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ROLE OF IRDA IN THE FIELD OF MICRO INSURANCE: AN ANALYTICAL STUDY

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Mrs. Preeti Dixit[1]

[1]Asst. Professor
Department of Management,
SIMT, Rudrapur
Uttarakhand,
India

Dr. Sanjeev Mahrotra[2]

[2]Head & Research Guide,
Department of Commerce,
Govt. PG College Ramnagar,
Uttarakhand,
India

ABSTRACT

After 44 years of public sector dominance, the life insurance industry in India was liberalized in 1999-2000. Since then, the industry has witnessed rapid growth of 15-20% (Year on Year). From a mere INR348 billion in 2000-01, the industry grew to a size of INR 2,893 billion (in 2013-14), where it constitutes 2.3% of the global life insurance market. Though still quite behind the insurance penetration achieved in developed nations, the growth story of insurance (particularly life insurance) in India is overwhelming. While the penetration of financial services is sub-par, the potential of rural and low income market is beyond doubt. UNDP, in 2009, estimated that the potential size of the Indian micro insurance market is INR62-84 billion and the life micro insurance market of India has a potential of USD321-420 million.

KEYWORDS: *Micro Insurance, Penetration, Portfolio, Death claims, Recommendations, Regulations*

INTRODUCTION

In order to facilitate penetration of micro insurance to the lower income segments of population, IRDA has formulated the micro insurance regulations. Micro Insurance Regulations, 2005 provide a platform to distribute insurance products, which are affordable to the rural and urban poor and to enable micro insurance to be an integral part of the country's wider insurance system. The main thrust of micro insurance regulations is protection of low income people with affordable insurance products to help them cope with and recover from common risks with standardized popular insurance products adhering to certain levels of cover, premium and benefit standards. These regulations have allowed Non Government Organizations (NGOs) and Self Help Groups (SHGs) to act as agents to insurance companies in marketing the micro insurance. The Authority is reviewing the Micro Insurance Regulations, 2005 comprehensively. In this connection, the Authority has already released draft modifications of the regulations on 31st Jan, 2014. Also, the Authority had issued a circular on 3rd April, 2013 permitting several more entities like district co-operative banks, regional rural banks, individual owners of kirana shops etc. who are banking correspondents to be appointed as micro insurance agents facilitating better penetration of micro insurance business.

OBJECTIVES OF STUDY

1. To study the significance of micro insurance in protection of low income group.
2. To analyze the role of Irda in regulating the insurance companies in micro
3. insurance in India.
4. To study the issues and challenges in micro insurance .
5. To know the current status of insurers of micro insurance in India.

RESEARCH METHODOLOGY

The present study is based on the objectives like significance of micro insurance in protection of low income group. To know penetration of micro insurance to the lower income segments of population. To know how the private players are operating in the field of micro insurance. To fulfill all above said objectives data has been gathered from secondary sources like reports and publication of Govt,Reports of IRDA.

MICRO LIFE INSURANCE EVOLVED AS DERIVATIVE OF RURAL AND SOCIAL SECTOR REGULATION

Life Insurance Sector:-

While the individual new business premium under the micro insurance segment in the year amounted to 95.65 crore for 27.67 lakh new policies, the group business premium amounted to 141.77 crore covering 1.32crore lives. LIC contributed to a significant component of the business procured in this portfolio by 86.36 crore of individual new business premium under 22.06 lakh policies and 125.81 crore of group premium covering 1.19 crore lives.

Non-Life Sector:-

There are a number of products offered by all registered non-life insurance companies targeting low income segment of the population, e.g. Janata Personal Accident Policy, Gramin Personal Accident Policy, Cattle/ Livestock insurance, etc. Further, there are a number of tailor-made/ group micro insurance policies offered by private and public insurers for the benefit of these segments. Micro insurance being a low price-high volume business, its success and sustainability depends mainly on keeping the transaction costs down.

NEW BUSINESS UNDER MICRO-INSURANCE PORTFOLIO FOR 2013-14

(Premium in lakh)

Insurer Individual Group

Insurer	Individual			Group	
	Policies	**Premium**	**Schemes**	**Premium**	**Lives covered**
Private	561339	929.29	164	1595.23	1291741
LIC	2205820	8635.77	5292	12581.45	11887303
Industry Total	**2767159**	**9565.06**	**5456**	**14176.68**	**13179044**

Note: *New business premium includes first year premium and single premium.*

(Source: IRDA report 2013-14)

INDIVIDUAL DEATH CLAIMS UNDER MICRO INSURANCE PORTFOLIO

(Benefit Amount in ` lakh)

Insurer		**Total Claims Payable**	**Claims paid**		**repudiated Claims**		**Claims pending**	
2000N:	**No. of Policies**		**No. of Policies**	**Benefit Amount**	**No. of Policies**	**Benefit Amount**	**No. of Policies**	**Benefit Amount**
Private	3583	361.45	3562 (99.41%)	357.62 (98.94%)	19 (0.53%)	3.45 (0.95%)	2 (0.06%)	0.38 (0.11%)
LIC	12136	2022.98	12048	2005.35	52	10.96	34	5.54
Industry	**15719**	**2384.43**	**15610**	**2362.97**	**71**	**14.41**	**36**	**5.92**

Note: *The percentages indicate those of respective total claims.*

GROUP DEATH CLAIMS UNDER MICRO-INSURANCE PORTFOLIO

(Benefit Amount in ` lakh)

Insurer		Total Claims Payable	Claims paid		Repudiated Claims		Claims written back		Claims pending	
	No. of Lives	Benefit Amount	No. of Lives	Benefit Amount	No. of Lives	Benefit Amount	No. of Lives	Benefit Amount	No. of Lives	Benefit Amount
Private	4118	969.48	4069	958.20	9	1.06	0	0.00	40	10.22
LIC	138720	44055.19	138048	43840.08	0	0.0			672	215.11
Industry	**142838**	**45024.67**	**142117**	**44798.28**	**9**	**1.06**	**0**	**0.00**	**712**	**225.33**

Note: *The percentages indicate those of respective total claims.*

DURATION-WISE SETTLEMENT OF DEATH CLAIMS IN MICRO-INSURANCE - INDIVIDUAL CATEGORY

(No. of Policies)

Insurer	Within 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	More than 1 Year	Total Claims Settled During 2013-14
Private	3510 98.54%	22 0.62%	20 0.56%	1 0.03%	9 0.25%	3562 100.00%
LIC	12048 100.00%	0 0.00%	0 0.00%	0 0.00%	0 0.00%	12048 100.00%
Industry	**15558 99.67%**	**22 0.14%**	**20 0.13%**	1 **0.01%**	9 **0.06%**	**15610 100.00%**

Note: *The percentages indicate the respective total claims settled*

DURATION-WISE SETTLEMENT OF DEATH CLAIMS IN MICRO-INSURANCE - GROUP CATEGORY

(No. of Lives)

Insurer	Within 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	More than 1 Year	Total Claims Settled during 2013-14
Private	1965 48.29%	2088 51.31%	16 0.39%	0 0.00%	0 0.00%	4069 100.00%
LIC	136778 99.08%	1270 0.92%	0 0.00%	0 0.00%	0 0.00%	138048 100.00%
Industry	**138743 97.63%**	**3358 2.36%**	**16 0.01%**	0 **0.00%**	0 **0.00%**	**142117 100.00%**

Note: *The percentages indicate the respective total claims settled.*

IRDA WANTED TO UNLEASH THE MICRO INSURANCE POTENTIAL IN INDIA

The effect of Rural and Social Sector Obligation, 2002, was encouraging; however, IRDA wanted to unleash the potential of micro insurance beyond the exclusive business motive of attaining rural and social sector obligation

THE REGULATION PROMPTED GROWTH OF THE LIFE MICRO INSURANCE SECTOR

The regulation prompted growth of the life micro insurance sector A new wave of change came with the introduction of Micro insurance Regulation, 2005, as a result of which 14 life insurance companies registered 23 micro insurance products with

IRDA. The registered micro insurance products have seen accelerated growth. According to the IRDA Annual Report, 2010-11, 3.65 million micro insurance policies were sold in India in the year 2010-11 covering the lives of 18.9 million people. The cumulative premium collected from micro insurance was INR2.86 m

But, private insurers perceived micro insurance as an obligatory necessity

IRDA assumed that the "rural and social sector obligation" would drive micro insurance innovation by insurance companies. However, as we have seen earlier, Indian insurers (particularly private insurers) focused more on high value business and ULIPs, in order to achieve rapid growth and to cover their comparatively higher operating costs15. Insurance inclusion and entering the small premium market was the least of their priorities. Moreover, lack of experience in the rural and low-income segment meant that the insurers were not sure if the variable revenue and projected income/client numbers from micro insurance could justify the fixed cost of ad-ministration and distribution. Low ticket micro insurance products, therefore, failed to allure them. Most of the private insurers considered micro insurance more as an "obligatory necessity", rather than a profitable product category. They adopted a "just achieve target" approach in microinsurance, so that they could achieve the mandatory numbers.

Thus, on the one side microinsurance became synonymous with rural insurance and at the same time it became positioned as a "necessary evil" for the insurers. The attached graph shows that even in 2010-11, microinsurance sales approximate only the rural sector obligation of the insurers. Life microinsurance, virtually a tool only to achieve the regulatory obligation, is often referred to by insurance companies as "compliance business". Naturally, insurers do not want to make any extra effort towards selling and investing in such products.

Operating expense of private insurers is 18 paise per rupee earned as premium, as compared to 8 paise/ premiNGOs and MFIs became choicest conduit to push life micro insurance In the absence of banking infrastructure reaching the rural and low income population, insurers could not depend on their low cost bancassurance channel for distributions of microinsurance products. Since agency recruitment required high investment (in training and licensing) from insurers; they expected high productivity (in terms of premium) from this channel, which could not be achieved from distribution of low ticket size microinsurance policies. Coupled with

high agency management cost and value-based front-loaded commission regime (which makes agents interested only in high value business), it was (and still is) virtually impossible for private insurers to push life micro insurance through their agent channel Why individual micro insurance has low persistency?

Persistency is a common problem for the life insurance industry in India. However, the issues for low persistency in life micro insurance are unique. In the Microinsurance Regulation, 2005, commission for the MIA is limited at 20% of the annual premium. IRDA expected that "same commission every year" (as against the front-loaded commission culture of the industry) would motivate aggregators to ensure persistency. However, the regulation did not increase persistency in microinsurance products as Microinsurance products are bundled as credit-life products, which lapse after the loan term, which is typically one year for MFI loans, hence, there is a term mismatch if policies are sold as credit-life and have a tenure of more than a year;

The insurance companies are eligible for rural and social sector obligation only on first year policies, so there is no incentive for the insurer to renew a microinsurance policy. Since the commission is equal for all years, the insurance company does not save on commission expenses, either. Since commission is similar year after year, MFIs/aggregators are indifferent towards Cost consciousness increased in the industry Private insurers in India had a high cost distribution model, with target driven sales numbers often at a high fixed cost. Irrespective of the company size, the operational cost of some private insurers has been as high as 58% of the premium collected. To cope with the negative growth on one hand and to deliver on profitability demands of investors on the other, private insurance companies have cautiously reduced their distribution and management expenses in recent years. Expense ratios of most of the private insurers have converged towards creating an industry benchmark. Still, the management expenses of the private insurers stand at 21%, which is substantially higher than that of LIC at 14%In 2011-12, 14 insurance companies have registered profit. However, apart from 5 companies (including LIC), all have accumulated losses from the earlier years. The cost reduction and channel diversification motive therefore will continue for some more time in the Indian life insurance industry. Unfortunately for microinsurance, such increased cost consciousness and drive towards profit-ability has made insurers further disinterested in microinsurance products; microinsurance is considered costlier than conventional products to distribute and manage. With the increased cost motive, we expect that the insurers will search for low cost medium to deliver microinsurance in the near future. Innovation in life microinsurance, therefore, probably has to wait for some more time to come.

SEARCH FOR ALTERNATIVES IS A CHALLENGE FOR MICROINSURANCE

Life microinsurance sector in India is challenged by strategic incongruence among its value chain stakeholders. Building and positioning a portfolio of microinsurance products is still not a priority for either the insurer or their channel partners (mostly MFIs). Both the stakeholders are struggling to analyze whether microinsurance can be an independent revenue generator or provide value add over their existing services. Until now, insurers are in microinsurance business, even at the cost of cross-subsidizing, since it enables them to achieve obligatory numbers. However, such "business by force" always remains a half-hearted effort. Insurers will migrate from the sector as soon as a profitable alternative to microinsurance is found. In fact, many private insurers are already reducing their efforts towards the distribution of microinsurance policies. Though every life and general insurance company needs to fulfill their mandatory rural and social sector obligation, only 14 companies31(of a total of 47 companies)30have registered microinsurance products with IRDA. Of these, only 7 companies have actually sold micro in-surance products in 2010-11 Surely, private insurers do not depend on microinsurance alone to achieve the rural sector obligation, any more Microinsurance credit life will soon exclusively be a group insurance category In the absence of a strong need to sell microinsurance products for the rural sector obligation, the cost-conscious insurers are expected to abandon the costly individual term-credit-life micro insurance, in favor of group-term products. LIC is also expected to follow the model, since their individual microinsurance is sold as an endowment product.

CONCLUSION

The landscape for health micro insurance has changed substantially in the last several years. After a long period of pioneering initiatives by community organizations, recent government initiatives have greatly expanded health coverage especially in tertiary care for low income families across India. Today, the coexistence of both smaller scale initiatives and large government plans provides a fertile environment for experimentation with new approaches and their application to a broad population. However, while the momentum of micro insurance is currently strong, there are fundamental concerns about the long term sustainability of this current trend. After starting with in-house models, many community based initiatives partnered with commercial insurers to better manage their risk. Some of the large public initiatives have similarly engaged the commercial insurance industry to underwrite their schemes. These moves help to professionalize health micro insurance, but they may not have resolved core issues around the economics of the product and scale and outreach. The high expense and claims ratios experienced by commercial insurers when underwriting third party schemes (government schemes in particular) suggest that scheme changes cannot be ruled out in future. Similarly, some of the community based health schemes rely on external contributions to assist clients in paying the premium. In view of these issues, the durability of micro insurance is not yet certain.

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