

## Concept Paper on Need for Developing Micro-Insurance in India

*This paper sets out the objective and salient features of the proposed “micro-insurance” regulations and invites comments on the various aspects of micro-insurance, before finalization and notification of the regulations.*

*Comments may be sent to Insurance Regulatory And Development Authority, Parishrama Bhawan, Basheerbagh, Hyderabad 500004 in a sealed envelope superscribed “Micro-insurance” or by E Mail to [microinsurance@irdaonline.org](mailto:microinsurance@irdaonline.org) before September 15, 2004.*

### Background

Micro-insurance refers to protection of assets and lives against insurable risks of target populations such as micro-entrepreneurs, small farmers and the landless, women and low-income people through formal, semiformal and informal institutions. Such products are often bundled with micro-savings and micro-credit, thereby allocating scarce resources to micro-investments with the highest marginal rates of return. Microinsurance is the most underdeveloped part of microfinance. Yet various schemes exist that are viable, benefiting both the institutions and their clients. Such schemes have generally served two major purposes: (i) they have contributed to loan security; and (ii) they have served as instruments of resource mobilization. The greatest challenge for microinsurance lies in the combination of viability and sustainability with outreach.

Although introduction of sound practices such as appropriate policy sizes and timely payment of installments of premium or positive incentives to renew on time in order to avoid policy getting lapsed can be feasible, the ultimate effectiveness of interventions focusing on institutional transformation and sound insurance practices will vary considerably, depending on the appropriateness of the regulatory environment.

### Development Goal

To enable microinsurance to be an integral part of a country's wider insurance system, it is important for every insurer to adjust its costs of serving marginal clients in remote areas, collecting premiums and installments, and offering doorstep services. It is also important to recognize a wide network of intermediaries in the rural and social sectors and notify regulations in order to guide and supervise the microinsurance service providers and their customers.

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Today we have a variety of microfinance institutions with national and local outreach. Many of them have already become corporate agents or have entered into referral arrangements with insurers. However, semiformal institutions including savings and credit cooperatives, NGOs and self-help groups which have immense potential in carrying the message of insurance as also solicit insurance business are yet to be utilized in a manner where their true potential can be harnessed to increase the insurance penetration levels. This is due to restrictions in the existing agency regulations in terms of minimum eligibility norms in order to become an agent.

Depending on the existence and vigour of such institutions, the following alternatives have emerged, for offering strategic entry points for microinsurance development:

- i. Adapting formal insurance arrangements to the needs of the micro-economy.
- ii. Upgrading non-formal (comprising semiformal and informal) insurance arrangements with insurance companies.
- iii. Linking formal and non formal insurance institutions with banks and self-help groups.
- iv. Establishing new local institutions providing microinsurance services.

The first three strategies may be inter-connected:

- i. adapting insurance companies to the requirements of the micro-economy is a first step; then
- ii. linking them as wholesale institutions to self-help groups as retailers; and finally,
- iii. upgrading self-help groups e.g. to the level of financial cooperatives or village banks.

If insurers are to serve customers who differ widely in terms of service costs and risks, the only viable inducement for them is an adequate margin, lest they exclude small farmers, - micro-entrepreneurs and people in remote areas. Only sound social insurance, which combines a social mandate with profit-making, has a chance of sustainability.

### Institutional Adaptation

The experience so far has been that formal financial institutions serve but a fraction of the population, which typically lies within the upper quartile of the social hierarchy. Through adaptation to the microfinance market requirements, they may gradually expand into the second-highest quartile and into segments of the lower quartiles. Within the foreseeable future they will normally not be able to fully serve that market.

Non formal finance mostly rests on local institutions which are directly accessible to all segments of the population. Self-Help Groups (SHGs) are member-owned and member-controlled local institutions. They may either be financial groups, with financial intermediation as their primary purpose; or non financial groups, with financial intermediation as a secondary purpose, such as vendors' associations, family planning groups and numerous other types of voluntary associations.

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The functions that need to be focused must include: providing guidance to members, collecting premium installments from members, insurance services to members, communication and exchange of experience, providing linkages with banks, NGOs or donors, supporting the proposals of individual members to insurance companies through recommendations.

### Linkage to Insurers

On a modest scale, various forms of life and health insurance have been successfully practiced by different institutions in different countries, particularly as part of loan protection schemes. Micro-insurance procedures and services should be set by insurers rather than the regulator. Appropriate procedures and services should be applied to attain (1) sound financial management, (2) convenient and safe savings premium collection and deposit facilities, (3) appropriate claim appraisal and processing procedures, (4) adequate risk management, (5) timely collection of premium installments, (6) monitoring and (7) effective information gathering, all of which may include cooperation between different formal and non-formal intermediaries in fields where each is most effective.

### Proposed Micro-insurance Regulations

In order to introduce the concept micro-insurance it is necessary to draft suitable bring in suitable regulations to enable insurers to design and distribute and service micro-insurance products and discharge their obligations to the rural and social sectors as per provisions of the Insurance Act, 1938.

1. It is proposed that an insurer transacting life insurance business shall be permitted to provide life micro-insurance products as well as general micro-insurance products provided it ties up with an insurer transacting general insurance business for the general micro-insurance products, and *vice versa*.
2. In addition to an insurance agent or corporate agent or insurance broker who are authorized to solicit and procure insurance business, including micro-insurance business with an insurer in accordance with the provisions of the Insurance Act, 1938 and the regulations made there under it is also proposed to introduce the concepts of “micro-insurance product” and “micro-insurance agent” .

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### Micro-insurance Product

3. A “*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 stated in the Table A below, filed with the Authority:

**Table A:**

Type of Cover	Minimum Amount of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Term Insurance with or without return of premium	Rs. 10,000	Rs. 50,000	5 year	7 years	18	60
Endowment Insurance	Rs. 10,000	Rs. 50,000	5 year	7 years	18	60
Health Insurance Contract	Rs. 10,000	Rs. 15,000	1 year	7 year	18	60
Accident Benefit as rider	Rs. 10,000	Rs. 50,000	1 year	5 years	18	60

*NOTE: The present average sum insured is around Rs. 5,000. This is highly inadequate to provide any tangible relief even to a individual below the poverty line. Therefore, it is suggested that the minimum amount of cover of Rs. 10,000 appears more realistic.*

4. A “*general micro-insurance product*” means any health insurance contract, any contract covering the belongings such as hut, livestock, any personal accident contract, or tools or instruments, either on individual or group basis, as per terms stated in the Table B below, filed with the Authority:

**Table B:**

Type of Cover	Minimum Amount of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Hut or livestock or Tools or implements or other assets—against all perils	Rs. 10,000	Rs. 20,000	1 year	1 year	18	70
Health Insurance Contract	Rs. 10,000	Rs. 15,000	1 year	1 year	18	60
Personal Accident	Rs. 10,000	Rs. 50,000	1 year	1 year	18	60

### Distribution of Micro-insurance Products

5. The micro-insurance products may be distributed by individual insurance agents or corporate insurance agents or insurance brokers or micro-insurance agents.

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### **Micro-insurance Agent**

6. A “micro-insurance agent” shall be a Non Government Organisation (NGO) or a Self Help Group (SHG).

*Explanation: For the purposes of this regulation:*

(i) a Non Government Organisation (NGO) shall be a registered non-profit organization under the Society’s Act, 1968 with a proven track record of working with marginalised groups with clearly stated aims and objectives, transparency, and accountability outlined in its memorandum, rules and regulations and demonstrates involvement of committed people.

(ii) Self Help Group (SHG) may be an informal group or registered under Societies Act, State Co-operative Act or as a partnership firm, consisting of 10 to 20 with a proven track record of working with marginalised groups with clearly stated aims and objectives, transparency, and accountability outlined in its memorandum, rules and regulations and demonstrates involvement of committed people.

(iii) The minimum number of members comprising a group should be atleast ten for insurance of individuals, and atleast fifty for group insurance.

### **Scope and Functions**

7. A micro-insurance agent shall be appointed by an insurer by a deed of agreement or memorandum of understanding which should clearly specify the terms and conditions, duties and responsibilities of both the micro-insurance agent and the insurer, and he shall abide by the following:-
- a. He shall work either for one life insurer or for one general insurer or for one life insurer and one general insurer;
  - b. He shall be specifically authorized to perform one or more of the following functions:-
    - i. Maintaining a register of all members and their dependants covered under the insurance scheme alongwith details of name, age, address, nominees and thumb impression/ signature;
    - ii. collection of proposal forms;
    - iii. collection of *self declaration* from the member that he is in good health;
    - iv. collection of monies for issuance of contract or remittance of premium;
    - v. distribution of policy documents;
    - vi. assistance in the settlement of claims;
    - vii. nomination; and
    - viii. any policy administration service.
  - c. The micro-insurance agent or the insurance company shall have the option to terminate the agreement/ MOU after giving a notice of three months.
  - d. All such agreements/ MOU must have the prior approval of the Head office of the insurance company.

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### *Remuneration/ Commission*

- e. He shall be entitled to receive a fee from the insurer to cover for all services rendered, and which shall not exceed:
- Twenty per cent of the premium in case of life insurance contracts; and
  - Seven and half per cent of the premium in case of general insurance contracts.

In case of termination of agreement no future commission/ remuneration shall be payable.

### *Employment of specified persons*

- f. He may also employ specified persons with the prior approval of the insurer for the purpose of discharging all or any of the activities mentioned in (b) above. However, for the purpose of this regulation no corporate agent or individual agent licenced by the Authority shall be prohibited to employ any specified person for the purpose of soliciting and servicing of micro-insurance product.

### *Code of Conduct*

- g. The micro-insurance agent and every specified person employed by him shall abide by the code of conduct as mentioned in IRDA (Licensing of Insurance Agents) Regulations, 2000 and the relevant provisions of IRDA (Insurance Advertisements and Disclosures) Regulations, 2000. It shall be the responsibility of the insurance company to ensure compliance of the code of conduct, advertisements and disclosure norms.

### *Sanctions/ Penalty*

- h. Any violation of the code of conduct shall lead to termination of the agreement/ MOU with the insurer forthwith and shall attract the penal provisions as normally applicable to an insurance agent

## **Duties and Responsibilities of the Insurer**

### *Product Design and Development*

- Every insurer shall be subject to the “file and use” procedure with respect to filing of micro-insurance products with the Authority.
- Every insurer shall issue insurance contracts to the individual micro-insurance policyholders in the local language which is simple and easily understood by the policyholders.
- Every insurer shall issue insurance contracts to the group micro-insurance policyholder in the form of a schedule showing the details of individuals covered under the group, and also issue a separate certificate to each individual evidencing

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proof of insurance, containing details of validity period of cover, name of the nominee and address of the underwriting office.

### *Underwriting*

11. No insurer shall be allowed to authorize any micro-insurance agent or any other outsider to underwrite any insurance proposal for the purpose of granting insurance cover.

### *Capacity Building*

12. It shall be the responsibility of every insurer to impart atleast 25 hours of training at its expense through its designated officer in the local vernacular to all micro-insurance agents and their specified persons in the areas of insurance selling, policyholder servicing and claims administration.

### *Remuneration/ commission*

13. No insurer shall pay or contract to pay any further amounts by way of fee or remuneration or compensation in any form other than what has been specified ;

### *Overall Responsibility*

14. Every insurer shall ensure that all transactions in connection with micro-insurance business are in accordance with the provisions of the Insurance Act, 1938 as amended from time to time, the Insurance Regulatory and Development Act and the regulations and rules made there under.

### *Submission of information*

15. Every insurer shall furnish the information in respect of micro-insurance business as specified by the Authority from time to time.

## **Obligations to Rural and Social Sectors**

16. All micro-insurance policies could be counted for the purposes of social obligations to be fulfilled by an insurer as per the provisions of the Insurance Act, 1938 and the regulations made there under. A micro-insurance policy, if issued in a rural area and comes under social sector definition, the policy may be counted for both under rural and social obligations separately.

## **Complaints/ Grievances**

17. It shall be the responsibility of the insurer to handle and dispose complaints against a “micro-insurance agent”.

## **Inspection by Authority**

18. The Authority may through its designated officers inspect the office and records of the micro-insurance agent, at any time, if it considers necessary.