Distribution Channels Of Micro Insurance: An Overview

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ABSTRACT

Micro-insurance is a key element in the financial services package for mass people, particularly, for economically weaker sections of people. The poor face more risks than the well-off, but more importantly they are more vulnerable to the same risk. Building on the recommendations of the consultative group, IRDA notified Micro-Insurance Regulations on 10th November 2005 with some key features to promote and regulate micro-insurance products.

A key concern in the pricing of an insurance product is the element of cost of acquisition and its delivery. Obviously, the delivery costs have to be contained to keep the cost of insurance sufficiently low to attract the poor and to incentivise the insurer to venture into this segment viewing it as a genuine market opportunity. In this respect, the question comes to mind is, how can micro-insurance products be sold and serviced cheaply? It is a low-value, high-volume business. Recently, many micro insurance marketing models have emerged in India to provide insurance to low-income populations like Partnership model, Agency model and Micro-agent model.

Keywords

IRDA- Insurance Regulatory and Development Authority, NGO- Non Governmental Organization, MFI- Micro Finance Institutions

INTRODUCTION

India's market potential and the decrease in percentage of poor people living below the poverty line lessening year by year offers great investment opportunity, but still approximately at present, 21.9% of the Indian population lives below the poverty line. In order to promote mass insurance coverage, the regulator established obligations of insurers to rural or social sectors in 2002 and has since amended it. While the rural sector obligations aim to cover the hinterland which is predominantly agrarian, the social sector includes unorganised, informal sector comprising economically vulnerable classes across rural and urban areas. In 2005 Insurance Regulatory Development Authority (IRDA) has come up with micro insurance approach for the first time in India. Whereas, in 2002 rural and social sector rules and obligations were developed by IRDA that was compulsory for every insurance companies to fulfill the percentage of polices to be sold in rural areas and lives to be covered in the social sector. However, the major challenge in front of the insurance companies was design most cost effective marketing models so as to reduce the incidence as well as attain deeper and wider penetration in the rural as well as urban social sector.

METHODOLOGY

The study is based on the collection of secondary data collection Government Journals, Notifications, Gazettes, Research Papers, Books, Websites etc. The research the highlights the various models adopted to market the micro insurance schemes among poor to achieve deeper and wider penetration.

Distribution Channels of Micro Insurance Schemes

Following are the three distribution models adopted by Insurance companies for their micro insurance products:

- Partnership model
- Agency model
- Micro-agent model

Partnership model (The partner-agent model)

As the name implies this model involves a partnership between an insurer and an agent that provides some kind of financial service to large numbers of low-income people. This could be a microfinance organization, an NGO, or a business that supplies pre-cuts to large numbers of low-income people, such as a fertilizer supplier. This party is an agent, selling insurance policies to the clients on behalf of the insurance provider (usually) in exchange for a commission or fee. The insurance provider utilizes the established distribution channels of this agent and its financial transactions with low-income groups that would otherwise be too costly to set up.

The partnership model uses the comparative advantage of each partner so that each can focus on its core business: the insurance provider is responsible for designing and pricing the product, the final claims management, and the investment of reserves, and absorbs all the insurance risks.

In addition to selling the policies, the agent offers its infrastructure for product servicing such as marketing the product, premium collection, and assists in claims management.

MERITS :

- The system works better than in-house because the synergies are maximized, enabling both organizations to focus on their core business and expertise;
- With a single partnership agreement it is possible to sell micro-insurance to over a quarter of a million low-income people;
- Requires fewer skills for the agent than an in-house model;

• Uses legally recognized insurance companies that have adequate reserves, adhere to capital requirements, employ certified insurance professionals, and operate under the insurance law;

• Insurer has access to reinsurance;

• The overhead costs of both the organizations, the agent and the insurance company, are reduced: the agent can use its infrastructure for collecting premiums, etc.; the insurer provides the expertise on product development, etc;

• It reduces the need to build the capacity of agents such as NGOs and MFIs to sell insurance because the insurer can do some of this;

• The insurer assumes all the risks;

• The agent earns commission without risk, while the insurer earns profits.

DEMERITS :

• Because of the quota system, the most well-known agents are already taken and have existing relationships with insurers. There are still many other organizations, however, that could act within a partnership;

• The insurance provider is dependent on the quality of the agent;

• NGOs in particular are often ‗here today, gone tomorrow', relying on donor recognition and goodwill for their survival;

• Conflicts of interest may occur, especially when working with non-financial institutions.

• NGO or MFI staff or management may develop compassion for a client and be lax about underwriting or claims verification. It should be noted that this is less likely to occur with an MFI partner that is used to financial discipline with its lending activities.

AGENCY MODEL

In this model the insurer uses its normal agency office and sells micro insurance products directly. The client comes to the agency office for sales and servicing of the product. Insurers described this model but the authors could find no examples of it operating in practice.

Merits:

• Does not require much additional investment in infrastructure;

• Better control of the quality of the agent is possible than with the partnership model.

DEMERITS :

• Difficult to reach large numbers especially in rural areas where clients may be unwilling to travel to the office;

• Agents will need special training in dealing with low-income clients; Offices may intimidate poor clients;

• Individual policies only would be sold; generally such micro insurance policies have not proved commercially viable.

MICRO-AGENT MODEL

While the partnership model is relatively common, the micro-agent model described below is distinctive. It is the invention of Tata-AIG, specifically an employee of Tata-AIG. The central building blocks of the model are Rural Community Insurance Groups (CRIGs) supervised by rural organizations such as churches, NGOs or MFIs. CRIGs are a partnership firm formed of five women from a self-help group (SHG). The leader of the CRIG is licensed as an agent. The CRIG is a de facto brokerage firm (in the technical, not the legal sense of the term). All CRIGs in the same geographic area meet in a single centre, usually organized with the assistance of the rural organization, and receive training and assistance from Tata-AIG. This practice reduces training costs. Most CRIGs consist of four to five members. These members are usually women who are part of an SHG. A typical leader will be educated to the 12^{th} standard or above, have a good track record of past social-sector performance and integrity, be systematic and organized, with leadership qualities, and public speaking and training skills.

The CRIG leader and members are involved in promotion, sales and collection of insurance proceeds and maintaining records. The CRIG leader will document all fortnightly CRIG meetings and all weekly meetings with the NGO concerned.

MERITS:

- The model creates an insurance distribution infrastructure in low income neighbourhoods. In addition, it creates a new profession, that of micro -agent, with new livelihood opportunities in his/her vicinity;
- Sustainability: Because the position is a commercial one with financial incentives, it will last in the long term, facilitating the sale of long-term products.
- As mentioned under the partner-agent model, NGOs and MFIs are often dependent on the goodwill and public recognition of aid flows, and so their long-term existence is precarious. Chances are good that CRIGs, being registered firms, will survive, in the event of a member or leader dropping out. The leader could be replaced by another from the community, thus mitigating the risk of orphaned policies;
- In the event that a CRIG disbands, the orphaned policies can be taken over by another CRIG that operates under the same NGO.

DEMERITS :

- Training is costly, especially in relation to premium values;
- The transaction costs of the sales agent are cheapat first but increase as soon as the agent has sold to all the peoples/he knows and needs to sell to strangers, especially to those living far

away;

• In many cases in the partnership model, when a claim arise the MFI or NGO investigates the claim, pays the benefit immediately, and then claims it back from the insurer. Immediate payment of claims helps maintain client confidence, and this is not possible under the CRIG system;

• This model is new, and much more experience is needed before it can be reasonably evaluated.

Conclusion

The discussions above have highlighted the characteristics of the micro-insurance market in India in terms of the parties involved, distribution models and challenges, products and outreach. It can be observed that the Indian micro-insurance regulation is designed to promote such products through its liberal and developmental approach, but there are crucial omissions and design glitches that limit its efficacy. Specifically, the exclusion of corporate MFIs, the restriction of collaborations to one life and one non-life insurer and the limitations placed on pricing have a dampening effect on the micro-insurance market.

However, it is becoming increasingly clear that micro-insurance needs a further push and guidance from the IRDA as well as the government. Moreover, MFIs are playing a significant role in improving the lives of poor households. Quite apart from this, linking micro-insurance with micro-finance makes better sense as it helps in bringing down the cost of lending. Given this, there is a need for strengthening the link between micro-insurance and micro-credit.

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