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MICROINSURANCE

DEMAND AND MARKET PROSPECTS

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ABBREVIATIONS

AIG	American International Group (U.S.)
ASA	Activists for Social Alternatives (India)
BPL	Below poverty line
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poor
CRIG	Community Rural Insurance Group (India)
DFID	Department for International Development (U.K.)
EPF	Employees Provident Fund
ESI	Employees State Insurance
ESI	Employees State Insurance (India)
FDCF	Financial Deepening Challenge Fund
GDP	Gross domestic product
GIC	General Insurance Corporation (India)
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (Germany)
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority (India)
LIC	Life Insurance Corporation (India)
MFI	Microfinance institution
NABARD	National Bank of Agriculture and Rural Development (India)
NGO	Non-governmental organization
NSAP	National Social Assistance Programme (India)
PRI	Panchayati Raj Institutions – local government bodies (India)
SHG	Self-help group (India)
UNDP	United Nations Development Programme
USAID	United States Agency for International Development

INTRODUCING MICROINSURANCE

A public private partnership using a market-based mechanism to reduce poverty

What happens when a poor family's breadwinner dies, when a child in a disadvantaged household is hospitalized, or the home of a vulnerable family is destroyed by fire or natural disaster? Every serious illness, every accident and every natural disaster threatens the very existence of poor people and usually leads to deeper poverty. That's where "microinsurance" comes in.

Microinsurance is specifically designed for the protection of low-income people, with affordable insurance products to help them cope with and recover from common risks. It is a market-based mechanism that promises to support sustainable livelihoods by empowering people to adapt and withstand stress. Two-thirds of human beings suffering in the most extreme poverty are women. Often living within $1 per day, they are the most vulnerable.

But will microinsurance actually help those living in poverty by contributing to sustainable livelihoods? We believe it can, and we decided to test the hypothesis in the real world. UNDP approached Allianz AG about working together on a market potential study to analyze the demand, acceptability and affordability of microinsurance products. They immediately saw the value of working in this under-explored area. This public private partnership acquired greater strength when GTZ, with considerable experience in the area of social protection and microinsurance, joined the alliance. The partners agreed to analyze demand for microinsurance products in India, Indonesia and Lao People's Democratic Republic (PDR) and jointly selected a team of consultants to prepare country studies.

The studies clearly indicate that access to microinsurance by the poor and disadvantaged population can contribute significantly to the achievement of the Millennium Development Goals, particularly the goals of eradicating extreme poverty and hunger (MDG 1), promoting gender equality and empowering women (MDG 3) and developing a global partnership for development (MDG 8).

Three country studies

The country studies examine and appraise the most urgent social security risks and needs of poor population groups. They highlight the following aspects of microinsurance supply and demand:

- Existing activities to meet the needs for social safety net mechanisms, including informal strategies;
- The role of government policies;
- Capacity development requirements at various levels;
- The need for advocacy and education to help poor populations as well as potential providers to understand the role of microinsurance;
- The need for ongoing efforts to analyze potential customer profiles, reflect on their ability to pay, and suggest possible products to suit the target groups;
- Possibilities for countries to learn from each other's experiences.

In **India**, the study finds that this country currently has the most dynamic microinsurance sector in the world. Liberalization of the economy and the insurance sector has created new opportunities for insurance to reach the vast majority of the poor, including those working in the informal sector. Even so, market penetration is largely driven by supply, not demand. Microinsurance in India has valuable lessons for rest of the world, particularly in the regulation of the industry. Certain aspects, such as the quota system need further and closer analysis. The quota system, for example, may be viewed in terms of its costs and benefits: is it an onerous obligation for insurers that creates a barrier to innovation and demand-based products? Or, is it an avenue that may lead to the creation of a microinsurance market that meets the needs of the poor and disadvantaged?

In **Indonesia**, demand is strong for insurance to cover the risks that people are least prepared for and have insufficient means to manage. Such risks include serious illness, poor harvest, death in the family and social obligations. Education of children is a priority, and the potential microinsurance policy holders would like to ensure that an unforeseen shock or stress does not deprive their children. The number of insurers in Indonesia is significant, yet few have explored the low-income market. Consequently there is a critical need for capacity development, primarily in the areas of agent training and market education. This could expand opportunities and lead to market-based tools to assist the poor in securing their lives.

In **Lao PDR**, the country study finds that the social security system is nascent (and practically absent for the informal economy) and microfinance institutions are conspicuously inadequate. The analysis confirms a commitment by the Government in several relevant areas: support for reforms, support for pensions and a social security fund for public employees, support for compulsory social protection for the private sector, and support for a community-based health scheme for people working in the informal sector. The study concludes that the potential for commercial microinsurance is in the future at least a few years away. Meanwhile, for microinsurance to become viable, the Government will need to strengthen the financial infrastructure, develop capacity for potential insurance providers and build knowledge of microinsurance mechanism and products among potential policy holders.

Microinsurance is a low-price, high-volume business and its success and market sustainability is dependent on keeping the transaction costs down. Hardly any satisfactory state-run programme of insurance benefits is now available for poor population groups, people working in the informal sector and other disadvantaged individuals—and private-sector programmes are even rarer. A number of constraints make microinsurance look unattractive, including a lack of political will, scarcity of public funds and absence of a viable business model. The costs of marketing and processing appear to be too high and, in view of the extremely low purchasing power of the consumer base, it cannot be easily apportioned to the target group. Such constraints make microinsurance unattractive at the cursory level. Market analysis suggests that progress can be made particularly when public and private sector work together in generating demand-based and innovative products.

Future steps

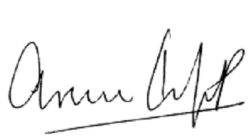
Where do we go from here? Building on the recommendations of the studies, pilot activities in India and in Indonesia are being implemented by Allianz AG supported by GTZ on behalf of the

German Federal Ministry for Economic Cooperation and Development (BMZ). While it would be critical to address the need to build capacity in nongovernmental organizations (NGOs), trade unions and microfinance institutions, the outcome of pilot activities will point to specific issues to be addressed. Local structures of civil society can help their members gain access to microinsurance and reduce the transaction costs of processing. Market education and skills training are needed on at least two fronts: improving the efficiency of partner-agent distribution methods, and sensitizing potential intermediaries and customers. A clear strategy for communicating with potential customers that conveys information and knowledge of the products is essential to success. It will also be important to work with governments to strengthen institutions and create an enabling environment. Such an environment is enhanced by transparent and participative consultation process. It ensures that the delivery process for microinsurance services is efficient with minimal transaction costs. It is in these areas that UNDP and GTZ will bring their experience and expertise to bear in making the microinsurance pilots successful.

We anticipate that access to insurance by poor people and entrepreneurs in the informal sector will attract private sector investments, assist in the development of the domestic private sector and lead to the alleviation of poverty. Increasingly, a social protection mechanism such as microinsurance appears to be a prerequisite in national poverty reduction strategies. Despite obvious need, however, it has not been possible for national governments to meet this obligation due to budgetary constraints. A possible solution would be to leverage government strategies with market-based social protection systems. The strategy would benefit significantly from south-south learning and sharing of knowledge, policies and practices.

The provision of microinsurance products and services is an obvious candidate for public private partnerships, as demonstrated in our three country studies. We are hopeful that with the interest shown by visionary private sector partners like Allianz AG it will be possible for forward-thinking bilateral donors such as the German Federal Ministry for Economic Cooperation and Development (BMZ) and GTZ and multilateral organizations such as UNDP with its broad reach and anti-poverty mission to catalyze access to microinsurance by the poor and disadvantaged.

We look forward to hearing from you about the market analysis presented in our three country studies. Indeed, your comments, feedback and ideas for innovative partnerships will be a welcome contribution to the global effort to achieve the Millennium Development Goals.



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EXECUTIVE SUMMARY

India has perhaps the most exciting and dynamic microinsurance sector in the world. The aim of this report is to provide an overview of existing knowledge on the demand and supply of microinsurance in India, as a basis for reducing the vulnerability of poor and low-income people while developing new market opportunities. It lays the groundwork for a mutually beneficial public-private partnership between Allianz AG, Deutsche Gesellschaft für Technische Zusammenarbeit GmbH (GTZ) and the United Nations Development Programme (UNDP). The report was compiled using secondary data, much of which was obtained during a two-week field trip to India. The breadth of the project and the limited resources available did not allow for primary research to be conducted. The authors of the report are Jim Roth of The Microninsurance Center and Gaby Ramm, a freelance consultant and senior expert on microinsurance.

In the first section, the report explores how microinsurance began in India, and gives reasons for its dynamism. The following sections include an investigation into the supply and demand of microinsurance in India, a look at the various channels for distribution, an examination of social security in India and its relationship to microinsurance, and a short section on possible partnerships for donors wishing to work on microinsurance in India. All of the sections contain implications or practical recommendations for Allianz AG, GTZ and UNDP. These recommendations are summarized at the end of the report.

After a brief macroeconomic snapshot of India today, Chapter I (the background review) presents a history of insurance in India. It looks at the nationalization of insurance in India and the impact of nationalization on insurance provision. The report finds that in spite of the stated intention of legislators to use nationalization as a means to deepen insurance coverage, the opposite happened. During the years of nationalization, insurance was sold through the nationalized companies primarily to people in formal-sector employment. This excluded the vast majority of the poor who worked in the informal sector. The liberalization of the economy and the insurance sector opened up new opportunities for selling insurance to the poor. This was the case primarily because a condition of entry into the newly liberalized economy was the sale of a specified amount of microinsurance, as established by law.

Chapter II looks at the demand and supply of microinsurance. It finds that demand is hard to determine because few studies have been done, and because market penetration is currently supply driven. The insurance companies appear to provide much of their government designated "quota" of microinsurance to rural customers at a loss in order to be legally compliant, and once they have achieved their quota they stop trying to sell more. This suggests that there are few microinsurance products on offer that are profitable in themselves. The industry is still in its infancy. The report argues that there is also a broad lack of familiarity with microinsurance among low-income clients, while those who are familiar with it have often had bad experiences. This chapter provides a sociological and risk profile of potential microinsurance clients, and outlines the varieties of microinsurance that exist. Life insurance is by far the most common type of microinsurance, because (like the less common dismemberment insurance) it is actuarially more simple and is less subject to fraud, moral hazard and administrative costs than are health,

endowment, hut, livestock, crop and weather insurance. Though the latter appear to be desired by many it will take more product innovation before insurance companies can successfully meet these needs. However, assistance will be required from multilateral agencies and banks and bilateral donors for removal of barriers for the creation of a market for microinsurance goods and services.

Chapter III looks at the ways that microinsurance can be sold and serviced most cheaply. Microinsurance is a low-price, high-volume business, and in any such business keeping distribution costs down is the road to success. The report explores the pros and cons of three regulated distribution models: the partnership model, the agency model and the micro-agent model. As the partnership model is the one most commonly used, a great deal of attention is given to this model in the report. It assesses a variety of possible partners, including non-governmental organizations (NGOs), microfinance institutions (MFIs) and banks. NGOs and most MFIs are often dependent on variable aid flows, making them potentially less reliable over the long term. Furthermore, most relevant NGOs and MFIs already have partnerships in place, and since these are typically exclusive, incoming insurance companies may not be able to find partners. The report finds that banks have a great deal of unexplored potential as partners. Perhaps the most successful insurance distribution infrastructure in low-income neighbourhoods to date is that developed by Tata-AIG in Andhra Pradesh: partnership firms of four or five women, usually recruited from Self-Help Groups, become informal brokers and can earn an ongoing income from the business.

Chapter IV examines social security in India. Government programmes, formal private schemes (including microinsurance), informal collective arrangements and individual arrangements all exist to manage risk. The report summarizes the achievements and limitations of each. It presents some recommendations for analytical tools and the promotion of reinsurance. The chapter ends with a list of contacts at relevant donors agencies who are working on microinsurance.

Chapter V presents the report's recommendations on promoting microinsurance in India. In terms of product design and distribution it is important to examine distribution methodologies other than the partner-agent model. The report describes some of these alternatives, but it does point out that there are some partners (for example, banks) that are still worth exploring as partners in a partner-agent distribution methodology. Marketing and building awareness of microinsurance is a crucial area. The report gives suggestions on the marketing of microinsurance products. It also suggests that general microinsurance is a public good, and that the regulator may have an interest in promoting this and donors could support the regulator in this regard. One area that has received little attention in India is consumer protection for unregulated microinsurance schemes. There are valuable lessons to be learned from the regulation of microinsurance in India. In particular, it would be useful to establish the costs and benefits of the quota system that exists for insurers compelling them to sell microinsurance. Other countries may be interested in adopting such a quota system, and it would be useful for them to be able to see how it has worked out in India. There is a tendency for insurers in India to meet their regulatory quotas using products like credit life: safe products that are not very innovative. It would be worthwhile for donors to help fund the development of products other than credit life. To help make new products more gender sensitive it would be useful to develop

demand assessment tools specifically adapted to assessing women's needs, ability and willingness to pay for microinsurance. Reinsurance should be promoted to give insurance companies added incentive to provide microinsurance.

One of the greatest needs expressed by insurers is good microinsurance actuarial data. The report suggests the formation of a body that could coordinate the collection of this data. Finally, a crucial missing institution in India is a council of insurers to be able to share microinsurance information and to lobby. Donors could have a role in the establishment of such a body.

CHAPTER I. BACKGROUND

1.1 Macroeconomic snapshot of India

India is enjoying rapid growth and benefits from a young population. Its middle class is growing rapidly but 70 percent of the population is still rural, often very poor, and handicapped by po or health and health services, and low literacy rates. Some key statistics appear below.

Table 1: Key indicators: India

Category	Amount
GDP ($ billions)	$3.022 trillion, a 2003 estimate (U.S. Central Intelligence Agency)
Population (millions)	1,033.4 in 2001 (UNDP, 2004)
Population density per km^2	318, a 2002 estimate (Fact Index)
Percentage urban population	27.9 urban, a 2001 estimate (UNDP, 2004)
GDP/capita ($)	$2,924 using above figures
GDP growth rate	7.6%, a 2003 est. (U.S. Central Intelligence Agency)
Inflation	4.6%, a 2003 estimate (U.S. Central Intelligence Agency)
Exchange rate (current, Rs. Currency per $1)[1]	45
PPP GDP per capita	$2,840–2001 data (UNDP, 2004)
Infant mortality (per 1,000 live births)	67, a 2001 estimate (UNDP, 2004)
Under-five mortality (per 1,000)	93, a 2001 estimate (UNDP, 2004)
Maternal mortality (per 100,000 live births)	540, a 2001 estimate (UNDP, 2004)
Access to safe water (% of population)	84, a 2001 estimate (UNDP, 2004), note this is just to a sustainable water source that may not be safe
Health expenditure as % of GDP (public/private/total)	0.9 /4.0 / 4.9, a 2000 estimate (UNDP, 2004)
Health expenditure per capita ($)	$71, a 2000 estimate (UNDP, 2004)
Doctors per 100,000 people	48, a 2001 estimate (UNDP, 2004)
Hospital beds per 1,000 people (urban/rural)	0.8, a 1998 estimate (World Bank, 2001)
Literacy rate	59.5%, a 2003 estimate (U.S. Central Intelligence Agency)

[1] This exchange rate will be used in all calculations of current figures in this report.

1.2 History of insurance in India

The insurance industry in India, private and public, has its roots in the 19th century. The British Government set up state-run social protection schemes for its colonial officials, many of which evolved into the schemes that operate to this day. The first private insurance company was the Oriental Life Insurance Company, which started in Calcutta in 1818. The 1 9th century saw the development of a number of Indian insurance companies including the Bombay Mutual (1871), Oriental (1874) and the Empire of India (1897). Under British rule there were large numbers of insurance companies operating in India. In 1938 the British passed the Insurance Act, a comprehensive piece of legislation governing the insurance industry. The Act remains the legislative cornerstone of the insurance industry to this day.

Regulated Indian insurers are divided into two core categories : life and general insurance. Life insurance includes products like endowment policies and retirement annuities. General insurance covers all other types of insurance. In 1956 the Indian Government nationalized the life insurance industry. The reasons given at the time were high levels of fraud in the industry and a desire to spread insurance more widely. As Prime Minister Nehru noted at one time in Parliament, "We require life insurance to spread rapidly all over the country and to bring a measure of security to our people." The Government combined 154 insurance providers and formed the Life Insurance Corporation of India. General insurance remained in private hands until 1973 when it was nationalized.

The impact of nationalization was to create a small num ber of state-owned insurance companies. Just prior to nationalization, 68 Indian (including the Life Insurance Corporation, LIC) and 45 non-Indian entities sold insurance. All these organizations were absorbed into one giant corporation, the General Insura nce Corporation (GIC) with its four subsidiaries: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited, and United India Insurance Company Limited.

In spite of Nehru's desires in the decades followi ng nationalization, insurance products were designed primarily for those with regular incomes, i.e., those in formal employment. These were overwhelmingly men in urban areas. The poor, living mostly by agriculture, were for the most part overlooked by thes e new companies.

When the ideological winds of change blew in the early 1990s, the Indian Government set about liberalizing its insurance markets. It set up a commission of enquiry under the chairmanship of R.N. Malhotra. The central outcome of the commi ssion was the establishment of the Insurance Regulatory and Development Authority (IRDA) that in turn laid the framework for the entry of private (including foreign) insurance companies.

At the beginning of 2005 there were 14 life and non -life insurers operating in India. A complete list can be obtained from the website of the IRDA (www.irdaindia.org).

1.3 Insurance industry overview

Table 2. Insurance industry issues and observations

Issues	Observations
Name of insurance regulatory body (or bodies)	Insurance Regulatory and Development Authority (IRDA)
Key responsibilities of the regulatory authority (e.g., policy development, supervision, licensing of insurance companies)	Regulate, promote and ensure orderly growth of the insurance and reinsurance industries
Minimum capital requirements for insurance license (also for microinsurance if any separate regulation or waivers granted)	Rs. 100 Crores (1 Crore = $1x10^7$) ($22.22m). NB: No waivers are granted to microinsurers
Other key requirements for an insurance license	The IRDA distinguishes between what it terms life insurance that includes life insurance, endowment and annuities, and insurance for all other risks that fall under a general insurance category. In India an insurer must form separate entities and cannot sell life insurance and general insurance together on the same policy. Foreign companies can only enter the industry in collaboration with the domestic companies
Ongoing capital requirements for an insurance company	See appendix 1
Other key requirements for regulatory compliance	Investment in the rural and social sectors. See appendix 2 for details
Minimum capital requirement for a reinsurer	200 Crores (1 Crore = $1x10^7$) ($44.44m)
Value of annual premiums of regulated private insurers	799b Rs. ($17b) (Source: Swiss Re Sigma No.3 / 2004)
Number of regulated public insurers/value of total annual premiums	22/ no value of premiums listed (DB)
Number and type of other regulated insurance organizations	None
Value of annual premiums of other regulated insurance organizations	N/A
Other unregulated organizations	N/A but numerous

India's insurance penetration (premiums as a percentage of gross domestic product in dollars) in 2003 is low at 2.9 percent and ranks 54th in the world. In premium collection, the record is better, at 19th position collecting $17 billion in 2003. The 2003 ratio of premiums collected per capita (insurance density) is 16.4. Compared with a world average of 469.6, India is still at a very nascent stage. Of the $16.40 per capita expenditure on insurance, a mere $3.50 is spent on general insurance. This is primarily because in India non-life insurance is not considered important and people perceive it as an unnecessary expenditure .[2]

[2] Source: Swiss Re Sigma No.3 / 2004

1.4 What is microinsurance?

Definition: Microinsurance is the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved. Low-income people can use microinsurance, where it is available, as one of several tools (specifically designed for this market in terms of premiums, terms, coverage, and delivery) to manage their risks.[3]

In India, it is often assumed that a microinsurance policy is simply a low-premium insurance policy. This is not so. There are a number of other important factors. Low-income clients often:

- Live in remote rural areas, requiring a different distribution channel to urban insurance products;
- Are often illiterate and unfamiliar with the concept of insurance, requiring new approaches to both marketing and contracting;
- Tend to face more risks than wealthier people do because they cannot afford the same defences. So, for example, on average they are more prone to illness because they do not eat as well, work under hazardous conditions and do not have regular medical check-ups;
- Have little experience of dealing with formal financial institutions, with the exception of the National Bank of Agriculture and Rural Development (NABARD) Linkage Banking programme;
- Often have higher policyholder transaction costs. Thus a middle-class, urban, policyholder can send a completed claims form to an insurance company with relative ease: a quick call to the insurance company, receipt of the claims form by post, and then return of the form by post. For a low-income policy holder, submitting a claims form may require an expensive trip lasting a day to the nearest insurance office (thereby losing a day of work), obtaining a form and paying a typist to type up the claim, sending in the claim, followed by a long trip back home. Aside from the real costs of doing this, the low-income policyholder may be uncomfortable with the process; clerks and the other officials are often haughty with such low-income clients and can make clients feel ill at ease.
- Designing microinsurance policies requires intensive work and is not simply a question of reducing the price of existing insurance policies.

1.5 History and current status of microinsurance regulation

As in much of the developing world, India has a large number of informal quasi-insurance schemes: for example, households that pool rice. In addition to this, there are small schemes run by cooperatives, churches and NGOs that may pool their members' incomes to create an insurance fund against a specific peril: for example, funeral costs. In a few countries, there is specific legislation to regulate these schemes, e.g., the South African Friendly Societies Act. In India no such law exists, and any individual or institution conducting insurance has to comply with the stipulations of, among other regulations, the 1938 Indian Insurance Act as amended.

[3] Working Group on Microinsurance. Preliminary Donor Guidelines for Supporting Microinsurance, 8 October 2003.

Compliance with this Act requires, among other conditions, over $22 million of capital. All insurance schemes that do not comply with the Act operate outside it and in a legal vacuum. This includes all community-based schemes, and in-house insurance schemes run by MFIs[4], NGOs, and trade unions, in-house hospital schemes, etc. At present, the IRDA has not taken action against these schemes as the Authority does not consider them to be 'insurance' according to its definition–although the IRDA realizes that this legal vacuum could cause some problems. Furthermore, regulated insurers have expressed to the IRDA their dissatisfaction at needing to compete against non-regulated insurers that do not bear any regulatory expenses. The situation may change if regulated insurers place sufficient pressure on the regulator to act. Two possible scenarios may occur: either the development of specific legislation to cater for microinsurers or active closure of non-regulated insurers. The authors believe the best approach is the former. As a number of unregulated microinsurance schemes are innovative and should be further studied, it could limit practical knowledge concerning microinsurance if they were to be closed down. The interests of the customers of these schemes must be protected. The development of specific legislation to support and supervise[5] currently unregulated microinsurers is to be preferred.

If the IRDA decides to create specific regulation to support currently unregulated micro-insurance schemes, e.g., in-house schemes run by MFIs, donors could support its development.

Many unregulated insurance schemes are run by well-intentioned staff and confer positive social benefits in the areas in which they act. Indeed much of the innovation in microinsurance has emerged from unregulated microinsurers. Unregulated microinsurers may hold significant funds on behalf of low-income clients. The risk of working with these unregulated organizations is that there is no legal framework that ensures that they meet minimum prudential standards and other professional insurance qualifications. In addition, they do not have a statutory ombudsman or other feasible means of enforcing consumer rights.

It would be useful to help establish a consumer protection mechanism for clients of unregulated microinsurers.

Should requests of support come from NGOs running in-house insurance schemes, donors should consider that these schemes are unregulated and carefully weigh up the costs and benefits of supporting such schemes.

Two central regulations have shaped microinsurance in India. The first is a set of regulations published in 2002 entitled the 'Obligations of Insurers to Rural Social Sectors'. This is essentially a quota system. It compels insurers to sell a percentage of their insurance policies to de facto low-income clients. It was imposed directly on those new insurers that entered Indian insurance after the market was liberalized. The old public insurance monopolies had no specified quotas, but had to ensure that the amount of business done with the specified sectors "not be less than what had been recorded by them for the accounting year ended 31st March, 2002."

[4] In India fewer than 10 organizations are registered as MFIs. All the other thousands usually called MFIs are not officially recognized as such (usually those registered under the society act as NGOs are recognized). Moreover, NGOs are mostly also implementing microfinance, and MFIs other development activities. The distinction is not very helpful for India.
[5] This might be done in part through a social reinsurance mechanism, such as Social Re.

With the exception of the social-sector target, the regulations do not specify the income levels of clients directly. They specify that clients must come from rural areas. With poverty in India largely located in rural areas, the effect of such a stipulation is to ensure that poor clients are sold policies (cf. see urban/rural details at http://www.undp.org.in/report/IDF98/idfrural.htm) .

The quota rises each year, reaching a maximum after 5 years of 16 percent of the total **number** of policies sold for life insurance and 5 percent of **premium income** for other types of insurance. The former is likely to be an easier target to achieve than the latter. Consider for example how many insurance policies covering huts need to be sold to equal 5 percent of the premium of a $100,000 house in Bangalore. This link has generated massive pressure on insurers to sell microinsurance. To date, the IRDA has fined a number of insurers for failing to meet their targets. See appendix 2 for complete details of the obligations.

It is very difficult to make a judgment on the costs and benefits of the regulation without further research. To begin with, the regulation has created a frenzy of interest by regulated insurers to enter the microinsurance sector.

The regulation has also been the motor for important innovation in the sector. To date, much of the innovation in microinsurance worldwide has derived either from donors, academics or MFIs working on the issue. In India, in their drive to meet their microinsurance sales targets, regulated insurers are developing innovative new products and delivery channels. They bring their considerable resources to this task.

The impact of the quota is of course not all positive. There have been unverified reports that some insurers are dumping poorly serviced microinsurance products on clients solely to meet their targets. As soon as the targets were met, they immediately stopped selling microinsurance. This practice is difficult to regulate, as it is harder to police the quality of insurance sold and serviced to the poor than its quantity. It would certainly be socially unfortunate if the regulation resulted in a mass of poorly serviced products sold at a loss, to enable insurers to concentrate on their more profitable products. This would not be a meaningful instance of sustainable financial deepening, but more akin to charity, forced on insurers to allow them to do business in India. Without further research, it is not possible to reach a conclusion on the overall costs and benefits of the microinsurance quota system.

It would be useful to conduct research on the quota system to see whether the benefits outweigh the costs and whether such a system would be useful policy in other countries.

Because of the quota system the largest and best-known intermediaries (NGOs, MFIs, etc.) are already taken and have existing relationships with commercial insurers that they are often keen to keep. The implication of this is that insurers will need to think more creatively about their products and relationships with the intermediaries if they hope to convince them to switch companies. Also, it implies that insurers should start exploring distribution models other than partnership. In this context, the decentralized local bodies, village and district councils (Panchayati Raj Institutions), and elected sector committees of village representatives could possibly play a larger role if a strong civil society existed. Furthermore, the intention of the

Ministry of Labour in the state of Karnataka, to set up a board at the state level to joint ly implement microinsurance, should be explored.

The next central regulatory document is not yet an official regulation but a concept paper published by the IRDA in August 2004 entitled "Concept Paper on Need for Regulations on Micro-Insurance in India." While not a regulation it nonetheless reflects the intentions of the regulator. There is much that is commendable in the concept paper, but there are two significant concerns. They revolve around the implicit restriction of microinsurance to the partners hip model, and the lack of product flexibility.

Essentially the concept paper creates a framework for NGOs and MFIs to sell microinsurance. While there is nothing inherently limiting in this arrangement some of the clauses in the concept paper severely curtail the capacity of MFIs and NGOs to make products available that best meet their own needs and those of their clients.

The definition of a microinsurance product proposes two seemingly arbitrary products: a life microinsurance product and a general microinsurance product with a specified minimum amount of cover, term of cover, age of entry and age of exit. Unless the product sold by the insurer meets these criteria, the product will not be classified as a 'microinsurance product' and therefore will not be able to qualify for some of the exemptions. Some of these conditions are out of sync with existing microinsurance products in India. For example, the concept paper sets a minimum amount of cover of Rs. 10,000. In client surveys undertaken by partner organizations of Friends of Women's World Banking, many NGOs found that their clients were not able to pay for such an amount of cover. They preferred less cover for a lower price. The 'Minimum Amount of Cover' requirement would exclude a large segment of the poor from the insurance market.

In recent informal discussions with the IRDA, it has indicated that in the final regulations, a microinsurance product will be defined solely by the maximum amount of cover. An issue that remains is how a microinsuran ce product will be registered with the IRDA. At present, an insurer wishing to introduce a new product on the market in India needs to go through a 'File and Use Procedure', divided into life and general products. Insurers have said that obtaining the rele vant information and completing the required forms can take several weeks. While this may be justified for complex insurance products with significant sums assured, with microinsurance and the low sums involved, such a long and complicated procedure does n ot seem necessary.

At the present time in India many MFIs have met the needs of their clients by partnering with a variety of insurers. For example, Grama Vidiyal, an MFI in Tamil Nadu, provides life insurance through Bajaj Allianz AG and AMP Sanmar. The concept paper does not permit this. In Section 7a, it states that the microinsurance agent "shall work either for one life insurer or for one general insurer or for one life insurer and one general insurer."

Section 7e sets caps on how much commission can be charged. These caps may affect the products that MFIs and NGOs are prepared to offer and will create barriers in selling to the poorest segments of the population. The cap set on commissions for servicing life policies is set at 20 percent while the cap set on servicing health insurance, which is much more expensive to service, is set at 7.5 percent.

CHAPTER II. THE DEMAND FOR AND SUPPLY OF MICROINSURANCE

2.1 Methodology of the study

The research team held discussions with the regulatory authority, microinsurance organizations and multi- and bilateral agencies (see list in annex). Meetings with representatives of government agencies, including the Ministry of Labour, and the Ministry of Finance, Banking and Insurance Department, were held during a GTZ pre-appraisal mission in October 2004. Furthermore, experiences of the GTZ-supported project on the "promotion of integrated insurance systems for women in the informal economy and their families," the health programme and the Linkage Banking programme with NABARD were integrated as well as the microinsurance studies carried out by ILO/STEP. (For information on these programmes see Chapter IV, 4.4 Donor Agencies below).

The consultants did not have the resources to do an all-India microinsurance demand study, indeed they did not have the time or resources to do any primary research, so it was agreed that they would review secondary data on demand only, i.e., no demand studies were carried out for this exercise. All the information that follows derives from secondary sources. These include, but are not limited to, the GTZ-supported field study on risks and risk management strategies with the Ministry of Labour in Karnataka (sample size 1,000 households).

The report focuses on low-income groups and people below the poverty line (BPL) in general. Gender aspects and the situation of specific vulnerable groups, such as disabled persons, widows and children, could not be sufficiently addressed due to time constraints. Their needs must be considered, however, when developing microinsurance products. The report does reflect the products and social assistance programmes available for those vulnerable groups. Programmes for the formal economy are mentioned when their benefits are offered to selected groups of the informal economy as well, and/or if they could be relevant in the future due to the ongoing reform discussions of the Ministry of Labour.

Government programmes and schemes receiving contributions from employers and employees (even those establishments without any formal contractual arrangements) cover more risks than microinsurance products currently offer. This is due to the fact that social protection is supposed to provide protection from a broad range of risks (as per ILO Convention No. 102).

As primary research was not conducted, it was not feasible to analyse either the appropriateness of the individual products or client satisfaction. Instead, general assessments were made on the basis of experiences of the projects mentioned above, earlier round-table discussions with NGOs/MFIs offering microinsurance, insurance providers, and case studies carried out by the working group on microinsurance of the multi-donor Consultative Group to Assist the Poor (CGAP).

2.2 Introduction

Because of the microinsurance quota system, microinsurance in India is largely supply driven. Many insurers view the microinsurance quota simply as a cost of doing business in India. In the context of a product that does not yield much if any profit, doing demand studies with t heir high costs are not viewed by commercial insurers as worthwhile. Moreover, in the Indian microinsurance context, pilots are relatively cheap as they principally involve labour. Relatively low levels of benefits imply that even if a pilot fails the insu rer does not lose as much as a demand study would cost, and the information that derives from a pilot is likely to be more accurate as it shows what clients actually do rather than what they think they will do.

The way Indian insurers typically design mi croinsurance products is to find existing products and then adjust them to suit the needs of their company and clients. The information that follows in this section is an inference of demand using current socio -economic data and analysis of supply information.

2.3 Socioeconomic profile of microinsurance clients

The characteristics of microinsurance clients in this market are:

- They typically live in households of five or more, sharing income and access to financial services. This has important implicatio ns for access to microinsurance. One member, who has access to the insurer, can purchase policies on behalf of another household member ;
- Agricultural labour is the main source of income. The implications of this are that much of the income is irregular an d seasonal. Note, not all income derives from agriculture as households tend to pursue multiple livelihood activities with off-farm income as a component. Premium collection must take into account the particular variances in the seasonal income of this market;
- The group's poverty means that they present a higher than average risk profile for many types of insurance, e.g., lack of sanitation, lack of access to clean water, hazardous working conditions and poor nutrition imply higher rates of death and disease;

> Tata-AIG has had to obtain its mortality figures in part through its own experience. Their products have been sold mostly in the rural areas of southern India to clients aged between 18 and 45 years (55 years with a lower sum assured for one term product). In the last three years they estimate a mortality rate of just under 3 per 1,000.

- To offset this, small rural communities often have better internal surveillance than large urban sprawls, and so there may be opportunities for controlling fraud ;
- Low levels of literacy imply that marketing needs to be done without written media: for example, film, radio and word of mouth ;
- The rural poor often live in areas with inadequate road and telecommunications infrastructure, which increases the costs of selling and servicing policies. The other crucial implication of this is a massive gap in the specific socio-economic data on this target group, even such basic data as mortality rates in large areas of rural India. This makes rate-making very difficult;

- In general, the private insurance providers are using the data available with LIC as a basis for their own assessment. Although this is the most comprehensive database, it does not cover detailed information specific to the situation of poor and low -income groups.

2.4 Risks and vulnerabilities

The poor by definition own very few assets. In contra st to the urban poor, many of the rural poor own their dwelling and the land that it is constructed on. Income generation for the landless poor is largely a function of daily agricultural labour rates and the number of days such work is available.

The insurable perils would be:

- Loss of life: Most household members contribute to household income, except those too old, young or infirm to work;
- Critical illness: This has the dual impact of loss of earnings/household labour as well as treatment expenses;
- Illness that reduces the working days and also creates expenses though at a smaller level than critical illness;
- Old age, because there are few income options during old age. In addition, there is some evidence of emerging social trends in which the obligation of the young to take care of the old is weakening;
- Risk of lowered agricultural productivity or returns, e.g., through low levels of rainfall or natural catastrophes;
- Asset loss especially those assets used to generate income ;
- Among specific occupational groups (e.g., construction workers) accident at the workplace and disability.

One of the few general microinsurance demand studies carried out is by Price Waterhouse (Price Waterhouse: Financial Services to the Rural Poor and Women in India: Access and Sustainability–Demand and Supply Analysis: Client Survey, 1997, New Delhi, pp.11 -15). This study identified the needs for microinsurance based on major adverse events that a rural household experienced in the previous 10 years. They found that 44 percent of households reported flood/heavy rains, 39 percent drought and 27 percent pest attack. The average value of loss per annum was Rs. 2,641 per annum per household. The mortality rate of a household member was 3 percent. The survey also found that 64 percen t of the respondents wanted some form of insurance: 50 percent wanted life cover, 30 percent livestock, while 20 percent crop and other asset insurance. Only 15 percent already had an insurance cover, mostly because it was a condition for getting a loan.

2.5 Familiarity with insurance

There are two broad classes of client vis -à-vis familiarity with insurance: Those with no or little knowledge or exposure to insurance, and those with some, often negative , exposure to insurance.

Overall, the target market is somewhat aware of insurance due to the fact that the public - sector insurers, in particular the LIC, have been active in their geographical regions for many

years. The agents of the LIC, however, have focused on endowment products with annual premiums of Rs. 2,000 and more. Many in the rural, lower-middle-income groups have had bad experiences with such products as they could not afford to pay their premiums when their incomes were not sufficient and so they received small surrender values, often after many years of contributions. In addition, the endowment policies may have created difficulties for selling term-life because of the expectation that insurance may involve some return of premium. While increasing familiarity on the one hand, it has somewhat polluted the market on the other. In addition, many rural agents and brokers who were mainly living off commission earnings could also not sustain the services on account of the poor persistency of such policies.

Pure protection policies, e.g., term-life, were never offered on an individual basis prior to the entry of private players, and group term-life coverage of the rural population was never attempted in the past.

There are several past instances of third parties bundling insurance and savings together. Sahara and Peerless had bundled insurance benefits (mostly accidental coverage) by purchasing such coverage from state-owned general insurance companies with local chit funds (rotating savings and credit organizations)—a type of informal savings scheme. These schemes were marketed through a multilevel/network marketing system, and some of the schemes turned delinquent thus depriving many investors of much of their long-term savings.

All of the above has meant that large segments of the target market had access to products they could not afford or they had some bitter experience of insurance in the past, which resulted in them being wary of insurance.

Creating awareness of microinsurance, and demonstrating its relevance to the target market therefore remains an ongoing process.

2.6 Marketing strategies

Several organizations have created movies that use a Bollywood story format to explain the basic features of insurance and their products (e.g., Activists for Social Alternatives and Tata-AIG). This is followed up with personal interaction to provide more details on insurance in general and their products in particular. While a movie is a useful introductory tool, it is not enough to clinch a deal, and the sale requires much in-depth personal interaction. Insurers often underestimate the extent of personal interaction required, especially to explain the basic principles of insurance. If insurance is not adequately explained clients sometimes confuse it with savings. This leads to low renewal rates when clients do not receive any payment at the end of their insurance terms.

A major issue for potential costumers in buying insurance is having a level of trust with the company selling the required products and services. Tata-AIG claimed that making clients aware of the Tata brand was a major help in engendering trust. Most low-income clients had used or at least seen Tata's products so they knew it was not a fly-by-night company. In addition, because of the size of Tata (ironically though much smaller than AIG) clients have good reason to believe that the company is not likely to misappropriate their relatively small premiums.

There are a number of other techniques that Indian insurers have used to gain the trust of potential clients. These include:

- Public reimbursement of claims, for example at village meetings. This can be used as a marketing opportunity to demonstrate with a real example the advantages of having insurance;
- Exposure tours, where village leaders from villages with policyholders are sent to other villages to show the advantages of having insurance ;.
- Regular public interaction of insurance providers and (potential) policyholders to clarify the insurance concepts and explain policies. Some examples that might help in different areas include meetings held after claims submissions, and at annual general meetings ;
- Careful, well-managed rejection of claims, where the reasons are made clear to all the villagers;
- Monitoring of customer satisfaction, especially with respect to lapses and non-renewals, with a mechanism to act on the information that emerges from this monitoring.

In a recent workshop on microinsurance co-hosted by GTZ, ILO and Bearing Point in December 2004, one of the most pressing issues reported by commercial insurers vis-à-vis the sale of microinsurance was that many clients did not (a) understand the concept of insurance and (b) trust insurance companies.

The IRDA is tasked with promoting the insurance industry. The IRDA already runs television campaigns aimed at middle-income consumers advocating the safety and security of the insurance firms that it regulates. It would be good if such a campaign could be extended to microinsurance. Other mediums could be explored for this, including radio.

2.7 Gender and the demand and supply of microinsurance

A number of risks faced by women could be minimized through microinsurance . These gender-specific risks include:

- Risks related to sexually transmitted infections (STI), pregnancy and childbirth;
- Risks related to economic crisis such as the death of the breadwinner, loss of assets;
- Protection at old age (less security for women due to informal working conditions, lesser income, etc.);
- Risks related to hazardous working conditions. Although these also affect men, the number of unskilled labourers is higher among women workers. Women more often work under hazardous conditions: the carpet industry, refuse dumps, garbage tips and recycling industries such polythene bags/vinyl recycling.

Some risks due to gender-specific conditions in the society require a comprehensive approach beyond microinsurance. The following issues need long-term interventions and cannot be addressed by microinsurance alone. But microinsurance, as one risk management tool complementing others, can have a more immediate positive impact on improving the situation:

- Maternity;
- Social status of women. Higher priority given to males in the provision of food and care adversely affects the nutrition and health conditions of women and girls;
- Unequal inheritance laws, insufficient property rights for women, little control over assets;
- Situation of women after divorce and at widowhood adversely affecting their economic situation (e.g., returning home, leaving all assets with the ex-husband's family) and their social status (e.g., often little mobility for earning money);
- Low education combined with high presence of women working in the informal economy causing little or no social protection and less access to secure and skilled jobs;
- Girls taken out of school in periods of crisis, leading to low education, which affects future professional opportunities and earnings.

Suggestions on the ways in which microinsurance in India could be improved are in the final section of this report.

2.8 Demand for health insurance

Theoretical demand studies

A number of studies have been completed on the demand for health insurance products in India. In one study, Ralf Rademacher mentions that only 10 percent of the entire Indian market is covered by private and public health insurance. He further mentions that secluded castes and secluded tribes often exhibit a strong preference for traditional medicine, making their incorporation into formal health provider systems difficult. Rademacher claims that approximately 80 percent of the financing of the Indian health-care system is done through private payment in spite of the existence of free universal health care and public-sector hospitals in all urban areas.

> Twenty-five percent of the patients who enter hospital above the poverty line fall below the poverty line after hospitalization because of their health-care costs. (Rademacher, p. 60)

In his survey of 447 households in Pune, Maharashtra, Ralf Rademacher found that the main reason people used public services was their inability to pay for private health care, although they would prefer it. In urban and semi-urban areas, 57 percent of the low-income respondents in Rademacher's survey used a combination of state and public health-care services: 42 percent only used private services. In rural areas, 70 percent of respondents used only public health-care providers. With severe illnesses requiring long-term or expensive care, 86 percent of all respondents, i.e., rural and urban, used public health care. This figure in part reflects the fact that private hospitals do not exist in rural areas. [6]

[6] Ralf Rademacher. "Krankenversicherung für arme Bevölkerungsgruppen – Beispiele aus Indien" (Health Insurance for the Poor: Examples from India". This thesis was presented to the University of Cologne and published in 2004. The study was done in collaboration with the GTZ health programme.

Table 3. Summary of healthcare expenditure figures by low-income households

Study	Place	Unit of analysis	Amount spent
Ralf Rademacher: "Krankenversicherung für arme Bevölkerungsgruppen–Beispiele aus Indien" (Health Insurance for the Poor: Examples from India). 2004	Pune District	Households	Rs. 4,700 per annum on average/ only 25% of hospital expenses more than Rs. 5,000/ Annual estimated total income of households is Rs. 37,000. On average, Rs. 1,000 per annum is spent on medicines at private pharmacies.
Designing and Management of Social Security Benefits in Karnataka State, published by the Institute for Social and Economic Change, Rajashekar, in collaboration with GTZ. 2005	5 districts of Karnataka– Mysore, Dakshina, Kannada, Gulbarga and Bangalore rural	Households	Construction worker households, Rs. 11,400 Domestic, Rs. 1,690 Agric., Rs. 4,000

Table 4. Examples of low-premium health products in India

Name of product	Insurance provider	Premium	Benefits and exclusions
Shakthi Health Scheme	Royal Sundaram Alliance Insurance Company	Below 18 years Rs. 65 18–45 years Rs. 125 45–60 years Rs. 175	Reimbursement of hospitalization expenses up to Rs. 7,000: Rooms, boarding expenses Nursing expenses, surgeon Anaesthetist, specialist fees Blood, oxygen Operation theatre charge Medicines and drugs Exclusions: Pre-existing diseases Voluntary medical termination of pregnancy General check-up, vaccination, inoculation
Health insurance policy	Cholomandalam MS General	Premium rates vary according to the number in the group	Hospitalization expenses resulting from illness or accident Pre-hospitalization expenses (60 days prior to hospitalization) Post-hospitalization expenses (90 days after discharge) Covers 130 minor surgeries that require fewer than 24 hours of hospitalization Ambulance services to the nearest hospital where emergency health facilities are available Exclusions:

Name of product	Insurance provider	Premium	Benefits and exclusions
			Pre-existing diseases Pregnancy/voluntary termination of pregnancy Cataracts, dental and cosmetic surgery Obesity Naturopathy treatment Drug and alcohol abuse HIV/AIDS and all related medical conditions
Advanced medical insurance	ICICI Lombard	Rs. 10 per person per month (if the whole family joins the scheme); Rs. 14 per person per month for an individual	Free outpatient services at the recognized network hospitals Investigation at fixed discounted rates Access to drugs/medicines at special prices from network hospitals Coverage for main diseases and for surgical interventions Maximum of 3 days admission at network hospitals Benefit amount payable on diagnosis and hospitalization for any ailment covered under the policy and on completion of survival period
Group Uni Micro Health Insurance[7]	United India Insurance Company (UIIC)	Rs. 100 (Rs. 84 goes to UIIC), additional Rs. 20 charged for thatched roof houses	Rs. 5,000 for hospitalization Rs. 15,000 for accidental death Rs. 15,000 for permanent disability Rs. 250/month up to max. Rs. 750/month for temporary disability (up to 3 months) Rs. 5,000 for house fire and allied perils Exclusions: Health insurance: Waiting period 30 days Maternity benefits are not covered Pre-existing disease is not covered in the first year After the first year there is no exclusion

Health microinsurance: What can we infer about demand from supply?

It is difficult to draw conclusions for a number of reasons. First, there are so few examples. Second, the examples that exist vary so widely in terms of premiums, benefits and exclusions that comparisons would not be meaningful. In general, health microinsurance is in its pioneer stage. There is certainly a demand for the product: this we can reasonably infer from current expenditure on health. How the product should be priced, what benefits it should offer, and in partnership with which third parties are open questions at this stage .

[7] This insurance package was jointly developed by UIIC, the NGO SHEPHERD, and potential clients, based on a demand study.

2.9 Demand for asset microinsurance

There are three broad categories of asset microinsurance: hut, livestock and cattle. A few policies also cover goods within a hut, usually to a certain maximum level. There are no existing studies on the demand for asset insurance. All the information on these products must therefore be inferred from what clients are already doing.

Hut and personal possessions insurance

Typically, asset microinsurance covering huts and personal possessions is sold bundled up together with other types of insurance (usually added to life insurance). This is mainly because the amount of cover potential clients are willing to buy (and hence the premium they are willing to spend on hut cover) does not make separate cover commercially viable. An insurer reported that adding hut insurance to life policy made good marketing sense because damage to households (especially by fire) was a dramatic event witnessed by many potential clients who would then also often get to hear about the associated cover. The amount of cover on hut insurance is typically quite low, as can be seen in the table below.

Table 5. Hut and personal possessions insurance

Name of product	Insurance provider	Premium	Benefits and exclusions
Package insurance for credit society	New India Insurance Company	Premium rates vary according to the size of the group and sum insured	Package policy covering 7 sections as follows: Loss or damage to buildings and its contents personal belongings due to Fire or flood, Explosion, Aircraft damage, Bursting of water tanks, Earthquake, Typhoon, Cyclone Impact damage by any rail/road vehicle or animal Furniture, fixtures, fittings and electrical appliances Money and valuables Accidental death, disability Fire and other perils including theft and burglary Accidental damage to plate glass and sanitary fittings Hospitalization expenses due to illness, disease or injury
Shakthi Security Shield	Royal Sundaram Alliance	Rs. 25 per annum for the basic cover Rs. 35 per annum when extended to cover accidental death for a woman	Cash relief in case of disablement of woman engaged in some kind of work: Rs. 100 per week (maximum Rs. 1,500) Rs. 25,000 in case of accidental death of spouse/parent/guardian Up to Rs. 1,000 for hospitalization expenses due to an accident Up to Rs. 1,000 for loss or damage to dwelling due to fire or flood Up to Rs. 500 for loss or damage to personal goods Up to Rs. 25,000 in case of accidental death of policy holder

2.10 Demand for agricultural insurance

Most of India's poor population is engaged in some way in agriculture . Agricultural insurance has always been a social priority for the Indian Government, and in theory there should be demand for additional commercial cover. In addition to insurance sold together with agricultural equipment, e.g., water pumps, agricultural insurance tends to cover crops and livestock.

Crop insurance

Since Independence, successive Indian governments have grappled with crop insurance. But the outcome of government attempts has not been very positive. *The Times of India* (Premsingh and Venkatraghvan, 2004) reported that during 14 years of operation the first nationwide crop insurance scheme, Comprehensive Crop Insurance Scheme (CCIS), only managed to insure a total sum equal to 1.1 percent of the agriculture GDP over the period. A new scheme, the National Agriculture Insurance Scheme (NAIS), was launched in 1999/2000 in place of the CCIS, with a newly-formed Agriculture Insurance Company of India (AIC) as its implementing agency. Though an improvement, the average yearly sum insured is still only equal to about 3 percent of income generated by agriculture in a year.

A lot of crop insurance is sold through the National Bank for Agriculture and Rural Development (NABARD). NABARD is an apex institution that primarily wholesales credit to rural retailers. NABARD is promoting the target group, farmers. Borrowers of NABARD funds *must* take insurance; for non-borrowers insurance is an option.

In terms of financial performance the Comprehensive Crop Insurance Scheme suffered massive financial losses and was, in the words of an Indian Government report, "un viable" (Ministry of Finance, Government of India, 1997). The jury is still out on the performance of the newer National Agricultural Insurance Scheme.

The problems of administrative costs, fraud, adverse selection and moral hazard seem insuperable in the case of crop insurance, and no private insurers have been willing to supply crop insurance to low-income consumers for these reasons—with the exception of the pilot project, index-based crop insurance, offered by ICICI Lombard supported by the World Bank (for details please see below).

The Indian experience and indeed experiences worldwide have indicated that crop microinsurance is difficult to sell profitably. The authors do not recommend this as a potential microinsurance product. Index-based insurance, which shows some promise, should be further explored, however, and testing should be continued.

Livestock insurance

Livestock insurance has fared a bit better in India. Usually livestock microinsurance is not very successful. Because livestock is easily slaughtered, problems of fraud abound: i.e., the farmer kills the animal, or gets a friend to remove and slaughter it; the farmer then claims it was stolen. In India this is less of a problem, at least in predominantly Hindu areas, because of social issues surrounding the slaughter of animals.

The other major difficulty of livestock insurance is moral hazard. One defence against moral hazard (in addition to the use of co-payments) is the use of a veterinarian to check the animal's health on a regular basis or to conduct an autopsy after death to ensure that the animal was well looked after. To prevent against fraud, animals are usually tagged. In addition, livestock insurance needs to be sold individually for the most part, unless, for example, the insurance company is dealing with an association of livestock farmers as an intermediary. All these procedures are fairly expensive and tend to make such policies comparatively costly.

A number of companies sell livestock insurance policies but the authors were unable to investigate the relative success of these products within the time frame of the assignment. Public companies include National Insurance Company Ltd., Oriental Insurance Company Ltd., United India Insurance Company, New India Assurance Company. Private companies include Allianz AG and Reliance General Insurance Company.

Table 6. Livestock insurance

Name of product	Insurance provider	Premium	Benefits and exclusions
Cattle insurance	UIIC	4% of the animal's value (2.25% goes to UIIC)	Value of the animal (usually amount of Rs. 10,000) upon natural and accidental death Exclusions: Intentional death caused by owner
Cattle insurance	New India Assurance	5% of the animal's value	Value of the animal (usually amount of Rs. 10,000) upon natural and accidental death Exclusions: Intentional death caused by owner

2.11 Demand for weather insurance

Perhaps **the most significant innovation** in India is the introduction of weather insurance by ICICI Lombard in collaboration with BASIX, a Hyderabad-based MFI. This is also known as index-based insurance, in this case using rainfall levels as a claims trigger. Because clients cannot affect rainfall levels there is no moral hazard problem. There could be fraud problems, however, if clients can affect the reported levels of rainfall.

Claims are processed as soon as the rainfall levels are known, and clients do not need to send in claims forms. HDFC-Chubb is now also experimenting with weather insurance. Although this is an interesting innovation, and worthy of further investigation, national roll-out of weather-based insurance would not be immediately possible because only part of India has reliable weather stations.

2.12 Demand for life and disability insurance

Life insurance is the most obvious choice for microinsurance. The consequences of dea th are always significant for poor households so there is a constant demand. The exclusion of suicide reduces moral hazard problems. By selling to groups that are involved in some activity adverse selection can be reduced. Mortality rates are often easier to obtain than, for example, rates of different types of illnesses. A death certificate or identification of a corpse makes claims verification easy. With a one-time payout the system is relatively easy to administrate. For this reason, the vast majority of all microinsurance products, in India and worldwide, are life products.

Because poor people are frequently involved in hazardous jobs , there is a significant demand in India for disability insurance. Although termed disability insurance, in practice i t is often dismemberment insurance because the latter is easier to verify than general disability.

Table 7 provides a sample of some of the kinds of microinsurance products on the market at this time.

Table 7. Life microinsurance products

Name of product	Insurance provider	Premium	Benefits and exclusions
Social Development Plan	Birla Sun Life Insurance	Premium rates vary according to group size and average age of the members of the group	The beneficiary receives full sum assured (50% partial disablement) Life: Both natural and accidental death of the policyholder Disability: Permanent total disability due to accident (loss of two limbs or two eyes) Permanent partial disability due to accident (loss of one limb or one eye) Exclusions: Accidental dismemberment benefit can be claimed only once
Super Suraksha	Sbi Life Insurance	Rs. 300 per person per annum for a sum insured of Rs. 50,000 Rs. 600 per person per annum for a sum insured of Rs. 100,000	The beneficiary receives full sum insured. In case of total permanent disability resulting from an accident, a sum double the sum insured is paid to the policyholder Life: Both natural and accidental death of the policyholder Disability: Permanent total disability due to accident (loss of two limbs or two eyes) Exclusions: Does not cover suicide
Janata Personal Accident Policy	Royal Sundaram Alliance Insurance	Premium rates vary depending on the size of the group and on the sum insured Standard premium rate is Rs. 25 for a benefit sum of Rs. 25,000	Accidental death: Death resulting from an accident Disability: Disability resulting from an accident In case of accidental death of policyholder, 100% of insured sum is paid to the nominee In case of disability due to accident, 50% of insured sum is paid to the policyholder (depending on the nature of the disability) Exclusions: Does not cover suicide; War and nuclear perils
Janata Personal Accident Insurance	Reliance General Insurance	Premium rates vary depending on the size of the group, the sum insured and the term period Standard premium rate is Rs. 15 for benefit sum of Rs. 25,000	Accidental death: Death resulting from an accident Disability: Total or partial permanent disability resulting from an accident In case of death of the policyholder due to accident, 100% of sum insured is paid to the nominee In case of loss of two limbs, two eyes or one limb/sight of one eye, 100% of sum insured is paid to the policyholder In case of permanent total disablement due to accident, 100% of sum insured is paid to the policyholder In case of total and irrecoverable loss of one limb/sight of one eye due to accident, 50% of sum inured is paid to the policyholder Exclusions: Does not cover suicide Does not cover compensation for more than one injury during the term period Pregnancy-related claims War and nuclear perils

Name of product	Insurance provider	Premium	Benefits and exclusions
Sankat Haran Group Insurance Policy	IFFCO Tokyo General Insurance	No separate premium to be paid as the farmer is covered immediately upon purchase of a 50 kg fertilizer bag from any of the agent companies	Accidental death: Death resulting from an accident Disability: Total or partial permanent disability resulting from an accident caused by: Road, rail and air accidents; Injury due to any collision/fall; Bursting of gas cylinder; Snake bite; Frostbite; Burn injury; Drowning; Poisoning In case of death of the farmer, Rs. 4,000 are paid to the nominee In case of total permanent disablement or loss of two limbs, two eyes or one limb and one eye, Rs 2,000 are paid to the farmer In case of loss of one limb or one eye, Rs. 1,000 are paid to the farmer Exclusions:; Does not cover suicide; Any existing disablement; War and nuclear perils; Pregnancy or childbirth; Any breach of law with criminal intent
Janashree Bima Yojana	Life Insurance Corporation	For an individual: Rs. 200 per annum (50%, or 100% subsidy to be borne by the Social Security Fund) Experience rating adjustment allowed after year 3: possible reduction of premium related to claim ratio/group size	Life: Natural and accidental death of the policyholder Disability: Permanent total disability due to accident (loss of two limbs or two eyes); Permanent partial disability due to accident (loss of one limb or one eye) Rs. 20,000 payable in case of natural death Rs. 50,000 payable in case of accidental death Rs. 50,000 in case of total permanent disability resulting from an accident Rs. 50,000 payable in case of loss of two limbs or one eye and one limb resulting from an accident Rs. 25,000 payable in case of loss of one limb or one eye
Group Personal Accident Policy	HDFC Chubb General Insurance	Premium rates vary according to group size, sum insured and the past claims history of the group to be insured Premium fixed at Rs. 60–70 for Rs. 100,000 per annum	Accidental death: Death resulting from an accident Disability: Total or partial permanent disability resulting from an accident; Loss of some essential capacities resulting from an accident Education: One-time child education benefit in case of death or permanent disability of parent resulting from an accident In case of death of the policyholder due to accident, 100% of insured sum is paid to the nominee In case of total permanent disablement including loss of two limbs, two eyes or one limb and one eye: 100% insured sum In case of loss of one limb or one eye, the policyholder receives 50% of the insured sum In case of incurable insanity, permanent loss of speech, complete removal of lower jaw, permanent total loss of mastication, permanent total loss of central nervous system or the thorax and all abdominal organs resulting in the complete inability to engage in any job and to carry out daily activities essential to life without full-time assistance, 100% of insured sum is paid to policyholder

Name of product	Insurance provider	Premium	Benefits and exclusions
			In case of permanent loss of hearing in both ears, 75% of sum insured is paid to policyholder Additional 25% of sum insured given on account of the following: dependent daughter's wedding costs and child education benefit Exclusions:; Does not cover suicide or self-injury ; Does not cover for any prior disablement
Accident Insurance Policy	Cholomandalam Ms General Insurance	Currently sold as a value-added product for which no extra payment is charged Sold along with some of the products manufactured by the group's sister companies Premium rates in year 2 vary according to size of the group and sum insured	Accidental death: Compensation in case of death due to accident Disability: Covers both permanent harm and temporary disability Accident expenses: Compensation for injury caused by an accident Covers, up to a maximum stipulated amount:; Loss of life due to an accident; Ambulance hiring charges; Broken bones (fractures); Medical reimbursement; Modification of residential accommodation and vehicle; Transportation of mortal remains Exclusions:; Does not cover suicide; Does not cover self-injury
Krishi Shramik Samajik Suraksha Yojana	Life Insurance Corporation	For an individual: Rs. 365 per annum	Life: On natural death of the member (before age 60); On accidental death of the member Lump sum survival benefits provided after each 10th year into the scheme Disability: Permanent total disability due to accident; Permanent partial disability due to accident Pension: Pension paid to the member on reaching age 60 Rs. 20,000 payable in case of natural death, along with return of accumulated amount + interest Rs. 50,000 payable in case of accidental death, along with return of accumulated amount + interest Rs. 50,000 payable in case of total permanent disability resulting from an accident Rs. 25,000 payable in case of partial disability resulting from an accident Lump sum survival benefits depending on the accumulated amount in his/her account Pension paid depending on the accumulated balance in his/her account If member has paid for a minimum period of 10 years, at least Rs. 100 will be payable each month Exclusions: Does not cover suicide

Name of product	Insurance provider	Premium	Benefits and exclusions
Amartya Siksha Yojana Policy	National Insurance Company	The premium rates vary depending on the number of years for which the policy is taken out and the number of students (in case of a group policy) Minimum individual premium is Rs. 50 and for group policy the Premium rate is Rs. 100	Accidental death: Death caused by an accident Disability: Total permanent disability resulting from an accident Education: Covers the various following education costs:; Tuition fees; Boarding expenses; Cost of books; Examination fees; Compulsory uniform; Any other compulsory expenses to be borne under the recommendation of the head of department/institution Accident expenses: Reimbursement of hospitalization expenses arising out of an accident Exclusions: Does not cover any other benefits
Shakthi Security Shield	Royal Sundaram Alliance Insurance	Rs. 25 per annum for the basic cover Rs. 35 per annum when extended to cover accidental death for a woman	Accidental death: Accidental death of spouse (optional: accidental death of women) Loss of income: Cash relief for the period when the woman is temporarily or totally disabled Assets: Loss or damage to dwellings and personal belongings due to fire or flood Accident expenses: Reimbursement of hospitalization expenses arising out of an accident Cash relief in case of disablement of woman engaged in some kind of work: Rs. 100 per week (maximum Rs. 1,500) Rs. 25,000 in case of accidental death of spouse/parent/guardian Up to Rs. 1,000 for hospitalization expenses due to an accident Up to Rs. 1,000 for loss or damage to dwelling Up to Rs. 500 for loss or damage to personal goods Up to Rs. 25,000 in case of accidental death of woman (optional) Exclusions: Does not cover pregnancy-related expenses

Table 7 shows that the broad trend is an annual premium of between Rs. 25 and Rs. 100 for about Rs. 20,000 to Rs. 25,000 of cover. No company was willing to divulge details of the profitability of the products.

Table 8 calculates the pure premium (the amount required to pay losses alone) using a 0.25% mortality rate, i.e., 1 policyholder out of every 400 dies during the term. This is broadly the mortality rate experienced by Tata-AIG. This rate will vary from area to area, and in many areas it will be much higher.

Table 8. Profitability (Loss) based on estimated mortality rate

Number of policyholders	**100,000**	**100,000**
Annual premium (Rs)	25	50
	2,500,000	5,000,000
Mortality rate of 0.25% i.e. 1 policyholder in 400 dies		
No. of policyholder deaths during the year	250	250
Benefits paid to policy holders	5,000,000	5,000,000
Loss on the policy	(2,500,000)	0

Note: This is exclusive of any other expenses. Unless the mortality rates are dramatically less than the one used in the table above it is highly likely that many of the life policies are being sold at a loss to meet quota obligations.

One can extrapolate from the figures in the above table that many competitors are taking a loss on their products. If life insurance products are to be attractive not only to clients but also to potential aggregators (agents like MFIs and NGOs), companies will need to distinguish their products from their competitors' on some basis other than price.

As resources are limited and (credit) life insurance is a rather simple product, assistance is required for developing the following products: endowment policies, health insurance, weather-based crop insurance and suitable insurance packages. A crucial area of involvement is the provision of technical assistance to insurance companies prepared to provide innovative products. This has been done by the United Kingdom's Department for International Development (DFID), which supported Tata-AIG in its development of the micro-agent model, and by the World Bank, which supported ICICI Lombard in its development of weather insurance.

CHAPTER III. DISTRIBUTION CHANNELS

How can microinsurance products be sold and serviced cheaply? It is a low-value, high-volume business. The following approaches have emerged in India to provide insurance to low-income populations (only regulated channels are included here, not in-house schemes):

- Partnership model
- Agency model
- Micro-agent model

3.1 Partnership model

The partner-agent model: How does it work?

As the name implies this model involves a partnership between an insurer and an agent that provides some kind of financial service to large numbers of low-income people. This could be a microfinance organization, an NGO, or a business that supplies precuts to large numbers of low-income people, such as a fertilizer supplier. This party is an agent, selling insurance policies to the clients on behalf of the insurance provider (usually) in exchange for a commission or fee. The insurance provider utilizes the established distribution channels of this agent and its financial transactions with low-income groups, that would otherwise be too costly to set up.

The partnership model uses the comparative advantage of each partner so that each can focus on its core business: the insurance provider is responsible for designing and pricing the product, the final claims management, and the investment of reserves, and absorbs all the insurance risks. In addition to selling the policies, the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management.

Pros and cons of the partnership model

Pros

- The system works better than in-house because the synergies are maximized, enabling both organizations to focus on their core business and expertise ;
- With a single partnership agreement it is possible to sell microinsurance to over a quarter of a million low-income people;
- Requires fewer skills for the agent than an in-house model;
- Uses legally recognized insurance companies that have adequate reserves, adhere to capital requirements, employ certified insurance professionals, and operate under the insurance law;
- Insurer has access to reinsurance;
- The overhead costs of both the organizations, the agent and the insurance company, are reduced: the agent can use its infrastructure for collecting premiums, etc.; the insurer provides the expertise on product development, etc. ;
- It reduces the need to build the capacity of agents such as NGOs and MFIs to sell insurance because the insurer can do some of this ;

- Information asymmetries are minimized as the agent is familiar with the needs of clients and their situations, which reduces the time needed for c laims verification and settlement, while receiving feedback on client satisfaction and product design, etc. ;
- The insurer assumes all the risks ;
- The agent earns commission without risk, while the insurer earns profits.

Cons

- Because of the quota system, the most well-known agents are already taken and have existing relationships with insurers. There are still many other organizations, however, that could act within a partnership ;
- The insurance provider is dependent on the quality of the agent ;
- NGOs in particular are often 'here today, gone tomorrow', relying on donor recognition and goodwill for their survival ;
- Conflicts of interest may occur, especially when working with non -financial institutions. NGO or MFI staff or management may develop sympathy for a client and be lax about underwriting or claims verification. It should be noted that this is less likely to occur with an MFI partner that is used to financial discipline with its lending activities.

A partnership model in India

BASIX is an NGO working in livelihood promotion in several arid and backward districts spread over seven states. BASIX works towards its mission of livelihood promotion by providing a comprehensive set of services, which include Livelihood Financial Services (Savings, Credit and Insurance) and Institutional Development Services. BASIX is headquartered at Hyderabad.

As part of its mission to deliver comprehensive financial services to rural customers, BASIX began its initiatives to deliver insurance services four years ag o, coinciding with the opening up of the insurance sector. From the beginning, BASIX has actively partnered with multiple insurance companies to design insurance products for rural customers. In the area of life insurance BASIX began by working with ICICI Prudential and currently works with AVIVA Life Insurance Company. BASIX has worked with Royal Sundaram general insurance company for the delivery of livestock insurance and ICICI Lombard for rainfall insurance. BASIX is also actively working with these and other insurers to design a suitable health insurance product for its rural clients. In 2003, BASIX was also given a Corporate Agency license by the IRDA to distribute retail life insurance products from AVIVA. Source: E -mail communication with authors.

Potential partners: MFIs

Appendix 3 contains a list with some contact information of MFIs in India. This is a good starting place for potenatil providers of mciorinsurance services because MFIs are already providing a financial service to low -income clients. In addition to this list, the ILO in New Delhi

has published a comprehensive study of all microinsurance schemes in India. [8] The market is dynamic, however, and MFIs and NGOs frequently change their partners when they are offered better deals from insurers.

Potential partners: Commercial enterprises
There is some scope for working with commercial agents that sell goods and services to low-income clients. This is already being done by IFCO Tokyo, which cooperates with fertilizer sellers. The same is true of ITC, which has joined up with a number of insu rers.

Potential partners: Non-financial NGOs
A vast number of non-financial NGOs have access to low-income clients. These include lobby groups or groups that provide paralegal advice. They would need to be considered on a case-by-case basis as they vary greatly in their capacity and desire to work with commercial insurers. [9]

Potential partners: Banks
Most private banks do not lend to low-income clients so connections like the one Bajaj Allianz AG has with Standard Chartered Bank would not be of much use in the low-income market. This explains the use of microfinance institutions. But there may be some unexplored possibilities with banks.

In India there is an important Linkage Banking programme run by NABARD with the support of GTZ. Under the programme, NABARD provides wholesale finance to banks for loans given to the rural poor, who are formed into savings and credit self-help groups (SHGs). Over the last 12 years, NABARD has been able to increase substantially the outreach of banking in rural India. Cumulatively, banks have lent Rs. 39.04 billion to 1,079,091 SHGs. NABARD has extended a refinance of Rs. 7.06 billion to banks during 2003-2004, bringing the cumulative refinance amount to Rs. 21.24 billion.

In total, there are 66,200 bank branches in Ind ia, of which rural branches accounted for nearly half. A bank branch serves on average about 15,000 clients. About 16 million poor households have gained access to the formal banking system through the SHG Bank Linkage programme. So far, SHG savings were a route to bank loans and improved risk management for the poor (women). A significant portion of SHG members contacted by the GTZ NABARD project have reported that they save between Rs. 1,000 and Rs. 5,000 per year, some people having accumulated savings up to Rs. 10,000, with their SHG or in private bank accounts.

At present, NABARD operates through state-owned banks, and it requires that insurance be sold by borrowers who take up a NABARD-funded loan. These loans are not through self-help groups, however, and tend to be towards somewhat wealthier farmers. The insurance is part of the state-run National Agricultural Insurance Scheme (NAIS) or Rashtriya Krishi Bima Yojana (RKBY), a crop insurance scheme mentioned in the section on products.

[8] To obtain the study, contact Marc Socquet. (socquetm@ilodel.org.in), tel 00 91 11 24602101-02-03.
[9] A good source of information on Indian NGOs can be found on www.indianngos.com

One private bank, Chitradurga Gramin Bank (sponsored by Canara Bank), has sold microinsurance to SHGs, partnering with LIC and UIIC. The scheme is a fairly typical life insurance policy offering insurance coverage of Rs. 25,000, in case of natural death and Rs. 50,000 in the case of accidental death.

Banks, at this point state banks, are thus an important potential partner for insurance companies (at this point only state insurance companies). In sum, they reach large numbers of low-income clients through the SHG linkage model, and they accept savings that can be used to pay premiums. The success of SHG Banking depends to a large degree on the staff's participative role in handling the new 'SHG window'. Banking with self-help groups is different from individual banking, and there are still some problems getting staff fully trained to deal with SHGs.

Moreover, banks cannot establish such a costly service structure for offering integrated insurance services to the poor.[10] Health insurance and hospitalization insurance require special care and supervision and an indemnity regulation system that would overcharge the banking system completely. Those banks with substantial experience with a new group of clients, particularly the self-organized women from the poorer strata of the population, have not yet applied those insurance systems for their new SHG clients. They found it difficult to identify, design and sell adequate insurance products on their own or in cooperation with insurance companies.

As banks are selling agricultural (individual) insurance linked with livestock loans, they could, however, start selling group microinsurance for similar products (e.g., for cattle).

Recommendations regarding banks

At the moment, state banks are working with public insurers. This may be changing, and Allianz AG and similar institutions should monitor the situation (with the Reserve Bank of India, the IRDA and NABARD). As far as private banks go, few reach the social sector (although many reach the rural sector). (For sector definitions, see Appendix III.) LIC has broken new ground in reaching the social sector via its link-up with the Chitradurga Gramin Bank. Allianz AG should see if any other private banks begin to service the social sector and then explore partnering with such banks.

Banks that work with SHGs are important potential partners. It would be useful to create awareness of the potential among state banks and to help build their capacity to deliver microinsurance to SHGs.

Many NGOs and MFIs that partner with insurers are in need of capacity-building to help ensure that (a) they get the best deal from the insurer and (b) manage the relationship efficiently. In order to get the best deal from insurers, NGOs and MFIs need to know exactly how much it will cost them to do the agency work. Very few NGOs and MFIs cost their activities effectively, and this adversely affects their sustainability. It would be useful to assist them in costing their

[10] GTZ study: "Banks with SHG Portfolio as Agents of Microinsurance Products for the Poor in India", Erhard Kropp, March 2004, GTZ–NABARD Project.

activities. The Consultative Group to Assist the Poor, a multi-donor group (www.cgap.org), has developed a detailed, costing training course for MFIs.

In the 'Concept Paper on Microinsurance' the IRDA envisages a minimum training requirement for MFI and NGO agents. Although most of the work of the agents will be related to the specific product they sell and the specific relationship they have with the insurance company, there will be a minimum core common to all agents, for example, the basic principles of insurance and selling techniques. As such material would benefit all parties, it would be useful to hold a workshop with insurers and MFIs, decide what training would be useful for all, and then develop training materials on the common themes.

3.2 Agency model

The agency model: How does it work?
In this model the insurer uses its normal agency office and sells microinsurance products directly. The client comes to the agency office for sales and servicing of the product. Insurers described this model but the authors could find no examples of it operating in practice.

Pros and cons of the agency model:

Pros

- Does not require much additional investment in infrastructure ;
- Better control of the quality of the agent than with the partnership model.

Cons

- Difficult to reach large numbers especially in rural areas where clients may be unwilling to travel to the office;
- Agents will need special training in dealing with low-income clients;
- Offices may intimidate poor clients;
- Individual policies only would be sold; generally such microinsurance policies have not proved commercially viable.

3.3 Micro-agent model

The micro-agent model: How does it work?
While the partnership model is relatively common, the micro-agent model described below is unique. It is the invention of Tata-AIG, specifically an employee of Tata-AIG, Vijay Artherye. The central building blocks of the model are Rural Community Insurance Groups (CRIGs) supervised by rural organizations such as churches, NGOs or MFIs. CRIGs are a partnership firm formed of five women from a self-help group (SHG). The leader of the CRIG is licensed as an agent. The CRIG is a *de facto* brokerage firm (in the technical, not the legal sense of the term). All CRIGs in the same geographic area meet in a single centre, usually organized with the assistance of the rural organization, and receive training and assistance from Tata-AIG. This practice reduces training costs.

Micro-agent model: Profile and workings of a typical CRIG

Most CRIGs consist of four to five members. These members are usually women who are part of an SHG. The typical profile of a member would include communication skills, acceptance of insurance, preferably educated up to the 10th standard, with influence in the SHGs, and capable of doing some paperwork. The CRIG has a leader appointed by Tata-AIG on the advice of the rural organization. A typical leader will be educated to the 12th standard or above, have a good track record of past social-sector performance and integrity, be systematic and organized, with leadership qualities, and public speaking and training skills. This leader is trained by Tata-AIG to obtain a corporate agent's license. The CRIG as a whole is registered as a body under the Andhra Pradesh Societies Act (where the model is currently being used).

The CRIG leader and members are involved in promotion, sales and collection of insurance proceeds and maintaining records. The CRIG leader will document all fortnightly CRIG meetings and all weekly meetings with the NGO concerned.

Pros and cons of the micro-agent model

Pros

- The model creates an insurance distribution infrastructure in low-income neighbourhoods. In addition, it creates a new profession, that of micro-agent, with new livelihood opportunities in his/her vicinity;
- Sustainability: Because the position is a commercial one with financial incentives, Tata-AIG believes that it will last in the long term, facilitating the sale of long-term products. As mentioned under the partner-agent model, NGOs and MFIs are often dependent on the goodwill and public recognition of aid flows, and so their long-term existence is precarious. Chances are good that CRIGs, being registered firms, will survive, in the event of a member or leader dropping out. The leader could be replaced by another from the community, thus mitigating the risk of orphaned policies;
- In the event that a CRIG disbands, the orphaned policies can be taken over by another CRIG that operates under the same NGO.

Cons

- Training is costly, especially in relation to premium values;
- The transaction costs of the sales agent are cheap at first but increase as soon as the agent has sold to all the peoples/he knows and needs to sell to strangers, especially to those living far away;
- In many cases in the partnership model, when a claim arises the MFI or NGO investigates the claim, pays the benefit immediately, and then claims it back from the insurer. Immediate payment of claims helps maintain client confidence, and this is not possible under the CRIG system;
- This model is new, and much more experience is needed before it can be reasonably evaluated.

CHAPTER IV. SOCIAL SECURITY IN INDIA: OVERVIEW AND ROLE OF MICROINSURANCE

The majority of the working population in India is 'employed' in the informal sector. Economic development in India has not resulted in the formalization of emplo yment that occurred in countries that industrialized in the early 20th century. In some sectors there has been an increase in formal-sector workers; in many other sectors, however, an informalization has taken place through subcontracting and outsourcing. Approximately 90 percent of the working population of India is employed in the informal sector. As less than 10 percent of the workers have formal contracts, the contributions by employers and employees are relatively low. This presents a challenge to the State in obtaining funding for social security programmes.

Approximately 3.75 million people (ILO, 2000) are covered by official social security programmes in the formal economy. Some of the (roughly) 60 percent of workers classified as 'unorganized' workers are in a position to pay significant insurance contributions. The lower-income groups and the poor can only afford small payments, however. Thirty percent of the unorganized workers in India consist of very poor groups who are unlikely ever to be in a position to make contributions and become members of a contributory social security system.

Which social risks are priorities in India?
The following social risks emerged as priorities during the authors' consultations with various stakeholders in India (the list is not ranked):

- Health and incapacity for work (e.g., illness, disability, accidents –either occupational or non-occupational);
- Life cycle risks (e.g., death, old age);
- Economic risks (e.g., unemployment, loss of property, crop failure) ;
- Natural disasters (e.g., floods, droughts, earthquakes).

4.1 Strategies to manage risks

This section of the report focuses on mechanisms used to manage social risks. There are four broad categories:

- Informal individual mechanisms and self-help groups
- Informal and semi-formal cooperative systems
- Formal private systems
- State social security schemes

Informal individual mechanisms and mutual aid groups. Families, households and other informal sources of assistance play a key role managing social risks. These mecha nisms are very restricted in scope, however, as the financial consequences of a risk are often greater than household assets.

Informal and semi-formal cooperative systems. India has a well-developed non-governmental sector that is active in poverty alleviation. The concept of social protection, however, is relatively new to many of them. The following are some of the achievements of this sector:

- Ex ante (preventive) strategies that are directed at preventing or minimizing the occurrence of emergencies and also lower exposure to risks: employment diversification, income-generating measures, skills training programmes for selected groups (e.g., adolescents, women), promotion of the use of pesticides to reduce the risk of crop failure, promotion of cattle inoculation, and various preventive health measures.
- Mitigation strategies to minimize the impact of shocks and emergencies: microinsurance, savings and credit products offered by microfinance institutions (e.g., savings products for medical expenses, savings products for additional provision for old age, etc.).
- Ex post (coping) strategies to help overcome the consequences of catastrophic events: credit products for contingencies, grain banks, agreements with doctors and chemists to improve the quality of treatment and to reduce the cost of medicines, assistance for accessing state schemes (after natural disasters, for example), monitoring of state primary health centres to improve medical services.

Formal private systems (including microinsurance). The liberalization of the insurance market for private insurance companies widened the range of available insurance products. This occurred in tandem with an expansion of MFIs and NGOs in the market in the 1990s. The kinds of products sold by this sector are discussed in detail in this report in the section on demand.

The risk management strategies mentioned above should be offered as complementary services within a multi-pronged approach integrating basic insurance and social assistance by the state**,** formal private systems and collective systems. They combine preventive and precautionary measures, mitigation and coping strategies. The table below indicates how various measures can be used to mitigate or prevent the consequences of risks facing low-income households.

Table 9. Measures for risk management

	State schemes	**Formal private systems**	**Informal collective mechanisms**
Risks:			
Health	Social health insurance Subsidized microinsurance	Health microinsurance Separate products for women of productive age	Contingency funds, special savings Products for medical treatment expenses
Accident, disability	Social assistance programmes	Accident/disability microinsurance	Emergency loans Solidarity funds for disabled persons Advocacy for safety at work
Life cycle risks:			
Death	Extension of ESI	Microinsurance	Asset building Savings
Old age provision	Extension of EPF Social assistance	Micro-pension Endowment funds	Asset building Savings

State social security schemes: In India there are a number of central and state government social security programmes. They can be divided into the following categories:

- Social assistance programmes funded by the central and state governments ;
- Welfare funds for selected industries and occupational groups in the informal economy [11] administered by Tripartite Boards;
- Social insurance primarily for the formal economy ;
- Subsidized insurance and microinsurance for groups below the poverty line ;
- Emergency assistance after natural disasters, for example by the Natural Disaster Management Authority in the Ministry of Agriculture (Drought Prone Areas Programme and Housing Programme for earthquake victims).

Although large in number, their usage is very small. The table in Appendix 4 gives an overview of the various measures through which the State helps manage the risks mentioned in the section above.

Despite the large diversity of programmes, the National Commission on Labour (2000) and the Social Security Association of India cited the following challenges, among others:

- A number of central government acts (e.g., the Construction Workers Act) are not implemented by all the states.
- Social security programmes are not based on an actuarial analysis; contributions and benefits are often determined by politicians. Although significant portions of the central and states' budgets are absorbed by these programmes, the financial benefits offered do not cover the entire consequence of the peril. For example, there is a national pension in India for destitute widows. The benefit is set at Rs. 75 per month. This is 15 times less than the dollar-a-day poverty line.
- There is often limited coordination between state and central government on social security.
- The programmes are often inefficiently managed.
- The benefits of some programmes are designed in an arbitrary fashion; e.g., the National Social Assistance Programme has an upper limit for the number of entitled recipients. Once the quota is exhausted, other entitled persons do not have access to the funds.
- The programmes were developed in a top-down approach and are often not in tune with the needs of the beneficiaries. They are supply driven rather than demand oriented.
- Institutional arrangements are not conducive to reaching unorganized workers and providing reliable social security. The quality of health care is very low and has resulted in a massive private health-care industry. As this sector is not regulated, however, services are very diverse and often more expensive than the public system's health-care system without offering better care.

[11] Beedi Worker Welfare Fund, Cine Worker Welfare Fund, Iron, Manganese and Chrome Ore Labour Welfare Fund, Limestone and Dolomite Labour Welfare Fund, Mica Mines Labour Welfare Fund

4.2 Political developments in social protection

The current Government has recognized the need for social protection in the informal economy and has drafted legislation at the central level. As social protection is a concurrent subject, states are free to pass their own social security laws and pursue their own social security projects as long as they do not contradict existing central government laws. Except in Tamil Nadu, Madhya Pradesh, and Kerala, comprehensive bills for the unorganized workers, providing social security oriented at ILO standards, have not been passed.

The central Government has initiated steps to facilitate better access by the poor, especially in rural areas. It has passed the Common Minimum Programme, according to which the Government shall extend "social security, health insurance and other schemes for such workers like weavers, handloom workers, fishermen/women, toddy tappers, leather workers, plantation labour, beedi workers, etc." In order to meet these commitments, a National Commi ssion on the Unorganized Sector was set up and tasked with making recommendations on social security.

The central Government has decided to extend the statutory social security cover, Employees Social Insurance (ESI) and Employees Provident Fund (EPF), which hitherto only applied to workers in the formal economy in enterprises located in large cities, to towns with a population of more than 10,000 and is planning to extend the coverage to establishments with five employees. This would extend the coverage tremendously. Furthermore, the Government is considering extending the benefits on a voluntary basis to selected groups of informal workers such as construction workers. Although this would be an important step, it would benefit only a relatively small number of workers since employer-employee relationships are often difficult to identify, are seasonal and often migratory.

As part of the decentralization process, these measures can then be implemented through local self-government bodies: Panchayati Raj Institutions (PRI). The PRI have the mandate to collect taxes, pass development plans, implement government schemes, etc., and hence interesting options emerge, which would allow the PRI to play a bigger role in social protection. In Maharashtra, sector committees would be given growing responsibilities with regard to social protection programmes. Their mandate includes registering potential beneficiaries (targeting) and carrying out a needs survey for social security schemes and insurance products. The co mmittees have also been entrusted with managing (healthcare) centres in cooperation with NGOs on a case-by-case basis. This will improve the quality of primary health care and help administer social assistance programmes more efficiently.

4.3 Gaps in existing social security schemes

In addition to the limitations of the social protection measures mentioned above, a high demand exists to combat the effects of natural disasters. Ex post coping mechanisms primarily offered by the Government are not sufficient. Microinsurers often exclude covariant risks (that is, risks that affect large numbers of people in a locality at the same time, such as drought or flood) from their

portfolio. By providing reinsurance[12] it may be possible to get microinsurers to drop covariant risk exclusions. Moreover, the effectiveness of existing risk management strategies could be enhanced if a risk and vulnerability analysis were carried out and the effectiveness of existing risk management strategies assessed. On the basis of this analysis a comprehensive approach of various risk management instruments should be applied complementing each other. Experience reveals that this systematic approach is lacking.

It would be poor public relations to exclude covariant risks from policies. From a PR perspective it would be better to include them and to obtain reinsurance for them. Perhaps an alternative is to recommend index-based insurance and exploration of the role of government as a kind of reinsurer.

It would be useful to promote reinsurance that is specifically targeted to microinsurance.

Recommendation: It would be useful to assess existing tools for risk and vulnerability analysis and adopt them to the requirements of NGOs/MFIs and other organizations of civil society (but also for bodies of the local government). A similar tool for analyzing the effectiveness of existing risk management strategies should be developed.

Although microinsurance has a great deal of potential for meeting some of the risk management needs of the poor in India, it has significant **limitations**. For example:

- Operation at scale: Since microinsurance is based on the risk pooling and solidarity that exists among poor and low-income groups the coverage is significantly smaller than if it were across all sections of society;
- Since premium payments are low, the scope of benefits and services is also limited (unless contributions are made by the Government and/or the employer) ;
- The systems are most often operated by NGOs with limited outreach and set up within relatively small communities (villages, small occupational groups).

4.4 Possible microinsurance partnerships in India : Donor agencies

Multilateral organizations

ILO New Delhi has set up a task force on social protection. The role of this task force is to advise the Ministry of Labour on social protection. ILO is particularly interested in promoting microinsurance as part of the social security package. The organization has carried out a number of crucial background studies on microinsurance, and much of the information has been used in the compilation of this report. ILO is interested in jointly implementing pilot microinsurance activities, linking them to the broader context of social protection. For more information, please contact: *Marc Socquet, Senior Specialist on Social Protection, Informal Economy and STEP - Asia Coordinator, socquetm@ilodel.org.in and socquet@ilo.org*

[12] Reinsurance - The practice whereby one party called the Reinsurer in consideration of a premium paid to him agrees to indemnify another party, called the Reinsured, for part or all of the liability assumed by the latter party under a policy or policies of insurance which it has issued. The reinsured may be referred to as the Original or Primary Insurer, or Direct Writing Company, or the Ceding Company. In short: it means insuring the insurers.

ILO Geneva and the Universities of Geneva and Cambridge are conducting a series of applied studies on the smart use of subsidies that enable greater access to financial services by the poor. This would be a good opportunity to collaborate on the design of subsidies for the insurance sector. For more information, please contact: *Bernd Balkenhol, Head of the Social Finance Programme, ILO, Geneva, balkenhol@ilo.org*

The **World Bank** is carrying out a pilot project on weather insurance together with ICICI Lombard and BASIX. For information, please contact: *Paul Siegel, psiegel@worldbank.org*

GTZ has a Poverty and Social Impact Analysis (PSIA) action research project in India. For more information, please contact: *Ruediger Krech, Head of the Social Protection Unit of GTZ, ruediger.krech@gtz.de*

Asian Development Bank: The Indian Ministry of Finance has requested the ADB to undertake a comprehensive study on Pension Reform for the Unorganized Sector. For more information, please contact: *Axel Weber at ADB and Chris Butel, Team Leader, chris@iief.com*

Bilateral organizations

USAID is supporting a pilot project for cashless health insurance with 'Healing Fields'. Expanding this initiative to other locations should be explored with USAID. For more information, please contact: *Mukti K. Bosco, mukti.bosco@healing-fields.org*

GTZ/BMZ (German Ministry for Economic Development and Cooperation) is currently negotiating a new project on social protection. It will provide support to a variety of social protection schemes in India, both public and private. For more information, please contact: *Ruediger.Krech@gtz.de*

Another project of GTZ is the GTZ-supported **Health Programme**. This aims at improving health-care facilities and developing health insurance. Health insurance is a component of this project. Finally, the GTZ NABARD linkage project has already been disc ussed in the section on demand. For more information, please contact: *Marie-Luise Haberberger, Chief Technical Adviser, Marie.Haberberger@gtz.de*

The **public-private partnership (PPP)** agreement between Allianz AG (in India, Bajaj Allianz AG) and GTZ aims at developing customized insurance products for poor and low-income groups and strengthening institutional capacity for efficient implementation. For more information, please contact: *Bernd Lunkenheimer, Head of PPP Unit, Bernd.Lunkenheimer@gtz.de*

International NGOs

CARE International is supporting three microinsurance schemes.

The Ford Foundation is currently supporting SEWA's microinsurance programme. For more information, please contact: *Rehka Merothra.*

CHAPTER V. SUMMARY RECOMMENDATIONS

5.1 Issues in product design

- Designing microinsurance policies requires intensive work and is not simply a question of reducing the price of existing insurance policies. It requires among other things different marketing, and different distribution and servicing channels. Tata-AIG for example, has a team of 14 people working solely on microinsurance.

- Because of the quota system the largest and best-known intermediaries (NGOs/MFIs) already have existing relationships with commercial insurers that they often wish to keep. The implication of this is that insurers will need to think more creatively about their products and relationships with the intermediaries if they hope to convince them to change companies. It implies also that insurers should start exploring distribution models other than partner-agent.

- It is likely that many life microinsurance policies are making a loss. If insurers want their life insurance products to be attractive not only to clients but also to potential aggregators (agents like MFIs and NGOs), they would need to distinguish their products from competition on some basis other than price. Discussion with a number of MFIs and NGOS has indicated that one of their major difficulties is the lack of service from their insurance partners. This has often caused them to change insurance partners. It would be worthwhile looking at the reasons for Allianz AG's successful relationship with ASA (Activists For Social Alternatives, an NGO working for the development of the poor in the drought prone, poverty ridden area of central Tamil Nadu).

- Exclusion of covariant risks from policies creates a public relations problem. From a marketing perspective it would be better to include them and to obtain reinsurance for them.

- Life microinsurance is the easiest cover to offer and also the most widely offered. An insurer would need to create a very attractive policy if they want to stay with life microinsurance. It is worth exploring other types of microinsurance as a means of attracting good partners. Crop insurance has by and large proved unsuccessful. Health insurance is difficult because of the lack of private hospitals in poor rural areas. Weather indexing is proving a possible insurance option.

5.2 Marketing microinsurance

- Tata-AIG has had success building trust with the potential microinsurance market by emphasizing its Tata links. Tata is a trusted company or at least deemed unlikely to misappropriate premiums by low-income clients. Others insurers with trusted local partners could make use of their connection to these partners for the same purpose.

- In addition, public reimbursement of claims, for example at village meetings, is important. It demonstrates the advantages of having insurance with a real example.

- Other microinsurance marketing tools used are exposure tours, where village leaders from villages with policyholders are sent to other villages to show the advantages of having insurance.

- Also important are careful, well-managed rejection of claims where the reasons are made clear to all the villagers.

- Finally, as with high premium insurance, monitoring of customer satisfaction is critical, especially with respect to lapses and non-renewals, reinforced by a mechanism to act on the information that emerges from this monitoring.

5.3 Distribution channels

- The report lays out the pros and cons of a variety of distribution models. These are not mutually exclusive, and a combination of methods can be tried.

- The passage of the 'Microinsurance Concept Paper' by the IRDA should be watched carefully. In its draft form, it implies (ambiguously) that one MFI or NGO can only have a relationship with one insurance company. If the regulation comes to pass it will make using the partnership model as a distribution method more difficult.

- At the present time, state banks are working with public insurers. This may be changing, and Allianz AG and similar institutions should monitor the situation (with the Reserve Bank of India, the IRDA, and NABARD). As far as private banks are concerned, few reach the social sector (although many reach the rural sector). LIC has broken new ground in reaching the social sector via its link-up with the Chitradurga Gramin Bank. Institutions such as Allianz AG should see if any other private banks begin to service the social sector, and then explore partnering.

5.4 Consumer protection

- If the IRDA decides to create specific microinsurance regulation to support currently unregulated microinsurance schemes, for example in-house schemes run by MFIs, its development could be supported by donors.

- It would be useful to help establish consumer protection mechanisms for clients of unregulated microinsurers.

- Should requests of support come from NGOs running in-house insurance schemes, donors should remember that these schemes are unregulated and carefully weigh up the costs and benefits of supporting such schemes. These are outlined in the report.

5.5 Promote microinsurance regulation

- It would be useful to do research on the quota system to see whether the benefits outweigh the costs and whether such a system would be useful policy in other countries.

5.6 Expanding the industry

- The IRDA is tasked with promoting the insurance industry. The IRDA already runs televisions campaign aimed at middle-income consumers endorsing the safety and security of the insurance firms that it regulates. It would be good if such a campaign could be extended to microinsurance. Other mediums could be explored for this, including radio. UNDP and/or GTZ could support such campaigns.

5.7 Supporting microinsurance innovation

- The Terms of Reference of this report did not include the design of new products. Research was confined to describing and analyzing existing products. Innovations are few and far between in India, and most of this text reports on different replications of the partner-agent model. It would be worthwhile to design innovative products. The advantages and limitations of various models outlined in this report could assist an agency that undertakes this task. The processes of creative design, marketing and distribution are to be taken up in the follow up to the studies.

- As resources are limited and (credit) life insurance is a rather simple product, assistance is required in developing the following products: endowment policies, health insurance, weather-based insurance and other suitable insurance packages. A crucial area of involvement is the provision of technical assistance to insurance companies prepared to provide innovative products. This has been done, seemingly successfully, by DFID, which supported Tata-AIG in its development of the micro-agent model, and the World Bank, which supported ICICI Lombard in its development of weather insurance.

- Banks that work with SHGs are important potential partners. It would be useful to create awareness of the potential among state banks and to help build their capacity to deliver microinsurance to SHGs.

5.8 Gender and microinsurance

- There is a lack of tools to understand the gender-specific demand for microinsurance in India. It is important to know what women want from microinsurance and what they are willing to pay for. In particular, it is crucial to consider the benefit package. In life insurance, for example, it may be important for the beneficiary to be the daughter (held in trust for her if she is a minor) rather than the husband. In health insurance, it may be important to ensure that the entire family is covered rather than just the women if the women are in a weak position in the household.

- Because many of the concerns of women are not easily insurable, e.g., maternity costs, it would make sense to consider combining insurance and savings. In this way, for example, a woman could use her savings to cover the cost of a normal delivery, and insurance to cover the cost of unexpected complications.

5.9 Capacity building

- Many NGOs and MFIs that partner with insurers are in need of capacity-building to help ensure that (a) they get the best deal from the insurer and (b) they manage the relationship efficiently. In order to get the best deal from insurers, NGOs and MFIs need to accurately cost the agency work. Very few NGOs and MFIs cost their activities effectively, and this adversely affects their sustainability. It would be useful to assist them in conducting regular costing activities for all their products. The Consultative Group to Assist the Poor, a multi-donor group (www.cgap.org), as well as MicroSave (www.microsave.org), have developed detailed, costing tools for MFIs.

- In the 'Concept Paper on Microinsurance' the IRDA envisages a minimum training requirement for MFI and NGO agents. Although most of the agents' work will be related to the specific product they sell and the specific relationship they have with the insurance company, there will be a minimum core common to all agents, for example, the basic principles of insurance and selling techniques. As such material would benefit all parties, it would be useful to hold a workshop with insurers and MFIs, decide what training would be useful for all , and then develop training materials on the common themes.

5.10 Working with community-based insurance models

- There are many community-based insurance programmes in India. Unfortunately, there is no legal basis for these operations, and they all operate in a legal vacuum. Moreover, commercial insurers have begun to complain to the regulator that community-based insurers bear none of the regulatory costs and therefore compete unfairly with regulated insurers. Because they operate in a legal void (some argue illegally), the authors cannot recommend that donor agencies and others work with them. They do, however, often provide excellent service to low-income clients.

5.11 Prospects for reinsurance

- Only regulated reinsurers can provide reinsurance. Allianz AG, UNDP, and GTZ are not licensed reinsurers in India and therefore cannot provide reinsurance.

- Reinsurance (and associated technical assistance from reinsurers) cannot be provided to community-based models in India as only reinsurers can sell reinsurance to regulated insurance companies.

- Microinsurance in India can only legally be provided by regulated insurance companies. (See pages 12-13 of this report.) It tends to be an absolutely insignificant share of commercial insurers' total exposure (usually much less than 1 percent). Reinsurance of microinsurance portfolios of commercial insurers would make little difference to the stability of commercial insurers.

- One recommendation is to start a fund to provide cheap reinsurance to insurers that exceed their legal requirements in terms of the sale of microinsurance. In addition to this, those commercial insurers that exceed their targets could be assisted in forming an association

supported by donors. Experience has shown that giving donor attention to the microinsurance departments of commercial insurers tends to increase their profile within their companies. It should be borne in mind that microinsurance is often either a loss-making division or one that makes comparatively tiny profits. The reinsurance is thus a small part of a larger package of support to commercial insurers that exceed their targets. By itself, the reinsurance is a minuscule incentive to commercial insurers to exceed their targets.

5.12 Building on the limited demand studies

- The limited demand studies that have been conducted in India and discussed in this report all indicate a demand for microinsurance. It would not make sense to conduct an all-India demand study of microinsurance. Aside from the cost of such a gargantuan effort, the information on demand needs to be detailed to allow for the answering of specific questions about particular products in particular places, e.g., who demands a product with certain features, and where. This should be done as part of the development of particular microinsurance products.

5.13 Policy work/Engaging the State

- The state body that has largely driven microinsurance in India has been the IRDA. It would be helpful if microinsurance that worked with private-sector insurers could be explicitly part of the Government's social security plan. This suggestion in no way implies a reduction in the duty of the State to be responsible to its citizens for social safety nets. There are many ways in which this collaboration could work to the benefit of both parties. For example, if the State collected better actuarial data, insurers would be more likely to provide types of insurance they found difficult to price, e.g., health insurance. With active state intervention there may also be new possible roles for state health-care facilities in private health insurance.

5.14 Data collection

- It would be useful to create an agency to collect, store and provide insurance data. There is a need to develop a common format for the collection of data. There should be a market body, which can take the responsibility of maintaining and sharing the data with insurance companies. This body could also lobby the Census Department to obtain relevant data for insurance companies.

5.15 Microinsurance awareness

- The regulator should take the responsibility of creating awareness among low-income people of microinsurance, as it is for the public good. The regulator should take the responsibility of developing the sector more actively. The regulator could create publicity by developing audio-visual and other insurance literacy programmes. If the IRDA wished to take up this role it could be assisted in doing this.

5.16 The role of subsidies in microinsurance

- The mix of subsidized microinsurance products from state insurers with unsubsidized products from private insurers has the danger of polluting the market. The regulator and the Government should consider less harmful subsidies. For example, they could provide a subsidy either for marketing of products or building infrastructure. The Government could also consider allocating subsidies to the design of new products (such as health products).

5.17 Establishment of a microinsurance council

- There is a need to establish a council of microinsurance representatives, regulator and government. This body should meet on a regular basis to discuss the issues and strategies to develop the sector. This body can also help to develop regulations. It could help facilitate the sharing of information between insurers.

APPENDICES

Appendix I. List of people met during the visit

Date of meeting	Name	Institution	Institution Type	E-mail
14.03.05	Prof. Rajasekhar	Institute for Social and Economic Change (ISEC)	Academic	raja@isec.ac.in
15.03.05	R.K. Subrahmanya	Social Security Association of India	NGO	ssanantha@yahoo.com
17.03.05	Mukti K. Bosco	Healing Fields Foundation (USAID-supported intermediary health microinsurance)	NGO	mukti.bosco@healing -fields.org
18.03.05	Vijay Kumar	SERP (World Bank-supported rural development project)	Society established by WB	vijay@velugu.org
18.03.05	Edgar Balbin	Bearing Point	Consultancy firm	
18.03.05	T. K Banerjee	IRDA	State	
19.03.05	P. Sai Gunaranjan	Basix	NGO	gunaranjan@basixinida.com
19.03.05	Sitaram Rao	SKS Microfinance	NGO	sitaram@sksindia.com
20.03.05	Prema Gopalan	SSP (MFI network in Maharashtra)	NGO	sspindia@vsnl.net
21.03.05	Capt. Sanjay Moholkar	Bajaj Allianz AG	Insurer	Sanjay.moholkar@bajajallianz.co.in
21.03.05	Carsten M. Glombik	Bajaj Allianz AG	Insurer	Carsten.Glombik@bajajallianz.co.in
21.03.05	Sam Ghosh	Bajaj Allianz AG	Insurer	Sam.ghosh@bajajallianz.co.in
21.03.05	Shreeraj Seshpande	Bajaj Allianz AG	Insurer	Shreeraj.Seshpande@bajajallianz.co.in
21.03.05	Sanjay Jain	Bajaj Allianz AG	Insurer	Sanjay.Jain@bajajallianz.co.in
21.03.05	Jaydeep Sarkar	Bajaj Allianz AG	Insurer	Jaydeep.Sarkar@bajajallianz.co.in
22.03.05	François-Xavier Hay	UpLift India Association/Inter Aide (health microinsurance Pune)	Insurer	acfxhay@yahoo.fr
22.03.05	Vijay Arythere	Tata-AIG	Insurer	Vijay.Athreye@tata-aig.com
22.03.05	Rupalee Ruchismita	ICICI Bank	Insurer	rupalee.ruchismita@icicibank.com
22.03.05	Ms. Smita Agarwal	ICICI Lombard	Insurer	
23.03.05	K. Chandra Mouli	Joint Secretary, Ministry of Labour	State	
24.03.05	Andrea Johnson	KFW	Donor	
25.03.05	Marc Soquet	ILO	Donor	
29.03.05	Hans Steinmann, GTZ	Health Programme	Donor	jp.steinmann@gtz.de
30.03.05	M. L. Haberberger, GTZ	NABARD Financial Development Project	Donor	Marie.Haberberger@gtz.de
31.03.05	Chris Butel	ADB	Donor	chris@iief.com
31.03.05	Gautam Bhardwaj	Invest India (micro-pension)	NGO	gautam@iief.com

Appendix II. Ongoing capital requirements for an insurance company in India

Every insurer shall, at all times, on or after the commencement of the Insurance Regulatory and Development Authority Act, 1999, maintain an excess of the value of his assets over the amount of his liabilities of not less than the amount arrived at as follows: (hereinafter referred to in this section as the "required solvency margin")

(i) in the case of an insurer carrying on life insurance business, the required solvency margin shall be the higher by the following amounts:

(a) fifty crores of rupees (one hundred crores of rupees in case of reinsurers); or

(b) the aggregate sums of the results arrived at in items (I) and (II) stated below:

(I) the aggregate of the results arrived at by applying the calculation described in item (A) below (Step 1) and the calculation described in item (B) below (Step II)

(A) for Step I :

(A.1) there shall be taken, a sum equal to a percentage determined by regulations not exceeding five percent of the mathematical reserves for direct business and reinsurance acceptances without any deduction for reinsurance cessions:

(A.2) the amount of mathematical reserves at the end of the preceding financial year after the deduction of reinsurance cessions shall be expressed as a percentage of the amount of those mathematical reserves before any such deduction; and

(A.3) the sum mentioned in item (A.I) above shall be multiplied

(A.3.1) where the percentage arrived at under item (A. 2) above is greater than eighty-five percent (or in the case of a reinsurer carrying on exclusive reinsurance business, fifty percent), by that greater percentage; and

(A.3.2) in any other case, by eighty-five percent (or in the case of a reinsurer carrying on exclusive reinsurance business, fifty percent);

(B) for Step II

(B.I) there shall be taken, a sum equal to a percentage determined by the regulations made by the Authority not exceeding one percent of the sum at risk for the policies on which the sum at risk is not a negative figure; and

(B.2) the amount of sum at risk at the end of the preceding financial year for policies on which the sum at risk is not a negative figure after the deduction of reinsurance cession shall be expressed as a percentage of the amount of that sum at risk before any such deduction; and

(B.3) the sum arrived at under item (B.I) above shall be multiplied

(B.3.1) where the percentage arrived at under item (B.2) above is greater than fifty percent, by that greater percentage; and

(B.3.2) in any other case, by fifty percent.

(II) a percentage determined by the regulations made by the Authority of the value of assets determined in accordance with the provisions of section 64V;

(ii) in the case of an insurer carrying on general insurance business, the required solvency margin shall be the highest of the following amounts:

(a) fifty crores of rupees (one hundred crores of rupees in case of reinsurer); or

(b) a sum equivalent to twenty percent of net premium income; or

(c) a sum equivalent to thirty percent of net incurred claims,

subject to credit for reinsurance in computing net premiums and net incurred claims being actual but a percentage, determined by the regulations, not exceeding fifty percent:

If in respect of any insurer, the Authority is satisfied that either by reason of an unfavourable claim experience or because of sharp increase in the volume of the business, or for any other reason, compliance with the provisions of this subsection would cause undue hardship to the insurer, the Authority may direct, for such period and subject to such conditions, such solven cy margin not being less than the lower of the amount mentioned in sub -clause (i) or sub-clause (ii) above, as the case may be.

Explanation. For the purposes of this subsection, the expression "mathematical reserves" means the provision made by an insurer to cover liabilities (excluding liabilities which have fallen due and liabilities arising from deposit back arrangement in relation to any policy whereby an amount is deposited by reinsurer with the cedant) arising under or in connection with policies or contracts for life insurance business. Mathematical reserves also include specific provision for adverse deviations of the bases, such as mortality and morbidity rates, interest rates, and expense rates, and any explicit provisions made, in the valuation of liabilities, in accordance with the regulations made by the Authority for this purpose;

"net incurred claims" means the average of the net incurred claims during the specified period of not exceeding three preceding financial years;

"sum at risk", in relation to a life insurance policy, means a sum which is (a) in any case in which an amount is payable in consequence of death other than a case falling within sub -clause (b) below, the amount payable on death, and

(b) in any case in which the benefit under the policy in question consists of the making, in consequence of death, of the payments of annuity, payment of a sum by instalments or any other kind of periodic payments, the present value of that benefit, less in either case the mathematical reserve in respect of the relevant policies.

If, at any time an insurer does not maintain the required solvency margin in accordance with the provisions of this section, he shall, in accordance with the.directions issued by the Authority, submit a financial plan, indicating a plan of action to correct the deficiency to the Authority within a specified period not exceeding three months.

An insurer who has submitted a plan to the Authority shall propose modifications to the plan if the Authority considers it inadequate, and shall give effect to any plan accepted by the Authority as adequate.

An insurer who does not comply with the above provisions shall be deemed to be insolvent and may be wound up by the court

11. Every insurer shall furnish to the Authority his returns as the case may be, in case of life insurance business a statement certified by an actuary approved by the Authority, and in case of general insurance business a statement certified by an auditor approved by the Authority, of the required solvency margin maintained by the insurer in the manner required.

Appendix III. Obligations to the rural and social sectors

Obligations: 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 percent in the first financial year;

(II) nine percent 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 financial 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 thereafter,

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 financial 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, in case of a general insurer, the obligations specified shall include insurance for crops.

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

4. Obligations of existing insurers. --

(1) The obligations of existing insurers as on the date of commencement of IRDA Act shall be decided by the Authority after consultation with them and the quantum of insurance business to be done shall not be less than what has been recorded by them for the accounting year ended 31st March 2002.

(2) The Authority shall review such quantum of insurance business periodically and give directions to the insurers for achieving the specified targets.

(a)"Rural sector" shall mean any place as per the latest census that 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 percent of the male working population is engaged in agricultural pursuits.

Explanation: The categories of workers falling under agricultural pursuits are as under:

(i) Cultivators;

(ii) Agricultural labourers

(iii) Workers in livestock, forestry, fishing, hunting and plantations, orchards and allied activities.

(b) "Social sector" includes unorganized sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas;

(c) "Unorganized 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, power loom workers, physically handicapped self-employed persons, primary milk producers, rickshaw pullers, safai karmacharis, salt growers, sericulture workers, sugar cane cutters, tendu leaf collectors, toddy tappers, vegetable vendors, washerwomen, working women in hills, or such other categories of persons;

(d) "economically vulnerable or backward classes" means persons who live below the poverty line;

(e) "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;

(h) "informal sector" includes small-scale, self-employed workers typically at a low level of organization and technology, with the primary objective of generating employment and income, with heterogeneous activities like retail trade, transport, repair and maintenance, construction, personal and domestic services and manufacturing, with the work mostly labour intensive, having often unwritten and informal employer-employee relationship.

The IRDA recently refined the Regulation by providing more precise definitions of the rural sector. The new requirements are

Rural sector:

Rural sector definition:

All areas not qualifying the census definition of urban area

Census definition of urban area:

- All places with municipality, corporation, cantonment board or notified town area committee etc.
- A place satisfying the following three criteria :
- A minimum population of 5,000.
- At least 75 percent of male working population engaged in non-agricultural pursuits.
- A density of population of at least 400 per sq. km.(1,000 per sq. mile).

Rural sector mandate:

For new life insurers during the first five years are

- 7 percent of policies in the first financial year;
- 9 percent of policies in the second financial year;
- 12 percent of the policies in the third financial year;
- 14 percent of the policies in the fourth financial year;
- 16 percent of the policies in the fifth financial year;

of total policies written direct in that year;

Social Sector:

Is defined as including unorganized sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas

Social sector mandate

For all life insurers during the first five years are

- 5,000 lives in the first financial year;
- 7,500 lives in the second financial year;
- 10,000 lives in the third financial year;
- 15,000 lives in the fourth financial year;
- 20,000 lives in the fifth financial year.

Appendix IV. Possible MFI agents

Please note: The list of MFI agents here is taken from a directory of the largest MFI network in India (Sa-Dahn). It contains the names of most of the biggest MFIs in India. The authors of this report have not reviewed the MFIs listed below and do not endorse them in any way. In addition ILO/STEP has compiled a comprehensive list of NGOs/MFIs offering microinsurance services that will be published soon. This compendium can be obtained through ILO/STEP, Delhi, Marc Socquet, socquetm@ilodel.org.in

	Andhra Pradesh	
AP-1	Mr. Vijay Mahajan Chief Executive Officer BASIX 501-502, Nirmal Towers, Dwarakapuri Colony Punjagutta, Hyderabad 500 082	Tel: 040-55618846/23350566/55639426-29 55635461, Mob: 33313029, Fax: 23358846 E-mail: vijaymahahjan@basixindia.com Website: www.basixindia.com PRIMARY MEMBER– NOV. 1999 (NBFC + MFI)
AP-2	Mr. M. Udaia Kumar Managing Director SHARE MICROFIN LIMITED #1-224/58, Rajeev Nagar Nacharam, Hyderabad 500 076 (Co-chair, Sa-Dhan)	Tel : 040-27158380/ 2715 8387 Fax: 2715 8225/ 27173558, Mob: 9849022522 E-mail: hyd1_share@sancharnet.in sml@sharemicrofin.com Mr. Rama Kant: 040-27158184 PRIMARY MEMBER – NOV. 1999 (NBFC+ MFI)
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Appendix V. State Social Security Schemes

Risk/s	Predominant source of household income: Formal economy public and private	Predominant source of household income: Informal economy but wage labourers	Predominant source of household income: Low-income groups (BPL)	Predominant source of household income: Extreme poor, destitute (no contribution possible)
Sickness and medical care	Public: Free treatment in state hospitals and drugs Medical leave on full pay for	Treatment in public hospitals. Free supply to a limited extent of care through primary health	Treatment in public hospitals. Free supply to a limited extent of care through primary health	Treatment in public hospitals. Free supply to a limited extent of care through primary health

[13] Persons employed in factories, shops and establishments with more than 20 workers. Medical treatment, Sickness Benefit, Employment Injury Benefit: Disability Benefit, dependants' benefit, maternity benefit, funeral expenses.
[14] Cine workers employed in connection with the production of not less than five feature films to work as an artiste or to do any other work whose remuneration with respect to such employment has not exceeded Rs. 8,000.
[15] Workers employed in those industries drawing wages of not less than Rs. 10,000.
[16] Workers employed in beedi industry including contract labour and home workers drawing wages not exceeding Rs. 3,500 per month. Those employed in establishments employing 20 or more persons are also covered under the Employees Provident Scheme Employees Pension Scheme and the Deposit linked Insurance Schemes; they will be entitled to the provident fund pensions and insurance benefits under those schemes.

Risk/s	Predominant source of household income: Formal economy public and private	Predominant source of household income: Informal economy but wage labourers	Predominant source of household income: Low-income groups (BPL)	Predominant source of household income: Extreme poor, destitute (no contribution possible)
	up to 2 years in a 3-year period Private: Free treatment in Employees State Insurance (ESI[13]) hospitals and dispensaries; reimbursement of drugs Medical leave on full pay for up to 2 years in a 3-year period if covered under ESI	centres. Note that studies quoted in this report indicated an overwhelming preference against the use of public hospitals Welfare Funds for Beedi Workers and those of Cine Workers[14], Limestone and dolomite labour; Mica Mines[15] Beedi Workers Welfare Fund[16] (Health Care, Housing, Education, Water Supply, Recreation, Group Insurance) Mediclaim–voluntarily for high-income groups Universal Health Insurance Scheme[17] (hospitalization, life insurance)	centres. Note that studies quoted in this report indicated an overwhelming preference against the use of public hospitals Universal Health Insurance (subsidized by state for BPL, see footnote)–This is means-tested through showing the ration card issued by the local government	centres. Note that studies quoted in this report indicated an overwhelming preference against the use of public hospitals
Work-related injury	Public Ex gratia relief plus benefits and the Workmen's Compensation Act Private ESI and the Workmen's Compensation Act[18]	Social Assistance from Welfare Funds mentioned above for those engaged in hazardous occupations in certain states, e.g., headload workers in Kerala[19]		Pensions for selected occupations in distress (e.g., journalists, cine workers) in Kerala Rs. 300/monthly; Pension for TB (Rs. 50), cancer and leprosy patients (Rs. 100) in Kerala

[17] The Scheme is applicable to all the people but in the case of families below the poverty line government will provide a subsidy of Rs. 200 per family and Rs. 400 for a family of seven. The policy is currently under revision by the Government of India.
[18] From 1923: Employers' liability providing benefits for life, personal accident and permanent and temporary disablement

Risk/s	Predominant source of household income: Formal economy public and private	Predominant source of household income: Informal economy but wage labourers	Predominant source of household income: Low-income groups (BPL)	Predominant source of household income: Extreme poor, destitute (no contribution possible)
Disability	Ex gratia relief plus benefits and the Workmen's Compensation Act ESI and the Workmen's Compensation Act	No specific scheme, some benefits are a part of other packages (e.g., Kerala Headload Workers Welfare Fund)	Janshree Bima Yojana Group microinsurance[20]	Pension for disabled >8 years in Rajasthan Rs. 200/monthly
Old age	Employees Pension Scheme: Pension and Gratuity[21] Private Employees Pension Scheme[22]	Beedi Workers Welfare Fund Unorganized Sector Workers Social Security Scheme[23]	National Old Age Pension Scheme(NSAP) and state governments for the Destitute poor	National Old Age Pension Scheme (NSAP) and state governments for the destitute poor[24]. Pension schemes in some states (e.g., Maharashtra Rs. 250/monthly; Pondicherry Rs. 175/monthly)

[19] Bonus 11.5% of total wages, Disability assistance if disabled at work Rs.10,000, Terminal benefit on superannuation, retirement, disability or death 10% of total wages earned during the entire period of service, Survival benefit: Normal death Rs. 15,000, Death by accident: Rs. 30,000, Death in the course of employment Rs. 100,000, Invalidity pension monthly pension of Rs.150, Holiday allowance for 9 days at the average rate of wages, Educational grants Rs. 200 per annum, Hospitalization/Medical assistance up to Rs. 5,000 for the worker and Rs. 2,000 for family, Scholarship Rs. 100 to Rs. 3,000, Distress relief (sickness benefit): in case of hospitalization followed by rest and not in a position to do normal work at Rs. 60 or average daily wage whichever is less for two months; if treatment continues 50% of the above rate subject to a maximum of Rs. 5,000, in case of death of dependants Rs. 750, Marriage loan Rs. 5,000 and grant Rs. 1,500, Funeral expenses Rs. 5,000, Retirement pension Rs. 200 to Rs. 2,400, House construction loan, and other small benefits.

[20] Rural and urban poor persons below the poverty line and marginally above the poverty line (Rs. 100 contribution, Rs. 100 state subsidy). In the event of natural death Rs. 20,000/ accidental death Rs. 50,000. In the event of partial or total permanent disability due to accident the following benefits will be payable: Permanent total disability Rs. 50,000; Loss of 2 eyes or 2 limbs or one eye and one limb in an accident Rs. 50,000; Loss of one eye or one limb in an accident Rs. 25,000.

[21] Persons employed in 180 specified industries and classes of establishments. Contributions by employers and employees: Employers 12% of wages, Employees 12% of wages. In the case of beedi, brick, coir and guar gum industries the employers as well as employees have to contribute 10% of wages only.

[22] Superannuation Pension, Retirement Pension, Invalidity Pension, Widow Pension, Children's Pension, Orphans' pension.

[23] All workers mentioned in a list of 122 employments. Monthly pension of Rs. 500 per month from age 60 for life. In case of permanent disablement a sum of Rs. 1,00,000 will be paid from the Personal Accident Policy purchased from an insurance provider and the worker shall get pension based on pension point on attaining the age of 60 years. In case of death of the insured person the widow will receive a pension for her life; if both the parents are dead orphan pension will be paid to the children until they attain the age of 25. Contribution from employers and workers at the following rates: Workers in the age group 18-35 will pay Rs. 50 per month. Workers in the age group 35–50 will pay Rs. 100 per month. Employers will pay in all cases Rs. 100 per month. The self-employed in the age group 35–50 will pay Rs. 200 per month.

[24] Old age pension of Rs. 75 per month. This limit is for purposes claiming Central Assistance–the state governments are free to raise the level of pensions (some state governments are paying pensions at higher rates, up to Rs. 300 per month). Destitute (in the sense of having little or no regular means of subsistence) of the age of 65 or above.

Risk/s	Predominant source of household income: Formal economy public and private	Predominant source of household income: Informal economy but wage labourers	Predominant source of household income: Low-income groups (BPL)	Predominant source of household income: Extreme poor, destitute (no contribution possible)
Survivor	Public Subsidized group insurance for death while in service; family pension in the case of death after retirement Private ESI, Employees Deposit-linked Insurance Scheme[25]		National Family Benefit Scheme[26] Janshree Bima Yojana, group microinsurance	
Maternity	Public Maternity leave 12 weeks on full pay Private: the same if covered under ESI, Maternity Benefit scheme[27]		National Maternity Benefit Scheme[28]	National Maternity Benefit Scheme
Unemployment	Private Retrenchment benefits under the Industrial Disputes Act		Public employment generation schemes: e.g., employment guarantee scheme[29] Swaranjayanti Gram Swarozgar Yojana (SGSY)[30] Sampoorna Grameen Rozgar Yojana[31]	Public employment generation schemes

[25] Persons employed in 180 specified industries and classes of establishments. Insurance Benefit. An amount equal to the deposit in the provident fund is paid in the event of death of the subscriber while in service, subject to a ceiling of Rs. 60,000.
[26] Cash assistance of Rs. 10,000 on the death of the primary breadwinner, whose earnings contribute the largest proportion to the total household income.
[27] Women employees employed in factories, mines and plantations shops and establishments and other establishments to which the Central Government may extend the application of the Maternity Benefit Act. Maternity Benefit at the rate of the average daily wage for the maximum period of twelve weeks.
[28] Pregnant women of the age of 19 or above belonging to a household below the poverty line according to the criteria prescribed by the Government of India. Maternity Benefit in the form of cash assistance of Rs. 500 per childbirth for not exceeding two childbirths.
[29] The scheme provides for 100 days of employment in public infrastructure construction projects per year.

[30] Promoting microenterprises and to bring the assisted poor families above the poverty line by organizing them into Self -help Groups through the mobilization, training and capacity-building and provision of income-generating assets through a mix of bank credit and government subsidy.
[31] Additional wage employment along with food security creation of durable community, social and economic assets an d infrastructure developme unemployed or underemployed persons.

Appendix VI: Terms of Reference

Microinsurance: Demand and Market Prospects: India, Indonesia, and the Lao People's Democratic Republic

1. Introduction

Allianz AG[32] has expressed interest in being a partner with UNDP and GTZ in market research to estimate the demand for microinsurance interventions in three major Asian markets (India, Indonesia, and the Lao People's Democratic Republic). This represents a mutually beneficial opportunity for UNDP and Allianz AG. For UNDP, it would create access to microinsurance to meet the demand, so far unsatisfied, to reduce the vulnerability of over 3 billion people, and it has the potential to assist in achieving the MDGs. For Allianz AG, it would provide a leadership niche in this growing industry. Microinsurance also constitutes a new market opportunity for Allianz AG. In partnership with UNDP, Allianz AG could make an important contribution to the development of the nascent microinsurance markets. A consumer base of practically half of the global population presents a significant market with a lucrative potential for the insurance industry. Given the added threat of human-induced climate change, the insurance industry can proactively assist in reducing the vulnerability of poor people in developing countries to weather-related natural disasters.

The underlying premise of this proposed partnership is that the delivery of microinsurance will benefit poor and low-income groups, establish local entrepreneurs, and strengthen livelihoods. This will be driven by the creation of safety mechanisms for managing risks, and shocks and stresses including natural hazards. The hypothesis is that access to insurance by entrepreneurs in the developing countries will draw private-sector investments and promote national development priorities.

2. Background

Currently over 1 billion people–two thirds of them women–live in extreme poverty on less than $1 a day without access to most of the social services basic to a decent quality of human life. This figure rises to nearly 3 billion, if a standard of $2 is used.[33] The success of the strategy to reduce the proportion of people living in poverty is contingent upon generating income-providing activities, augmenting access to resources necessary for livelihoods, building assets, and assisting the poor and the disadvantaged populations to manage risks.

Vulnerability to risks from stresses and shocks including illnesses, injuries, property loss, and premature death are everyday realities for the poor. Additionally, it is the poor people occupying marginal, dangerous, and less desirable locations to live and eke out livelihoods, who are hardest hit by natural disasters. In 2000, leaders of 189 nations agreed on eight Millennium Development Goals including their commitment to reduce the proportion of people living in abject poverty by 50 percent by 2015. Simultaneously, in the face of economic globalization, it has become necessary to think

[32] Allianz is one of the leading global services providers in insurance, banking and asset management. Allianz is working in more than 70 countries, and it is one of the five leading asset managers in the world. Allianz has demonstrated strong commitment to the broader goals of sustainable development.
[33] OECD. 2001. DAC guidelines on Poverty Reduction. Paris.

innovatively in order to reduce the vulnerability of poor people to shocks and stresses through provision of safety net mechanisms to manage risks.

Micro and small enterprises employ a significant portion of the labour force in developing countries, albeit in 'survivalist' employment and in the informal economy. The informal economy provides employment for the majority of people, particularly women, in the developing world. Besides providing low incomes, the informal economy does not provide any formal means to manage risk.

Many of the micro and small enterprises operate outside the legal system, and this also contributes to their low productivity. These enterprises lack access to financing and long-term capital, which is the basis for providing sustainability to all entrepreneurial activities. Additionally, the institutions that finance such enterprises are themselves prone to the risks of the borrowers, a fact that can constrain their going to scale. For instance, microfinance providers (MFPs) allow low-income entrepreneurs to borrow money and are therefore vulnerable to the same risk as their clients. In the event of a risk event striking borrowers or a family member, their ability to repay the loan is in serious jeopardy. While MFPs use several options [34] to protect themselves from the risk of non-payment, none of them is perfect.

Micro and small enterprises can be engines of growth, if they are developed to generate income and wages for their clients and support their transition out of poverty [35]. In addition, since reducing vulnerability is about risk management, risk management should be an intrinsic component of sustainable livelihoods. Microinsurance [36], though relatively new, provides such an option to the 'working' poor people. Microinsurance aims to provide protection to low-income people against specific risks and hazards in exchange for premium payments proportionate to the likelihood and costs of the risks involved.[37] At the same time, there is a need to explore safety net and insurance mechanisms that would, in particular allow poor people to alleviate the economic impact of natural disasters.

Informal mechanisms such as savings and other traditional risk management structures [38] have proven to be too costly and therefore unsustainable as long-term coping strategies [39]. While the private and formal sectors appear to be the most suitable to provide microinsurance products –as they can design and offer sustainable and long-term risk reduction strategies that are also profitable–this role is yet to be explored comprehensively both as a business model and as an intervention for social protection. It is equally important to understand how microinsurance relates to government policies and the role of the Government and the public sector in terms of creating an enabling environment, laying the foundation for its efficient implementation through developing capacity, strengthening institutions and infrastructure, and disseminating information for the development of microinsurance opportunities as safety net mechanisms.

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[34] Expect the group to repay; Try to claim from the estate; Write off the loan as a bad debt; Self-insure; Partner with an insurance company.

[35] Sievers, Martin and Paul Vandenberg. 2004. Synergies through Linkages: Who Benefits from Linking Finance and Business Development Services? SEED Working Paper No. 64. ILO. Geneva.

[36] Access to insurance reduces the vulnerability of households and increases their ability to take advantage of opportunities. Moreover, by reducing the impact of household losses that could exacerbate their poverty situation, insurance enhances the stability and profitability of households.

[37] Cohen, Monique and Jennefer Sebstad. 2003. Reducing Vulnerability: The Demand for Microinsurance. Microsave-Africa. Nairobi.

[38] Targeted savings and consumption loans including Rotating Savings and Credit Societies and savings clubs can help the poor to cope with day-to-day events, but as risks increase in magnitude and uncertainty, losses increase and simple savings and loan activities are unable to manage those losses. Brown, Warren (2000): Why MFPs are providing insurance to low income people? Dhaka.

[39] Kawas, Celina and Marla Gitterman. 2000. Roundtable on Microinsurance Services in the Informal Economy: The Role of Microfinance Institutions. The Ford Foundation. New York.

Microinsurance to manage risks for population with low incomes and low insured values has limited precedent. Although MFPs have demonstrated interest in participating in the microinsurance industry[40] as in fact many of the existing products have been defined for the clients of an MFP, it is critical that the finances and management of the insurance business are separated from the MFP's savings and credit activities. Part of the reason lies in the fact that the microinsurance product could have high transaction costs and the difficulties in controlling moral hazard and adverse selection. While households understand microfinance very well, their limited understanding of insurance that could lead to a bias against insurers. Microfinance providers may also be challenged by the need to achieve scale, and skills requirements for actuarial analysis, investment opportunities, and regulation.

MFPs have employed different strategies for providing insurance to their clients. For instance, institutions like SEWA or ASA in India,[41] in collaboration with national public insurance companies and private insurance providers such as Bajaj Allianz AG and GTZ, have provided integrated insurance schemes covering sickness, death, widowhood, maternity, and loss of flood, fire, and riots to its clients. MFPs in Uganda, in partnership with American International Group (AIG) have offered a group personal accident and credit life and disability policy in Uganda since 1997. The premium is bundled with the cost of auxiliary financial services into the MFPs' interest rates, or as a separate fee. Gaining from its experience in Uganda, FINCA International has offered the same AIG product in Malawi, the United Republic of Tanzania, and Zambia. A private insurance company, Delta Life Insurance, provides a combination of life and endowment microinsurance products, called Gono -Grameen Bima. CARD Bank in the Philippines, through its Mutual Benefits Association (MBA) has been offering life insurance policies with long-term savings. Canadian Cooperative Association (CCA) China has recently started a small pilot health programme consisting of an integrated health insurance approach for its clients. The programme is being supported by funds from the Canadian Government as well as client membership fees.

The lessons learned from the limited number of ongoing activities clearly emphasize that microinsurance is a highly technical operation, and that it is vital to better understand the market potential and efficient delivery of microinsurance services. Apparently none of the initial microinsurance ventures were preceded by any form of market potential study that looked at the demand and acceptability of the product, development costs, cost of premiums or their affordability based on a sustainable business model. Furthermore, none of the products launched until now were followed up, or included the education of clients, insurance service providers and other stakeholders, or disseminated relevant information on a broader basis. This is part of the reason why the client turnover rate in some of these initiatives has been large, and many of them have failed to show even a modicum of the potential profits microinsurance is potentially capable of. There is indeed a lot to understand prior to introducing microinsurance as a viable market initiative to help poor people cope with income erosion to reduce their vulnerability while providing a new business opportunity to forward-looking insurance companies.

Microinsurance is a nascent market. If microinsurance can be delivered in a cost-effective manner through MFPs and other civil society organizations, the significant numbers of their clients who are in need of insurance services per se represent a profitable segment for the insurance industry. Previous attempts to launch microinsurance products have quickly revealed some key factors for success in implementation:

[40] Response to demand from clients, reducing household risk, protecting the institution, and an additional business opportunity.

[41] India is leading insurance industry expansion into emerging Asian markets. Both India and China are opening their enormous markets to overseas companies, which will create market expansion opportunities for the insurance sector.

- Products should be launched after a careful market study including qualitative consu mer surveys;
- Products should be designed in close consultation with the stakeholders;
- Information and knowledge of the products must be clearly communicated to and shared with the potential customers;
- Claims must be settled as quickly as possible;
- The transaction costs of delivery must be clearly understood, appropriately allocated, and minimized;
- The product provider must have considerable knowledge and experience of the actuarial side of insurance provision;
- Products must be launched sequentially starting with simple products (life/funeral, catastrophe insurance) and then moving into more sophisticated products such as health.

Hence there is a need to initiate market potential studies in a limited number of countries. It is also recommended that the outcome of the studies be implemented through timely, pilot, 'learning by doing', microinsurance initiatives that are based on sound business models and practices premised on well-defined market and comprehensive market analysis. It is hoped that the success of such smaller pilot initiatives would allow microinsurance initiatives to be taken to scale and achieve wider acceptance and validation. The pilot initiatives will also assist in delineating and creating an enabling environment, and putting it in place to ensure that the process is efficient and transparent with minimal transaction costs. In addition, the lessons learned from the pilots will provide a valuable estimate of the extent and nature of capacity development at the human, institutional, and syste m-wide levels that is required for local governments, civil society, and the private sector to make microinsurance a viable business.

The countries of interest would include India, Indonesia, and the Lao People's Democratic Republic. While India has a large number of existing microinsurance activities, Indonesia has an active microfinance and microenterprise system and intends to expand social security systems to the informal economy. In the Lao People's Democratic Republic, one of the group of the least developed countries, demand is high, and the Government already supports social health insurance. Additionally, in India the government policy directs the insurance industry to spend a certain amount of resources to improve the quality of life for poor people.

3. Objectives of the study

It is in the above context that the UNDP–Allianz AG–GTZ joint market research and exploration of microinsurance interventions in selected countries is being formulated. The first step is to review the existing experiences through a desk study and then undertake market-based studies in a limited number of countries to acquire a better knowledge and understanding of the potential for microinsurance and efficient delivery of demand-based products. It is hoped that the study w ould provide an evidence-based theory of change to make microinsurance a sustainable alternative for providing safety net mechanisms for poor and disadvantaged communities.

3.1 Overall long-term objectives

To substantiate linkages between microfinance, development of entrepreneurs and sustainable livelihoods through the availability and access to microinsurance by the workers in the informal sector.
Explore the use of microinsurance as a safety net mechanism to reduce vulnerability of livelihoods of the poor including impacts of climate-induced natural disasters.

Goals of this activity

- To estimate the demand for microinsurance in three countries of Asia.
- To estimate the potential supply of microinsurance in terms of risk takers (regulated insurers, governments, and others) and various delivery channels. This estimation will include a discussion of transaction costs for delivery of microinsurance services.
- To explore the option of undertaking pilot initiatives through the development of a basic process outline inclusive of estimated costs.
- To foster dialogue and cooperation between the insurance industry, governments, and civil society, and enhance North-South and South-South partnerships.

3.2 Benefits of UNDP–Allianz AG–GTZ collaboration

A joint study on microinsurance will benefit from the unique capabilities of the three partners. By virtue of extensive country offices and projects that work closely with developing countries' governments, the private sector, and civil society, UNDP and GTZ provide an in-depth understanding of national policies, institutions and capacities, an excellent ability to convene diverse stakeholders, and make available experiences from several microinsurance projects. Allianz AG, as a leader in the insurance market, brings the knowledge of insurance market structures and product design to the partnership.

4. Activities needed to generate outputs

The market study will explore options for engaging the insurance industry in providing microinsurance as a safety net mechanism for the developing countries by assisting in risk management and strengthening the development of local entrepreneurs and other poor and low-income groups within the overall framework of sustainable livelihoods and Millennium Development Goals (MDGs).

A team of three international consultants will complete the activity (one of the consultants heading the team). These consultants, knowledgeable about microfinance and microinsurance initiatives globally, will receive country-specific technical information from national insurance experts. This activity would also include discussions with other microinsurance providers in the country such as ICICI Lombard. These inputs will include desk activities such as briefings on the state of the market in the target country, as well as acquisition and provision of secondary data relating to the insurance industry, including: Insurance laws and regulations; insurance commission annual reports; microinsurance activities; and available studies on the sector especially those that relate to the low-income market. In-country experts will also provide access to any relevant documents and/or studies including those conducted by Allianz AG in the target countries, as well as assist in obtaining entry for interviews by the consultants as appropriate. The assistance of the insurer in the advisory capacity will be limited, in order to ensure the objectivity of the results and recommendations and broader viability of the market intelligence activities.

Further inputs are expected from UNDP, GTZ, and other organizations, if required. The studies will be conducted in teams of two with additional contribution by the national Allianz AG insurance experts to prepare a business plan for undertaking potential pilot projects in at least two countries jointly selected by the organizations who will fund the future projects (details are elaborated under para. 5).

In particular, the experts will analyse the lessons learned from prominent past and ongoing microinsurance activities globally, and prepare a comprehensive report for each of the three selected countries covering the issues addressed in the Terms of Reference provided below. The experts will ensure that the paper is cohesive, clear, forward-looking and uses out-of-the-box thinking to identify pathways for the implementation of policy and microinsurance incentives that promote cost-effective adoption of risk management strategies and have practical recommendations that can be implemented at the field level.

The paper will cover the following:

I. Landscape review

The research should glean critical lessons for enabling policy environment, barriers, and incentives for marketing microinsurance as a business product by engaging the insurance industry in partnership with the national governments, and capacity development demand for implementing microinsurance initiatives at the ground level. It should cover:

- Literature review and analysis.
- Relevant institutional and legislative frameworks.
- Available knowledge sources and networks including current providers of microinsurance at the ground level as well as the insurance companies that underwrite the microinsurance;
- Assess the most important risks and the vulnerability of poor and low-income groups and analyse the current risk management strategies applied by them.
- Analyse the options of risk management strategies available in the selected countries and identify the gaps of risk management tools (including linkages of microinsurance with national social security programmes).
- Identify successful microinsurance initiatives and evaluate the possibility for, and potential impediments to, their replicability;
- Identify market barriers to the adoption, use and sustainability of cost-effective microinsurance and risk reduction measures;
- Identify cultural and social barriers that hinder the widespread adoption and use of microinsurance and risk reduction measures;
- Identify institutional barriers (regulatory, governmental, development banking, legislative) to the integration of microinsurance and risk management and elaborate on relevant reforms supporting social security in the informal economy, if any;
- Identify demand centres of microinsurance as well as the areas for which microinsurance is most desired.
- Examine the role of microinsurance for reducing the vulnerability of low-income groups and on the development of local entrepreneurs.

II. Role of governmental, civil society, disaster community

- Identify and evaluate government policies and strategies in place for providing an enabling environment for microinsurance at the state/community levels, and highlight important lessons; include funding sources, business prospects, etc.;
- Identify community initiatives including microfinance-led initiatives to provide microinsurance to local clients. Highlight important lessons; include funding sources.
- Define capacity development needs (human, institutional and system-wide) for implementing successful microinsurance initiatives.

III. Insurance/reinsurance industry: Market opportunities

- Identify insurance industry market strategies (including products of interest) and ongoing initiatives to provide microinsurance and reducing vulnerability, and increasing physical and economic resilience (risk management, risk pooling, incentives, funds). Note vision, funding sources.
- Assess the insurance products in the context of other risk management tools for poor and low-income groups (state-supported programmes and informal systems such as savings and credit products).

- Identify partners (in the selected countries) who share a common vision and the desire to learn and implement the new product segment of microinsurance.
- Qualitatively estimate potential demand and market potential for microinsurance (in three countries) including clients' comprehension of the concept of insuran ce, understanding of risks, and willingness and ability to pay according to different social and economic groups.
- Provide present viable business propositions and recommendations for design and delivery of microinsurance products; broadly estimate the tran saction costs including consideration of the capacities and institutional capabilities of microfinance and local development banks to deliver insurance benefits.
- Identify development banking and commercial banking initiatives to provide microfinance and/or safety net mechanisms for the governments or communities to increase physical and economic resilience.

IV. Bilateral, multilateral, and other donor communities

- Identify donor communities and their interest in microinsurance;
- Identify risk pooling limitations and opportunities.

V. Action plan: Undertaking pilot interventions

- Synthesize critical lessons learned from previous initiatives undertaken to determine both the key factors for success, and the barriers, and operational and institutional impedi ments, to the implementation of microinsurance strategies for risk management, risk transfer and risk reduction.
- Identify creative and innovative pathways for advancing the implementation of policy and insurance incentives that promote cost-effective adoption of risk management strategies.
- Identify areas in which funding support may be necessary, including linkage of microinsurance with development of local entrepreneurs.
- Identify capacity development needs.

Planning meeting
In order to ensure that all parties are clear on the objectives, approach, and expected outputs, it is necessary to have all parties meet to plan this activity. Because of cost constraints, this meeting should take place as a teleconference with parties from Allianz AG, GTZ, and UNDP, as well as the core consulting team, Michael J. McCord, Monique Cohen, and Gaby Ramm. This meeting should take place before the first field visit.

Output
An output in the general form of a business plan will be provided for each country, following the ba sic outline below:

Executive summary
Includes a synopsis of the national strategic business plan that summarizes the highlights of the plan.

Vision/mission
Provides a snapshot of the present stage of microinsurance in the country, plus a picture of where the industry is going given Allianz AG/UNDP/GTZ intervention as suggested in the plan. Included will be summary of the goals, objectives, and requirements on how to get there.

Microinsurance overview
This section provides basic information about microins urance in the country, including issues of: regulation, competition, social protection programmes, other government, private, civil society, and donor

initiatives and plans that make up the structure of microinsurance and insurance in the country. This section will also include a discussion of key international lessons learned.

Demand analysis
In this section we will define the microinsurance market in the country, the general characteristics of the target market, assessment of current risks impacting the market, how the market currently manages these, and where there might be potential demand opportunities in terms of products and services. This section will also include consideration of the benefits of microinsurance over those of currently utilized risk management strategies. Finally, it will include a discussion of market risks to product introduction. Some specific information will include:

- Existing risks experienced by low-income populations,
- How poor people prioritize risk,
- The strategies they use to mitigate risks ahead of time and to cope with shocks after they occur,
- Significant differences in coping behaviour by gender.

Annex 1 provides a detailed explanation of the methodology for conducting the demand analysis.

Product/Service strategy
A detailed review of formal- and informal-sector microinsurance initiatives will identify:

- potential partnerships
- products
- interested MFPs, insurers, and others
- delivery channels
- transactional processes between the different organizations (agents and insurers)
- general potential product opportunities with a product development strategy
- additional research required
- potential relationship structure issues between different institutional partners
- capacity development requirements
- output indicators
- risks to the product(s) including governmental, regulatory, legislative, supervisory, environmental, cultural, and others.

Marketing/Market education plan
This section will discuss the marketing requirements of insurers, delivery channels, and the potential market. Some suggested areas of market education would be addressed based on lessons from the demand analysis. Delivery strategies will be addressed.

Financial plan
This section will include:

- a basic draft outline of the costs of testing and implementation.
- a discussion of potential profitability
- an estimate of additional donor/investor inputs required.

Support documents
This section includes a variety of additional documents to substantiate the plan.

6. Duration and costs

Country	Final product due on or before:
India	30 April 2005
Indonesia	31 August 2005
Lao PDR	31 August 2005

7. Qualifications and experience

The candidates should have an advanced degree in a field related to finance, insurance with an emphasis on microinsurance and microfinance and international development, and 10–12 years of professional experience in implementing such initiatives at the field level. Experience in dealing with issues of insurance, safety net mechanisms, or risk management at the level of government, civil society, communities, or the private sector is highly desirable.

S/he should have a good understanding and experience in the area of poverty alleviation, sustainable development, development of entrepreneurs and building partnerships between diverse stakeholders. The consultant should have a good knowledge base of MDGs and be well experienced in the role of insurance in reducing vulnerability and strengthening sustainable livelihoods. Excellent writing skills in English are necessary. The candidate should be able to function effectively in an international, multicultural environment. S/he must be fluent in both spoken and written English. Knowledge of other UN official languages is an asset.

Annex 1: Methodologies to be applied in demand research

Methodology:
Microfinance Opportunities will use the qualitative research methods it has developed and used in other microinsurance market research studies. These include focus group discussions (FGD), participatory rapid appraisals (PRA), and individual in-depth interviews.

1. Focus group discussions and participatory rapid appraisals

A variety of qualitative tools and techniques will be implemented including focus group discussions that address low-income populations' risks and risk management strategies, PRA tools in cluding the life cycle, time series of crisis, seasonality of income, expenditures, savings and credit, and seasonality of risks. These will be used to investigate:

A. Risk and risk management strategies

- Range of risks and the effectiveness of the coping strategies (indigenous/informal group insurance mechanisms, formal insurance and other instruments) used to address them.
- Ranking of key risk in terms of the financial stress and lump sum cash needs to cope with them.
- Changes in risks, their impact, and coping mechanisms over time.
- Changes in cash flow, financial needs and prevalence of shocks in the course of the year.
- Identification of vulnerability of and coping mechanisms used by different income groups.
- Client use of financial services, including credit, savings and insurance to manage risk both before and after the event.

B. Client satisfaction with existing insurance schemes for poor households
FGDs will be held with members, ex-members, and non-members of existing insurance schemes for poor households in order to learn about the level of satisfaction with and understanding of these products.

Individual interviews
In-depth interviews will be held with key informants who are members of indigenous, informal, group-based insurance schemes or who are policyholders with existing insurance schemes. Individual interviews will also be used to explore the demand side issues related to affordability. This will generate information for the purposes of learning more about:

Indigenous/informal insurance schemes and the importance and use of savings and loans to manage risk
Interviews will be held with key informants to ascertain the use of indigenous insurance schemes and the use of savings and loan products to manage risk.

Information related to the demand for microinsurance products
The AIMS/SEEP loan use tool will be used to investigate the use of savings and loans by microfinance clients to cope with key risks. These interviews will identify clients' pre-existing financial obligations in order to determine their willingness and ability to pay for microinsurance.