Microinsurance in Asia: Supply-side perspectives

India Country Analysis

April 2020

Based on findings from the Milliman research report: Asia Microinsurance Supply-side Study

With growing interest in microinsurance in the region, we are pleased to present our first Microinsurance Supply-side Study of Asia in 2019 to gather the perspectives of the insurance industry regarding the importance of microinsurance, current practices and the enabling environment. We carried out this study primarily through a questionnaire survey, with responses from regulated insurers providing microinsurance in five countries, namely Bangladesh, China, India, Indonesia, and the Philippines. This country analysis highlights some key-takeaways based on observations from India.

Twenty-nine insurers participated in the survey, of which 79% (twenty-three insurers) currently sold microinsurance in the Indian insurance market. Nine of the top 10 life providers and one of the top 10 non-life providers by total insurance market share in India participated in the study.

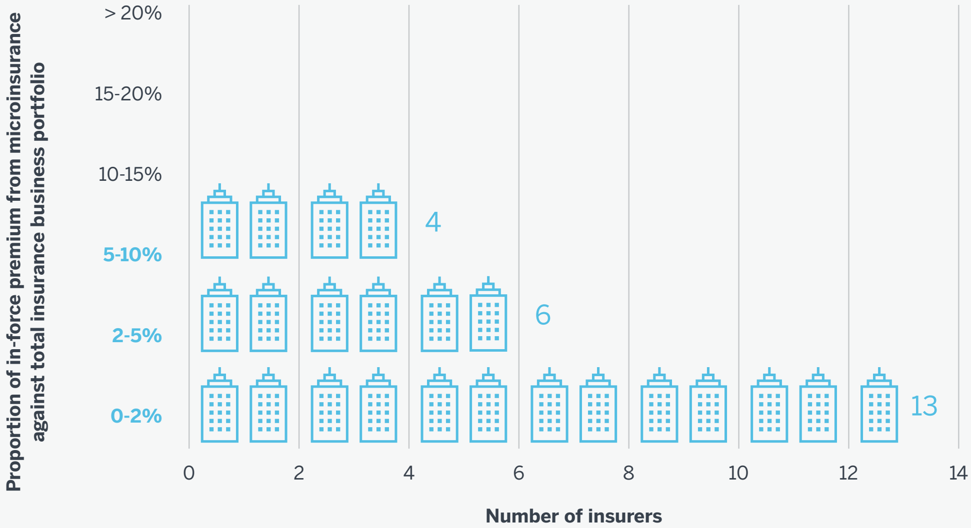
The following is a summary of the criteria used to define "microinsurance" in this study:

1. Developed for low-income people
2. Government must not be the sole risk carrier and the program should be based on insurance principles
3. Goal of profitability or sustainability
4. Modest premium levels / affordability

Current practices: taking a closer look at insurers' microinsurance programs and how they implement them

How surveyed insurers and providers reported the proportion of in-force premium from microinsurance against their total insurance business portfolio

In your company, what is the percentage of in-force premiums from microinsurance versus your total premiums?



In India, microinsurance is important to insurers due to the quota system imposed by the regulator, the Insurance Regulatory and Development Authority of India (IRDAI), which requires all insurers to provide cover to the "social" and "rural" sectors. Missing the quota could result in an insurer being de-licensed in India. Despite the quota system, more than half of the respondents with microinsurance portfolios have an in-force premium level of only 0-2% against their total insurance business portfolio. Due to data constraints and reporting structure in country, it is difficult to estimate a current microinsurance coverage rate. The available information from 2013 (last available data) indicates that India has a relatively low coverage level at 10.1%[1] of the low/middle income population. However, we note that over time Government of India has introduced multiple schemes such as Rashtriya Swasthya Bima Yojana and Pradhan Mantri Jan Arogya Yojana to provide health insurance coverage for Below Poverty Line families and informal sector workers. Similarly, the Pradhan Mantri Jeevan Jyoti Bima Yojana provides life insurance coverage to this segment.

Types of microinsurance products insurers currently and planned to offer

10.1%:
Microinsurance coverage level to the low/middle income population
2/22:
Proportion of insurers who develop products specifically to address climate risks of low-income people

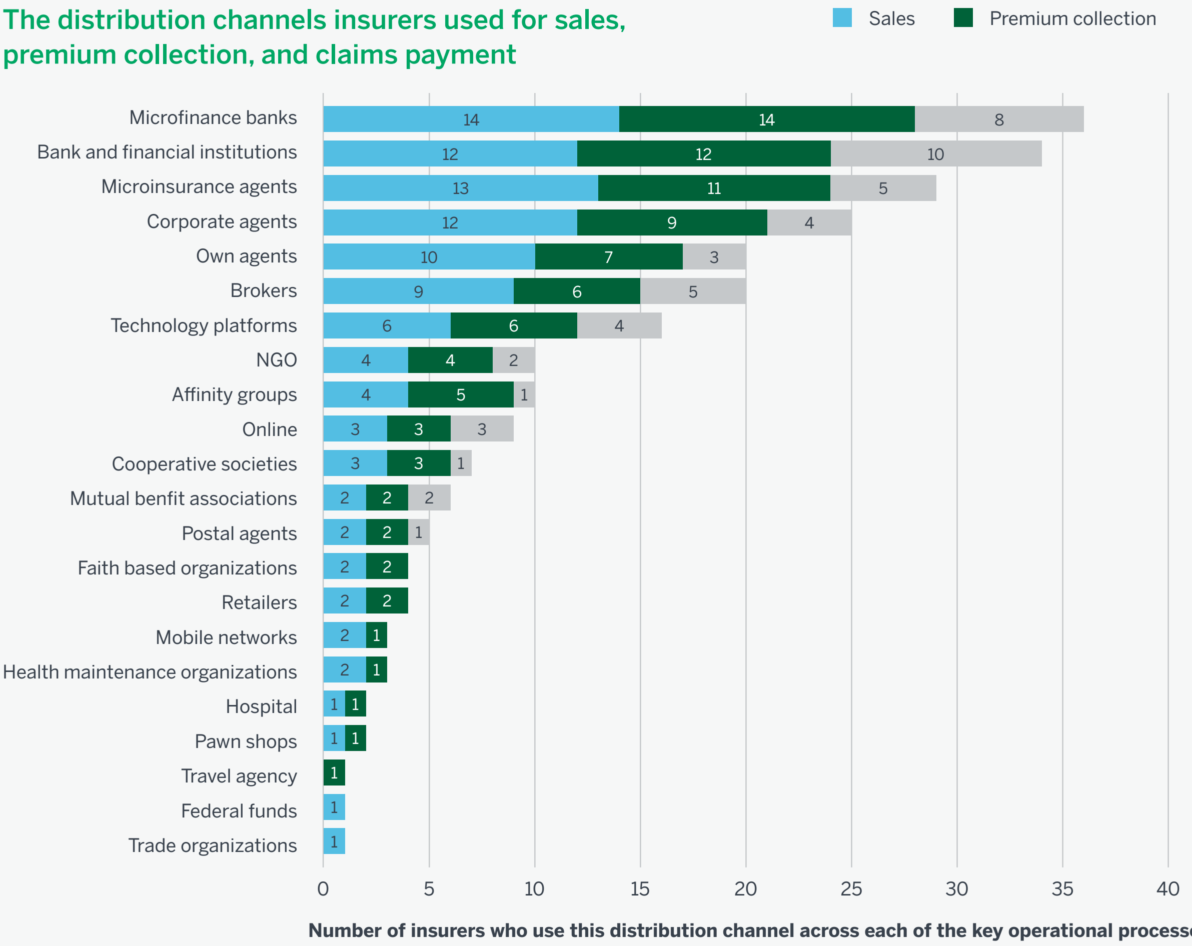
Like other countries studied, the most popular product sold by the respondents was term life and credit life. This is followed by other variants of life insurance including savings with life insurance cover and term life with return of premium. These products are typically sold to fulfil the rural and social obligation of IRDAI. Persistency rates for these products are typically low as renewed policies are not counted as part of the rural and social sector obligations. As such, insurers prefer to pursue new customers / policies to fulfil this obligation.

The majority of the products observed in India are offered unbundled, as bundled products are usually more expensive in comparison to stand-alone insurance products. However, whilst the cost of providing the package has increased, the perceived value of the bundled package has also enlarged i.e. the client may be willing to pay a higher price for the larger bundle. In India, a small number of providers also offer community-based bundled insurance products e.g. VimoSEWA – an integrated insurance program which covers risks that their members face in their life cycle. As the industry continues to emphasize the importance of a holistic risk management approach for the low-income population, there is clear room for insurers to offer bundled insurance packages.

Numbers refer to the number of insurers who currently offer / plan to offer this type of product.

1. 10.1% is calculated = 111.1 million lives covered / 1,097.1 million classified as low / middle income. Sources of the numbers from MiN Landscape Study; India – 2013
https://www.pewresearch.org/global/interactives/global-population-by-income/

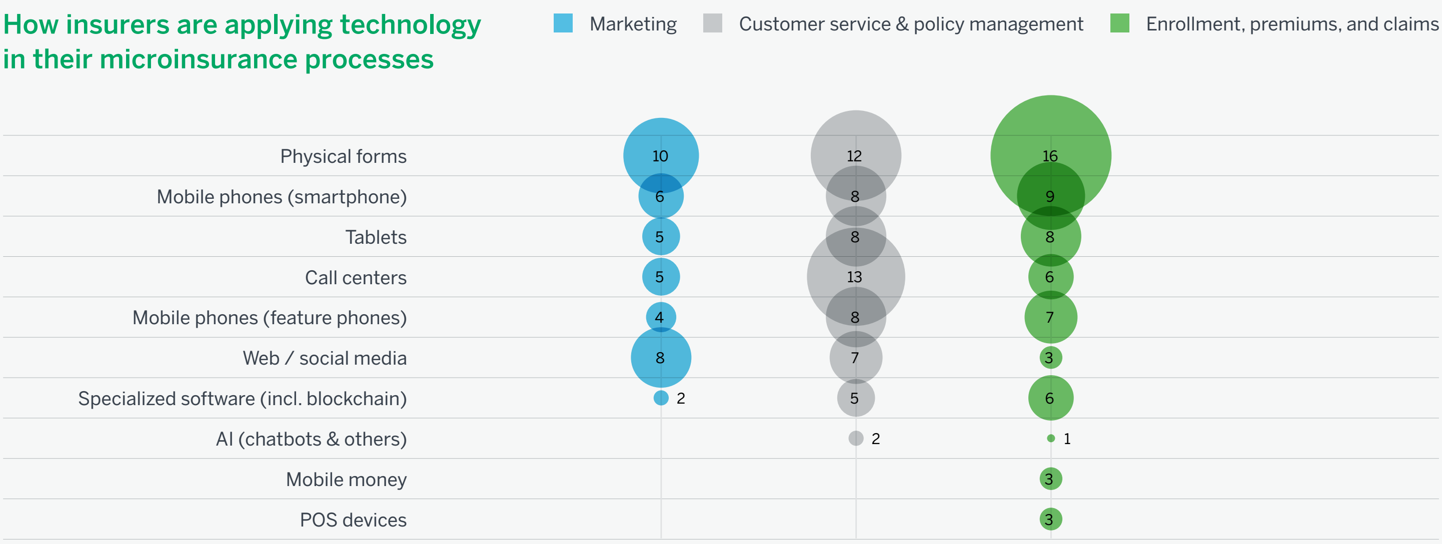
The distribution channels insurers used for sales, premium collection, and claims payment



Microfinance banks and financial institutions are the key distribution channels observed in India, followed by the use of agents.

Due to the lack of infrastructure to reach rural and low-income populations, as well as the high recruitment cost of the agency channel, insurers have relied on microfinance institutions (MFIs) as microinsurance distribution partners in rural areas[2]. In addition, bank partners of insurers also have existing relationships with MFIs, typically by providing third party credit for their priority portfolios. It should be noted that Microinsurance Agents (MIAs) are defined by the IRDAI not only as an individual sales agent but also inclusive of Self Help Groups (SHGs), MFIs, non-governmental organizations (NGOs) and cooperatives, which are important distribution networks of microinsurance products.

How insurers are applying technology in their microinsurance processes



Physical forms dominate the technology involved in the delivery of microinsurance products in India.

With a relatively low smart phone penetration rate of 40%[3] in India, it is of no surprise that the adoption of mobile phones (smart phones) is far behind the use of physical forms in the operations of microinsurance amongst our respondents. In our analysis, the penetration of smart phones is found to be highly correlated to the usage of smart phones in their microinsurance operations. With GSMA's projection of the smart phone adoption rate rising more than 25% between 2018 and 2025, India will likely see high growth in its adoption of mobile phones into their operational processes. We also saw call centres as one of the top 3 technologies applied in microinsurance processes. This is not surprising for the Indian market where there are early adopters of the call centre model, such as Policybazaar who are currently also applying the use of chatbots in their processes.

We also observed great innovations in India's insurance sector with the number of Insurtech companies on the rise. These include online insurance brokers such as CoverFox and digital insurers like Acko, which have partnered with large e-commerce platforms such as Amazon. Any sustainable microinsurance business model will need high levels of efficiency in their operations. Insurtech companies which address such challenges are emerging in India, including Gramcover and Max BUPA. Gramcover uses direct document processing and uploading, which quickens the process of insurance distribution in the rural sector. Max BUPA, a health insurer, uses FlowMagic to automatically process inbound documents[4].

Technologies not selected by any participants include drones and cards (smart, touch, and magnetic stripe).

Numbers refer to the number of insurers who have adopted this technology across each of the key operational processes.

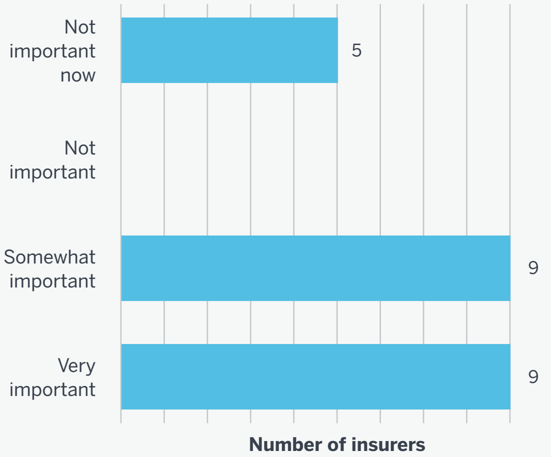
2 Microsave (2013): Securing the Silent: Microinsurance in India – The Story So Far
http://www.microsave.net/files/pdf/MI_report_web_version_pdf.pdf

3 https://datareportal.com/reports/digital-2019-india?rq=india%202019

4 Mantra Labs; Why Insurance Companies are unable to reach rural India for microinsurance policies
https://www.mantralabsglobal.com/blog/microinsurance-rural-india-insurance-companies/

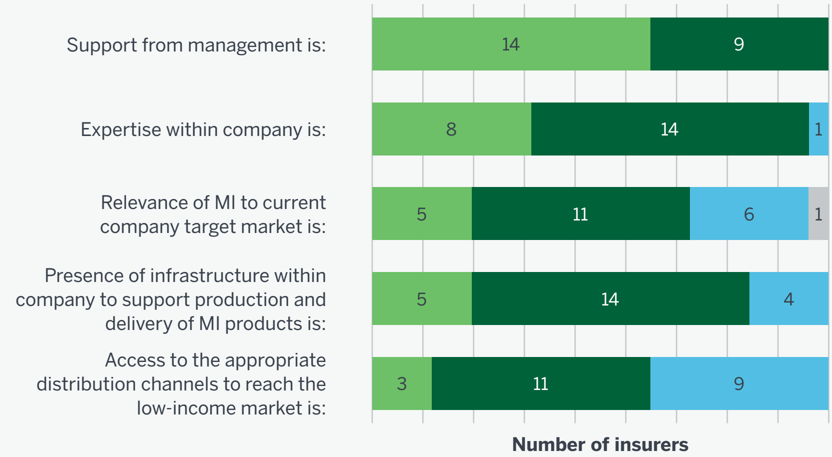
Perspectives: on their institutions and the microinsurance market

How insurers rank the importance of selling microinsurance within their companies



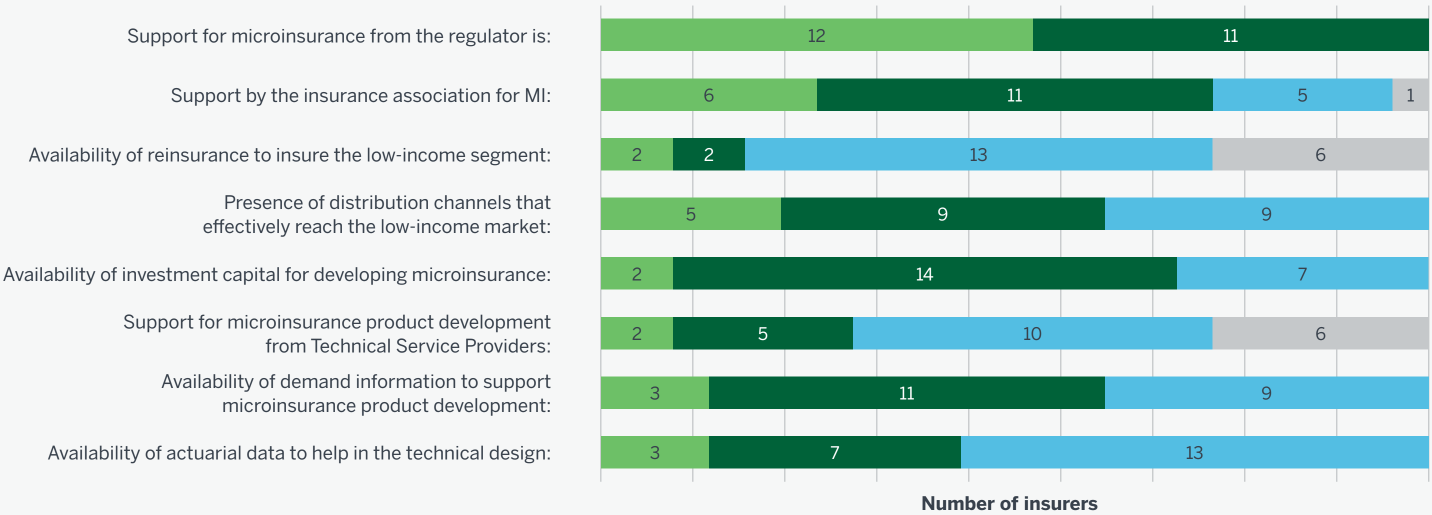
Insurers in India gave a varied response on the importance of selling microinsurance for their companies as 'somewhat important' to 'very important,' with approximately 1 out of 5 stating that it is not important for them now. The relatively high level of importance of selling microinsurance is likely due to the need to comply with the government-mandated microinsurance quotas.

The opportunities and challenges insurers faced regarding microinsurance within their companies



A relatively high level of support was reported by management amongst Indian insurers. On the contrary, access to the appropriate distribution channels to reach the low-income market was rated as medium to low by most respondents. This is likely because of the geographic disconnect between conventional distribution channels and the micro-segment. Distribution partners who can successfully reach the microinsurance target market typically have access to the rural population i.e. beyond their urban network. In order to encourage growth in the microinsurance market, it is highly recommended that insurers conduct demand studies in order to understand consumer needs in the micro-segment. Through understanding customer behaviour in this segment, innovative channels can also be uncovered.

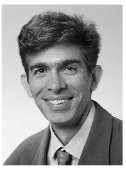
Insurers' views on the supporting environment for microinsurance in India



Perceived support for microinsurance from the regulator is relatively high, likely because of the compulsory quota system imposed. On the other hand, the availability of demand information, reinsurance, support from technical service providers (TSPs), as well as the availability of actuarial data, were rated as medium to low levels of support by most respondents. Despite significant efforts made by the IRDAI, the effectiveness of the quota system remains questionable. The contrast seen between the different drivers in the operating environment demonstrates the disconnect between government mandate and the appetite of the market to supply microinsurance. According to research conducted, some insurers are dumping microinsurance products that are poorly serviced onto customers solely to meet their quota targets. Further, as soon as these targets are met, the selling of microinsurance products is immediately stopped. Hence the quota system can potentially be creating a barrier to innovation and demand-based products.[5] With the recent set-up of a panel and committee by the IRDAI, recommended changes included allowing micro-insurers to become a stand-alone entity, waivers on stamp duty, E-KYC, premium payment terms etc. These changes are expected to change the landscape of microinsurance in India.

Key contacts

Heerak Basu
Consulting Actuary
Mumbai, India
+91 226 784 8484
heerak.basu@milliman.com



Lalit Baveja
Senior Healthcare Consultant
Gurgaon, India
+91 124 464 1508
lalit.baveja@miiliman.com

Indira Gopalakrishna
Microinsurance Specialist
Asia Pacific
Singapore
+65 9035 4271
indira.gopalakrishna@milliman.com

5 UNDP (2006): Microinsurance Demand and Market Prospects: India