REPORT OF THE

COMMITTEE ON MICROINSURANCE

Date: 18th Aug 2019

Dr. Subhash C Khuntia
Chairman
Insurance Regulatory and Development Authority of India
Hyderabad

Sub: Report of the Committee on Microinsurance

Respected Sir,

On behalf of the Committee on Microinsurance, constituted vide Chairman IRDAI's Order Ref: IRDA/RI/ORD/MISC/061/04/2019 dated 25th Apr 2019, I have great pleasure in placing before you the report of the Committee. The Committee has had to take more rounds of interaction than that initially envisaged. This became necessary as more members were added to the Committee at later stage

The Committee went through various national and international papers apart from utilizing the experience of the committee members in micro lending and insurance space and has not only given recommendations on possible legal and regulatory modifications but has also suggested unique product & distribution options which can assist in improving growth and penetration of Microinsurance in India.

The Committee is of the view that a focused regulatory oversight and control is necessary while implementing the unique suggestions made by the Committee. The Committee also understands the importance of technology and has proposed various technologically supported solutions which can help in not only increasing microinsurance penetration, real time policy servicing support but also help in overall cost reduction to make it a viable business model in long run.

I am very thankful to the members of the Committee as well as those co-opted to the various sub-groups, for putting in valuable time and energy into crystallizing the recommendations and making this report. Last but not the least, I would like to thank you for giving me this opportunity of taking up this exercise and make recommendations on various aspects of microinsurance at the time when financial inclusion has become a major initiative for Govt. of India through its various schemes like PMJJBY, PMSY etc.

With Regards,

Yours faithfully

Mr. Suresh Mathur

Chairman of the Committee

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ORDER

Constitution of Expert Committee on Micro Insurance

Ref. No: IRDA/RI/ORD/MISC/061/04/2019 **Date:**25-04-2019

Committee on Microinsurance

1. India has been seen to be a very exciting market and a pioneer in the Microinsurance sector in the world and has provided an example with its Microinsurance regulations.
2. Microinsurance is specifically intended for the protection of low -income people, with affordable insurance products to help them cope with and recover from financial losses. It promises to support sustainable livelihoods of the poor. Liberalization of the insurance sector and Government Schemes has created new opportunities for Microinsurance to reach the vast majority of the poor, including those working in the informal sector.
3. Even so, market penetration in Microinsurance is seen to be low in India.
4. The market, so far, is seen to be largely supply driven. Among others, the product design, ease of underwriting, distribution, awareness creation, easy premium payment system, simple claims processing and use of technology would be key for success of the Microinsurance market.
5. Considering the above, the competent Authority has decided to set up a committee with the following members:

Name	Designation	Organisation	Chairman/ Member
Mr. Suresh Mathur	Executive Director	IRDAI	Chairman
Ms. Yegnapriya Bharath	HoD – Non-Life	IRDAI	Member
Mr. V Jayanth Kumar	HoD- Life	IRDAI	Member
Mr. Pankaj Tiwari	DGM, Actuary	IRDAI	Member
Mr. Ajit D Warakari	Regional Manager	LIC of India	Member
Mr. L P Kar	CCO	ICICI Lombard Gen Ins Co Ltd	Member
Ms Sreedevi Nair	Regional Manager	The New India Assurance Co Ltd	Member
Mr. Subhasis Ghosh	Sr. Executive VP	Kotak Mahindra Life Ins Co Ltd	Member
Mr. C N Chinnaswamy	Sr. VP	Star Health & Allied Ins. Co Ltd	Member
Mr. Uday Kumar	CEO	Credit Access Grameen ltd	Member
Mr. M Srinivasa Reddy	President	Confed of NGOs in Rural India	Member
Mr. Nishant Jain	Programme Director	GIZ India	Member
Mr. N M Behera	DGM, Reinsurance	IRDAI	Member Convenor

6. The Terms of Reference of the Committee are as below:
   i. Review the existing regulatory framework on Microinsurance in India as well as in other jurisdictions and suggest improvements in the Indian framework;
   ii. Recommend how to increase Microinsurance penetration;
   iii. Suggest product designs with customer friendly underwriting including easy premium payment methods and simple claims settlement procedures;
   iv. Suggest changes in the distribution structure, if any, including mobile based and technology driven solutions;
   v. Suggest creating effective awareness programs including training programs for the distribution channels.
   vi. Any other matter relating to Microinsurance.

7. The Committee shall meet as often as required and submit its recommendations within three months of publishing of this order.

Yegnapriya Bharath
Chief General Manager (NL)

Ref. No:IRDA/RI/ORD/MISC/061/04/2019	**Date:**11-06-2019

Formation of committee on Microinsurance

Ref. No: IRDA/RI/ORD/MISC/061/04/2019 11th June, 2019

Addendum

Further to the Order Ref: No. IRDA/RI/ORD/MISC/061/04/2019 dated 25-04-2019, in respect of formation of committee on Microinsurance, the Competent Authority has decided to nominate / replace the following members with immediate effect;

1. Mr. S.P. Chakraborty, HoD, Actuary Department, IRDAI, in place of Mr. Pankaj Tiwari, DGM, Actuary, IRDAI;
2. Mr. Ramesh Bhat, Adjunct Faculty in Finance and Accounting;
3. Ms. R. M. Vishakha, MD & CEO of India First Life Insurance Co. Ltd.;
4. Ms. Mirai Chatterjee, Director, SEWA;
5. Mr. N.M. Behera, will be member of the Committee; and
6. Mr. Bhaskar P. Khadakbhavi, AGM, Re-insurance Department, IRDAI, will be Member Convener of the Committee;

The designation of Mr. M. Srinivasa Reddy may be read as NEC Member.

All other contents of the order Ref: No. IRDA/RI/ORD/MISC/061/04/2019 dated 25-04-2019 remain unchanged.

This issues with the approval of the Competent Authority.

Yegnapriya Bharath
Chief General Manager (Non-Life)

Ref. No:IRDA/RI/ORD/MISC/061/04/2019	**Date:**04-07-2019

2nd Addendum to Order - Committee On Microinsurance

Further to the Order Ref: No. IRDA/RI/ORD/MISC/061/04/2019 dated 25-04-2019, and addendum dated 11-06-2019, the following may please be noted;

The designation of Dr. Ramesh Bhat may be read as Provost and Dean SBM, School of Business Management, NMIMS.

All other details in the order Ref: No. IRDA/RI/ORD/MISC/061/04/2019 dated 25-04-2019 and addendum dated 11-06-2019 remain unchanged.

This issues with the approval of the Competent Authority.

Yegnapriya Bharath
Chief General Manager (Non-Life)

EXECUTIVE SUMMARY

The committee has made comprehensive recommendations in line with terms of reference regarding microinsurance products, pricing, process and technology, current and proposed regulatory framework and distribution of microinsurance products in the country. While a synopsis of the same is given below, the detailed recommendations and the rationale for the same are given in the respective Chapters and Annexures.

A. Product

a. **Simple Benefit:** Product benefits need to be simple so that they could be easily conveyed by the distributor and understood by the customer. It should clearly spelt out in terms of Gives & Gets for the customer i.e. What customer gives and what customer gets.

b. **Agnostic Benefit Structure:** Product benefit and remuneration structure should be agnostic to individual or group platform. Considering the customer segment being addressed, unit or banded rates with appropriate commissions should be allowed.

c. **Appropriate Cover Levels:** Quantum of coverage should be appropriate for the needs of section targeted with broad range to cover all type of sections.

d. **Return of Premium:** Return of Premium appears to be one of the coveted features in an insurance product for the targeted segment.

e. **Long Term Policies:** General Insurance policies need to be allowed for longer term while keeping reserving challenges into consideration

f. **Symbiotic structure with Cooperatives / Self-Help Groups:** Making cooperatives or self-help groups as a partner in providing insurance solution will go a long way in improving penetration of micro insurance products.

g. **Index Based Products:** Index based crop insurance has been utilized by other developing countries like Kenya in Africa for insuring against calamities like drought.

h. **Goal Based Savings Product:** Goal based saving products for child education or higher education etc. short to medium term goal-based products should be allowed where insurance cover is offered for the gap between the goal and savings. Duration can range from 1 to 10 yrs.

i. **Agreed value based policies-** The option of agreed value based polices which are simpler in underwriting and claim process which will have visibility of benefits that the insured can get without any hassle.

B. Pricing

a. **Capital Requirement:** Reduction in reserve requirement even for a short duration can help in better pricing and may also help in assessing the impact of such products in improving penetration

b. **Stamp Duty:** There is a requirement of waiver of stamp duty on micro insurance plans especially for life insurance policies. Taking in view the small ticket size of General insurance policies, proposition of exemption of stamp duty may be evaluated for GI policies as well

c. **Expenses of Management:** Expenses of management requirement on micro insurance products need to be relaxed and the overall impact of it needs to be assessed.

d. **Product pricing flexibility:** It is essential to permit pricing flexibility i.e. Insurer should be given an option to revise the pricing within reasonable range on positive and negative side within one year from the date of launch of a product (without change in UIN).The product designing to have an element which allows insurer to opt for reasonable pricing flexibility

e. **Allowing Unit Rate / Age Band rates:** For the ease of distribution, product simplification requires the premium rate to be either in unit rate format or should be on age band basis.

f. **Premium Frequency in instalment:** – Option to pay single premium in Daily / fortnightly / monthly / quarterly instalments should be allowed. Alternatively, customers should be allowed to pay mortality premium in lump sum with remaining premiums to be allowed to be paid in instalment.

C. Process and Technology

a. **e-KYC:** e-KYC process is required to reduce cost and ensure smooth on-boarding and claim settlement process.

b. **Digital signature:** Digital signatures should be encouraged for micro insurance business.

c. **Outsourcing of support activities:** Cooperatives / Self-Help groups should be allowed to take on certain on-boarding and claims related processes for the schemes wherever they are partners. Accordingly,, certain support activities may be outsourced to the such Mi Agents / intermediaries that can be performed by them within the present commission structure offered to them.

d. **Standardized Documents:** A simple one-page proposal form should be considered by insurers for this segment. The insurers may initiate steps to issue policy document in a digital form.

e. **Claim payment structure:** The Claim pay-out can be linked to the goal of the target segment e.g. If they are saving for the child, the claim pay-out should be linked to the school fee of their kids

f. **Symbiotic Benefit:** Utilizing Cooperative / Self-Help group in execution of product will assist in mitigating the anti-selection risk that may be prevalent

g. **Sand Box –** With advent of Authority providing a landscape of Sand box provisions for the insurance market, an innovation in this space can actually fetch some positive and cost-effective results. Thus, focused approach for sand box introduced for MI products may be promoted and given some additional attention

D. Distribution:

a. **Business Model for Microinsurance Distribution:** A strong business case has to be made out and demonstrated to get good and productive intermediaries on board. Case studies of successful microinsurance intermediaries explaining their model need to be documented and promoted among other intermediaries. The social impact of insurance on poverty in general needs to be highlighted alongside the revenue angle. This will help in motivating the potential intermediaries in a better way. Insurers need to thoroughly study the core activities of microinsurance intermediaries and come out with products and processes that can be seamlessly integrated with the intermediary's core activities without incurring additional cost.

b. **Master Policyholders to be treated as Microinsurance Agents:** MFIs who are master policyholders, currently, need to become corporate agents if they want to earn commission on the credit life business procured by them. This principle needs to be extended to Microinsurance (MI) agency as well. All credit life policies confirming to the limits of sum insured under MI Regulations should be deemed to be MI products and all MFIs who are also master policyholders should be deemed to MI agents. This will enable MFIs to better manage their microinsurance portfolio and will also encourage them to take-up voluntary distribution of insurance products in addition to the credit life products. However, it is to be ensured that the commission to MI agent shall not cause additional increase in premium and thereby causing burden to the policyholder.

c. **Outsourcing of Policy Issuance to Microinsurance Intermediaries:** The function of policy issuance through the use of customized IT applications should be outsourced to MI intermediaries who have the necessary human and physical infrastructure.

d. **Introducing the Concept of Master Agent:** There is a need to consolidate potential intermediaries like cooperatives and other organizations who can aggregate the demand for insurance by a relatively larger entity that can then deal with insurers with sufficient volumes. Hence a two-tier distribution structure only for microinsurance with a Master Agent who has a well demonstrated financial and operational standing and a MI agent who is the grassroots level consolidator appears to be the need of the hour. With a clear demarcation of roles and responsibilities of insurers, master agents and MI agents such a system can prove to be a game changer for micro insurance market development.

e. **Including More Entities Under the Definition of Microinsurance Agent:** Modifications to be made to Reg2 (f) of the existing Microinsurance Regulations. Apart from FPCs who have been included in the list of entities that can be made MI agents the following can also be included. Trusts which are registered and working with socially oriented goals as specified in their objectives.
   i. RAPs working under CPSC, who are already eligible to sell CPSC Products.
   ii. CSPs/CRPs, working under BCs.
   iii. Allowing Individual Agents who are procuring large number of policies to appoint sub-agents or specified persons
   iv. Community based organizations, trade unions, faith-based organizations.
   v. Retail chains including supermarkets, appliances stores, clothing retailers, agriculture input retailers.
   vi. Mobile network operators (MNOs) - MNOs who have access to a vast pool of mobile phone subscribers, which can be voluntarily enrolled.
   vii. Employers have an incentive to offer a range of products and are particularly likely to be interested in health cover, which is a product many channels struggle to offer.
   viii. Utility companies who are specialized in supplying electricity, gas and water.

f. **Consumer Education:** A concerted and longitudinal consumer education effort that goes much beyond marketing and product promotion to concept selling and addressing behavioral anomalies faced by potential insurance consumers needs to be undertaken by all stakeholders. For this, a framework in line with that for National Strategy on Financial Education suggested by OECD can be considered.

g. **Flexibility for distribution:** Microinsurance agent should have flexibility to distribute products from more than one insurance company equivalent to Corporate Agency. This is necessary in order to enable MI agents to develop a holistic portfolio of microinsurance by offering products of their choice to their target market segment.

E. Legal Framework:

The members of the Sub-Committee recommended to operate on the following processes and lines:

a) Compilation and examination of regulatory prescriptions on micro-insurance in India.
b) Review of the prescriptions in terms of adequacy and completeness to address the contemporary requirements.
c) Examination of the recommendations of the other sub-committees and examination of the present regulatory framework to accommodate such recommendations.
d) Examination of successful micro-insurance frameworks in jurisdictions other than India and adoption of learnings thereof.

The sub-committee on legal framework analyzed existing regulatory guidelines and evaluated each suggestion / recommendation with a view to augment effectiveness of microinsurance business for all participants and in-turn looking at improving the overall penetration.

F. Others:

The committee recommends for introduction of enabling provisions for registration of specialized Micro Insurance Company through Insurance Cooperative Society. It is further recommended that, as the ticket size of premium for micro insurance policies will be very small, the IRDAI may consider reduction in requirement of present equity capital of Rs. 100 Crores for the Micro Insurance company.

CHAPTER I

INTRODUCTION AND METHODOLOGY

India being the 2nd most populated country in the world, one can envisage the scale of insurance coverage that India needs. The insurance wants of an Indian may fluctuate depending upon its demographic, economic, psychological conditions. The insurance prerequisite may not become an item on the priority list of a common Indian, particularly to the people with lower income size. However, the necessity of an insurance cannot be evaded, especially for the weaker sections of the society. Therefore, any harm to the prominent wage earner puts the entire family in to a tough condition. The mode to protect from the hardships of calamity, mishaps or any indeterminate events is to secure through insurance coverage. The need of insurance for underprivileged section cannot be avoided as this section of society is more prone to many risks which ultimately leads to incapacity to face such uncertain situations. Hence, the role that micro insurance plays thus becomes inevitable.

India has been seen to be a very exciting market and a pioneer in the Microinsurance sector in the world and has provided an example with its Microinsurance regulations. Microinsurance is specifically intended for the protection of low -income people, with affordable insurance products to help them cope with and recover from financial losses. It promises to support sustainable livelihoods of the poor. Liberalization of the insurance sector and Government Schemes has created new opportunities for Microinsurance to reach the vast majority of the poor, including those working in the informal sector. Even so, market penetration in Microinsurance is seen to be low in India. The market, so far, is seen to be largely supply driven. Among others, the product design, ease of underwriting, distribution, awareness creation, easy premium payment system, simple claims processing and understanding & use of new age technology would be key for success of the Microinsurance market.

The current technological advancements can help all participants in reducing the overall cost of operations and help to make microinsurance a profitable business, which in turn can help in improving penetration and meet the growing need of India's financially challenged section of society and help in their overall upliftment.

The Committee has deliberated over numerous aspects related to Micro insurance during its meetings held on following dates:

1. May 6, 2019, Hyderabad
2. May 16, 2019, Mumbai
3. July 3, 2019, Ahmedabad
4. July 12, 2019, Hyderabad
5. July 31, 2019, Hyderabad`

Further, in order to apply focused approach towards following areas i.e.:

- Products, pricing, process and technology
- Effective distribution and servicing of Micro Insurance products
- Regulatory framework

The Committee decided to constitute following sub-committees for exclusive discussion around key areas:

A. Product Committee:

Sr. No.	Name	Chairperson/Member
1	Ms. R M Vishakha	Chairperson
2	Ms. Sreedevi Nair	Member
3	Mr. C N Chinnaswamy	Member
4	Mr. S.P. Chakravarty	Member
5	Mr. Arman Oza	Member
6	Ms. Yegna Priya Bharath	Member

B. Distribution Committee:

Sr. No.	Name	Chairman/Member
1	Mr. Udaya Kumar	Chairman
2	Mr. M Srinivasa Reddy	Member
3	Mr. Subhasish Ghosh	Member
4	Mr. Manish Mishra	Member
5	Mr. L P Kar	Member
6	Mr. Suresh Mathur	Member
7	Mr. Bharat	Member

C. Regulatory Committee:

Sr. No.	Name	Chairman/Member
1	Mr. L P Kar	Chairman
2	Mr. N M Behera	Member
3	Mr. Gaurav Malhotra	Member

Modus Operandi

Each of the sub-groups independently reviewed regulations in respect of the areas allocated to them and tabulated a list of key issues after having internal discussions among the sub-committee members. These were presented in the meetings of the sub-groups held on May 16th and July 3rd and were refined into specific recommendations for changes in Regulations in the Committee meetings held on July 12th, 2019.

CHAPTER II

PRODUCTS, PRICING, PROCESS AND TECHNOLOGY

In a developing economy like India around 29.5% of total population (36 Crores) lives below poverty line.of these 10.2 Crore people live in urban areas while 25.8 Crore live in rural areas. Making life better for such poor people is essential for sustainable development. Insurance Companies (Life/General & Health) can lend a helping hand in working towards betterment of Life for this section of people by providing adequate insurance coverage at reasonable prices. The below average purchasing capacity of individuals of this segment, lack of awareness, high transaction cost are few bottlenecks which needs to be addressed for achieving any meaningful outcome.

From the practical point of view, some of the issues related to insurance of low income segment of population are highlighted below which may pose challenges to the long-term sustainability and stability of an ideal Micro Insurance mechanism:

- Low Take up rate – Poor people hesitate to pay for a future event that may or may not happen when they face problem of meeting their daily need.
- High claim rate – This results in only those individuals taking up the plan for whom the outcome of the event is already evident. E.g. Households with more sick members will tend to buy micro health policy. This may be a specific example of selection against the insurer.
- Low renewal rate – Keeping provision of regularly paying the amount for cover continuity is not possible due to absence of any certainty of income. Also poor people do not perceive many of the existing insurance products to be useful, and the servicing to be of poor quality (no timeliness, too much documentation etc) and so do not want to renew.

Given these challenges, what are the tools available to the insurers to address such situations without affecting the main purpose and how these are going to impact the product design and premium rates while taking into consideration the NEED of such customers.

1. PRODUCTS

The committee discussed various product constraints and arrived at the following features to focus on:

- **Simple Benefit** – Product benefits need to be simple so that they could be easily conveyed by the distributor and understood by the customer. It should clearly spell out Gives & Gets for the customer i.e. What customer gives and what customer gets. Hence, benefit against the premiums taken should be clearly defined e.g. For annual premium of Rs 450, amount payable on death will be Rs 1.5 Lakh. Exclusions should ideally be uniform across similar products for ease of understanding. As far as possible, consultations should be held with potential customers at product design stage so that the product is useful to them and also makes sense from the distributor's viewpoint. Products can then be structured accordingly before final roll out takes place.

- **Agnostic Benefit Structure** – Product benefit and remuneration structure should be agnostic to individual or group platform. Considering the customer segment being addressed, unit or banded rates with appropriate commissions should be allowed. A group structure leads to distribution being controlled by Master Policyholder and at times which limits the benefit from reaching last mile customer. With the advent of POS channel, such product should be available through small kirana shop owners or Business correspondents to increase the depth of penetration.

- **Appropriate Cover Levels** – Quantum of coverage should be appropriate for the needs of section targeted with broad range to cover all type of sections. This means that current limit of Rs 2 lakh should be extended to a suitable amount e.g. Rs 5 Lakh.

- **Return of Premium** – Even General Insurance or Health products should have return of premium as an option. Basis the discussion, it appears return of premium is one of the features, which holds greater value for this section of customers.

- **Long Term Policies** – General Insurance need to be allowed as long term policies subject to taking into consideration reserving challenges

- **Symbiotic structure with Cooperatives / Self-Help Groups** – It was identified that merely making cooperatives as micro insurance agent is not helping in improving penetration of micro insurance products. A better solution is to make them as partner in insurance solution. The product solution (Life / General / Health) on protection or savings platform will be such that it will have risk sharing with cooperative / Self-help groups up to a defined level. Claims beyond the defined level, will be borne by the supporting insurer. Modalities in terms of governance and financial management of such schemes need to be well defined and it will also involve profit sharing at scheme level with the cooperatives / Self-help groups. E.g. An index-based insurance scheme was implemented in Mongolia with a credit agreement with the World Bank. The approach was a combination of self-insurance, market-based insurance and a social safety net. Herders bear the cost of small losses that do not affect the viability of their business, larger losses are transferred to the private insurance industry and only the final layer of catastrophic loss is borne by the Government of Mongolia.

Even in Philippines, there are products which were on mutual benefit association, an entity, separate from MFI, which provides basic insurance products to its members. Cooperatives also invested in cooperative insurance societies which provide and sell insurance products to primary cooperative members.

- **Index Based Products** - An index-based livestock insurance has been implemented in Africa especially Marsabit district of northern Kenya which uses satellite imagery data to predict the loss in forage and vegetation in the drought prone arid and semi-arid regions of Kenya. Pay outs are made as soon as the satellite imagery data falls below a strike level which indicates incidence of drought.

- **Goal based savings product** – Goal based savings product for child education, higher education etc. Short to medium term goal-based products should be allowed where insurance cover is offered for the gap between the goal and savings. This will be a reducing cover. Duration can range from 1 to 10 yrs.

2. PRICING

Committee discussed on the below points:

- **Capital Requirement** – Capital reserve requirement need to be modified for micro insurance products. Actuarial need to share a suitable formula. Members discussed that the reduction in reserve requirement even for a short duration i.e. for a period of 5 yrs can help in better pricing and may also help in assessing the impact of such products in improving penetration.

- **Stamp Duty** – There is a requirement of waiver of stamp duty on micro insurance plans especially for life insurance policies. On a Rs 289 premium for PMJJBY, stamp duty works out as Rs 40 which is almost 14%.. Similarly, General insurance contract being small ticket size policies the portion of stamp duty can be relaxed to bring down the premium amount.

- **Expense of Management** – Like capital reserve requirement, expense of management requirement on micro insurance products need to be relaxed especially for General & Health Insurers and the overall impact of it needs to be assessed.

- **Product pricing flexibility** – Pricing flexibility is required i.e. Insurer should be given an option to revise the pricing within reasonable range on positive and negative side within one year from the date of launch of a product (without change in UIN). It is suggested to design the products in such manner that it provides a scope to the insurer to introduce reasonable price flexibility. This will enable the insurer to make the product more sustainable and at the same time affordable to the policyholder. This will help in improving the marketability and viability of the product as most products are priced with very limited claims data, if any.

- **Allowing Unit Rate / Age Band rates** – For the ease of distribution product simplification requires the premium rate to be either in unit rate format or should be on age band basis. This helps in distribution of product as it results in ease of calculation.

- **Premium Frequency in instalment** – One of the points, which is particularly relevant for the section being covered is inability to pay lump sum single premium. Option to pay single premium in Daily / fortnightly / monthly / quarterly instalments should be allowed. Alternatively, customers should be allowed to pay mortality premium in lump sum with remaining premiums to be allowed to be paid in instalment. We should also explore possibility of allowing the premium to be a defined percentage of daily wage with savings benefit varying depending on the amount of contribution.

3. PROCESS AND TECHNOLOGY

Committee discussed the following points:

- **E-KYC** – Committee discussed on requirement of E-KYC process for micro-insurance mainly to reduce cost and ensuring smooth on-boarding and claim process.

- **Digital Signature** – Digital signatures should be encouraged for micro insurance business.

- **Outsourcing of support activities** – Cooperatives / Self-Help groups should be allowed to take on certain on-boarding and claims related processes for the schemes wherever they are partner. The commission rate that is offered to such agents commensurate with the role that is played by them in providing the services to the insured. Accordingly, certain support activities may be outsourced to these agencies with no changes in existing commission structure. To address above proposed changes it will require certain modifications to the existing micro insurance regulations.

- **Standardized Documents** - A simple one-page proposal form should be considered by insurers for this segment. The insurers may initiate steps to issue policy document in digital form.

- **Claim payment structure** – The Claim pay-out can be linked to the goal of the target segment e.g. If they are saving for the child, the claim pay-out should be linked to the school fee of their kids.

- **Symbiotic Benefit** – As suggested in the Product recommendation, utilizing Cooperative / Self-Help group in execution of product will assist in mitigating the anti-selection risk that may be prevalent.

CHAPTER III

DISTRIBUTION

Distribution is the most critical link in the insurance value chain, especially for microinsurance where the customer is semi-literate or even illiterate, has limited financial resources and is largely inaccessible. Distribution becomes even more crucial in case of voluntary microinsurance since it also involves a ‘hard-selling’ element. On the other hand, due to the low insurance penetration among the low-income segment, there also lies a huge opportunity both in terms of business as well extending financial protection to those who need it the most.

Various efforts have been made in the past to address the distribution challenge in microinsurance. The concept of ‘microinsurance agent’ introduced in 2005 was aimed at attracting more intermediaries to this space and leverage upon the connect enjoyed by grassroots organizations like cooperatives and SHGs with a large section of the low-income segment. Although this initiative succeeded in enrolling large numbers of microinsurance intermediaries, the volumes continue to remain modest – both in terms of premium collections as well as lives covered.

The major challenges in microinsurance distribution are

- Small ticket size coupled with high transaction and service delivery costs.
- Absence of a business model that can attract good intermediaries.
- Capacity building of intermediaries.
- Lack of basic awareness and knowledge on how insurance works

From a regulation point of view, the mandatory approach towards microinsurance as reflected in the IRDA (Obligations of Insurers to Rural and Social Sectors) Regulations needs to be complemented with a bigger concessional and nudge approach, as detailed in the recommendations. This will give the necessary impetus to the insurers for developing microinsurance business not just out of compulsion but also as a sustainable business proposition.

In the same way, insurers also need to demonstrate concerted efforts in developing this market segment by developing suitable products, adopting client and intermediary friendly enrolment and claims processes and above all by investing in sustained consumer education efforts that does not just educate people on the importance of insurance as a risk management tool but also aims at overcoming the subtle behavioral anomalies faced by insurance consumers especially the low-income and semi-literate population. Cross-selling and up-selling microinsurance products to beneficiaries of social insurance schemes like PMJJBY and PMSBY by making good use of the data already available with the insurers could be a good start.

Recommendations

More specific recommendations on microinsurance distribution that can overcome the larger challenges outlined above are as under

1. **Business Model for Microinsurance Distribution**: The biggest challenge in microinsurance distribution is to get good and productive intermediaries on board. For this, a strong business case has to be made out and demonstrated in a forceful manner. Case studies of successful microinsurance intermediaries explaining their model need to be documented and promoted among other intermediaries. Rather than focusing on one product or a class of products, the intermediaries need to be encouraged to take-up multi-product distribution so that a suitable business case can be established. Since most of the microinsurance intermediaries are organizations engaged in social sectors, the social impact of insurance on poverty in general needs to be highlighted alongside the revenue angle. This will help in motivating the potential intermediaries in a better way. Insurers need to thoroughly study the core activities of microinsurance intermediaries and come out with products and processes that can be seamlessly integrated with the intermediary's core activities without having to incur much additional cost. Some incentives and/or revenue has to be built into the model. This will require a customized approach for various classes of microinsurance intermediaries like MFIs, cooperatives, NGOs and so on. IRDAI can complement these efforts by conducting and publishing research on the social impact of various insurance schemes at a national as well as regional levels. The data can be used to motivate intermediaries to take-up microinsurance distribution as one of their main activities. International and National case studies to be replicated as pilot in India to test the Business Model for each segment of population. For example- Weather Index based insurance for agricultural input companies, micro insurance through retail chains and supermarkets etc.

2. **Master Policyholders to be treated as MI Agents:** Credit life insurance offered to micro-credit borrowers by MFIs constitutes a large chunk of microinsurance business today. Although credit life insurance is compulsory for all borrowers and hence does not involve much of a marketing effort, there is certainly a substantial effort involved on the part of MFIs concerned to collect premium, maintain and submit data of all insured beneficiaries as well as collection and submission of claim documents in the event of claims. Currently, MFIs who are master policyholders need to become corporate agents if they want to earn commission on the credit life business procured by them. This principle needs to be extended to MI agency as well. All credit life policies conforming to the limits of sum insured under MI Regulations should be deemed to be MI products and all MFIs who are also master policyholders

should be deemed to be MI agents. This will enable MFIs to better manage their microinsurance portfolio and will also encourage them to take-up voluntary distribution of insurance products in addition to the credit life products. Further, keeping in view the vulnerability of the lower income group to face inability of financial setbacks for loss of property or earning capacity due to mishaps, efforts to promote benefit based general insurance products is also warranted. The well-designed strategy by intermediaries and collaborated efforts of insurers and intermediaries can aid in increasing the awareness amongst the lower income group to avail the benefit of such products. Remuneration payable (commission) to intermediary should be based on the product category and not intermediary category i.e. in case Micro Insurance products are sold by Corporate Agents/Brokers, the commission as applicable for Micro Insurance products should be payable. This is because significantly extra efforts are put in by the intermediary on procuring micro insurance business. For a non-term product, Micro Insurance Agent commission is at 10% whereas for the same product a corporate agent would get commission only at 2% of the premium in today's scenario. At the same time, it is to be ensured that the commission to MI agent shall not cause additional increase in premium and thereby causing burden to policyholders. Thus, proposed commission to MI agent shall be reasonable and in line with extant regulation.

3. **Outsourcing of Policy Issuance to MI Intermediaries:** Since most of the MI products are pre-underwritten and do not involve financial or medical underwriting, the function of policy issuance through the use of customized IT applications should be outsourced to MI intermediaries who have the necessary human and physical infrastructure. This will reduce cost for the insurer enable faster policy issuance and above all create sense of ownership among the MI intermediaries. Additionally, it is to be ensured that the above services rendered by the intermediaries shall not cause additional premium bearing to the policyholder

4. **Introducing the Concept of Master Agent:** The small product ticket size in microinsurance makes it imperative to generate huge volumes in order to establish a strong business case as well as to demonstrate visible social impact. On the other hand, the potential intermediaries like cooperatives and other organizations who can aggregate the demand for microinsurance are essentially small and dispersed. Hence there is a need to consolidate these small aggregators by a relatively larger entity that can then deal with insurers with sufficient volumes. Hence a two-tier distribution structure only for microinsurance with a Master Agent who has a well demonstrated financial and operational standing and a MI agent who is the grassroots level consolidator appears to be the need of the hour. Suitable checks and balances obviously need to be worked out to ensure prudent market conduct by these intermediaries through regulation

and technology. Also, a ceiling of commission can be prescribed both for the Master Agent as well as the MI agent that conforms to the overall ceiling laid down in the current MI Regulations. With a clear demarcation of roles and responsibilities of insurers, master agents and MI agents such a system can prove to be a gamechanger for microinsurance market development. Also, it could be explored that the MI agents/master agents are able to enroll intermediaries like kirana stores, mobile recharge outlets, supermarkets etc. Since Kirana Stores, Mobile Recharge outlets etc. come under the category of POSPs, who are authorized to sell micro Insurance products by the Authority, they may allow e-commerce platforms and Mobile Network Operators as Master Agents, who can utilize the services of these POSPs as their Sub Agents.

5. **Including More Entities Under the Definition of MI Agent:** Modifications to be made to Reg2 (f) of the existing MI Regulation. Apart from FPCs who have been included in the list of entities that can be made MI agents the following can also be included.
    a. Trusts which are registered and working with socially oriented goals as specified in their objectives.
    b. RAPs working under CPSC, who are already eligible to sell CPSC Products.
    c. CSPs/CRPs, working under BCs.
    d. Allowing Individual Agents who are procuring large number of policies to appoint sub-agents or specified persons: Some of the individual Agents are selling more than thousand MI policies in a year. They find it difficult to provide necessary services to the policyholders and it will be helpful for them to use the services of others. This will require amendment in Reg.6 (2).
    e. Community based organizations, trade unions, faith-based organizations.
    f. Retail chains including supermarkets, appliances store, clothing retailers, agriculture input retailers.
    g. Mobile network operators (MNOs) - MNOs who have access to a vast pool of mobile phone subscribers, which can be voluntarily enrolled.
    h. Employers have an incentive to offer a range of products and are particularly likely to be interested in health cover, which is a product many channels struggle to offer. Employers can have an interest in subsidizing premiums, allowing insurers to offer more comprehensive benefits at a lower cost to clients
    i. Utility companies who are specialized in supplying electricity, gas and water. They can also become distributors of financial services, including insurance.

6. **Consumer Education:** The importance of sustained consumer education for a difficult concept like insurance and that too for semi-literate consumers can be hardly overstated. A concerted and longitudinal consumer education effort that goes much beyond marketing and product promotion to concept selling and addressing behavioral anomalies faced by potential insurance consumers needs to be undertaken by all stakeholders. SHGs and cooperatives may be considered for this role of education, as they work closely with local communities and potential customers. For this, a framework in line with that for National Strategy on Financial Education suggested by OECD can be considered which requires co-ordination between public, private and not-profit stakeholders, on the maximization of consumers interest through the integration of private and not-for profit sectors initiatives, partnerships, and co-ordination.

7. **Flexibility for distribution:** Microinsurance agent should have flexibility to distribute products from more than one insurance company equivalent to Corporate Agency. The current restrictions are preventive. This is necessary in order to enable MI agents to develop a holistic portfolio of microinsurance by offering products of their choice to their target market segment. This is also needs to be considered that most of the insurers today have a limited number of microinsurance products in their product basket. The concept of Master Agent envisaged in recommendation 4 above would gel well with this recommendation. A Master Agent who is better supervised by the regulator / insurer can be allowed to deal with more than one life / general / health insurer for distribution of microinsurance products through the sub-agents.

CHAPTER IV

LEGAL FRAMEWORK

A. Process/Modus:

The members of the Sub-Committee determined the following process to proceed with the assignment:

1. Compilation and examination of regulatory prescriptions on micro-insurance in India.

2. Review of the prescriptions in terms of adequacy and completeness to address the contemporary requirements.

3. Examination of the recommendations of the other sub-committees and examination of the present regulatory framework to accommodate such recommendations.

4. Examination of successful micro-insurance frameworks in jurisdictions other than India and adoption of learnings thereof.

B. Proceedings:

1. **Compilation and examination of regulatory prescriptions on micro-insurance in India**.

   The sub-committee gathered all the regulatory prescriptions enforceable for the time being in force and listed them as follows:

   a) Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015, notified vide F. No. IRDA/Reg/2/92/2015 dated March 13, 2015, published in the Official Gazette, Government of India dated March 17, 2015.

   b) Insurance Regulatory and Development Authority of India Corrigendum to notification no. IRDA/Reg/2/92/2015 dated March 17, 2015, titled as Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015, notified vide F. No. IRDA/Reg/6/96/2015 dated May 19, 2015.

   c) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/Life/CIR/MIN/225/12/2015 dated December 23, 2015 on extension of date for continuance of existing Micro insurance Products.

   d) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/Life/CIR/MIN/225/12/2015 dated December 29, 2015 on extension of date for continuance of existing Micro insurance Products.

e) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/LIFE/CIR/MIN/007/01/2016 dated January 08, 2016 on filling of Micro Insurance Products subsequent to the implementation of IRDAI (Micro Insurance) Regulations, 2015.

f) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/LIFE/CIR/MIN/045/03/2016 dated March 09, 2016 on offering Existing General Insurance Products that are in Compliance with IRDAI (Micro Insurance) Regulations, 2015 as General Micro Insurance Products.

g) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/INT/CIR/MI/197/10/2016 dated October 18, 2016 on Products for sale through Micro Insurance Agents.

h) Insurance Regulatory and Development Authority of India Circular Ref: IRDA/INT/CIR/PSP/159/09/2018 dated September 25, 2018 on administration of POS for distribution of Micro Insurance Products.

2. Review of the prescriptions in terms of adequacy and completeness to address the contemporary requirements.

The sub-committee reviewed the present regulation i.e. Insurance Regulatory Development Authority of India (Micro Insurance) Regulation, 2015 (hereinafter referred to as “Regulation”) and is of the view that the following prescriptions of the Regulation may be modified either for the purpose of extending necessary clarification or for the purpose of according adequacy in view of the prevailing state of affairs:

Provision	Description	Modification	Justification
2 (d)(i)	General Insurance Policies issued to Micro, Small and Medium Enterprises as classified in Section (7) of the MSMED Act, 2006 under various lines of General Insurance business will also be qualified as general micro insurance business upto Rs. 10,000 premium p.a. per MSM enterprise.	The allowable premium for policies to be considered as micro insurance meant for the MSME sector should be upto 2% of the allowable maximum investment in the segment under the MSMED Act.	As per section 7 of the MSMED Act, 2006 a micro enterprise is a unit where the investment in the plant and machinery does not exceed 25 lakh ruppes. Similary for a unit to be identified as a small and medium enterprise, the investment in the plant and machinery should not be more than Rs. 5 Crore and 10

			Crore respectively. Under such circumstances, a premium size of Rs. 10,000 is too less to meet the sum insured requirement of the MSMED. Hence it is recommended that the allowable premium for the sector for a policy to be considered as micro insurance should be upto 2% of the allowable maximum investment in the segment of the MSME.
Regulation 2(f) read with explanation (I) to Regulation 2(f)	Definition of Non-Government Organization	Any constituted body registered under any law for the time being in force with an objective of social welfare and non-profit orientation.	Other than the entities prescribed in the provision, there are many other entities such as trusts and charitable trusts etc. which are organized and registered bodies and do work with objective of social welfare and with non-profit orientation. Such entities get excluded out of the scope of "micro-insurance agent" because of the prescriptive nature of the

			provision.
New	Standardization of common micro-insurance products.	Insertion of a provision authorizing IRDAI to standardize common micro-insurance products to be used by all insurers for example micro insurance cover for natural catastrophic losses etc..	In order to avoid ambiguity resulting into mis-selling, some common micro insurance products may be standardized by the Authority to be used by every insurer. However, the insurers may be allowed to have add-ons to the standard product as per their market research and capacity.
9(2)	Issuance of Micro-insurance policy contracts	The group administrators/Group Policyholders may be allowed (wherever they are willing) to undertake the responsibility of distribution of policy certificates amongst the individual members of the group. This is in line with regulation 9(3), where it allows the Micro insurance agents to print the policies and hand it over to the Policy holder.	The provision contemplates that the insurer shall issue a group policy to the Group policy holder and separately shall issue individual policy certificates to the individual members of the group. Keeping in view the low-cost model of the business, it may be appropriate to allow the group administrator to undertake the responsibility (wherever they are willing) of distributing the policy certificates amongst the individual

			members of the group.
New	Administrative expenses of the Group administrators	Insertion of a provision allowing insurers to undertake administrative expenses of Group administrators to any given extent. (	In view of the fact that most of the group administrators of the Group Micro Insurance Products are non-profit organizations, it may be appropriate to have a provision allowing insurers to undertake administrative expenses of such Group administrators to any given extent.
11(1)	Capacity Building (Training)	Training time may be reduced to "at least one day" instead of 25 hours (3 days).	As the micro-insurance products are characteristically supposed to be simple and easy to comprehend, 25 hours (3 days) training is long and expensive for the insurers. This is especially when a refresher training program at an interval of every 3 years is already mandated at 3 years interval under regulation 9(2). In view of the Sub-committee, one day training for such products is sufficient for the insurance intermediaries for the

			capacitating themselves for distribution of the products.
12	Remuneration / Commission	Provision for reward as applicable for other lines of business may be enabled.	Enablement of reward will generate relative competition resulting into better penetration.

3. Examination of the recommendations of the other sub-committees and examination of the present regulatory framework to accommodate such recommendations.

The Sub-Committee also examined the present Regulation to understand whether the recommendations of the other Sub-Committees, if adopted would require modification to the Regulation or the Regulation, in its present for would accommodate such recommendations. A summary of the findings of this Sub-Committee is as under:

Recommendation of the Other Sub-Committees	**Administering Provision**	**Whether modification required**
Commission based on the product category and not intermediary category.	Regulation 12: Remuneration/Commission	Yes
Outsourcing of Policy Issuance to MI Intermediaries.	Regulation 9: Issuance of Micro Insurance Policy Contracts	No (As far as allowing policy issuance by MI Agents). Yes (if the capacity to issue policy contract is contemplated to be accorded with other Intermediaries.
Introducing the Concept of Master Agent	Regulation 6 (1): Employment of "Specified Persons" by Micro Insurance Agents	No (If the Micro Insurance Agent is an Institution.) Yes (if the capacity is contemplated to be accorded with Individual Agents
Flexibility for the intermediaries to distribute for more than	Regulation 5(2): Appointment of Micro Insurance Agents	Yes (if the capacity is contemplated to be accorded for more than

one insurer		one Insurer in each category i.e. life, non-life and health)
Including More Entities Under the Definition of MI Agent	Discussed in Chapter III of this report (2(f) of MI Regulations)	Yes
Focus on Consumer Education and MI awareness	New provision	Yes
Options to pay premium in instalments	Schedule – III [Related to Regulation (8) (3)] Norms for life micro insurance products	No (for Life Micro Insurance Products) Yes (for Non-life Micro-Insurance Products)
Use & File approach for introducing new products	Regulation 8: Filing of Micro Insurance Product. a. read with Schedule III of the Regulation (for Life Products) b. read with IRDAI Circular number IRDA/Life/CIR/MIN/007 /2016 dated January 8, 2016 (for both life and non-life products) c. read with IRDAI Circular number IRDA/Life/CIR/MIN/045 /2016 dated March 9, 2016 (for both life and non-life products)	No (If a similar product is existing) Yes (If it is a new Product)
Unit Rate for up to five. Years	Schedule – III [Related to Regulation (8) (3)] Norms for life micro insurance products	Yes
Increase sum assured limits	Schedule I and Schedule II	Yes
Claim settlement to be done through the MI agent.	No provision (For non-life insurance, clarification may be extended whether the recommendation is about surveying a claim or making payment of a claim by the MI Agent)	Yes
Group Savings products on simplified platform. Variable insurance as a category to be removed	Schedule II	Yes

Long Tenure products and enhanced covers to be introduced in Non-life sector	Schedule I read with notifications dated January 8, 2016 and March 9, 2016	Yes
Wet signature on the proposal form to be made non-mandatory. Digital signature to be allowed	No provision in the existing Regulation	Yes
Symbiotic structure with Cooperatives / Self-help Groups – Risk sharing up to a defined level and beyond that level covered by partner insurer	No provision allowing or prohibiting risk sharing by insured as a "Product Feature"	Yes (If an enabling clause is contemplated to be introduced.)
Agnostic Benefit Structure between Individual & Group platform	No provision in the existing Regulation	Yes
Indexed Based Products to be allowed	No provision allowing or prohibiting index-based products as a "Product Feature". Crop insurance is a part of Schedule I	Partially Yes (If an enabling clause is contemplated to be introduced.)
Goal Based Saving Products for Life Insurance	No provision allowing or prohibiting Goal Based Saving Products as a "Product Feature"	Yes (If an enabling clause is contemplated to be introduced.)
Capital Requirement – Capital Reserve requirement need to be relaxed for micro insurance products	No provision in the existing regulation	Yes (If an enabling clause is contemplated to be introduced.)
EoM – Expense of Management also needs to be relaxed for micro insurance products	No provision in the Regulation.	Yes (for both MI Regulation and EoM Regulation)
Product pricing flexibility & Reinsurance Support	No provision in the Regulation.	Yes
Stamp Duty	**Regulatory Modification** Waiver of Stamp duty on micro insurance plans for Life Insurers	Recommendation may be made to the Central Government.
E-KYC should be	No provision in the	Yes (Recommendation

mandated	Regulation.	may be made to UIDAI to allow Aadhar for E-KYC for all insurance Companies.
Digital Signature or OTP based e-signature should be encouraged for micro insurance business	No provision in the Regulation.	Yes
Standardized Documents – Proposal form should be common for all insurers and issuance of digital policy document should be encouraged	No provision in the Regulation.	Yes

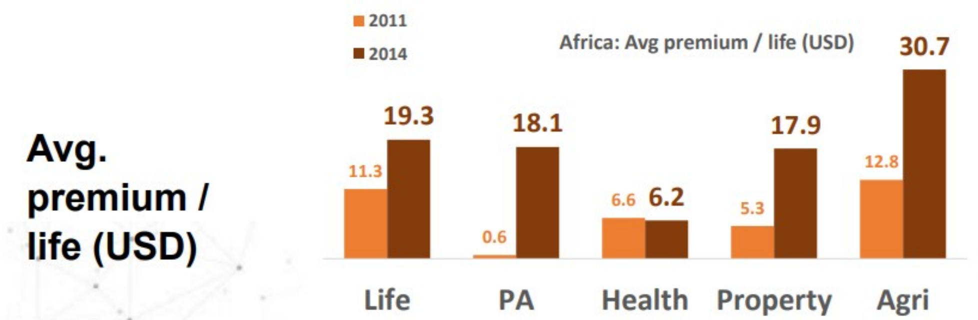
CHAPTER V

INTERNATIONAL PERSPECTIVE

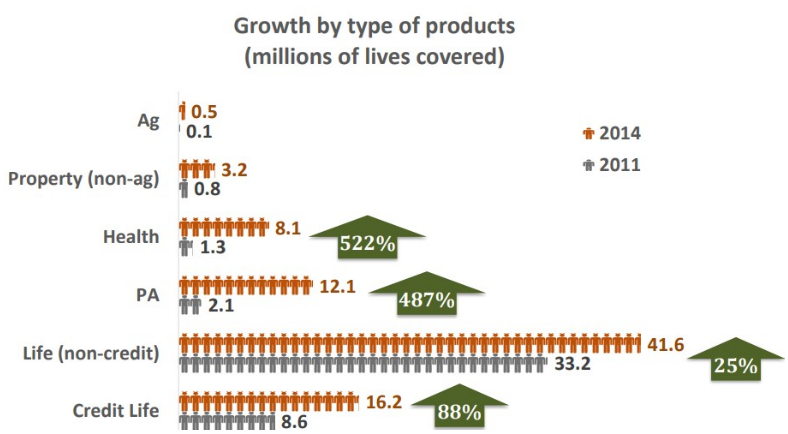
International Experience – Africa[1]

Based on details provided by 200 insurers across 36 countries in Africa between 2011 to 2014

- Insured population covered by Micro insurers has increased from 44.4 million to 61.8 million
- Premium income has grown from USD 387 million to USD 756 million



- Voluntary products have increased from 36% to 58%
- Bundled products have increased from 30% to 45%
- Percentage of products offering some health benefit has increased from 29% to 40%



[1]Source – microinsurancenetwork.org

LRI (Livestock Risk Insurance) Mongolia

A key challenge in developing effective index insurance revolves around identifying an index that minimizes the associated basis risk representing discrepancies between the contract's index-triggered indemnity payments and the insured's actual loss experience.

Overview

An index-based insurance scheme was implemented in Mongolia with a credit agreement with the World Bank. The approach was a combination of self-insurance, market-based insurance and a social safety net. Herders bear the cost of small losses that do not affect the viability of their business, larger losses are transferred to the private insurance industry and only the final layer of catastrophic loss is borne by the Government of Mongolia.

Further Details

In 2005, the Mongolian government signed a credit agreement with the World Bank to implement the index-based livestock insurance program (LRIP). The pilot project started in 2006 and was scheduled for three years in three *aimags*[1] (provinces), namely Bayankhongor, Khentii and Uvs. The LRIP consisted of two different insurance products: the Base Insurance Product (BIP) and the Disasters Response Product (DRP). DRP was a social safety net for herders, offered and financed by the Mongolian government. During the pilot phase herders who bought the BIP were automatically enrolled in DRP whereas herders without BIP could pay a small premium to enroll in the disaster insurance. The insurance paid out when livestock mortality rates in a *soum*1 exceeded the threshold of 30 percent. After the pilot project was finished in 2009, DRP was phased out. However, BIP was continued after the pilot period, since the results were satisfying. However, it was renamed Livestock Risk Insurance (LRI). Over the years the geographic coverage of LRI was constantly increased and by 2012 the insurance was available in all *aimags* and Ulaanbaatar city (Project Implementation Unit, 2012).

The functioning of LRI reflects the large variation in *soum*-level *dzud*[2] intensity and resulting livestock mortality. For instance, during the devastating winters between 1999 and 2002, some *soums* had mortality rates higher than 18 percent, while others were barely affected with mortality rates under 5 percent (Mahul and Skees, 2007). The LRI payments were based on the livestock mortality rate of each species at *soum* level. In the pilot project the threshold (strike) was set at 7 percent and the limit at 25 or 30 percent (Mahul and Skees, 2007). After the pilot phase ended, strike and cap were adjusted and fixed to 6 and 30 percent. Each policyholder had to pay a premium, which was the price of the insurance calculated by multiplying the amount of insurance coverage by the premium rate. The premium rate differed across Mongolia. premium rate. On the one hand the premium rate was different for each species and on the other hand the premium rate was set on *aimag* level. This differentiation took the nationwide varieties of livestock mortality into account and guaranteed a premium rate adjusted to the local environment. The insurance was to pay out when the livestock mortality rate exceeded the threshold.

The herders had several opportunities to customize LRI to their individual needs. For each of the five most common species they could decide whether to insure, e.g. a herder had the possibility to only insure his goats but not his horses. Furthermore, the herder could select how much of the species' value the herder wants to insure, ranging from 1 to 100 percent. The value was calculated by the number of animals owned by the herder multiplied by the average value at the local market.

Due to the fact that the domestic insurance market was immature and undercapitalized, the Government of Mongolia decided to establish a Livestock Insurance Indemnity Pool (LIIP) (Mahul and Skees, 2007). The pool was administered by the Project Implementation Unit and allowed the insurance companies to deposit the herders' premiums into the fund. The indemnities were paid by the pool and the leftovers had to be distributed among the companies, taking into consideration their contribution (Goodland and Luxbacher, 2010). The basic objective of this mechanism was to eliminate default risks of the private companies and make sure the herders received their indemnity due.

Index based Livestock Insurance Project (IBLIP) Africa

Overview

An index-based livestock insurance has been implemented in Africa especially Marsabit district of northern Kenya which uses satellite imagery data to predict the loss in forage and vegetation in the drought prone arid and semi-arid regions of Kenya. Pay outs are made as soon as the satellite imagery data falls below a strike level which indicates incidence of drought.

Further Details

Apparent presence of poverty traps in East African pastoral systems, characterized by multiple herd size equilibria such that losses that push a household below a critical threshold – typically 8-16 tropical livestock units (TLUs)[3] – tend to tip a household into destitution. Most livestock mortality is associated with severe drought. In the past 100 years, northern Kenya recorded 28 major droughts, 4 of which occurred in the last 10 years.

When pastoralists suffer herd losses, there exist social insurance arrangements that provide informal inter-household transfers of a breeding cow. But these schemes cover mainly the idiosyncratic component of loss, and less than ten percent of household herd losses, on average, they do not include everyone and are generally perceived as in decline. Some households can draw on cash savings and/or informal credit from family or friends to purchase animals to restock a herd after losses. But the empirical evidence that vast majority of intertemporal variability in herd sizes in this region is biologically regulated, due to births and especially deaths (McPeak and Barrett 2001, Lybbert et al. 2004), implies that most livestock mortality risk remains uninsured. Most uninsured herd mortality losses occur in droughts as covariate shocks affecting many households at once, sparking a humanitarian crisis (Chantarat et al. 2008, Mude et al. 2009).

As the basic signal that forms the backbone for the Northern Kenya asset insurance, the project employed an objectively, real-time measured Normalized Difference Vegetation Index (NDVI). NDVI – sometimes referred to as — greenness maps – which is a satellite-derived indicator of the amount and vigor of vegetation, based on the observed level of photosynthetic activity (Tucker 2005). The NDVI data used were computed reliably at high spatial resolution (8 km2 grids) and with consistent quality from Advanced Very High-Resolution Radiometer (AVHRR) on board of the United States National Oceanic and Atmospheric Administration (NOAA) satellite. These data have been available in real time every 10 days (called a —dekad‖) with the longest temporal profile since late 1981.

Because pastoralists routinely graze animals beyond their residential areas, the grazing range for each aggregate location was defined – within which NDVI observations are averaged for each period – by identifying the rectangle that encompasses the residential locations and all common animal water points used by herders in that community, plus 0.1 decimal degrees (about 11 kilometers) in each direction. In bad years not observed in the survey data, pastoralists may travel further still, but their need to do so should be reflected in pasture conditions within their normal grazing range. NDVI data are commonly used to compare the current state of vegetation against the long-term average condition in order to detect anomalies and to anticipate drought (Peters et al. 2002, Bayarjargal et al. 2006) and have now been used by many studies that apply remote sensing data to drought management (Kogan 1990, 1995, Benedetti and Rossini 1993, Hayes and Decker 1996, Rasmussen 1997).

The usage of NDVI data was supported by two reasons. The first is conceptual. Catastrophic herd loss is a complex, unknown function of rainfall – which affects water and forage availability, as well as disease and predator pressure – and rangeland stocking rates – which affect competition for forage and water as well as disease transmission. Rangeland conditions manifest in vegetative cover reflect the joint state of these key drivers of herd dynamics. When forage is plentiful, disease and predator pressures are typically low and water and nutrients are adequate to prevent significant premature herd mortality. By contrast, when forage is scarce, whether due to overstocking, poor rainfall, excessive competition from wildlife, or other pressures, die-offs become frequent. Thus, a vegetation index makes sense conceptually.

The second reason is practical. Kenya does not have longstanding seasonal or annual livestock census surveys of the sort used for computing area average mortality, the index used in the developing world‘s other IBLI contract, in Mongolia (Mahul and Skees 2005). The household-level herd mortality data we use in contract design are collected for the Government of Kenya, which might have a material interest in IBLI contract payouts, thereby rendering those data unsuitable as the basis for the index itself. Consistent weather data series at sufficiently high spatial resolution are likewise not available. The Kenya Meteorological Department station rainfall data for northern Kenya exhibit considerable discontinuities and inconsistent and unverifiable observations. Meanwhile rainfall estimates based on satellite-based remote sensing remain controversial within climate science.

CHAPTER VI

RECOMMENDATIONS AND RATIONALE

The Committee members have made several recommendations in line with terms of reference of the committee listed below:

a. Reviewing the existing regulatory framework on Microinsurance in India as well as in other jurisdictions and suggest improvements in the Indian framework;
b. Recommending how to increase Microinsurance penetration;
c. Suggesting product designs with customer friendly underwriting including easy premium payment methods and simple claims settlement procedures;
d. Suggesting changes in the distribution structure, if any, including and technology driven solutions;
e. Suggesting effective awareness programs including training programs for the distribution channels
f. Examining options for setting up specialized Micro Insurance companies with liberal requirements on capital, solvency, rewards and commission structure.

Some of the key recommendations are summarized below:

Products: Product benefits should be simple so that they could be easily conveyed by the distributor and understood by the customer. It should clearly spelt out the Gives & Gets for the customer. Product benefit and renumeration structure should be agnostic to individual or group platform with appropriate quantum of coverage as per the needs of section targeted
Cooperatives or self-help groups can be made partners in providing insurance solution as it will improve penetration of micro insurance products. Short to medium term goal-based products should be allowed where insurance cover is offered for the gap between the goal and savings. Duration can range from 1 to 10 yrs.

Pricing: Reduction in reserve requirement even for a short duration can help in better pricing and may also help in assessing the impact of such products in improving penetration. Expense of management requirement on micro insurance products should be relaxed, also there is a requirement of waiver of stamp duty on microinsurance products Pricing flexibility is required within reasonable range on positive and negative side within one year from the date of launch of a product (without change in UIN). For the ease of distribution product simplification requires the premium rate to be either in unit rate format or should be on age band basis.

There should be an option to pay single premium in Daily / fortnightly / monthly / quarterly instalments. Customers should be allowed to pay mortality premium in lump sum with remaining premiums to be allowed to be paid in instalment.

Process and Technology: e-KYC process is required to reduce cost and ensure smooth on-boarding and claim settlement process.. Digital signatures should be made encouraged for micro insurance business. Cooperatives / Self-Help groups should be allowed to take on certain on-boarding and claims related processes for the schemes where they are partner. A simple one-page proposal form and digital policy document should be applicable for all insurers. The Claim pay-out can be linked to the goal of the target segment e.g. If they are saving for the child, the claim pay-out should be linked to the school fee of their kids.

Distribution: There is a need to consolidate potential intermediaries like cooperatives and other organizations who can aggregate the demand for insurance by a relatively larger entity that can then deal with insurers with sufficient volumes. Hence a two-tier distribution structure only for microinsurance with a Master Agent who has a well demonstrated financial and operational standing and a MI agent who is the grassroots level consolidator appears to be the need of the hour.

All credit life policies confirming to the limits of sum insured under MI Regulations should be deemed to be MI products and all MFIs who are also master policyholders should be deemed to MI agents. This will enable MFIs to better manage their microinsurance portfolio and will also encourage them to take-up voluntary distribution of insurance products in addition to the credit life products. Similarly, intermediaries may contribute towards promotion of benefit based General MI insurance products.
A strong business case must be made out and demonstrated to get good and productive intermediaries on board. The social impact of insurance on poverty in general needs to be highlighted alongside the revenue angle. This will help in motivating the potential intermediaries in a better way.

Microinsurance agent should have flexibility to distribute products from more than one insurance company equivalent to Corporate Agency. More entities should be included under the definition of MI Agents. The function of policy issuance using customized IT applications should be outsourced to MI intermediaries who have the necessary human and physical infrastructure.

Tabular snapshot of the recommendations:

Product recommendations			
Recommendation of the Sub-committee	**Regulatory Provision**	**Modification Required**	**Rationale / Justification**
Symbiotic structure with Cooperatives / Self-help Groups –	Currently no enabling clause available which is restricting evaluation of this as a product option	An enabling clause to be included to allow risk sharing up to a level with Co-operatives and Self-help groups can be added in Section 5 (3) as some of the above act as microinsurance agent	To include Cooperatives / Self-help groups as partners in micro insurance business. This will also lead to reduction of anti-selection risk and profit-sharing model will support better coordination among insurers & Cooperatives / Self-help groups. This will also help in better on-boarding & claim processes.
Agnostic Benefit Structure between Individual & Group platform	Schedule I & II	Adding a clause for Unit rate or Banded rates to be allowed in individual product structures while ensuring cross subsidization is limited to less than 20%	Current processes give on-boarding advantages to product structures on group platform. However, we believe Last mile connectivity can only be achieved through individual agents hence all possible product structures should have similar underlying flexibilities.
Long tenure products and enhanced covers to be introduced for Non-Life sector	Schedule I	Modify “Term of Cover Max” in Schedule I from 1 year to 5 year	To ensure longer tenure covers to mitigate loss of renewals due to covered event not happening within one-year duration
Appropriate Cover Levels as	Schedule I & II	Increase “Maximum Amount of Cover” in	Due to rising inflation impact,

increasing inflation has resulted in requirement for higher cover levels		Schedule I and Sum Assured limit in Schedule II to 5 Lakh from current levels	cover of Rs 2 lakh has become smaller for certain percentage of population being covered hence it needs to increase to reflect real cost of underlying assets / life.
Indexed Based Products to be allowed for crop insurance / livestock cover etc.	Schedule I	An enabling clause to be introduced in Schedule I	To utilize technology for enabling better claim service outcome and real time benefit experience for covered individuals.
Goal Based Saving Products for life insurance	Schedule II	An enabling clause to be introduced in Schedule II	To fill the saving gap between short/medium- & long-term goals which occurs due to happening of covered event. This also ensures better understa.nding of linkages of insurance benefit for covered individuals.
Chit Fund Insurance Scheme for Chit Funds registered with respective States	Schedule II	An enabling clause to be introduced in Schedule II	To cover most utilized unorganized financial instrument to inculcate insuring habit and moving the population from unorganized to organized saving platform.
Pricing Recommendations			
Capital Reserve requirement need to be relaxed for micro insurance	No provision in current regulations	An enabling clause to be introduced in MI regulations	To ensure construction of financially viable product given the

products to make financially viable products			absence of underlying data to support accurate pricing.
Expense of Management also needs to be relaxed for micro insurance products to make financially viable products	No provision in current regulations	An enabling clause to be introduced in MI and EoM regulations	To ensure construction of financially viable product given the absence of underlying data to support accurate pricing.
Product pricing flexibility (revision within +/- reasonable range within one year without UIN change) & Reinsurance Support to mitigate risk of over or under pricing due to lack of underlying data	No provision in current regulations	An enabling clause to be introduced in MI regulations	To mitigate risk of incorrect pricing resulting in either over pricing or under pricing the product thus improving chances of financial success of the plan. Reinsurance support to help in realizing affordable price which can be beneficial for all parties in long run.
Stamp Duty waiver for life insurance to make financially viable products	No provision in current regulations	Recommendation to be made to Central Govt.	To ensure affordability of insurance product for the underlying masses for whose benefit the product is being planned.
Single Premium payable in Instalment (Weekly, fortnightly etc.) – To improve product proposition for the end customer	Schedule III	Allowing single premium to be paid in weekly / fortnightly instalments	To ensure higher penetration given the underlying financial constraints profile of the covered population.
Process and Technology Recommendations			
E-KYC should be mandated	No provision in current regulations	Recommendations to be made to UIDAI to allow Aadhar for E-KYC for all insurance	For ease of on-boarding and also help in overall cost reduction. It also

		companies (like Bank & Telecom sector)	assists in mitigating fraud in the covered segment.
Digital Signatures or OTP based e-signature should be encouraged for microinsurance business	No provision in current regulations	An enabling clause to be introduced for enabling ease of business and cost reduction	For ease of on-boarding, cost reduction and improve penetration given the geographical spread & topography related challenges.
Outsourcing of Support Activities like Underwriting & claim investigation especially for symbiotic schemes	No provision in current regulations	Addition of following functions under section 5 (3) • Underwriting of proposal forms • Investigation & Settlement of Claim up to a defined level	To enable higher participation by the distributor partners and improving the financial proposition for Cooperatives & Self-help .groups.
Proposal form should be common for all insurers and issuance of digital policy document should be encouraged	No provision in current regulations	An enabling clause to be introduced	For ease of overall process across insurers for intermediaries.
Distribution Recommendations			
Commission based on the product category and not intermediary category.	Regulation 12: Remuneration/Commission	An enabling clause to be introduced	This will ensure uniformity of efforts by various distributors to improve microinsurance penetration
Outsourcing of Policy Issuance to MI Intermediaries.	Regulation 9: Issuance of Micro Insurance Policy Contracts	An enabling clause to be introduced	This will help in establishing customer trust and improve speed of service
Introducing the Concept of Master Agent	Regulation 6 (1): Employment of “Specified Persons” by Micro Insurance Agents	An enabling clause to be introduced	Help in formation of network of distributors

Flexibility for the intermediaries to distribute for more than one insurer	Regulation 5(2): Appointment of Micro Insurance Agents	An enabling clause to be introduced	Will help in improving penetration
Including More Entities Under the Definition of MI Agent	Regulation 2 (f): Definition of Microinsurance agents	Adding new entities to the list of MI agents	Will help in improving penetration
Focus on Consumer Education and MI awareness	No provision in current regulations	New provision	Will help in improving penetration

CHAPTER VII

PARTICULARS OF REFFERAL MATERIAL FOR ANNEXURE

1 The country of Mongolia is divided into 21 provinces (*aimags*) and the capital Ulaanbaatar. Secondary subdivisions outside Ulaanbaatar are called "*soum*" which are roughly comparable to a County in the United States

2 A *dzud* is the Mongolian term that signifies high levels of livestock mortality following dry hot summers and extreme winters

3 TLU is a standard measure that permits aggregation across species based on similar average metabolic weight. 1 TLU = 1 cattle = 0.7 camels= 10 goats or sheep