

VimoSEWA Press Note

The Insurance Regulatory and Development Authority of India (IRDAI) released a milestone report of the Committee on the Standalone Microinsurance Company last week. The Committee was set up by the IRDAI in February 2020 and was chaired by Mirai Chatterjee, Director SEWA Social Security. It was entrusted with the task of examining the feasibility of standalone microinsurance through cooperatives, mutual or companies, and with reduced capital requirement and appropriate legal and regulatory changes.

Other Committee members included former Executive Director of the Life Insurance Corporation of India (LIC), Mr Mendiratta, Dr Nachiket Mor, former board member of RBI and Chair of the RBI Committee on Comprehensive Financial Services for Small Businesses and Low Income Households, Mr Biswa Mohan Mohanty, former Chief General Manager, National Bank for Agriculture and Rural Development (NABARD), Mr Ajit Dayal, founder of Quantum Mutual Fund, Ms Tabassum Inamdar, former financial analyst at Goldman Sachs and IRDAI's senior team of Dr Mamta Suri, Chief General Manager, (Finance and Accounts), Mr S.P.Chakraborty, General Manager (Actuarial) and Dr N.M.Behera, Office of the Insurance Ombudsman (Bhubaneshwar) and Mr Aleem Afaque, Assistant General Manager (Legal) IRDAI.

For low-income families, calamities such as illnesses, accidents, death or the loss of assets often have very grave financial consequences. Such events can push these families deeper into poverty as their meagre resources get depleted. Microinsurance is a mechanism to protect low income individuals and families against the various risks that they frequently face in their lives, in exchange for insurance premium payments tailored to their needs, income and level of risk.

VimoSEWA, the insurance cooperative of the Self-Employed Women's Association, SEWA, has been one of the first to provide suitable microinsurance products to informal women workers and their families. It currently has 1,00,000 policy-holders in 5 states of India and has contributed its 25 years of experiences and data to the Committee.

IRDAI has been a pioneer globally in promoting insurance for low income families through its rural and social sector obligations and microinsurance regulations requiring insurance companies to meet certain targets. Despite this, the outreach by the insurance companies has remained very limited. Microinsurance accounted for less than 1.80 per cent for life and 1.16 per cent for general insurance in 2019-20.

The Committee studied international microinsurance models to understand what worked and what did not, and found that while India's population coverage under microinsurance in absolute terms at 111.1 million is high, the per cent of our population covered is low at 9 per cent of the overall population and 14.7 per cent of the potential microinsurance market size in the country. Other Asian

countries, like the Philippines and Thailand, had coverage ratios of 20.6 per cent and 13.9 per cent of their populations respectively¹.

Reasons for the slow growth and outreach of microinsurance in India include lack of awareness on and understanding of insurance, absence of need-based products customised to the low income segment of our citizens, and cumbersome claims processes and procedures requiring much documentation and delays in disbursing claims. Further the cost of business acquisition and servicing inhibits companies from doing this business as microinsurance premium amounts are small but require several contacts with potential customers at the grassroots which increases costs. Further, most insurance companies do not see microinsurance as a long-term and sustainable business proposition due to its very limited contribution to their top line. Finally, most insurance companies do not enjoy the trust of low income clientele. There have been instances of mis-selling and fraud and people are understandably sceptical.

After studying both national and international models of microinsurance, the Committee has concluded that significant changes in regulatory framework and especially in reducing the capital requirement are essential for the spread of microinsurance in India. The foremost recommendation is to reduce entry-level capital requirement to Rs 20 Crore from the current Rs 100 Crore. A risk-based capital approach while maintaining the highest prudential standards has also been recommended. Importantly, the report recommends that cooperatives, mutual and companies be allowed to act as composite microinsurers, transacting both life and non-life business through a single entity.

Another key recommendation is the amending the Insurance Act 1938 to bring standalone microinsurance under its purview, including defining microinsurance, microinsurers, and reducing the capital requirement and/or vesting the powers to do so with the IRDAI.

Further, the Committee has recommended end-to-end digital technology for transparency, accountability and monitoring. The report argues that this will both reduce transaction costs over time and help in regulatory oversight. In addition, reinsurance by existing reinsurance or insurance companies, facilitated by the IRDAI, has been recommended.

The Committee was careful to note that the highest prudential standards should be maintained when developing regulations, and has recommended that these be done in consultation with those already undertaking microinsurance to ensure that they are appropriate and practical.

Ashaben Ajmeri, Chairperson of VimoSEWA, while appreciating the recommendations said, “ We are very grateful that such practical recommendations have been made. It is our long-standing dream to have to be a full-fledged microinsurer but the capital required was too high for us.”

Highlighting the context of the pandemic, Shreekant Kumar, CEO, of VimoSEWA said, “VimoSEWA has been advocating for such changes for the past two decades, and it is imperative that we act now to provide some financial security to families rendered vulnerable by the current pandemic.”

¹ The Landscape of Microinsurance in Asia and Oceania 2013, Munich Re Foundation, pg 4, https://microinsurancenetwork.org/sites/default/files/The_landscape_of_microinsurance_in_Asia_and_Oceania_2013_full_report.pdf