



Micro-Credit Ratings International Ltd

Making insurance markets work for the poor:  
microinsurance policy, regulation and supervision  
**India case study**

Basel, Switzerland  
17 September 2008



BILL & MELINDA  
GATES foundation



# India – Country context

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*A billion plus and counting...*

...majority below 21 years of age

*8-10% economic growth in recent years...*

...but still grinding poverty for 25%

... 140 million families living on less than \$2 a day

*Social protection programmes are vital...*

...but micro-insurance also has an important role to play

# Insurance in India – premiums 3.5% of GDP

## Government – social protection programmes

- Health insurance for organised sector workers – not MI
- Life insurance for those below the poverty level
- Health and life insurance for various artisans

## Formal sector – increasing number of licensed insurers – 32

- Separately life and non-life insurers
- Forced by rural and social obligations to take an interest in micro-insurance

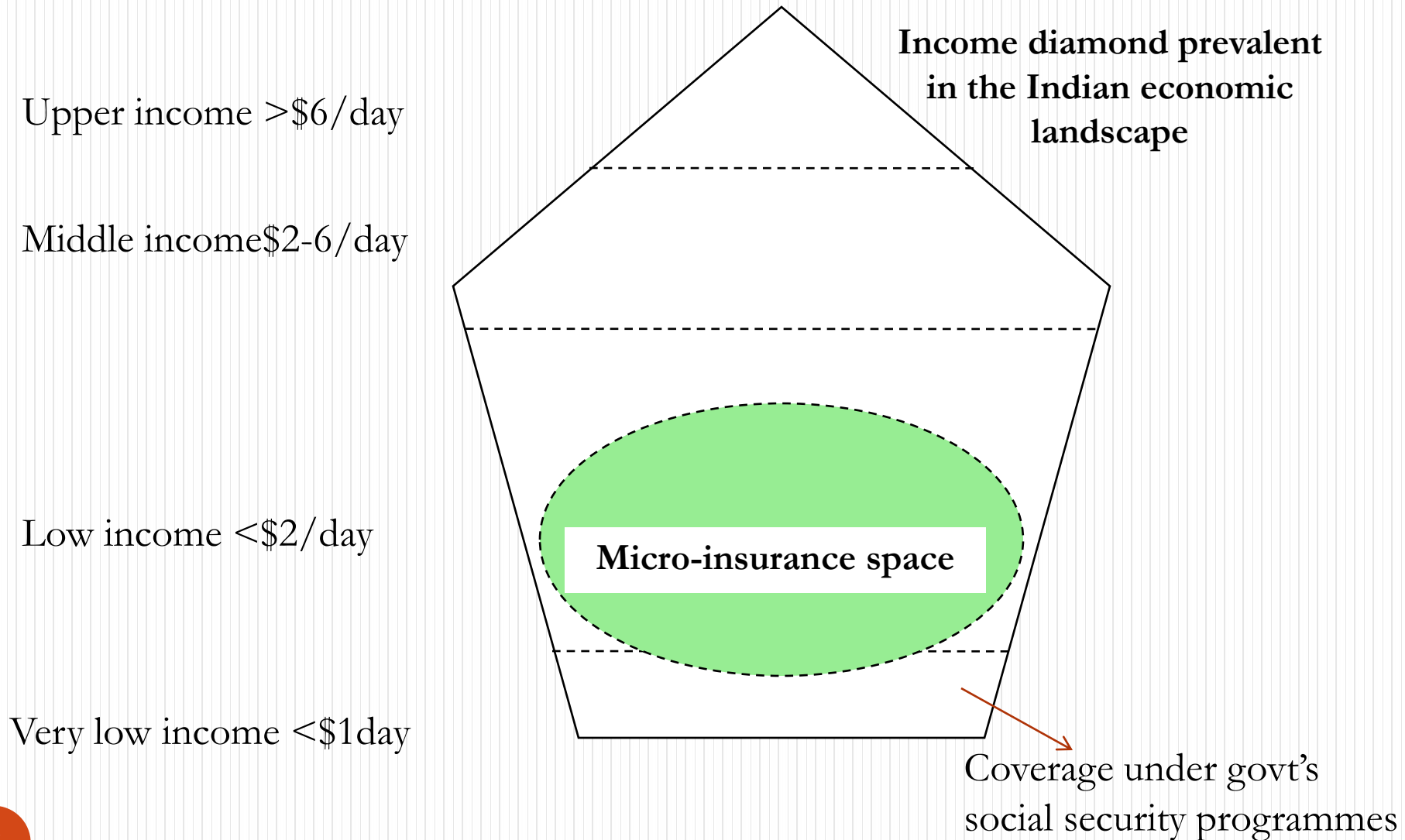
## Informal – not-for-profit programmes

- Small number of programmes with minuscule outreach

# The background of MI regulations

- India – one of the first countries to introduce MI regulations
- Experience of directed insurance programmes under the rural & social obligations played major role in evolution of micro-insurance regulations
- The obligations of the insurers vis-à-vis rural & social sectors were introduced by the IRDA in 2002 – quota obligations to provide insurance in pre-defined rural areas and social sectors
- Insurers failing to achieve quotas targets could face penalties and even, possibly, lose their licenses

# In practice, this has resulted in increased but not universal access to micro-insurance

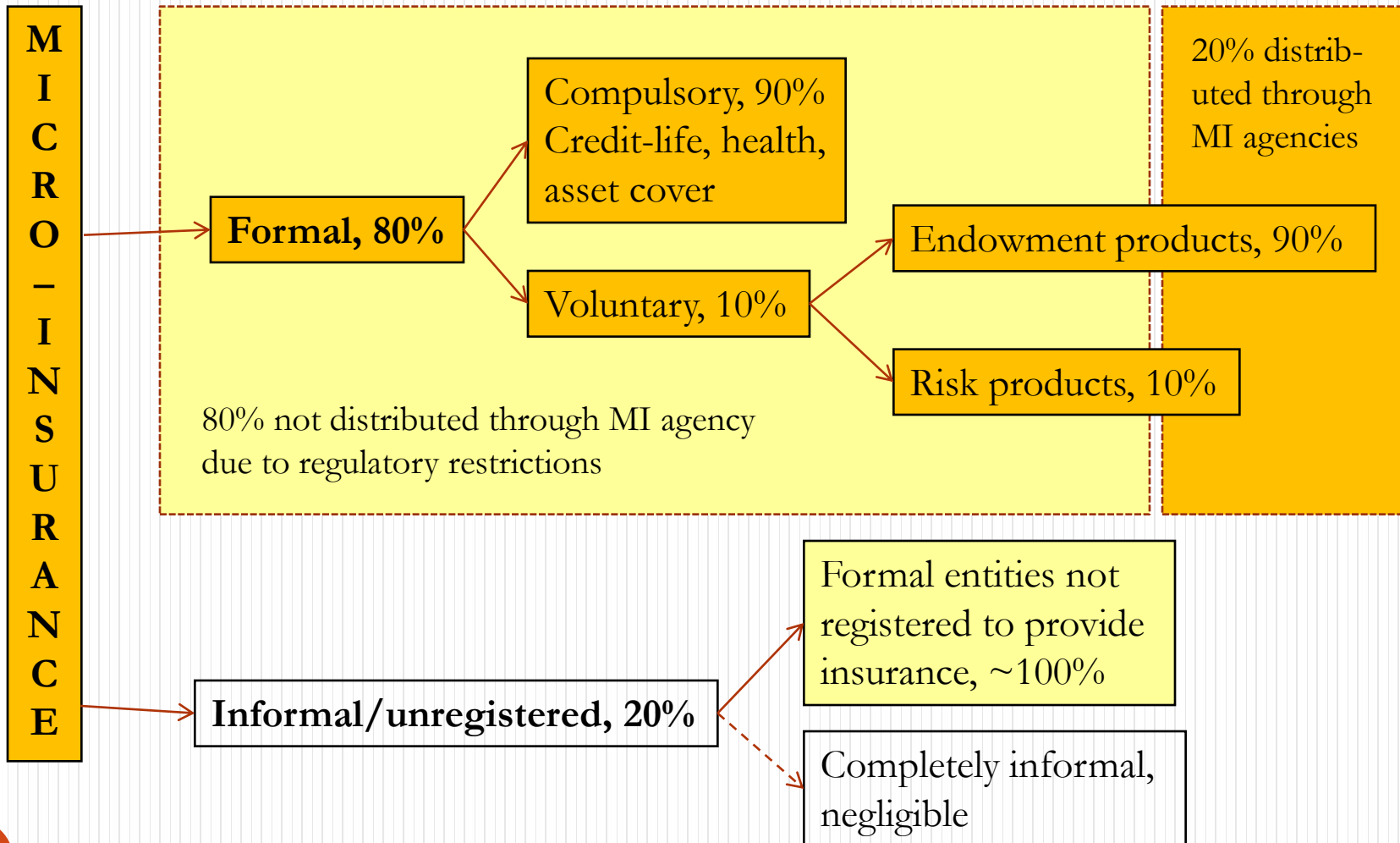


# An estimation of present outreach

- Some 14 million adults are covered by life micro-insurance in India
- In a country with over 1.1 billion people and up to 150 million families living on less than \$2 a day, this is a very small proportion of the potential micro-insurance market
- Market size restricted by general lack of awareness of benefits of insurance amongst low income segments of the population – a major role of the regulator who has promotional responsibilities as well

# Micro-insurance market in India

14 million adults covered: 2% of total adults, <1% of premiums



# MI Regulations (design) to facilitate inclusion

IRDA MI regulations officially gazetted in Nov 2005. It

- Defines MI products including minimum and maximum coverage in terms of sum assured, term and age of entry
- Defines & promotes extensive use of intermediaries (MI agents) for selling & servicing MI products – reduces training requirements
- Attempts to manage the cost of intermediation by defining commissions permitted more liberally than for other insurance
- Allows collaboration between one life and one non-life insurer for offering combined products

# Has regulation facilitated inclusion?

- Less than 3 years have elapsed since introduction – insufficient to reach definitive conclusion
- The quotas have forced insurance companies to engage with low income population as clients and, thereby, played a major role in creating awareness among insurers of the potential of such business
- However, the inclusion of MI under rural obligation norms has not encouraged the insurers to view MI as a separate market segment
- Micro-insurance regulations have focussed the attention of insurers on the needs of low income clients but they regard this as a segment with limited business potential at present
- Stagnant target-achievement ratio of insurers

# What have been the limitations – affecting outreach?

- The restrictive definition of MI agents – has left out the largest aggregators of micro-insurance. In forcing companies/aggregators to find via-media it has increased the cost of doing business
- Limitation on no. of insurers a MI agent can work with stops them from offering the best combination of products to clients
- Commission capping continues, may not be able to incentivize sales
- Conflicting regulations (IRDA and central bank) – for remittances
- Does not address the minimum capital constraint to facilitate the entry of specialist micro-insurers

# Conclusions

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Regulatory framework for micro-insurance weighted in favour of prudential operations rather than using regulation to accelerate outreach to low income clients.

To some extent supply side interest in MI has been created but an effort is required to create demand-side interest to foster economic inclusion and reduce vulnerability amongst large segments of the low income population.