of loss. It is suggested that a degree of inflation be factored in at the initial stage to resolve this problem of future proofing. NGOs and MFIs can play a major role in determining the sum assured.

Delivery mechanisms

It is difficult for insurance companies to establish a vast network to market micro-insurance products. The success of the partner-agent model has been seen in the case of services provided by NGOs like BASIX, SEWA, Lupin and Navyuvak Mandal Sansthan. Companies need to utilize already existing government and non-government networks to increase the outreach of micro-insurance to the poor. There is a need for a body like IRDA or an NGO at the state level to facilitate the process of networking to strengthen the sector.

However, since the concern is of the poor, it needs to be understood by all stakeholders that delivery is different from marketing. Civil society organisations that work closely with the poor find a greater acceptability among the target groups and, with a better understanding of their needs, are better equipped to advise them in the choice of products. Evaluation of impact must be done to see the feasibility of schemes and services provided. The feedback can be better generated through the engagement of NGOs/MFIs/SHGs It is vital, therefore, to adopt the following strategies to ensure better distribution of the micro-insurance products:

Weapons without soldiers

A perfect example of failure in delivery mechanism is the National Agricultural Insurance Scheme (NAIS) for crop insurance being implemented by the Agriculture Insurance Company of India in Jaipur through district cooperative banks, regional rural banks and commercial banks. Nearly 1.6 million (16.5 lakh) farmers are insured in the *Kharif* season. But these farmers are only those who have taken bank loans. There are a large number of poor farmers, who have not taken bank loans, for whom the *Sookha Suraksha Kawach* has been launched. However, only 180 farmers have been covered under this scheme. This is because the company employs only nine people and 11 field officers on contract. Of what use are good products in the absence of a proper delivery mechanism?

- There is need to focus on transparency, right from product development to policy-making and implementation.

- The products should have need-based design.
- Companies need to decentralize their powers—there should ex-gratia claim settlement of 50 per cent of the claim amount at the district level to give immediate relief to the insured.

Though the product may be priced low, it may remain uncollected as seen with the UHIS (with a premium of only Re 1 a day). Collection mechanism has to be so designed, and the agency situated proximately so that the premium collection and renewals are easily done.
— GC Chaturvedi, Joint Secretary, Ministry of Finance, GOI

Policy environment

With a view to push micro-insurance, the insurance regulator has suggested that life and non-life insurance companies be allowed to join hands and offer each other's products in rural areas. The regulator has also eased the applicable norms by relaxing the mandatory 100 hours of training to 25 hours for micro-insurance agents. The regulations provide for the appointment of micro-insurance agents (meaning, in this case, NGO, SHG, or MFI) by an insurer for distribution of micro-insurance products. Though the policy environment provides ample scope to upscale the movement, the movement has not witnessed the growth it should have. There is need, therefore, for government subsidy/ contribution for micro-insurance products. There is also critical need to establish networking and coordination of practitioners. There should be an apex body of groups working in micro-insurance so that rates may be negotiated with the companies.

It would give good returns if IRDA allows tie-up of life insurance companies with general insurance or non-life companies without specifying any particular company.
— R Venugopal, Executive Director, P&GS, LIC

Awareness generation & capacity building

A lot of funds are spent on spreading awareness on health issues such as polio, AIDS, etc. but little attention is paid to this need of the insurance sector. Though IRDA has taken some initiatives in association with Prasar Bharati, an information revolution and some out-of-box thinking is required to change the scenario. Norms need to be developed for IEC at the policy level that can be implemented by maintenance of a corpus fund for IEC at the state level to spread awareness about the importance and need of insurance. Every stakeholder in the insurance sector can contribute to the fund with tax exemptions for such contributions. Insurance companies can be asked to transfer such money to the fund from the large number of

micro-insurance policies that lapse because of the inability of people to pay the premium. It is a fact that the stakeholders would definitely gain if the sector grows. Along with this initiative, the following strategies can be adopted:

We need to focus on capacity building of the delivery organizations while developing mechanisms to facilitate insurance delivery at the doorstep.
— Tarun Chugh, ICICI Prudential

- The needs of the two segments of literates and non-literates are vastly different. While the former can be targeted through pamphlets, posters, wall paintings and hoardings, and success stories; *gram sabhas*, street plays, folk songs, and radio/television/films are ideal vehicles of communication for the non-literates. The communication materials should be in Hindi or in the vernacular where possible (see *box: Insurance: Na baba, na*).
- School and college-based education programmes can be also designed for spread of awareness.
- While capacity-building and awareness programmes can be put in place for *gram sewaks*, *aanganwadi* workers, teachers, and government staff, there is need set up orientation programmes for insurance agents and bank officials.

Funds for IEC programmes can be mobilized through a state-level nodal department. A fund pool at the district level can be generated by the existing companies and new entrants to be managed by the district authorities. Promotional activities to collect funds can be conducted at the corporate level through involvement of Confederation of Indian Industry (CII), Hindustan Lever, Lupin, LN Mittal Foundation,and the Bhoruka Charitable Trust, etc. Funds can be accessed through PRI income, *zila pramukh*, DRDA, IEC funds with the state government, and under the MP and MLA local area development schemes.

Insurance: *Na baba, na*

Ramjani Bhati belongs to Gajner, Bikaner. Deserted by her husband a few years ago, she bought an insurance policy from a public sector life insurance company in Aug 2003. The insurance agent assured her that she could deposit the quarterly premium at the local bank. Ramjani paid the first premium of Rs. 1,100 to the agent and got the policy document. But when she went to her local bank to pay her next premium she was asked to go to the Bikaner office. The policy lapsed because of non-payment. Today Ramjani is so terrified of insurance that it seems well nigh impossible to convince her about its benefits. There are many such cases of lapses of endowment policies in the rural area because of the inability to pay premium instalment, which leads to loss of instalments paid earlier. It is a matter of concern that company has sent reminders in English to an illiterate rural woman. Such incidents trigger off

IV. The Roadmap: Deliverables For The 'Actors'

On day two, the workshop went into the deliberation mode with group discussions among all the participants. Animated dialogue, spread over half a day, saw the setting down of a roadmap for the next three-five years. It is feasible, therefore, to look at concrete deliverables for all the actors in micro-insurance, viz. the insurance companies, MFIs and NGOs; the government; and facilitators like CmF.

Government

IRDA is flexible and open to change and revision in policy provided the NGOs base their needs on sufficient data.
— C.S. Rao, Chairperson, IRDA

- Set up a separate/autonomous body like NABARD to focus on product design, implementation and drafting of the regulation guidelines for micro-insurance.
- Set up a nodal agency at the state/district level, comprising a credible NGO or a core group formed by NGOs/public sector insurance companies/*panchayati raj* institutions (PRIs), to monitor the implementation and settlement of claims.
- Make mandatory the appointment of NGOs, local bodies other organizations at the grassroots level as implementing agencies.
- Segregate micro and rural insurance; micro-insurance is a social responsibility rather than a business.
- Revise equity requirement for entry of more players into the Indian insurance market.
- Provide commission on government subsidy to the agents to make schemes attractive for the agents to sell, which can be made merit-based.
- Issue guidelines for user-friendly premium collection—it can be weekly, monthly, or seasonal based on the cash inflow of the insured family.
- Adopt lead bank concept in which the appointed lead bank is responsible for insurance awareness, to be monitored by a nodal agency like NABARD.
- Utilize left-over funds from lapsed policies with the companies for awareness generation of micro-insurance.
- Frame regulation for insurance to be incorporated in the micro plan of the *gram sabha* and *gram panchayat* for better awareness at the ground level.

Since micro insurance products are primarily meant for the poor and weaker sections of the society, it is requested that the IRDA may take up the matter with GOI for exemption of service tax on micro-insurance premium
— BK Sarkar, General Manager, Oriental Insurance Co. Ltd.

Insurance companies/MFIs/NGOs

- Synchronize premium payments with the seasonal nature of income generation since the beneficiary finds it difficult to pay the yearly premium upfront. This should also be based on his/her earning capacity.[8] For a viable and cost-effective method of collection, companies, can have MFIs/NGOs/SHGs combine premium collection with their core activities since they are locally based.
- Rope in MFIs/NGOs/SHGs to build groups. This would aid in creating large numbers—which would help in spreading and mitigating the risk—and in preparing an identification list of the target groups to assist the insurers. Increase in numbers would also help in making available better products.

The prime responsibility is to educate the people.
— Ramaswamy, General Insurance Corporation

Unfortunately most promotional literature is still in English. There is need for providing product literature, proposal forms and policy contract notes in vernacular languages.
— Gunaranjan, Manager Insurance Business, BASIX

- Work out short-term insurance covers for contractors and employers of migrant workers, specifically in Rajasthan, taking into account the seasonal nature of migration and occupational diseases such as the ones faced by mine and quarry workers, etc.
- Target SHGs, *mahila mandal*s, cooperative societies, focus groups and individuals for the awareness generation campaign.
- Make available booklets of insurance products at *panchayat samities*, NGO offices, village information centres/e-*choupals* and e-*mitra* centres and even at the collectorate.

To promote quality standards, CmF plans to focus on community building and establishment of e-network and data bank with other stakeholders.
—NS Sisodia, Chairperson, CmF

Centre for microFinance

- Establish a database with product details and analysis for comparison so that the best may be chosen.

[8] Most insurance policies require fixed premiums to be paid according to a regular schedule. For low-income households with irregular income flows, such a schedule may be difficult to maintain. The annual premium period does minimize the administrative burden for the insurers but is not convenient for this category of clients, and significantly restricts membership in an insurance programme. The timing of the annual insurance renewal is also crucial. Agricultural cycles need to be recognized in setting the premium collection periods. Personal and household income cycles also need to be considered for identifying the appropriate periods for insurance premium payments.

- Collate all micro-insurance policies in Hindi.
- Conduct pilot studies on community-based health micro-insurance specific to the needs of the people of Rajasthan. This could be done in collaboration with lead experts like Dr. David Dror.
- Work out a district-level plan for company-NGO tie-up in its three pilot districts of Bhilwara, Bikaner and Dungarpur for assessment of need, delivery mechanisms and feedback on products. This can be replicated at the state level in all 32 districts later.

Conclusion

It is established that the Government is keen to increase the outreach of micro-insurance to the poor and, to this end, is providing subsidy on insurance premium for the poor. However, there *is* need for some innovative mechanisms to reach the poor so that the subsidy can be effectively utilised. Though the regulatory authority has been very proactive and the policy environment is highly supportive for enhancing the outreach, NGOs and SHGs are yet to be utilized in a manner befitting their true potential to increase the penetration levels.
Despite the new and innovative ideas from new insurance companies, and the positive environment, the micro-insurance movement can be successful only if all the stakeholders work together to fill gaps in awareness building, delivery mechanism and product development. There is a rich pool of knowledge that needs to be made stronger and more flexible.

The issue of micro-insurance for optimal risk mitigation of migrant groups can be tackled effectively through the proposal to develop a comprehensive policy that includes life, health and livelihood. The current system of insurance product delivery is not successful because the transaction costs are not taken care of. These costs can be minimized by including the NGOs, MFIs and the communities. The delivery mechanism should also be transparent at the ground level with a strong and permanent supportive system.
Studies show that insurance cannot be successful unless the group that is being catered to is kept in mind. The rural markets largely remain virgin territories and offer exciting opportunities for insurance companies. The surest path to success is to measure the requirements of the people correctly and to offer schemes tailored to their needs and paying capacities. If insurance is packaged in such a form that it appears as an agreeable investment, it would definitely be accepted by the rural Indian. If rural poor are invited to participate in such workshops as this, as the Centre for microFinance is committed to do, the only path is the way forward.

Annexure I
The Rajasthan Context: Taking Stock

Risks: Traditional coping mechanisms

Rajasthan is the largest state in India. Agriculture dominates the primary sector here with two-thirds of the population dependent on agriculture and allied activities for their livelihoods. The state stands at the 12th place in the Human Development Index among the 15 major states of India. According to the BPL survey of 1997, nearly 21 lakh (20,97,560) families fall below poverty line out of 67 lakh (67,68,541) rural families in Rajasthan.

Already disadvantaged, such families face risks that are peculiar to Rajasthan. Drought, which is an almost perennial feature in the state (2/3 of the 59 years of independence have been drought years), frequently leads to crop failure, shortage of fodder and the death of livestock. There is also a high incidence of disease, high in cost in terms of both treatment and the loss of working days. Death of earning member of a poor family, natural or accidental, too leads not just to a loss of source of income but also affects two-three generations; besides, the expenditure on the last rites and the social customs like death feast (martyubhoj) very often pushes a poor family further into the debt trap. The upshot is that the loss of livelihood—job or business—forces migration upon the people of this state, putting their health and lives to an increased risk even as disease and death of animals, with high attendant costs, create greater poverty.

Moneylender woes

Rahimi belongs to village Kalyanpura of Alwar district. With no land-holding, her only source of income was wage labour when her son died of illness and her daughter-in-law committed suicide four years ago. The already poor Rahimi had to spend Rs. 12,000 on medical expenses and nearly Rs. 10,000 on the *mrityubhoj* (death feast). Where could a poor family like hers access funds like these? Today, Rahimi pays an annual interest rate of 36 per cent on the monies borrowed from the moneylender.

People are aware of their vulnerability to risks. In most cases, they develop a safety net of various informal coping mechanisms, ranging from family or community networks that can provide funds, if needed, to building up of assets like jewellery and accumulated savings. Such assets and savings can take care of the small losses. But, since the poor don't have regular and sufficient income, they have to rely on external sources for supply of funds at the time of unexpected crisis—generally borrowing money at a high rate of interest from local *mahajans* (moneylenders), relatives or resourceful people in the community. The poor also have a lesser tendency to save for crises since they don't have sufficient income and formal saving instruments. Hence there is need for a foolproof system for insuring the poor against disasters.

Micro-insurance in Rajasthan

Micro-insurance sector in Rajasthan has started growing partly because of development of microfinance activity and partly due to the IRDA regulation that makes it mandatory for insurance companies to provide services to the rural and social sector. Even so, the insurance outreach is very little in the poorer pockets of the state. A World Bank study[9] finds that Rajasthan has achieved minimal penetration in social insurance for the unorganized sector even though there has been a proliferation of schemes in recent years. The two public social security schemes for unorganized workers (*Jan Shree Bima Yojna* and the Agricultural Labour Social Security Scheme) have not achieved significant coverage (as in the rest of India) in part due to the collection of contribution and delays in claim settlements. The report

[9] Rajasthan: Closing the Development Gap, 2006

Awareness of micro-insurance, especially in the health sector, is a big challenge in Rajasthan. Major issues like accreditation of hospitals, availability of service providers and cashless transaction also need to be addressed.
— Shubhra Singh, Secretary Medical & Health, GOR

further goes on to say that while penetration appears to be better under a range of other schemes, there is an issue of multiplicity of small schemes failing to achieve critical mass in coverage. Considering that the Indian micro-insurance market is estimated to reach Rs. 25,000 crore by 2008[10] and the size of Rajasthan, the potential for growth of micro-insurance services is vast in this state.

Government insurance agencies like Life Insurance Corporation of India (LIC) and the four General Insurance companies (The Oriental Insurance Company Ltd., The New India Assurance Company Ltd., National Insurance Company Ltd. and United India Insurance Company Ltd.) have a wide range of policies for the poor covering various risks like life, health, personal accident, fire, household property and cattle. With the liberalisation in the sector, many private players have also started their operations in Rajasthan, ostensibly offering policies tailored for the rural client. These are mostly modified versions of urban policies, a sop to the IRDA requirement for insurers to serve the rural and social sector. Some private companies are taking their IRDA obligations positively and are working hard to reach the poorer masses with some good products as they see a potential market in this sector. But many others are simply fulfilling the IRDA target stipulations.

However, it is also a fact that only public sector companies have a large network of offices and agents covering the whole of Rajasthan. Private companies have only recently entered the market and do not have the extensive infrastructure required for a state as large as Rajasthan. For example, Oriental Insurance has more than 50 offices and extension counters here whereas some private companies have only a single office in the state, as their operations are very new. Lack of infrastructure is a major hurdle for private companies reaching the rural poor (*see box: Limitations of delivery*).

Limitations of delivery in Rajasthan

- Lack of general awareness among the rural poor.
- Difficulty in convincing rural poor.
- High transaction cost.
- Lack of cost effective delivery channel.
- Products not customised to the needs of the poor.
- Lack of confidence in insurers among rural households.
- Illiteracy among the target group.
- Lack of interest among insurance agents to target rural market in Rajasthan.

At the same time, it is also true that there is a lack of appropriately designed products customised to the particular needs of the poor in Rajasthan. For instance, agricultural insurance schemes (crop failure, agricultural implements, pump sets, etc.) have not proved very popular in Rajasthan and nor was the GoI sponsored National Agricultural Insurance Scheme (NAIS) for crop insurance implemented here for long. In fact, agricultural insurance has not proved very feasible here because Rajasthan is in the drought zone and very often agriculture is a seasonal occupation with recurring droughts and the resulting migration. Till recently, only a few cooperative banks offered agriculture insurance, and that too not every season and then only to members taking loans for agriculture. Though NAIS is insuring more than 1.6 million (16 lakh) farmers in the *kharif* season, through the Agriculture Insurance Company of India office set up three years ago in Jaipur, most of them are insured because the

[10] "Extending Formal Insurance to the Informal Economy Workers in India," paper presented by Basudeb Guha-Khasnobis and Rajeev Ahuja in EGDI & UNU-WIDER conference *Unlocking Human Potential: Linking the Informal and Formal Sectors*, September 2004, Helsinki, Finland

insurance premium is collected at the source of agricultural loans. It cannot be said that all these farmers approached the company for insurance. Though the *Sookha Suraksha Kawach* has been launched for a large number of poor farmers who are not taking loans from banks, only 180 farmers have been covered. This is because the company employs only nine people and 11 field officers on contract basis. This is a perfect example of the problem in delivery—if the delivery mechanism is not in place there is no use of good products. Also of concern is the fact that very often the premium paid is much more than the benefits.

Linkage

It is very difficult for standalone micro-insurance products to reach the poor in Rajasthan because of inadequate access to the target group and low rate of return for the insurer. Though they are often bundled with micro savings and micro-credit, thereby allowing scarce resources to flow into micro investments with the highest marginal rates of return, micro-insurance remains the most underdeveloped part of microfinance.

Tie-ups: NGOs and MFIs with insurance companies

Many insurers have tied up with other organisations like banks, government agencies, NGOs and MFIs in Rajasthan. The prominent examples of tie-ups at the national level are BASIX and AVIVA Life Insurance Company Limited; SEWA (Ahmedabad) and LIC and the National India Insurance Company Limited; and Friends for Women's World Banking with LIC.

In Rajasthan, though the idea is not very old, NGOs like Ibtada, Alwar; Navyuvak Mandal, Churu; Lupin Human Welfare & Research Foundation, Bharatpur and some others have initiated insurance programmes for their microfinance clients and SHG members. Most of the private companies are targeting NGOs as partners because they act as an effective delivery channel. Good NGOs have a sound and effective administrative system and adequate, trained and motivated staff and are able to leverage upon the existing infrastructure for the insurance programme. More than 50,000 lives have been insured in Rajasthan through the NGO network though initiatives, such as the highly successful SEWA-Ahmedabad model of Vimo SEWA, are yet to come up in the state.

Weathering the storm

ICICI Lombard General Insurance has launched a comprehensive 'weather insurance' product to protect the farmers from the problems arising due to the vagaries of weather in association with the World Bank, ICICI Bank and BASIX. In a departure from the past, the insurance premium is decided on a case-to-case basis depending upon the geography and the risk associated. "Weather insurance does not suffer from the issues of moral hazard, adverse selection and high administrative costs of traditional crop insurance, and it is, therefore, better suited to small farmers in rainfall-dependent countries such as India," says the company.

To get reliable data, ICICI Lombard has tied up with the Indian Metrological Department to obtain the latest weather reports and historical charts.

To begin with, the company has successfully implemented a pilot rainfall insurance programme through KBS Bank, a subsidiary of BASIX in Mahabubnagar of Andhra Pradesh. KBS Bank bought a bulk insurance policy from ICICI Lombard and sold around 200 individual farmer policies for small, medium and large groundnut and castor farmers. The programme demonstrates how non-irrigated farmers can protect their livelihoods. ICICI Lombard is the first to get the approval from IRDA to launch weather-linked insurance products in the country.

Annexure II

Terms of general micro insurance products – IRDA

Types of coverage	Minimum amount of cover	Maximum amount of cover	Term of cover (min)	Term of cover (max)	Minimum age at entry	Maximum age at entry
Dwelling & contents, or livestock or tools or implements or other named asset / or crop insurance against all perils	Rs. 5,000 Per assets/ cover	Rs. 30,000 Per asset/cover	1 year	1 year	NA	NA
Health insurance contract (individual)	Rs. 5,000	Rs. 30,000	1 year	1 year	Insurance' discretion	
Health insurance contract (family) (Option to avail limit for individual/ float on family)	Rs. 10,000	Rs. 30,000	1 year	1 year	Insurance' discretion	
Personal accident (per life/earning member of family)`	Rs. 10,000	Rs. 50,000	1 year	1 year	5	70

Note: *Minimum number of members comprising a group shall be at least 20 for group insurance*

Types of coverage	Minimum amount of cover	Maximum amount of cover	Term of cover (min)	Term of cover (max)	Minimum age at entry	Maximum 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 year	15 years	18	60
Health insurance contract (individual)	Rs. 5,000	Rs. 30,000	1 year	7 year	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 rider	Rs. 10,000	Rs. 50,000	5 year	15 years	18	60

Notes: *Minimum number of members comprising a group shall be at least 20 for group insurance*
Group insurance products may be renewable on a yearly basis

Annexure III

IRDA'S OBLIGATIONS FOR RURAL BUSINESS

Every insurer, who begins to carry on insurance business after the commencement of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999), shall, for the purposes of sections 32B and 32C of the Act, ensure that he undertakes the following obligations, during the first five financial years, pertaining to the persons in---

(a) Rural sector*,

(i) In respect of *a life insurer*, --

(I) Seven per cent in the first financial year;

(II) Nine per cent in the second financial year;

(III) Twelve percent in the third financial year;

(IV) Fourteen percent in the fourth financial year;

(V) Sixteen percent in the fifth year;

of total policies written direct in that year;

(ii) In respect of *a general insurer*, --

(I) Two percent in the first financial year;

(II) Three percent in the second financial year;

(III) Five percent there after,

of total gross premium income written direct in that year.

(b) Social sector*, in respect of all insurers, --

(I) Five thousand lives in the first financial year;

(II) Seven thousand five hundred lives in the second financial year;

(III) Ten thousand lives in the third financial year;

(IV) Fifteen thousand lives in the fourth financial year;

(V) Twenty thousand lives in the fifth year;

Provided that in the first financial year, where the period of operation is less than twelve months, proportionate percentage or number of lives, as the case may be, shall be undertaken.

Provided further that the Authority may normally, once in every five years, prescribe or revise the obligations as specified in this Regulation.

Obligations of existing insurers. - The obligations of existing insurers as on the date of commencement of IRDA Act shall be decided by the Authority after consultation with them.

* "***Rural sector***" *shall mean any place as per the latest census, which meets the following criteria--*

(i) A population of less than five thousand;

(ii) A density of population of less than four hundred per square kilometer; and

(iii) More than *twenty five* per cent of the male working population is engaged in agricultural pursuits.

* "**Social sector**" includes unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas;

(a) "Unorganised sector" includes self-employed workers such as agricultural labourers, bidi workers, brick kiln workers, carpenters, cobblers, construction workers, fishermen, hamals, handicraft artisans, handloom and khadi workers,

lady tailors, leather and tannery workers, papad makers, powerloom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, safai karmacharis, salt growers, seri culture workers, sugarcane cutters, tendu leaf collectors, toddy tappers, vegetable vendors, washerwomen, working women in hills, or such other categories of persons.,

(b) “Economically vulnerable or backward classes” means persons who live below the poverty line;

(c) “Other categories of persons” includes persons with disability as defined in the Persons with Disabilities (Equal Opportunities, Protection of Rights, and Full Participation) Act, 1995 and who may not be gainfully employed; and also includes guardians who need insurance to protect spastic persons or persons with disability;

(Source: www.bimaonline.com/cgi-bin/irda/brokrules.asp)

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April 25, 2006	**Inaugural session**: Chaired by C S Rao	
Time	**Topic**	**Pre enter**
9.30-10.00	Registration	CmF staff
10.00-10.15	Welcome & sharing of worksho objectives	NS Sisodia Chairpersc , CmF
10:15-10:45	Introduction of participants Special address	Self-introdi tion Prof. VS V as
10:45-11:15	Keynote address	CS Rao, C airperson, IRDA
Taking stock, knowing & understanding: Chaired by GC Chatur edi		
11:30-11:40	Status of micro-insurance in Ra sthan	Jaipal Sing Programm s director
11:40-12:00	Health insurance for the uninsu d	Dr. David M Dror
12:00-12:15	Micro life insurance: Potential & Challenges	LIC of Indi
12:15-12:30	Micro non-life insurance: Poten l & challenges	GIC
12:30-12:45	Private insurance companies: F tential & challenges	ICICI Prud ntial
12:45-1:30	Discussion	
Experience sharing: Chaired by NS Sisodia		
2:30-3:15	Experiences of NGOs/ MFIs/ re earchers in micro-insurance from outside R asthan	BASIX & S WA
3:15-3:45	Experiences of NGOs/ MFIs/ in nicro-insurance from Rajasthan	LUPIN/ Na Yuvak Mandal
3:45-4:00	Discussion	
4:15-4:45	Experiences of state governme in health insurance	Secretary, Medical & Health, GC R
4:45-5:15	Experiences of non-life public s tor insurance companies	United and Oriental Insurance ompanies
5:15-5:30	Discussion	
April 26, 2006	**Think, discuss & plan**: Chaired by VS Vyas	
9:30-11:30 Group 1 Group 2 Group 3 Group 4	Recap of Day 1 Group work – discussion and preparation of presentation. Are the available products appropriate to the needs of poor? V hat should be done? What are the appropriate delivery mechanisms for micro-insu nce in rural areas? Which policy items need to be in place to increase the outrea n of MI? Awareness generation and capacity-building needs: what sho ld be done and how?	
11:30-12:30	Group presentations	
Valedictory session: Chaired by VS Vyas		
12:30-1:00	Roadmap for the future Summing up	NS Sisodia Prof. VS V as

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