Strengthening Micro Health Insurance Units for the Poor in India

Regulation of Microinsurance in India

Presentation at the
Round Table on Microinsurance Regulation,
Hyderabad, 19 Feb 2005
David M. Dror, PhD, DBA
Lead expert, ECCP project

Project funded by ECCP

Strengthening Micro Health Insurance Units for the Poor in India

Market environment of microinsurers

- Microinsurance units operate where public or private sector activities are absent or inadequate
- MIUs most often operate in isolation from others
- Lack of data on risks, unit costs, utilization levels
- High uncertainty about what products the clients want and clients' ability-to-pay. Therefore, the voluntary market is very volatile
- Often, life insurance is used as collateral for loans, and thus is not true insurance of clients

Copyright © Dror 2005

Project funded by ECCP

Strengthening Micro Health Insurance Units for the Poor in India

Different types of incorporation

- Partner-Agent Model (different from 'Principal-agent' model)
- Friendly Society Model
- Mutual/Cooperative Model
- Provider driven microinsurance

Copyright © Dror 2005

Project funded by ECCP

Strengthening Micro Health Insurance Units for the Poor in India

Issues for regulation (partial list)

- Solvency
- Audit, Accounting and Reporting
- Reinsurance and risk management (in line with new international standards)
- Premium Setting method (which rating, not premium amount) and fair pricing
- Benefit package design, limitations and exclusions

Copyright © Dror 2005

Project funded by ECCP

Specific problems with draft regulations

- MIUs (as clients) and individual clients do not get protection against overpricing, unfair service
- Nothing said on uniform technical platform
- Only the P-A model, that gives the community least role, is recognized as 'legitimate'
- Capital requirements are set arbitrarily (unlinked to underwritten risk), create unfair barriers to entry into market as insurers

Specific problems with draft regulations 2

- Age limitations unnecessary and impractical
- Inflexibility to design benefits, bundle benefits (notably life+health, or assets+health)
- Commissioning will bias product supply
- Nothing said about how premiums should be set (risk rating, community rating, experience rating etc.)
- No recourse mechanism for MIUs or clients against arbitrary decisions ('Code of Conduct' missing)

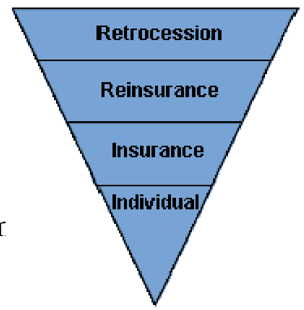
Missing: a supportive concept

- Micro insurance is not a miniature mimic of 'large' insurance. It is founded on other premises
- Proposed concept:
  1. Uniformity in technical platform
  2. Enable diversity of players, products, prices (maximum flexibility to bundle or separate)
  3. Link capital requirements and premiums to the underwritten risk
  4. Reinsurance: cheaper alternative to capitalization, efficient pooling system, underwriting assistance to micro insurers

The role of reinsurance

Reinsurance is the cheapest and simplest way for micro schemes to:

1. Diversify their risk
2. Pool with other schemes
3. Transfer outlier risk exposure
4. Reduce the cost of capital requirem
5. Apply the Law of Large Numbers
6. Obtain affordable underwriting assistance



Services provided by reinsurance

- Capacity
- Surplus relief
- Catastrophe protection
- Stable loss experience
- Underwriting expertise

Project funded by

Strengthening Micro Health Insurance Units for the Poor in India

Conclusions and proposed action (1)

- Regulation should not outlaw any model of incorporation
- Regulation must ensure that every group and every person can buy insurance. Limiting that market is unjustified.
- Different Regulations may be needed for different forms of microinsurance incorporation
- Health insurance may require different regulations, because of the triangular relations provider-insurer-client
- Delineation of responsibility between various authorities has to be addressed

Project funded by

Strengthening Micro Health Insurance Units for the Poor in India

Conclusions and proposed action (2)

- Regulations should set the technical platform for data collecting, reporting and audit
- Training should be designed around domain-knowledge of micro-insurance
- No need to regulate the details of products or premiums payable; Allow bundling of different heads of damage
- Risk-based capital requirements should be adopted
- Reinsurance should be recognized as a desirable tool to stabilize micro insurers, diversify their risk and pool small groups into a large one

Project funded by

Strengthening Micro Health Insurance Units for the Poor in India

More info on

www.microhealthinsurance-india.org

Contact:

mhi@ficci.com, daviddror@socialre.org

Thank you!

Project funded by