



International Association for the  
Study of Insurance Economics

# Études et Dossiers

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The Geneva Association - General Secretariat - 53, route de Malagnou - CH-1208 Geneva  
Tel.: +41-22-707 66 00 - Fax: +41-22-736 75 36 - [secretariat@genevaassociation.org](mailto:secretariat@genevaassociation.org) - [www.genevaassociation.org](http://www.genevaassociation.org)

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Layout & Distribution: Valéria Kozakova

# The Practice in Micro-insurance

Pranav Prashad




**...Touching the lives of millions**

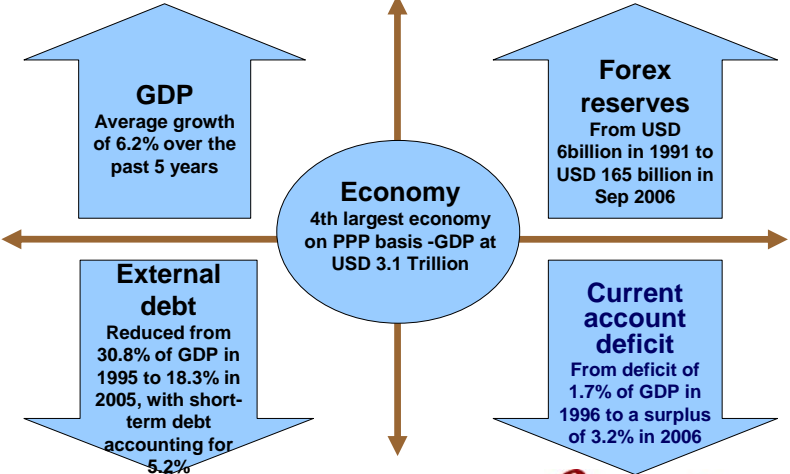
**...At the Bottom of the  
Pyramid**

### India – A Brief Snapshot

- Population of over 1 billion, About 60% of population aged below 30 years
- 23 cities with population greater than 1 Million
- Rapidly growing middle-class - 150 Million plus
- 150 Million people literate in English which is twice England's population
- World's largest pool of trained manpower
- 100 Million TV owners; 450 Million TV audience
- Over 60 Million automobile owners



### Strong Economic Growth Indicators




**Economy**  
4th largest economy on PPP basis -GDP at USD 3.1 Trillion

**GDP**  
Average growth of 6.2% over the past 5 years

**Forex reserves**  
From USD 6billion in 1991 to USD 165 billion in Sep 2006

**External debt**  
Reduced from 30.8% of GDP in 1995 to 18.3% in 2005, with short-term debt accounting for 5.2%

**Current account deficit**  
From deficit of 1.7% of GDP in 1996 to a surplus of 3.2% in 2006



## Rural India – Next Big Opportunity

### Background

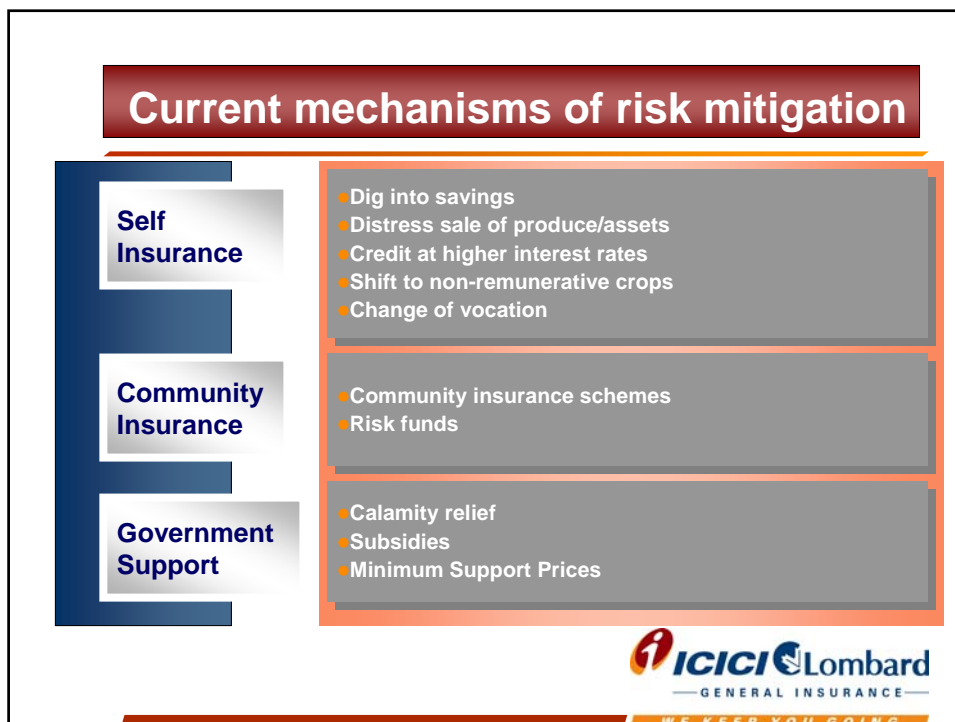
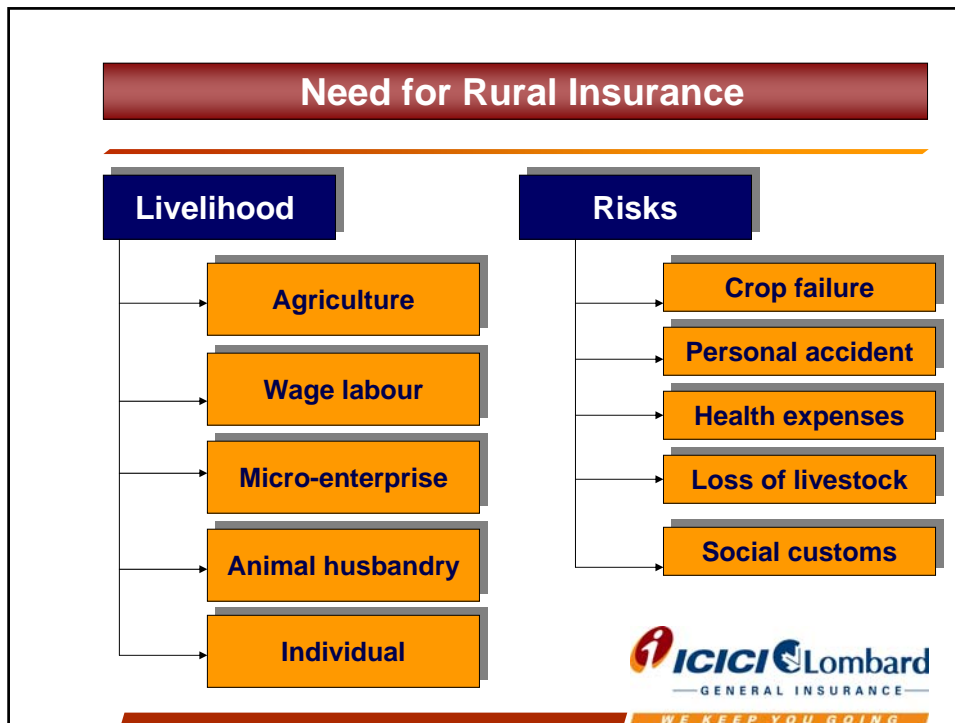
- Rural India accounts for 70% of India's population
- Agriculture contributes 21% of GDP
- Characterized by non-availability of organized credit and financial services
- Poor availability of infrastructure
- Around 300 million people or about 60 million households, are living below the poverty line
- Only about 20 percent have access to credit from the formal sector.
- India still has a low insurance penetration of 2.88 per cent (premium as percentage to GDP)

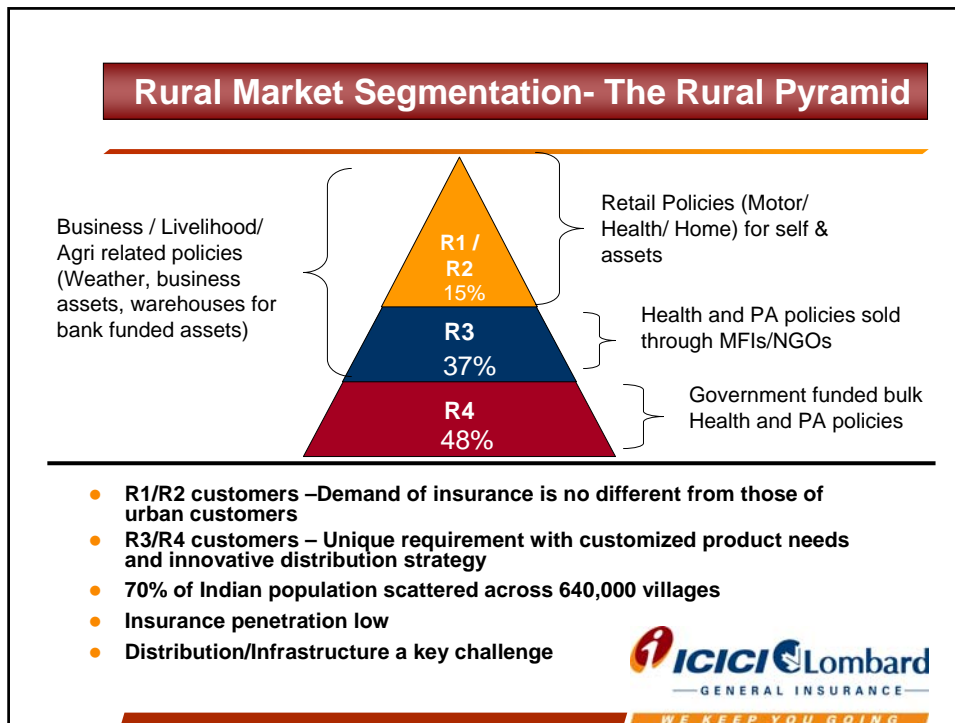


## Rural India – Next Big Opportunity (Contd.)

- Rural market is set to reform
- Rural non-agri sectors such as infrastructure (construction, electricity, gas & water supply), rural health, education, tourism, transport, communication are exhibiting high growth rates
- Financial service providers such as banks, life, non-life insurance are aggressively looking at rural India, which is expected to revolutionize rural India in the coming future







### Micro Insurance

*“Micro Insurance refers to protection of assets and lives against insurable risks of target population (R3 & R4) through formal, semi formal and informal institutions “*

*Existing models:*

- *Self insurance*
- *Community based insurance*
- *Partner Agent model*

**ICICI Lombard**  
— GENERAL INSURANCE —  
*WE KEEP YOU GOING*

## Bridging the Demand Supply Gap

- The segment of the rural population above the poverty line but not rich enough to be of interest to the formal financial institutions does not have proper access to the formal financial intermediary services, including savings services
- A group of micro-finance practitioners have estimated annualised credit usage of all poor families (rural and urban) at over Rs.45,000 crores, of which some 80 percent is met by informal sources. (source SIDBI)



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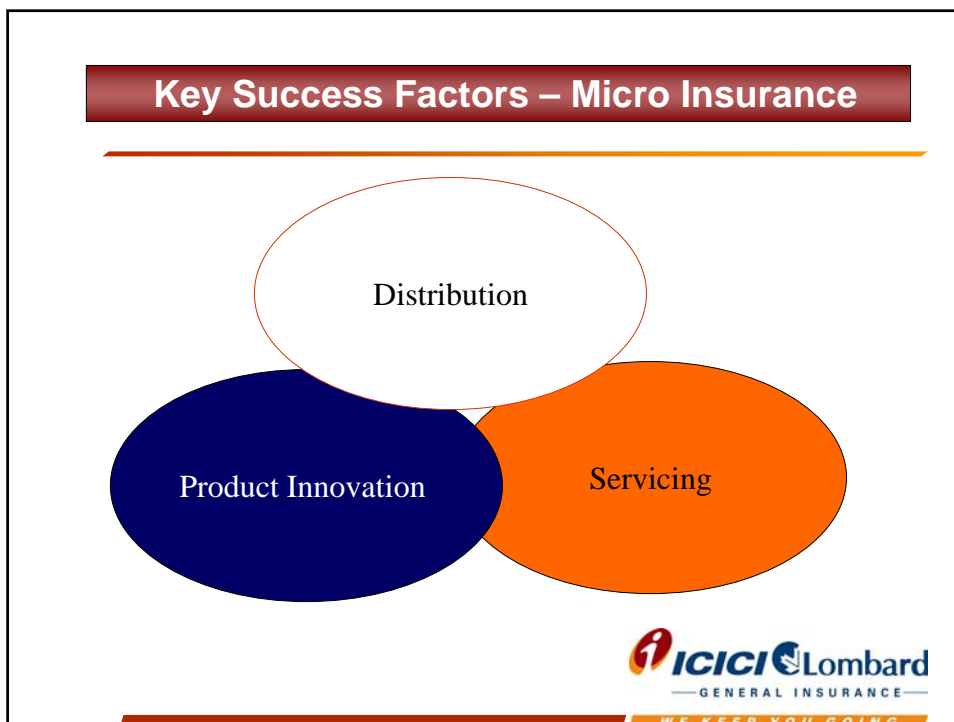
## Traditional View

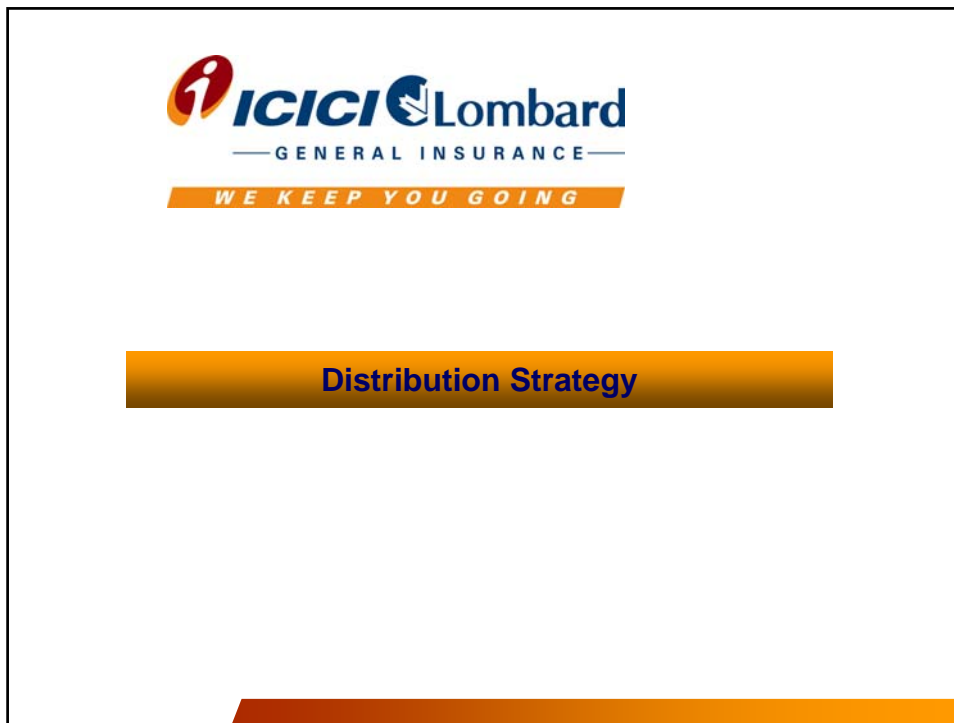


**Micro Insurance is a Loss Making Proposition ?**



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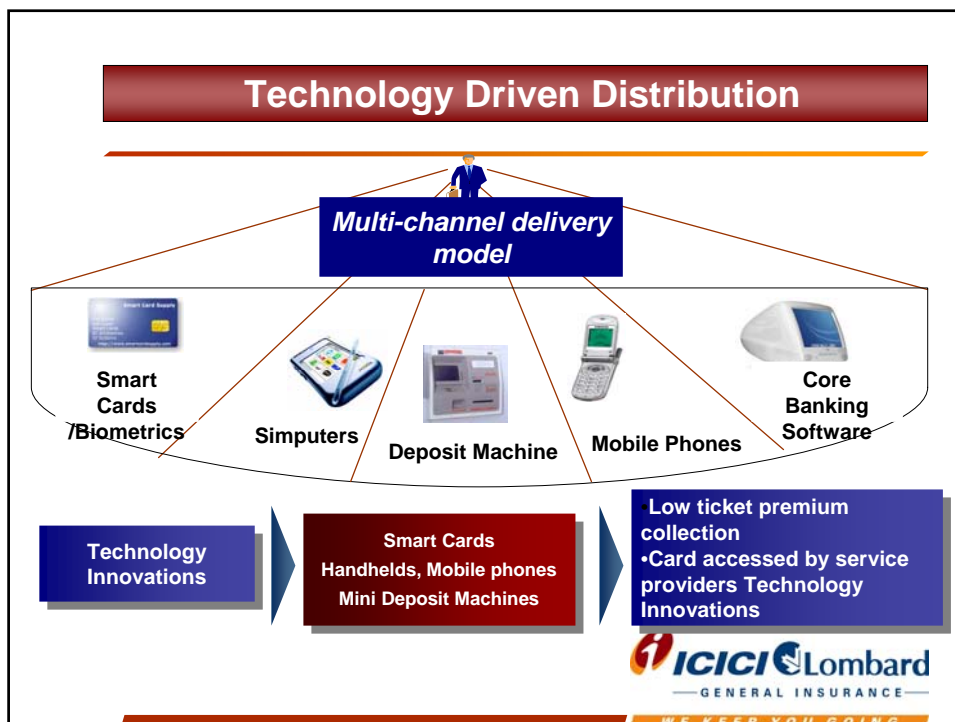
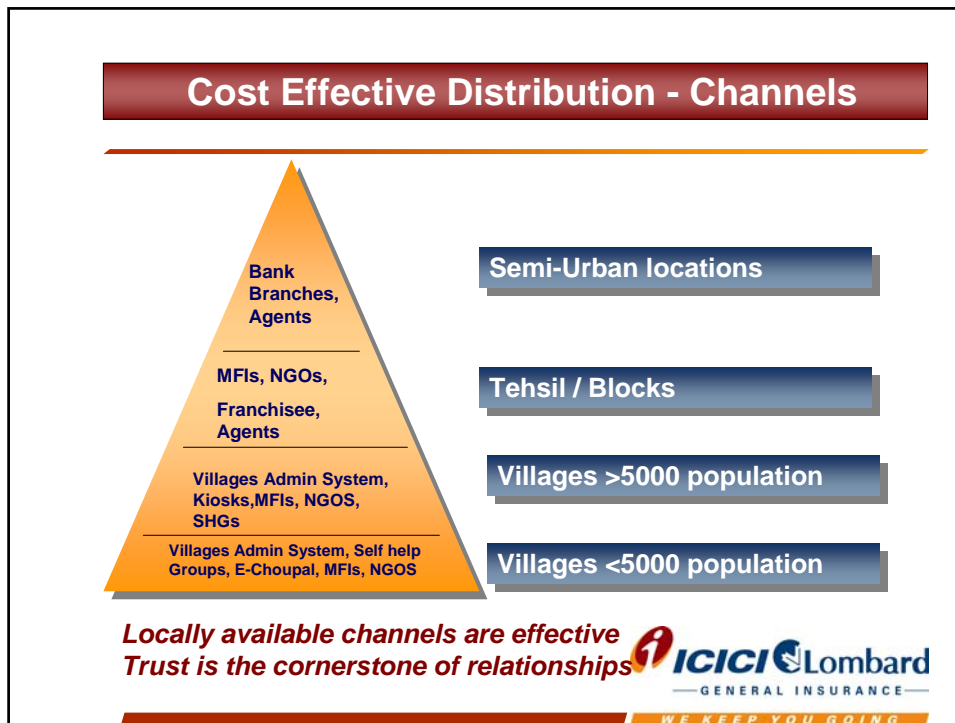




### Distribution – Three Pronged Strategy

- Key challenge is sheer spread and diversity
  - 37% of the urban population lives in 23 cities
  - 37% of the rural population lives in 100,000 villages
- Involvement of all entities

The diagram illustrates the 'Three Pronged Strategy' with a central blue triangle labeled 'ICICI Lombard'. Three orange ovals are positioned around the triangle: 'Government' at the top, 'Aggregators' at the bottom left, and 'Organised Retailing' at the bottom right. The ICICI Lombard logo and slogan are visible in the bottom right corner of the slide.



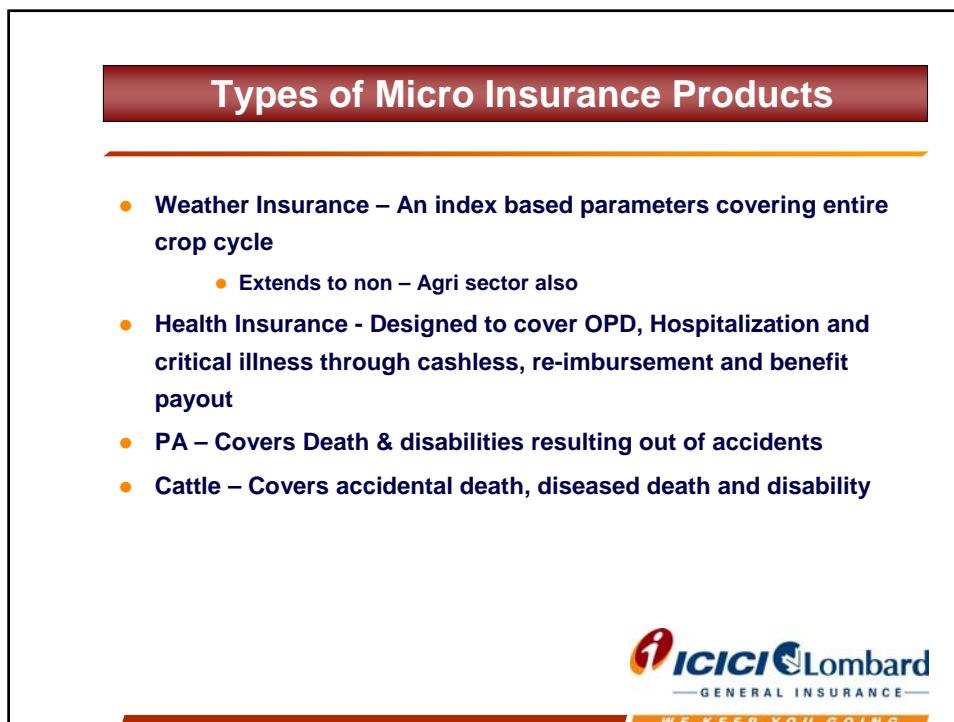
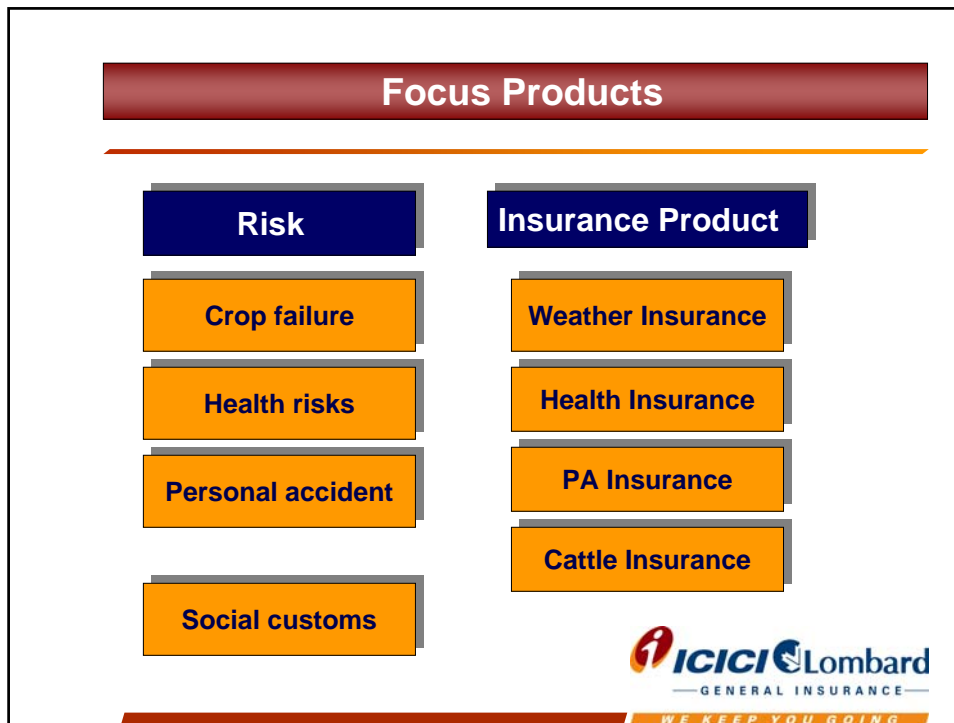


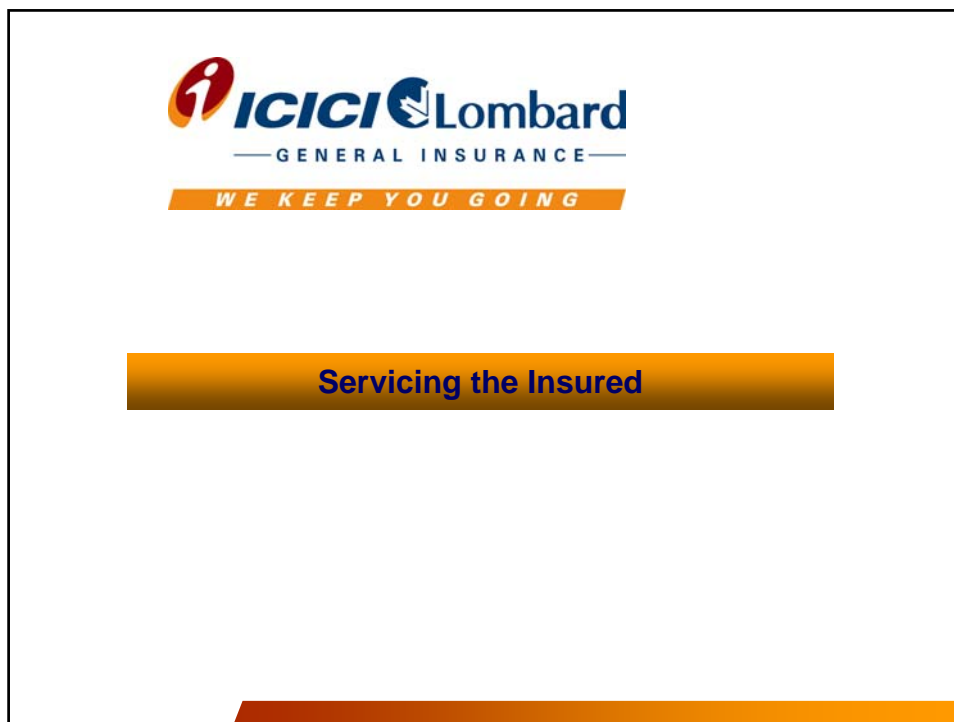
## Product Innovation & Customization

## Challenges for Product Development

- “One size does not fit all”
- Semi literate customer – individually poor , collectively strong
- Need for innovative and customised products keeping in mind rural mindset and the ability to pay
- Nascent stage of industry makes it difficult to conceptualize and file products as per regulation
- Need to have “Need analysis” by insurance companies in order to understand risks
  - Work with target customers, NGOs, MFIs
  - These institutions can be used for explanation of the product and subsequent servicing
- A smaller bundle of innovative products in sync with rural needs and perception and an efficient delivery system are the two aspects that have to be developed in order to penetrate the rural markets.







### Key Success Factors

- **Alliance with Credible Channels**
  - Leveraging existing channels working with the community
- **Predefined groups minimize anti selection and moral hazard**
- **Awareness building and education through the channel is the key**
- **Clearly defined transparent servicing parameters**
- **Simplified documentation and processes**
- **Pre-defined service levels and turn around times**
- **Effective grievance re-dressal**
- **Public private partnership**

The image shows the ICICI Lombard logo at the bottom right, which includes a stylized 'i' in a red circle, the text 'ICICI Lombard' in blue, and 'GENERAL INSURANCE' in smaller blue text below it. Underneath the logo is a yellow banner with the slogan 'WE KEEP YOU GOING' in black capital letters. At the bottom of the slide, there is a yellow decorative bar that tapers to the right.

## After sales service

- **Clearly defined transparent servicing parameters**
  - Index based weather insurance scheme
  - Benefit based health and accident insurance
- **Simple and predefined processes**
  - Local contact for first point of reporting of claim
- **Reliance on local community for preventing frauds and check moral hazard**
- **Support through banking infrastructure for disbursing low ticket cash based payouts**



## In Conclusion .....

- **Micro-insurance provides**
  - An effective risk management tool for the economically backward
  - Helps provide access to quality healthcare
- **Rural demand for products and services is no different from urban requirements provided**
  - Fairly priced and a relevant product is made available
  - Cost effective distribution systems are established
  - Effective administration is ensured
  - Easy accessibility and quality service is ensured
- **Focused approach along with appropriate regulation will help build a model which is viable, sustainable and scalable**
- **Availability of financial services and insurance would change the rural landscape in future**





*Improving the lives of the billions of people at the bottom of the pyramid is a noble endeavor. It can also be a lucrative one...C.K. Prahalad*

**Thank You**



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