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# Micro Insurance: Reflections from BASIX experience

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**BASIX**

Equity for Equity

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# Instruments used to manage financial impact of risks



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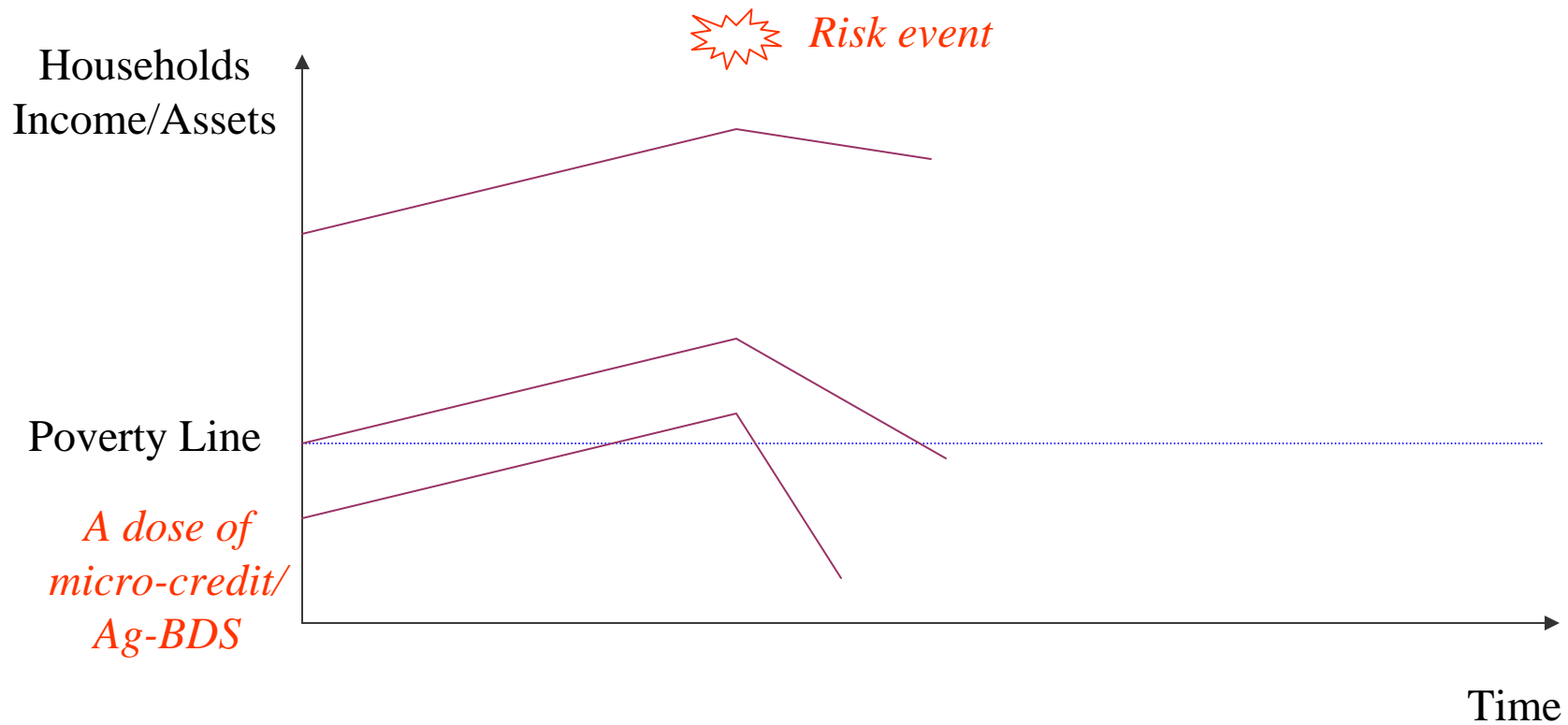
Efficiency and effectiveness of these instruments to manage the risk varies

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## Impact of Risk is compounded for the poor due their financial exclusion from

- Savings (self insurance)
    - Bank's find it unviable to maintain micro-savings accounts
  
  - Credit
    - Willingness to lend to informal sector and without collateral is low
  
  - Insurance (mutual insurance)
    - Standard documents not available for underwriting risks. e.g age proof documents
    - Distributions costs disproportionately high compared to the premium size
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# Vulnerability to risks is higher for those in the lower economic rungs

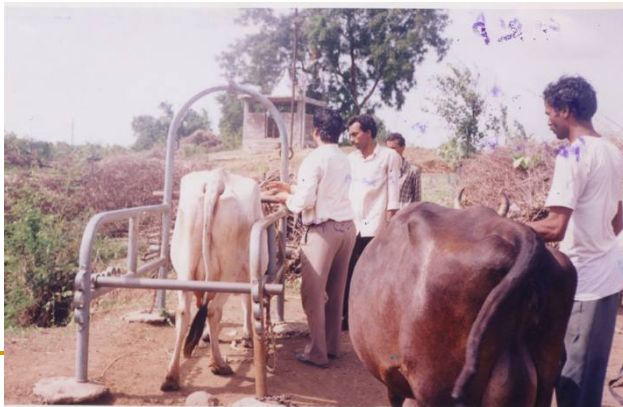


## Risks to be covered- for lives and livelihoods

- Risks to Life

- Death
- Disease
- Disability

- Risks to Livestock



- Risks to Crops



- Risks to Enterprises



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# Micro Insurance market in India

- Current Insurance landscape
  - Penetration is abysmally low at less than 3% of insurable population\* despite
    - The presence of an insurance market for a long period and with 16 Life Insurance and 15 General Insurance active today in the market
    - Existence of products to cover various risks
  - Globally ranked at 54th position in terms of market penetration and 19th in premium collection
    - This anomaly persists due to the legacy of life insurance being positioned as a savings and tax-mininisation tool rather than as a risk protection tool
- Innovations are needed to overcome barriers for penetration, like:
  - Innovations to develop low cost distribution models using a combination of process simplifications and application of Info Tech solutions.
  - Product Simplification to enable simplicity in both underwriting and claims administration
  - Improving the awareness on the function of insurance products

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# Indian Micro insurance regulations

- Insurance sector opened up for private participation in the year 2000
  - The insurance regulator IRDA has assigned rural and social sector obligations to be met by insurers.
  - In Dec-2005, it also enacted the micro-insurance regulations to promote micro insurance. Key features of these regulations are:
    - Enhanced commission limits to the recover higher distribution costs involved in selling micro insurance
    - Entrusting greater role for micro insurance agents to administer and service micro insurance products
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# BASIX- an introduction

- BASIX mission focuses on livelihoods promotion for the poor. It currently works in 10 states in India supported by team 1800 people spread over the country.
  - Established in 1996, provides a whole basket of livelihood services which include financial and technical assistance services for the poor on financially sustainable model
  - As on Mar-2007, it already provides a whole basket of livelihood promotion services to close to 0.5million households
  - Has disbursed close to INR 9billion in micro-credit since inception. Currently manages a micro-credit portfolio of INR 2.5billion with a on time repayment rate of over 98%
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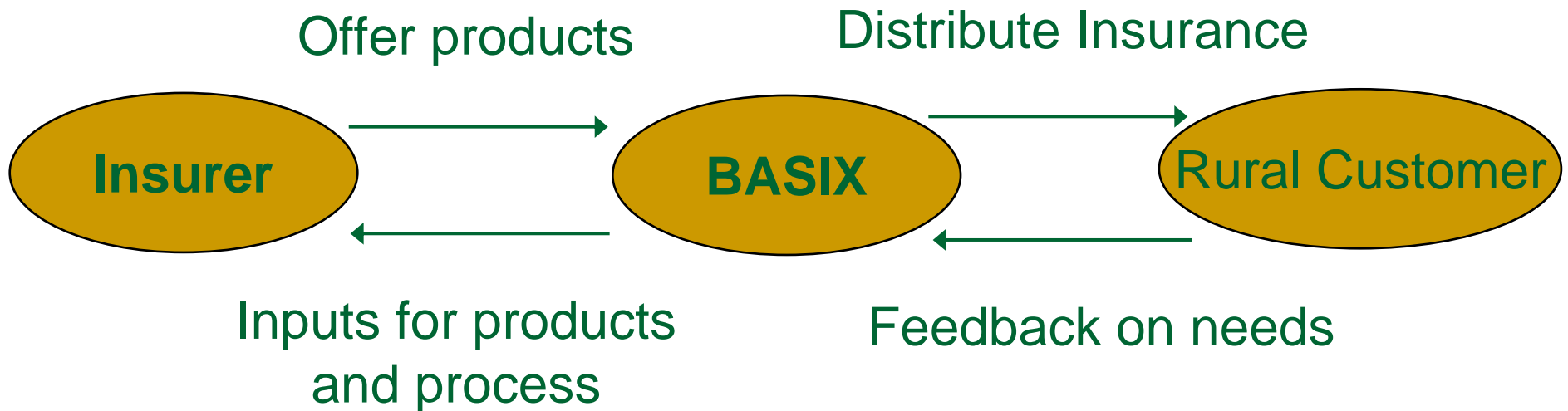
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## BASIX- an introduction (...continued)

- Several innovative pilots in BASIX have now been mainstreamed in the Indian market, including the weather index insurance which was piloted for the first time in India in the year 2003 through BASIX
  - It also provides consulting services for international development agencies like World Bank, ADB, DFID, UNDP and also to various Government institutions in India.
  - Has undertaken international consulting and advisory services to the above organisations in countries like Papua New Guinea, Bangladesh and Ethiopia, which included work in the area of micro insurance
  - It has actively participated in contributing to the growth of for micro-finance sector in India. Mr. Vijay Mahajan, Chairman, BASIX, currently serves on the board of Insurance Regulatory and Development Authority (IRDA) of India.
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# Insurance Business Model



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# Summary of existing efforts of BASIX in micro insurance

- Insured 0.5 million poor individual with a comprehensive suite of insurance products covering risks related to life and livelihood activities
  - Built a track record of offering financially sustainable insurance products over the past 6years in partnership with insurance companies.
  - Contributed to policy advocacy for creating a favorable micro insurance regulatory environment in India
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## BASIX today offers a whole suite of products to rural/urban poor households

	Insurance Cover	Insurance Partner	Scope of Cover
1	Life Insurance	AVIVA	Group-Death of spouse and borrower(1.5 times loan amount) Retail- Cover between 20k-100K
2	Health Insurance	Royal Sundaram	Hospitalisation(Rs.1.5K p.a) Critical illness (Rs 10K p.a) Accidental disability( Rs 25K p.a)
3	Livestock Insurance		Death- Cover from 5K – 20K
4	Enterprise Insurance		Cover against fire and other natural calamities 5K-200K
5	Weather Insurance	ICICI Lombard	Deficit or excess rainfall and temperature

## BASIX Insurance Outreach

<b>Group Insurance</b>		<b>No of individuals under insurance cover as on 31st Mar 07</b>
Life-Group Insurance		3,81,407
Health- Group Insurance		3,78,420
<b>Retail Insurance Products</b>	<b>Cumulative no of policies sold (as on 31st Mar 07)</b>	<b>No of policies sold for the FY 2006-07 ( as on 31st Mar 07)</b>
Life Insurance	33,100	12,512
Livestock Insurance	38,446	11,250
Micro Enterprise Insurance	1,247	1,241
Weather Insurance	18,776	11,716

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# Key observations on the portfolio

- **Bundling:** High outreach achieved through compulsory group insurance for credit customers in the area of life and health insurance.
  - **Stand alone insurance products:** To ensure that the access to insurance is not restricted borrowers only, individual life insurance policies too have been sold. Effort required to sell these policies is significantly higher.
  - **Unbundling:** In the area of asset insurance, as in the case of livestock and micro enterprises, the need for an ***evaluation of the value and insurability*** of each of the assets calls for an underwriting process that is delinked from the loan disbursement process.
  - **Basis risk:** While weather insurance could in principle be easily linked with credit products; the prevalence of basis risk factor does not encourage lenders to bundle this product with credit. Bundling could be done only if the customer fully ***understands and accepts*** the basis risk factor and this awareness factor is better created through a voluntary purchase.
  - **Trade offs:** In conclusion, a balance between the outreach maximisation and addressing operational constraints has to be factored in while making a choice of the delivery system.
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# Cumulative Claims Reported and Serviced

As on 31<sup>st</sup> Mar '07

	Claims Reported	Claims Settled	Claims Rejected	Claims in Process	Settled amount Rs. million
Life	1,530	1,338	11	181	20.78
Health	4,226	3,466	371	389	4.83
Livestock	1,031	916	65	50	7.04
Enterprise	3	2	0	1	0.04
<b>Total</b>	<b>6,790</b>	<b>5,722</b>	<b>447</b>	<b>621</b>	<b>32.69</b>
<del>Weather Insurance</del>	<del>3,599</del>	<del>3,559</del>	<del>0</del>	<del>0</del>	<del>3.34</del>

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# Keys to tapping the micro insurance market

- Willingness to pay vs Willingness to charge
  - At a micro level
    - Customers are not effectively looking at rates in %
    - Rather, they are looking at the size of premium installment e.g monthly premiums of INR 20-40( USD 0.5-1) are provided in group life and health insurance.
    - Affordability improves by providing small and more frequent installments
    - However, a higher frequency brings in higher administration cost. Technology (IT) can be leveraged to reduce admin costs
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# Micro insurance – bare bone calculus

- Final Premium = pure risk (a) + inflated risk (b) + other costs (c)
    - (b)= cost of adverse selection (d) + cost of moral hazard (e)
    - (e)= moral hazard of insured/nominee + moral hazard of service provider
    - (c)= marketing & administration (f) + commission (g) + surplus (h) + service tax (i)
  - Prm= (a: 50%) + (b: ?) + (f: 10-15%) + (g: 15-20%) + (h: 5-10%) + (i: 12%)
  - Of these only (a) and (i) are some kind of constants. Of course “a” is a constant over period of time for a particular risk group
  - All the others are basically a function of the operating model of distribution and servicing.
  - These other costs can be brought down through the effectiveness and efficiency of the operating systems and processes of the organisations involved in micro insurance
  - Close attention to both “*sensitivity to target customers*” and “*financial sustainability*” would hold the key to replicating the growth of micro credit to that of micro insurance.
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# Thank You

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