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# *Rural and microinsurance perspective*



# Foreword

Globally, the bottom of the pyramid represents nearly 2.7 billion people who live on 2.5 USD or less per day.

**CK Prahalad, the noted management guru, highlighted the need for businesses, governments and donor agencies to stop thinking of the poor as victims and instead perceive them as resilient and creative entrepreneurs as well as value-demanding consumers.<sup>1</sup>**

Across the world, amongst the various financial products targeted at the bottom of the pyramid, credit seems to be the most popular and in demand. The growth of microcredit and microinsurance investment thus marks only the beginning of a significant trend and presents a unique opportunity to diversify risk while achieving strong returns. Microcredit has allowed people who live in rural India to start their own businesses and achieve profits as well as acquire a sense of purpose, thus creating a positive impact among low-income consumers.

Microfinance refers to financial services that are provided to poor entrepreneurs and small business owners in rural areas. These financial services have the ability to reach areas that conventional banks have failed to over the past few decades. The presence of microfinance outlets in villages and their proximity to the end consumer has given them an added push, leading to the development of a symbiotic relationship to offer credit and protection for both the consumer and the company.

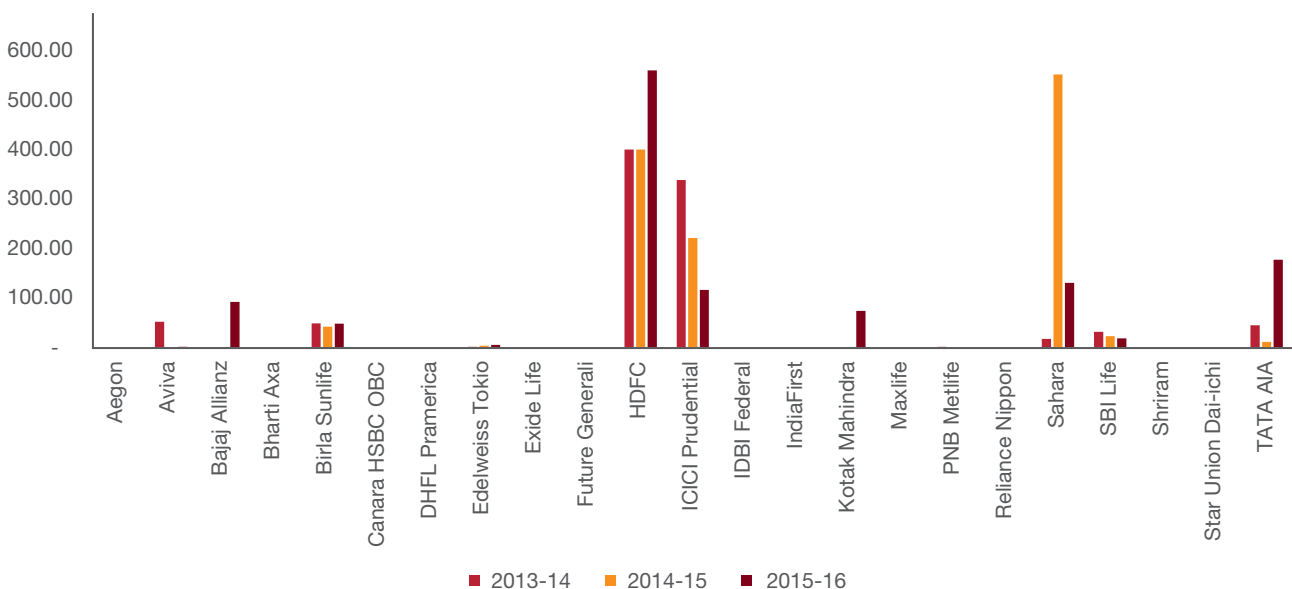
Among the various financial products available, credit is the most popular and most sought after. This is primarily

because of the seasonality of income and the resulting deficits. Currently, microfinance institutions have started looking beyond microcredit and are now engaged in promoting and distributing microinsurance products which can be bundled with their core product, thus offering consumers a wider array of choices. Therefore, a microinsurance product becomes a powerful and important tool both for consumers as well as the company as it helps to shield families from financial vagaries in case of an unfortunate death, disablement or the loss of property due to a natural calamity. However, in spite of efforts to promote microinsurance, only a fraction of microcredit consumers have insurance coverage.

Ensuring access to insurance for citizens of every class remains a challenge. In many countries, it is generally salaried income earners, the middle class and the wealthy who are insured. The poor, rural dwellers, small businesses and irregular wage earners often do not get covered by insurance due to the following reasons:

- (1) Day-to-day needs often take priority;
- (2) Lack of knowledge on the availability of insurance products;
- (3) Lack of availability of such products;
- (4) While the right product may exist, it might not be accessible to the consumer.

Microinsurance premium (in lakh INR)



Source: Handbook of Statistics, IRDAI

<sup>1</sup> <http://www.csrwire.com/pdf/Prahalad-excerpt-001-022.pdf>



The Insurance Regulatory and Development Authority of India (IRDAI) has created a special category of microinsurance policies to promote insurance coverage among economically vulnerable sections of society. Building on the recommendations of the committee in its 'Report of Consultative Group on Micro Insurance' submitted on 23-December-2004, the IRDAI launched microinsurance regulations on 10 November 2005 to promote and regulate microinsurance products.

Microinsurance practitioners have worked hard, sometimes against the odds, to get micro-insurance efforts started. A microinsurance revolution could be a major step towards improving the well-being of the world's poor. However, it is not just important to design products keeping in mind how they will fit into clients' lives (and possibly affect non-clients too) but also to look at the entire ecosystem that goes along with them.

In this paper, we will discuss the seven elements that are crucial to strengthening the microinsurance story in India.

The Association of Micro Finance Institutions (AMFI) and PwC are delighted to present an overview of the rural and microinsurance industry along with some valuable insights into its future growth.

We would like to thank AMFI for engaging with the microinsurance industry on this exciting and transformative journey. In addition, we are grateful to Sridhar Rammurthy of the Financial Services team at PwC for researching and writing this report.



# Foreword (AMFI)

India is the second most populated country in the World and home to 17% of world's population but the Indian insurance market's share in the global insurance premium is not even 1.5%. Indeed, there are 52 insurers but the penetration remains abysmally low. The life insurance penetration is 3.4% and the penetration of non-life insurance is even lower -- 0.64-0.7%. In non-life insurance, motor vehicle insurance has 43.89% of the market share while health insurance holds a distant second position with 28.49% market share. Yes, Indian consumers value their cars more than their lives!

Only 1.5-2% of total health care expenditure is covered by the insurance providers. One instance of illness, accidental disability or death of the bread winner can push a family deep into a financial distress. The people at the so-called bottom of the pyramid, working in agriculture and other unorganized sectors, are the worst hit under such circumstances.

Agriculture and allied activities employ 58% of India's population. There are many reasons why agriculture is highly risk prone. Irrigation is difficult in small and fragmented land holdings and although India is the second largest irrigated country of the world after China, only one-third of the cropped area is under irrigation. Being mostly rain fed the quantity and quality of output is often beyond the control of the farmers and often floods and droughts play havoc, leading to spate of suicides by farmers. The highly-subsidized government-backed crop insurance scheme has so far covered 26% of farmers. This means almost three-fourth of the farming community is outside this safety net. On top of that, many farmers have high indebtedness to non-formal sources as formal financial intermediaries are always not forthcoming to give them money.

In India, the insurance products are mostly considered as an avenue for tax savings. Due to lack of awareness, either

people do not buy insurance products, or when they do, they are mostly endowment policies covering life. The concept of spending money for risk coverage is still at a very nascent stage. It has to be an essential part of the financial planning – protect before you save.

Barring a few, most of the microfinance institutions (MFIs) traditionally have been offering micro life insurance products, covering the outstanding credit. The sum insured is equal to the outstanding credit and tenure of such insurance gets over once the credit is paid back. We have to move beyond this limited approach of insurance.

There is an urgent need to educate people about the necessity of being insured and, of course, the products have to match the requirement of customers. MFIs are the best suited to counsel their customers to go for insurance but miss-selling must be avoided. An easy and hassle-free process of claim settlement has to be developed.

Insurance should not be pushed down one's throat; the customer ideally should feel the need and insure themselves. That being the goal, discussions must be held continuously between the MFIs and insurance companies.

AMFI-WB's "Eastern Region Insurance Summit 2017" is one such platform which is bringing together all the stakeholders. We congratulate AMFI-WB for organizing a summit on such a relevant issue and wish it all the best.

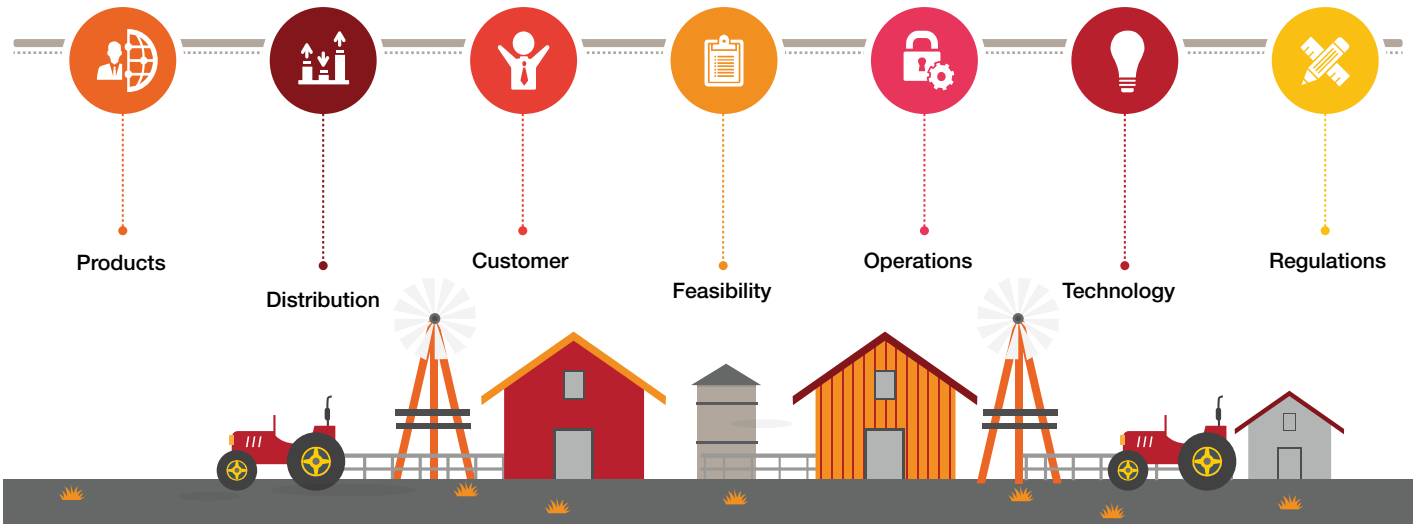
This report tries to identify the exploring operational and customer services of insurance coverage which can be adopted by MFIs to succeed in the dynamic environment.

The summit seeks to explore the Micro finance and banking industry at large, debate and discuss the appropriate path to delivering the rightful protection to the insurance consumer and fair value to the shareholders.



# 7 success parameters

The dynamic nature of the microinsurance industry means that the focus should not be on product innovation alone. Rather, there is a need for a holistic approach which encompasses distribution, customer, feasibility, operations, technology and regulations.



Source: PwC analysis





The hallmark of a micro- or rural insurance product lies in its applicability and value for its intended audience. Besides being affordable, the success of the product hinges on the way it helps in solving the core problem for a customer.

Rural insurance offers a unique opportunity to create solutions that are relevant to the target audience, especially because of the nature of the occupations prevalent in such places. Insurance is all about making good the financial loss that occurs due to the death/destruction of an income-generating asset on account of natural or accidental factors.

The income-generating assets could be the human involved, farm and farm products, agricultural produce, tools and implements like tractors, pump sets and other equipment, livestock and cattle. The insurable needs that arise out of these income-generating assets are life insurance, personal accident protection, health insurance, crop insurance against the risk of natural calamities and weather, and cattle insurance against the risk of death or disability caused due to accident or disease.

The complexity of the product therefore is directly linked to the magnitude of the problem that it intends to solve. Two areas that need specific focus are:

#### **Reduction in the cost of administration:**

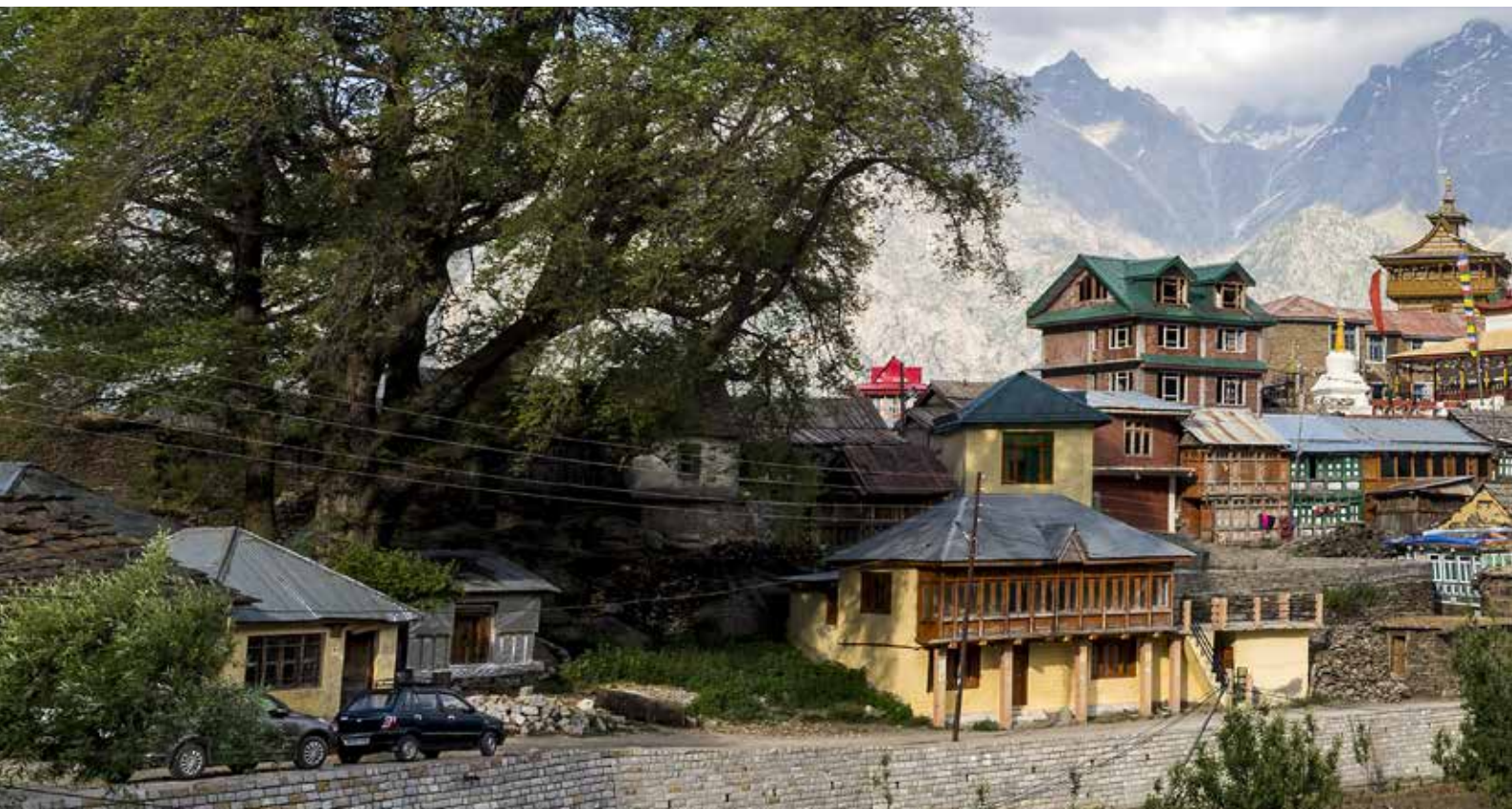
An insurance product sale is all about selling a promise to make good the loss should the insured event occur. Normally, the sales process varies for an urban and rural insurance sale. This is mainly due to the differences in socioeconomic and demographic factors, education levels, awareness of the

importance of financial protection, and availability of suitable products and lines of distribution. Therefore, it is important to have less complex products and better customer experiences. In this context, experience refers to claims and the claims process. It could be unviable for an insurance company to have an elaborate claims adjudication process as its cost could far outweigh the premium per customer. That is, if the average claims cost (for a health insurance product) is 600 INR, then, in most cases, it will exceed the premium for the product or at least a significant portion of it. Therefore, it is important that the products are simple and the claims process simpler to keep the claims processing and management cost within reasonable limits.

#### **Improve persistency**

Persistency refers to the percentage of policies renewed every year over the policy period. In 2015–16, the average thirteenth month persistency rate for life insurance policies was just 61%. More than 65% of life insurance products in the sixty-first month had lapsed during the year as policyholders did not renew their products.<sup>2</sup> The persistency problem could further accentuate in rural areas owing to the seasonality of income and lower ticket sizes of the product, resulting in lower incentives to collect the renewal premium and lower direct connect with the customer and insurance company.

Globally, in developed economies, the persistency ratio is close to 90% in the thirteenth month and above 65% after five years. The acceptable persistency rate in life insurance is 80% for three-year-old policies and 60% for ten-year-old policies.<sup>3</sup>



<sup>2</sup> IRDAI Handbook on India's Insurance Statistics: [https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral\\_Layout.aspx?page=PageNo3083&flag=1](https://www.irdai.gov.in/ADMINCMS/cms/frmGeneral_Layout.aspx?page=PageNo3083&flag=1)

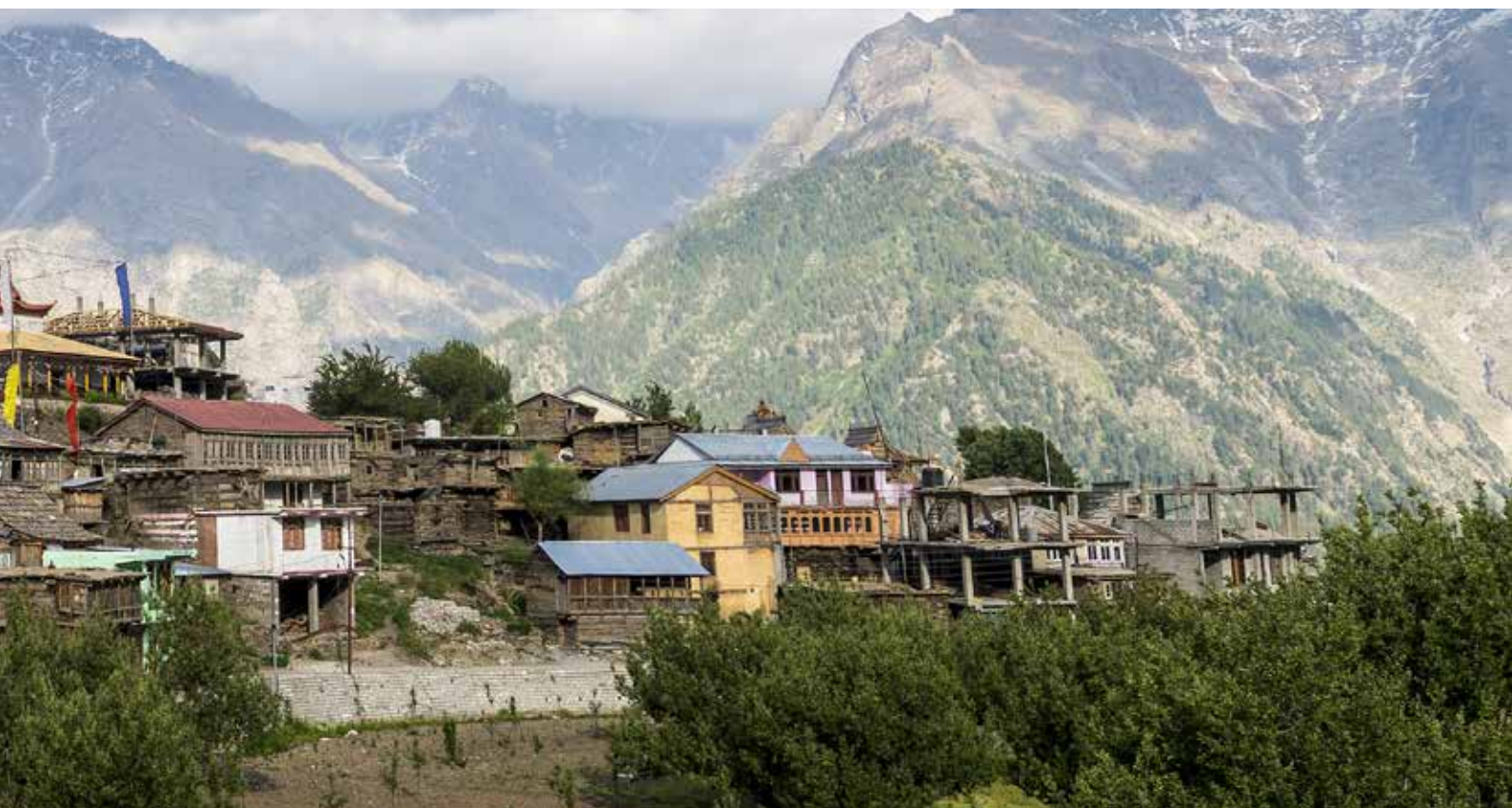
<sup>3</sup> <https://www.pressreader.com/india/mint-st/20170418/281857233411230>



## Microinsurance products and distribution methodology

Company/Organization	Product (benefit)	Target market and distribution	Structure
Mid size insurer from Guatemala	Life, Student (life & health), Passenger (2x benefit for claims related to bus accidents)	Clients of BANRURAL, a network of rural banks and ASR's parent company via BANRURAL network in rural areas	Microinsurance managed under the life Insurance business
Co-operative Insurance Company (CIC), Kenya	Credit life, Bima ya Jamii (health & life), Afya Bora (health)	Members of MFI's and SACCO via MFI's, SACCO and other groups with whom it has existing relationships	Managed by product line with commercial insurance business. Planning to create a separate microinsurance subsidiary
One of the largest private general insurance company in India	W&A (group health for weavers & artisans), RSBY (govt subsidized health)	Members of weavers and artisans co-operative. People below the poverty line as identified by the state enrollment team	Managed under business units organized by product line. No separate microinsurance unit.
A diversified Insurance company from Peru	Credit Life water board life	Clients of MFI's and NGO's. Member of rural water boards	Separate affinity and microinsurance unit
Insurance company from Philippines	Personal accident (with health rider), Property (residential/business)	Clients of pawn shops, rural banks and lending institutions, co-operatives and NGO's via pawn shops, rural banks and other credit providers	Prior business managed by the retail underwriting group from 2011 new business is managed by BAC, a subsidiary
One of the largest Insurance company from South Africa	Group funeral (Life)	Members of burial societies, funeral parlours and savings clubs. Full-time salaried agents	Managed by Foundation Market, a separate business unit
One of the largest private general insurance company in India	Livestock Insurance, Property Insurance, Health & Accident Insurance	Farmers (members of PACS) and other members managed by the SHG's & NGO's	Managed under business units organized by product line. No separate microinsurance unit but specialized Microinsurance Agents

Source: PwC analysis and ILO's Impact Insurance Facility report on 'Microinsurance distribution: Insights for insurers'



Most insurers should also look beyond simple credit and products that bundle life insurance. The list below is not exhaustive, but should provide a general sense of the possible innovations.

### a. Life

This is the most basic and simple form of microinsurance product sold extensively in rural areas besides health insurance. In order to keep the product and processes simple, most companies have a version of simple life insurance with an additional sum assured for accidental death and dismemberment coverage. Bundling life insurance with loans is also a very popular product that finds takers, especially in the microfinance and microcredit space.

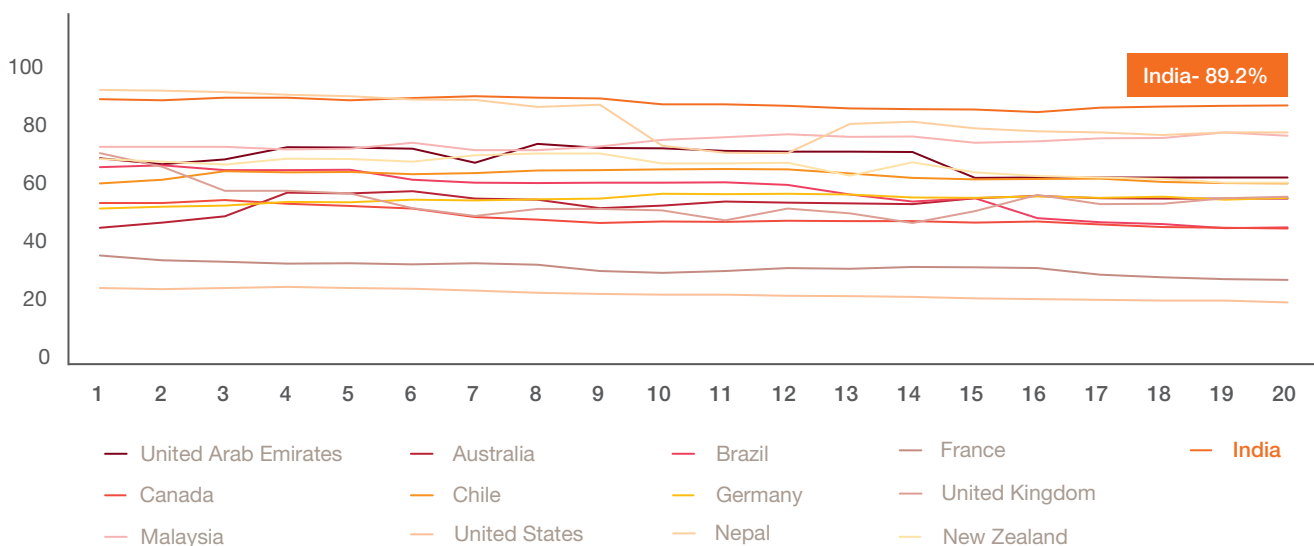
### b. Health

Rural and micro-insurance health products are one of the most needed insurance products for low-medium income

households. India has one of the highest out-of-pocket private health expenditure. Nearly 90% of the expenditure on health is financed through personal savings and other avenues. It is quite evident that health microinsurance can reduce expenditure on healthcare for clients and encourage them to seek care and wellness much earlier after the diagnosis of an ailment and without waiting for it to worsen.

A majority of health insurance schemes are delivered through government-sponsored programmes under group insurance schemes offered by both public and private insurance companies. Other health insurance schemes are sold through agents, community-based organisations, non-government organisations, self-help groups and more. Recent innovations include provision of outpatient insurance and value-added services that improve access to primary care. Technology has also played an important role in expanding the scope of health services required as outpatient department, especially tele-advice and telemedicine, which are discussed later in the paper.

Out-of-pocket private health expenditure



Source: <http://data.worldbank.org/indicator>

### c. Agriculture

There is increasing usage of agricultural insurance as a mechanism to manage catastrophic risks by various governments. For instance, loss verification and estimation have seen improved efficiency, thanks to satellites and automated weather stations. Also, drones and image recognition technology provide an additional edge in yield estimation, thereby projecting the right insurance amount and calculating the extent of loss in case of occurrence of the insured event.

Conventional crop or livestock insurance relies on direct measurement of the loss or damage suffered by the farmer. However, field loss assessment is normally costly or not feasible, particularly where there are a large number of small-scale farmers or where insurance markets are undeveloped.

Weather-index insurance has seen good growth, thanks to its ability to bring down costs as well as moral hazard. This insurance contract even addresses objective benchmarks (e.g. rainfall or temperature measurement) at a specific weather station within an agreed timeline. The fine lines of the contract are created to establish an accurate link when it comes to the loss of a particular crop incurred by the policyholder. So, no in-field assessment takes place but the policyholders in a particular area get the payouts based on the agreed contract.

In order to tap the potential of agricultural insurance, sustainable schemes should be continued in the market. The bottlenecks surrounding basis risk, pricing and data limitations need to be eliminated.



#### d. Property

A new entrant in the microinsurance universe is property insurance. Overall, property microinsurance is an overlooked component of the microinsurance market (in India as well as globally). Its potential as a market-making product line has largely been ignored in the microinsurance sector, with the focus typically on life and health insurance. The need for property insurance is clear: Destruction or damage to homes, business inventory, farming equipment or livestock can be devastating for low-income groups. Without these assets, it is difficult for people to recover and continue to make a living. However, there exist challenges in identifying the extent of losses efficiently. While innovations such as the identification of livestock with RFID devices or the usage of satellite data to verify damage are promising solutions, more needs to be done to improve efficiency and make these insurance products viable.

#### e. Savings

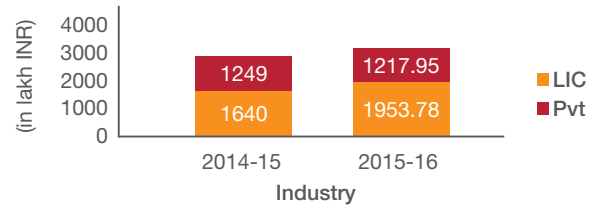
This product offers liquidity to deal with small shocks in life. It combines savings and insurance in one product and allows households to build assets while protecting them against life-threatening eventualities. While these savings help low-income households protect themselves against small shocks, they often prove inadequate in the face of large or catastrophic risks. Adding an insurance component can provide much-needed protection. Additionally, savings-linked insurance also helps in planning long-term investments.

#### f. Value-added services

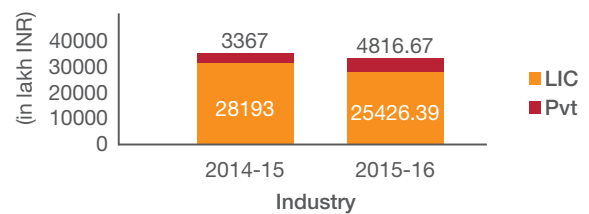
While different kinds of insurance policies provide important protection, their benefits are not experienced immediately. If there are no claims, policyholders may not find it worthwhile to buy insurance again. Value-added services offer one solution. They are tangible and provide non-insurance benefits alongside insurance products. Some value-added services (e.g. hygiene campaigns) aim to reduce the probability of

claims. Such services can be beneficial for both clients and insurers. Moreover, value-added services can improve demand, renewals and viability of insurance schemes.

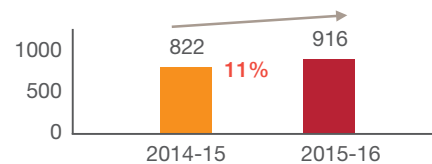
Individual business premium



Group business premium



Rural insurance growth in the last 2 years (number of policies in thousands)



Source: IRDAI and PwC analysis



## 2 Distribution

As discussed earlier, one of the most common financial products sold are loans bundled with life insurance. The acceptance of these bundled products is usually higher as the premium is a small fraction of the loan amount. The overall coverage may be increased through add-on covers, which are called riders. Riders helps in increasing the overall coverage by paying a much smaller amount as premium. They also give customers the opportunity to choose from a variety of options such as additional term cover, additional accident protection, and critical illness or family protection options. The sale of multiple products to a single customer increases the stickiness for the distributor and also leads to higher revenue.

### a. Financial institutions

They include private banks, public sector banks, cooperative banks, regional rural banks (RRBs), business correspondents, and technology-enabled banking agent distribution models.

Financial institutions are usually the first choice for the distribution of any financial product that may be nonproprietary. In a way, the financial institution becomes a one-stop shop for fulfilling the multiple needs of the customer. The various financial institutions naturally became the initial choice for distributing rural and microinsurance products. Besides helping to build the financial literacy of customers, they ensure ease of buying. Often, the trust factor is also higher with many of these financial institutions due to their long-standing history of existence and customer service.

### b. Community-based financial institutions (CBFIs):

CBFIs cover a wide variety of entities that provide a range of financial products and services. They typically operate in remote areas that lack access to formal financial services.

CBFIs vary in size and role. They normally are a rotating savings and credit association and typically comprise friends, relatives, community members or workmates who group together to mobilise funds for a common purpose. Their main advantage is that they are formed by individuals who know each other. This allows them to circumvent the default issues faced by other distribution models.

**There are three main types of CBFIs**

#### ***Small community-based, time-bound savings groups***

Savings are an integral function of such groups. Being time-bound, these CBFIs disburse all the funds that are pooled after each cycle. The groups are dissolved once everyone has had their turn to receive a loan. After the groups are dissolved, many are re-established, often in different formations and structures. Generally, they are grass-roots organisations and often form and operate without any external intervention or support.

#### ***Small community-based accumulating savings groups***

Besides savings, the group structure, size and timing of contributions, and withdrawals of the pooled savings are more flexible. Also, these types of CBFIs have an unlimited life. Accumulating savings groups have more complex operations than time-bound groups. While they are responsible for safeguarding member savings, they can also accumulate additional capital for lending, allowing them to offer varied loan products.

#### ***Large community-based cooperative groups***

Generally, larger savings groups are characterised by more formal structures of management and governance. Whilst savings can be either voluntary or compulsory, these groups remain largely savings-driven. Ownership of cooperatives is usually arranged by members buying shares or paying membership fees. These institutions are democratically controlled by members who appoint the board and annually review the cooperative's performance.

#### ***Case Study: prominent General Insurance Company from India***

*The general insurance company sells insurance through farmers' cooperatives, banks and credit societies in India. It has been able to build strong partnerships and grow significantly by delivering value to farmers. In particular, it has improved its claims process allowing it to process most claims within 15-20 days. As a result, the product offers considerably improved client value compared to other livestock insurance products, which have claims turnaround times of up to six months. Client satisfaction has been demonstrated by healthy renewal levels. Interestingly, around 30 per cent of clients no longer have a loan with the cooperative, but want to continue protecting their cattle through the cooperative.*

Source: Matul, M.; Dalal, A.; Merry, A. 2013

Case study: [http://www.impactinsurance.org/sites/default/files/Impact\\_Insurance\\_Papers\\_33.pdf](http://www.impactinsurance.org/sites/default/files/Impact_Insurance_Papers_33.pdf)





**c. Mobile network operators (MNOs)**

MNOs offer telecom services to large numbers of clients, including low-income group clients. In India, telecom services are distributed through more than 1.5million retail distributors, thereby providing extensive rural and urban coverage.

These distributors can function as distribution channels for microinsurance in two ways: as a voluntary distribution channel which allows clients to register for insurance by using their mobile phones; or by actively providing clients with insurance coverage, for example, as part of a loyalty scheme through group insurance. Most MNOs in fact function as hybrid distribution channels, also deploying sales agents to assist clients. The vast retail network of distributors and sales agents can help in educating clients about the importance of insurance coverage and also double up as providers of routine services on insurance products for a small fee. While the model of MNOs selling insurance products is being tested worldwide and has had limited success, it still provides room for experimentation and improvement. With MNOs entering the payments bank space, the case for insurance distribution becomes lucrative, especially in rural areas that have seen deep penetration of mobile phones and services.

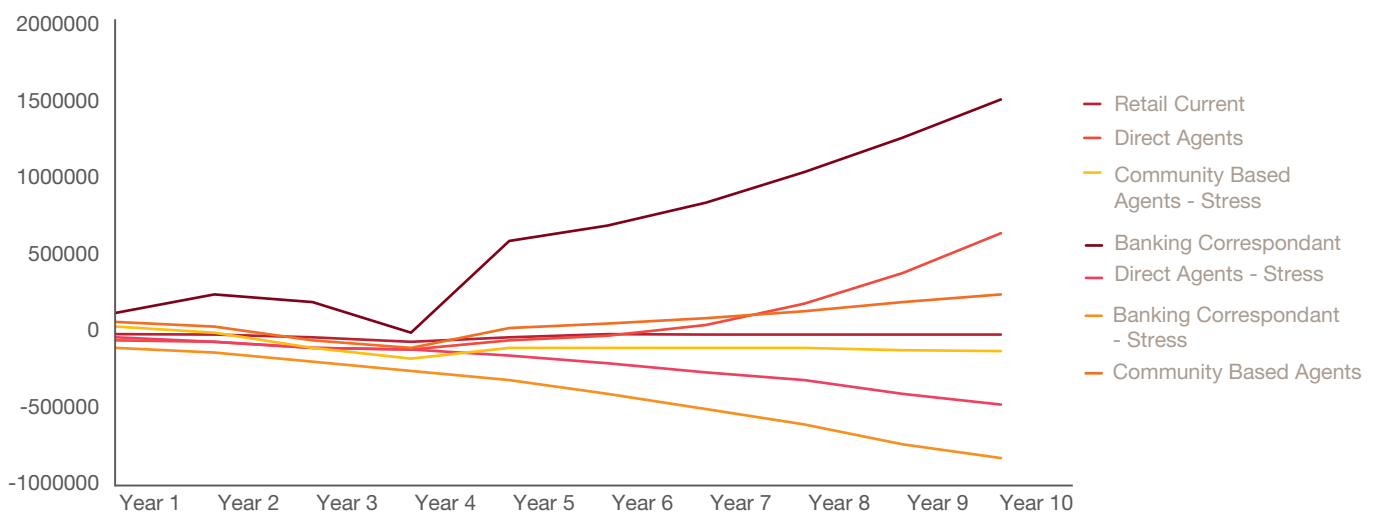
*not meet expectations, it went back to evaluate potential distribution options, comparing its existing model to banking correspondents, direct agents and community-based agents. The banking correspondent model appeared the most scalable, especially for simpler products. However, it also posed an important partnership risk, especially for savings-linked products, as the bank which owned the network might introduce its own insurance products. Both the existing model and community-based models had limitations in terms of scale and were therefore too expensive. The community based model had a lower cost structure and might work if there were the possibility to sell other insurance products or if successful community agents could be transformed into direct agents who could sell more extensively outside of their community circles. The direct agents model would require more investment upfront, has the potential to reach substantial scale, but cross-selling would need to be activated quickly to generate more revenue. When the insurer modelled the profitability of the different models, it estimated that only the banking correspondent model was profitable from the start, the current retail model was not profitable, and the other two options would break even after some years. However, all these projections are very sensitive to scale and long-term financial assumptions. The below chart also shows a “stress” situation, under which the long-term interest rate is reduced by 4 percentage points and the short-term interest rate by 2 percentage points (along with a slight increase in mortality and slightly lower persistency), and under these circumstances none of the models are profitable. Given these low-margins, the higher the scale, the higher the profits or losses, making the business correspondent model particularly attractive but risky.*

**Case study: Large insurance company from Kenya**

*The insurance group hoped to capitalise on the success of a prominent money transfer service in Kenya, used by more than 15 million people. It built a new technology platform called M-Bima, and launched a combined life insurance and savings product on the platform in 2011. It began marketing and distributing the product largely through retail and mobile money outlets. However, when sales did*

Case study: [http://www.impactinsurance.org/sites/default/files/Impact\\_Insurance\\_Papers\\_33.pdf](http://www.impactinsurance.org/sites/default/files/Impact_Insurance_Papers_33.pdf)

Thousands of Kenyan shillings



Source: <http://www.icmif.org/es/news/cic-chief-executive-technology-innovation-boosts-cics-microinsurance-business-kenya>

#### d. Retailers

Retail chains such as supermarkets, appliance stores, clothing retailers, agricultural input retailers and credit retail chains exist in many emerging markets. In order to avoid mandatory training guidelines required for insurance advice and sales, some retail chains sell products off the shelf. While this may help them to circumvent guidelines, it does not help them to increase the knowledge and sales of insurance products.

Footfall is a crucial index of a retailer's profitability. So, if retailers start selling and collecting premiums, more client visits would happen and result in more footfalls.

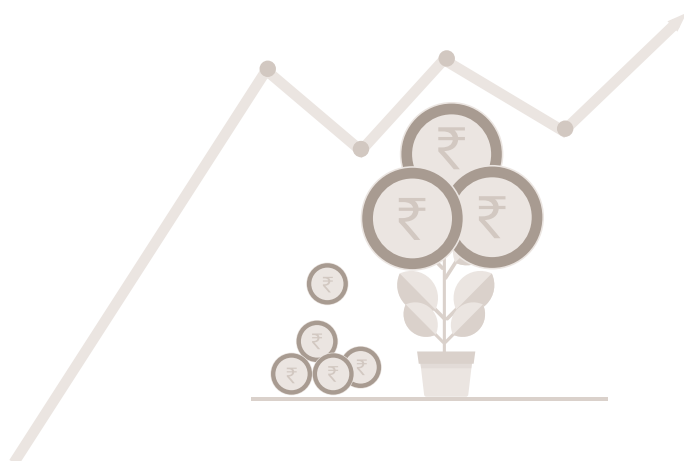
These days, retailers offer finance schemes to clients to buy goods. The risk of non-payment arises from here. Insurance can be a good option to mitigate this risk. As a part of loyalty schemes, retailers can introduce insurance. Additional income can be generated from the commission from insurers.

Instead of actively pushing, retail chains limit themselves as pull channels, allowing clients to pick products off the shelf. Needless to say, this approach brings down the sales impact and mis-selling might occur in scenarios where there is lack of insurance knowledge. Also, bundling insurance with lottery prizes might turn out to be counterproductive as clients focus more on the prizes instead of knowing about the product.

#### e. Employers buying insurance

Small- and medium-sized companies also function as channels for distributing rural and microinsurance products. These channels provide two kinds of benefits for employees—they create goodwill and reduce the risks of potential losses arising in cases of accidents or health problems. Employees turn to their employers for financial help in times of emergencies, instead of a financial services firm. An insurance policy funded by the employer could come in handy and shift the onus of such payments to an insurance company by paying a relatively small premium contribution by the employer. As part of employee benefit packages, employers offer contributory as well as non-contributory insurance schemes. Such benefits help in boosting the morale of employees, while also allowing them to take good care of their health, which in turn adds to the productivity of the company.

Insurance helps to boost and protect the reputation of the company as well.



#### <sup>4</sup>Case Study- (Pakistan based Insurance Company)

Pakistan based Insurance Company's initiative can be looked at more from a Corporate Social Responsibility (CSR) perspective. It aimed at the corporate targeting the large un-insured non corporate informal workers that operate in their distribution network. For example, at a large FMCG company the model employed was that, one corporate employee helped an average of 4.5 domestic workers, with an average of 6.2 dependent thereby on an average one employee indirectly supported between 20 - 25 individuals from Pakistan's poorest populations. The insurer targeted this chain with a socially responsible insurance model that uses corporate employer subsidized health insurance to provide services to:

- low income level employees and their families;
- domestic staff (maids, cooks, drivers of the corporate officers/managers)
- low income vendors, distributors, suppliers, and customers on a loyalty plan

#### f. Direct agents

Typically, insurance is bought through direct sales agents who act as intermediaries between insurance companies and clients. Direct agents are perhaps the most commonly employed source for the distribution and sale of microinsurance. Jobs as microinsurance agents serve as unique employment opportunities and sources of income. However, currently, a majority of all microinsurance is sold through CBFIs. If proprietary agency channels are set up, there will be better scope for the inclusion of the local workforce in rural areas through employment and earning opportunities.

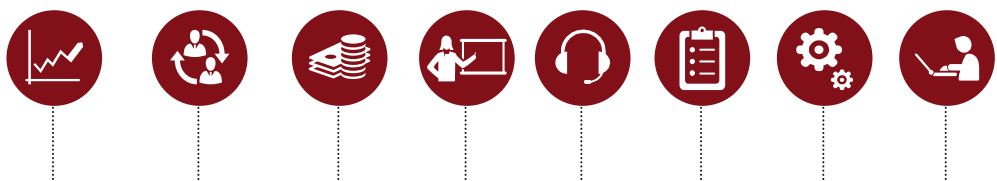
For instance, a large insurance group in Haiti, fostered a partnership with a university to give its agents access to higher education. As a result, the insurer will have professionally qualified agents and higher education serves as an additional incentive for them.

Consumers place immense trust in insurance agents. According to the 2016 Insurance Barometer Study by the Life and Health Insurance Foundation for Education (LIFE) and the Life Insurance and Market Research Association (LIMRA), 88% of insurance consumers claimed that they would use the Internet to research life insurance products before purchasing them. Further, while 95% of millennials relied on the Internet, and the percentage dropped to 70% for consumers aged 65 and above. Although half of consumers prefer to purchase life insurance in person from a financial advisor (direct agent, bank employee, etc.), the second most popular method was online, with 21% of respondents preferring this method.

<sup>4</sup> <http://healthmarketinnovations.org/blog/naya-jeewan-aims-break-cycle-poverty-providing-health-insurance-pakistan%E2%80%99s-informal-workers>



## Different<sup>5</sup> roles performed by the distribution channels beyond just selling insurance policies.



	Marketing	Engagement	Premium collection	Training	Customer Service	Claims reporting	Claims processing	Claims payment
Banks, MFI's, NBFC's (FI)	●	●	●	●		●		●
CBFI (Community Based FI's)	●	●		●	●	●	●	
Retailers		●	●			●		●
NGO's, SHG's	●		●		●	●		●
MSME (employers)	●	●	●	●		●	●	●
Direct Agents		●	●	●	●	●		●

Source: PwC research and ILO report on 'Pathways towards greater impact: Better microinsurance'

In order to increase the penetration and density of rural microinsurance, it is important to utilise multiple distribution channels, their infrastructure and local expertise. Direct agents, a common channel for insurance distribution, have personal connections with their clients which they have built over a period of time. While these agents offer several insurance products and services, they may not be aware of competitors' products and services. Also, the resources available to them owing to the nature of operations could be limited as compared to a financial institution like a bank or microfinance company. While banks or microfinance companies offer a plethora of services and also act as a one-stop shop for their clients, their services sometimes may not be as personalised and specific as those provided by direct agents. Often, the employee of a bank may prioritise his bank's own savings product and not a third party's insurance product. This adds to the costs of insurance companies as they deploy manpower directly on the premises of their distribution partners. Therefore, more nimble models like the business correspondent and retailer as insurance distributor are gaining ground and proving to be more viable.

### Supporting the different distribution channels

#### *Solve distributor problems:*

Revenue and earnings are important for the sustenance of distributors. However, core problems of distributors may not necessarily revolve around product commercials only and can include:

- 1) **Customisation of products:** How closely does the product meet the real need of the target customer?
- 2) **Awareness of the value proposition of insurance:** Is the distributor aware of the core value proposition of the insurance product and its multiple benefits to the customer?



- 3) **Selling skills:** Insurance is a long-term promise and requires commitment from the client for the payment of regular premiums. Selling such an intangible product requires some basic skills of gap identification and the selling of the right solutions.

#### *Focus on agent/advisor productivity:*

All face-to-face channels involve interactions with potential customers. Agent productivity is usually measured through standard metrics like the amount of premium sold, average number of policies sold in a month or year or average earnings per month. Therefore, it is extremely important that the agent/advisor sees value in this job from a financial as well as morale perspective. If the agent/advisor does not earn enough through insurance, his/her interest will slowly wane and it will become difficult for him/her to move further in the sales value chain. Agent/advisor development and productivity is one of the most important contributions that an insurance company can make for the longer sustenance of the channel and an increase in the penetration of insurance.

<sup>5</sup> Churchill, C., Dalal, A., Ling, J. (2012). Pathways towards greater impact: Better microinsurance models, products and processes for MFIs. Microinsurance Paper No. 18. Geneva: ILO.

Latent need always exists; however, they don't result in customer demand. This could happen mainly because of three reasons: 1) awareness, 2) trust, 3) right product fitment. The key point to consider is that a majority of the target audience is involved in agriculture and related occupations.

#### a. Demand

The demand for rural and microinsurance products is based on three key determinants: (1) low take-up rates (2) high claim rates and (3) low renewal rates. These challenges can often be attributed to adverse selection. Low awareness and unfamiliarity with insurance schemes are other factors.

Adverse selection means that households with a higher ratio of sick members are more likely to purchase insurance. Low take-up rates can also be attributed to the risk appetites of individuals. While high-risk takers may have a lower propensity to purchase insurance, the reverse may not be true.

#### b. Education and training:

Lack of awareness and inability to understand the value of insurance are some of the key reasons influencing the three determinants mentioned above. The goal of consumer education is to provide households with knowledge and skills to improve their ability to manage their personal and occupational risks. This is important both to encourage greater demand for insurance and to enable clients to get more from products. Insurance companies and distributors can play important roles in delivering consumer education to low-income households.

#### c. Weather index insurance<sup>6</sup>

Weather risk, in particular, is pervasive in agriculture. Weather shocks can trap farmers and households in poverty. There are also the risks of shocks that discourage farmers from investing in measures that might increase their productivity and improve their economic situation. This problem is not only restricted to farmers in developing countries, who seem to be more vulnerable to a range of risks and constraints that impede their socioeconomic development, but also affects those from developed countries.

**Weather index insurance can be positioned in two ways:**

**Weather index insurance for development:** It can be used as a tool to promote agricultural and rural development and can help households, financial service institutions (FSIs) and input suppliers manage low-to-medium frequency risks such as drought or excess rainfall.

**Weather index insurance for disaster relief:** It can provide an alternative method of funding disaster recovery assistance or relief programmes.

#### d. Balancing sales techniques

Selling combination products or bundled insurance with other financial products has considerable potential to reduce costs and increase the reach of insurance. However, it can be difficult for the employees of the banks or MFIs to explain both products to the customers. In particular, crop insurance or weather index insurance may become a little complex to explain. Therefore, it is important for banks and MFIs to invest in trainings for their staff on both the technical and non-technical aspects of the product and sales process. It is also important to create a learning strategy that takes into account different learning styles such as visual, auditory and kinaesthetic.

#### Case study- A large Microfinance institution in Colombia

*The MFI's loan officers were trained to sell a crop insurance product and were equipped with a standardized approach to selling the complex product. This approach involved a range of tools, including a video, a worksheet, key talking points, and guided answers to common client questions. Loan officers generally appreciated, remembered, and used the tools and protocol.*

*Each tool was designed for a specific purpose. For example, the video placed more emphasis on providing information about product details (e.g. coverage, price and benefit amount) than on marketing. This choice was made on the assumption that loan officers are adept at finding creative ways to sell products, appealing to their clients at an individual level. However, because they are not insurance experts and because their primary focus is sales, they may not always be adept at explaining the details of a relatively complex insurance product. Qualitative interviews suggest that product details explained in the video were more likely to be understood and remembered by clients than when this information was relayed by a loan officer.*

Source: <https://www.accion.org/content/first-microfinance-institutions-latin-america-certified-strong-client-protection-practices>

Case study: [http://www.impactinsurance.org/sites/default/files/Impact\\_Insurance\\_Papers\\_33.pdf](http://www.impactinsurance.org/sites/default/files/Impact_Insurance_Papers_33.pdf)

<sup>6</sup> <https://www.ifad.org/documents/10180/2a2cf0b9-3ff9-4875-90ab-3f37c2218a90>



An insurance company partners with a distributor to sell products and also provide key services to its customers, such as claims services. On the other side, the insurance company protects itself by buying an insurance cover for itself through a reinsurer. The value chain gets more complex when the overall service delivery is co-shared with government organisations through public private partnerships (PPP) models. However the role of the intermediary is of paramount importance as it manages the needs and expectations of the end customers.

## a. Business model

Intermediaries are getting the bulk share of claims and related services, while playing a pivotal role in delivering microinsurance products. One of the most successful models of delivery has been the public private partnership (PPP) model that has been instrumental in the development of the healthcare and health insurance delivery models. In India, there are numerous examples where innovative models are being envisaged to provide a robust healthcare framework in the country. Some of these include the Yeshasvini health scheme in Karnataka, Arogya Raksha scheme in erstwhile Andhra Pradesh and the Rashtriya Swasthya Bima Yojana (RSBY), a health insurance scheme for families below the poverty line (BPL), launched by the Ministry of Labour and Employment (MoLE).

## b. Business feasibility

Microinsurance needs to be a feasible venture, in order to achieve long-term sustainability. This can only happen when the entire value chain is involved and aligned actively, just like any other insurance solution delivery model. For this, insurers and distribution partners should map their experience, evaluate costs, acquire market intelligence and make products and process adjustments by forging good partnerships. It is easier for any business to achieve scale by making the purchase of its products mandatory or by linking them with credit products. However, the products need to meet the core needs of the target market intended and should be easily understood by them. That's when great value is created.

Three factors determine business feasibility—scale, optimising claims costs and controlling administration costs. Precedents show that microinsurance can be a profitable proposition if these factors are weaved into the design and management of products and the service delivery models. Remaining nimble and adapting to the constantly changing demands of the market both in product design and service delivery models is going to be key.







In mature markets, the role of the claims department of a microinsurance programme is extremely critical. It is this department that connects with the end customers and its family during the claims process. So, a customer's trust is directly related to how the insurer tackles a claim. Since perceptions spread easily, every claim procedure must be dealt with utmost caution.

The success of a microinsurance programme is dependent upon a lot of factors, ranging from product development, sales and distribution to renewal. The claims team should be abreast of these key considerations while settling claims.

#### a. Long-term focus:

There should be investment in robust infrastructure for capturing the correct claims data. This is a long-term investment whose value will yield benefits as the company will scale its business along with vintage. This will also help them in new product development and pricing. With large data banks, data warehousing and big data analytics in place, propensity modelling on renewal and claims will become sharper. This however requires systematic investment in technology and infrastructure at regular intervals.

#### b. Commitment to service

In the context of insurance in the rural and microinsurance sector, service refers to effective and smoother claims management and payout. Sustained experience over a period of time would help in building the credibility of insurance schemes and companies. Considering that the customer base is mostly a part of larger cooperative groups, it becomes imperative that the messaging is managed well. The need is to have people who understand problems at the ground level and processes that are easy to understand.

#### c. Metrics-based management

What gets measured gets delivered. Consistent management of metrics is an effective way to incorporate learnings, improve the service at the ground level and provide operational discipline that will build trust over a longer period of time.

A microinsurance programme needs effective management. So, the claims department will have to focus on the parameters deployed by claims executives in mature markets, including timeline, closure rates and average claims amount, besides monitoring the cycle time and average number of policies per customer.

*Claims case study- A growth journey powered by a focus on claims*

*From 2009 to 2016, the micro insurance programme of a large insurance group\* in the Philippines grew from 20,000 policies to 20 million microinsurance enrollments. While a number of factors contributed to this growth, including leadership, establishment of a dedicated microinsurance team, and strong partnerships with aggregators, it believes that a driving force has been their focus on claims.*

*The insurers microinsurance staff (across all levels) conduct client immersion visits to understand the needs and wants of clients. When asked what they want from insurers, each and every client said: an insurer that pays claims.*

*This led it to take steps to design claims processes that provide value to clients, including:*

- paying claims within 5 days from time of document submission.*
- working with partners to ensure that the period from the time of the event to document submission is streamlined as much as possible.*
- adjusting the documentation requirement to fit the realities of clients' lives (for example, signed testimonies from partner representatives and disinterested parties are accepted as alternatives to a death certificate if the latter cannot be produced)*
- making exceptions on claims payments for claims that could be rejected, for example. The decision to reject a claim go to the head of micro-insurance for final approval. This allows the highest authority in the programme the opportunity to find a reason to pay the claim.*
- allowing positive claims experiences to serve as marketing through word of mouth. Clients, partner representatives, and agents are encouraged to share claims experiences in client meetings.*
- measuring whether clients whose claims are rejected understand why it happened?*

*These claims policies are part of a broader push within the insurer to be "client centric" rather than "product centric". This effort focuses on creating an ecosystem within the organization that focuses on client centricity. To learn more about these efforts, listen to the recording of the facility's webinar on "clients and impact metrics".*

Source: <http://www.verisk.com/>, <http://www.cgap.org/sites/default/files/Partner%20Event%20Case%20Study%20CPMI.pdf>

Case study: <http://www.impactinsurance.org/hwg/lessons/health-microinsurance-emerging-lesson>



- a.) The penetration of mobile phones across the world, especially at the lower end of the pyramid, has opened up multitudes of possibilities for many ancillary technologies that can change the way problems have been visualised thus far. One such example is the advancements in the field of telemedicine.

**Case study: World Health Partners (Therapeutic Care from Distant Doctors)**

The Sim card used in a common 2G mobile phone system can become the gateway to enable a city based doctor to provide good quality medical consultations to remotely located patients with the support of vital parameters such as blood pressure, stethoscopic sounds of heart and lungs, temperature, pulse, foetal sounds, haemoglobin levels, blood glucose counts, and cardiac signals. The future presents the potential to add further parameters such as visuals of skin lesions (dermascope), ear infections (otoscope), sonograms and many more. In short, currently available technologies harnessing the wide availability of basic mobile telephony even in the interior villages can deliver a range of primary health services at the door step of rural communities thereby assisting a global mandate of Universal Health Coverage for all.



*In centers where broadband access is available, we have internet based systems in operation, which facilitates face-to-face consultation with doctors who are based at a distance.*

*Providing such therapeutic care will reduce the burden on the government's primary health centers, enabling them to focus on services that require physical presence (such as basic surgeries, immunization, IUD & sterilization, gynaecological services). By combining the demand generating and counselling skills of private providers with the medical skills of the public sector under an official collaboration, where Auxiliary Nurse Midwives (ANMs) inserted IUDs and provided gynaecological services at private centers) produced spectacular results. This can be expanded to many more services. More complicated cases are referred to higher centers both in the public and private sectors. The program has received fantastic response from the communities we currently operate in. Our engagement primarily focuses on maternal and child health, TB detection and treatment, malaria and diarrhoea prevention, family planning and reproductive health.*

*WHP has received support in the past from the Bill & Melinda Gates Foundation, Merck for Mothers, GSK and many others. WHP has won the prestigious Skoll Award for its innovative approach to rural health care.*

*Our current focus is to reach out to more communities within sub Saharan Africa. Hence, we focus on initiatives with suitable public-private engagement that will make community health and welfare projects easy scalable and sustainable.*

*WHP is in a position to scale our operations easily, and we are progressing steadily towards making these initiatives sustainable by encouraging a happy dose of local entrepreneurship at the village level. In this regard, we actively encourage women entrepreneurs to become our operators in the field. We are also in the process of developing nurse centers in Kenya, hence utilizing the skills of many trained nurses at the village level, who currently are unemployed.*

*WHP believes in collaboration with local communities. Hence, within the countries we are currently targeting, we look forward to working with a local NGO who is familiar, and has access into the communities they operate in. Within India and Kenya, we are working up on increasing collaboration with the government, private sector as well as civil societies, as our efforts in this direction have provided excellent results in terms of outreach and treatment of underserved communities.*

*Technologies are most effective when they are accompanied by process changes. It remains to be seen whether technology can replace the high-touch human interaction that currently characterizes many microinsurance schemes, without compromising client understanding.*

Source: worldhealthpartners.org



Inadequate resources deter the extension of social protection to the general population in emerging economies. Microinsurance can bring in balance to social security and add value to other policy objectives, such as adjusting to climate change, improved agricultural production, universal health coverage, managing market failures, fostering gender equality and economic growth. It is no wonder that governments are using insurance as a means to meet public policy objectives. A combination of policy and regulation should be used to nurture market development and provide better access to insurance.

While micro-insurance has made a healthy progress along with the overall rural insurance, the former yet needs a bigger push in the areas of new product development, innovation and focus by the insurance companies. The IRDAI Micro-insurance regulations 2015, increased the product benefits limits substantially and since then there has been a steady growth in the design of products catering to the needs of the poor. In India many insurance companies are offering the regular insurance products with reduced coverage amounts to this segment. This is a good flexibility allowed by the regulator and would help the insurance companies to augment existing propositions to the rural segment with speed.

***The microinsurance business in rural India is on a rise due to increasing healthcare costs and rising purchasing power of consumers.***

Source: IRDAI Micro-insurance regulations 2015

Fuelled By:

Rising Health care costs



Rising demand for motor insurance



Growing purchasing power in rural India



Regulatory initiatives that impact the growth of the industry



Increasing realization that social security schemes of the GOI are better administered insurers due to cost efficiency, superior service delivery





# In conclusion

The future of rural and microinsurance should be envisaged by keeping welfare and financial inclusion at the core, along with the principle of protecting the economic strata of the target segment without letting them fall to lower levels. Therefore, while products which are specific to the needs of our rural customers need to be designed, it is imperative that the other levers are also equally aligned and work in tandem with the core principles.

## Product and distribution

It is important that the products are designed keeping in mind the end customer and also the distributor or intermediary. An MFI would be more comfortable selling products that are closer to its own offering, which is credit. Therefore, credit life, credit accident, credit health or products as specific as credit hospitalisation and credit OPD (the list could be made more exhaustive) could be a perfect fit and win-win for the customer and the distributor.

NGOs, on the other hand, are linked directly with customer groups and are involved in providing primary services like child education, sanitation and health, safety, agriculture practices, education and knowledge for adults, etc. The products sold through NGOs should reverberate with the concept of child education protection, health products linked with sanitation and hygiene as wellness benefits.

Rural banks, such as branches of large public and private banks, cooperative banks (urban and district), regional rural banks, small finance banks, could focus on consumption and productive assets—that is, products like personal accident

cover, life and health insurance, and equipment insurance for farming tools and implements, tractors, pump sets and cattle.

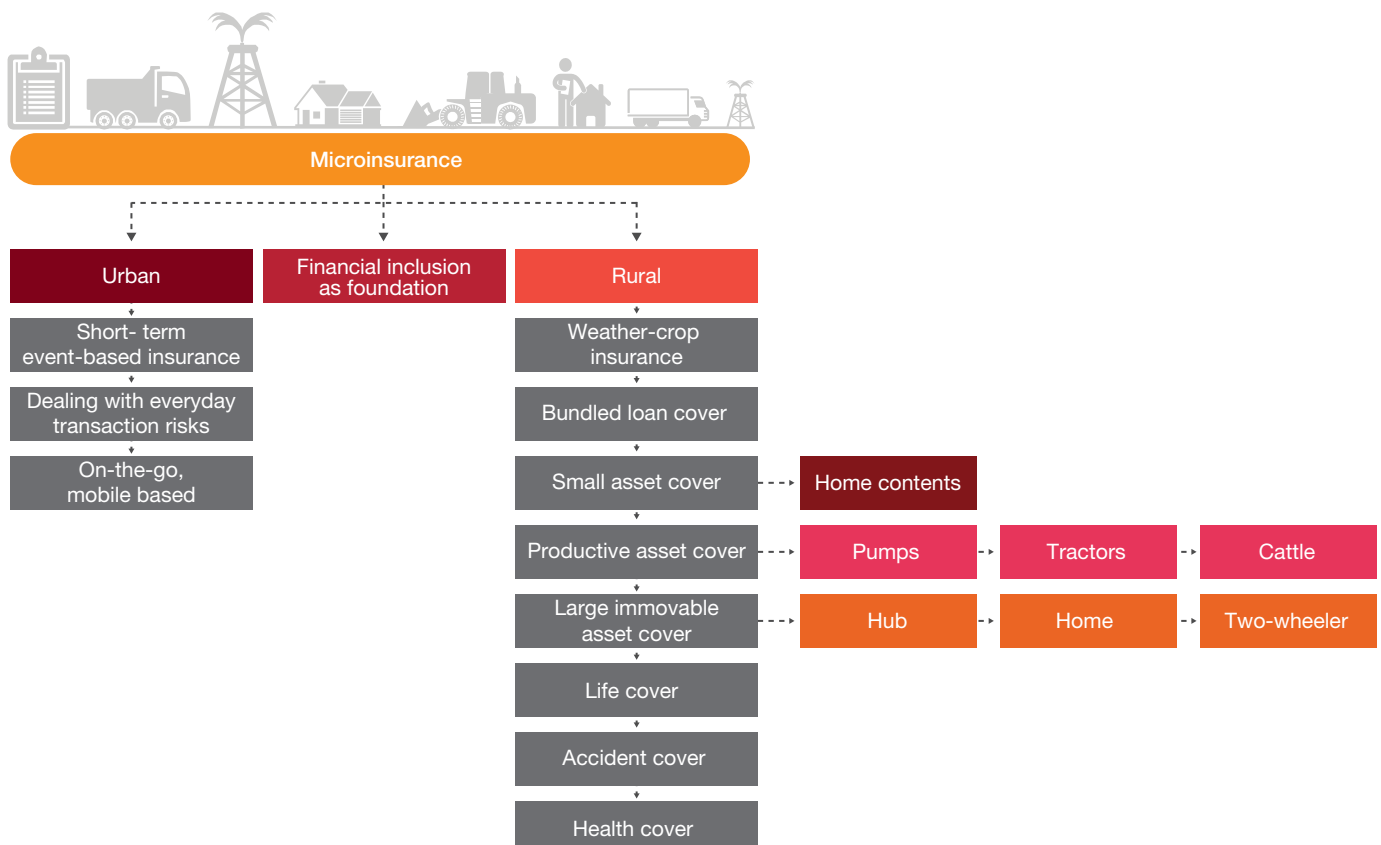
Rural agent groups like microinsurance agents and agents at the point of sale like retailers and customer service centres can focus on more over the counter (OTC) products which could be a simpler variants of the products discussed thus far. These avenues also create huge livelihood generation opportunities for the rural base.

## Technology

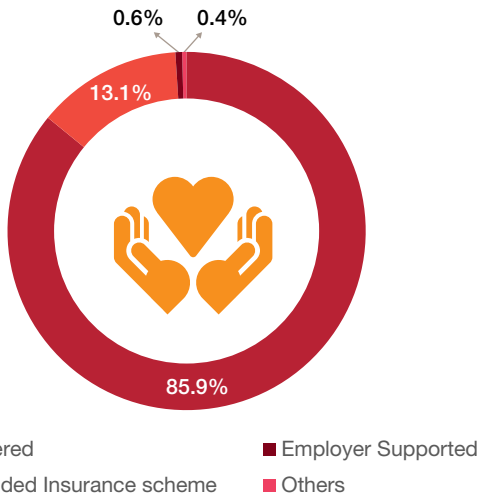
Technology will play an overarching role in the smooth and efficient delivery of products and services across the value chain. It can be leveraged to buy a product and provide services like changing address, nomination, coverage value, etc. One of the largest service offerings that leverage technology could be for making payments through a unified payment interface. Awareness and education activities about insurance and other financial solutions can be made accessible to everyone using technology. Needless to say, all of the above, if made available through mobile phones, could totally change the paradigm.

While technology becomes the new oxygen that slowly pervades the microinsurance space, it can help in social messaging through rural broadcasts and making the existing anganwadi networks more efficient. Further awareness can be generated by using FM radio based contests and gamifying key concepts on the importance of protecting one's self, family and other assets against the vagaries of life.

Figure: Future rural & micro-insurance products



Health insurance coverage in rural India



Source: <http://www.thehindu.com/sci-tech/health/policy-and-issues/health-insurance-in-india-too-little-too-scarce-reveal-national-sample-survey-data/article8462747.ece>

**A staggering 86% of India's rural population is still not covered.**

**This is mainly owing to poor insurance literacy and awareness in rural India, resulting in a significantly underserved market.**







# About AMFI-WB

AMFI-WB is an institution which endeavors to promote and develop microfinance in the state of West Bengal. Founded as a self-regulatory organization, and registered as a Public Charitable Trust in 2010, AMFI-WB encompasses a community of microfinance organizations that operate in West Bengal.

It was formed to deliver better services to the poor, thereby helping these populations improve their standards of living. AMFI-WB envisions a community of microfinance institutions who are committed to initiating a significant change in the lives of the poor, especially women. AMFI – WB currently caters to around 60.75 lakh poor women by providing them with financial services, especially micro credit. With a membership of 27 Micro Finance Institutions especially micro credit through approximately 14,600 employees who hail from lower economic background.

Their primary goals include: encouraging MFIs to maintain healthy relationships with banks, ensuring that MFIs stay on track and focused with the guideline prescribed to them, and mediating between various government officials and other important sector stakeholders. AMFI – WB regularly conducts stakeholder meets at the district level, management development programs for its members, microfinance industry-related seminars & workshops, and member meetings on matters of mutual interest.

## Our Mission

The sole objective of AMFI-WB is to initiate a significant change by empowering the poor, especially women, who are socially disadvantaged and economically exploited. With this objective, AMFI-WB monitors MFIs to ensure that they are compliant with the RBI guidelines and that they adhere to the Codes of Conduct prescribed by the RBI, MFIN, and Sa-Dhan.

It boasts of being a 'first-of-its-kind' initiative in the state's collective fraternity of key MFI players. It is a unique effort, and has been instrumental for the enhancement of income-generating activities among poor women through the help of microfinance services in the state.

## Some of the objectives of AMFI – WB are:

- To coordinate with local bodies, NGOs, Panchayats, National & International Bodies
- To liaise and work in unison with the relevant regulatory authorities
- To make representations to regulatory bodies both at State and National level
- To engage in dialogue & make representations in front of the Government and Non-Government bodies



**Chandra Shekhar Ghosh**

Invitee Board member and Former Secretary AMFI-WB



**Ajit Kumar Maity**

Chairperson, AMFI-WB



**Kartick Biswas**

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SG/VB/August2017-10329