Micro Insurance

Celebrating the 60th Year of Excellence

The Institute of Chartered Accountants of India
(Set up by an Act of Parliament)
New Delhi

MICRO INSURANCE

Basic Draft of this publication was prepared by CA. N.K. Mittal

COMMITTEE ON INSURANCE & PENSION
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Foreword

Micro-insurance is a key element in the financial services package for people at the bottom of the pyramid. The poor face more risks in their life than the well-off, but more importantly they are more vulnerable to the devastation that can be caused by the loss of life, health or an asset. It is often believed that poverty and insurance do not go together, and insurance is totally beyond the affordability of the poor. In a developing country like India, this statement would hold good - to a certain extent.

Helping the rural poor systematically manage financial risks to their livelihoods and lives through micro-insurance offers innovative ways of combating poverty in India. Micro-insurance could, therefore, provide greater economic and psychological security to the poor as it reduces exposure to multiple risks and cushions the impact of a disaster. Micro-insurance in conjunction with micro savings and micro credit could, therefore, go a long way in keeping this segment away from the poverty trap and would truly be an integral component of financial inclusion. The rural masses, therefore, need a conviction that buying insurance is more worthwhile to them than being without it. Different players have a role to play in reducing the vulnerability of the poor including Government subsidizing micro-insurance products and Regulator ensuring proper development of both social and rural sector. Finally, no less important is the role of the professionals, like CAs, who can contribute to this noble cause by designing customized products that can suit the varying requirements of the local populace and thus spreading and creating a significant level of awareness of micro insurance.

In this backdrop, the Committee on Insurance and Pension of ICAI has decided to bring out a publication on ‘Micro Insurance’ for equipping and enriching the knowledge base of the CA fraternity in the subject matter so as to help the members in converting this area into a new professional opportunity.

I believe that the instant publication is a laudable effort and aimed to provide guidance and knowledge on micro insurance to the members of the Institute as well as others concerned. I am confident that this publication would be of immense use for the readers.

I would like to complement the Committee on Insurance and Pension and its Chairman, CA. V. Murali and his team for doing a valuable work in bringing out this publication.

New Delhi
June 11, 2009

CA. Uttam Prakash Agarwal
President, ICAI

Preface

India is developing with leaps and bounds. Our country is blessed with a workforce that is competent, technologically savvy and their intelligence to adapt to situations and their grip on the English language even in technical areas like medical transcription has made India the home to back office operations of many multi-national corporates. Still, India is said to be largely agrarian and rural based. The landless rural population and urban unorganized sector form a large portion of the Indian Economy and they live a dreary existence, below the poverty line. If at all they gain employment, they are unable to sustain the same as they are afflicted with ills of malnutrition, starvation and sickness and ills that arise from their state. Insurance, health care and the capacity to fend against the malaise are not even thought of.

Micro-insurance, relatively a new concept, is aimed at poor sections of the population and designed to help them cover themselves collectively against risks. Micro-insurance is essentially 'a financial service which uses risk pooling to provide compensation to low income individuals or groups that are adversely affected by a specified risk or event. It is a form of health, life or property insurance, which offers limited protection at a low contribution. The Insurance Regulatory and Development Authority in order to promote more professional and expansive risk management of the poor and to make micro-insurance to be integral part of Indian insurance system has notified the 'Micro- Insurance Regulations-2005'.

In this competitive environment, one needs a special cutting edge, a little something extra beyond the qualification to stand head and shoulders above the rest. This publication covers various aspects of Micro Insurance viz. Micro Insurance product design, Marketing

& Pricing of Micro Insurance products, Regulatory environment for Micro Insurance, the future of Micro Insurance, etc.

I would like to express my sincere thanks to CA. N. K. Mittal, Secretary (F&A), Life Insurance Corporation of India for preparing the basic draft of this publication. I am also grateful to CA. Rajkumar S. Adukia, my fellow Council member, for providing excellent technical inputs on the subject, Mr. A. K. Das, DGM, Oriental Insurance Co. Ltd. and Mr. R.S. Madan, Chief Manager, Oriental Insurance Co. Ltd. for vetting the basic draft of the publication. I place on record my gratitude for the support and guidance of CA. Uttam Prakash Agarwal, President, ICAI and CA. Amarjit Chopra, Vice President, ICAI for the various endeavours of the Committee on Insurance and Pension including publication of this book. I am also grateful to the members, co-opted members and special invitees to the Committee for their valuable guidance and cooperation in bringing out this publication and in the various initiatives of the Committee. I appreciate the efforts put in by the officials of Secretariat of the Committee on Insurance and Pension for their contribution in publishing this book.

Place : Chennai
Date : June 23, 2009

CA. Murali
Chairman,
Committee on Insurance and Pension

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INTRODUCTION

Introduction

The purpose of this publication is to make the reader aware about the importance of micro-insurance, how it will improve lives of rural poor as also of the urban people. To understand the concept we have to divide the publication into following parts.

1. Introduction & Back-ground
2. Defining micro insurance and its beneficiaries and how it is different from other Social Securities Scheme
3. Types of micro-insurance and Designing a product
4. Marketing of micro-insurance including Publicity
5. Servicing aspect such as claim, premium collection.
6. Regulatory environment.
7. Future of Micro Insurance.
8. Micro Insurance and Chartered Accountants
9. Sample of product (Jeevan-Madhur)
10. Regulations of IRDA which are applicable on micro-insurance

Background

All over the world, it is the poor people, that is, low income households that are vulnerable to risk and economic shocks. Most of the countries do not have any social schemes for poor people. Even the few countries that do have social schemes for poor people don't cover all low income households. Moreover, schemes are managed haphazardly. In case of mis-happening with the breadwinner, dependents of the breadwinner become helpless and hard-pressed for money. In such a case, one way for the poor to protect themselves is through insurance. By helping low income households manage risks, micro insurance can assist them to maintain financial confidence even in the face of significant vulnerability.

In order to learn how to extend insurance to low income households, the consultative group to assist the poorest (CGAP) working group on micro insurance launched a research project in 2003 to document the experience of micro insurance operators around the world. This research project got support from international labour organizations also. To formulate its opinion, the project conducted a series of case studies of insurance companies, micro finance institutions and community based insurance schemes from around the world to learn about the provision of life and health insurance to people.

In order to assess their results rather than their plans, research focused on organizations that had at least three years of experience and covered at least 3000 lives. After intensive research, findings revealed that micro insurance is indeed viable and even profitable under circumstances, but a number of difficulties must be overcome for it to succeed.

Indian Experience

The concept of micro insurance is very new and it has gained popularity during the last 2-3 years. Mohammad Younus, Chairman of Gramen Bank Bangladesh won noble prize for its innovative micro finance scheme where small credit was given to poor at an affordable rate of interest which had to be collected in easy instalments. Taking a cue from this innovative scheme, the Government of India has also extended Microfinance Scheme to its rural poor. Further, the Government has introduced micro insurance scheme for these people, under its financial inclusion scheme.

Slowly, the concept of Micro Insurance is gaining popularity. Further, many insurance companies are launching Micro Insurance products to fulfill their social and rural obligations.

Insurance Regulatory and Development Authority has also come out with IRDA (micro insurance) guidelines for orderly micro insurance business and for protecting policyholders from malafide intention of insurer and market intermediary and to fix insurance amount and frequency of premium etc.

2
WHAT IS MICRO INSURANCE ?

Micro insurance is a form of life, health or property insurance which offers protection to the policy holder at a low contribution (hence called premium). It is aimed at low income population and designed to help them cover themselves collectively against risks (hence insurance).

We can define micro insurance in another way also.

“Micro insurance is the protection of low-income people against specific perils (such as fire, accident, ill health etc.) in exchange for regular premium payments proportionate to the likelihood and cost of risk involved”.

In fact, the poor are more vulnerable to major risks including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses and disasters of natural and man made varieties.

Micro insurance is an attempt to provide insurance to poor people both urban and rural at affordable rate premium.

WHY INSURANCE FOR THE POOR

Since the objective is to strike a balance between market perspectives (insurer’s view not to lose money) and social protection. Hence micro insurance schemes for the poor must balance the following competing objectives.

1. Providing coverage to meet the needs of he target population.

2. Minimizing operating cost for the insurer.

3. Minimizing the price including transaction cost for the policyholders to enhance affordability and accessibility.

It is said that educated and middle income group people and rich people have all the access to different kinds of financial services including insurance. In some of the cases insurance is paid by employer such as key man insurance, employer employee insurance.

But so far as poor people are concerned, they do not have access to financial services; in most cases their income is irregular and fluctuating. Moreover, poor people, especially rural people, have to take several kinds of loan (such as crop loan, personal loan etc.) from financial institutions and Government agencies. To protect the interests of financial institutions, in case of any mishap to loan taker insurance protection is required, such as health insurance, accident and property insurance.

In short, micro insurance turns reactive risk-management practices into pro-active risk-management practice.

DEMAND FOR MICRO INSURANCE PRODUCTS

To make micro insurance popular, demand has to be created for micro insurance products, for which we have to consider the following aspects.

1. Adequacy of risk protection
2. Accessibility by required person
3. Appropriateness of timing
4. Affordability
5. Awareness of proponent education.

We will discuss the above aspects in detail

1. Adequacy / Type of coverage

It is said that, generally, no single form of insurance provides full coverage to low income households. However, health insurance is top priority insurance, because the poor, due to lack of proper medical facilities or inability to afford it, are not able to take care of their health. Other insurance types are stock, crop, property and miscellaneous insurance.

Life insurance is also a priority insurance. But a one-off payment may not be enough for loss of income in case of death. Hence the product should be designed in such a way that nominee/legal heir may get periodical payments, called annuity, in lieu of the sum assured.

Flexible schemes with different levels and types of coverage with more options are desirable.

2. Accessibility

It is generally said that due to lack of proper education and awareness among rural people micro insurance products, even normal insurance products, are not accessible to them. However, this accessibility can be provided.

a. Through voluntary self-help groups/non-Government organisations

b. By risk-pooling among informal groups, regular premium and making payments thereof.

c. Access also depends on belongingness to social network

3. Appropriateness of timing

As mentioned earlier, low income households are vulnerable to shocks because they lack cash reserves to cover immediate expenses. Consequently, the timeliness of claim payment is very crucial to provide timely relief to the beneficiary, which creates further demand for micro insurance. Micro insurance target market often has irregular and unpredictable cash flow. To minimize lapses and maximize renewals, the claim payment mechanism has to find ways for timely settlement.

4. Affordability and Pricing

In order to create demand for micro insurance products, people should be provided with insurance at affordable price (premium). Generally, micro insurance clients are very sensitive to the cost of product and benefits derived out of it. Similarly, poverty limits the extent of financial obligation they will take on. However, pricing of a product is not an easy job and it requires technical knowledge, and premium rates are determined by Actuary. For determination of pricing, actuary after using, available experience data, observation and assumption, has to consider target market, product design, market and competition among insurers. Generally, accurate pricing begins with quality data base. Accurate pricing is very necessary. Besides the direct impact of pricing on underwriting, appropriate pricing can help build trust in an insurance product, something which is equally applicable to Micro insurance products. A poorly priced product can lead to abrupt adjustments in premium rates and the resultant erosion of confidence in the scheme.

5. Awareness/Insurance education

Generally, awareness level about insurance is very low. Even educated people consider insurance a taboo. Hence there is need to change this perception for creating awareness among poor about insurance as a proactive risk management strategy. We have to create an insurance culture to facilitate the adoption of this formal financial service.

Advantage of micro insurance over classical social security schemes

Generally, the government takes care of social needs of the poor, especially rural people. Indian Government also takes care of its poor people. At present the government provides group insurance to poor people such as Janshree Scheme, Aam Admi Yojana, as life insurance and Rastriya Swasthya Bima Yojna as Health insurance to its Below Poverty Line population. Generally, these schemes are subsidised by the government and a part of the premium is paid by -government Organizations (voluntary organization), but under Rastriya Swasthya Bima yojna full premium is being paid by central and state governments. Normally, the beneficiaries are from the un-organized sectors such as brick-kiln workers and Beedi workers, especially those below poverty line.

However, the government cannot provide full protection at subsidised rates to all categories of persons, like self-employed people, agriculturists, hair-dressers, cabbies, autorikshaw drivers etc. In addition to this, some schemes do not give full insurance cover even to cover loan amount in case of mishappening. Here, the policyholder can take insurance according to his needs, subject to regulatory restrictions,

3
MICRO INSURANCE PRODUCTS AND SERVICES

There are several kinds of insurance products which can be offered as micro insurance to rural as well as urban poor. We can categorize these products as follows :-

1. Health insurance
2. Long-term saving and insurance such as life insurance, Annuities
3. Credit linked insurance products such as credit- life product
4. Non-life product such as property insurance

1. HEALTH INSURANCE

As mentioned earlier, rural poor and urban poor are more prone to health problems due to unhygienic living conditions and because they cannot get health facilities at reasonable cost. To mitigate their problems and to make available facilities to target groups, there is need to provide health insurance. Health insurance is a financial risk transfer mechanism in the event of sickness, under which the insurer compensates the insured to the tune of sum insured, for hospitalization on payment of certain consideration called premium.

Premiums are paid in advance for getting compensation, if an insured mishap takes place.

In health micro insurance, it should be seen that modest premiums are charged from low income policyholders and benefits are rationed to maintain viability.

Health Insurance Product Design

A. Product manufacturing

(i) Define benefit package

(ii) Identify providers

(iii) Pricing of sustainability

(iv) Controls for fraud, moral hazard, adverse selection

B. Product sales

(i) Information provision

(ii) Underwriting

C. Product servicing

(i) Assistance with claim

(ii) Managing relationship with care providers

(iii) Long-term relationship with clients

D. Maintenance of long-term stability

(i) Financial management

(ii) Risk monitoring and management (reinsurance)

As mentioned earlier, it is very important to design a product correctly so that the insured does not feel that he is paying too much for a product, and the insurer does not have to change pricing frequently.

Health micro insurance product's sustainability depends on the following four factors.

A. Product manufacturing

B. Product sale

C. Product servicing

D. Maintenance of long term stability

A. Product Manufacturing

a. Designing the Benefit Package

Health insurance is generally a reimbursement of expenses system. It can be designed in several ways. In some cases, it may be reimbursement (benefits) to the insured, and in other cases it is directly paid to medical service provider, which is called cash less service. In such a case, the beneficiary does not have to pay any amount from his pocket, for which he has to seek re-imbursement from the insurer.

In product manufacturing, the following facts have to be taken into consideration.

This process involves decisions on the design and pricing of benefit package. Product manufacturing requires the definition of several elements: a specific target client group, demand for insurance, the composition of benefit package, pricing, health care provider as well as controls for moral hazard and adverse selection.

Health insurance is a compensation /reimbursement policy and not the benefit policy.

Hence to strike a balance, sometimes the insurer limits the scope of benefits or increases premium. Some insurance companies offer out patient services and medicines for a flat fee or on payment of additional premium. Some insurance companies have devised their special policies just to cover only chronic diseases on reasonable amount of premium.

b. Pricing for Sustainability

Pricing of insurance product differs from the system of pricing of tangible products. The latter depends upon demand and supply system. Under pricing of insurance product system, it depends on how widely risk has been spread and the probability of loss.

By operating through the cooperative sector in Karnataka which has several million members, Yeshavini Trust achieved a big target population and thus reduced the (fixed) administrative cost per insured considerably. To avoid undermining policyholders' trust, frequent or substantial change in premium should be avoided. When Yeshavini decided to double the premium over one third of the clients did not renew their policies. Similar was the case with Karuna Trust. When Karuna Trust stopped giving subsidy, half of its clients dropped out. This can be called as strategic donor mistake also. In case of Yeshavini Trust, the Trust was not able to get reliable data on the cost of services and the frequency of utilization. The frequency of premium collection also affects the total amount of premium to be paid. Premium is always paid in advance. Thus where there is access to financial markets, the cost of inflation may be alleviated.

While annual premiums lower transaction cost and increase investment income, it may be difficult for the target group to cough up entire amount at one go.

B. Product Sales

The sales process can be subdivided into two categories

a. Information provision

b. Underwriting

a. Information provision

The sales agent should be fully trained and must be able to convince the proposer about the product he is offering, its premium, its coverages and procedure to be followed in case of any mishap.

b. Underwriting

After providing information to proposer, and on his/her agreeing to take insurance cover, the necessary data and information of proposer is obtained which is relevant for the purpose of underwriting the proposer. Underwriting means acceptance of proposal of insurance by insurance company by incorporating the data of proposal in its record and acceptance of premium amount.

A preliminary health examination is an integral part of the underwriting process. Some insurers insist only on declaration of good health. Exclusion should be properly defined to avoid or reduce adverse selection. Insurers sometimes introduce waiting periods for certain benefits so that insured should not misuse the provision.

C. Product Servicing

Product servicing means claim processing, maintenance of long term relationship with insurance service providers.

a. Claim processing

The documents required for filing a claim need to be checked for completeness and eligibility. To avoid moral hazard and fraud, all claims must be thoroughly scrutinized. This requires information from policyholders and other authorities involved to authenticate the information and documents submitted to substantiate the claim.

b. Managing the relationship with health care providers.

Having an insurer's own staff at a health facility has a value beyond checking a patient's insurance status. They offer guidance and look after patients' interests and ensure that policyholders get quality care.

C. Long term relationship with clients

The maintenance of long term relationship includes the continuous provision of information, timely response to the changing demand of the client and solving problems with product or procedure. A positive experience with an insurance product will build trust among members. Sometimes members forget or fail to pay their premiums on time. Such late renewals count as new contracts and therefore, the waiting period or exclusions applied to new members will need to be reapplied.

D. Maintenance of Long Term Stability

Micro insurance schemes must ensure long term stability.

If aggregate losses exceed the sum of premium payment and capital reserve, an insurer's existence is threatened. Hence it is important for insurers that they have sound long term financial management, permanent risk monitoring and particularly the management of the overall actual risk.

Risk should be spread broadly across different subsets to reduce the danger of co-variant losses.

Premium needs to be well invested to generate additional revenue.

In a nutshell, we can say the greater the degree of convergence of interest of the insured and the insurer, the more viable the arrangement will be.

2. LONG TERM SAVING AND LIFE INSURANCE

Based on case studies and other literature, there are different ways of offering long-term saving and insurance that includes :

a. Endowment

b. Life annuities

c. Term assurances

d. Saving completion insurance

a. Endowment

Endowment policies commonly sold by insurers combine life insurance and long term contractual saving. They involve a regular payment over a long term, usually five years or more. If a client survives the term, he receives a lump sum and perhaps a bonus (lump sum amount may consist of return of premium paid or sum assured). If the policyholder dies before the end of the term and up to-date premium payments have been made, then the nominee/ legal heir receives the sum assured along with bonus (if any).

One interesting feature of endowment policies is that they can also facilitate access to credit, since the clients can borrow against the surrender value of the policy. This combination of saving, credit and insurance could be an effective instrument to assist low income households in managing a variety of risks if it were designed and delivered in a cost effective package.

b. Life annuities

With life annuities, the policyholder or annuitant pays regular premium until a specified date, usually their retirement date. Annuities can be linked to any date accepted by insurer. From that date, the policyholder receives payment from the insurance company until he or she dies.

Life annuities like any other insurance product works on pooling principle. An annuity population can be expected to have a distribution of life spans around the population average, so dying earlier will support those living longer.

However for annuities to succeed, the insurer needs accurate data for the population age and mortality tables and must have actuarial expertise to predict future average life spans.

c. Term insurance

One approach is to offer savings and insurance separately. It is argued that long term saving can only be offered by institutions licensed to accept deposits. However insurance has to be provided by insurers.

Term insurance can be defined as premium received from a policyholder for providing insurance during the currency of insurance policy, and after the maturity of policy nothing is payable. However, before maturity, in case of death, the sum assured is paid to nominee. It is also called vanilla type.

Term policy is offered at an affordable rate. However at the time of death of policyholder before maturity of policy, if premium is paid up to date, nominee gets sum assured.

3. SAVING AND CREDIT LINKED INSURANCE

Many micro finance insurers/institutions have introduced loan protection insurance or credit life to achieve twin objectives.

1. To cover the loss that an organization may incur upon death of a borrower, and

2 To relieve the borrowers family of the burden of repaying the remaining loan, hence ensuring that “debt dies with debtors”.

Compared to other products discussed in this chapter, loan protection provides the most limited coverage to the client or beneficiaries, yet it is also the most affordable and compulsory part of loan.

A common way to operate loan protection insurance scheme for MFIS is to integrate insurance into the loan. Since the scheme is operated along with loan amount, chances of adverse selection is minimized. Generally, premium is paid through loan amount, so there is no need for additional staff for collection of premium amount; hence, little administrative expenses.

4. OTHER KIND OF INSURANCE

Micro insurance provides property insurance up to the limited sum insured of Rs 30,000/- at affordable rate to save proponents from natural calamities and unforeseen perils.

Men, women and children are exposed to different kinds of risk calling for different solutions.

Micro insurance needs to integrate the practical needs of women and children into product design and operations. There is need to customize Micro Insurance Product addressing the practical needs of women as 70% of world's poor are women.

4

PRODUCT DESIGN FOR MICRO INSURANCE

For designing a product, the insurer has to keep in mind the customer need, preference, appropriate delivery mechanism and regulatory requirements and knowledge of local conditions because there is no "one size fits all" solution.

The overview of product design answers the following questions.

1. What is target market and what are the needs and demands of target market?
2. Who is eligible for micro insurance?
3. What are the terms of cover and the premium payment options?
4. What are the benefits?
5. How does product design provide for control of insurance risks?

1. WHAT IS TARGET MARKET AND WHAT ARE THE NEEDS AND DEMANDS OF TARGET MARKET?

Target market may be rural or urban poor who do not have other social protection. Similarly, some persons who are members of micro finance institutions may not be interested in borrowing such as small agriculturists, land less agriculturists, small self employed people like hair dressers, chai or pan vendors etc. Since dependents depend on the earning of sole bread earners in case of premature death of bread-earner/ sickness of bread earner and that of their family members, there may not be any source of income for dependents without any consequent benefit.

We have to assess the needs and demands of target market and to get information on product specific details such as level of coverage (e.g. sum assured) and types of benefits (e.g. in patients or out patent treatment) which are most important to them. For example, for life insurance they want pure insurance cover (e.g. term life) or insurance with a saving component (e.g. endowment). While taking insurance cover, some policyholders would prefer to include their spouse or their whole families. How quickly would they need, want or expect to receive claims payment? Where can policy holders make premium payments or submit claim?

Market Research

For identifying the need of target group and developing a product for them, there is need for adequate market research. Market research should identify the problematic area of product design. Insurers should also maintain contact with policyholders periodically either through public relations or communication to ensure that they get the best product. In this regard consumer education is very important. Insight into the preference and concerns of existing policyholders will also help the insurer design appropriate financial product to manage policyholder's expectation.

2. WHO ARE ELIGIBLE FOR MICRO INSURANCE?

Before considering who is eligible for micro insurance our goal should be to strike a balance between broad inclusion, sufficient benefits, low premium rates and sustainability. When determining, it is necessary to consider whether the product is designed for groups or individuals.

Here we will discuss both group insurance and individual insurance.

I. Group Insurance

Mandatory group insurance is the most low cost type of micro insurance. Advantages of mandatory group insurance are:

- Lower costs due to higher volumes and lower collection and underwriting costs
- Lower risks because of broader base and limited adverse selection.
- Improves claims ratio due to better selection of life
- Less vulnerable to staff fraud.

However mandatory group coverage has some disadvantages:

- People are required to buy something they may not want i.e. distribution system tends to overlook the consumers' need for information.

Voluntary group insurance

Voluntary group insurance is also offered by some micro finance institutions. While the insurance companies give a group policy, the micro finance institutions market them and sell them individually. If insurance prospects are not already in groups, they are organized into groups. However, there is one disadvantage that, there can be higher adverse selection because groups are created for insurance purposes.

II. Individual insurance

Some insurers offer individual micro insurance to members of public at slightly higher premium because individual insurance can cost much more than group coverage because of higher sales, underwriting, administration and claim cost. However, individual insurance claim cost can be reduced through more rigorous underwriting such as medical screening.

Individual micro insurance makes sense when an individual wants a different kind of product which is not provided by group insurance.

One key advantage of individual insurance is that the individual can continue to enjoy risk protection cover even if his group membership ceases e.g. Micro Finance institution clients who no longer require loans.

3. TERMS OF COVERAGE AND PAYMENT OPTIONS

I. Terms of coverage

Generally, insurers prefer short term policies, because long term insurance involves more permanent commitments and high risk. It is easier to predict the likelihood of an insured event in the near future. However it may not be fully there in case of life insurance. An insurer needs to be conservative when giving medium to long term guarantees and must ensure that significant margins in the rates are included to compensate for error.

However, the insured would like to have long term coverage so that he will have protection even if adverse condition develops. If insurance is offered along with a loan, it is generally recommended that loan and insurance terms be the same, so that the policyholder has the opportunity to renew them together.

From a regulators' perspective long term coverage is more closely supervised because erroneous interest rate and mortality can have devastating compounding effect.

II. Premium payment frequency

The micro insurance market often has irregular and unpredictable cash flows. To minimize lapses and maximize renewals, the premium payment mechanism has to find ways of timing payments. There should be short interval of premium collection, such as weekly, fortnightly etc. In such a manner, policyholder has to pay small affordable premium.

III. Premium payment mechanism

Group cover has the advantage of streamlining the premium collection process. There may be only one central policyholder who pays a premium on behalf of many persons.

There can be another approach to collect premium, that is, to deduct the premium from a savings account keeping the policyholder informed about the deduction.

Another innovative method is to link savings and insurance to establish a fixed deposit account and allow the interest to pay the insurance premium – a strategy that VIMO SEWA uses successfully.

4. MICRO INSURANCE BENEFITS

Following are the broad benefits of micro insurance

I. Simplicity

II. Basket coverage

III. Benefits in cash or in kind

IV. Cash- Back Benefits

I. Simplicity

Micro insurance benefits are kept simple for the following reasons:

a. Premiums are to be kept low and administrative cost should also be kept low so that the beneficiaries of the schemes may reap the benefits of scheme.

b. Since, target population is often illiterate/uneducated and there is lack of awareness about insurance, hence most of the micro insurance schemes are kept simple and easy to understand, devoid of any complicated package.

c. To make the scheme simple for policyholders, there are no frills- attached to micro insurance scheme/product.

II. Basket Coverage

In India, which is perhaps the world's most sophisticated micro insurance market, there is trend towards basket coverage whereby a number of benefits are thrown into one integrated insurance policy. For example, VIMO SEWA'S product covers death, hospitalization and asset loss benefits that come from two different insurance companies into one comprehensive product.

Bundled product delivers a more comprehensive risk protection package while reducing expenses since marginal costs of additional benefits are minimal.

III. Benefit in cash or in kind

Health care benefits are either reimbursed to policyholders (in cash) or in some cases some insurers are using third party or cashless payment system whereby the micro insurer pays the health care provider directly. Hence, here the insured does not have to pay anything from his pocket.

For life insurance, benefits are always paid in cash. In some of the life insurance policies, at the time of maturity of policy, lump sum payment of sum insured is deferred, instead, The insurer uses this amount to pay annuities and only after the death of the life assured are lump sum payments made to nominees.

IV. Cash Back Benefits

Generally, policyholders perceive insurance premium as unavoidable expenses if they pay premium for a long time without receiving any benefit in return, without recognizing the importance of having enjoyed the security and protection.

To address this problem some features may be added to long term product such as:

a. Money back policies: Generally, in life insurance policies which have long term maturity period, some instalments are paid to policyholders after regular interval say after (4 yrs. or 5yrs). Theses are generally called survival benefits.

b. Sometimes sum assured are paid to policyholders at the time of maturity, or premiums are returned and even then insurance is kept alive so long as the policyholder survives.

5

MARKETING OF MICRO INSURANCE

Marketing of micro insurance is a little more difficult than selling of conventional plans to middle class and rich people. Here, micro insurance agents who are either non-government organizations or micro finance institutions or self-help group have to sell product to a target group which is poor and does not have much knowledge about insurance.

Hence properly designed micro insurance can be a valuable tool for low income clients.

For this, an effective campaign is a must for its success through

1. Main marketing messages
2. Technique used for conveying these messages
3. Important marketing role of after-sales services
4. Marketing implications of mandatory insurance.

1. MAIN MARKETING MESSAGES

The first step in designing a marketing strategy is to determine whom the micro insurance is trying to reach including their literacy and income level.

After identifying the target market, the next step is to determine the main message that micro insurance wants to convey.

Micro insurers have to anticipate some anti-insurance arguments and objections of the target market. Then they have to design messages to counter those objections.

From the available case studies, four main marketing messages emerge.

a. Protection

b. Solidarity

c. Optimism

d. Trust

a. Protection

Insurers through their agents have to remind low income households that they are more vulnerable to risks all the time which if not proactively and effectively managed will make them worse off.

b. Solidarity

While the protection message is essentially the same for insurance and micro insurance, some micro insurers also emphasize solidarity as key marketing message. This message builds on informal self-help mechanism with which people are familiar, to make insurance and risk pooling more comprehensible to a market that is uneducated and unaware of its benefits.

The message of Yeshaswini India is "Each for all and all for each". Insurance requires solidarity and that even though they might not benefit this year, they might in future and they have made it possible for many others to do so.

c. Optimism

Several micro insurers recognize that they need to put a positive spin on their marketing messages. The insurer has to approach and emphasise "Insure and Be Secure" approach. This optimistic approach is probably easiest with endowment or accumulating value life insurance policies. The message can focus on the amount of savings that one might have at the end of the term, which can be used for building a house, educating children, wedding of family members etc.

d. Trust

Insurers need to be perceived as trustworthy by micro insurance low income households. Insurers have to convey the impression that they are large and stable company.

Branding an organization as trustworthy is very vital; take for example L. I. C'S slogan : "Trust Thy Name Is L.I.C".

2. MARKETING TECHNIQUE

To get customers to the point of signing their contract and paying their premiums, marketing personnel have to go through three phases.

a. First, they have to raise awareness about micro insurance and micro insurance providers.

b. Second, they have to help the market understand the products including costs and benefits.

C. Lastly, they have to activate the market by turning the increased awareness and understanding into sale.

First phase of marketing process

Raising the customer's awareness of insurance has two aspects.

a. a general knowledge of insurance, and

b. Specific familiarity with an insurance provider.

a. General awareness

- educate their clients more broadly about insurance
- describe how it fits into a broader array of risk management mechanism, and
- Illustrate the advantages and disadvantages of insurance relative to other ways of managing risk (e.g. saving or credit). One example of creating awareness that emerged from case studies was Tata-AIG, which produced brochures explaining insurance without actually mentioning the insurer or product.
- Govt. or NGO can undertake general awareness campaigns.

(I) Creating general awareness about Insurance

Generally, knowledge of micro insurance is provided along with main stream insurance plans. Awareness about insurance can be created through Television, Print, radio advertisement and fair or melas in villages.

(II) Raising Awareness about specific micro insurance providers

The three most common approaches are

(i) Branding

(ii) Public relation

(iii) Prevention campaign

(i) Branding

Branding is an effective way of acquainting a market with an organization. To promote their brand, micro insurers tend to use sign boards, billboards for distinct identity. Another component of the brand is the tag line used in marketing material to convey a general message about the organizations to clients and prospective clients.

E.g. LIC'S "Zindagi ke saath bhi, Zindagi ke baad bhi", and TataAIG sky line "A new look at life"

Use of illustrations/pictures to convey marketing messages to both literate and illiterate marketing segments.

(ii) Public Relations

Generally, in India life insurers hold claim award ceremonies where a beneficiary receives an insurance claim at a public event from the hands of dignitaries. This has a powerful demonstration effect.

Large micro insurance companies are also engaged in corporate sponsorships. Some insurers organize painting and drawing competition or debate competition.

Spandan India uses some of the surplus generated from its insurance scheme to finance education campaign.

(iii) Prevention campaign

Prevention campaign can also raise awareness about a micro insurer. For example, shepherd (India) run cattle care camps, partly funded through a surcharge or each insurance policy to promote the proper maintenance, free immunization and de-worming.

Some Micro Insurance providers have mobile medical units that visit co-operatives and other affinity groups to provide free medial consultations

III Raising the awareness and understanding of the specific micro insurance products available.

When the market has a general awareness about insurance and is familiar with the insurance provider, the next step in the marketing process is to increase its understanding of the specific products available including product features and the costs and benefits of insurance relative to other risk management strategies.

Some use street theatres to educate target groups on the benefit of health micro insurance. Among micro finance institution clients, some participants are selected and are provided with intensive training in rural theatre for 7 days. Then for 3 days they visit different villages to collect real life stories reflecting critical social issues. Some use PICTORIAL PRESENTATION to illustrate how insurance works. Even semi-educated and illiterate persons can also understand pictorial presentation.

Activite the Customer to buy the Micro Insurance Product — Third Phase of Marketing Process

Once the market is aware of insurance and the insurer and it has an understanding of the product, the third phase in the market process is to arrange for the customers to sign their contracts and pay their premiums.

One way to activate the customer is through annual subscription. Period or enrolment campaign such as used by VIMOSEWA micro insurance requires a different sales culture from that of conventional insurance. Instead of highlighting products, the micro agent needs to guide prospective clients towards the conclusion that emergencies are expensive and that they are vulnerable to emergencies:

Micro insurance agents must be “hands on personally involved”, therefore, target meets have lower literacy levels and lack of confidence in formal insurance.

To activate the customer, micro insurance marketing has to activate the seller. Micro insurance wants to reward and encourage sales, without tempting micro insurance agents to push insurance on to people who do not really want it. i.e. unwilling prospects. Finding this balance is tricky.

Some strategies to find this balance include:

a. Setting moderate sales target that can be achieved without aggressive measures and without violating the spirit of micro insurance

b. Balancing sales commission with re-enrolment incentives to ensure that the service gets the same attention as sales. For example, LIC can offer incentive for lower lapsation, for renewals etc.

c. Encouraging the sales people to buy insurance as well so that they can speak from experience. For example, LIC must ensure that every MI agent has first insured his own life.

After Sales Service

One way that micro insurance demonstrates its uniqueness in relation to conventional insurance is by providing best services.

Services in insurance parlance are largely limited to claims, making sure clients know how to make claims, assisting them in meeting the documentation requirements and ensuring that claims are paid quickly with a bare minimum of rejections/repudiations.

Continuous reminders about the micro insurance product are necessary.

Poor services can lead to loss of micro insurance customers acquired with so much effort.

Excellent services create a demonstration effect whereby, the non-insured begin to see that the insurer means business and he is trustworthy. Excellent service is an effective marketing strategy as well. It stimulates positive word of mouth advertising which is often one of the most powerful marketing channels.

Policy documents explaining the benefits, exclusions and claim procedure must be given to clients.

Claims which have been rejected/repudiated will have a negative impact on future sales/continuity/renewal of micro insurance products. Therefore, micro insurer or the micro insurance agent must explain the reason why the claim was rejected. A claim appeal process is needed to ensure that policy holders receive appropriate treatment.

Measuring customer satisfaction and monitoring retention is the final aspect of after sales service. If renewals are low/lapsation is high, there is greater need to understand why it is so.

6

PREMIUM COLLECTION

When extending insurance to the low income market, the process of collecting premium is a major challenge. The target market largely consists of self- employed people and workers, most of the premiums are paid in cash in the informal market. These people are less likely to have a savings account with a bank.

Micro insurance market comprises people with low and often irregular and unpredictable incomes, so that premium payment must be scheduled to match with time when policyholders have funds available. For micro insurance to succeed, the premium payment mechanism needs to find a balance between being efficient and being sensitive to the needs and capacities of clients.

Higher transaction costs for frequent small premium payments can drive up the premium rates.

In this chapter we will discuss the following four topics.

1. Modes of premium collection
2. Premium collection and timing
3. Client considerations
4. Premium collection and controls

1. MODES OF PREMIUM COLLECTION

The way in which premiums are collected has a direct bearing on per unit transaction costs. To make micro insurance viable it is necessary to minimize transaction costs. However, the key factor in deciding on the mode of premium collection is still the client circumstances and access to other financial services. Here, we will discuss four modes of premium collection.

(i) Premium linked to loans

Many micro insurance products are linked to other final products especially credit/loan. Premium collection at the point of loan disbursement or repayment is attractive since the transaction is piggyback on the top of another financial product.

Consequently, the marginal cost of premium collection is kept to a minimum.

Loan linked insurance method is used by many micro financial institutions because the insured "do not feel the pinch." But this has some disadvantages like lack of transparency, lack of awareness about insurance cover and benefits and protection, risk cover is limited to loan term.

(ii) Automatic premium deduction from savings account

Where possible, automatic premium collection is advantageous in reducing transaction cost. Central union can easily deduct the premium from the members' accounts and forward them to the insurer with hundreds of small premiums batched into one electronic transfer.

(iii) Premium paid from savings account interest

Perhaps the simplest mode of collection is to allow premium to be paid from the interest on savings account. One NGO, VIMA SEWA used a fixed deposit payment approach. Here policyholder can make a deposit into special SEWA insurance coverage until they reach the age of 60 without any additional transactions. Consequently, the depositor never pays any premiums and still has access to and ownership of the money on the savings account. This is like pre-funding of whole life policy.

This fixed deposit payment approach undoubtedly minimizes transaction cost.

(iv) Physical/door-to-door premium collection

The fourth approach is to physically collect the premiums either by going door to door to collect individual payments or through group mechanism where many payments can be collected at once.

In some cases, the policyholder can visit a central location (like branch or designated bank etc.), to pay their premiums. A key distinction between this method and those discussed above is that it is an insurance only transaction, whereas the other modes are all linked to either savings or a credit product. The cost-effectiveness of the premium payment mechanism has to be seen in relation to the value that is provided to policyholders e.g. ease of access, understanding of product, premium rate etc.

However door-to-door premium collection is expensive.

Preventing lapses and non-renewals

Lapses and non-renewals are an important indicator of the appropriateness of premium collection mechanism. The idea of completely eliminating non-renewals, however, needs to be balanced with the realities of servicing poor people.

Rather than relying solely on penalties, such as terminating cover for late payers, innovations are required to help people who need leniency. For example, with TATA-AIG Endowment Policy, if the client misses premium, the insurer deducts missing amount from the accumulated value of the policy to keep the cover in force.

Incentive can also play a role in encouraging payment discipline. For example, policyholders who regularly pay on future could be eligible to pay a lower premium.

Insurers realized that in a scheme with frequent premium collection, more promotional and marketing work was needed to encourage clients to keep their policy in force. Another strategy to reduce lapses is to help policyholders to boost their income. If they are given access to a micro enterprise loan that enabled them to increase household income, then it would be easier for them to pay the premium as well. The link between micro insurance and micro finance is even more important than just the efficiencies that can be generated through integrated financial services. For, access to micro finance may also make it possible for poor policy holders to afford their premium payment more easily

2. PREMIUM COLLECTION AND TIMING

As discussed earlier, insurers generally prefer premium to be paid in advance of policy activation, so that they can generate additional income by investing the money, which in turn, should lead to lower premium rates.

However, for low income market it may not be possible to pay full premium up front, it may be necessary to collect in smaller instalments over time.

Periodic payments- weekly, fortnightly, monthly, quarterly or annually – are popular mode of premium collections because clients have limited purchasing power, and liquidity. But more frequent payments result in additional transaction costs and can lead to the likelihood of non-renewal or premium default. Hence there is lower return.

However, some clients do not like to pay insurance premium at short intervals (weekly). Client generally prefers premium payments to coincide with their cash flows.

It is also necessary to consider not just when the target market will have money, but where are they getting the money from. If source is common, the premium can be paid in masse for many policy holders and therefore enhance efficiency e.g. loan-linked mechanism.

Flexibility in the timing of premium payments is an important component to access micro insurance.

3. CLIENT CONSIDERATION

Appropriate and suitable financing mechanisms are essential. Self help groups, saving and credit associations encourage members to make small increases in their regular savings deposits so that when an annual premium becomes due, the members already have the money with them to pay it.

Working with cooperatives also helps in customized options for financing premiums. Because of cooperative financial relationship some micro financial institutions offer loans specifically to pay premiums rather than integrating the premiums into a micro enterprise or housing loan. This way the cost of insurance becomes much more apparent to the client, but premium becomes costlier.

Balancing efficiency and affordability

The balance between efficiency for the organizations and affordability for clients is a classic trade off. There are no one-size-fits-all answers and the balance has to be appropriate for the business environment.

Premium should be affordable for the poorest clients. To define the affordable, work out what cash a client will have to spare on an average day.

Since clients are unlikely to always save for a premium payment, a monthly premium needs to be equal to the cost of a non-essential item (such as bottle of beer/packet of bidis etc).

If policy holders have to travel to pay their premium, the transportation and opportunity costs of missing work can be even higher than premium costs.

Hence to create a balance between efficiency and affordability, some organizations add a small fee to the premium for convenience of collection e.g. premiums are reduced for people who pay by standing order or in fewer instalments. This arrangement increases efficiency and enhances the products' affordability

4. PREMIUM COLLECTION AND CONTROLS

Fraud and mistakes in premium collection are significant concerns for micro insurers as their small margins do not allow finance mismanagement, fraud and mistakes. Effective hierarchical and horizontal controls should be combined and put in place. Hierarchical controls require that insurers set up at least a rudimentary structure within the organization to maintain the quality of the premium collection process. These controls generally work better for insurers that use their own structures to manage the process than for those that outsource them. If the insurer selects that process be outsourced it is advisable for the insurer to create horizontal controls. To prevent fraud, some Micro finance institutions make the micro insurance product mandatory and premiums are paid through cashless transactions in the back office. Some have implemented an audit of collected amount to try to avoid fraud as well as mistakes.

7
CLAIM PROCESSING

Micro Insurance claim processing differs from that of traditional mainstream insurance keeping in view the realities of low income; for example:

- Claims need to be settled quickly because low income people have insufficient access to funds to manage the financial costs of risks.
- As far as possible Health Claim should be paid directly to provider since low income people frequently do not have available funds to obtain treatment and then wait for reimbursement
- The process must be as simple as possible. There must be enough checks and balance to ensure that fraudulent claims are not paid but the process must also be user-friendly and cost effective for all parties.

Claim application must be simple for beneficiaries to complete requiring only documents sufficient to confirm the occurrence of the insured events.

Many Micro insurers have their management deliver the claim settlements to the beneficiaries. This activity enhances their public image and promotes the Scheme and its benefits to their members.

To reduce claim rejections, improvements are needed.

1. Policyholders must have all the knowledge about the product they are buying. Besides, providing client education, micro insurers should give a simple policy

document that states the date of coverage, the benefit and the claim process.

2. Micro insurers must deal with the root cause of non-renewals and lapses.

It is sometimes necessary to develop alterate payment options to address the problem.

Control over claims

Insurers have to ensure that the claims are legitimate and comply with policy requirement. For example, they do not just need a document from the police confirming death but they must also ensure that

- The document is legal.
- The death was an accident.
- The person who died was actually covered by the policy and
- The policyholder was up to date with premium payments when the death occurred.

For preventing fraud in micro insurance sector, control must be strong. However, it makes little sense to implement expensive controls that the market cannot comply with, or that cost more to implement than the likely cost of aggregate loss.

As margins are smaller with micro insurers, the cost benefit analysis is particularly critical.

8

PRICING MICRO INSURANCE PRODUCTS

Pricing of micro insurance products is very technical and it requires complicated calculation. It requires assistance from an Actuary. In fact, all insurance products require actuarial assistance. But here, since micro insurance schemes are meant for poor people, the actuary has to be more careful about presentation of product so that it may be beneficial for both the insured and the insurers.

The actuary has to consider the whole package i.e. target market, product design, marketing and communication, administration and claim service to set an appropriate Premium Pricing. These parameters must be monitored periodically to anticipate changes in pricing.

Accurate pricing begins with a quality data base. The database should be designed by an IT professional with inputs from an actuary to ensure that the data are relevant for pricing purpose. One of the key determinants of scheme's long term success is properly designed and well maintained database and management information system for capturing and screening the data used in subsequent pricing reviews.

As discussed above, apart from direct underwriting impact of pricing, it is important to note that appropriate pricing can help build trust in the micro insurance product, while a poorly priced product can lead to abrupt adjustment in premium rates and erosion of confidence in the scheme.

Several factors are to be kept in mind such as:

(i) Social Obligations

(ii) Age profile of the policyholder

(iii) General financial condition

(iv) Statutory restrictions, etc.

The motive of the insurer should not be to earn money but to give maximum benefit at an affordable rate. This can be achieved by minimizing transaction cost/expenses and investing in high return but less risky securities.

9
MICRO-INSURANCE AGENTS

Insurance is a subject matter of solicitation and insurance including micro-insurance product cannot be sold over the counter because insurance literacy is very low in India and policyholder cannot take decision on their own. An insurance company appoints market intermediary either as agent or broker to canvas business on its behalf.

MICRO INSURANCE AGENTS

The insurer identifies NGO/Self Help Group/MFI that have good relationship with the community and appoints them as Micro insurance agents. These agents are called tied agents and can work only for one life insurance company and one non-life insurance company.

Micro insurance agent shall not distribute any product other than a micro insurance product. A micro insurance agent shall be appointed by an insurer by entering into agreement which shall clearly specify the terms and conditions of such appointment including the duties and responsibilities of both the micro insurance agent and the insurer.

The appointment of micro insurance agent has to be approved by the head office of the insurer. The deed of agreement shall specifically authorize the micro insurance agent to perform one or more additional function in addition to sale of business like:

a. Collection of proposal forms.

b. Collection of self declaration from the proposer that he/she is in good health.

c. Collection and remittance of premium.

d. Distribution of policy documents.

e. Maintenance of register of all those insured and their dependents covered under the micro insurance scheme, together with details of name, sex, age, address, nominees and thumb impression/signature of the policyholder.

f. Assistance in settlement of claims.

g. Ensuring nomination to be made by the insured.

h. Any policy administration service.

As discussed above, the agent works on behalf of a single insurance company (either life / non-life), while a broker works for multiple insurers. To reach to the low income market, the broker seeks to service large groups of clients through aggregators.

In India, terms of appointment and service conditions are regulated by IRDA (Micro insurance) Regulations 2005.

Micro insurance intermediary has the following benefits:

(i) Product Development

Since micro insurance intermediary remains in touch with both policyholders and insurers, an intermediary understands the needs of clients and insurer both which helps the insurer to develop a new product which is more suitable for all parties.

(ii) Transaction Costs

An intermediary with a wider client base benefits from economies of scale. Investment in systems reduces transaction costs and increases operating efficiencies by serving a much larger client base.

(iii) Administration

An intermediary is well placed to handle administrative matters relating to claim processing as well as reporting to the insurance company as to who is covered and when the premium is due.

(iv) Staff Training

An intermediary is well placed to provide organization staff with the required training. This increases financial literacy and ultimate client satisfaction.

Business Leads for Micro Insurance Agents

a. Contact MFIs who give small loans to the poor and offer to cover the loanees with insurance priced modestly and collected along with the loan amount e.g. rural credit societies, co-operative credit societies, co-operative credit banks, etc.

b. Contact any institution which has registered members who pay membership fees so that centralized collections are possible through the piggyback arrangement along with the fees.

c. Contact the Charities Commissioner of the State for a list of all unorganized workers' groups and their trade association heads for offering them micro insurance products.

d. Contact the Director-General of the Publicity Dept. of the State Mantralaya to get the contacts for Mahila Bachat Sanghatana, women's Associations, etc.

e. Contact the Share-Autodrivers' associations, rickshaw pullers' associations, potters' associations, domestic servants' associations, etc.

f. You can obtain a CD from the State Government departments for the names and contact details of all co-operatives and also of all the Sarpanches, and Panchayat members who can then be contacted and with their help our insurance products can be sold in villages.

g. Hold claimcheque distribution gatherings to encourage those present to get themselves insured as well.

Selection of the Micro Insurance Agents

Tata-AIG created a special department for the rural and social sector, with a budget and flexibility to act creatively, and a mandate from senior management.

Criteria in the Selection of Micro Agents at Tata-AIG

(i) Must be resident of the community in which he will sell and service policies.

(ii) Should preferably have passed 12th or at least 10th to be eligible to be licenced (IRDA Requirement).

(iii) *Married*: Since micro insurance is a long term commitment to policyholders, an unmarried CRIG leader may migrate to her future husband's village, leaving the CRIG and the policyholders in the lurch.

(iv) *Ability to write in English:* since underwriting in the Head Office is in English, it is imperative that the proposal forms are filled in English.

(v) *Good track record of integrity:*Handling money is an Integral part of her duty as a leader.

(vi) *Effective Leadership Qualities:* She has to manage a group of four other women.

(vii) *Public Speaking Ability:* She will be required to address gatherings to promote the products.

(viii) *Training Skills:* Since she is the only one trained in insurance, she has to train the other four.

(ix) Must have a positive influence among the target market: each leader should be admired for her integrity and have a forward-looking and progressive nature, and must be able to use her influence to enable her CRIG members to achieve their targets.

(x) She should preferably have some previous work experience in the social sector.

10
ORGANISATION DEVELOPMENT IN MICRO INSURANCE

A well planned organized structure is required for micro insurance. Since micro insurance is comparatively a new concept in the insurance sector, even people working within this sector are not much aware about of micro insurance. Moreover, it is a market where, insurers have to deal with a marketing segment which is not much aware of insurance even.

The lack of control over frontline staff, coupled with a reluctant and uninformed market, necessitates some creativity in deploying training and regarding staff for delivering micro insurance. Hence, we will discuss five aspects of organizational development.

(i) Organizational structure

(ii) Recruitment

(iii) Training

(iv) Compensation

(v) Institutional Culture

(i) Organizational Structure

Micro insurance is often just a small part of a large organization's business activities. In an insurance company, it may be a product line or even a matter of just a few policies. For organizations involved in distribution of such as microfinance institutions, microfinance tends to be treated as an additional financial product but one that has less importance than the organizations' core savings and credit service.

However, insurers are now creating separate micro insurance departments and giving utmost importance to micro insurance because insurers are aware that 70% of population is still near poverty line. Hence, their focused effort will enable them to get a better understanding of the micro market and find creative ways to respond.

Life Insurance Corporation of India has created a separate department for micro insurance and appointed senior officers at various levels of structure who are sensitive to the needs of poor people and have the required expertise to deliver the goods. Similarly, TATA-AIG created a special department for the rural and social sector with a budget and flexibility to act creatively and a mandate from senior management.

It may be due to the statutory requirement of meeting their social and rural obligation. The definition of social and rural obligation is given elsewhere.

(ii) Recruitment

Recruitment of the right kind of people with proper attitude is very critical for the success of micro insurance. As far as field staff is concerned, only those NGOs/SHG/MFI which are deeply committed to the social cause of communities should be recruited.

As for management and back office staff, given that micro insurance is a new field, insurers may not find too many existing micro insurance specialists. So, organizations can act in either of two ways; either they can recruit intelligent and experienced people and teach them about insurance or they can outsource major back office work to insurance specialists. Some insurance companies outsource their investment management also to experts but ultimately, the institution has to create a dedicated staff of its own.

(iii) Training

Training for frontline personnel should include-(i) Basis of insurance providing staff with the ability to answer difficult questions Specific of products policies and procedures.(ii) Familiarity with the operations manual. (iii) Demonstrations on how to use marketing materials such as pamphlets and posters. (iv) Role-play exercises letting staff make mistakes in the classroom rather than in front of clients. (v) Customer service training. (vi) An Examination to ensure that a level of understanding has been achieved and to identify those that require re-training.

Training is not one off phenomenon. Micro insurance should regularly upgrade staff skills with the intention of creating a career path that will enhance staff retention. Trained people should be able to guide their subordinates on duty properly.

(iv) Compensation

For micro insurance to be affordable for the lower income market, costs have to be low. However, the insurer has to be careful about incentive payments to sales staff and administrative staff as both are specialists and their turnover may affect micro insurance business. Compensation can be given either as a fixed sum or it could be variable. However, sometimes, variable pay, incentive for field staf, will be more appropriate as they will be motivated to earn more and hence will contact a larger number of people. There can be provision of special incentive for those who achieve the target.

(v) Institutional Culture

The culture of a micro insurer aims to marry a social concern with an appreciation for the bottom line. Any organization that strives to serve both the poor and the mainstream marketing will need to take positive action to ensure that its field staff are actively serving the poor segments.

Other manifestations of an institutional culture include:

(1) Relationship building: Micro insurance requires field staff to focus more on building a relationship than making a sale. Delta and Vimasewa have structured their activities so that agents are responsible for sale as well as service. This emphasis can be reinforced through retention-based incentives.

(2) After Sale Service: Vimasewa emphasizes after-sale service ensuring that members know what is covered and receive any assistance they require in preparing claim documents. The higher costs of these activities are expected to be offset by enhanced customer retention.

3) Trust about a Brand name is also very important. For example, LIC is still considered the best insurer in rural area where even for micro Insurance, LIC is trusted for providing good services.

Conclusion

Micro insurance requires its own space in the organizational structure of both risk carriers and distribution channels to ensure that there are people who are committed to make it work better.

Commitment from senior management and the board is necessary for the success of micro insurance. A greater emphasis must be placed on staff training, particularly of the field staff. One way of testing the effectiveness of the training is to independently assess the clients' knowledge of insurance and the products after interacting with the staff. Compensation and incentives that reward client retention are likely to be more appropriate for micro insurance than incentives strongly linked to sales.

A micro insurance culture has to take into consideration the characteristics of its target market. It should emphasize relationship building and after sale- service while ensuring the organization minimizes claim delay and rejections.

11

REGULATORY ENVIRONMENT FOR MICRO INSURANCE

Since, micro insurance belongs to low income group and masses have to be insured and the number of parties such as insurers, market intermediaries like the NGO/SHG/MFI, Third Party Administrators and insured are involved in the whole process, hence it is necessary that micro insurance operations are supported by regulatory framework that is conducive to protecting policyholders' interests and developing insurance market that includes the low income segments of the population.

The primary function of insurance regulations is to protect consumers (policyholders). This is manifested in at least three ways.

1. Protecting policyholders in general by ensuring the solvency of the insurers which includes determining that insurance products may only be offered by licensed entities. (Both insurers and intermediaries) that remain financially sound and meet their obligations.

2. Protecting individual policyholders including prospective policyholders from mis-selling and improper handling of claims, ensuring that their grievances are redressed in a timely basis.

3. Developing insurance markets by improving market efficiency and including persons who currently have no access or are unable to afford insurance through appropriate product design and delivery mechanisms.

THE IMPLICATIONS OF THE LACK OF A REGULATORY FRAMEWORK

Not having to comply with regulations has some advantages for micro insurers. Informal providers do not have to adhere to regulatory standards and do not have to comply with the supervisory burden (i.e. comprehensive reporting, internal controls and actuaries). They have more freedom to innovate and can potentially offer cheaper products which may ultimately appear to benefit their clients.

However, the lack of regulatory system is fraught with serious drawbacks .

1. It leaves policyholders unprotected against opportunistic behaviour.

2. Growth of informal schemes carries the risk of non-sustainability.

3. A catastrophe can pose a serious threat to the solvency of local micro insurance scheme.

To keep control over micro insurance market, it is necessary that there should be some regulatory controls. Some regulatory support initiative has to be there to make the insurance market more inclusive so that formal insurance companies can take advantage of this new market opportunity and informal schemes can integrate into the formal insurance sector.

Regulatory environment in India

In India, Insurance Regulatory and Development Authority (IRDA) has taken a proactive approach in promoting micro insurance companies to serve the poor in the hope that this forced familiarity will help insurers see the potential of low income market. In India all insurance companies are obliged to underwrite business in predefined rural area and social sector.

Failure to attain the target has resulted in financial penalties for some insurers, and repeated violation could cause an insurer to lose its licence. Some insurers perceive the requirements as a cost of doing business and dump poorly served policies on the market. However, insurers like LIC & Tata AIG consider poor to be a viable market opportunity and voluntarily exceeded their quotas.

To assist insurance companies in complying with these requirements, the IRDA has recently issued new micro insurance regulations to actively facilitate partnership between regulated and unregulated entities (IRDA 2005). These new requirements are designed to ensure that risk carriers remain supervised, but allow them to explore different distribution channels to extend insurance to the poor. (IRDA 2005 notification which is reproduced in Appendix II).

The Regulation creates a new intermediary, the micro-insurance agent, which can be an NGO, MFI or other community organization appointed by an insurer to distribute micro insurance through specified persons. Micro-insurance agents enter into a “deed of agreement” with the insurer. They abide by the code of conduct defined by the IRDA and attend 25 hours of training (down from 100 hours for conventional insurance agents) in the local language at the expense of the insurer. There is no qualifying examination, as is the case with ordinary insurance agents. A cap is put on a commission between 10 and 20 per cent of premiums per year according to the type and mode of insurance payment, which is in excess of what conventional agents would normally earn.

The new regulation also allows for the bundling of life and non-life elements in one single product provided there is clear separation of premium and risk at the insurers’ end. Parameters of the micro-insurance products are also regulated (see Table) and are subject to actuarial sign-off and “file and use” requirements. Products beyond the prescribed sum insured do not qualify as micro insurance and therefore, the licensed agents would require more expertise.

Product Line Insured	*Minimum Sum Of Cover (Rs.)*	*Maximum Sum (Rs.)*	*Term Insured (Years)*
Life	5,000	50,000	5
Non-Life	5,000	30,000	-
Health	5,000	30,000	1
Personal Accident	10,000	50,000	1

This regulation is an important step towards expanding micro-insurance in India. However, critics argue that this regulation is very narrow because it focuses on just one approach, the partner-agent model. They also argue that product details should not be centrally regulated. Since the high-minimum capital requirement for an insurance company (Rs.100 Crores) has not been lowered, there is perhaps insufficient competition among risk carriers. In response to this last point, the supervisor has recommended to the government that the capital requirements for health insurance be reduced by half to increase the number of health micro insurance operators.

The new micro insurance regulations show the way to enhancing distribution efficiency, by partial relaxation of training and remuneration norms and by the bundling of products, without compromising on the risk-taking ability of a commercial insurer (detailed notification is shown as Appendix II)

CONCLUDING

Finally, for devising a regulatory framework of micro insurance business, there needs to be a need for significant investment in education at many levels. Policy makers and supervisors have to understand risks and potentials of micro insurance and therefore know-how transfer and dialogue are primary concern. it seems that somewhere the regulator has to adopt a flexible approach, but if the regulator is not able to formulate proper regulations, the insurer may not adopt malafide tactics and the whole purpose of micro insurance will be defeated.

DEFINITIONS

- **Rural areas :** Rural areas are defined by the Census of India as places which simultaneously satisfy or are expected to satisfy the following criteria: (i) a minimum population of 5000 (ii) at least 25 per cent of the male working population engaged in agriculture economic pursuits and (iii) a population density of at least 400 per square kilometer (1,000 per square mile). In these areas, life insurance must account for 5 per cent of total policies in Year I, rising to 16 per cent from year 5 onwards and general insurance must be 2 percent of total gross premium written in year I, rising to 5 per cent from Year 3 onwards (IRDA 2002).

- **Social sectors :** The social sectors are defined as "unrecognized workers, economically vulnerable or backward classes in urban and rural areas". Here, each insurer has to maintain at least 5000 policies in Year I rising to 20000 in Year 5, for both life and general insurance. This is regardless of the size of operations (IRDA, 2002).

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FUTURE OF MICRO INSURANCE

Considering the future of micro insurance involves looking at the whole picture which includes:

1. Current and potential policyholders and there families
2. The range of different insurance providers and their distribution channel
3. Insurance Regulations
4. The general environment in which all of these interact

Role of different categories is summarised below:

Continuing challenges that limit the expansion of micro insurance.

Category	*Item*
Clients	• Providing effective client education • Cultivating an insurance culture in the low income market • Satisfying an unmet demand for new products • Reaching the most vulnerable
Providers	• Building staff capacity • Strengthening management

	• Enhancing efficiency • Finding the right business model and delivery channels
Regulators	• Removing regulatory obstacles • Adopting a market development • Agenda Recognizing informal • Schemes where appropriate • Developing Systematic and comprehensive approaches
Environment	• Improving healthcare facilities • Generating and using key insurance • Data strengthening financial markets • Creating stable macroeconomic • Conditions preparing for catastrophic • Risk

Enhancing efficiency through Information Technology for expansion of micro insurance

One of the great imperatives for the expansion of micro insurance is to significantly reduce operating expenses relative to premiums. More efficient operations should result in lower premiums and/or additional benefits for policyholders – both positive outcomes. More efficient operations might also mean that micro insurers could pay their employees better, resulting in improved staff retention and better customer service. Greater expectations are placed on the potential of technology to enhance efficiency.

Information Technology and future of micro insurance

Information Technology certainly plays a very important role in the expansion of micro insurance business. Naturally, process automation transforms insurance operations. In the following table business process and automation opportunity is illustrated.

Process Automation Transforms Insurance Operations Business Process Automation Opportunity

Policy issue and enrolment	• Agent can submit applications or Enrolment requests via the internet • Automated underwriting and policy issuance • Document printing and record retention via imaging • Automated risk-pooling better reflecting risk-levels in premiums.
Premium collection	• Automated billing for group clients • Premium posting and automatic lapse Processing
Claims	• On line claim submission • Tracking available on the web • Fast claim processing and payment via local banks or ATMS. • Effective records for processing and claim experience studies.

Actuarial studies and pricing	• Mortality and morbidity studies. • Pricing analysis. • Data sourcing and aggregation on a National level.

Technology is not just the realm of the insurers, today, customers too want to benefit from its use in product delivery. Even the low income market has increasing access to technology such as cell phones and community internet such as e-chaupal, etc.

Embracing the future

If the future were known with absolute certainty, futurists would be redundant. Actuaries are futurists of insurance. They look at past experience and forecast the future using mathematical and statistical models of mortality and morbidity. What future do they see for micro insurance as they gaze into their crystal ball?

1. Expanded technology where low income people have easy access to Insurance products through computers, cell phones and smart cards. For insurers this will dramatically improve access to the market.

2. Improved awareness of the benefit of insurance within low income Market. People will appreciate the usefulness of insurance market and their greater expectations will make for a more discerning market.

3. The spectre of global climate change, emerging disease and other potential catastrophic events will hang over all long term plans. To insure the poor, insurers regulators, policymakers and social organizations must work together with a common purpose and unrelenting spirit. Insurers must strive to understand the customers' changing needs and adapt their products and services accordingly, continually improving the cost benefit ratio for clients.

4. Regulators must promote a development agenda for inclusive insurance markets, finding the right balance between protecting consumers and expanding access.

5. Policyholders need to create an enabling environment that includes the necessary infrastructure for providing micro Insurance.

6. Social organizations, including employers' and workers, organizations, co-operatives, NGOs and other associates can play a critical role in organizing working in the informal economy that lacks access to social protection or other types of micro insurance.

7. Lastly, the billions of poor people who do not have a formal way of coping with risk must respond positively to the efforts of providers and regulators in accepting a culture of insurance and its capability to provide financial freedom, security and well-being.

By itself, micro insurance may not remove poverty. However, if risk protection is effectively coupled with efforts to enhance productivity, together they can make great strides towards alleviating poverty and achieving Millennium Development Goals.

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MICRO INSURANCE AND CHARTERED ACCOUNTANTS

It seems that at present a Chartered Accountant may not have a direct role to play in micro insurance. However, as a responsible citizen and as the conscience keeper of the nation, they can spread the message of micro insurance. They can form NGOs for the purpose of spreading message of micro insurance.

As the scope of micro insurance is going to increase over time and a large population which is not insured due to poverty and high cost of insurance, now may take micro insurance, there will be manifold increase in the number of insured persons.

As such the government may set up new regulator for micro insurance or a different Division within IRDA. As discussed earlier, all insurance companies in India are obliged to underwrite business in predefined rural areas and social sector. Chartered Accountants may be asked to certify figures of micro insurance for this purpose. Regulators may allow Insurance Companies to set up Separate micro insurance units to transact all kinds of insurance (Health, Life & Non-life).

Chartered Accountants can help actuaries to develop new products keeping in view of the aspirations and requirements of low income group. Since a micro insurance product is different from the conventional product, there is different kind of accounting required. Here, the Chartered Accountants can play a constructive role by developing new accounting systems.

Chartered Accountants can also act as Third Party Administration (Service Provider). Hence, it is expected that micro insurance will usher in a new area for Chartered Accountants and they would be immensely benefited from it.

Appendix - I

JEEVAN MADHUR

LIC's first Micro Insurance Product was launched on 28th September, 2006 by the-then President of India in New Delhi. Jeevan Madhur is a micro insurance policy, highlights of which are given below:

Highlights of "Jeevan Madhur" Plan :

- A plan designed to cater to the needs of insurance cover and future financial needs for large population of low income group.
- Available to all earning male and female lives.
- Minimum Sum Assured : Rs.5000/- & Maximum Sum Assured : Rs.30000/-.
- Minimum Term : 5 Years, Maximum Term 15 Years.
- Minimum Age : 18 Years Completed, Max. Age : 60 Years nearer birthday.
- Minimum Maturity Age: 65 Years.
- Minimum Installment Premium:

  Weekly: Rs.25/-, Fortnightly : Rs.50/-, Monthly : Rs.100/-, and Quarterly, Half-Yearly & Yearly : Rs.250/-.
- Simple Requirements.
- Standard/Non-Standard Age proofs Accepted.
- Policy acquires paid-up & reduced sum assured value after 2 years' premiums are paid.

- Auto Cover: Insurance risk for the period of 2 years from the due date of first unpaid premium.
- Double Death Benefit Sum Assured is payable as accident Benefit. No additional premium is charged.
- Death Benefit Sum Assured along with declared bonus to be paid to nominee.
- Maturity Sum Assured with Accrued Bonus is payable on survival.
- Jeevan Madhur Policy can be sold by micro agents who can be

  — NGO

  — SHG

  — MFI
- The Target Groups are Dabbawallahs, Cabbies, Auto Rickshaw Drivers, Porters, Coolies, Domestic Servants, Tannery Labourers, Building Construction workers, Hawkers, Vendors, Security Guards, etc.

Appendix - II

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY

NOTIFICATION

Hyderabad, the 10th November, 2005

Insurance Regulatory and Development Authority (Micro-Insurance) Regulations,2005

K. No. IRDA/MI/3/2005— *In exercise of the powers conferred by Section 114A of the Insurance Act, 1938 (4 of 1938) read with Section 26 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999). the Authority, in consultation with the Insurance Advisory Committee, hereby wakes the following regulations, namely:-*

Short title and commencement:- (1) These regulations may be called the insurance Regulatory and Development Authority (Micro-insurance) Regulations, 2005.

(2) They shall come into force from the date of their publication in the Official Gazette.

2. Definitions.- In these regulations, unless the comext requires otherwise-

(a) "Act" means the Insurance Act, 1938 (4 of 1938);

(b) "Authority" means the Insurance Regulatory and Development Authority established under sub-section (1) of section 3 of the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999)

(c) "family" means a unit comprising of husband, wife, dependant parents and a maximum of three children.

Provided that where the number of children is more than three, for construing the composition of family as aforesaid, the first three children shall be included,

Provided further that an insurer may, within the aforesaid parameters laid down for the composition of the family, deilne "family" as per the requirements of the individual or group.

(d) "general micro-insurance product" means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule-I appended to these regulations;

(e) "life micro-insurance product" means any term insurance contract with or without return of premium, any endowment insurance contract or health insurance contract, with or without an accident benefit rider, either on individual or group basis, as per terms staled in Schedule-II appended to these regulations;

(f) "micro-insurance agent" means.- (i) a Non-Government Organisation (NGO); or (ii) a Self Help Group (SHG); or (iii) a Micro-Finance Institution (MFI), who is appointed by an insurer to act as a micro-insurance agent for distribution of micro-insurance products.

Explanation: For the purposes of these regulations.-

(*I*) *Non-Government Organisation (NGO)* means a non-profit organization registered as a society under any law, and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency, and accountability as outlined in its memorandum, rules, by-laws or regulations, as ihe case may be, and demonstrates involvement of committed people.

(*II*) *Self Help Group (SHG)* means any informal group consisting of ten to twenty or more persons and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency, and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people.

(*III*) *Micro-Finance Institution* means any institution or entity or association registered under any law for the registration of socieiies or co-operative societies, as the case may be, inter alia, for sanctioning loan/finance to its members.

(g) micro-insurance policy" means an insurance policy sold under a plan which has been specifically approved by the Authority as a micro-insurance product;

(h) "micro-insurance product" includes a general micro-insurance product or life insurance product, proposal form and all marketing materials in respect thereof;

(i) all words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938), or in the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999) or in any Rules or Regulations made there under shall have the meanings respectively assigned to them in those Acts or Rules or Regulations

3. Tie-up between life insurer and non-life insurer. (1) An insurer carrying on life insurance business may offer life micro-insurance products as also general micro insurance products, as provided herein.

Provided that where an insurer carrying on life insurance business offers any general micro-insurance product, he shall have a tie-up with an insurer carrying on general insurance business for this purpose, and subject to the provisions of section 64VB of the Act, the premium attributable to the general micro insurance product may be collected from the prospect (proposer) by the insurer carrying on life insurance business, either directly or through any of the distributing entities of micro-insurance products as specified in regulation 4, and made over to the insurer carrying on general insurance business.

Provided further that in the event of any claim in regard to general micro insurance products, the insurer carrying on life insurance business or the distributing entities of micro-insurance products, as the case may be, as may be specified in the tie-up referred to in the first proviso, shall forward the claim to the insurer carrying on general insurance business and offer all assistance for the expeditious disposal of the claim.

(2) An insurer carrying on general insurance business may offer general micro insurance products as also life micro-insurance products, as provided herein.

Provided that where an insurer carrying on general insurance business offers any life micro-insurance product, he shall have a tie-up with an insurer carrying on life insurance business for this purpose, and subject to the provisions of section 64VB of the Act, the premium attributable to the life micro insurance product may be collected from the prospect (proposer) by the insurer carrying on general insurance business, either directly or through any of the distributing entities of micro-insurance products as specified in regulation 4, and made over to the insurer carrying on life insurance business.

Provided further that in the event of any claim in regard to life micro-insurance products, the insurer carrying on general insurance business or the distributing entities of micro-insurance products, as the case may be, as may be specified in the tie-up referred to in the first proviso, shall forward the claim to the insurer carrying on life insurance business and offer all assistance for the expeditious disposal of the claim.

4. Distribution of micro-insurance products- In addition to an insurance agent or corporate agent or broker licensed under the Act, read with the regulations concerned made by the Authority for licensing of individual or corporate agents, or insurance brokers, as the case may be, micro-insurance products may be distributed through the micro-insurance agents.

Provided that a micro-insurance agent shall not distribute any product other than a micro -insurance product.

5. Appointment of micro-insurance agents.- (1) A micro-insurance agent shall be appointed by an insurer by entering into a deed of agreement, which shall clearly specify the terms and conditions of such appointment, including the duties and responsibilities of both the micro-insurance agent and the insurer,

Provided that before entering into every such agreement, the same shall be got approved by the head office of the insurer.

(2) A micro-insurance agent shall not work for more than one insurer carrying on life insurance business and one insurer carrying on general insurance business.

(3) The deed of agreement referred to in sub-regulation (I) shall specifically authorize the micro-insurance agent to perform one or more of the following additional functions, namely:

(a) collection of proposal forms;

(b) collection of self declaration from the proposer that he/ she is in good health;

(c) collection and remittance of premium;

(d) distribution of policy documents;

(c) maintenance of register of all those insured and their dependants covered under the micro-insurance scheme, together with details of name, sex, age, address, nominees and thumb impression/ signature of the policyholder;

(f) assistance in the settlement of claims;

(g) ensuring nomination to be made by the insured;

(h) any policy administration service.

(4) The micro-insurance agent or the insurer shall have The option to terminate the agreement referred to in sub-regulation (i), after giving a notice of three months by the party intending to terminate the agreement

Provided that no such notice shall be necessary, where the termination is on account of any misconduct or indiscipline or fraud committed by the micro-insurance agent.

6. Employment of specified persons by micro-insurance agents- A micro-insurance agent shall employ specified persons with the prior approval of the insurer for the purpose of discharging all or any of the functions stated in sub-regulation (3) of regulation 5.

Provided that corporate agents and insurance brokers procuring micro-insurance business shall continue to be governed by the Insurance Regulatory and Development Authority (Licencing of Corporate Agents] Regulations, 2002, and Insurance Regulatory and Development Authority (Insurance Brokers) Regulations, 2002, as the case may be.

7. Code of conduct of Micro insurance agents.- (1) Every micro-insuranee agent and specified person employed by him shall abide by the code of conduct as laid down in Regulation 8 of the Insurance Regulatory and Development Authority (Licensing of Insurance Agents) Regulations 2000, and the relevant provisions of Insurance Regulator) and Development Authority (Insurance Advertisements and Disclosure) Regulations, 2000.

Provided that the insurer shall ensure compliance of the code of conduct, advertisements and disclosure norms by every micro-insurance agent

(2) Any violation by a micro-insurance agnt of the code of conduct and/or advertisement or disclosure norms as aforesaid shall lead to termination of his appointment, in addition to penal consequences for breach of code of conduct and/or advertisements or disclosure norms pursuant to the provisions of sub-regulation (1)

8. Filling of micro-insurance product design.- (1) Every insurer shall be subject to the "file and use" procedure with respect to filing of micro-insurance products with the Authority.

(2) Every micro-insurance product which is cleared by the Authority tor the purpose of micro insurance shall prominently carry the caption "Micro) Insurance Product"

9. Issuance of micro-insurance policy contracts.- (1) Every insurer shall issue insurance contracts to the individual micro-insurance polieyholdcrs in the vernacular language which is simple and easily understood by the policyholders.

Provided that where issuance of policy contracts in the vernacular language is not possible, the insurer shall as far as possible issue a detailed write-up about the policy details in the vernacular language.

(2) Every insurer shall issue insurance contracts to the group micro-insurance policyholder in an unalterable form along with a schedule showing the details of individuals covered under the group, and also issue a separate certificate, to each such individual evidencing proof of insurance, containing details of validity period of cover, name of the nominee, and addresses of ihc underwriting office and the servicing office, where both offices are not the same.

10. Underwriting.– No insurer shall authorize any micro-insurance agent or any other outsider to underwrite any insurance proposal for the purpose of granting insurance cover.

11. Capacity Building:- Every insurer shall impart at least twenty-five hours of training at its expense and through its designated officer(s) in the local vernacular language to all micro-insurance agents and their specified persons in the areas of insurance selling, policyholder servicing and claims administration.

12. Remuneration/commission.- (1) A micro-insurance agent may be paid, remuneration for all the functions rendered as outlined in regulation 5 and including commission. by an insurer, and that the same shall not exceed the limits as stated below:

(a) for Life Insurance Business:

Single Premium policies	-	*Ten per-cent of the single premium*
Non single premium policies	-	*Twenty per cent of the premium for all t*he years of the premium paying term

(b) For Son-Life Insurance Business: *Fifteen per cent of the premium.*

(2) Where the agreement between the micro-insurance agent and insurer is terminated for any reason whatsoever, no future commission/ remuneration shall be payable.

(3) For group insurance products, the insurer may decide the commission subject to the overall limit as specified in sub-regulation (1).

13. Overall compliance.- Every insurer shall ensure that all transactions in connection with micro-insurance business are in accordance with the provisions of the Act. the Insurance Regulatory and Development Act, (41 of 1999), and the rules and regulations made there under.

14. Submission of information.- Every insurer shall furnish information in respect of micro-insurance business in such form and manner and containing such particulars, as may be required by the Authority from time to time.

15. Obligations to Rural and Social Sectors.- (1) All micro-insurance policies may be reckoned for the purposes of fulfillment of social obligations by an insurer pursuant to the provisions of the Act and the regulations made there under.

(2) Where a micro-insurance policy is issued in a rural area and falls under the definition of social sector, such policy may be reckoned for both under rural and social obligations separately.

16. Handling of complaints/ grievances.- (I) It shall be the responsibility of the insurer to handle and dispose of complaints againsi a micro-insurance agent with speed and promptitude.

(2) Every insurer shall send a quarterly report to the Authority regarding the handling of complaints/grievances against the micro-insurance agents and where in a particular quarter, there are no complaints/grievances, a “Nil” report shall be sent.

17. Inspection by Authority.- The Authority may cause inspection of the office and is of any micro-insurance agent, at any lime, if it is deemed necessary.

18. Removal of difficulties.- Where any doubt or difficulty arises in giving effect to the provisions any of these regulations, the same may be referred lo the Authority, whose decision thereon shall be binding on the parties concerned.

SCHEDULE-I
[See regulation 2(d)]

Item	*Type of Cover*	*Min. Amount of Cover*	*Max. amount of Cover*	*Term of Cover Min.*	*Term of cover Max.*	*Min. Age at entry*	*Max. age at entry*
1.	Dwelling & contents, or livestock or Tools or implements or other named assets/or Crop insurance against all perils	Rs. 5,000 per asset/ cover	Rs. 30,000 per asset/ cover	1 year	1 year	NA	NA
2.	Health Insurance Contract (Ind.)	Rs. 5,000	Rs. 30,000	1 year	1 year	Insurers' discretion	
3.	Health Insurance Contract (family) (Option to avail limit for Individual/Float on family)	Rs. 10,000	Rs. 30,000	1year	1 year	Insurers' discretion	
4.	Personal Accident (per life/ earning member of family)	Rs. 10,000	Rs. 50,000	1 year	1 year	5	70

Note : The minimum number of members comprising a group shall be at least twenty for group insurance.

SCHEDULE-II
[See regulation 2(e)]

Type of Cover	*Minimum Amount of Cover*	*Maximum amount of Cover*	*Term of Cover Min.*	*Term of cover Max.*	*Minimum age at entry entry*	*Maximum age at entry*
Term Insurance with or without return of premium	Rs. 5,000	Rs. 50,000	5 year	15 years	18	60
Endowment Insurance	Rs. 5,000	Rs. 30,000	5 year	15 years	18	60
Health Insurance Contract (Individual)	Rs. 5,000	Rs. 30,000	1 year	7 years	Insurer's discretion	Insurer's discretion
Health Insurance Contract (Family)	Rs. 10,000	Rs. 30,000	1 year	7 year	Insurer's diseretion	Insurer's discretion
Accident Benefit as rider	Rs. 10,000	Rs. 50,000	5 year	15 year	18	60

Notes : 1 Group insurance products may be renewable on a yearly basis

2. The minimum number of members comprising a group shall be at least twenty for group insurance.

C.S. Rao, Chairman
[ADVT III/IV/161/2005/Exty]

Appendix-III

Product list updated as on 20.03.2009*

List of Micro Insurance Products with UIN's:

Financial Year	*Name of Insurer*	*Name of the Product*	*Product UIN No.*	*In operation*		*Remarks If any, by IRDA*
				From (opening date)	*To (closing date)*	
2007-08	Bajaj Allianz Life Insurance Co. Ltd.	Bajaj Allianz Jana Vikas Yojana	116N047V01	4-Apr-07		
2007-08	Bajaj Allianz Life Insurance Co. Ltd.	Bajaj Allianz Saral Suraksha Yojana	116N048V01	4-Apr-07		
2007-08	Bajaj Allianz Life Insurance Co. Ltd.	Bajaj Allianz Alp Nivesh Yojana	116N049V01	4-Apr-07		
2007-08	AVIVA Life Ins. Co. India Pvt. Ltd.	Grameen Suraksha	122N039V01	16-Mar-07		
2007-08	Birla Sun Life Insurance Co. Ltd.	Birla Sun Life Insurance Bima Suraksha Super	109N032V01	13-Aug-07		
2007-08	Birla Sun Life Insurance Co. Ltd.	Birla Sun Life Insurance Bima Dhan Sanchay	109N033V01	13-Aug-07		
2008-09	ICICI Prudential Life Insurance Co. Ltd	ICICI Pru Sarv Jana Suraksha	105N081V01	2-Jun-08		
2007-08	ING Vysya Life Insurance Co. Ltd.	ING Vysya Saral Suraksha	114N032V01	3-Sep-07		
2006-07	Life Insurance Corporation of India	LIC's Jeevan Madhur	512N240V01	14-Sep-06		

**Source* : IRDA's website www.irdaindia.org

2008-09	Met Life India	Met Vishwas	117N042V01	2-Jun-08		
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Shakti	111N038V01	6-Sep-07		
2007-08	SBI Life Insurance Co. Ltd.	SBI Life Grameen Super Suraksha	111N039V01	6-Sep-07		
2006-07	TATA AIG Life Insurance Co. Ltd.	Ayushman Yojana	110N042V01	30-May-06		
2006-07	TATA AIG Life Insurance Co. Ltd.	Navkalyan Yojana	110N043V01	30-May-06		
2006-07	TATA AIG Life Insurance Co. Ltd.	Sampoorn Bima Yojana	110N044V01	2-Jun-06		
	TATA AIG Life Insurance Co. Ltd.	Tata AIG Sumangal Bima Yojana	110N061V01	3-Jun-08		
2006-07	Sahara India Life Insurance Co. Ltd.	Sahara Sahayog (Micro Endowment Insurance without profit plan)	127N010V01	21-Apr-2006		
2007-08	Shriram Life Insurance Co. Ltd.	Shri Sahay	128N011V01	7-Feb-07		
2007-08	Shriram Life Insurance Co. Ltd.	Sri Sahay (AP)	128N012V01	24-Apr-07		
2008-09	IDBI Fortis Life Insurance Co. Ltd.	IDBI Fortis Group Microsurance Plan	135N004V01	5-Nov-08		
2008-09	DLF Pramerica Life Insurance Co. Ltd	DLF Pramerica Sarv Suraksha	140N007V01	16-Mar-09		
2008-09	Star Union Dai-ichi Life Insurance Co.	SUD Life Paraspar Suraksha Plan	142N009V01	17-Mar-09		