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J.B.BODA GROUP

# MEDIAN

## J.B.BODA Insurance Brokers Pvt. Ltd.

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Mumbai (INDIA)

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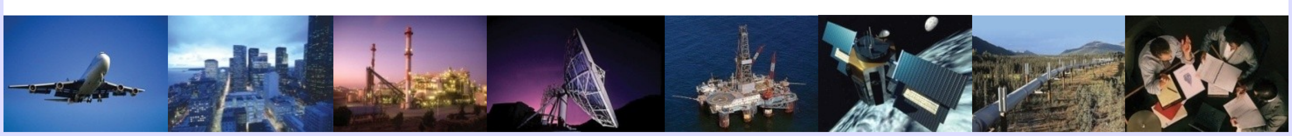

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# PRIME STORY

## Providing Protection to Poor – Part 1
## (Concepts and Basics)

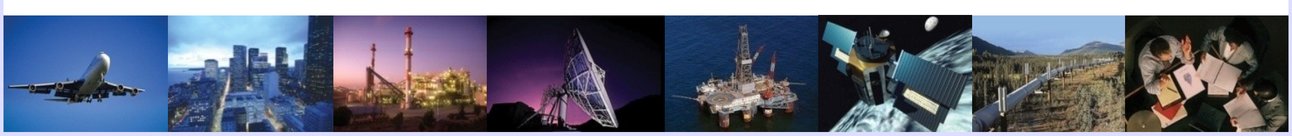
Even after more than six decades of independence – the 'inclusive growth' – a crucial economic and social objective of our country – remains elusive. Undoubtedly, India is on a fast track of economic growth. The prosperity of the 250 million middle class is highly visible for all of us to see. But overall poverty rates are only falling at about 1 % every year. It is hardly commensurate with our high economic prosperity. It is the silent group of 300 million, surviving on less than a dollar a day, is a matter of our serious concern. Inequalities between rural & urban areas and rich & poor are further aggravated by social divides. All these conclusions had emerged from the assessment of the results of the Tenth Five Year Plan. In all fitness of things, these thinkings have been quite well articulated in the basic framework of the Eleventh Plan. Inclusive growth is the main plank of this plan, which means promoting social, economic and political inclusion for the most disadvantaged, specially the other half of our population comprising of women and girls. Keeping all these in mind, the Government of India has launched certain Flagship Programmes, which are being implemented throughout the length and the breadth of our country. Some of these programmes are described hereunder in nutshell.

(1) Sarva Shiksha Abhiyan (SSA) with a target of universal retention (no dropouts) for education to all – Pioneered by Ministry of HRD.

(2) Mid-day Meal Scheme (MDMS) – It is for providing mid-day meal to children studying in class 1 to class 8 – pioneered by Ministry of HRD.

(3) National Rural Health Mission (NRHM) – Aims to build and upgrade infrastructure, appoint medical personnel and to build a healthcare delivery system – Pioneered by Ministry of Health & Family Welfare.

(4) Total Sanitation Campaign (TSC) – Aimed to discourage open defecation and thus reduce various diseases – Pioneered by Ministry of Rural Development.



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(5) National Rural Employment Guarantee Scheme (NREGS) – Aimed to provide 100 days of works at minimum wages to all registered job - card holders in rural areas.

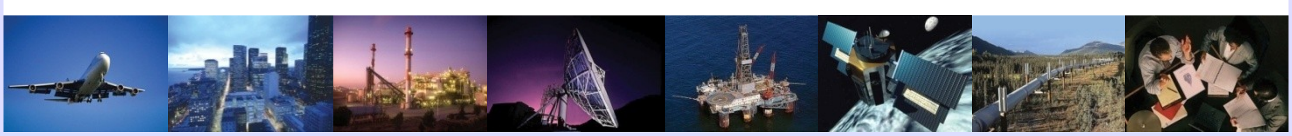
(6) Integrated Child Development Services (ICDS)–Aimed to conduct regular health check-ups, immunization coverage to children upto the age of 6 years and to provide nutritional supplement to pregnant & lactating mothers – Pioneered by Ministry of Women & Child Development.

(7) Jawaharlal Nehru National Urban Renewal Mission (JNNURM) - Aimed to build basic infrastructure to improve governance and to provide basic facilities to the urban poor – Pioneered by Ministry of Urban Development.

(8) Polio Eradication – Aimed to eradicate polio – Pioneered by Ministry of Health & Family Welfare.

Infact, the most exciting thing about India is its potential for increasingly powerful internal consumption dynamics. India's consumption share of GDP is 64%, higher than that of Europe (58%), Japan (55%) and China (42%). In all probability, the Government's above populist programmes, which go under the name "inclusion" will go a long way to generate a consumption dividend in the hands of the poor. The Government should continue to expand such social security functions of the state in areas such as health, education and employment. Besides the excluded and disadvantaged among the group of urban and rural population, the women and children are the main focus of development in the above flagship schemes. It is envisaged that with proper education and good health, the poor and the excluded can start earning from the livelihood of their choice. This would provide a boost to our consumption led economic growth of our country and at the same time the growth and development would then percolate to the poorest of the poor in the society.

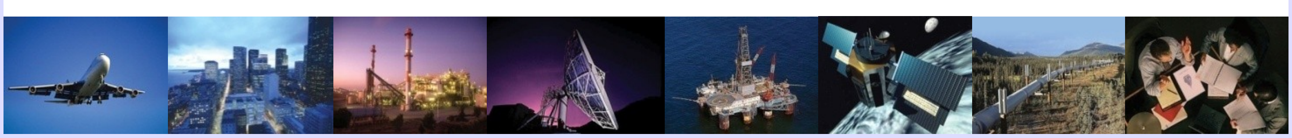
The heart of India beats in the villages. Almost 70% of the population live there and their main occupation is agriculture, which contributes over 20 % of GDP. These poor villagers can pursue their economic activities fearlessly with fervour of confidence only when their lives and properties are adequately insured. The calm confidence of stress free future can be guaranteed by insurance alone.



Risks faced by this poor and excluded group engaged in agriculture can be broadly classified into life-related and livelihood related. We know that the production systems of agriculture, wage-labour, micro-enterprise and animal husbandry – all of these have associated risks, which may lead to income and revenue loss. These can be mitigated by insurance leading to stabilization of income and reduced poverty. Similarly, the risks related to individuals, families and personal assets can be effectively reduced through some of the insurance products. Thus, insurance provides a coping mechanism to the people at the lower end of the economic pyramid to deal with high stress events of associated risks. This is how insurance plays a vital role in building up the modern economy. In reality, it is at the heart of ameliorating the economic well-being of the poor and the disadvantaged languishing at the 'Bottom of Pyramid'.

We can now very much appreciate that every one of us must be protected against the financial consequences of certain basic risks. Risks related to life would include life insurance, personal accident insurance and health insurance. Risks related to livelihood would include livestock, agriculture and property insurance. We know that an efficient system to deal with risks is insurance. It is a simple mechanism to spread the loss amount amongst all the insured members. The contributions from all provide financial protection to all those who actually suffer loss. The commercial insurers with sound and effective regulations can take care of insurance needs of upper and middle income people.

But they can provide insurance protection to only half of the country's population who can afford to buy and who can be reached. The other half consisting of low-income population (30% of the population below the poverty line plus another 20% living dangerously close to the line) can not afford to buy insurance which is marketed through commercial insurers. This is because they are poor, they are not able to save and therefore they are unable to pay the premium. They may be uninsurable as well because of their poor health and habits resulting in extra physical hazards. However, recent developments in India and elsewhere have shown that the poor can contribute towards their insurance. The extra risks they face are predictable. Therefore, there are cost – effective ways to provide protection of insurance to them. In order to achieve minimum level of benefits for certain basic risks, they may need at best some public subsidy. There is also another dimension of this issue. The poor who have low and irregular incomes lack financial literacy as well.

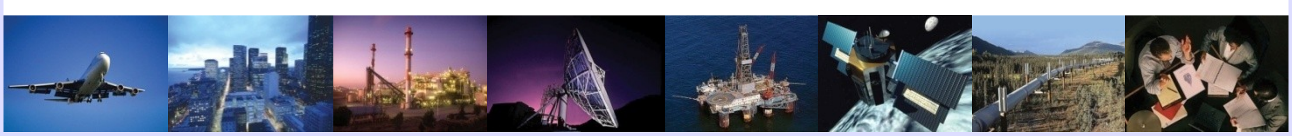


This makes insurance to the poor generally a costly proposition, as the poor need to be educated and informed about the concept of insurance much more than others. The transaction cost of marketing and selling insurance to the poor is higher than the premium amount mobilized, because insurances sold are of small sums. Therefore, a mechanism is to be devised to reduce the transaction costs in order to make the cost of insurance affordable for the poor. This is why group insurance schemes distributed through a nodal agency, which can take up some of the functions of an insurer is indispensable in extending insurance protection to the poor. A nodal agency can mobilize the poor, take up awareness and education campaigns and help the insurer to design appropriate insurance products based on its knowledge of the needs of the target group. They can also collect premium and settle claims to the insureds, who have actually suffered losses. In case of health insurance, the agencies can also play an important role in strengthening provisions of healthcare services. A nodal agency could be a civil society association, women's groups, NGOs, micro-finance institutions, micro-entrepreneurs etc. and it actually is a link between the target community and the insurer.

But there can be many barriers in providing insurance to all in the rural areas satisfying unique needs of various communities spread out far and wide in a country like ours. These may include literacy and awareness hurdles, distributional difficulties, product limitations, service complexities, cost burdens, premium collection problems so on and so forth.

Fortunately in our country, IRDA (Insurance Regulatory and Development Authority) has taken pro-active steps to permit the use of a wide variety of intermediaries. Particularly appropriate to the rural and social sector is bancassurance, co-operatives, panchayats and other rural institutions. These may carry out a multiplicity of intermediary services including marketing and selling insurance in a cost-effective manner. The permission given to Non-Government Organisations, Micro-finance Institutions and Self Help Groups to sell and service micro-insurance products can serve us much in providing insurance to all.

Insurance is a complex service product, difficult to understand and also having many facets. Thus, insurance literacy at various levels like insurer's staff level, at intermediary level, at individual group and community levels become crucial to avoid wrong selling. Cash availability to pay premium varies considerably between occupations followed by the people. Some are paid daily, some weekly, some monthly, some get money on harvesting and in this way the cash flows vary.

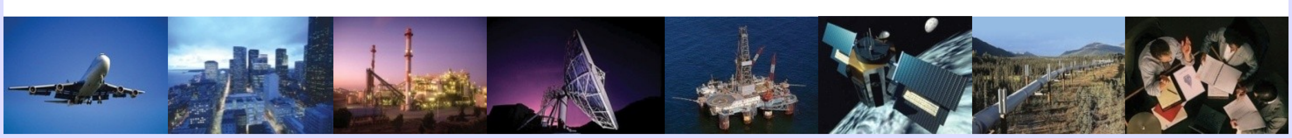


Intermediary services for collection, savings, premium financing and payment of premiums in time are required. Crop Insurance and Health Insurance carry higher risk and higher rates and therefore premium paying capacity needs to be built up to obtain these coverages. There is also, sometimes, need to harness government and other donor initiatives for subsidies and assistance. For all these essential services, the help of intermediaries is a must.

The target group members are all beginners in insurance. Since they belong to the excluded class, their livelihoods are also fragile. Their initiation into insurance is slow and very often the complexities of insurance is beyond their comprehension. Therefore, the cumbersome procedures, forms, policy wordings, underwriting practices etc. can be replaced by group insurance approaches. The certificates and master policies are to be in vernacular, so that services to policy holders are simplified. This will also speed up claim settlement.

Insurance is all about service. Interests of the policy holders is to be held supreme by the service providers. Moreover, the groups of excluded and disadvantaged comprise of people, who do not fully understand the terms and conditions of the Policy. Therefore, the service needs are more and more. Anything which tarnishes the image of the service providers is to be avoided at all costs.

The designers of products suitable for poor and excluded class have to understand the needs of the target population and design accordingly. Risks faced by them can be broadly classified into life-related and livelihood-related. Risks related to life would include Life Insurance, Personal Accident Insurance and Health Insurance. Risks related to livelihood would include Livestock, Agriculture and Property Insurance. It would be advisable to design products covering these risks. The pricing should be determined keeping in mind the buying power of the target group. It would make more sense insuring a large group than a single individual. The insurer should concentrate on building the data and gain experience in administering such policies. It is always advisable to start on a pilot project basis. The Terms and Conditions of the Policy should be simple to understand and with minimum Exclusions.



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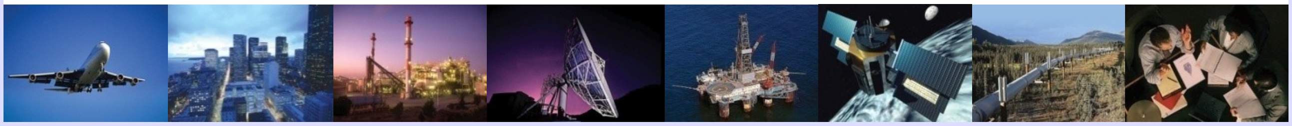
Challenge of reaching out to poor people in 6,40,000 villages of the country is immense. An independent group, exclusively focusing on this sector is to be developed. “Mantra” for success in propagating insurance to the poor lies in sticking to the following basics:

1) Designing need based and fairly priced products.
2) Distribution and Delivery of the products in a cost-effective manner.
3) Ensuring easy access and quality service to the policy holders.



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# NON – LIFE INSURANCE

## SPACE INSURANCE

The recent launch of INR 3.5 billion (eq. to USD 70 million) GSLVD 3 failed, the project was not insured. According to Indian Space Research Organisation (ISRO), recent Indian launches are not insured, since high premium deters ISRO from insuring projects.

## NUCLEAR INSURANCE

The proposed Bill on Civil Liability for Nuclear Damage has generated much interaction about inadequate liability limits and low limitation period on claims. The process of bringing India back into the international nuclear field, which started with the IAEA Safeguards Agreement in 2008 and the passage of the US – India Nuclear Treaty, will be complete only when the country has nuclear liability legislation in place, outlining the legal mechanism, providing a measure of certainty to the financial consequences of nuclear damage.

## NUCLEAR INSURANCE POOL

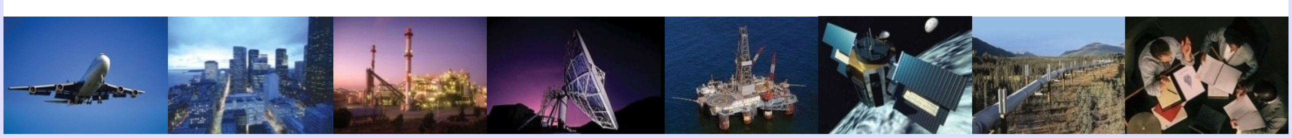
Efforts are afoot in India to establish a non-government "nuclear pool" that would provide cover in case of an accident at any nuclear plant in India, similar to the ones available in the US and European countries.

## PRODUCT RECALL INSURANCE

Despite the growing trend of product recalls locally, Indian corporates do not have a comprehensive strategy to tackle the threat, with a majority still dependent on the traditional product liability cover, according to insurance market sources.

In India, most corporates opt for Product Liability Insurance that insures their liability against third party property damage claims and bodily injuries / deaths claims. But they tend to overlook Product Recall cover that protects them against recall costs, consultancy fees, lab expenses, re-work and replacement costs, plus brand equity loss in case of a defective product.

There is need for Indian manufacturers exporting goods to the overseas market to opt for the Product Recall Insurance as a "risk management tool". The consumers are now more sensitive to safety standards and regulatory provisions are becoming more stringent, given the legal framework in India.



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## MOTOR INSURANCE

In an effort to reduce their losses, insurers have urged IRDA to allow detariffing of Motor Insurance, both in Own Damage (OD) and Third Party Liability (TPL) segments of coverage, in order to improve financial viability of auto insurance market, to enable scientific risk assessment and rating of different types of vehicles.

## HEALTH INSURANCE

There is huge scope for growth in India's Health Insurance Sector, where the penetration level stands at 3% to 4% presently.

## CONTAINER DEPOT FIRE

A massive fire, which broke out on 10th April, 2010 at Inland Container Depot at Tughlakabad in South Delhi, is estimated to have cost losses of around INR 2 billion (equivalent to USD 40 million). This depot is run by the State Owned Container Corporation of India.

## OVERSEAS TRAVEL INSURANCE

Insurers have taken a hit due to recent flight disruptions in Europe. Claims have arisen from overseas travel insurance policies, which cover delay or cancellation of flights.

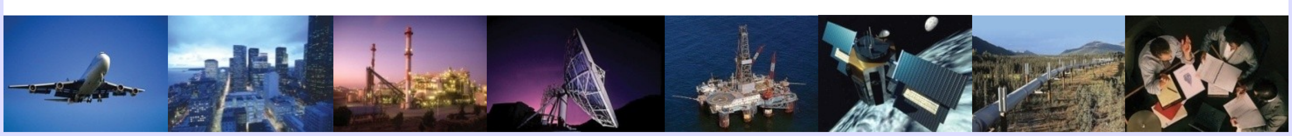
## INSURANCE RENEWALS

Insurers have granted significant discounts for April 2010 renewals. These discounts are contrary to expectations that insurers would reduce them in view of pressure from reinsurers and need to reduce bottom-line losses.

## AUTOMOBILE LOSSES

The recent Supreme Court verdict that permits insurers to take possession of seized vehicles after getting release orders from the Competent Courts is expected to curtail motor losses of insurers.

Describing the junking of seized vehicles in police stations as a "national waste", the Court has permitted concerned insurers/owners to take possession of seized vehicles, used in commission of offences, after getting the judicial release orders. This will help improve motor loss ratios of the insurers as well.



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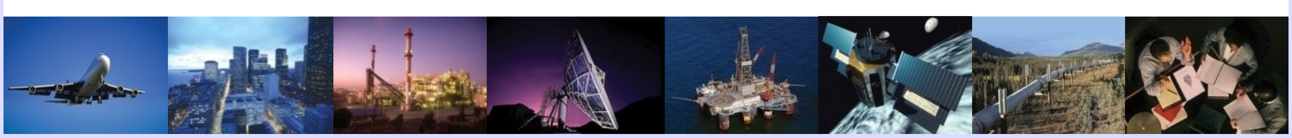
## POSTAL INSURANCE

IRDA has directed that the Postal Department adhere to its norms while selling insurance products.

## FUNDING THROUGH DEBT PAPER

IRDA has recommended that insurers be allowed to raise capital through issuance of debt paper.



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# INTERNATIONAL

## INSURANCE INVESTMENT CAP

The US wants India to open its insurance market further, according to US treasury department. It will be an important part of the growing economic partnership between the two nations. India plans to raise the ceiling for foreign direct investment in local insurance companies to 49% from 26%.

## SOLVENCY II

Asian countries are progressing on regulatory convergence using an economic risk-based approach, but a united supervisory regime such as solvency II, which is an updated set of regulatory requirements for insurers operating in the European Union due to take effect in 2012, is not yet on the horizon for the region.

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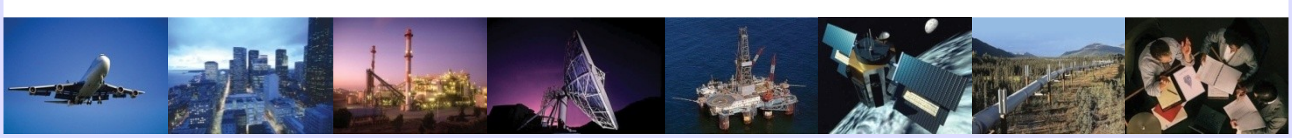
# LIFE INSURANCE

## "ULIP" ROW

As the market regulator – SEBI and insurance regulator IRDA locked horns over jurisdictional control on the popular "ULIP" Schemes, Parliamentary Standing Committee (PSC) has directed the Finance Ministry to take steps to ensure safeguarding the interests of investors by resolving the jurisdictional dispute.

## CLAIM REJECTION

An insurer can reject a claim if the policyholder had understated his age at the time of joining the scheme, the National Consumer Commission has held. Such a claim can rightly be repudiated on the ground of concealing material facts, it observed while giving a clean chit to the Life Insurance Corporation of India for turning down a claim citing that policyholder had mentioned date of birth incorrectly.



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# REINSURANCE

## WORLD CATASTROPHE LOSSES

Reinsurance rates for April 2010 renewals across most lines of property catastrophe business around the world continued the decline experienced for January 2010 renewals.

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**We request readers to inform their areas of interest for coverage in ensuing Issues .**
**We value feedback : median@jbbodamail.com**

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