Exposure Draft	
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Micro Insurance (Modification) Regulations

On comprehensively examining the existing business model adopted under Micro Insurance vis-a-vis the extant regulations on Micro Insurance, the Authority proposes to review the IRDA (Micro Insurance) Regulations, 2005. Accordingly, an exposure draft on Micro Insurance (Modification) Regulations is issued for further and wider deliberations on the subject.

All stakeholders are requested to review the attached exposure draft (.doc file attached) and forward their views / comments to the following address before 25th August, 2012.

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Comments may also be forwarded by e-mail to **dvsramesh@irda.gov.in**before 25th August, 2012.

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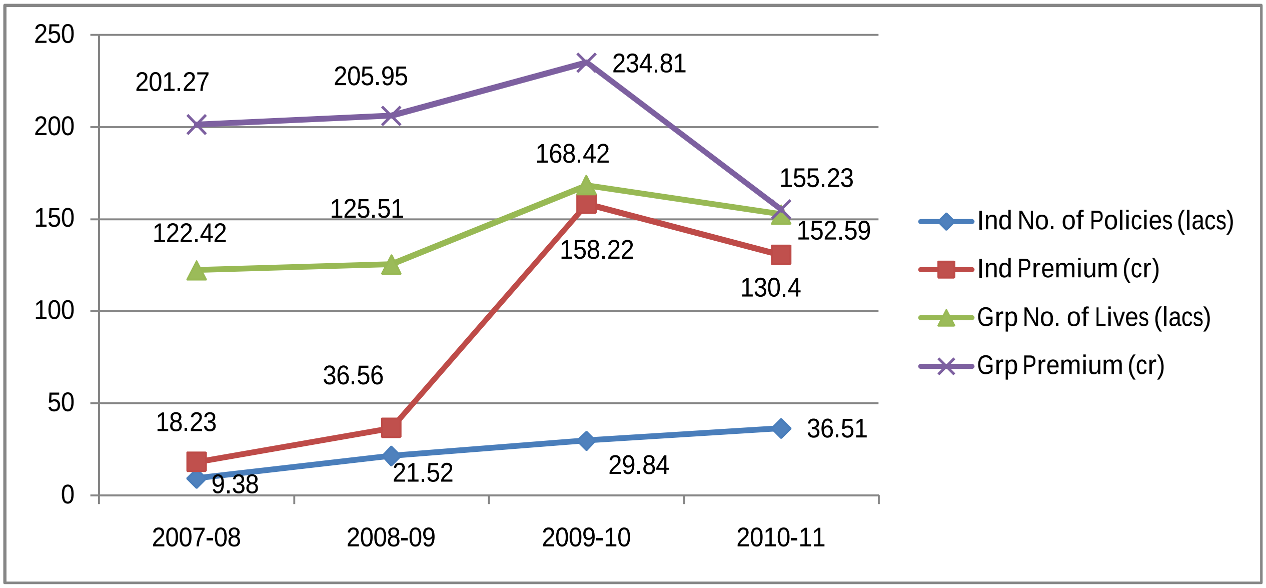
Member (Life)

Exposure Draft on Micro Insurance (Modification) Regulations

I. ***Back Ground***: The genesis of Micro Insurance as a class of business in India has its origin when Government of India constituted a *'Consultative Group on Micro Insurance'* on 15-December-2003. The committee in its *'Report of Consultative Group on Micro Insurance'* submitted on23-December-2004, estimated that there is a lot of untapped potential for insurance particularly in the rural areas. The Group at that time estimated that 10% of the cattle can be insured with a potential premium of Rs 1000 Cr and the overall agriculture insurance has a potential of Rs 8000 Cr. On life side the committee estimated that around 24 Cr people living below or marginally below poverty line were insurable. To take forward the concept of Micro Insurance considering that insurance would play a positive role in meeting the financial needs of the poor, the Authority had notified Micro Insurance Regulations in November, 2005. These regulations prescribed a framework within which Insurers can offer affordable Micro Insurance products to a targeted group of rural and urban insurable population. It was envisaged that the regulations framed on the above lines would facilitate insurance companies to offer insurance solutions to the poor on a viable economic model both to the insurers and micro insurance agents.

II. ***Micro Insurance Regulations – A review in retrospect***: Looking back at the last 6 years after notifying micro insurance regulations, the fact remains that the intent of the regulations is yet to take off as evidenced from the business performance viz-a-viz potential in this segment. For the year ending March, 2011, 36.50 lacs new policies were issued by collecting Rs 130.40 Crores of new business under individual life insurance business. In respect of group life insurance the Micro Insurance covered 1.53 Crores of lives by garnering around Rs 155.22 Crores of premium. A major part of the group lives i.e., 1.32 crores has been secured by LIC alone which predominantly consists of Government sponsored schemes. The business figures as an absolute number bespeak the need for a more focused approach towards micro insurance. Since, 2007-08, the initial years after the notification of Micro Insurance Regulations, the pattern of business, other than individual number of policies, did not show any consistent year on year growth. The following chart that displays the pattern of movement of individual and group micro insurance business (number of policies and premium) indicates the need for taking a more sustained and progressive inroads into this segment.

Diagram



i. ***Role of Micro Insurance Agents***:

At the end of March, 2011 there are 9,999MICRO INSURANCE Agents on the rolls of the life insurance industry, out of which 9,239 are NGOs, 373 SHGs and 387 being MFIs. Of the total Micro Insurance Agents prevailing in the industry, SHGs and MFIs constitute an insignificant share of 3.73% each. From the state wise data, it is noticed that given the potentiality and the need for spreading Insurance, the presence of Micro Insurance Agents in all states deserves to be strengthened.

The following is the state wise MICRO INSURANCE Agent data for the year ending 31.03.2011.

Table - 1

MICRO INSURANCE - Channel / State / Union Territory	SHGs	NGOs	MFIs	Sec 25 Company	Total
Andhra Pradesh	7	710	40	1	758
Assam	20	215	8		243
Bihar	6	457	6	1	470
Chhattisgarh	48	307	14		369
Goa	2	8	0		10
Gujarat	12	293	11	4	320
Haryana	1	91	1		93
Himachal Pradesh	3	75	10		88

J & K	0	88	0		88
Jharkhand	3	225	2		230
Karnataka	4	475	9		488
Kerala	34	906	55		995
Maharashtra	30	494	78	4	606
Manipur		14	1		15
Madhya Pradesh	41	467	24		532
Meghalaya	0	1			1
Mizoram	0	3			3
Nagaland	0	26			26
N Delhi	2	165	5		172
Orissa	10	402	45		457
Punjab & Chandigarh	50	151	3		204
Rajasthan	7	480	2		489
Sikkim	0	6	0		6
Tamil Nadu	2	610	6	1	619
Tripura	0	41			41
Uttar Pradesh	20	1336	5	2	1363
Uttrakhand	13	317	1		331
West Bengal	58	876	47	1	982
Total	**373**	**9239**	**373**	**14**	9999

As per NABARD there are 74.62 lacs SHGs as at 31st March 2011 having savings, linked with Banks, with outstanding financials of Rs 7016.30 Crores*(Source: NABARD Status on Micro Finance 2010 -11)*. When it comes to leveraging on the existing network of these SHGs, the insurance industry is yet to make a remarkable progress. Given the role envisaged for SHGs in Micro Insurance, their respective involvement in distribution of Micro Insurance products is quite abysmal and may be concluded (not withstanding various logistic constraints expressed) that the insurance industry did not adequately tap this eligible segment of Micro Insurance Agency for the purpose of recruiting them as MICRO INSURANCE Agents.

ii. ***Pattern of Micro Insurance Business:***

From the MICRO INSURANCE Agency channel wise business figures it is noticed that the pattern of business procured by various MICRO INSURANCE Agents (SHGs/NGOs/MFIs) varied from private industry to LIC and from Individual to Group, as indicated below.

Table - 2

Industry	*Business Line*	*Share of Standalone M I Agents' Business in Micro Insurance Business*					
		NGOs		***SHGs***		***MFIs***	
		2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
Private	Individual (of Policies)	32.62	16.14	0	0.09	13.93	41.39
	Group (of Lives)	0	0	0	0	3.00	33.00
LIC	Individual (of Policies)	81.94	75.08	7.20	4.32	1.61	10.81
	Group (of Lives)	61.00	65.00	0	0	0	0
Total	Individual (of Policies)	65.44	63.78	4.79	3.51	5.73	16.67
	Group (of Lives)	54.00	56.00	0	0	0	4.00

It is noticed that SHGs as Standalone Micro Insurance Agents are not playing any significant role in soliciting Micro Insurance Business.

III. **Deficiencies in the existing Micro Insurance model**: From the above the following deficiencies may be noticed.

i. Micro Insurance business could not take-off as an accepted business model. Ring fencing the distribution channels would have been one of the factors.
ii. The Standalone Micro Insurance Agents did not deliver the desired progress by coming forward and taking up the Micro Insurance Agency.
iii. Despite allowing a relatively higher range of remuneration the desired progress could not be achieved, the limited product range could be a contributing factor.
iv. Since, Micro Insurance Business figures include Social Security Schemes of various governments, , per se, are presenting a distorted picture.
v. Economic conditions affecting the Ability of the targeted market segment to afford even micro insurance is an extraneous but critical issue.
vi. However, in order to broad base the Micro Insurance business there is a case to expand the Micro Insurance Agency base by adding few more distribution partners or Individuals.
vii. On non life side; only individual retail business is covered leaving the institutional insurance business needs of Micro, Small and Marginal Entrepreneurs. There is a case for examining including this product range in the Non Life Micro Insurance business.

IV. **Proposal to revisit the Micro Insurance Regulations**: In order to ensure that an encouraging regulatory environment is created for promoting the Micro Insurance Business, it is decided to revisit certain regulatory provisions of Micro Insurance Regulations with the following proposals.

i. ***Methodology of Reporting Micro Insurance Business Figures***: As regards Group Micro Insurance business figures, there is a case to re-examine the existing practice of clubbing the business figures procured under the Government sponsored Social Security Schemes into the Micro Insurance business figures, as mostly, Government sponsored social security schemes covered are to be regarded as Social Insurance (funded by the state) but not Micro Insurance business of insurance companies. Hence, the Authority proposes to de-link the business figures of Social Security Schemes sponsored by various Governments from the Micro Insurance business figures submitted periodically.

ii. ***Expanding the Definition of Micro Insurance Agency:*** In order to supplement the existing standalone Micro Insurance delivery channel, after taking into consideration the proactive role played by the following Financial Institutions in various Financial Inclusion initiatives, the Authority proposes to consider the following entities as eligible for Micro Insurance Agency as per the provisions of Regulation 2 (f) of IRDA (Micro Insurance) Regulations, 2005. Suggestions received for considering all Banking Correspondents notified by RBI as eligible for Micro Insurance Agency. Some entities like NGOs, MFIs, SHGs and Section 25 Companies are already categorized as Micro Insurance Agents. As regards other entities / individuals, taking into consideration the Micro Insurance Business profile, the Authority proposes to allow certain other categories of individuals referred at point no. (e) below as eligible Micro Insurance Agents.

a. ***District Cooperative Banks:*** There are around 13,427 branches of District Cooperative Central Banks (DCCBs) in India of which about 80% of these branches are located in Rural and Semi Urban locations. The DCCBs have played a dominant role in extending loans and advances to various sectors, pre dominantly to rural sector, in India. Hence, DCCBs are regarded as eligible institutions to act as Micro Insurance Agents.

b. ***Regional Rural Banks:*** The Regional Rural Banks (RRBs) are operating with a network of 15,938 branches spread over 618 districts. These Banks played a key role in loan disbursements and deposit mobilisation in rural areas. These Banks have an outstanding deposit of Rs 1,74,041 Crores and outstanding loans and advances of 1,01,039 Crores as at the end of 31.03.2011. RRBS are commended as a strong intermediary for Financial Inclusion in rural areas by opening a large number of “No Frills” accounts and financing under General Credit Cards (GCC)**.** Hence, RRBs are also to be regarded as the right institutions to act as Micro Insurance Agents.

c. ***Primary Agricultural Co-operative Societies:*** Primary Agricultural Co-operative Societies (PACSs) numbering 95,663 are covering almost every village in the country. With a combined membership of over 13 Crores, they have a longer history. Taking into consideration their role, the Authority considers allowing PACSs to act as Micro Insurance Agents.

d. ***Individual Agents***: The individual agents licensed (with their respective addresses) in the rural areas where population is less than 2000 are proposed to be entitled to Micro Insurance commission as outlined in Regulation (12) of IRDA (Micro Insurance Regulations) 2005, on the Micro Insurance products. These individual insurance agents are to be considered as Standalone Micro Insurance Agents to the extent of their respective Micro Insurance Portfolio. It is regarded that these Individual Insurance Agents are the best brand ambassadors of Insurance Business in these rural areas.

e. ***Other Individuals that are proposed to be permitted as Micro Insurance Agents:*** Individual owners of Kirana Shops / Fair Price Shops / Medical shops / Petrol Bunks / Individual Public Call Office (PCO) operators are proposed to be allowed to categorize as Micro Insurance Agents. Since, these individuals have a physical presence and standing in these specific market segments as those of the existing Standalone Micro Insurance Agents, it is considered that they stand on similar footing along with standalone micro insurance agents. However, the onus of proving the ownership of these individual to their respective businesses rests with Insurers during the course of regulatory oversight of the Authority.

iii. ***Life Insurance Micro Insurance Products:*** When it comes to Micro Insurance products it is noticed that not all companies are having micro insurance products in their respective product portfolios. A majority of the products offered are plain vanilla products and mostly the term assurance. The Insurers may consider coming forward proactively to diversify the product portfolio of Micro Insurance products by including savings linked and health cover features. Towards this end it is proposed to permit the Insurers to redesign / repackage the existing regular products so as to ensure that they fit within the extant regulatory parameters prescribed. It is apt to mention here that this is one of the recommendations of consultative group on Micro Insurance. As Micro Insurance agents are entitled to higher commissions which would have not been projected while designing their respective insurance products, the insurers may have to re-file the products under File and Use norms in vogue with revised projections, if any.

a. *Suitability Study:* The objective of deploying the local institutions (SHGs, MFIs and NGOs) as Micro Insurance Agents is to cater to the local needs; hence it is proposed to mandate Insurers to take into consideration the views of Micro Insurance Agents. Hence, to ensure that Micro Insurance products offered are rightly catering to the needs of the targeted market segment, the Authority suggests that before filing the Micro Insurance products for clearance, insurers shall ensure suitability of the product by means of a suitability study to the targeted market segment by duly taking into consideration the views of Micro Insurance Agents. With this exercise, it is envisaged that Micro Insurance products will be designed with the objective of customizing them to the insurance needs of targeted market segments.
b. *Leverage on Insurers' Infrastructure:* Making available post sale service, including making available the avenues for collection of renewal premiums, is one of key parameters that propels the success of Insurance products, in general. Micro Insurance is no exception to this, but even more relevant. In order to ensure that the Micro Insurance Policyholders are treated at par with any other policyholders of other products, it is proposed to make it mandatory to all Insurers that their entire existing infrastructure; branch network et al shall be made available to Micro Insurance Policyholders and Micro Insurance Agents for effective rendering of Micro Insurance Policy Service.

iv. Non Life Micro Insurance – Need for expanding the product basket: The non life micro insurance products notified by IRDA Regulations mainly covers the individual risks (dwelling, livestock, tools and PA) which are, at present, yet to be considered as insurable by these market segments. Hence, the non life retail segment of Micro Insurance business may not be an attractive line of business from the perspective of standalone Micro Insurance Agents. As Micro Insurance Regulations did not address the insurable risks associated with micro institutions, it is considered that there is a reason to expand the permissible product portfolio of Non Life Micro Insurance products. In respect of Non Life Insurance what may be now considered under Micro Insurance are the much desired insurance solutions to Micro and Small Enterprises. With an Outstanding Credit Amount of Rs 484473 Crores with Scheduled Commercial Banks as at the end of 2011, there is an enormous potentiality to meet the insurance needs of these enterprises. In addition to this, as per the 4th Census of the MSME Sector, there were 28.5 million enterprises producing an output valued at Rs 8,80,805 crore and providing employment to 65.9 million persons during 2008-09. The MSME sector contributes 8 per cent to the country's GDP. In order to meet the Insurance needs of Micro, Small & Medium Enterprises the Authority proposes to include non life micro insurance solutions to MSME sector within the definition of Micro Insurance. Under this proposal, the insurance policies issued to Micro, Small & Medium Enterprises as defined in Section 7 of Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 under various classes of non life insurance business will be qualified as non life micro insurance business. In order to protect the interests of these classes of policyholders, it is proposed to put in place the following conditions.

a. The Non Life Insurance Company has the option of appointing Micro Insurance Agents either to any one sector of; Micro Enterprises or to Small Enterprises or to Medium Enterprises or to all three or any combination of two. Similarly, the non life insurance company has the prerogative of appointing Micro Insurance Agents in these combinations either in the Manufacturing Sector or in the Service Sector or in both.
b. The Non Life Insurance Company has the prerogative of appointing Micro Insurance Agents for various classes of the business either independent to each class of business or any combination thereof or to all non life segments as a whole.
c. Capacity Building amongst the Micro Insurance Agents as mentioned under Regulation 11 of IRDA (Micro Insurance) Regulations, 2005 and as prescribed by IRDA under the proposed modified regulations is the responsibility of the concerned non life insurance company.
d. It is to reiterate that the provisions of Regulation 10 of IRDA (Micro Insurance) Regulations, 2005 continue to apply.
e. The maximum premium allowed under this segment of non life micro insurance policy is proposed to be pegged at Rs 25000.

V. **Furthering the Regulatory Oversight:** When proposals are under consideration for enhancing the scope of Micro Insurance Products and the definition of Micro Insurance Agents, there is a need for reviewing the extant regulatory provisions in order to protect the interests of policyholders. Accordingly, the following regulatory restrictions are proposed.

1) ***Premium collections***: Regulation 5 (3) (c) of IRDA (Micro Insurance) Regulations, 2005 permits Micro Insurance Agents to collect and remit the premiums. However, it is regarded necessary to fix accountability of MICRO INSURANCE Agents, in order to protect the interests of policyholders. The existing regulations are also silent, if the onus of

accountability rests with insurer or on Micro Insurance Agent in such a scenario. Hence, it is proposed to put in place the following conditions.

i. Insurers to be mandated to give electronic devices to Micro Insurance Agents so that as and when a premium is collected on the spot receipts can be issued. However, this provision could be exempted to DCCBs, RRBs and PACSs. Till such time that electronic devices are provided Insurers may require the Micro Insurance agents to issue some sort of acknowledgements (like temporary receipts) to the insureds / prospects on receiving the premiums on behalf of insurers.
ii. The insurers may design the receipts and exercise controls to avoid the possibility of misappropriation by the Micro Insurance agents.
iii. Insurers will be held accountable to the premium receipts issued by their respective Micro Insurance Agents.
iv. Insurers shall mandate that Micro Insurance Agents shall issue the receipts on collecting premiums.

2) ***Conditions precedent for higher Micro Insurance Remuneration:*** It is but a natural corollary to expect higher levels of persistency of Micro Insurance business given the insurance needs of this market segment. It is also a common understanding, given the market segment, that there may be higher number of lapses. In order to encourage Micro Insurance Agents to maintain a reasonable persistency, there is a reason to link the micro insurance policy remuneration allowed, to the persistency rate of the Micro Insurance Agent. It is also considered relevant at a time when Authority conceptualizing the proposal to expand the standalone distribution channels for Micro Insurance Business. The remuneration levels prescribed for Micro Insurance products are relatively higher (Single Premium 10% as against 2% allowed under other products, 20% on regular premium Micro Insurance products for all years as against 35% in first year, 7.5% in Second and Third years and 2% thereafter under normal products). Hence, it is proposed to link the renewal commission eligibility levels of a Micro Insurance Policy to the persistency rates as follows.

    i. The prescribed renewal commission of 20% is eligible only to those Micro Insurance Agents who maintain a persistency rate of 50% as at the end of the preceding two financial years. Lest only 10%.The prescribed persistency rate shall be computed on the Micro Insurance Business portfolio in respect of other than Standalone Micro Insurance Agents, who are now proposed to be eligible for higher remuneration rates on Micro Insurance business.

3) ***Common Database of Micro Insurance Agents / Specified Persons of Micro Insurance Agents***: A Micro Insurance agent shall be appointed by a deed of agreement. To avoid various institutions to have multiple deeds of agreements with various insurance companies

it is proposed to develop a data of such Micro Insurance agents which may be verified before entering in to deeds of agreements by insurance companies. The common data base shall consist of the details of Micro Insurance agents (black listed Micro Insurance agents) who have been terminated on grounds of fraud / misconduct which may be accessible to the insurers. The data base also proposes to capture the particulars of Specified Persons of the respective Micro Insurance Agents. Hence, in order to develop the said database all insurers shall forward the relevant details for this purpose.

i. *Tracking terminated cases:* It is proposed to make it clear in the provisions (Regulation 5 (4) of IRDA (Micro Insurance) Regulations, 2005) pertaining to the termination of the deed of agreement that the Micro Insurance agent so terminated (other than on the grounds of fraud / misconduct) may enter in to the agreement with any other insurer. However, in order to encourage better market conduct practices, the appointment of such terminated Micro Insurance Agents is permitted only after the expiry of 3 months from the date of termination of the said agreement.

ii. *Eligibility Criteria of Micro Insurance Agents' Specified Persons:* It is proposed to specifically bring in regulatory provision that a specified person of Micro Insurance Agent cannot act as a specified person for more than one Micro Insurance Agent. It is also proposed to restrict the individual insurance agents, specified persons of Corporate Agents and employees of Insurance Brokers who are eligible to solicit insurance business as ineligible to work as Specified Persons of Micro Insurance Agents. A specified Person who resigns from a Micro Insurance Agent is eligible for reappointing as a specified person of other Micro Insurance Agent after the expiry of 3 months from the date of resignation. In view of the limited talented pool available in rural India, in the absence of such a restriction, specified persons may act for more than one insurance company.