Report of the Committee on Standalone Microinsurance Company

Insurance Regulatory and Development Authority of India (IRDAI)

AUGUST 2020

Report of the Committee on Standalone Micro-insurance Company

19th August, 2020

To,
The Chairman,
Insurance Regulatory and Development Authority of India (IRDAI)

Dear Sir,

We are honoured to present the report of the Committee on Standalone Micro-insurance Company, set up on 4th February, 2020, to make recommendations to the Government on the desirability and feasibility of standalone micro-insurance companies in India.

The Committee benefitted from the participation of micro-insurance practitioners, insurance companies, and experts, both from India and overseas. The Committee has examined regulatory and legal frameworks in various countries in order to see the impact these have had on the growth and outreach of micro-insurance. Based on its deliberations and keeping in mind the challenges, the Committee has developed recommendations for your kind consideration.

We thank you for the opportunity to present our views on the issue of standalone microinsurance companies.

Yours sincerely,

Mirai Chatterjee, Chairperson

Aleem Afaque, Member

S.P. Chakraborty, Member

Tabassum Inamdar, Member

Biswa Bandhu Mohanty, Member

Mamta Suri, Member

N M Behera, Member

Ajit Dayal, Member

TR Mendiratta, Member

Nachiket Mor, Member

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INSURANCE REGULATORY AND
DEVELOPMENT AUTHORITY OF INDIA

ORDER

Ref: No. IRDA/RI/ORD/MISC/041/02/2020 दिनांक: 04th February, 2020

Re: Committee on:-
Development of a concept paper on standalone Micro-Insurance Company.

1. India has been seen to be a pioneer in the Micro-Insurance sector in the world and has provided an example with its Micro-Insurance regulations.

2. The IRDAI has received suggestions on allowing standalone insurers for transaction of exclusive Micro-Insurance business, as it may boost the Micro-Insurance penetration in India with geographical spread.

3. Considering the above, the competent Authority has decided to set up a committee with the following members to look into above aspects:

Sr. No.	Name	Designation	Organization	Chairperson / member
1	Ms. Mirai Chatterjee	Director	SEWA, Ahmedabad	Chairperson
2	Mr. Nachiket Mor	Independent Consultant	N.A.	Member
3	Mr. Mendiratta	Retd. ED	LIC of India	Member
4	Mr. Ajit Dayal	Founder	Quantum Mutual Fund	Member
5	Mr. Biswa Bandhu Mohanty	Retd. CGM	NABARD	Member
6	Ms. Tabassum Inamdar	Analyst	Banking and Financial Sector	Member
7	Dr. Mamta Suri	C.G.M.	IRDAI	Member
8	Mr. S.P. Chakraborty	G.M.	IRDAI	Member
9	Dr. N.M. Behera	Secretary	Office of the Insurance Ombudsman, Bhubaneshwar	Member
10	Mr. Aleem Afaque	A.G.M.	IRDAI	Member / Convenor

4. The terms of reference of the committee are:

   a. To assess the desirability and feasibility of formation of standalone Micro-Insurance Companies;

   b. To review the existing legal and regulatory framework to enable a standalone micro-insurance company Indian Insurance Company after analysing similar provisions in other jurisdictions;

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c. Recommend on the maximum sum insured per person which may be accepted by the proposed micro-insurance Company;

d. Considering the aspect of ease of doing business, suggest on the applicability and or relaxation of extant Act / Regulatory provisions for proposed micro-insurance Company, which may be registered as an insurer. The indicative regulatory aspects are as under:
   i) Capital and Solvency;
   ii) Underwriting, Product and Claims;
   iii) Finance and Accounting;
   iv) Investments;
   v) Operations;
   vi) Corporate Governance;
   vii) Others

e. Any other related matter;

5. The Committee shall meet as often as required and submit its recommendations within three months of this order.

Suresh Mathur
Executive Director

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Acknowledgements

The Chairman, Insurance Regulatory Development Authority of India (IRDAI), took the first and important step of constituting this committee to examine the feasibility of standalone microinsurance companies to serve low-income families in India. Our sincere thanks to the Chairman, all IRDAI members and staff for putting their faith in the members of the committee.

I am also very grateful to all the committee members for their commitment to the task at hand, and their enthusiasm in finding ways to reach microinsurance to low-income families in our country. Most of the committee's work was undertaken during the COVID-19 pandemic. We could not meet in person but we all managed to convene online. All members contributed their experiences and expertise, the external environment notwithstanding. They shared reports and wrote papers that helped deepen our understanding of microinsurance and shaped our recommendations. My sincere thanks to all members: Mr Aleem Afaque, Dr N. M. Behera, Mr S. P. Chakravarty, Mr Ajit Dayal, Ms Tabassum Inamdar, Mr T R Mendiratta, Mr Biswa Bandhu Mohanty, Mr Nachiket Mor and Dr Mamta Suri. Mr R.K. Sharma, Ms Jamuna Choudhury and the IRDAI team provided useful inputs and support. Working on this subject during the pandemic has only served to convince us of how crucial microinsurance coverage is for all, especially the most vulnerable — the working poor of our country.

We were ably assisted by Mr Bhaskar Khadakbhavi and Ms Shruti Srivastava who not only set up all our meetings and maintained minutes of the proceedings but also coordinated with all of us and helped to keep our channels of communication going. Our special thanks to them.

This report has truly been a collective effort of many — policy-holders, microinsurance practitioners and experts, insurance companies, actuaries, microfinance organisations and experts, both in India and overseas. Sincere thanks to all who so generously gave their time, and shared their expertise and rich and varied experiences. I would especially like to thank Mr Satheesh Arijilli of BASIX, Ms Ahila Devi of Dhan Foundation, Dr Manjunath of Shri Kshetra Dharmasthala Rural Development Project, Mr Peter Palaniswami of Self Help Promotion for Health and Rural Development, Dr Medha Purao-Sawant of Annapurna Pariwar Vikas Samvardhan, Mr Kumar Shailabh of Uplift Mutuals and Mr Bhim Singh of Mandi Saksharta Evum Jan Vikas Samiti for providing insights and experiences from their work on microinsurance.

I would also like to acknowledge Mr Arup Chatterjee of the Asian Development Bank, Ms May Dawat, Kelvin and the CARD-MI team, Mr Francois-Xavier Hay of Wingsure, Mr Rolf Hueppi of Paralife, Mr Sanket Kawatkar of Milliman, Mr Sanjeev Kumar of Goat Trust, Mr Michael McCord of Milliman, Mr Arman Oza, Mr Jimmy Patel of Quantum Mutual Fund, Mr Sabbir Patel of International Cooperative and Mutual Insurance Federation (ICMIF), Mr Jun Jay Perez of RIMANSI, Mr Ramesh of MF Utilities India and Ms Margrit Schmid of Paralife.

I am very grateful to Dr Ela Bhatt, Founder of SEWA, for providing me with the opportunity to serve the hard-working women of our country. She also served on the IRDAI's board where she raised many of the issues that are in this report. Ms Jayshree Vyas of SEWA Bank, Ms Renana Jhabvala of SEWA Bharat and all my SEWA sisters have contributed their insights to my understanding of microinsurance.

Mr Shreekant Kumar, Chief Executive Officer of VimoSEWA, the insurance cooperative of the SEWA movement, and the entire VimoSEWA team supported the work of this committee throughout. My special thanks to them.

Finally, we owe a debt of gratitude to all those policy-holders who placed their faith in microinsurance and used their hard-earned money to secure their and their families' future. We hope that this report will do justice to their hopes and dreams and will lead to the extension of microinsurance to all, particularly the most vulnerable of this country. We also hope that microinsurance will be one more tool for financial inclusion and social protection, and will serve to keep families out of poverty. In addition, we firmly believe our report and its recommendations will contribute to help the women of our country achieve their goal of economic empowerment and self-reliance, thereby building a better and healthier India for us all.

Mirai Chatterjee,
Chairperson,
Committee on Standalone Micro-Insurance Company
August 2020

Abbreviations

APVS	Annapurna Pariwar Vikas Samvardhan
ASM	Available Solvency Margin
CAGR	Compounded Annual Growth Rate
COVID-19	Coronavirus Disease
DHAN Foundation	Development of Humane Action Foundation
GDPI	Gross Direct Premium Written in India
IC	Insurance Commission, the Philippines
IRDAI	Insurance Regulatory and Development Authority of India
IT	Information Technology
KYC	Know Your Customer
MBA	Mutual Benefit Association
MFI	Microfinance Institution
MI	Microinsurance
MSJVS	Mandi Saksharta Evum Jan Vikas Samiti
NABARD	National Bank for Agriculture and Rural Development
NGO	Non-Government Organisation
NWP	Net Written Premium
PSU	Public Sector Undertaking
RBC	Risk-Based Capital
RBI	Reserve Bank of India
SAMI	Standalone Microinsurance Company
SEBI	Securities and Exchange Board of India
SEWA	Self-Employed Women's Association
SHEPHERD	Self Help Promotion for Health and Rural Development
SIDBI	Small Industries Development Bank of India
SKDRDP	Shri Kshetra Dharmasthala Rural Development Project
TRAI	Telecom Regulatory Authority of India

1. Executive Summary

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. Many get drawn into debt traps as they borrow beyond their means, sell productive assets, take children out of school or put them to work, compromise on food, or leave sickness untreated.

The need for low-income families to take insurance, therefore, cannot be emphasised enough, and must be a vital part of India's financial inclusion plan. According to 2011-12 estimates, approximately 435 million people[1] constitute the informal or unorganised sector in India or more than 90 per cent of the workforce. It can be safely estimated that in the last decade, this figure has increased to at least 500 million.[2] These workers are the low-income segment of our population and need to be covered by microinsurance (MI).

A 2013 report found that "India is ahead of other countries in terms of microinsurance outreach. With 111.1 million people covered, India is home to 65.2 % of the people covered in Asia and Oceania. The Indian microinsurance sector also generates 66% of the premiums on the continent. Due to its massive market size, India contributes 72% of the growth in coverage and 80% of growth in premiums in the region. India also registers the highest number of products offered and the highest number of microinsurance providers." However, the report also noted that the Indian microinsurance sector has only covered 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 respectively[3].

Experience from countries such as the Philippines, South Africa and China shows that supportive regulatory frameworks and technology can go a long way in increasing the penetration levels of insurance.

1. Prior to the opening up of the sector in 2006, the Philippines had significant informal insurance activity. This was conducted by microfinance institutions (MFIs), non-government organisations (NGOs) and cooperatives that provided in-house mutual assistance or self-insurance schemes to their members. Following favourable changes in microinsurance regulations in 2006, 2010 and 2013 there was (a) a sharp reduction in capital for Microinsurance Mutual Benefit Associations (MI-MBA), (b) a strategy to increase awareness and (c) introduction of demand-driven products and services. The market for this business expanded rapidly. The number of lives insured increased from 2.9 million in 2007 to 45.13 million in 2019 covering 41 per cent of the total population. This growth has come not only from Mutual Benefit Associations (MBAs), but also from commercial insurance companies which started participating in an expanding market.[4]

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[1] Srija, A and Shirke, Shrinivas V., An Analysis of the Informal Labour Market in India Confederation of Indian Industry report pg 41 https://www.ies.gov.in/pdfs/CII%20EM-october-2014.pdf]

[2]National database of workers in informal sector in the works, The Economic Times [https://economictimes.indiatimes.com/news/economy/indicators/national-database-of-workers-in-informal-sector-in-the-works/articleshow/73394732.cms]

[3] 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

[4] Based on several sources/documents including: (a) Dr Ana Gonzalez-Pelaez, CISL Fellow, *Mutual Microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan*, University of Cambridge, Institute for Sustainability Leadership. (b) Martina Wiedmaier-Pfister and Hui Lin Chiew, *Regulatory Impact Assessments: Microinsurance*

2. Microinsurance in South Africa has also benefited from regulations permitting capital requirement of 4 million Rand or Rs 1.82 crore or 15 per cent of premium. The country has also developed a first-party and third-party cell captive model with much lower capital requirement of 250,000 Rand or Rs 11 lakh to promote microinsurance.[5] This is reflected in the higher coverage ratio in the country, at 63.99 per cent.

3. In China, technology is playing a key role in expanding the market. In less than two years, internet platforms have managed to provide health insurance on their mutual aid programme to nearly 200 million members (about 14 per cent of the population), and at minimal cost. These programmes are neither regulated nor required to meet capital requirements or other risk management rules that apply to traditional insurers. The mutual aid programmes seem to be succeeding in expanding the market given the ease of buying, transparency and the low cost for members. This is reflected in a study done by Alipay, a major financial platform, which shows that around 70 per cent of online mutual aid participants surveyed were not covered by any commercial health insurance.[6]

Time to Accelerate Expansion of the Microinsurance Market

India too will need to improve access for multiple players if it wants to substantially increase insurance penetration. This is all the more urgent in the current context of the COVID-19 pandemic when millions of Indians, especially in the informal sector, have lost their livelihoods, are now leading more insecure lives and are falling back into poverty.

Dedicated standalone microinsurance institutions can close this gap by making insurance affordable and available to low-income families, thereby providing a measure of risk mitigation and security. The committee therefore recommends that the government and the Insurance Regulatory and Development Authority of India (IRDAI) license such businesses which can cater to the low-income segment. After extensive discussions with organisations that have been providing microinsurance, national and international experts, the committee's key recommendations are:

1. Entry-level capital requirement for standalone microinsurance entities should be reduced to Rs. 20 crore maximum from the current Rs. 100 crore. Further details are given in Annexure 1.

2. Risk-based capital (RBC) approach should be adopted to enable the progressive growth of the microinsurance business while maintaining the highest prudential standards.

3. Microinsurance companies (as well as cooperatives and mutuals) should be allowed to act as composite insurers to transact both life and non-life business through a single entity. Their portfolios should have a balance of both life and non-life business.

Regulations in Peru and the Philippines, Access to Insurance Initiative, (c) Antonis Malagardis (GIZ RFPI Asia), Michael J. McCord (MicroInsurance Center), Dante O. Portula (GIZ RFPI Asia), Martina Wiedmaier-Pfister (MicroInsurance Center), *Regulatory Impact Assessment - Microinsurance Philippines*, GIZ RFPI Asia, November 2015. (d) Microinsurance premiums, coverage expand in 2019, https://www.bworldonline.com/microinsurance-premiums-coverage-expand-in-2019/, (e) The Philippines Insurance Commission website and (e) Discussion with representatives of RIMANSI and CARD MRI. See Annexure 5 for further details.

[5] This is based on the presentation by Shri Arup Chatterjee, Principal Financial Sector Specialist, Finance Sector Group, Asian Development Bank.

[6] Multiple newspaper articles and website including: (1) Alipay's Xiang Hu Bao Online Mutual Aid Platform Attracts 100 Million Participants in One Year, https://www.businesswire.com/news/home/20191126005952/en/Alipay%E2%80%99s-Xiang-Hu-Bao-Online-Mutual-Aid, (2) Alipay's Xiang Hu Bao, Disruptive P2P in China, reached over 100 million users, https://medium.com/@elaine.tung/alipays-xianghubao-disruptive-p2p-in-china-476842c883f1, (3) https://render.alipay.com/p/f/fd-joy7ozng/index.html

4. Use of end-to-end digital technology for transparency, accountability and monitoring will be an essential part of how microinsurance companies will do their business. A common information and technology (IT) platform for all microinsurance companies should be developed. Further details are given in Annexure 2.

5. Standalone microinsurance companies/cooperatives/mutuals will require reinsurance. The regulator can facilitate reinsurance of microinsurance through the existing licenced insurance/reinsurance companies.

6. Regulations for standalone microinsurance must be developed with the highest prudential standards in consultation with those who are already undertaking microinsurance as intermediaries (cooperatives, mutuals, NGOs) as well as other stake-holders. In addition, microinsurance companies and organisations may also be encouraged through a regulatory architecture to focus on developing a self-regulatory mechanism.

7. The Insurance Act, 1938 should be amended to bring the standalone microinsurance business under its purview. This will include defining microinsurance, microinsurers, reducing the capital requirement and/or giving powers to IRDAI to decide on capital requirements for SAMI. However, amending the Insurance Act, 1938 may require time. To expedite empowering the IRDAI for this process the committee suggests the following approach:

    a) In the immediate term, the Central Government may be approached to issue rules under Section 24(2)(c) read with Section 14(2)(q) of IRDA Act, 1999 giving the IRDAI powers to put in place a regulatory framework for SAMI. The committee notes that this approach was adopted by the Central Government to allow insurers in special economic zones (SEZs) when there was no specific power with the IRDAI for regulating entities in SEZs.

    b) It is suggested that an omnibus provision be inserted in the Insurance Act, 1938 which will empower the IRDAI to frame regulations on matters relating to the standalone microinsurance business. Exercising this power, IRDAI can then specify requirements. The committee notes that a similar approach was adopted in the case of making the regulatory framework for foreign branches of reinsurers. Further details are in Annexure 3.

8. A cell captive model may be offered as a way for micro players to underwrite the microinsurance business. As per this model, existing insurers and others can become cell owners by bringing in capital and share the underwriting risk with SAMIs with a capital of no more than Rs 5 crore or such contribution as may be considered appropriate. Further details are in Annexure 4.

9. IRDAI may develop an appropriate supervisory structure to fast track product approvals, enable offsite supervision of SAMIs, undertake capacity-building of staff and develop a separate microinsurance division within the IRDAI. Further details are in Annexure 3.

10. IRDAI and/or the Central Government may establish a Microinsurance Development Fund to support and promote the growth of this business across the country. Further details are in Annexure 5.

International experience from several countries has shown that regulatory and legal changes, including capital requirements, like those mentioned in the recommendations, has led to significant growth of microinsurance for their citizens. Country case studies are given in Annexure 6.

The Committee recommends implementation of the suggested changes at the earliest to spread and deepen the penetration of microinsurance in India. This is even more imperative in the current context of the corona virus pandemic.

2. Need for Standalone Microinsurance Entities

Providing protection to the vulnerable

Ayesha is a small farmer in Ingoli village of Ahmedabad district. Her daughter is still in school and her son has a job in a town nearby as a shop assistant. During the second lockdown this year, Ayesha's husband, Javed, suddenly experienced chest pain. Their son rushed his father to the nearest hospital in his friend's rickshaw but Javed passed away before they got there. Ayesha has been taking microinsurance cover for the last 15 years, including for her husband. The claim was processed online after her son sent all her documents by WhatsApp, and the claim amount of Rs 35,000 was deposited in her bank account. While the loss of her husband can never be compensated, Ayesha said the claim amount provided some support. She has now taken microinsurance policies for her children[7].

Bharti is a bidi worker and grassroots leader in Indore, Madhya Pradesh. Her family comprises six members, including her elderly in-laws and her two children. None of them had ever heard of insurance till the COVID-19 pandemic. Bharti took training as a frontline health worker, serving her neighbourhood by providing health education and life-saving messages. She enrolled for microinsurance for the first time in her life, took coverage for health and also for loss of income due to illness. Bharti suddenly got sick and tested positive for the coronavirus. She was hospitalised and as she had taken microinsurance, she obtained Rs 3,900 for loss of income due to hospitalisation and Rs 25,000 towards hospitalisation expenses for COVID-19 disease. Her family says that not only do they understand about insurance now but they all also plan to take microinsurance policies.

Microinsurance is a mechanism to protect low-income individuals such as Ayesha and Bharti against risks such as death, accidents, illness and natural disasters in exchange for insurance premium payments tailored to their needs, income and level of risk[8]. The focus is on providing protection to the stratum of society that is financially most vulnerable, where the death of a breadwinner or sickness of any family member leads to a financial catastrophe for the family and, in some cases, no food on the table. The need to provide insurance to this segment of our citizens is critical.

The term microinsurance was first used in the 1990s when organisations like the Self-Employed Women's Association (SEWA) began extending low-premium products to its members. It is generally applied to sections of the population earning under USD 5 or Rs. 350 per day. It is a form of solidarity and risk-pooling. It is an economic instrument which can support low-income families in times of crisis which they typically face at regular intervals, and often several at the same time, as mentioned in the cases above. For example, during a natural disaster, a family may lose their home and livelihood and also have to incur expenses on a sick family member. Microinsurance prevents families from becoming mired in poverty and indebtedness. Thus, it is a poverty alleviation measure. Recognising this, the IRDAI was the first globally to pioneer the concept of microinsurance for insurance companies in India.

[7] These are genuine examples with details changed to protect identity.As on 13.08.2020, the total claims pertaining to COVID-19 reported to general insurance companies were 110287 amounting to Rs. 17,68,54,93,463. Of these, the insurance companies have settled 70291 claims till date, amounting to Rs. 669,12,68,313.

[8] Definition of Microinsurance [https://microinsurancenetwork.org/]

Under-penetrated microinsurance market

According to India's Economic Survey 2019-20, the insurance penetration or the ratio of premium underwritten to the Gross Domestic Product was 3.71 per cent in 2018-19 and insurance density was USD 74. The comparable numbers globally stood at penetration level of 6.09 per cent and insurance density at USD 682[9]. A 2013 report found that "India is ahead of other countries in terms of microinsurance outreach. With 111.1 million people covered, India is home to 65.2 % of the people covered in Asia and Oceania. The Indian microinsurance sector also generates 66% of the premiums on the continent. Due to its massive market size, India contributes 72% of the growth in coverage and 80% of growth in premiums in the region. India also registers the highest number of products offered and the highest number of microinsurance providers." However, the report also noted that the Indian microinsurance sector has only covered 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 respectively.[10] Compared to this around 500 million people need to be covered by microinsurance[11].

This large gap exists as most insurers in India have been focused on the low-hanging fruit which is the more affluent and urban segment. This segment is more profitable and comparatively easier to convert into clients.

In 2002, the IRDAI policy required insurance companies to sell policies to promote insurance coverage among the economically vulnerable sections of society and in under-served areas. While there are no specific targets for microinsurance, the regulator made it mandatory for insurance companies to achieve rural and social sector targets.[12]

In 2005 the IRDAI formulated regulations for microinsurance. This was expected to give a further boost to the penetration of microinsurance.[13] Even though these measures provide a broad framework to promote microinsurance, the committee notes that the share of the microinsurance business to the total insurance business continues to remain extremely low. This is partly due to the fact that the ticket size of this business is comparatively low. In 2019-20 this was 1.80 per cent for life and 1.16 per cent for general insurance. The reasons for this low penetration are discussed below.

Table 1: Rural & Social Sector Obligations to be met by Insurance Companies in India

	Rural Sector	Social Sector
Life	5 per cent of total policies in Year 1, increasing to 20% by Year 10	5,000 lives in year 1, growing to 55,000 by year 10
Non-life	2% of gross premium in Year 1, increasing to 7% by Year 10	

Source: IRDA (Obligations of Insurance to Rural and Social Sectors) (Third Amendment) Regulations, 2008 dated 03.01.08

[9] Indian Economic Survey – 2019-20, Ministry of Finance, [pages 129-132, https://www.indiabudget.gov.in/economicsurvey/]

[10] 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]

[11] Confederation of Indian Industry report - An Analysis of the Informal Labour Market in India by Ms. A Srija (IES) and Mr. Shrinivas V. Shirke (ISS), [Page No. 41, https://www.ies.gov.in/pdfs/CII%20EM-october-2014.pdf]

[12] See Annexure 7 for further details

[13] See Annexure 8 for further details

Table 2: Gross Direct Premium of MicroInsurance as % of Total Gross Direct Premium - Life Insurers						
						(Rs Crore)
INSURER	**2018-19**			**2019-20 (Provisional)**		
	Total	**MI**	**MI % of Total**	**Total**	**MI**	**MI % of Total**
PSU	1,42,335.96	20.91	0.01%	177977.08	256.64	0.14%
Private Sector	72,667.08	3,216.92	4.43%	80919.40	4396.47	5.43%
Total	**2,15,003.04**	**3,237.83**	**1.51%**	**258896.48**	**4653.11**	**1.80%**

Table 3: Gross Direct Premium of MicroInsurance as % of Total Gross Direct Premium – General Insurers						
						(Rs Crore)
INSURER	**2018-19**			**2019-20 (Provisional)**		
	Total	**MI**	**MI % of Total**	**Total**	**MI**	**MI % of Total**
PSU & Specialized	79841.57	191.08	0.24%	83658.02	154.43	0.18%
Private	81287.16	2313.78	2.85%	91147.54	1877.96*	2.06%
Total	**172482.77**	**2515.75**	**1.46%**	**174805.56**	**2032.39****	**1.16%**

** Does not include Health and Personal Accident.*
*** The business was affected by the Covid-19 pandemic in the month of March 2020*

It is important to note that rural and social sector business is not the same as microinsurance, though some of their customers may overlap.

Table 4: Rural Business Done by Insurers in FY 2018-19 and 2019-20*			
Insurers		**2018-19 Premium (In Crore)**	**2019-20 Premium (In Crore)**
1	Life Insurers	13,104.46	14554.52
2	Non-Life Insurers	28,584.60	31368.10
3	Health Insurers	1202.98	1746.52
	Total	**42892.04**	**47669.10**
Table 4A: Social Business Done by Insurers in FY 2018-19 and 2019-20*			
Insurers		**No of Lives Covered**	**No of Lives Covered**
1	Life Insurers	6,61,81,112	6,14,34,738
2	Non-Life Insurers	39,46,58,402	35,31,82,157
3	Health Insurers	45,86,466	61,59,776
	Total	**46,54,25,980**	**42,07,76,671**

** Data relating to FY2019-20 is provisional. Further the business was affected by the Covid-19 pandemic in the month of March 2020*

Barriers to expansion and extension of microinsurance in India

There are a number of reasons for the limited sales of microinsurance policies by existing insurance companies: high transaction expenses which lead to lower profitability, difficulty in marketing products to those with limited understanding of insurance, and lack of documentation such as identification, proof of age and residence. The committee believes the gap persists because of the following six major issues:

1. **Trust:** Large insurers have not worked on building trust with low-income clientele. This segment is particularly vulnerable to mis-selling, fraud and at times their trust has been shaken.
2. **Cost of business acquisition and servicing**: The business models of insurance companies are generally designed to address the need of the mainstream market segment. This type of business is unviable for these companies because of their high transaction costs. Given the low average premium per policy, it is imperative that the cost of operations and servicing these policies are kept at a minimum by: (a) reducing transaction costs through digitalization, (b) working at scale, i.e., high volumes, and (c) keeping documentation requirements to a bare minimum.
3. **Absence of need-based products:** There is a dearth of need-based, affordable and customised products for the microinsurance market. Often, products sold in the market are neither simple nor easy to understand as their design has little or no input from potential clients. Consequently, there is little demand. The NGOs working with these customers could provide insights into the needs of these segments.
4. **Claim Settlement:** Mismatch in name or other data such as age can result in claim settlement issues and affect the service standards. In the low-income segment of our population, data mismatches due to name or age are common. In addition, processes and procedures are cumbersome, requiring multiple documentation and paperwork, which puts an extra burden on the customer. Delays in servicing claims and redressal of grievances leads to lack of trust. The need of the hour is to have simplified processes for this line of business.
5. **No long-term business perspective:** Microinsurance still does not make up a significant part of Indian insurers' business. A majority of them focus only on attaining the annual target of their social and rural sector obligations rather than on making it a long-term sustainable business proposition. This is mainly due to the low-ticket size of its premium and its minuscule contribution to their top-line.
6. **Lack of awareness**: While financial services such as savings, credit and pension are well understood and known products, there is limited understanding of insurance, especially among low-income families. Insurance products are also relatively more complicated than other financial products. Inadequate awareness creation and education has resulted in limited penetration of microinsurance in India.

3. MI Practitioners Fill in the Gaps but Lack Scale

The committee interacted with eight non-governmental organisations (NGOs) who are currently distributing insurance products, mostly tying up with insurance companies. Consultations with each of them were organised and each NGO presented its model, outreach, financial data, challenges and recommendations. The microinsurance practitioners consulted were Annapurna Pariwar Vikas Samvardhan (APVS), BASIX, Development of Humane Action (DHAN) Foundation, Mandi Saksharta Evum Jan Vikas Samiti (MSJVS), National Insurance VimoSEWA Co-operatives Limited, Self Help Promotion For Health And Rural Development (SHEPHERD), Shri Kshetra Dharmasthala Rural Development Project (SKDRDP) and Uplift Mutuals. The key learnings and takeaways are:

Most lack scale, focus on own customer base

- Most of them are highly localized and do not work at scale.
- Except for SKDRDP, the coverage on life and health is modest.
- Six NGOs out of eight focused on their microfinance clients.

Products of existing insurers sold

- Types of policies sold include life, accident, health and asset.
- Uplift and APVS, both mutual models, provide policies with no age exclusion.
- Some of the organisations, such as APVS, VimoSEWA and Uplift, have developed their own mutual products that they distribute only among their members.
- The majority of them have initiated their insurance business as Master Group Policy-holders / distributors of standard insurance products. Along their microinsurance journey, a majority of them either changed the insurance companies they worked with or dropped the insurance products due to poor claim servicing. One NGO did report a successful partnership with insurance companies.

Claim settlement faster for own products

- Claim settlement time extended from 24 hours to 60 days. In most cases where the NGO has a tie-up with insurance companies, the claim settlement takes longer. In the cases of both Uplift and Annapurna which are mutuals, the claim settlement time was 24 hours.

Sustainable business model

- Despite the lack of scale, most of these NGOs are managing to run their businesses in a financially viable manner[14]. This indicates that an organisation which has a strong rapport with the local community and presence at the grassroots level can run a successful microinsurance business.
- Maximum premiums that can be written by a life and a non-life insurer for specific available solvency margin (ASM) of Rs 5, 10 and 20 Crores show that microinsurance business can be run with a low capital base (Refer to Annexure 1 for details). This is also evident from the Philippines experience (Refer to Annexure 6), where MI-MBAs have been consistently generating surplus.

[14] Refer Annexure 9 for financials of NGOs

Challenges to scaling up the microinsurance business

1. High capital requirement to start insurance operations makes it difficult for these institutions to transform their model from distributor to manufacturer.
2. Microinsurance laws and regulations currently do not enable expansion, scaling up and growth of their businesses.
3. The insurance companies they partner with do not design products that suit their market segment.
4. There are delays in claims-servicing by the partner insurance companies, documentation issues and abrupt changes in policies, among other difficulties. Consequently, customers' dissatisfaction results in declining persistency ratios which in turn affects outreach and growth.
5. Digitalisation of all procedures and processes is essential and needs regular investment and upgrading. However, there are substantial costs involved.
6. Insurance companies work at national level with standard procedures and processes with limited flexibility to adapt processes to local needs. Most NGOs, though, are engaged with the community at a local level and feel the need for some customisation in processes and documentation, which the large insurers they work with generally do not permit.

Table 5: Key Details of Microinsurance Offered by NGOs

	VimoSEWA	Shepherd	BASIX	Uplift	Annapurna	SKDRDP
Business Model	Master policy-holder, partner-agent and mutual model	Partner-agent and mutual model	Composite corporate agent	Mutual model	Mutual model	Partner-agent model
Microfinance	No	Yes	Yes	No	Yes	Yes
Location/districts covered	Gujarat, Madhya Pradesh, Bihar, Rajasthan and Delhi with 20 partner organizations	Tamil Nadu (10 districts)	Pan-India operations, covering 26 states during its peak	Mumbai, Pune, and tribal villages in Rajasthan	Mumbai, Pune	Karnataka
Companies whose products are distributed	LIC, New India Assurance Company Ltd, India First Life Insurance Company Ltd	LIC and United India Insurance Company Ltd	Aviva and Royal Sundaram	Risk-pooling by SHGs; Claims that will not be paid decided upfront	Risk-pooling	LIC, New India Insurance Company, Oriental Insurance, National Insurance, Universal Sompo
Type of product	Health, life, credit shield, endowment product, mutual hospicash product, assets	Life, health, property	Group cover: credit shield, hospicash, livestock. Retail individual policies: Life, health, personal accident and agriculture	Cashless in-house outpatient department cover and reimbursement, in-patient department cover	Health, credit shield, life, asset	Health, livestock, life, asset and credit shield
Max limit	Health – Rs 25,000 Mutual hospicash - Rs 3,000, Assets -Rs 10,000 Life – Rs 2 lakh	Life - Rs 10,000, Accident – Rs 25,000 Health – Rs 10,000 Hospitalisation due to road accident – Rs 50,000 Property – Rs 5 lakh	Group Life Insurance: 1.5X loan disbursed or maximum Rs 75,000 Hospitalisation: Rs 300/day or maximum of Rs 1,500. Livestock: Rs 50,000 and Enterprise Insurance: maximum of Rs 1 lakh	8 cashless in-house OPD and IPD floater of Rs 12,000	Rs 40,000 for health Outstanding loan write-off up to Rs 5 lakh + Rs 20,000 as assistance (in case of death of borrower), Rs 10,000-25,000 (in case of death of spouse), Rs 5,000-7,000 (in case of loss of asset)	Life and Asset - Rs 5 lakh, Health - Rs 1 lakh, Livestock – Rs 2 lakh, Bundled product - Rs 10 lakh Agriculture - Rs 2 lakh
Age group covered	18-70 years	18-70 years	18-55 years	No exclusion	No exclusion	18-60 years
Claim time	Mutual product - 5-8 days Other products - 25-45 days	60 days	Health and other general insurance - 30 days Life - 50 days	24 hours	45 days Post-Covid - 24 hours	75 days
Claim ratio	Varies at 90-95% for health and 85-90% for life	60% health and 50% life	Average claim ratio 60-70 %. For agriculture insurance, in a couple of instances it shot over 100%	OPD claim ratio - 45% IPD claim ratio – 19%	65% as medical expense reimbursement and 30% medical service and administration	Credit shield - above 95% Health - about 91%
Scale	84,000 members as on December 31, 2019	40,000 members as on December 31, 2019	NA	20,608 members in 2019	2.52 lakh clients at start of 2020	87.12 lakh members in 2019

4. International Experience of Increasing MI Coverage

In order to learn from international experience of regulations in microinsurance and best practices, the committee examined the regulatory framework, strategy and practices of five countries: the Philippines, China, South Africa, Nigeria and Ethiopia. It also examined data and experiences from the European Union, particularly France and Germany, which follow the highest prudential standards internationally.

The experiences have led the committee to the view that to increase microinsurance penetration in India, we need a set of enabling regulations to accompany legal provisions, developed in consultation with practitioners who are well-versed in this market segment. A draft enabling framework of regulatory provisions, encompassing the relevant aspects, is given in Annexure 3. These are indicative but not exhaustive. Detailed notes on the experiences of other countries are given in Annexure 6. This section describes in brief how regulation changes in the Philippines, China and South Africa have given an enormous boost to the microinsurance business in those countries.

The Philippines: Enabling regulations driving growth and penetration

Like India, the Philippines too has significant levels of poverty and a low-income population that had not had access to insurance. However, since 2006 the landscape for microinsurance has changed significantly, providing some important learnings[15]:

1. Favourable regulations, focused marketing, advocacy and appropriately designed products can effectively increase access to microinsurance for low-income communities.
2. MI-MBAs can leverage the close relationship between them and their clients to become formal providers and run this business successfully, generating surplus.
3. MI-MBAs have not only expanded the market but shown commercial insurers the potential for microinsurance. Commercial insurers now account for close to a 40 per cent share in the microinsurance market.

After the regulatory changes and focus on market development, the Philippines saw a consistent growth in lives covered under microinsurance reaching 45.13 million lives (41 per cent of the population) from 2.7 million lives in 2007--- a compounded annual growth rate (CAGR) of 26%. Key changes that were made to promote the growth and development of the microinsurance market in the Philippines are as follows:

[15] Based on several sources/documents including: (a) Dr Ana Gonzalez-Pelaez, CISL Fellow, *Mutual microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan*, University of Cambridge, Institute for Sustainability Leadership. (b) Martina Wiedmaier-Pfister and Hui Lin Chiew, *Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines* by Access to Insurance Initiative, (c) Antonis Malagardis (GIZ RFPI Asia), Michael J. McCord (MicroInsurance Center), Dante O. Portula (GIZ RFPI Asia), Martina Wiedmaier-Pfister (MicroInsurance Center), *Regulatory Impact Assessment: Microinsurance Philippines*, GIZ RFPI Asia, November 2015. (d) Microinsurance premiums, coverage expand in 2019 https://www.bworldonline.com/microinsurance-premiums-coverage-expand-in-2019/ (e) Philippines Insurance Commission website and (e) Discussion with representatives of RIMANSI and CARD MRI. See Annexure 6 for further details.

Regulatory changes to enable low-cost providers in the market: This included: (1) lower capital requirement for standalone MI-MBAs to just PHP 5 million or Rs 76 lakh, to be increased by 5 per cent of premiums per annum until a target of 12.5 per cent of minimum paid-up capital of a local insurer is reached or PHP 125 million or Rs 19 crore (2) simplified KYC requirements for low-risk customers (3) provisions for the establishment of MBAs as common bond associations, with a lower compliance regime than that applicable to commercial insurers (4) reduced fees, and (5) provisions for tax exemption on life policies.

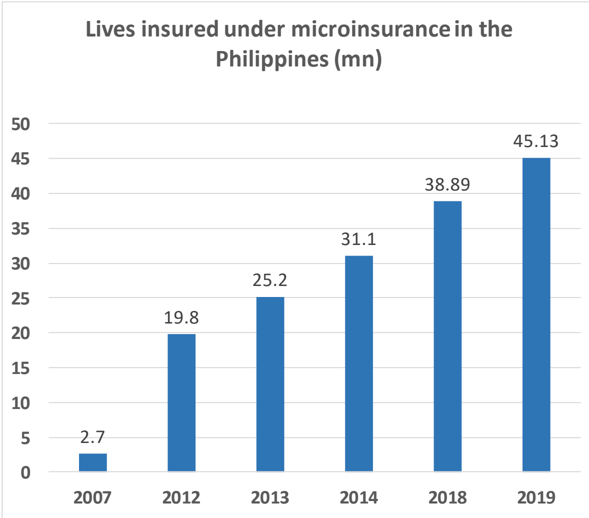
Supervisory changes: Besides regulation changes, the regulator also made adjustments to supervisory tools and techniques to enable faster product approval, introduced a dedicated offsite monitoring and supervision mechanism for microinsurance, created and trained staff for a separate microinsurance division.

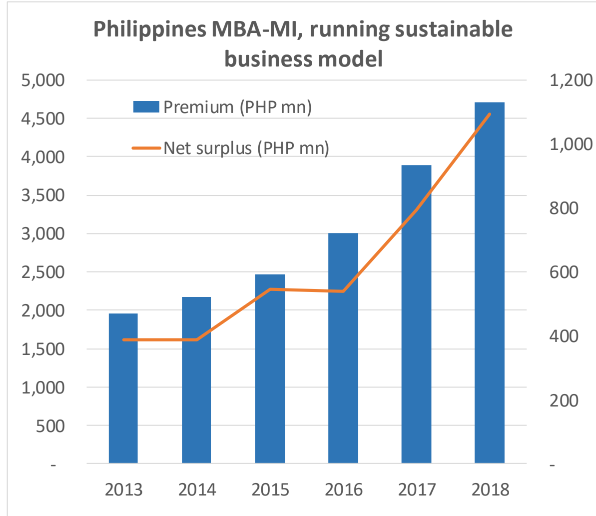
Four fundamental pillars: In addition to favourable regulations, the regulator and the industry worked together on research and development, promotion and helped in the formation of microinsurance mutual organisations. The four areas of focus to develop the market were: (1) meeting the market demand for products focused on the microinsurance segment (2) training professionals by leveraging the microfinance sector to fill the talent gap (3) social mission of social entrepreneurs – tapped leaders of microfinance to promote products (4) advocacy – focused marketing, standardised communication material to be used by various stakeholders. Importantly, the regulators worked alongside the insurance industry.

Study shows microinsurance touching lives of those that matter[16]: The microinsurance space has had a significant positive impact. Data shows that 35 per cent of members covered were below the poverty line, 75.9 per cent females were insured and that the sector also provided coverage to those that were above retirement age.

MI-MBA generating surplus: As per data from the Philippines Insurance Commission, the MI-MBA industry has been not only growing the microinsurance business but is doing so in a sustainable manner, generating a surplus. The surplus to premium income has been steady, ranging from 18-23 per cent as can be seen from the chart below.

[16] Social Performance Indicators for Microinsurance: a handbook for microinsurance practitioners, ADA, BMZ, BRS, GCA, GIZ and the Microinsurance Network, 2013





China: Internet giants use technology to deliver protection[17]

In October 2018, Ant Financial launched a mutual aid programme under the name of Xiang Hu Bao. In less than two years the program has acquired nearly 106 million participants. There are now multiple mutual aid programmes launched by internet companies, covering close to 200 million customers. These programmes are not regulated and are not required to meet capital requirements or other risk management rules that apply to traditional insurers.

Members under mutual aid programmes are not required to pay any premium upfront. They pay the amount if and when claims occur along with the 8 per cent management fees. In 2019, on an average, a member paid total dues of RMB 29 or Rs 312 towards claims made during the year, versus indicative maximum claim amount of RMB 188 or Rs 2,023 (For more details see Annexure 6). Claims are paid at fortnightly intervals. This is likely to be one reason for the rapid expansion of this model which now covers 14 per cent of China's population.

[17] Multiple newspaper articles and website including: (1) https://render.alipay.com, (2) https://www.businesswire.com/news/home/20200507005383/en/Chinas-Online-Mutual-Aid-Market-Expected-Triple. (3) https://medium.com/@elaine.tung/alipays-xianghubao-disruptive-p2p-in-china-476842c883f1. (4) https://technode.com/2020/02/03/chinese-mutual-aid-platforms-to-extend-coverage-to-coronavirus/. (5) China's new mutual aid platforms fill hole in health care coverage, https://asia.nikkei.com/Spotlight/Caixin/China-s-new-mutual-aid-platforms-fill-hole-in-health-care-coverage, (6) Chinese mutual aid platforms to extend coverage to coronavirus, https://technode.com/2020/02/03/chinese-mutual-aid-platforms-to-extend-coverage-to-coronavirus/.

As per a survey by Alipay: (1) The online mutual aid programs serve as a complement reducing out-of-pocket expenses accrued in the treatment of critical illnesses and (2) around 70 per cent of online mutual aid participants surveyed said they were not covered by commercial health insurance. This platform could thus evolve as a way to increase awareness about insurance and potential sourcing outlets for commercial and mutual insurance companies.

The total amount raised by Xiang Hu Bao since the plan was launched is RMB 6.6 billion or Rs 7,123 crore as of June 24, 2020. The plan has so far compensated 46,128 persons and their families[18].

South Africa: Cell structure sharing risk and profits

The cell captive is a uniquely South African construct that emerged in the early 1990s as a way for entrepreneurs or organisations with an insurance business concept to participate in the insurance market without obtaining an insurance licence of their own. The minimum capital requirement is R250,000 per cell or Rs 11 lakh. A study undertaken by the Microinsurance Network and Munich Re in 2014 found that the microinsurance coverage ratio in South Africa is 63.99 per cent[19]. There are two types of cell structures.

- A first-party cell structure is used when a cell owner wishes to insure its own operational risks. In this instance, the cell owner is the policy-holder and beneficiary under the insurance policy issued by the cell captive insurer. Claims under the policy are limited to funds available in the cell structure. For example, this can be done by companies who wish to insure their employees.
- Under a third-party cell structure, policies are issued to third parties, i.e., members of the public. The cell structure is established by means of a contractual arrangement and the assets of each cell structure are ring-fenced. However, claims made under the policies are not limited to funds available in the cell structure and the cell captive insurer is liable for those claims where funds under the cell structure are insufficient.

The advantage of this model is that participants with limited funds can join a cell structure to meet the insurance requirements of members they serve. This structure, however, can be more complicated than a SAMI. Regulators will thus need to formulate policies and processes to ensure transparency, accountability and governance for participating members and promoters of third-party cell structures. Further details of this model are given in Annexure 4.

[18] https://kr-asia.com/mutual-aid-plans-not-health-insurance-emerge-as-go-to-coverage-solution-in-china
[19] Study by Microinsurance Network and Munich Re Foundation
[https://microinsurancenetwork.org/sites/default/files/South%20Africa_Country%20Profile.pdf]

5. Recommendations

The current pandemic has raised several issues about public health, risk management and the need for insurance, especially microinsurance coverage for low-income families. Our citizens have tried to avail themselves of COVID-19-related health insurance, life, accident and other non-life insurance coverage to give themselves some measure of security during this uncertain time wrought by the pandemic. The committee has carefully examined the evidence at hand and is of the considered view that:

1. If 500 million low-and middle-income individuals and families are to obtain insurance, the market will have to be expanded urgently. This can be done by allowing the entry of new participants who work with, and have an understanding of, the low-income market.
2. The insurance sector was opened up to the private participants in the year 2000. While the market has expanded, there has been limited impact on the lives of those from low- and middle-income economic backgrounds. This is despite the best intentions of the regulator and the insurers.
3. Waiting any longer for the existing insurers to lead this expansion will amount to missing out on an opportunity and the need to cover the vast majority of our citizens, more than 90 per cent of whom are engaged in the informal economy and also constitute the low income segment of our population. There is a clear need for specialised microinsurance companies which will serve this section of our citizens. Such companies would have a culture that is suitable to their clients, including an agile response to their needs, developing products and services in a consultative, appropriate and affordable manner, profit-sharing with the insured customers and lean and low-cost operations. Those currently engaged in providing microinsurance to the low-income segment have proved that they are serious players, are committed and are financially viable, and are positioned to scale up. They need an enabling environment to grow, develop and serve low-income families. Their dedicated and timely services, even during the current COVID-19 pandemic, reveal that they are in for the long haul.
4. The minimum capital requirement of Rs 100 crore stipulated under the Insurance Act has acted as the biggest impediment to the expansion of the microinsurance market. While other changes in insurance regulation can undoubtedly be helpful, without the modification and substantial reduction of this requirement, it is not possible to expand this market. At the Reserve Bank of India, it was this recognition that led to a 60 per cent reduction in the minimum capital requirement for the establishment of small-finance banks and an 80 per cent reduction in the minimum capital requirement for the establishment of payments banks. After their licensing, these newer institutions, particularly small-finance banks, have contributed enormously towards an orderly expansion of banking services to low- and middle-income households living in the remotest parts of the country. There is every reason to suggest that the same would apply to microinsurance if capital requirement is reduced.

5. A careful review by the committee indicates that there are very few developed or developing countries that impose such a high requirement of capital on new entrants. This acts as a barrier to the entry of the small players. Further, despite far lower entry requirements, these countries have been able to develop very successful, viable, solvent and well-managed insurance systems. The European Union, for example, runs one of the most conservatively managed health insurance systems in the world and countries such as France, Germany, and Switzerland have been held up as models of strong health systems. Even in those markets the minimum capital requirement for all insurers (not just microinsurers) is between Rs 19 crore and Rs 27 crore, a level that is significantly lower than in India. Further, countries such as the Philippines and South Africa are models of how the power of insurance markets, with proper regulatory standards and oversight, can be used to serve the poor. These countries have reduced the minimum capital requirement for microinsurance companies and have consequently seen a substantial response in the growth of the microinsurance sector.

Table 6: Minimum Capital Requirements under Various Jurisdictions

Jurisdiction	Minimum Capital Requirements	Capital Requirements (In INR as on July 11, 2020)
The Philippines	MI-MBA - PHP 5 million New MBA – PHP 125 million Commercial insurers and commercial micro-insurers - PHP 1 billion	MI-MBA – Rs 76 lakh New MBA – Rs 19 crore Commercial insurers and commercial microinsurers – Rs 152 crore
South Africa	Microinsurance: R4 million or 15% of NWP	Rs 2 crore
Nigeria	Life Insurance: 8 billion Naira General Insurance: 10 billion Naira	Life Insurance: Rs 155 crore General Insurance: Rs 193 crore
Ethiopia	General Insurance: 5 million Birr Microinsurance: 2 million Birr	General Insurance: Rs 1 crore Microinsurance: Rs 42 lakh
Bangladesh	300 Million BDT	Rs 27 crore
European Union	Non-Life: USD 2.7 million Life: USD 3.9 million	Non-Life: Rs 20 crore Life: Rs 29 crore
Australia	Non-Life: USD 3.4 million Life: USD 6.8 million	Non-Life: Rs 25 crore Life: Rs 50 crore

6. The committee also noted that India follows the factor-based solvency regime though it is examining moving to a risk-based capital (RBC) approach.[20] Further, it was noted that the IRDAI has taken the following steps to move to a risk-based solvency regime:

- In 2011: A committee on a road map for RBC was constituted. The committee submitted its report in April 2014.
- In 2016: A committee on RBC and Market Consistent Valuation was constituted.

[20] Annexure 10 for more details on Solvency Regime

- A Steering Committee for implementation of RBC in the insurance sector has been set up.

European and Filipino regulators have already moved to the Solvency 2 regime. The committee had extensive discussions with both European and Filipino actuaries and microinsurance practitioners who strongly recommended the RBC approach.

Given the above background and after extensive review and consultation with both Indian and international organisations, experts, actuaries and the potential customers of microinsurance from cooperatives, mutuals and NGOs, we recommend the following:

1. Entry-level capital requirement for standalone microinsurance companies should be reduced from the current Rs 100 crore to Rs 20 crore maximum. Annexure 1 provides indicative figures of premium which can be written for a given amount of available solvency margin (ASM), based on the current Indian regulatory model for minimum capital requirements.

2. RBC approach should be adopted to enable the progressive growth of the microinsurance business while maintaining the highest prudential standards.

3. Microinsurance companies (cooperatives and mutuals as well) should be allowed to act as composite insurers to transact both life and non-life business through a single entity. However, the capital requirement for doing both types of business will have to be increased after assessing the size and nature of the business. Further, care should be taken to ensure that the microinsurance companies' portfolios include a balanced mix of life and non-life business.

4. Use of end-to-end digital technology for transparency, accountability and monitoring will be an essential part of how microinsurance companies will do their business. A common IT platform for all microinsurance companies can be developed on the lines of the IT platform in place for mutual funds. This will not only reduce transaction costs but will also bring greater transparency and regulatory oversight. Further details are given in Annexure 2.

5. Standalone microinsurance companies/cooperatives/mutuals will require reinsurance. The regulator can facilitate reinsurance of microinsurance through the existing licenced insurance/reinsurance companies.

6. Regulations for oversight should be developed with the highest prudential standards. These should be developed in consultation with those already undertaking microinsurance as intermediaries (cooperatives, mutuals and NGOs) as well as other stake-holders. In addition, microinsurance companies and organisations will also focus on developing self-regulatory mechanisms.

7. The Insurance Act, 1938 should be amended to bring the standalone microinsurance business under the purview of the statute. This will include defining microinsurance, microinsurers, reducing the capital requirement and/or giving IRDAI powers to decide on capital requirements for SAMI. This will

enable a reduction in the current Rs 100 crore minimum capital requirement for SAMI. As amendments may require time, the committee suggest a two-step alternative to move forward:

a) In the immediate term, the Central Government may be approached to issue rules under Section 24(2)(c) read with Section 14(2)(q) of IRDA Act, 1999 giving the IRDAI powers to put in place a regulatory framework for SAMI. We note that this approach was adopted by the Central Government to allow insurers in SEZs where there was no specific power with the IRDAI for regulating entities in SEZs.
b) It is suggested that an omnibus provision may be inserted in the Insurance Act, 1938 which will empower the IRDAI to frame regulations on matters relating to the standalone microinsurance business. Exercising this power to frame regulations, IRDAI can then specify requirements for the microinsurance business. The committee notes that a similar approach was adopted in the case of making the regulatory framework for foreign branches of reinsurers. It also notes that the power to decide capital requirement has been devolved to regulators such as the Reserve Bank of India for banks and the Securities and Exchange Board of India (SEBI) for mutual funds.

Suggested amendments to the Insurance Act 1938 and proposed framework for SAMIs are given in Annexure 3.

8. A captive cell model may be offered as a way for micro players to underwrite microinsurance businesses. As per this model, existing insurers and others can become cell owners by bringing in capital and can share the underwriting risk with SAMIs with a capital of no more than Rs 5 crore or such contribution as may be considered appropriate. For more details on this model see Annexure 4.

9. Appropriate supervisory structure may be developed by the IRDAI to fast-track product approvals, enable offsite supervision of SAMIs, undertake capacity-building of staff and develop a separate microinsurance division within IRDAI. A suggested framework for this is provided in Annexure 3.

10. IRDAI may establish a Microinsurance Development Fund to support and promote the growth of the microinsurance business across the country.[21] The fund could support human resource development, digital and financial literacy, IT infrastructure and product development, to mention a few.

In sum, the committee is of the view that the above recommendations be implemented at the earliest in order to increase the spread and outreach of microinsurance in India. This is especially urgent today given the current COVID-19 pandemic and the insecurity it has resulted in for India's citizens, and especially the vulnerable, working poor. By implementing changes to facilitate standalone microinsurance businesses with reduced capital requirement, over 500 million Indians will have the opportunity of obtaining financial protection and security, enabling them to emerge from poverty and to move towards self-reliance.

[21] National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) have set up such funds which have played an important role in the promotion of microfinance and financial inclusion. These funds could be raised from the insurance industry in the form of fees or cess as has been done by Telecom Regulatory Authority of India (TRAI) from mobile operators, and SEBI from the mutual fund industry. See Annexure 5 for further details.

Annexure 1: Capital Requirements Modelling

By S P Chakraborty
August 2020

In order to provide an initial feel on the extent of capital requirements, an illustrative analysis was carried out based on the summarized data (Premiums, Claims and mix of business) provided by an entity,VimoSEWA,which is currently distributing insurance products, mainly, amongst people of low-income groups. The calculation is entirely and solely based on the data provided and is intended to give a broad indication of minimum Available Solvency Margin (ASM) required to support a specific quantum of insurance premium. It is highlighted that the results are **indicative in nature**. Reference of relevant Regulations and Insurance Act:

1. IRDAI (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016.
2. IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016.
3. IRDAI (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016.
4. Section 64V of the Insurance Act, 1938.

Data:

1. **Premium Income (₹ Crore)**

Category	2017	2018	2019
Life	1.57	1.80	2.10
Non-Life	0.38	0.54	0.38
Total	**1.94**	**2.34**	**2.48**

2. **Mix of business – Life:**

Line of business	2017	2018	2019
Group - Pure Risk	50%	47%	44%
Individual Endowment	50%	53%	56%
Total Life	**100%**	**100%**	**100%**

3. **Mix of business – Non-Life:**

Line of business	2017	2018	2019
Health	99.7%	99.8%	99.7%
Fire	0.3%	0.2%	0.3%
Total Non-Life	**100%**	**100%**	**100%**

Results:

1. **Required Solvency Margin (RSM)** (**₹ Crore**)

   Calculated as per the current regulations (Minimum value of ₹50 crore not considered) based on the summarized data provided:

Category	31.12.2017	31.12.2018	31.12.2019
Life	0.50	0.55	0.97
Non-Life	0.15	0.11	0.09
Total RSM	**0.65**	**0.67**	**1.06**

2. **Maximum Premium that can be written for a given level of Available Solvency Margin:**

Indicative figures of ASM based on the calculated RSM (Required Solvency Margin) based on the above data:

For a Life Insurer:

ASM (₹ Crore)	Premium (₹ Crore)
5	7.22
10	14.45
20	28.90

For a Non-Life insurer:

ASM (₹ Crore)	Premium (₹ Crore)
5	8.25
10	16.49
20	32.98

The above premium numbers were calculated separately in respect of Life and Non-Life business for a given ASM.

In case of a composite insurer i.e. a single insurer which can sell both life and non-life products, maximum premium that can be written for a given level of ASM will vary depending on the proportion of business in life and non-life segment. However, current framework does not permit such composite insurers.

Note: -

1. **The above figures for maximum premium that can be written for a given level of ASM are purely indicative**. Actual ASM and premium writing capacity for an entity could **vary significantly** based on the nature and mix of business, actual experience on claims, expenses and other parameters along with the basis of reserving and other relevant factors.
2. As per the current Regulations, ASM is defined as Admissible Assets Less Liabilities and RSM is as defined under the relevant Regulations read with Insurance Act, 1938.
3. Suitable actuarial assumptions were made to derive reserves from the gross premium numbers and actual reserves numbers may vary based on the assumptions and actual policy level data.
4. No credit for reinsurance has been assumed.

Annexure 2: Note on Technology platform -- Mutual Fund Industry[22]

By Ajit Dayal
July 2020

A solution for offering microinsurance to low income families and individuals - who are dispersed across many regions in India - can be built on the back of two technology-led innovations which are part of the ambitious Digital India objective of the Government of India:

1) E-KYC: *an electronic process of Know Your Customer,* and
2) Online / Mobile Banking and the Jan Dhan accounts: *ability to send or receive money without visiting a physical branch.*

The rapid increase in the number of Jan Dhan accounts since its launch on August 15, 2014 has resulted in 361 million accounts as of July 2019 with a total balance of Rs.1000 Billion as of July 2019. Significantly, 53% of these accounts have been opened by women. This is important because women tend to be more concerned about the financial future and security of the family.

Table 1: Architecture for money movements - Jan Dhan accounts[23]

Bank Type	Number of Accounts				Balance in Accounts (Rs. in billions)	Number of RuPay Cards
	Rural	**Urban**	**Total**	**Female**		
Public Sector Banks	155	131	287	151 (53%)	₹793 billion (US$11 billion)	235
Regional Rural Banks	52	10	62	34 (56%)	₹181 billion (US$2.5 billion)	38
Private Banks	6.9	5.6	13	6.7 (54%)	₹30 billion (US$420 million)	12
Total	**214**	**147**	**361**	**192 (53%)**	**₹1,005 billion (US$14 billion)**	**285**

In addition to these two pillars, the microinsurance industry and IRDAI, through the life and general insurance councils, could leverage on the experience of other technology platforms that have been built for specific industries using the foundation of e-KYC and Jan Dhan bank accounts. MF UTILS, built for the mutual fund industry, is one such example.

A technology platform built for Microinsurance which could be used by millions of individuals across the country will need a technology that has the following characteristics:

1) **Robust:** it will need to handle high volumes of transactions concurrently,
2) **Reliable:** the system will need to have minimum downtime and also work in areas of the country which may have weak internet or phone connectivity,
3) **Cost:** with premium amounts that may be in the Rs 50 to Rs 300 range, the cost of any transaction (whether premium being paid or a claim being honoured) needs to be low

Keeping this in mind, the Committee invited

[22] By Mr. Ajit Dayal, Founder Quantum Mutual Fund
[23] Wikipedia, www.pmjdy.gov.in

(i) Mr. V. Ramesh, Managing Director & CEO of MF Utilities India Private Limited, and
(ii) Mr. Jimmy Patel, CEO of Quantum Asset Management Company Limited / Quantum Mutual Fund

They were asked to explain the history and working of MF Utilities and the user experience of the mutual fund industry. The meeting was held via a WebEx call hosted by IRDAI on July 23, 2020 at 2.30 pm.

MF UTILS went live on January 15, 2015.

Background: Corporate Overview[24]

The fast-growing Indian economy offers immense potential for the Mutual Fund Industry. The experience of the developed world and other emerging markets has shown that the share of Mutual Fund investments to GDP / Savings has grown significantly over the years. This has been possible through a combination of various factors that include investor awareness, product innovation, robustness of distribution and quality of market infrastructure.

India can be no different, if the above elements come together and a conducive environment is created. For the Government of India, financial inclusion is an objective of high priority. Therefore, market players should endeavor to help in achieving this national objective.

Keeping the above in view and looking at the current infrastructure with specific reference to Mutual Funds, Association of Mutual Funds in India (AMFI) has been taking various initiatives from time to time. One of the most ambitious initiatives has been to create an enabling infrastructure for Mutual Funds that is future ready, scalable, cost efficient, provides national & global reach and provides benefits to various stakeholders.

MF Utilities India Pvt Ltd (MFUI) is the Mutual Fund Industry's "Shared Services" initiative formed by the Asset Management Companies (AMCs) of SEBI registered Mutual Funds under the aegis of AMFI, with an objective of investor empowerment, distributor / RIA convenience, consolidation of information to various agencies, operational efficiency for RTAs and benefits to AMCs, thereby benefitting all stakeholders in the industry. The prime objective of MFUI is to consolidate all "Transaction Requests" received by the industry from multiple sources and transmit it to the "Fulfiller" of the request (Transfer Agent), thereby bringing in operational efficiency by reducing multiplicity and duplication of activities. Towards achieving this objective, MFUI has developed the Portal, MF Utility (MFU), which operates as a "Transaction Aggregating System" for transactions in Mutual Funds.

MF Utility (MFU) is an innovative initiative of the Indian Mutual Fund Industry that brings significant benefits to all stakeholders, i.e. Investors, Distributors, RIAs and Asset Management Companies, by leveraging technology, MFU will bring many conveniences to the investors and distributors /RIAs and allow Mutual Funds to significantly enhance their reach and presence in the country to further the goals

[24] source: MFUI website

of retail penetration. MFU will also help remove duplicities in the system and reduce the inherent risks in the industry.

MFUI is equally owned by the AMCs of SEBI registered Mutual Funds in India.

	Table: Mutual Fund Utlity, MFUTILS, a tech solution from the mutual fund industry	
1	Launched in	January 15, 2015
2	Ownership	all the mutual fund houses
3	Structure	Private company, but non-profit oriented, like a cooperative
4	Transactions	2 lakh per month, Rs 2 lakh crore per month of which Rs 300 cr per month is monthly SIP,
5	What does it do:	Buy/Sell, bank money payments, KYC process
6	Products	all products of all Mutul Fund houses are available, equal visibility to all
7	Ratings/Rankings	No evaluation data - all fund houses are equal, all given the same visibility and space: pure transaction engine
8	Cost of transaction:	Approx Rs 50 / transaction on avg; there is a sliding scale tariff depending on volume
9	Can cost be lowered?	If all Mutual fund transactions were on MFUTIL, then cost could be Rs 10/transaction
10	Technology cost:	Software Rs 3.5 crore; Hardware: Rs 4 crore; Total Rs 8 crore;
11	Technology team	3 full time staff + 10 member team with outsourced service provider
12	Upgrades	Happen on the margin, very robust system, transaction oriented, not the best User Interface

The MF Util platform (www.MFUIndia.com) is used by:

1) Individuals in smaller towns, who don't have access to many mutual fund distributors,
2) Individuals in larger cities or smaller town who prefer buying "direct" and save the transaction cost of investing through a distributor,
3) Corporates who wish to invest "direct" and save the transaction cost of investing through a distributor.

About 40% of the Rs 15,000 crore / Rs 20,000 crore (150bn / 200bn) transactions per day are "direct" investors.

Total accounts opened are 40 lakh (4 million) which includes investors and distributors. These distributors, in turn, can open accounts for their clients.

The technology that is used requires the user to have a SMS enabled mobile phone for Yes/No transaction confirmations.

In 2016, there was a 30-minute downtime (0.001% of the total time the system has been in operation). This was a result of both the servers failing simultaneously. The servers are located in Chennai and Hyderabad.

Initially, when the platform was launched, the costs were as high as Rs.1,500 per transaction as volumes were low. Now, it is Rs 50 per transaction and there is scope to bring this down to Rs.10 per transaction with higher volumes. This includes the blended cost of account opening costs, external KYC costs, and external banking costs.

The power of MF UTIL is that any customer with one click can move money from Fund House A to Fund House B – so the large fund houses are not keen to promote MF UTIL and sign on to this platform because they wish to capture the clients on their own, individual platforms. This open-platform is now being built and offered by "discount online brokerages" – even though MF UTIL was the first to build it.

MF UTIL is purely a transactional engine. However, it can be modified at little cost:

1) To add descriptions of every product, it has fact sheets on it now but no analysis or comparative tools,
2) To allow a distributor who has signed on to, in turn, have a series of customers under their folio number,
3) A better user-interface – keep in mind that the large fund houses do not wish to see these improvements.

The relevance of MF UTIL to a proposed technology engine for microinsurance is summarized below.

	MF UTIL	Microinsurance
Cost	Rs 8 crore	Maybe the same if build today?
Ownership: who paid?	The mutual fund houses, like a cooperative own MF UTIL. They contributed to the capital, equally.	Initial capital by the life and general insurance councils, in its role as the representative bodies of the insurance industry. The operating costs would be borne by the users, thus making it a self-funding exercise. OR Let MF UTIL, or any other private platform build it and microinsurance pay a variable, per transaction fee.
Users	40 Lakhs, mostly outside urban India	Will be focused in rural areas but also cover urban low-income areas
Technology connectivity needed	Basic, needs SMS facility for confirmation Yes/No	Lowest possible, given rural India reach and lack of smart phones in rural India
KYC facility	Yes, built	Needed
Link to bank account	Yes, built	Needed
Costs	Rs 50 / transaction, includes account opening + banking costs	Needs to be closer to Rs 5 / transaction if monthly premiums are Rs 50. Possible to bifurcate into: 1) Account opening cost, which can be partially paid by micro insurer? 2) Variable transaction cost, paid by customer?
Oversight	Not used by SEBI, but could be.[25]	Through a Governing Body of the Councils and the industry players

In summary, microinsurance will need a robust, low cost technology to succeed.

Technology can be used to further the cause of low-cost delivery of microinsurance and, simultaneously, be used as a tool for real-time oversight through the industry allowing the microinsurance industry to grow seamlessly in the future due to a robust and inexpensive technology backbone where new entrants can adopt a “plug and play” model with integrated oversight of the activities of any new entrant.

[25] The one software can have a key for the customer, one key for SAMI, and one key with the regulator. Any change can be made by regulator only.

Annexure 3: Outline of Regulations for Stand Alone Microinsurance Company and Suggested Amendments to Insurance Act, 1938

Biswa Bandhu Mohanty
Aleem Afaque
July 2020

1. **Objectiv**e: Purpose and Scope
2. **Definition:** a) Microinsurance, (b) Stand- alone Insurance company (c) Re insurance (d) mutual insurance (e) Social Insurance (f) insurance inclusion(g) Microinsurance intermediaries, (h) Business Correspondents (i) Service Providers (j) Financial Institutions.
3. **Labelling** and use of microinsurance business
4. **Licensing -related Provisions**
   4.1 Requirements for obtaining microinsurance business license-Eligibility &Documents
   4.2 Pre-Application Phase /Application Phase-Business Plan-Processing
   4.3 Issue of License- Essential Features of license
   4.4 Authorization of Application
   4.5 Commencement Phase -Conditions-
   4.6 After receipt of license-Compliance-Waiting Period of every stage.
   4.7 Treatment of Foreign National
   4.8 Display of license and validity
   4.9 Renewal license Procedure-Cooling Off Period
   4.10 Refusal of license
5. **Prudential Requirements**;
   5.1 Prudential Standards and requirements
   5.2 Capital – Minimum Capital Requirement (Risk-Based Approach or Proportionate Capital)
   5.3 Solvency-Solvency Margin
   5.4 Liquidity Status
   5.5 Investments – Scope – Responsible investment
   5.6 Reinsurance
   5.7 Actuarial Valuation-Pricing
   5.8 Risk Management- Various Risks -identification and mitigation mechanism
   5.9 Disclosure and Transparency- Submission of Information
   5.10 KYC requirements

6. **Products Development and Management:**
   6.1 Various Microinsurance Products- Insurers
   6.2 General Insurance – Various categories of Products
   6.3 Life Insurance- Various types of Product
   6.4 Bundling of Products
   6.5 Group Insurance
   6.6 Social Insurance Schemes
   6.7 Catastrophes (super cyclone, etc.) / Pandemic (e.g. Covid 19)

- 6.8 Product Approval Process –Product and Process Design-Simplified Policy Documents
- 6.9 Review and Refinement of Products – Procedure
- 6.10 Pricing -Premium Rates for various Products-Broad Principles of determination
- 6.11 Claims Management -Settlement of Claims

7. Market Conduct and Distribution;

- 7.1 Market Assessment -Market Survey -Demand Assessment
- 7.2 Intermediaries – Agents for microinsurance-Distribution Channels
- 7.3 Eligibility of the agents
- 7.4 Contracts _Coverage -Period, Role expectations from the agents/intermediaries
- 7.5 Commissions /Incentives
- 7.6 Dealing with Community- Based Organizations (e.g. Societies, Mutual, Associations)
- 7.7 Accountability of Market Conduct of Microinsurance Agents-Code of Conduct
- 7.8 Advertisement and Sales Promotion- best Practices of Sales
- 7.9 Microinsurance Pilots- Conditionalities.
- 7.10 Sand Boxes-Innovation requirement
- 7.11 Mainstreaming informal Insurance industry
- 7.12 Tie ups and Collaborations

8. Corporate Governance

- 8.1 Governance System/Policy of the Company- Vision. Mission, functions and Values
- 8.2 Board of Directors -Fit and Proper Criteria-
- 8.3 Committees – Audit, Risk Management, Corporate Social Responsibility (CSR),
- 8.4 Share Holders -Powers
- 8.5 CEO and Senior Management (Key Officers)
- 8.6 Compliance to the Company Law/ Regulatory Authorities
- 8.7 Integrity, Declarations, Confidentiality and Accountability
- 8.8 Expenses on Management

9. Customer Protection and Empowerment

- 9.1 Protection of Policy Holders (cf UN Guidelines for Consumer Protection 2016)
- 9.2 Responsible Business Conduct by the Company and its agents for sale of product that are suitable to consumers' needs and means-Fair treatment.
- 9.3 Feed Back mechanism- Whistle-blowers' information
- 9.4 Grievance Redressal Mechanism
- 9.5 Dispute Resolutions
- 9.6 Power to issue clarification and remove difficulties

10. Digital Insurance Inclusion- Scope and Safeguards:

- 10.1 Digital/Electronic means of doing business-Internet, Mobile/Smart phone& electronic media
- 10.2 Data generation /MIS - Data integrity, safety and Privacy
- 10.3 Digital Financial Inclusion-Corporate Digital Responsibility (CDR)
- 10.4 IT Safeguards-System audit.
- 10.5 Technology Adoption in product, promotion and planning process

11. Supervision, audit and Monitoring:

- 11.1 Supervisory Authority – Delegated Supervision, if any

11.2 Regulator's /Supervisor's right to access to records and information
11.3 Risk-Based Supervision- Offsite Surveillance and onsite inspection
11.4 Audit-Risk-based audit, internal and external audit -
11.5 Internalization of Inspection and audit findings-Compliance mechanism
11.6 Application of Technology in inspection and audit- Sup Tech, Reg Tech
11.7 Self- Regulation- Self Regulatory Authority (SRO), if any
11.8 Monitoring and evaluation- Impact assessment
11.9 Trigger Points for regulatory/Supervisory, Action/Prompt Corrective Action (PCA)
11.10 Supervision fees

12. Compliance to Other Laws

12.1 Anti-money laundering /CFT provisions of the relevant Act
12.2 Reporting to Financial Intelligence Unit (FIU)
12.3 Compliance to Company Laws /Ministry of Corporate Affairs, Government of India
12.4 Compliance to Income Tax/Provident Fund /Pension/ Financial Authorities
12.5 Cyber Crime Laws
12.6 CSR Laws

13. Bench- Marking-Assessment under Prudential Rating and Social Performance Rating

13.1 Rating Under CAMELS (Capital, Asset Quality, Management, Earning, Liquidity, System) Besides 3 parameters (a) Compliance, (b) Outreach and (d) Sustainability can also be added.
13.2 Social Performance Rating

14. Capacity Building:

14.1 Capacity Building of all stake holders -Internal staff (insurer, delivery channel) & Customers
14.2 Mandatory Training – onsite and online training -Certification Courses
14.3 Capacity building of inspecting officers and auditors
14.4 Financial/insurance Literacy campaign-awareness measures
14.5 Knowledge Management and Artificial Intelligence.

15. Prohibitions, Violations and Penalty Provisions

15.1 Non -Compliance -Fines /Penalties in case of violations

16. Exit /Supersession/Cancellation

16.1 Supersession and Cancellation
16.2 Merger and Acquisition
16.3 Liquidation and Winding up
16.4 Repeal and Rectifications
16.5 Transition Arrangements

17. Financial Management and Accounting

17.1 Statutory Returns
17.2 Accounting Practice

18. Interpretation

19. Effective Date

Suggested Amendments to Insurance Act, 1938

1. Definition of “microinsurance business” and “microinsurer” may be inserted in Insurance Act, 1938

‘‘microinsurance business’’ *means insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune—*

(a) in the case of life insurance business, in respect of which the aggregate value of the insurance obligations relating to each life insured under an insurance policy does not exceed the maximum amounts specified by the Authority; and

(b) in the case of general insurance business, in respect of which the aggregate value of the insurance obligations under an insurance policy does not exceed the maximum amounts specified by the Authority; and

(c) in the case of health insurance business, in respect of which the aggregate value of the insurance obligations under an insurance policy does not exceed the maximum amounts specified by the Authority;

‘‘microinsurer’’ *means an insurer licensed to conduct only microinsurance business;*

2. It is suggested that after section 64VC of the Insurance Act, 1938 a new part III may be inserted for MICROINSURANCE

“Part III

*66. **Requirement for microinsurance business**— No person shall engage in the microinsurance business unless it possesses all the requirements of capital, form of business and other conditions as may be specified by Regulation made by the Authority and unless it possesses the certificate of registration issued by the Authority.*

*67. **Power of the Authority to apply provisions of this Act to Microinsurer**—The Authority may, by notification, direct that any of the provisions of this Act, —*

> *(a) shall not apply to microinsurer carrying on the microinsurance business; or*
>
> *(b) shall apply to any microinsurer carrying on the microinsurance business only with such exceptions, modifications and adaptations as may be specified in the notification.”*

3. In subsection 2 of 114A of the Insurance Act, 1938, new clause (zad) may be inserted after clause (zac):

(zad) the matters relating to microinsurance business under section 66;

Annexure 4: Hub and Spoke Model

By R K Sharma
July 2020

The committee examined the Hub and Spoke model for Standalone Microinsurance Company (SAMI). The model is based on cooperative mechanism between SAMI and direct insurer(s) and reinsurer(s). The model aims at reduction of anti-selection risk and profit sharing will support better coordination.

Inspiration may be drawn from the South African third-party cell captive insurance model where the insurance entities operate as cells and are attached to respective insurers. It is worthy to note that the microinsurance coverage ratio of South Africa stands at 63.99% (2014 study by microinsurancenetwork.org and Munich Re Foundation). Hence it may be safely concluded that the model may result in better onboarding and claim processes.

The details of the wheel and spoke model are as follows:

- **Form**: The SAMI Company can be formed in the form of Company under Section 8 or a cooperative society. The SAMI will have authority to underwrite and distribute microinsurance products. Out of the premium underwritten, a part of the risk shall be carried by SAMI and remaining part which is beyond its retention capacity shall be transferred to insurer or reinsurer in form of co-insurance or reinsurance as the case may be. It can operate in following ways:
    - As captive cell of one insurer: The SAMI Company may be attached to one insurer and transact insurance business retaining a part of risk to itself and transferring the rest to the insurer in the agreed ratio.
    - As independent entity: The SAMI Company may have option to attach itself to more than one insurer/reinsurer and transact the insurance business in an agreed arrangement of risk and profit sharing.
- **Types of business**: The said entity may be allowed to transact life, non-life or health businesses either as a separate line of business or in any combination of the same as allowed under the extant provisions of the law.
- **Capital Requirements**: The minimum capital requirement of the said entity may be as prescribed from time to time.
- **Coinsurance and Reinsurance arrangements**: The entity may be allowed to undertake risks corresponding to its capital and to cede mandatorily the excess business to any direct insurer(s) or reinsurer(s). The entity shall have freedom either to transfer the entire risk or part of the risk to one or more insurers. However, where entity feels so, it may attach to one insurer and can transact the business of microinsurance on its behalf.

International Perspective

1. Microinsurance in South Africa – Third Party Cell Captive Model

The cell captive is a uniquely South African construct that emerged in the early 1990s as a way for entrepreneurs or organisations with an insurance business concept to participate in the insurance market without obtaining an insurance license of their own.

Under a cell captive arrangement, a cell captive account is created on the books of a licensed cell captive insurer (the promoter) and a cell owner buys a special class of shares in the cell captive insurer to capitalise that cell. By virtue of such ownership and subject to the conditions agreed in the shareholder participation agreement, the cell owner can draw dividends on the proceeds of the cell, obtain underwriting from the cell captive insurer and benefit from a number of other services provided by the promoter. The cell owner can also act as binder holder to the cell captive insurer. While first-party cells essentially self-insure, third-party cells sell insurance to external businesses or individuals.

The Insurance Act defines a cell structure, applicable to both first-party and third-party cell structures, as follows:

“cell structure” means an arrangement under which a person (cell owner) –

a) holds an equity participation in a specific class or type of shares of an insurer, which equity participation is administered and accounted for separately from other classes or types of shares

b) is entitled to share in the profits and liable for a share of the losses as a result of the equity participation referred to in paragraph (a), linked to profits or losses generated by the insurance business referred to in paragraph (c)

c) places or insures insurance business with the insurer referred to in paragraph (a), which business is contractually ring-fenced from the other insurance business of that insurer for as long as the insurer is not in winding up”

The cell structure is established by means of a contractual arrangement and the assets of each cell structure are contractually ringfenced.

The Minimum capital requirement is R250k per cell.

First-party versus third-party cell structures.

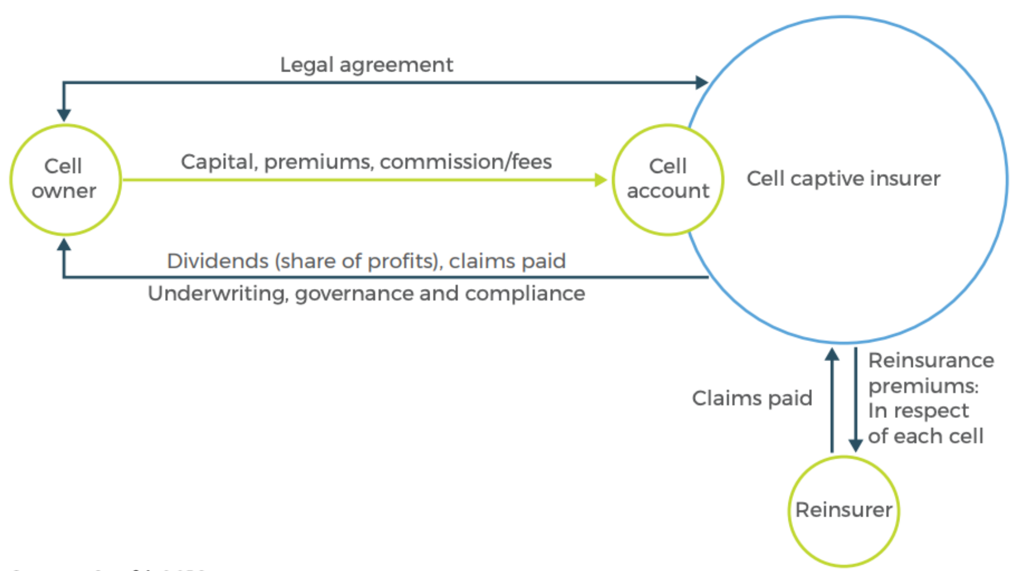
There are two types of cell structures.

A first-party cell structure is used where a cell owner wishes to insure its own operational risks. In this instance, the cell owner is the policyholder and beneficiary under the insurance policy issued by the cell captive insurer. Claims under the policy are limited to funds available in the cell structure.

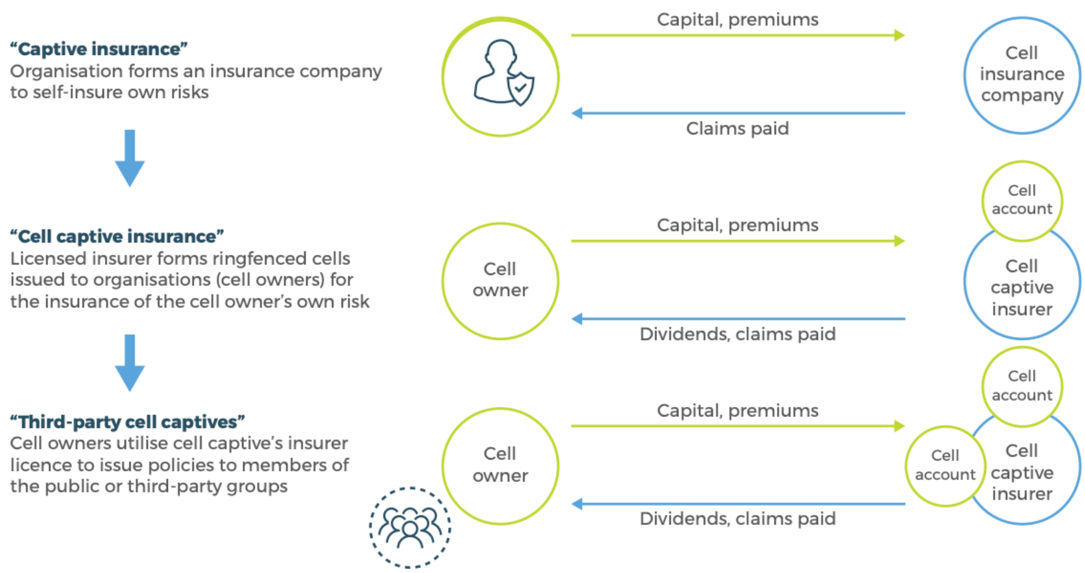
Under a third-party cell structure, policies are issued to third parties, i.e. members of the public. Claims made under the policies are not limited to funds available in the cell structure and the cell captive insurer is liable for those claims where funds under the cell structure are insufficient.

The cell captive structure holds a number of benefits from the cell owner's perspective.

- It is an entry route into the insurance market that provides for direct control of the business and participation in the economic benefits of insurance, at lower cost and with fewer compliance hurdles than a full insurance license.
- The cell owner also has the autonomy to tailor the product offering to their vision and/or customer needs (as opposed to a pure distribution relationship), as well as the ability to innovate in a nimble structure that sits outside of the corporate culture and legacy systems of "traditional" corporate insurers.



Source: Cenfri, 2018



2. Microinsurance in Philippines

Microinsurance is done by following entities:

A. Microinsurance Commercial
B. Microinsurance MBA

A. Microinsurance Commercial

The microinsurance commercials are registered microinsurance entities with minimum capital requirement of PHP 1Billion. These entities offer both life and non-life products. These entities collect premium on daily/weekly/monthly to annually basis.

B. Microinsurance MBA

A microinsurance MBA is a registered entity offering microinsurance in life segment only. These MBAs have PHP 5 Million as minimum capital requirements. These entities collect premium on daily/weekly/monthly to annually basis. These are exempt from taxation also.

Difference between Regular Commercial Insurers, Microinsurance Commercials and Microinsurance NBA:

Particulars	Regular Commercial Microinsurer	Microinsurance Commercials	Microinsurance MBAs
Insurance Commission register	Yes	Yes	Yes
Minimum Capital Requirements	PHP 1 Billion	PHP 1 Billion	PHP 5 Million
Supervisory fees	Yes	Reduced fees	Reduced fees

Taxation (Life)	2%	2%	Exempt
Taxation (Non-Life)	26.5%	26.5%	Not Applicable
Product scope	Life/Non-Life	Life/Non-Life	Life
Max Premium	None	7.5% daily wage benchmark	7.5% daily wage benchmark
Max Coverage	None	1000 times daily wage benchmark	1000 times daily wage benchmark
Policy contracts	No requirements	Simple to understand	Simple to understand
Product bundling subject to IC Approval	Yes	Yes	Yes
Premium Collection	Monthly to Annually	Plus daily/weekly	Plus daily/weekly
Claims settlement	Within 60 days	Within 10 days	Within 10 days

Source: Insurance Commission, Philippines

3. Microinsurance in Nigeria

Any applicant who wishes to operate as a Microinsurer in Nigeria must be a Limited Liability Company duly registered by Corporate Affairs Commission, Nigeria. A Microinsurer shall maintain with the Central Bank of Nigeria a statutory deposit of 10% of the Minimum Capital Requirement.

The microinsurance market structure in Nigeria is carried on by the following three types of microinsurance underwriters:

a) Unit Microinsurer
The Company's Minimum Capital Base is N40 million (General: N2S million & Life: N15 million). It is to operate only in anyone (1) location within a local community and the Company shall prove to the Commission through their business plan that they are going to access the low-income earners spread across the location within a reasonable time frame. The Commission shall grant a state microinsurer license to a unit microinsurer upon application following 36 months of successful business operation and approval by the Commission.

b) State Microinsurer
The Company's Minimum Capital Base is NI00 million (General: N60 million & Life: N40 million). It is to operate only in anyone (1) State of the federation (for this purpose Abuja is regarded as a State) with at least 3 branches or office locations, each in a different Local Government Area. The Company shall prove to the Commission through their business plan that they are going to access the low-income earners spread across the state within a reasonable time frame. The Commission shall grant a national microinsurer license to a state microinsurer upon application following 60 months of successful business operation and approval by the Commission.

c) National Microinsurer
The Company Minimum Capital Base is N600 million (General: N400 million & Life: N200 million). Its operation is nationwide with presence in at least 6 states within 3 geopolitical zones of the

federation. The Company shall prove to the Commission through their business plan that they are going to access the low-income earners spread across the country within a reasonable time frame. Registered Insurance shall be granted national microinsurance license upon application.

Microinsurance distribution channels:

i. Brokers/Loss adjusters
ii. Microinsurance agents:
   a. Individual agents
   b. Corporate/Referral Agents: Corporate Agents, Cooperative Society, Mutual Benefits Associations, Trade Organization, Health Maintenance Organization, Faith Based Organizations, Postal Agents, Non-Governmental Organizations, Esusu/ Adashi Group, Age Grade Group, Telecommunications, Mobile payment system, Any other registered Associations.

4. Microinsurance in Ethiopia

Ethiopia had passed a comprehensive micro finance Proclamations (Law) in 2009. The MFIs were mandated to provide credit, deposit and insurance services. MFIs, especially larger ones have been operationalizing their own microinsurance schemes, by virtue of the powers vested with them in this regard (vide para 4 (20 (d) of the Proclamation). MFIs and SACCOS were major purveyors of microinsurance in the country. Some of the Insurance Companies had implemented donor sponsored microinsurance programmes/pilots. National Bank of Ethiopia (NBE), the Central Bank of the country is the regulator and supervisor of banking, micro finance and insurance (including microinsurance) sectors.

5. Microinsurance in Peru

Peru introduced comprehensive microinsurance regulations in 2007 for the first time. It introduced a new distribution channel called as microinsurance marketers in addition to existing channels. There are three types of distribution channels, which are as following:

- **Bancassurance** (Prior to 2007): includes banks, MFIs, non-banking agents (NBAs)
- **Microinsurance marketers** (2007 to 2009): individuals such as sales clerks, MFIs, alternative distribution channels (ADS: includes include: Cash retailers (such as pharmacies and supermarkets), credit-based retailers, utility companies, associations and boards of rural irrigation, providers of natural gas for vehicles, support funds for public servants, municipalities, remittance companies, providers of home and business security services)

Mass Marketers (2009 onwards): Existing microinsurance marketers, insurance brokers, bancassurance marketers and insurance promoters

Annexure 5: A concept Paper on Microinsurance Development Fund (MIDF) in IRDAI

Biswa Bandhu Mohanty
July 2020

1. PRELUDE

1.1 Microinsurance has immense potential for growth and development in India in the context of large low-income people and low insurance inclusion in the country. However, it is in nascent stage notwithstanding early formulation of regulatory framework by IRDAI for microinsurance well ahead of other countries. At this juncture, the sector needs nurturing and nourishing through developmental interventions, besides enabling policy environment and regulatory architecture.

1.2 With a view to exploring various possibilities of orderly growth and development of microinsurance, IRDAI had constituted a Committee in April 2019 to look into various issues of microinsurance. The Committee had given a series of recommendations, covering development of products, pricing, processes, technology, distribution, legal framework, regulation, etc. The Committee had inter alia recommended for further examination of setting up of Stand-alone Microinsurance Company, for furthering microinsurance penetration.

1.3 In the light of all relevant factors, IRDAI has accordingly constituted another Expert Committee on Stand Alone Microinsurance (SAMI) in February 2020 to assess desirability and feasibility of such Companies and also to examine other related aspects like capital, solvency, governance, legal and regulatory aspects, operational issues, etc. The Committee on SAMI while discussing all relevant issues recognized the potential of the sector and working of different institutions in microinsurance space. It also identified various limitations (financial and non- financial) of the prevailing institutions, in the supply chain, capital shortage, lack of human and institutional capacity at meso and micro levels and above all, lack of adequate developmental efforts at various levels. In this back drop, a proposal for setting up of Microinsurance Development Fund is being suggested. The purpose, modalities, coverage, operational framework and possible outcomes of this Fund are outlined in the following paragraphs.

2. RATIONALE OF MICROINSURANCE DEVELOPMENT FUND

2.1 Development is necessary adjunct to regulation. More so, an emerging sector like microinsurance needs developmental assistance, hand holding and all-round support for orderly growth, transformation and graduation. A development Fund envisaged will facilitate the process.

2.2 In the financial sector, several such dedicated funds have been established by DFIs like NABARD (National Bank for Agriculture and Rural development) and SIDBI (Small Industries Development Bank of India) for various purposes including micro finance /financial inclusion. NABARD has several funds e.g. Financial Inclusion Fund, Financial Inclusion Technology Fund, Cooperative Development Fund, Tribal Development Fund, Farm Sector Promotion Fund, Watershed Development Fund, Off farm Sector Fund, Producers' Organizations Development and Upliftment Fund, Rural Infrastructure Development Fund, Climate Change Fund, Food Processing Development Fund, Warehouse Infrastructure Fund, Diary Processing and Infrastructure Development Fund, Long Term Irrigation Fund, etc. Some of the Funds like National Rural Credit (Long Term Fund), National Rural Credit (Stabilization) Fund and Research and Development Fund, which were already existing in RBI were transferred to NABARD with its formation in 1982. All other funds were created/augmented during the last 39 years of its existence through various means – Government of India budgetary support, Contribution of RBI/ Commercial Banks, donors' support, interest accrual and above all, contribution of NABARD from out of its operative surplus from year to year. While some of the Funds are credit-related, others are promotion and development related. NABARD combines 3 functions - financial, developmental and supervisory functions relating to rural and agricultural sector & rural finance institutions (RFIs).

2.3 SIDBI has set up Credit Guarantee Fund, India MF Equity Fund, India Aspiration Fund, SMILE, RIDF, etc. These Funds were created/augmented by GOI contributions, donors' assistance and SIDBI's own contributions. Micro Finance Development and Equity Fund (MFDEF) which was initially set up in NABARD with budgetary support of Government of India, contributions of RBI and Commercial Banks, besides NABARD's own contribution has since been shifted to SIDBI from 31st March, 2013. This Fund envisaged capital/ equity assistance and grant assistance to eligible MFIs.

2.4 IRDAI combines both the functions of regulation and development. In the absence of separate DFI on the lines of NABARD or SIDBI, both regulatory and developmental roles are cast on IRDAI. The corporate vision of IRDA states interalia includes "to bring about optimum amount of self-regulation in day-to-day working of the industry consistent with the requirements of prudential regulation. "The experience of NABARD and SIDBI suggests that operation of a development fund at the Apex level under the initiative of IRDAI is feasible and would be rewarding for the microinsurance segment and would be helpful both at the demand and supply sides.

2.5 The investors and other developmental institutions are not coming forward to provide developmental assistance for the institutions engaged in microinsurance. The Fund will be filling the gap and enthuse the stakeholders in the sector for greater participation. It will boost the proposed stand-alone microinsurance companies to function with greater confidence.

2.6 Microinsurance sector continues to adopt supply focused approach. A time has come to make a balanced approach of demand and supply. Creating a market for microinsurance for the poor and vulnerable with a focus on financial education, training, mentoring, hand holding, digital literacy creating Jan Dhan Aadhar Mobile (JAM) for seamless digital transactions linked system assume significance.

3. PROPOSED FUND AND ITS OBJECTIVES

3.1 A fund Called Microinsurance Development (MIDF) may be set up at the initiative of IRDAI with an initial corpus of Rs.50 crore to start with. (The size of the corpus can be more or less, as per assessment of the IRDAI. In NABARD while the size of the Credit Funds is in thousands of crores, that of promotional funds is modest and some of them commenced with a corpus of Rs.10 crore to Rs.500 crore. A brief outline of select promotional Funds is given in Annexure) It can be funded by Insurance Companies, Government of India, other regulators like RBI, DFIs like NABARD and SIDBI. International Donor/Development agencies may also be approached for contributions. Considering the target population of microinsurance, there is also justification for wider set of institutions to contribute to the Fund.

3.2 The Fund will facilitate provision of promotional and developmental-assistance for the eligible players including SAMI companies leading to improving their capacity, efficiency and resilience to provide microinsurance services in a sustainable manner and thus provide stability and growth impetus to the sector.

4. ELIGIBLE INSTITUTIONS/PERSONS FOR PROMOTIONAL SUPPORT

SAMI companies (prospective, potential, licensed) could be of any form (mutual, Cooperatives, Companies under the Companies Act, Section 8/25 Companies), other supportive institutions (NGOs, Associations, Federations, Financial institutions, Business Correspondents, Business Facilitators, Training institutions, Academic /research institutions, development institutions, Volunteering professionals)

5. ELIGIBLE ACTIVITIES

The following are the spectrum of activities that can be supported under the Fund:

- HRD - Training and exposures, Professionalization of the staff, leadership development, Succession Plan, Technical capacity including actuarial science development, Faculty development, Course designing, Certification System.
- IT infrastructure (software, hardware development), upgradation of Technical infrastructure.
- Product development – research on bundling of products, market study, demand-supply assessment study, empirical studies, Assessment of schemes in terms of impact, coverage, constraints and opportunities.
- Partnership Development – Twinning arrangement, PPPP (Public, Private, Producers Partnership), group approach in technology development/adoption-sharing of cost.
- Making Business Continuity Plan (BCP), Budgeting and Work Plan, Business Development Plan, Organizational reengineering, process innovation leading to cost reduction.
- MIS, data management, data safety, integrity and reporting.
- Formal and Informal sector linkage (SHGs, JLGs,) to develop group insurance, community-based microinsurance.
- Documentation/Documentation of Success stories, Innovations, Knowledge management, dissemination of information/learning, Communication tools, experience-sharing, workshops, Conferences and seminars for stake holders, feedback system development.
- Feasibility studies, Process mapping, Impact study /Outcome study, Pilot testing, research and development
- Risk Management architecture development, Asset - Liability management, Supporting Risk Management Cell/Monitoring and Evaluation Cell, bench marking, Institutional Assessment, gender-specific/target -specific risk mitigation mechanism.
- Strengthening self-regulation, internal Control mechanism, governance enrichment.
- Interventions leading to Policy exploration, Policy reform, regulatory reform, re-engineering of supervision processes.

Support assistance could be in the form of facilitation assistance, Technical Assistance, Collaboration, twinning arrangements, etc.

The activities outlined above are indicative, not exhaustive.

6. GOVERNANCE OF THE FUND

An advisory Committee of professional/Stakeholders may be constituted under the guidance of IRDAI in policy and operational strategy for smooth and efficient operation of the Fund. The Committee may comprise the following:

a) Independent Insurance Professionals
b) Representative(s) of Donor agencies
c) Representatives of Reinsurer /Insurance Companies (e.g. Life and General Insurance Companies)
d) Representatives of SAMI Companies
e) Technical expert/professional(s) from Service Providing agencies

It can also be examined whether the management of the Fund can be entrusted to a Trust, with broad policy framework being formulated under the guidance of IRDAI. As a corollary, it is suggested that for Microinsurance Development, the regulation and supervision can be handled by a separate Department within the IRDAI.

7. OPERATIONAL FRAMEWORK

Once policy is decided to set up the proposed Fund, rules and regulations for operationalizing the Fund can be evolved under the guidance of IRDAI in consultation with major stakeholders. Detailed guidelines for eligibility of institutions, framework of proposals, delegation of powers, audit arrangement, etc., can be formulated.

8. POSSIBLE OUTCOMES

a) The Fund will encourage, enthuse and enable the perspective SAMI companies to sustain their microinsurance service interventions with speed and efficiency.
b) The Fund will also aid all agencies in microinsurance supply chain for undertaking microinsurance + activities.
c) With increasing number of players, and demand side interventions, the microinsurance penetration /inclusion will get greater impetus.
d) It will usher various initiatives and innovations in microinsurance space.
e) Microinsurance, with focus on low income, rural area and excluded population will come to the centre stage of development at macro, meso and micro levels in the country.
f) In case, Government budgetary support is received, the linkage with Government's social sector schemes including those implemented for self -employment/wage employment, migrants etc could be stablished leading to minimization of their vulnerability /disabilities.

g) A solid eco system for protecting the poor and vulnerable, better health care in the post- corvid environ will be ensured coupled with social protection for those who suffer from hunger, malnutrition, joblessness and related difficulties.

9. A BRIEF INTRODUCTION OF NABARD PROMOTIONAL FUNDS

9.1 Micro Finance Development Fund (MFDF):

The MFDF was set up in NABARD with start-up contribution of Rs 40 crore each from NABARD and RBI and Rs 20 crore from 11 commercial banks identified by RBI. It became operational on 7 March 2003. The Fund was being utilized for scaling up various mF initiatives in the country.

9.2 Tribal Development Fund (TDF):

The TDF was created by NABARD with initial corpus of Rs 50 crore, out of its profits for the year 2003-04. The Fund was intended to replicate Wadi model across the country. The Fund has grown over the years and the credit balance of Rs 1143 crore as on 31 March 2020.

9.3 Watershed Development Fund (WDF):

Indo-German Watershed development Programme (IGWDP) was implemented in 1990's by NABARD with support of KfW. The participatory watershed concept and methodology has proved to be a successful initiative in enhancing the production and improving livelihood security of rural community. To replicate the initiative further in the drought- prone areas of the country, the Union Finance Minister in his budget speech for 1999-2000 had announced creation of WDF in NABARD. WDF comprised a contribution Rs 100 crore each by Ministry of Agriculture (MOA), Government of India and NABARD,

9.4 Financial Inclusion Fund (FIF) and Financial Inclusion Technology Fund (FITF):

Consequent to recommendations of Dr. Rangrajan Committee on Financial Inclusion, FIF and FITF were constituted in 2007 -08 for a period of 5 years with a corpus of Rs 500 crores each to be contributed by Government of India (GOI), RBI and NABARD in the ratio of 40:40:20 The guidelines for these Funds framed by GOI in consultation with NABARD and RBI . The Funds were envisaged for intensifying financial inclusion interventions both at demand and supply sides, coupled with Technology adoption for the purpose. FITF continues in NABARD. An advisory Board for each was constituted.

9.5 Cooperative Development Fund (CDF):

CDF was established on the basis of a decision taken by the Board of Directors in its 69th meeting held on 2 February 1993 under the provisions of Section 45 of NABARD Act 1981 with an initial corpus of Rs 10 crore. Thereafter, the corpus of the Fund has been augmented through contribution from NABARD 's annual profits. The Fund intends to provide grant support for development of Cooperative credit institutions in various ways including capacity building support for the cooperatives.

Annexure 6A: Case Studies on Regulations and use of Technology

By Tabassum Inamdar
July 2020

1. The Philippines: Enabling regulations drive growth, penetration

This note is based on extracts from several sources/documents including: (a) Martina Wiedmaier-Pfister and Hui Lin Chiew, Regulatory Impact Assessments: Microinsurance Regulations in Peru and the Philippines by Access to Insurance Initiative, (b) Dr Ana Gonzalez-Pelaez, CISL Fellow, Mutual microinsurance and the Sustainable Development Goals: An impact assessment following Typhoon Haiyan, University of Cambridge, Institute for Sustainability Leadership, (c) Antonis Malagardis (GIZ RFPI Asia), Michael J. McCord (MicroInsurance Center), Dante O. Portula (GIZ RFPI Asia), Martina Wiedmaier-Pfister (MicroInsurance Center), Regulatory Impact Assessment - Microinsurance Philippines, GIZ RFPI Asia, November 2015. (d) Microinsurance premiums, coverage expand in 2019 https://www.bworldonline.com/microinsurance-premiums-coverage-expand-in-2019/, (e) the Philippines Insurance Commission website and (f) Discussion with representatives of RIMANSI and CARD MRI.

Lessons from the Philippines

Like India, the Philippines too has a low-income population that had not had access to insurance. However, since 2006 the landscape for microinsurance has changed significantly, providing some very good lessons:

(1) Favourable regulations, focused marketing, advocacy, and products designed for the market can effectively increase access to microinsurance for low-income communities.

(2) Microinsurance-Mutual Benefit Associations (MI-MBAs) can leverage the close relationship between them and their clients to become formal providers and run this business successfully, generating surplus.

(3) MI-MBAs have not only expanded the market but shown commercial insurers the potential for microinsurance. Commercial insurers now account for nearly 40% share of the microinsurance market.

Regulatory support for microinsurance with significant reduction in capital

Prior to 2006 the Philippines had significant informal insurance activity conducted by microfinance institutions (MFIs), non-governmental organisations (NGOs) and cooperatives providing in-house mutual assistance or self-insurance schemes to their members. In 2006, the regulator aimed at providing a path to formalisation by creating an MBA structure dedicated to microinsurance as a means of formal risk-pooling. The regulator made significant changes first in 2006, then in 2010 and in 2013.

"The first regime in 2006 conceived the tier of MI-MBAs. The second regime in 2010 encouraged commercial companies to participate more in the market. Then microinsurance got institutionalized in the Insurance Code, as amended (2013). The third regime called Enhanced Microinsurance Framework was established in October 2015. It provided broader options to deliver microinsurance and clearer guidelines on reinsurance based on lessons after T. Haiyan". Insurance Commissioner Emmanuel F. Dooc.[26]

The formalisation of the sector was also achieved by inter-agency coordination, spanning the jurisdiction of various regulators including insurance, banking and co-operatives. The development and implementation were thus driven by the Department of Finance (DOF) and several of the corresponding regulations were jointly issued and cut across the purview of these agencies. The key regulatory changes made to promote the growth and development of the microinsurance market in the Philippines are as follows:

- Lowered capital requirement for standalone MI-MBAs with membership of 5,000. The capital requirement for MI-MBA was pegged at PHP 5 million or Rs 76 Lakhs, to be increased by 5% of premiums per annum until a target of PHP125 million is reached (Rs 19 crore). This compared with the minimum capital for traditional mutual benefit associations of PHP 12.5 million/Rs 1.9 crore.
- Commercial insurers with at least 50% of their portfolio comprising microinsurance were allowed a 50% reduction in the total capital requirements for insurers in 2012
- Simplified KYC requirements for low-risk customers and transactions which are not susceptible to money-laundering
- Provided for the establishment of MBAs as common bond associations, with a lower compliance regime than that applicable to commercial insurers
- Lighter regulatory fee structure
- Tax exemption on life policies under microinsurance

The regulator has now set out the Risk-Based Capital (RBC) Framework for the three types of insurers – MI-MBAs, life and non-life insurers.

Features of the Philippines' Regulations for Mutual Microinsurance, Commercial Insurance and Microinsurance			
Insurance's regulatory attribute	**Regular Commercial insurers**	**Microinsurance commercial**	**Microinsurance MBA**
Insurance Commission register	Yes	Yes	Yes
Minimum capital requirements	PHP 1 billion (~Rs 153 crore)	PHP 1 billion (~Rs 153 crore)	PHP 5 million* (Rs 76 lakhs)
Supervisory fees	Yes	Reduced Fee	Reduced Fee
Taxation (life)	2%	2%	Exempt
Taxation (non-life)	26.50%	26.50%	NA
Product			
Scope	Life/Non-life	Life/Non-life	Life only
Max premium	None	7.5% daily wage benchmark**	7.5% daily wage benchmark**
Max coverage	None	1,000 times daily wage benchmark **	1,000 times daily wage benchmark **
Policy contracts	No requirements	Simple to understand	Simple to understand
Product bundling subject to IC approval	YES	YES	YES

[26] Regulatory Impact Assessment Microinsurance Philippines, GIZ RFPI Asia, November 2015

Premium collection	Monthly to Annually	Plus daily/weekly	Plus daily/weekly
Claims settlement	Within 60 days	Within 10 days	Within 10 days
Member equity value	No	No	Yes

* New regular MBA PHP 125 million (~Rs 19 crore); ** Daily non-agricultural wage in Metro Manila

Source: Insurance Commission, An impact assessment following Typhoon Haiyan, University of Cambridge, Institute for Sustainability Leadership

Adjustments made to supervisory tools and techniques

- Faster product approval – file-and-use-process, with no prior product approval required in the initial phase and differentiated product approval for standard products from 2015
- Adjustments to supervisory procedures to accommodate the microinsurance regulations were critical to enable successful implementation. These adjustments comprised:
  - A new system for offsite supervision via a dedicated performance monitoring system for microinsurance (SEGURO)
  - Adjustments in onsite supervision by the Insurance Commission (IC) and the Bangko Sentral ng Pilipinas (BSP)
  - Strengthening the IC's internal staff capacity, which includes staff training and creating a separate microinsurance (MI) vision

Strategy adopted to develop the microinsurance market

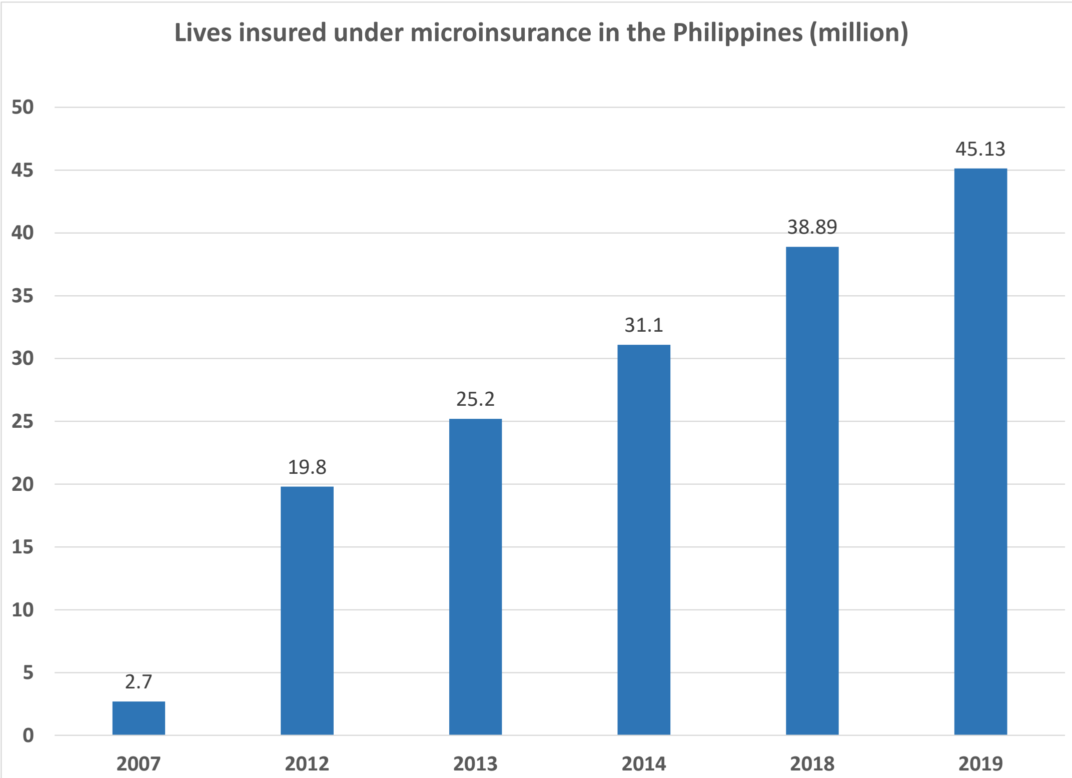
The strategy for change was based on four fundamental pillars: (1) meeting the market demand (2) training professionals (3) social mission of social entrepreneurs (4) advocacy.

- **Meeting the market demand**: The focus was on developing products based on demand for the low-income sector, and ability to pay. The industry started with a basic family life insurance plan, insuring the member, spouse and dependents. The member thus had to pay only one premium per family. The time for claim settlement was shortened to one day and a maximum of five days.
- **Leveraged the microfinance (MF) sector for talent**: The industry did not have sufficient talent and the industry had to train existing MFI professionals in selling and managing operations of microinsurance.
- **Advocacy**: Development of training and communication materials to be used by various stakeholders and training of microinsurance advocates. Focused marketing and events organized to popularize the concept. Conducted roadshows, public advocacy seminars and press conferences in key cities.
- **Tapped leaders of MF** to think about insurance and market the idea. Leaders and industry started talking about not just microfinance but microinsurance along with that.

The regulator and industry worked together on research and development, promotions and helping formation of microinsurance mutual organizations.

Favourable regulations led to a 26% CAGR in lives covered

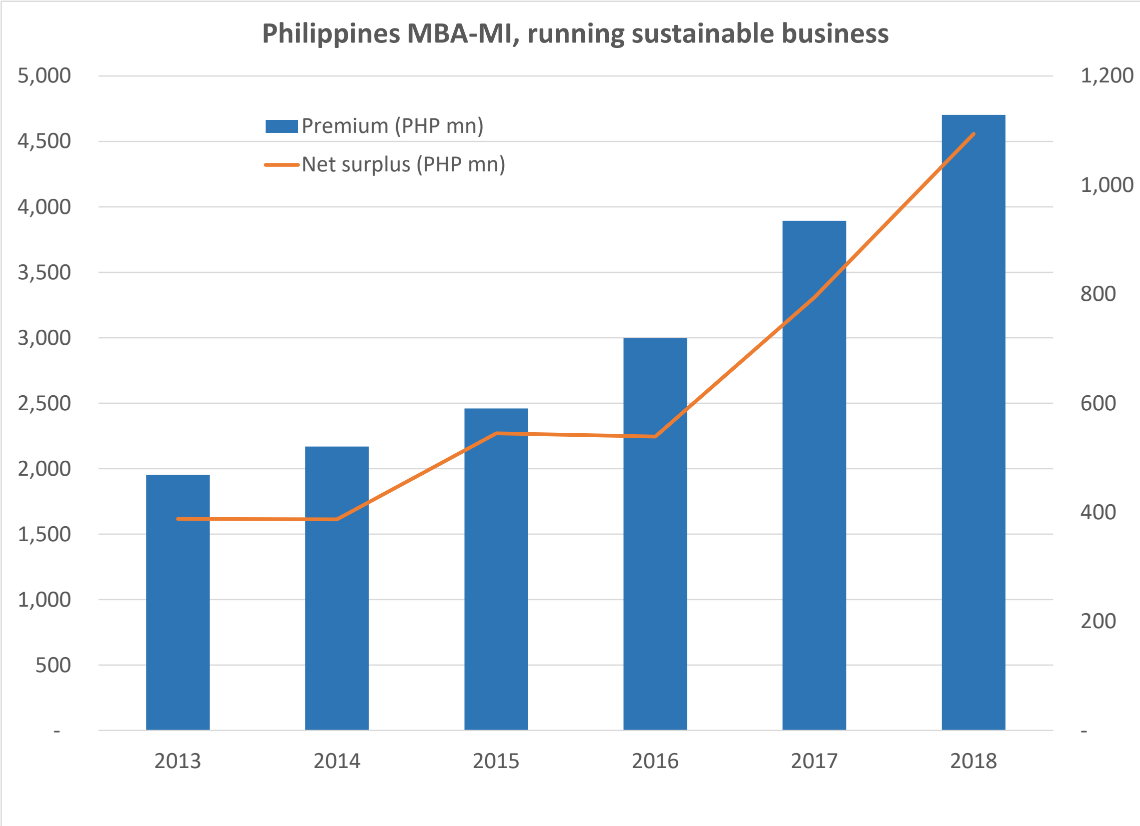
The Philippines saw a consistent growth in lives covered under microinsurance reaching 45.13 million (41% of the country's population) lives from 2.7 million lives in 2007, i.e., a CAGR of 26%. Within this, the 34 MBAs account for the bulk of the share at 57.6% of the total customer segment. Of this section, CARD Mutual Benefit Association, Inc. is the leader with around 80% of the share. From one distribution partner in 2007, Card Pioneer now works with more than 100 institutional partners.



MI-MBA generating surplus

As per our discussion with CARD MBA an MI-MBA, CARD MBA carries out an actuarial study before launching a product. In their experience, in case of a basic life plan, 60% of the funds are earmarked for refundable equity value to members on policy maturity, 25% goes for claims payment, 20% is spent on administrative cost and 5% on capital allocation. To encourage long-term investment in insurance, a beneficiary who has been with the MI-MBA for less than six months gets compensated for only 20% of the claim, for one year 50%, and for more than one-year, full benefit. The MI-MBA invests funds in government securities which carry zero default risk.

In CARD MBA's experience the minimum number of members required for the business to break even is 10,000. At 20,000 this is a good sustainable model. The main condition that needs to be met is that the all members of MBA buy microinsurance policies to avoid adverse selection. Most products designed are simple. Insurers collect premiums on a weekly basis, which are used to settle claims quickly and there is no long-term liability for the company.



Study shows microinsurance touching lives of those that matter[27]

A study of microinsurance Social KPIs / CARD MBA shows:

1. **Percentage of those insured below the poverty line**: CARD MRI registers the poverty level of members using the 2005 Philippine Purchasing Power Parity Line of USD 2.50 earnings per day. Across the Group, 35% of members were below the poverty line in 2018.
2. **Percentage of females insured:** As of March 2019, this was 75.9%.
3. **Percentage of insured above retirement age**: This group is often excluded from insurance services and more likely to fall into poverty after a disaster due to difficulty in finding work. Upon retirement, members move from Basic Life to Golden Life. They pay this for ten years, giving them cover up to the age of 100. This insurance coverage is not linked to loans, only to mandatory savings. No dependants are included in this policy. Around 0.3% of the membership holds this product.

[27] Social Performance Indicators for Microinsurance: a handbook for microinsurance practitioners by ADA, BMZ, BRS, CA, GIZ and the Microinsurance Network, 2013

2. China: How Tech giants are delivering protection on scale[28]

China has three kind of participants selling insurance products: (1) Commercial insurers (2) Mutual Insurance companies, and (3) Mutual aid platforms. The first two are regulated, but the mutual aid program is currently not required to meet tough capital requirements or other risk management rules that apply to traditional insurers. This as the provider of this platform does not carry any risk.

There are now multiple mutual aid programs launched by internet companies covering around 200 million members (around 14% of China's population) including some big names such as Xian Hu Bao (106 million members), Shuidi (backed by Tencent 80 million), Didi Chuxing (1.1 million), Baidu and Xiaomi Finance.

Reaching the uninsured

Unlike the mutual model, members are not required to pay any premium, but contribute to claims as and when they occur. There is a maximum limit of how much will be charged to them. Members can also cancel a policy at any time. While the program is available to all, policies sold are not necessarily microinsurance policies. However, as per a white paper published by Ant Financial:

- Nearly 80% of the population participating in these programs earns less than RMB 8,333 (USD 1,180) per month.
- 72% come from third- or lower-tier cities and rural areas.
- The online mutual aid programs serve as a complement reducing out-of-pocket expenses accrued in the treatment of critical illnesses, bringing them down from 40% to below 20% for patients solely dependent on public healthcare coverage.
- Around 70% of online mutual aid participants surveyed said they were not covered by commercial health insurance, but over 42% said they intend to purchase such insurance products in the future.

This platform could thus evolve as a way to increase awareness about insurance and potential sourcing outlets for commercial and mutual insurance companies.

Xiang Hu Bao mutual aid program, big plans to expand

In October 2018, Ant Financial launched a mutual aid program under the name of Xiang Hu Bao (meaning 'mutual protection'). This program provides participants protection for health-related expenditure. In less than two years, the program has enrolled nearly 106 million participants. Ant Financial has announced that it aims to have over 300 million members in two years. The program is run on not-for profit basis and provides participants with a basic health plan covering 100 types of critical illnesses including cancer, critical brain injury and acute myocardial infarction or heart attack. Recently the program added COVID-19 as a covered illness.

[28] This note is based on extracts from several newspaper articles and website including: (1) Alipay's Xiang Hu Bao Online Mutual Aid Platform Attracts 100 Million Participants in One Year, https://www.businesswire.com/news/home/20191126005952/en/Alipay%E2%80%99s-Xiang-Hu-Bao-Online-Mutual-Aid, (2) Alipay's XiangHuBao, Disruptive P2P in China, reached over 100 million users, https://medium.com/@elaine.tung/alipays-xianghubao-disruptive-p2p-in-china-476842c883f1, (3) https://render.alipay.com/p/f/fd-joy7oznq/index.html.

In addition to creating value for its participants, Xiang Hu Bao also helps cultivate a greater understanding about the benefits of obtaining protection against illnesses. This is likely already happening, as sales of health policies offered by partner insurance companies on Ant's Financial platform have increased by over 60% as of June 2019, in comparison to October 2018 when Xiang Hu Bao was launched.

As mentioned above, members under mutual aid programmes are not required to pay any premium upfront. They pay the amount if and when claims occur along with the 8% management fees. In 2019, on an average a member paid total dues of RMB 29.17 towards claims made during the year, v/s indicative maximum claim amount of RMB 188 per person per year. Claims are paid at fortnightly intervals.

Product Features and Terms of Xiang Hu Bao Mutual Aid Program	
Participants divided by age	**Maximum coverage**
0-39 years	RMB 300,000
40-59 years	RMB 100,000
Criteria to be met/shared	
1. Pre-existing conditions and some conditions are excluded 2. No record of continuous medication over a 30-day period 3. Questionnaires on medical history in the past two years and pre-existing conditions etc. 4. Alipay's credit score has to exceed 650 5. Minors can join with parents 6. Waiting period/no claims: 90 days 7. Each individual can join once in lifetime and will exit the plan upon claim	
Key Features	
2020 claim-sharing by participants capped at*	@ RMB 0.1 per person for each case @ RMB 188 per person for full year
Illnesses covered	100+
Management fees for claim processing	8%

Source: naibashuobao.com; https://render.alipay.com/p/f/fd-joy7ozng/index.html

* Average claim in 2019 RMB 29.17. Alipay reserves the rights to revise terms, coverage, and claim caps.

Transparent claim process

Claim application has to be made via Alipay's public disclosure platform. Alipay is a payment platform operated by Ant Financial. If the case is confirmed funds are deducted directly from the participants' Alipay accounts. The claimant will exit the program automatically after the claim. For some controversial cases, voting mechanism by members was introduced.

Every time after the claims payment is settled, which occurs two times in a month, information including the number of members who have shared the claims payment, number of claims, the corresponding case details of claims (basic information of insured, details of illness, claims amount etc.) is disclosed to all Alipay users.

While these contributions are negligible amounts for the plan's members, the total amount raised since the plan was launched is RMB 6.6 billion (Rs.7,000 crore) as of June 24, 2020. The plan has so far compensated 46,128 persons and their families.[29]

[29] https://kr-asia.com/mutual-aid-plans-not-health-insurance-emerge-as-go-to-coverage-solution-in-china

Annexure 6B: Special Paper on Legal and Regulatory Aspects

Biswa Bandhu Mohanty
July 2020

Part I: Microinsurance - Prelude

Globally, microinsurance sector is expanding as premiums and contributions indicate an upward trend; the International Labour Organization (ILO)'s Impact Insurance Facility estimates that microinsurance covers about 500 million risks all over the world. There is growing evidence of the impact of microinsurance. The number of risks covered by microinsurance has more than doubled since 2009. Yet, billions of low-income persons remain excluded from quality insurance services. Since its launch in 2008, the ILO's Microinsurance Innovation Facility has tackled this need.

1.1 Evolution of Legal and Regulatory Framework for microinsurance:

With the increasing expansion and growth of microinsurance across the world, the legal, regulatory and supervisory framework and architecture have evolved over the years. India and Philippines have been pioneers in framing and implementing the microinsurance-specific regulations in respective countries. Vietnam, Cambodia, Bangladesh, China, Pakistan, Sri Lanka etc. in Asia had also formulated microinsurance regulation during the last decade. South Africa, Nigeria, Kenya, Ethiopia, Rwanda, Ghana etc. countries in Africa, Peru, Brazil, Mexico, etc. in other regions have developed regulations in different forms for development of the sector.

1.2 Attendant Benefits for Stand Alone Insurance Companies Due to Regulations

The regulations help in orderly development of entire supply chain consisting of (a) insurer, (b) Reinsurer, (c) Delivery channel, (e) individual Policy holders and (f) Covered lives (family, groups). Proper laws and robust regulation bring in a lot of benefits which include (a) bringing in prudence and discipline in the sector, (b) leading to qualitative improvement of services, (c) accelerating insurance inclusion of low income people in remote areas, (d) bringing about solvency, consumer protection, market efficiency (e) formalizing informal insurance agencies to formal system, (f) strengthening governance, (g) enriching institutional infrastructure and human resources in the regulator and regulated entities and (h) ushering financial and systemic stability. A responsive- regulations can also promote innovation and provide for flexibility. In view of multi -fold benefits of regulations, legal provisions and regulatory and supervisory architecture for the proposed Stand-Alone Microinsurance Companies need to be made comprehensive and robust for smooth operation and expansion in India.

International Experience:

Each of the countries cited above have steered the promotion, development and expansion of microinsurance sector in their country's context. Each country unfolds certain good practices and. learning. With a view to finding certain learning from their experience, the regulatory framework, strategy and practices of 5 countries, viz Philippines, South Africa, Indonesia, Nigeria and Ethiopia are being discussed in the following paragraphs.[30]

2.1 Philippines:

Philippines has made remarkable strides in microinsurance. While In 2009, less than three million Filipinos were covered by microinsurance, in 2019, the figure went up to 38.9 million. Department of Finance (DOF) of Government of Philippines envisages 50 million Filipinos to have microinsurance coverage by 2022 as part of the government's ongoing initiative on financial inclusion. With the rise of microinsurance digitization and a push for greater financial literacy, more Filipinos would be able to find access and afford, not only life insurance, but non-life insurances as well. Another factor that helps boost the take up of microinsurance among the underserved communities is the government's move to allow mobile applications in the distribution of insurance products.

The government intends to cover as many as 50M Filipinos through microinsurance by 2022, which means there are 11 million more Filipinos who can benefit from it over the next four years. According to DOF, their department plans to utilize farmers insurance by transforming the Philippine Crop Insurance Corporation or PCIC into a reinsurer, which will help make the private provision of farmers insurance to be more competitive.

Over the past few years, the microinsurance industry has grown in leaps and bounds in Philippines, which has one of the most advanced microinsurance markets in the world. Individual insurance providers have disclosed plans to offer micro pre-need products, such as education and pension insurance, in the future. According to the Insurance Commission, almost 3 out of 10 Filipinos are covered by microinsurance as of 2015. The government foresees microinsurance uptake reaching 50 million in the next two to three years, covering nearly half of the Philippine population.

A series of policy initiatives have been taken in Philippines during last decade which include Regulatory Framework 2010, National Strategy for Microinsurance 2010, Alternative Dispute Resolution in 2012, Financial Literacy on Microinsurance 2011, Insurance Code amendment 2013. Extension of tax benefits to Cooperative Insurance Societies (CISs) and Mutual Benefits Associations (MBA). **The joint statement on Regulatory Frame -work on Microinsurance is the landmark document which covers Vision, Scope, Objectives, Definitions, MBA/ICIs, Role expectations of Microinsurance Providers, Market Conduct Requirements, Performance Standards (Solvency, Efficiency, Governance, Products, Risk Management and Outreach), Financial Literacy, Key Features of Contract and KYC requirements.**

Philippines -Stipulations under Microinsurance Policies:

Microinsurance policies are limited to R100 000 for life insurance and R300 000 for non-life insurance.

The maximum benefit for funeral policies offered by both microinsurers and traditional insurers will be capped at R100 000.

[30] **Exchange Rate**: 1 Philippines Peso: = 1.52 INR, South Africa Rand 1= INR 4.38, Indonesian Rupee =INR.0054, Nigerian Naira= 0.20 INR, Ethiopian Birr 1= INR 2.22

Only microinsurers will be allowed to use the word “microinsurance”.

Micro-insurers will not, without the approval of the Prudential Authority, be able to issue a life or non-life insurance policy that offers a loyalty benefit, no-claim bonus or rebate claim.

Microinsurance policies and funeral policies may only provide risk benefits with no surrender value or investment elements.

A microinsurance policy may not make any of its benefits subject to the principle of average (whereby if you are under-insured, you are paid out only the proportion to which you are insured).

Microinsurance policies should have a contract term of not more than 12 months for life business.

Variations of the terms and conditions of microinsurance policies are prohibited unless the insurer can demonstrate that reasonable actuarial grounds exist to justify the variation or change, and that the variation will benefit the policyholder or member concerned.

Waiting periods are restricted to a quarter of the contract term for death or disability due to natural causes; no waiting periods are allowed for policies covering accidental death or disability or for credit risk policies; no waiting period may be imposed when a policyholder cancels a policy with one insurer in favour of one providing similar cover with another insurer.

Exclusions for pre-existing conditions will not be allowed for funeral and credit life classes of microinsurance policies; exclusions for suicide will be allowed for a period not exceeding 12 months from the inception of the policy regardless of whether a microinsurance policy or a funeral policy has been renewed during the 12-month period.

Excesses will only apply to non-life microinsurance policies. Insurers may impose only one standard excess per risk event covered which may not exceed 10% of the benefit or R1000, whichever is lower.

Microinsurance and funeral policy claims must be settled within 48 hours after receiving all the necessary documentation.

Insurers must reinstate policyholders on the same terms as previously, after a lapse. It is, however not mandatory for the insurer to reinstate a policy when it has lapsed.

Microinsurance policies may not provide a benefit paid as a sum of money directly to a service provider.

2.2 South Africa:

South Africa is very unique in its regulatory framework and initiatives. The Insurance Act, which came into effect on July 1, was passed by the National Council of Provinces in December 2017. It brought changes to the Long-Term Insurance Act (LTIA), Short Term Insurance Act (STIA) and the Policyholder Protection Rules (PPR) for both long-term and short-term insurance, creating both challenges and opportunities for existing insurers and providing for licensed microinsurance products from a new class of microinsurance providers. New and amended legislation governing the insurance industry provides, among other things, for user-friendly microinsurance products and greater protection for policyholders, including a 48-hour turnaround time for funeral policy pay-outs.

The changes will make microinsurance products (traditionally funeral policies) more accessible, affordable and fair for consumers. It will introduce standards for these products, and provide a regulatory framework that will make it easier for low-income earners to access insurance. They also aim to turn informal insurance providers into formal, regulated and resourced insurance providers.

The Insurance Act introduces new authorisation classes for the industry. Under this Act, microinsurers may offer life and non-life insurance. Life insurance includes classes such as credit life insurance, risk insurance and funeral cover. Non-life insurance includes motor insurance, property insurance, legal cover, as well as accident and health insurance.

Stand-alone Microinsurance Company:

The Act defines the term 'microinsurer' as an insurer licensed to conduct only microinsurance business. Hence, the South African legislation specifically recognizes the scope of establishing a stand-alone microinsurance company. An insurer, other than a microinsurer or a reinsurer, must be licensed to conduct life or non-life insurance business, and may not be licensed to conduct both.

Insurtech:

In addition, the development of Insurtech offerings designed to be delivered through mobile phones, which are widely owned by consumers in all income brackets. This will make it easier for microinsurers to reach their target groups. The result will be rapid growth in microinsurance in the coming years, and the evolution of a completely new type of insurer in South Africa.

"Insurers will have a blank canvass to roll out innovative products, subject to products standards. These standards protect customers in a number of ways, such as stipulating a maximum term of cover and ensuring shorter waiting periods. Active policies written under a traditional license will not be affected at this stage unless transferred into a microinsurance license." The Insurance Act and the microinsurance product standards under the new Policyholder Protection Rules will make this a possibility.

2.3 Nigeria:

National Insurance Commission (NAICOM) has framed Guidelines for microinsurance operation in Nigeria. NAICOM had spelt out rules, regulations and standards for microinsurance n 1 January 2018. These defined Microinsurance "as insurance developed for low income population with low valued policies provided by licensed institutions, run in accordance with generally accepted principles and funded by premium ". The products, delivery mechanism, coverage, other terms, role of various stake holders including intermediaries have been explained. The three different micro insurer units operate in 3 levels – (1) Units operating at local community level, (2) Units operating at state level with branches & (3) National microinsurer operating country wide encompassing states. The country has expanding distribution channels, favourable regulatory environment, and matured financial service sector. Microinsurance products are insurance products that are designed to be appropriate for the low-income market, low valued policies, micro and small-scale enterprises in relation to cost, terms, coverage, and delivery mechanism.

Objectives of the Guidelines:

“Provide minimum standards for the conduct of Microinsurance business in Nigeria;

Ensure consumer protection;

Establish general features of Microinsurance;

Establish duties and responsibilities of Microinsurance operators and insurance intermediaries; and

Establish conditions for entry and exit from the Microinsurance market”.

Features:

In addition, Microinsurance operation shall have the following features:

Simplicity. The policies, conditions, procedures and marketing must be simple and the documentation must be presented in plain language.

Understandability - The products/services risk, procedures and coverage must be unambiguous and easily understood.

Affordability and Accessibility – Microinsurance products must be affordable and accessible to the target market items of purchase, premium payments and claims.

Valuable - Microinsurance products or services shall be designed to meet the needs of clients, be beneficial, fair in price and coverage.

Efficiency - The delivery/distribution channels must be efficient to both the insurer and the policyholders.”

Policy Framework:

The sum insured under a microinsurance policy(ies) shall not be more than N2,OOO,OOOper person per insurer. The Commission may review this provision subject to the nature of the low- income earners.

Microinsurance policies shall exclude special risks insurance, motor insurance (except tricycles and motorcycles), professional indemnity and other pecuniary risks with sum insured higher than N2,OOO,OOO. All third-party liability risks and all other classes of risks with sum insured above N2,OOO,OOO are also excluded.

No person shall commence or carry on any class of microinsurance business without being registered or authorized by the Commission.

Views of Critics:

"The creation of separate companies to operate microinsurance /takaful was not backed by the Act, Such financial service could only be implemented by existing insurance firms and as parts of their products under the Miscellaneous Provisions of Act and not to license separate Company for their operations ".The Act says " Any class ,not stated should be treated under Miscellaneous " .So what it is saying that an existing insurance company can sell Takaful or microinsurance as a class but not that you can create a company . There is no Section in the Act that empowers the Commission to do that. You can't amend an Act by regulation." "The only way to make the industry move fast was through tier - based capital where everyone has opportunity to compete favourably with available capital."

Learning from Nigeria:

Very Comprehensive Guidelines on microinsurance issued by NAICOM are noteworthy.

"The policies, conditions, procedures and marketing must be simple and the documentation must be presented in plain language" are replicable.

"The law should provide clearly the power to set up microinsurance company, rather than creating company under miscellaneous provisions" of the Act.is an important lesson.

2.4 Indonesia:

Regulatory Framework

I*n Indonesia, the Financial Services Authority (Otoritas Jasa Keuangan) is the main body* overseeing the insurance business in Indonesia. Under Law No. 21 of 2011 regarding the OJK dated 22 November 2011, the Insurance Law and its implementing regulations were further expanded. The main legislation for the insurance and reinsurance sector is Law No. 40 of 2014 regarding Insurance dated 17 October 2014 ("Insurance Law") and implementing regulations. They cover everything related to general and life insurance companies, sharia insurance companies (general and life in accordance with sharia principles), and reinsurance and sharia reinsurance companies. "Microinsurance in Indonesia is defined as Insurance or Takaful product which is designed to provide protection on financial risks faced by low- income people."

Product Features:

The characteristic that is required for the product are: simple, easy to access, affordable/economical and fast claim settlement. Main product features are that the maximum premium per policy is IDR 50,000 - and maximum Total Sum Insured is IDR 50,000,000. - per life insurance policy or per insured object for non-life product.

Product Requirements

Circular Letter 9 provides a definition of microinsurance products, i.e., any insurance products designed to cover risks for low-income people (namely persons earning not more than Rp 2.5 million a

month). It stipulates certain requirements that must be met if insurance companies want to manufacture, distribute or sell microinsurance products, such as:

The microinsurance products must be documented in a simple document (not more than three pages long) and must be in the Indonesian language.

The microinsurance policies must be prepared in layman's terms (instead of industry jargon).

There must be no risk excluded in the microinsurance policies.

The insurance policies cannot stipulate that in order to make a claim the customers must submit supporting documents consisting of more than four documents.

The microinsurance products must be in the form of a guaranteed issuance offer or a simplified issuance offer where the policies will be activated once the customers pay the premiums, without any conditions.

The insurance coverage must be activated not more than 30 days after the insurance company issues the insurance policy.

Claims must be settled within 10 working days after complete claim application documents are submitted.

Recent Initiatives of Indonesian Regulators

Indonesian financial regulators are also pushing for more affordable insurance products or microinsurance to increase market rate and ensure steady growth. (*OJK) is preparing a draft regulation on digital-based insurance.* The Financial Service Authority (OJK) had issued circular (no 9/SEo.JK .05 /2017 on microinsurance products and marketing of microinsurance products (effective from 23 April 2017) which spell out the following;

Defines who could be the customers in the sector;

Policy requirements;

Outlines the means of distribution (including mobile marketing);

Requires all insurance companies that market microinsurance products to have specific working unit /division to manage microinsurance (directly responsible to Board of Directors).

Between 2017 and the second quarter of 2019, the Government of Indonesia enacted and revised one government regulation and three OJK regulations related to insurance, including financial soundness of insurance companies, business conduct of insurance companies.

As of September 2019, 25.86, million persons were covered *by microinsurance in Indonesia, up from around 11 million in 2014.*

Note-worthy Learning from the Indonesian Experience:

Focus on regulation on digital-based insurance including mobile marketing

The main insurance law covers everything related to general and life insurance companies, sharia insurance companies (general and life in accordance with sharia principles), and reinsurance and sharia reinsurance companies."

The product requirements as outlined above are worth emulating by all regulators.

2.5 Ethiopia:

Evolution of Regulatory Framework

Ethiopia had passed a comprehensive microfinance Proclamations (Law) way back in 2009. The MFIs were mandated to provide credit, deposit and insurance services. MFIs, especially larger ones have been operationalizing their own microinsurance schemes, by virtue of the powers vested with them in this regard (vide para 4 (20 (d) of the Proclamation). MFIs and SACCOS were major purveyors of microinsurance in the country. Some of the Insurance Companies had implemented donor sponsored microinsurance programmes/pilots.

National Bank of Ethiopia (NBE), the Central Bank of the country is the regulator and supervisor of banking, micro finance and insurance (including microinsurance) sectors. With respect to supervision of MFIs, the Directorate of Insurance is associated along with the Directorate of MF Supervision, in view of microfinance function of MFIs. There have been exploratory policy initiatives to put in place separate microinsurance delivery channel and World Bank had primarily supported NBE in regard to policy and regulation formulation. In January 2015, NBE issued directive on 'Licensing, license renewal and Product approval for Microinsurance providers' which covered regulations relating to the organizations exclusively dealing with microinsurance and those as an additional function (like MFIs). No license had been issued to any company for micro- insurance business exclusively. MFIs are undertaking credit-life insurance, for which no license is required. The *Insurance Directorate was in the process of finalizing the regulation on (i) customer protection, (ii) distribution channels & (ii) Prudential norms, as envisaged*. However, it was viewed by Government of Ethiopia that the regulations on MicroInsurance business by NBE are irregular in the absence of corresponding provisions in the Insurance Proclamation and thus, all directives/ regulations were withdrawn. A fresh and exclusive Proclamation on microinsurance was passed in January 2020. A fresh draft regulation, based on new Proclamation is under discussion with stake holders. Notwithstanding availability of World Bank support for the 'sector' study in the past and their continuing support for agricultural insurance development, IFAD had contemplated support under its RUFIP III project for strengthening capacity of NBE for regulation and supervision of microinsurance sector.

Lessons from Ethiopian Microinsurance Regulation Framework:

An exclusive and comprehensive legal provision is necessary prelude to issue of appropriate regulations for any sector including microinsurance.

Besides regulations for licensing, those on customer protection, distribution channels and prudential norms are a must for orderly development.

Internal Capacity building of Regulator assumes significance, considering the need for delicacy and sensitivity of microinsurance sector.

A couple of provisions in the new proclamation are worthy of noting financial institution is defined to include microinsurance company, a bank, a MFI, a capital goods finance company , a reinsurer ,micro-insurance provider, postal savings, money transfer institutions, digital financial service providers and such other institutions as determined by the National Bank (Section 12). This kind of broad-based definition exists in other Proclamations in the financial sector.

The Concept of Takaful is worth noting. Such concept is existent in other African countries. (sec 39)

Minimum digital insurance service is mandated by law (Sec 56 and 60)

Policy, law, regulation and strategy should move in succession. In Tanzania, attempt to frame microfinance law and regulation by the Central Bank was withheld, until microfinance policy was framed by Government in collaboration with the Central Bank.

All regulations of the NBE are finalized and issued after series of discussions with the stake holders.

Provisions are there that the Cost of inspection / supervision should be borne by supervised entities.

Although the MFIs are mandated to have their own insurance schemes, it was found to be confined to the biggest 5 MFIs (sharing 90% of MF business); It was deemed to be not good as it is risky. Reinsurers' involvement is a better proposition.

The Regulation which was withdrawn was very comprehensive and covered provisions for standalone and exclusive microinsurance company, MFIs already in micro finance business and mainstream insurers.

Capital prescribed for General Insurance was 5 million-birr, Microinsurance 2 million Birr and both together 7 million Birr. Same were stipulated for MFIs as additional capital.

The regulations encompassed provisions on documents to be submitted on pre application, application and commencement of operation stages which included business plan. Provisions relating to governance/Fit and Proper criteria, Premium, reinsurance arrangement, etc. were also to be spelt out.

Part II: Back ground and Rationale of the framework of Separate and Comprehensive Regulations for the Stand-alone Microinsurance Company

The insurance Act 1938 and the Amendment to the Act 2015 and the IRDAI (Micro Insurance) Regulations, 2015 regulation do not provide for stand- alone microinsurance company and hence certain amendments to the Act Ibid have been suggested for setting up and scaling up such companies for expanding and intensifying microinsurance in the country. Depending on the provisions to be brought about in the Act for the purpose, regulations need to framed. Although certain provisions under the existing regulations of 2015 could be made applicable to Stand Alone Microinsurance Company by suitable amendments in the existing regulations and cross reference in the new regulations*, it will be better operationally, if separate and exclusive regulations are framed for standalone microinsurance company.*

The IRDAI (Micro Insurance) Regulations, 2015 have provisions on(a) definitions, (b) Tie-up between life and general insurance ,(c) Distribution by MI agents ,(d) Employment and functions of Specified Persons by Microinsurance Agents (prohibitions), (e) Code of conduct of Microinsurance agents, (f) Filing of Microinsurance products ,(g)Insurance of Microinsurance Policy Contracts, (h) Under-writing, (i) Capacity Building ,(j) Remuneration/Commission, (k) Compliance to the Act and Regulation, (l) Obligation to Rural and Social Sectors, (m) Handling of Complaints and grievances, (n) Inspection Authority, Submission of Information, (o) Power to Remove difficulties and issue clarifications and (p) Schedule I and II. However, the regulations as above don't meet special requirements of Stand-alone Companies. These also do not cover/focus certain emerging requirements of changing policy environment.

Although "microinsurance "appears at several places including Nomenclature of the Regulation, a concrete definition of Microinsurance has not been included. The regulation refers to NGO, SHG, MFI, NBFC-MFI regulated by RBI, Urban Cooperative Banks, RRBs and PACS, it does not mention JLGs (joint Liabilities Groups), Small Finance Banks, Producers Organizations, State Cooperative Banks, SHG Federations, etc. It is better to define "financial institutions" as in Ethiopia.

The Act or Regulations do not focus on digital insurance service, financial/ insurance inclusion, on line application/service, digital payment, advertisement/dissemination of information through internet/mobile/smart phone in this digital/electronic age. Digital financial service (DFS) is order of the day and for the future. Companies take recourse to online service, e-Commerce, online marketing and other digital platforms, big data for business development and diversification. We *should mention about the function of information- sharing, data integrity and privacy, corporate digital data responsibility - rights and obligations.*

With the increasing economic empowerment of women, targeting for financial inclusion can be looked beyond gender. The targeting can be diversified to landless, small and marginal farmers, unemployed youth, migrants, trans gender, ethnic groups, victims of disaster/, conflicts and physically challenged persons under the Regulations.

There has been increasing focus on **Responsible** finance, digital/financial inclusion, responsible digital payment, responsible lending, responsible investing, corporate digital responsibility in the financial services including insurance sector and financial inclusion space.

With greater digitization and online transactions (Direct Benefit Transfer, etc.) and application of technology in financial services, strengthening prudential regulation, risk-based supervision and audit are assuming increasing significance.

Reference to cyber-crimes, money laundering, CFT, etc. aspects is mandatory. There is need for robust customers' grievances Redressal mechanism. Data privacy, protection and integrity are ensured through prudential regulation, supervision and audit arrangements.' Capacity -building of all stake holders is given focus, besides system improvement at all levels.

In the Company's Laws 2013, considerable focus has been laid on corporate governance of the Companies and series of provisions have been included for strengthening the same. Reserve Bank has recently placed a comprehensive Paper on Governance of Commercial banks in public domain and sought for public opinion.

The modern microinsurance products tend to have some common characteristics. Some of the elements frequently seen in microinsurance policies include: (a) Simple product design, (b) Low cost, (c) High volume, (d) Short duration, (e) Group-based pricing, (f) Basic claims administration (g) Parametric trigger, (h) Technology-driven distribution models and (i) Cell-phone technologies used for policy application and issuance, premium payment, and claims reporting and payment.

Participation of staff and customers in decision- making is necessary and as such, Capacity building, assumes significance. Moreover. supervision*, audit and monitoring interventions are more technology -based. Companies could direct efforts for staff motivation, protection, participation, dignity and accountability, focusing on their rights and obligations. Artificial Intelligence, Knowledge management, online training can be referred to.*

Now a days, Partnership approach in financial inclusion and rural finance is advocated. 4 P approach (Public, Private, Producers Partnership) in business is increasingly adopted. Producers' Associations are emerging institutional mechanism of business development. Regulation needs to capture the same.

In view of regular catastrophes' (Super Cyclone) or extraordinary Epidemic like Covid19, the companies need to internalize systems for disaster management strategy or provide health related support mechanism including health insurance and health care. We may incorporate in the regulation.

In view of the above reasons and international experience cited earlier, it would be advisable to frame robust regulatory framework, besides legal provision for smooth functioning stand -alone microinsurance company and also facilitating an enabling environment for furtherance of microinsurance penetration in the country. A broad framework of regulatory provisions, encompassing all relevant aspects is given in the Appendix I. Some of the countries like Ethiopia planned/ issued more than one regulations to deal with specific aspects in detail. Separate regulation on(a) Licensing related processes and issues, (b) Customers rights and (c) Prudential aspects can also be considered. These are indicative but not exhaustive.

APPENDIX I: Definition of Microinsurance in Laws and regulations of various countries and documents:

"Insurance is accessed by the **low-income** population, provided by different entities, but run in accordance with generally accepted insurance practices. Importantly that means that risk insured under a **microinsurance policy** is managed, based on insurance principles and funded by premiums." (international Association of Insurance Supervision 2009)

"Microinsurance is the **insurance protection** provided by **licensed entities** within the country against specific risks which aims fundamentally to preserve the socio-economic and personal and family situation of **the low-income population** by means of **premium payments which are proportional to the probability and cost of risks involved**, in accordance with **the legislation and globally accepted insurance principles.**"(Brazil Laws).

"Microinsurance **is affordable** insurance provided for **low income** people to protect themselves from financial shocks imposed on them through unpredictable events" (Fiji laws).

"The protection **of low-income people** against specific perils in return for regular premium payments proportionate to the likelihood and cost of the risks involved." (*Preliminary Donor Guidelines, MicroinsuranceNetwork,2003).*

"A risk-transfer device characterized by low premiums and low coverage limits, designed for **low-income people not** served by typical social insurance schemes." *(Microinsurance Academy, India,2007).*

"Insurance that is accessed by **the low-income** population, provided by a variety of different entities, but run in accordance with generally accepted insurance practices." Importantly, this means that the risk insured under a microinsurance policy is managed, based on insurance principles and funded by premiums*." (International Association of InsuranceSupervisors,2007).*

"A mechanism to **protect poor people** against risk (accident, illness, death, natural disasters, etc.) in exchange for insurance premium payments tailored to their needs, income, and level of risk." *(ILO'sMicroinsuranceInnovationFacility,2008).*

In simple words, 'Microinsurance is a small ticket-size insurance for the **low- income segment**' of population. It aims at insurance inclusion by way of making insurance accessible and affordable to **the low- income segment** by way of offering simple and cheap products through alternate distribution channels." The **low- income segment** that is eligible for microinsurance is the population living above the International Poverty Line earning US$ 1.90 per day (in US dollars, based on purchasing power parity in 2011) with total earnings up toUS$5perday (*CGAP, ILO*).

Microinsurance is different from Social Insurance as the former specifically targets the socially and economically backward segments of the society. The target segment eligible for the social insurance is the population living below international poverty line earning US$1.90 per day, and this segment of population is defined as the **socially vulnerable section of the society,** viz. women, the aged and the physically and the mentally challenged individuals who are considered eligible for the social welfare schemes. **The differentiating factor between microinsurance and social insurance is the 'target market' and the 'subsidy element'**. **Social insurance schemes are subsidized partially/fully by a third party, generally under a specific welfare mandate of the government"**

Definitions of microinsurance in difference countries

1. South Africa: Microinsurance is defined as "insurance developed for **low income populations**, low valued policies, micro and small-scale enterprises provided by licensed institutions, run in accordance with generally accepted insurance principles, and funded by premiums".
2. Philippines: The term "microinsurance" refers to the insurance, insurance-like and other similar business activity of providing specific products and services that meet the needs of the poor for risk protection and relief against distress, misfortune or contingent event. Since microinsurance products and services are intended to meet the risk protection needs of the low-income sector, affordability of premium payments is a major consideration. To ensure this, the nature and features of a microinsurance product is defined in this framework to minimize and limit underwriting risks.
3. Ethiopia: Microinsurance means any form of protection against risks that is designed for and accessed by **low-income people** provided by different categories of …. (Amendment to Insurance Business Act ,2019 _Ethiopia).

Other definitions:

1. Churchill: Microinsurance is "the protection of **low income** against specific perils in exchange of regular premiums to proportionate to the likelihood and cost of risk involved." (2007).
2. IAIS: IAIS defines microinsurance as, "insurance that is accessed **by low-income** populations, provided by a variety of different entities, but run in accordance with generally accepted practices (which include the Insurance Core Principles")

PART III: Observations on Legal Provisions

It has been proposed that as the first option, under Section 27 (A) of Insurance Act, Stand-alone microinsurance Company can be formed ;.as second option, under Section 24 A of IRDA act ,Central Government may be approached to prescribe provisions regarding regulation of Insurance Company ,empowering IRDA ;' as the third option suitable provisions for incorporating definition on microinsurance business/micro insurer ,coupled with provisions on Capital, solvency ,governance and investment can be effected, enabling IRDA to frame required regulations. Lastly, certain ratio can be prescribed between life and non- life microinsurance in the Act ibid for maintain balance. *Among the options, third option envisaging comprehensive amendment of the Act and formulation of necessary regulations is preferred and should be prioritized due to the following reasons. With regard to suggested ratio, it is better to have the ratio, if any in the regulation than in the Act. Reserve bank has issued directives on Priority Sector stipulations separately.*

Reasons for Amendment of Act with Specific Provision on Microinsurance:

The main feature of microinsurance is to offer financial protection to people at the bottom of the pyramid and low-income households, and insurance is one of the most vital sectors in India's financial inclusion plan and yet it is one of the most ignored product lines in the country.

According to the Economic Survey 2018, the insurance penetration or the ratio of premium underwritten to the GDP was 3.49 percent in 2016-17 while other Asian countries such as China and Malaysia had higher insurance penetration rate of 4.77 percent while Thailand boosted of 5.42 percent. On the other side, India's life insurance density is $46.5 and general insurance density is $13.2 as against a global average of $353 and $285.3, respectively.

Nearly 67% of people live in rural area and 56% of the rural people belong to low income group. About 85% of land holding are under the category of small and marginal farmers These people have less risk protection and risk absorption capacity. For their financial stability, their financial position and assets should be protected. Microinsurance assumes great importance at this juncture. In India, microinsurance is plagued by lack of effective delivery channel, insurance service providers, lack of scope of bundling of financial and non- financial schemes.

As indicated in the UNDP study report, there is huge untapped market of around 950 million people and nearly US $2 billion for insurance in India. IRDA may consider putting in place an appropriate institutional structure for deciding what service packages including premia and formulating strategies for effective promotion of microinsurance."

Companies/agents are selling microinsurance purely to meet quota requirement and do not make efforts to achieve scale or innovation. The sector needs enabling regulatory environment, access to re-insurance, developmental support and investment capital to achieve scale and penetration in remote areas. Stand-alone microinsurance companies, if created and replicated, with robust legal provisions will give identity, respectability and sustainability to upscale fast. The sector needs special boost in terms of "Policy", Planning, Promotion and Provisions.

A recent Study (Microinsurance in India -Challenges and Solutions- 2020- National Insurance Academy) states "Mutual models are one type of community -based organizations, which have successfully worked in India for more than decade and managing health risks for low income groups. There are member-owned community models which allow member to participate in decision -making since the regular distribution model has not worked well in India .So, mutual models and community -based models are suggested .They are highly successful models of community-based programmed leading to empowerment of low income and under privileged groups.""

International experience suggest that stand alone insurance companies are existent with adequate legal framework (e.g. South Africa) Wherever, legal provisions have not been provided adequately, the countries have surfaced implementation bottlenecks, with respect to regulations issued by the Regulatory authorities (e.g. Ethiopia).

"CK Prahalad's 12 Principles of Innovations for BOP (Bottom of Pyramid) markets can be applied to microinsurance. In BOP models, the basis for return on investment is volume, law of large numbers will bring economies of scale." (NIA study referred to the above)

Government of India has been very sensitive and responsive to the legislative needs of financial sector. A series of legislations have been enacted with in the last 6 years and latest being the Ordinance on regulation on Urban Cooperative banks on 23 June 2020. (e.g. Securities Law, RRB laws Amendments, Companies Act, Insolvency and Bankruptcy Codes, Banning unregistered Deposit Schemes, Customers Protection Act,

The Insurance Act 1938 and the amendments to the Act 2015 are conspicuously missing the thrust, philosophy and expanding horizon of microinsurance. The Act should contain very fundamental aspects of microinsurance business exclusively, explicitly and focusedly and the relevant details in the Regulations to meet emerging requirements. If Insurance Companies are set up with comprehensive legislation, it will get legitimacy for faster and smooth replication, without hassles of law.

As several countries have done with or without support of donor agencies, a nation- wide demand study on microinsurance should be done to convince all policy making authorities as to what the sector enfolds in the years to come in the country.

Several Studies right from Rangarajan Committee on Financial Inclusion (2008) and National Insurance Academy Study (2020)-all have highlighted the potential and promise of the sector.

Keeping in view of the above, it is recommended that while approaching Government of India, all relevant facts, figures, evidences and logic in support of exclusive and comprehensive to the Act ibid and comprehensive regulations may be placed. Besides, necessary efforts on the demand side (e.g. financial /digital literacy, capacity building) should be embarked upon, with priority.

Appendix II: Extract of Reports

Rangarajan Committee 0n Financial Inclusion (2008)-Chapter II on Microinsurance

"**The Committee wholly subscribes to the initiatives of IRDA in widening outreach of microinsurance products to the rural poor and recommends that the same may be implemented with renewed zeal as providing microinsurance is a necessary and essential adjunct in the inclusive process**. The IRDA should continue to impose Rural and Social Sector **Obligations but there should be no unreasonable caps on premiums and channel commissions. This is in line with the de-tariffing process in other sectors also. In the long run, it is only when the insurance companies find it profitable to serve this market. Currently the IRDA regulations do not favor composite insurance (i.e., life and non-life insurances by the same company) and also limit the agency tie-up to one life and one non-life insure**r. However, in recognition of the uniqueness of microinsurance, these regulations enable life and non-life companies to tie-up for offering a combined policy in rural areas. Further, the IRDA has allowed insurers to issue policies with a maximum cover of Rs. 50,000 for general and life insurance under these regulations. The regulations have also eased the norms for entry of agents relating to training and prerecruitment examination. As an attraction, remuneration to agents has also been levelled across the term of the policy. **Another striking feature of the regulation is the provision of extending coverage to the family as a unit as against the system of insurance coverage to individual lives. T**he insurer has to take IRDA's prior approval for launching microinsurance products through the "file and use" mode. The maximum cover will be Rs. 30,000 per annum for a dwelling and contents or livestock or tools or implements or other named assets or crop insurance against all perils. For individual and group health insurance, the maximum cover is Rs. 30,000 per annum per individual. For personal accident policies the maximum Rs. 50,000 per annum and is open to 5-70 age group>". (NB the figures were revised subsequently)

Financial Stability Institute- Proportionality in the Application of Insolvency Requirements- 2018

Extracts

Solvency- Related Issues:

"It is important to acknowledge the differences between proportionate regulation, risk-based regulation and risk-based supervision. Although these concepts are interrelated, their objectives are different. Clearly distinguishing these concepts can help policymakers decide an appropriate **solvency regulatory framework for** insurers in their jurisdiction. A regulatory framework, whether risk-based or not, could in principle be underpinned by the principle of proportionality. Proportionate regulation can benefit not only insurers but also policyholders if the reduced regulatory cost is passed on to them through lower premium rates. Reducing the complexity of regulatory requirements for smaller, less complex insurers can lower the barrier to market entry, thus increasing diversity of insurers and competition among them. This could provide a wider choice of insurance products to consumers, potentially at more competitive rates. "

The general capital requirements that apply to all insurers, other than micro-insurers and captive insurers, in South Africa involve the calculation of two solvency control levels.

Minimum Capital Requirement (MCR), which is the absolute minimum level of capital resources that the insurance authority considers necessary to protect policyholders. The MCR is calculated using a formula consisting of variables that measure the scale of an insurer's business. To undertake this calculation, an insurer needs to consider each product type separately, and apply a prescribed factor to a component of technical provisions. An example of the calculation is 2.9% of the current estimate for non-participating policies. In addition, the MCR needs to be within 25% and 45% of the Solvency Capital Requirement and not less than a prescribed absolute minimum amount.

Solvency Capital Requirement (SCR), which is the level of capital resources to ensure the value of assets will exceed technical provisions and other liabilities at a 99.5% level of certainty over a one-year time horizon. The SCR calculation mainly involves applying a stress scenario for each risk category and determining the impact on the capital resources. There are three main risk categories: market risk, underwriting risk and operational risk. Within each of these categories, there are subcategories, for example, within market risk, there are seven subcategories such as interest rate risk, equity risk etc. Micro-insurers in South Africa are exempted from calculating the SCR. Instead, they need to calculate only a simplified version of the MCR, which is 15% of net written premium for 12 months preceding the current or previous reporting date, whichever is higher. The absolute minimum amount is fixed at ZAR 4 million. Unlike other insurers, micro-insurers need not calculate the technical provision (or derivations of it) of each product type to calculate the quantitative and qualitative reporting at the national level (the Netherlands). 37The guidance under ICP 17 Capital Adequacy provides that regulators should adopt approaches to determine regulatory capital requirements that take account of the nature and materiality of risks faced by insurers and, to the extent practicable, reflect the nature, scale and complexity of risks of the particular insurer. In general terms, regulatory capital requirements can take two forms – a standardised approach whereby all insurers calculate their regulatory capital requirements based on a formula prescribed by the insurance regulator; or an internal model approach whereby an insurer uses its own internal model, subject to regulatory approval, to calculate its regulatory capital requirements. In practice, some regulatory regimes adopt a mixture of both approaches depending on the risk categories. Regardless of the approach adopted by a particular jurisdiction, the intention behind the ICP is for regulators to put in place regulatory capital requirements that are not overly burdensome for insurers to calculate. More specifically, ICP guidance states that standardised approaches should be appropriate to the nature, scale and complexity of the risks that insurers face and should include approaches that are feasible in practice for insurers of all types including small and medium-sized insurers."

Annexure 7: Rural and Social Sector Obligations

Rural and Social Sector Obligation of Life Insurers in terms of Policies and Premium for FY 2017-18, 2018-19 and 2019-20

Rural and Social Sector Obligation of Life Insurers in terms of Policies and Premium																									
Insurer Name	Rural Sector														Social Sector										
	2017-18					2018-19					2019-20 (Provisional)				2017-18				2018-19				2019-20 (Provisional)		
	No. of Policies Issued				Premium	No. of Policies Issued				Premium	Rural	No. of NB	% of Rural	Premium	No. of Lives Covered			Premium	No. of Lives Covered			Premiu	Social	Total NB	% of
	Total	In rural	Achieved	Target	(Rs. Crs)	Total	In rural	Achieved	Target	(Rs. Crs)	Policies as at	Policies as at 31.03.20	Policies to NB Policies	(Rs. Crs)	In Social Sector	Achieved	Target	(Rs. Crs)	In Social Sector	Achieved	Target	m (Rs. Crs)	Lives Covered	(No. of Indl Policies +	Social Lives to
Aditya Birla SunLife Insurance Co. Ltd.	248751	74586	30.0%	20%	124.64	284857	73191	25.7%	20%	197.64	64286	262495	*24.49%*	229.69	226279	11.70%	5.00%	4.23	617439	19.9%	5%	15.13	745552	3331600	*22.38%*
Aegon Life Insurance Co. Ltd.	68891	18752	27.2%	20%	7.34	52869	11752	22.2%	20%	1.04	14988	37487	*39.98%*	0.53	6033	5.50%	5.00%	0.09	11866	9.6%	5%	-	26325	195724	*13.45%*
Aviva Life Insurance Co. India Ltd.	36379	10002	27.5%	20%	2.65	32154	7368	22.9%	20%	5.00	4884	20787	*23.50%*	13.34	26851	13.30%	5.00%	0.01	30271	7.6%	5%	-	31549	490785	*6.43%*
Bajaj Allianz Life Insurance Co. Ltd.	308372	72913	23.6%	20%	214.79	310872	80751	26.0%	20%	286.61	85343	311507	*27.40%*	354.13	6259932	14.30%	5.00%	170.83	6564279	17.1%	5%	190.21	6405712	35624454	*17.98%*
Bharti Axa Life Insurance Co. Ltd.	123930	27976	22.6%	20%	41.53	167699	47547	28.4%	20%	82.27	63633	207628	*30.65%*	122.50	12037	7.30%	5.00%	5.37	13611	7.3%	5%	9.60	16101	251982	*6.39%*
Canara HSBC OBC Life Insurance Co. Ltd.	104873	27772	26.5%	20%	130.55	129060	37172	28.8%	20%	173.77	44431	149876	*29.65%*	197.15	12681	11.10%	5.00%	-	337386	22.5%	5%	-	238851	2759040	*8.66%*
Edelweiss Tokio Life Insurance Co. Ltd.	64805	12869	19.9%	18%	38.30	81031	18171	22.4%	18%	41.50	17475	79953	*21.86%*	45.94	28407	4.90%	3.50%	0.06	11927	4.6%	4%	0.09	10139	196075	*5.17%*
Exide Life Insurance Co. Ltd.	194105	40266	20.7%	20%	97.77	200512	48551	24.2%	20%	123.66	48990	190460	*25.72%*	133.13	817137	134.20%	5.00%	5.31	949964	67.9%	5%	10.84	1735555	1946638	*89.16%*
Future Generali India Life Insurance Co. Ltd.	79709	19249	24.1%	20%	45.39	71458	17649	24.7%	20%	66.39	14960	65325	*22.90%*	57.20	34986	5.60%	5.00%	-0.04	40749	5.6%	5%	-0.03	43879	795708	*5.51%*
HDFC Life Insurance Co. Ltd.	1050200	217485	20.7%	20%	741.11	995000	200136	20.1%	20%	820.74	179712	897693	*20.02%*	895.32	6529691	31.30%	5.00%	134.82	13329331	40.1%	5%	259.47	18096495	51400031	*35.21%*
ICICI Prudential Insurance Co. Ltd.	837130	177452	21.2%	20%	705.66	892480	204975	23.0%	20%	672.23	163962	766991	*21.38%*	748.34	403824	14.70%	5.00%	1.29	1095830	33.5%	5%	19.71	3296857	23215565	*14.20%*
IDBI Federal Life Insurance Co. Ltd.	116693	28003	24.0%	20%	141.75	101803	25220	24.8%	20%	132.73	13099	47520	*27.57%*	110.05	173396	33.50%	5.00%	1.20	193520	59.8%	5%	1.46	53944	317579	*16.99%*
IndiaFirst Life Insurance Co. Ltd.	182869	50954	27.9%	19%	120.03	177792	108074	60.8%	19%	277.29	62525	188064	*33.25%*	198.07	153758	4.30%	4.00%	4.26	179386	4.8%	5%	5.57	117700	2302198	*5.11%*
Kotak Mahindra Life Insurance Co. Ltd.	338639	73710	21.8%	20%	50.05	346121	81972	23.7%	20%	70.66	71835	316150	*22.72%*	145.10	1161181	14.50%	5.00%	38.11	1005351	11.6%	5%	26.77	2690697	12290240	*21.89%*
Max Life Insurance Co. Ltd.	561841	133360	23.7%	20%	751.29	644913	157618	24.4%	20%	912.58	166928	597531	*27.94%*	1112.76	905829	39.90%	5.00%	-	2102321	56.0%	5%	-	1479038	4805089	*30.78%*
PNB MetLife India Insurance Co. Ltd.	219805	64834	29.5%	20%	318.57	212047	65560	30.9%	20%	387.28	60404	194312	*31.09%*	401.60	86327	5.20%	5.00%	0.62	162799	16.9%	5%	1.21	141300	1099056	*12.86%*
Pramerica Life Insurance Co. Ltd.	93420	30315	32.5%	20%	90.46	73214	22543	30.8%	20%	99.24	15426	40369	*38.21%*	57.10	14351419	128.70%	5.00%	-	18044063	99.0%	5%	104.74	9055303	20068226	*45.12%*
Reliance Nippon Life Insurance Co. Ltd.	216507	51156	23.6%	20%	145.55	225871	49913	22.1%	20%	164.79	43513	204901	*21.24%*	158.71	302395	10.20%	5.00%	6.00	780697	53.2%	5%	9.61	228392	3247331	*7.03%*
Sahara India Life Insurance Co. Ltd.	1622	1066	65.7%	20%	2.38	-	-	-	-	-	-	-	-	0.00	363	1.30%	5.00%	0.64	0	-	-	-	-	-	-
SBI Life Insurance Co. Ltd.	1427034	338242	23.7%	20%	1,309.19	1525439	362377	23.8%	20%	1,607.01	381906	1551862	*24.61%*	2125.05	648094	13.10%	5.00%	2.42	621527	10.5%	5%	1.29	312849	5377267	*5.82%*
Shriram Life Insurance Co. Ltd.	247183	130382	52.7%	20%	202.34	272972	113647	41.6%	20%	156.06	119961	274750	*43.66%*	223.56	2860634	12.80%	5.00%	0.21	2034858	31.0%	5%	7.65	1346634	4617672	*29.16%*
Star Union Dai-ichi Life Insurance Co. Ltd.	113211	45796	40.5%	19%	209.35	95999	35895	37.4%	19%	188.26	28433	77620	*36.63%*	186.99	24705	6.90%	4.50%	0.08	35227	6.6%	5%	0.03	58000	762508	*7.61%*
TATA AIA Life Insurance Co. Ltd.	222661	57180	25.7%	20%	126.17	349677	96348	27.6%	20%	238.11	145528	478182	*30.43%*	314.58	33876	9.30%	5.00%	2.13	57295	15.4%	5%	2.23	87933	504868	*17.42%*
Private Total	**6858630**	**1704320**	**24.85%**		**5,616.86**	**7243840**	**1866430**	**25.77%**		**6,704.86**	**1812222**	**6961463**	*26.03%*	7830.84	**35059835**			**377.64**	**48219697**			**665.58**	46218805	175599636	*26.32%*
LIC	21338176	4770233	22.36%	20%	6,902.33	21403905	4770233	22.29%	20%	6,399.60	**4685359**	**21925106**	***21.37%***	**6723.68**	37316017	41.40%	5.00%	17.80	17961415	16.5%	5%	20.84	**15215933**	77704593	***19.58%***
Grand Total	**28196806**	**6474553**	**22.96%**		**12,519.19**	**28647745**	**6636663**	**23.17%**		**13,104.46**	**6497581**	**28886569**		14554.52	**72375852**			**395.44**	**66181112**			**686.42**	61434738		

Notes:

1. Data relating to FY2019-20 is Provisional. Further the business was affected in the month of March 2020 due to global pandemic Covid-19.

2. The negative premium for Future Generali India Life Insurance Company Limited is due to cancellations of new business.

Rural and Social Sector Obligation of Non-Life Insurers in terms of Policies and Premium for FY 2017-18, 2018-19 and 2019-20

Rural and Social Sector Obligation of Non-Life Insurers in terms of Policies and Premium																		
Insurer Name	Rural Sector									Social Sector								
	2017-18			2018-19			2019-20 (Provisional)			2017-18			2018-19			2019-20 (Provisional)		
	GDP (Rs. in lakhs)	Achieved (%)	Target (%)	GDP (Rs. in lakhs)	Achieved (%)	Target (%)	GDP (Rs. in lakhs)	Achieved (%)	Target (%)	No. of Lives	Achieved (%)	Target (%)	No. of Lives	Achieved (%)	Target (%)	No. of Lives	Achieved (%)	Target (%)
Acko General Insurance Limited	13.72	NA	NA	2,632.90	18.00%	2.00%	7,441.40	20%	3.0%	0	NA	NA	29830192	2978.00%	0.50%	91679899	36%	1.0%
Bajaj AllianZ General Insurance Company Limited	91,495.00	9.69%	7.00%	89,506.82	8.09%	7.00%	1,01,223.33	7.92%	7.0%	3343553	45.88%	5.00%	4284720	28.15%	5.00%	46,96,948	20.63%	5.0%
Bharti Axa General Insurance Company Limited	50,535.82	28.82%	7.00%	72,499.62	32.11%	7.00%	1,06,939.96	34.12%	7.0%	980385	303.57%	5.00%	741630	8.66%	5.00%	13,15,914	5.53%	5.0%
Cholamandalam General Insurance company Ltd	75,051.27	18.00%	7.00%	72,703.69	16.00%	7.00%	1,29,014.56	29%	7.0%	1283752	17.00%	5.00%	1859702	18.00%	5.00%	59,43,516	61%	5.0%
NAVI General Insurance Limited	1,071.00	NA	NA	2,165.05	8.91%	2.00%	1,586.57	10.04%	3.0%	0	NA	NA	2007	2.10%	0.50%	2596	1.27%	1.0%
Edelweiss General Insurance Limited	-	NA	NA	867.39	9.37%	2.00%	761.54	5.20%	3.0%	0	NA	NA	2	1.76%	0.50%	500	1.21%	1.0%
Future Generali India Insurance Company Limited	56,126.27	29.44%	7.00%	80,165.79	31.39%	7.00%	1,34,437.73	39.34%	7.0%	1531413	8.44%	5.00%	1558169	8.17%	5.00%	16,51,831	6.47%	5.0%
Go Digit General Insurance Limited	-	NA	NA	5,092.00	5.69%	2.00%	16,444.00	9.30%	3.0%	0	NA	NA	618	1.65%	0.50%	3054	1.14%	1.0%
HDFC Ergo General insurance Company Limited	2,61,738.55	35.90%	5.00%	26,651.85	30.90%	6.00%	2,86,023.05	30.73%	7.0%	2365213	36.00%	3.50%	3740134	18.40%	4.00%	68,80,057	20.41%	4.5%
ICICI Lombard General Insurance Company Limited	2,70,879.41	22.00%	7.00%	2,86,089.00	20.00%	7.00%	94,056.00	7.07%	7.0%	6275397	9.00%	5.00%	10408643	7.00%	5.00%	74,60,320	5.71%	5.0%
IFFCO Tokio General Insurance Company Limited	1,52,142.69	27.01%	7.00%	2,38,778.67	34.10%	7.00%	2,59,270.15	32.57%	7.0%	15848235	40.88%	5.00%	17713319	39.21%	5.00%	55,36,197	11.69%	5.0%
Kotak Mahindra General Insurance Company Limited	1,024.81	6.00%	3.00%	1,569.91	5.21%	5.00%	2,363.56	5.45%	5.0%	1941	1.70%	1.00%	58496	18.00%	1.50%	1,46,708	13.50%	2.0%
Liberty Videocon General Insurance Company Limited	6,181.10	7.56%	5.00%	9,253.06	8.22%	5.00%	19,934.32	13.02%	5.0%	120000	3.16%	2.50%	106800	3.65%	3.00%	96,400	4.31%	3.5%
Magma HDI General Insurance Company Limited	31,346.32	59.52%	5.00%	56,497.26	58.24%	5.00%	79,921.16	65.25%	5.0%	51817	5.70%	2.50%	42165	4.70%	3.00%	33,074	7.98%	3.5%
National Insurance Company Limited	2,50,277.64	12.89%	7.00%	1,55,414.18	10.27%	7.00%	2,35,359.84	15.40%	7.0%	195068	14.85%	5.00%	1850311	12.23%	5.00%	13,47,662	7.63%	5.0%
Raheja QBE General Insurance Company Limited	704.00	8.44%	7.00%	834.62	7.20%	7.00%	1,127.47	7.13%	7.0%	7710	29.01%	4.50%	7710	9.20%	5.00%	17,604	12%	5.0%
Reliance General Insurance Company Limited	1,33,852.54	26.41%	7.00%	1,65,111.87	29.67%	7.00%	1,91,810.43	25.69%	7.0%	2445533	25.80%	5.00%	3642333	13.32%	5.00%	23,69,241	7.33%	5.0%
Royal Sundaram Alliance Insurance Company Limited	23,059.84	8.72%	7.00%	58,507.99	18.44%	7.00%	1,02,151.90	27.86%	7.0%	329007	14.77%	5.00%	202849	6.24%	5.00%	2,15,122	6.32%	5.0%
SBI General Insurance Company Limited	1,30,429.00	37.00%	6.00%	1,52,300.94	32.00%	7.00%	1,72,144.85	25.33%	7.0%	2052506	5.79%	4.00%	6296965	23.69%	4.50%	98,54,834	37.80%	5.0%
Shriram General Insurance Company Limited	15,376.21	7.32%	7.00%	19,441.13	8.25%	7.00%	22,264.45	9.03%	7.0%	373705	10.84%	5.00%	893439	24.84%	5.00%	10,03,548	16.62%	5.0%
Tata AIG General Insurance Company Limited	1,10,954.88	20.41%	7.00%	2,24,813.56	29.04%	7.00%	1,51,347.87	20.50%	7.0%	3610805	39.14%	5.00%	5245672	39.32%	5.00%	40,16,379	16.62%	5.0%
The New India Assurance Company Limited	4,18,024.03	18.40%	7.00%	4,16,103.41	17.40%	7.00%	3,85,436.23	14.37%	7.0%	441716063	73.62%	5.00%	109838770	24.86%	5.00%	6,02,60,226	54.86%	5.0%
The Oriental Insurance Company Limited	1,82,391.00	15.93%	7.00%	3,17,805.03	24.08%	7.00%	2,04,905.49	15.00%	7.0%	70892969	73.29%	5.00%	77672967	75.20%	5.00%	96,27,721	13%	5.0%
United Insurance Company Limited	2,90,010.47	16.64%	7.00%	2,29,896.20	14.00%	7.00%	2,82,518.85	16.14%	7.0%	125287424	74.34%	5.00%	114228500	91.17%	5.00%	10,52,64,805	92.15%	5.0%
Universal Sompo General Insurance Company Limited	1,30,134.63	56.31%	7.00%	1,73,758.32	61.38%	7.00%	1,48,325.31	51.88%	7.0%	10619152	91.17%	5.00%	4432289	19.66%	5.00%	3,37,58,001	189.63%	5.0%
Grand Total	26,82,820.19			28,58,460.25			31,36,810.02			689331648			394658402			353182157		

Data relating to FY2019-20 is Provisional. Further the business was affected in the month of March 2020 due to global pandemic of Covid-19.

Rural and Social Sector Obligation of Health Insurers in terms of Policies and Premium for FY 2017-18, 2018-19 and 2019-20

Rural and Social Sector Obligation of Standalone Health Insurers in terms of Policies and Premium																								
Insurer	Rural Sector												Social Sector											
	2017-18				2018-19				2019-20 (Provisional)				2017-18				2018-19				2019-20 (Provisional)			
	Total Gross premium (In `lakh)	Premium in Rural sector (In `lakh)	Achieved (%)	Target (%)	Total Gross premium (In `lakh)	Premium in Rural sector (In `lakh)	Achieved (%)	Target (%)	Total Gross premium (In `lakh)	Premium in Rural sector (In `lakh)	Achieved (%)	Target (%)	Total business (lives in lakh)	No. of lives in social sector (In lakh)	Achieved (%)	Target (%)	Total business (lives in lakh)	No. of lives in social sector (In lakh)	Achieved (%)	Target (%)	Total business (lives in lakh)	No. of lives in social sector (In lakh)	Achieved (%)	Target (%)
Aditya Birla Health Insurance Co. Ltd	24,317.00	351.00	1.44%	1.00%	49,680.33	1,656.60	3.33%	1.50%	87204	12245	14.05%	2.50%	2	0.59	28.58%	0.50%	10.53	0.17	1.64%	1.00%	23	1.19	5.13%	1.50%
Apollo MunichHealth Insurance Co. Ltd	1,71,751.00	7,380.00	4.30%	3.50%	2,19,443.94	8,467.73	3.86%	3.50%	NA	NA	NA	NA	42	2.5	6.00%	5.00%	56.67	7.00	12.36%	5.00%	NA	NA	NA	NA
ManipalCigna Health Insurance Co. Ltd	34,640.00	5,814.00	16.78%	2.50%	48,482.22	8,763.36	18.08%	2.50%	57619	10927	18.96%	2.50%	4	0.11	2.68%	1.50%	6.71	0.19	2.83%	2.50%	12.03	0.48	4.01%	3.00%
Max Bupa Health Insurance Co. Ltd	75,447.00	3,963.00	5.25%	3.00%	94,701.16	5,178.45	5.47%	3.50%	124289	7467	6.01%	3.50%	24	0.98	4.07%	4.00%	27.43	1.29	4.70%	4.50%	24.18	1.31	5.42%	5.00%
Reliance Health Insurance Co. Ltd					NA	NA	NA	NA	NA	NA	NA	NA					NA	NA	NA	NA	NA	NA	NA	NA
Religare Health Insurance Co. Ltd	1,09,161.00	9,913.00	9.08%	2.50%	1,82,557.45	14,823.34	8.10%	2.50%	238899	21489	9.00%	3.00%	20	5	25.80%	3.00%	37.15	21.46	57.80%	3.50%	132.67	37.04	28.00%	4.00%
Star Health Health Insurance Co. Ltd	4,16,111.00	57,471.00	13.81%	3.50%	5,40,129.00	81,409.00	15.07%	3.50%	686514	111118	16.19%	3.50%	92	14	15.78%	5.00%	106.56	15.75	14.78%	5.00%	135.06	16.82	12.45%	5.00%
HDFC Ergo Health Insurance Co. Ltd	NA	NA	NA	NA	NA	NA	NA	NA	252166	11406	4.52%	3.50%	NA	NA	NA	NA	NA	NA	NA	NA	77.18	4.76	6.17%	5.00%
Total	8,31,427.00	84,892.00	10.21		11,34,994.10	1,20,298.48	10.60		1446691	174652	12.07		184	23.18	12.60		245.05	45.86	18.72		404	62	15.24	

Data relating to FY2019-20 is Provisional. Further the business was affected in the month of March 2020 due to global pandemic Covid-19.

Annexure 8: IRDAI (Micro Insurance) Regulations, 2015

INSURANCE REGULATORY AND DEVELOPMENT AUTHORITY OF INDIA

NOTIFICATION

Hyderabad, the 13th March, 2015

Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015

F. No. IRDA/Reg/2/92/2015 — In exercise of the powers conferred by Section 114A(1) of the Insurance Act, 1938 (4 of 1938) read with sections 14 and 26 of the Insurance Regulatory and Development Authority of India Act, 1999 the Authority in consultation with the Insurance Advisory Committee, hereby makes the following regulations -

1. **Short title and commencement.**— (1) These regulations may be called the Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015. (2) They shall come into force on the date of their publication in the Official Gazette and supersede IRDA (Micro Insurance) Regulations, 2005 from such date.

DEFINITIONS

2. In these regulations, unless the context requires otherwise—

(*a*) "Act" means the Insurance Act, 1938 (4 of 1938) as amended from time to time.

(*b*) "Authority" means the Insurance Regulatory and Development Authority of India established under sub-section (1) of Section (3) of the Insurance Regulatory and Development Authority of India Act, 1999;

(*c*) "family" means a unit comprising of husband, wife, dependant parents and maximum of three children:

Provided that where the number of children is more than three, for construing the composition of family as aforesaid, the first three children shall be included:

Provided further that an insurer may, within the aforesaid parameters laid down for the composition of the family, define 'family' as per the requirements of the individual or group;

(*d*) "general micro-insurance product" means any health insurance contract, any contract covering the belongings, such as, hut, livestock or tools or instruments or any personal accident contract, either on individual or group basis, as per terms stated in Schedule I of these regulations;

(*i*): General Insurance policies issued to Micro, Small and Medium Enterprises as classified in Section (7) of Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 under various lines of General insurance business will also be qualified as general micro insurance business up to Rs10,000 premium p.a. per MSM Enterprise.

(e) "life micro-insurance product" means a life insurance product designed as per terms stated in Schedule II of these regulations;

(f) "micro-insurance agent" means the following entities or individuals who are appointed as Micro Insurance Agents in accordance to these regulations

(*i*) a Non-Government Organisation (NGO);

(*ii*) a Self-Help Group (SHG);

(*iii*) a Micro-Finance Institution (MFI)

(iv) RBI regulated NBFC – MFIs

(v) District Cooperative Banks licensed by Reserve Bank of India subject to being eligible as per extant norms of Reserve Bank of India

(vi) Regional Rural Banks established under Section (3) of Regional Rural Banks Act, 1976 subject to being eligible as per extant norms of Reserve Bank of India

(vii) Urban Co-operative banks licensed by Reserve Bank of India subject to being eligible as per extant norms of Reserve Bank of India

(viii) Primary Agricultural Cooperative Societies

(ix)Other Cooperative Societies registered under any of the Cooperative Societies Acts

(x) Business correspondents appointed in accordance to the extant RBI Guidelines with any of the Scheduled Commercial Banks

Explanation— For the purposes of these regulations,—

(I) *Non-Government Organisation (NGO), referred at Regulation (2) (f) (i),* means a non-profit organization registered as a society under any law, non-profit organization registered with non-profit objective under Section 8 of Companies Act, 2013 and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people.

(II) *Self-Help Group (SHG), referred at Regulation (2) (f) (ii),* means any informal group consisting of ten or more persons and has been working at least for three years with marginalized groups, with proven track record, clearly stated aims and objectives, transparency and accountability as outlined in its memorandum, rules, by-laws or regulations, as the case may be, and demonstrates involvement of committed people.

(III) *Micro-Finance Institution, referred at Regulation (2) (f) (iii),* means any institution or entity or association registered under any law for the registration of societies or co-operative societies, as the case may be, *inter alia*, for sanctioning loan/finance to its members;

(IV) The entities referred in (i) to (x) of Regulation 2 (f) above who are already engaged in soliciting the insurance business as Corporate Agents or as Insurance Brokers or appointed as Referral Company are not eligible to be appointed as Micro Insurance Agents.

(v) Where the Business Correspondents referred at Regulation 2 (f) (x) above are the individuals and are already engaged in soliciting the insurance business as Insurance Agents or appointed as Specified Persons of Corporate Agents, Specified Persons of Micro Insurance Agents or employees of Insurance Brokers, they are not eligible to be appointed as Micro Insurance Agents.

(*g*) "micro-insurance policy" means an insurance policy sold under a plan which has been specifically approved by the Authority as a micro-insurance product;

(1) For the purpose of these Regulations Micro Insurance is the insurance provided through the Micro Insurance Products approved under these regulations.

(*h*) "micro-insurance product" includes a general micro-insurance product or life insurance product or health insurance product, proposal form and all marketing materials in respect thereof;

(*i*) all words and expressions used herein and not defined but defined in the Insurance Act, 1938 (4 of 1938) as modified from time to time, or in the Insurance Regulatory and Development Authority Act, 1999 or in any Rules or Regulations made there under shall have the meanings respectively assigned to them in those Acts, Rules or Regulations.

TIE UP BETWEEN LIFE INSURER AND GENERAL INSURER

3. (1) An insurer carrying on life insurance business may offer life micro insurance products as also general micro-insurance products, as provided herein:

Provided that where an insurer carrying on life insurance business offers any general micro-insurance product, he shall have a tie-up with an insurer carrying on general insurance business for this purpose, and subject to the provisions of Section 64VB of the Act, the premium attributable to the general micro insurance product may be collected from the prospect (proposer) by the insurer carrying on life insurance business, either directly or through any of the distributing entities of micro-insurance products as specified in Regulation (4) and made over to the insurer carrying on general insurance business:

Provided further that in the event of any claim in regard to general micro insurance products, the insurer carrying on life insurance business or the distributing entities of micro-insurance products, as the case may be, as may be specified in the tie-up referred to in the first proviso, shall forward the claim to the insurer carrying on general insurance business and offer all assistance for the expeditious disposal of the claim.

(2) An insurer carrying on general insurance business may offer general micro insurance products as also life micro-insurance products, as provided herein:

Provided that where an insurer carrying on general insurance business offers any life micro-insurance product, he shall have a tie-up with an insurer carrying on life insurance business for this purpose, and subject to the provisions of Section 64VB of the Act, the premium attributable to the life micro-insurance product may be collected from the prospect (proposer) by the insurer carrying on general insurance business, either directly or through any of the distributing entities of micro-insurance products as specified in Regulation (4), and made over to the insurer carrying on life insurance business :

Provided further that in the event of any claim in regard to life micro-insurance products, the insurer carrying on general insurance business or the distributing entities of micro-insurance products, as the case may be, as may be specified in the tie-up referred to in the first proviso, shall forward the claim to the insurer carrying on life insurance business and offer all assistance for the expeditious disposal of the claim.

For the purpose of these Regulations, the General Insurer includes Health Insurer.

DISTRIBUTION OF MICRO INSURANCE PRODUCTS

4 (1) In addition to an insurance agent or corporate agent or broker appointed / registered under the Act, read with the regulations concerned made by the Authority for appointing / registering individual or corporate agents, or insurance brokers, as the case may be and such other insurance intermediaries that are allowed to solicit the insurance business by the regulations notified by the Authority, micro-insurance products may be distributed through the micro-insurance agents:

Provided that a micro-insurance agent shall not distribute any insurance product other than a micro-insurance product

(2): For the purpose of distributing the General Micro Insurance Products referred at Regulation 2 (d) (i);

(a) A General Insurance Company has the option of appointing Micro Insurance Agent to any one of the sectors of; Micro Enterprises or Small Enterprises or Medium Enterprises or for all three sectors or any combination of two sectors

(b) A General Insurance Company has the option of appointing Micro Insurance Agents for various lines of business either independently to each line of business or any combination thereof or to all lines of General Insurance business

(c) A General Insurance Company has the option of appointing Micro Insurance Agents in these combinations either in the Manufacturing Sector or in the Service Sector or both.

APPOINTMENT OF MICRO INSURANCE AGENTS

5. (1) A micro-insurance agent shall be appointed by an insurer by entering into a deed of agreement, which shall clearly specify the terms and conditions of such appointment, including the duties and responsibilities of both the micro-insurance agent and the insurer:

(2) A micro insurance agent may work with One Life Insurance Company and one General Insurance Company. In addition to this a Micro Insurance Agent may also work with Agriculture Insurance Company of India Ltd and with any one of the health insurance companies registered with the Authority.

(3) The deed of agreement referred to in sub-regulation (1) shall specifically authorize the micro-insurance agent to perform one or more of the following additional functions, namely:

(*a*) collection of proposal forms;

(*b*) collection of self-declaration from the proposer that he/she is in good health;

(*c*) collection and remittance of premium.

(i) Where the micro insurance agents are authorized to collect and remit the premiums, they shall be mandated by the Insurers for issuing acknowledgements on collection of premiums and every Insurer shall put in place procedures to enable Micro Insurance Agents issue such acknowledgments.

(ii) Insurers are accountable to such premium acknowledgements issued by the Micro Insurance Agents.

(*d*) distribution of policy documents;

(*e*) maintenance of register of all those insured and their dependants covered under the micro-insurance scheme, together with details of name, sex, age, address, nominees and thumb impression/signature of the policyholder;

(*f*) assistance in the settlement of claims;

(*g*) ensuring nomination to be made by the insured;

(*h*) any policy administration service.

(4) The micro-insurance agent or the insurer shall have the option to terminate the agreement referred to in sub-regulation 5(1), after giving a notice of three months by the party intending to terminate the agreement:

Provided that no such notice shall be necessary, where the termination is on account of any misconduct or indiscipline or fraud committed by the microinsurance agent.

(a) An Insurer may appoint a person or entity whose micro insurance agency was terminated, other than on the grounds of fraud / mis conduct, and enter into a deed of agreement in accordance to the provisions of Regulation (5) (1) only after the expiry of 3 months from the date of termination of the said agreement by previous insurer. No Insurer shall re-appoint a Micro Insurance Agent whose agency was terminated on grounds of fraud or misconduct till such person / entity is exonerated of charges.

(b) In case of termination of a Micro Insurance Agent, the lapsed Micro Insurance policies of the terminated Micro Insurance agent may be allotted to another in force Micro Insurance Agent of the same insurer by obtaining the prior consent of such in-force micro insurance agent, by specifying that the objective of the allotment is to conserve and render policy service to the Micro Insurance policyholders. The Micro Insurance agent who is allotted such lapsed Micro Insurance Policies is entitled to remuneration / commission as per the File and Use of the respective micro insurance product. Remuneration / Commission shall be payable only on receipt of micro insurance premium.

(5) Every Insurer shall carry out due diligence before appointing a Micro Insurance Agent with regard to the reputation, track record and ability to function in compliance with the regulations and in the best interests of policy holders.

EMPLOYMENT OF SPECIFIED PERSONS BY MICRO INSURANCE AGENTS

6 (1) A micro-insurance agent shall employ specified persons with the prior approval of the insurer for the purpose of discharging all or any of the functions stated in sub-regulation (3) of regulation 5.

Provided that corporate agents, insurance brokers and such other insurance intermediaries that are allowed to solicit the insurance business and procuring micro-insurance business shall continue to be governed by the respective regulations issued by the Authority and as amended from time to time.

(i) A specified Person who resigned from a Micro Insurance Agent shall be eligible for reappointing as a specified person of other Micro Insurance Agent only after the expiry of 3 months from the date of resignation.

(ii) No Micro Insurance Agent shall employ the specified person working for another Micro Insurance Agent.

(iii) No Micro Insurance Agent shall employ the individual insurance agents who are working with any insurer, specified persons of corporate agents who are working with any insurer and employees of Insurance Brokers.

6 (2) Where a Micro Insurance Agent is an individual appointed by an insurance company he shall not employ Specified Persons.

CODE OF CONDUCT OF MICRO INSURANCE AGENTS

7. (1) Every micro-insurance agent and specified person employed by him shall abide by the Code of Conduct as laid down in regulations applicable for insurance agents issued by the Authority and as amended from time to time and the relevant provisions of Regulation or guidelines issued by the Authority in relation to the Insurance Advertisements and Disclosure as modified from time to time:

Provided that the insurer shall ensure compliance of the Code of Conduct, advertisements and disclosure norms by every micro-insurance agent.

(2) Any violation by a micro-insurance agent of the Code of Conduct and/or advertisement or disclosure norms as aforesaid shall lead to termination of his appointment, in addition to penal consequences for breach of Code of Conduct and/or advertisement or disclosure norms pursuant to the provisions of sub regulation(1).

FILING OF MICRO INSURANCE PRODUCT

8. (1) Every insurer shall be subject to the *"file and use"* procedure with respect to filing of micro-insurance products with the Authority.

(2) Every micro-insurance product which is cleared by the Authority for the purpose of micro-insurance shall prominently carry the caption "Micro-Insurance Product".

(3) Life Micro Insurance Products filed with the Authority under these regulations shall be subject to the norms stipulated under Schedule – III of these Regulations.

ISSUANCE OF MICRO INSURANCE POLICY CONTRACTS

9. (1) Every insurer shall issue insurance contracts to the individual micro insurance policyholder in the languages recognised in the constitution of India which is simple and easily understood by the policyholders.

Provided that where issuance of policy contracts in the languages recognised in the constitution of India is not possible, the insurer shall as far as possible issue a detailed write-up about the policy details in the respective language.

(2) Every insurer shall issue insurance contracts to the group micro-insurance policyholder in an unalterable form along with a schedule showing the details of individuals covered under the group, and also issue a separate certificate, to each such individual evidencing proof of insurance, containing details of validity period of cover, name of the nominee, and addresses of the underwriting office and the servicing office, where both offices are not the same.

(3) Notwithstanding the provisions of Regulation 9 (1), the insurers may also allow the Micro Insurance Agents to print the policy contract on a plain A – 4 size paper for onward transmission to the Micro Insurance Policy holder. The evidence of payment of policy stamp may be shown on the printed policy document.

UNDERWRITING

10. No insurer shall authorize any micro-insurance agent or any other outsider to underwrite any insurance proposal for the purpose of granting insurance cover.

CAPACITY BUILDING

11. (1) Every insurer shall impart at least twenty-five hours of training at its expense and through its designated officer(s) in the languages recognised by the Constitution of India to all micro-insurance agents and their specified persons in the areas of insurance selling, policyholder servicing and claims administration.

> *Provided those micro insurance agents who are appointed to distribute General Insurance policies to MSME Sector in accordance to Regulation 4(2) of these regulations in those lines of business to which such Micro Insurance Agent is appointed shall undergo additional 25 hours of the training at the expenses of the insurer.*

(2) Not less than half of the number of hours of training referred at Regulation 11 (1) shall be imparted as refresher training on the expiry of every spell of three years from the date of entering into the agreement.

(3) As part of training programme, the Micro Insurance Agents shall be apprised of their obligation to intimate the insurer in the event of occurrence of contingent event covered in the underlying policy of micro insurance which is to their knowledge.

REMUNERATION / COMMISSION

12. (1) A micro-insurance agent may be paid, remuneration for all the functions rendered as outlined in regulation 5 and including commission, by an insurer, and that the same shall not exceed the limits as stated below :

(a) For Life Insurance Business:

Single Premium policies - *Ten per cent of the single premium*

Non-single premium policies - *Twenty per cent of the premium for all the years of the premium paying term*

(b) For General Insurance Business: Fifteen per cent of the premium.

(2) Where the agreement between the micro-insurance agent and insurer is terminated for any reason whatsoever, no future commission/remuneration shall be payable.

(3) For group insurance products, the insurer may decide the commission subject to the overall limit as specified in sub-regulation (1).

(4) The remuneration under Micro Insurance products payable to registered Insurance Intermediaries other than the Micro Insurance Agents shall be in accordance to the provisions of the respective applicable Regulations/ provisions of the Insurance Act, 1938 as amended from time to time.

COMPLIANCE TO THE ACT AND REGULATIONS

13. (1) Every insurer shall ensure that all transactions in connection with micro-insurance business are in accordance with the provisions of the Act as amended from time to time the Insurance Regulatory and Development Act, 1999, and the rules and regulations made there under.

Notwithstanding the provisions of Regulation (13) (1);

*(2)*The provisions of IRDA (Standard Proposal Form for Life Insurance) Regulations, 2013 are not applicable to Life Micro Insurance Products approved under these Regulations.

OBLIGATIONS TO RURAL AND SOCIAL SECTORS

14. (1) All micro-insurance policies may be reckoned for the purposes of fulfilment of social obligations by an insurer pursuant to the provisions of the Act as amended from time to time and the regulations made there under.

(2) Where a micro-insurance policy is issued in a rural area and falls under the definition of social sector, such policy may be reckoned for both under rural and social obligations separately.

HANDLING OF COMPLAINTS / GRIEVANCES

15. (1) It shall be the responsibility of the insurer to handle and dispose of complaints against a micro-insurance agent with speed and promptitude.

(2) Every insurer shall send a quarterly report to the Authority regarding the handling of complaints/grievances, if any, against the micro-insurance agents.

INSPECTION BY AUTHORITY

16. The Authority may cause inspection of the office and records of any micro-insurance agent, at any time, if it is deemed necessary.

SUBMISSION OF INFORMATION

17. Every insurer shall furnish information in respect of micro-insurance business in such form and manner and containing such particulars, as may be required by the Authority from time-to-time.

For the purpose of forwarding business / claims data on Micro Insurance Business under these Regulations, the business / claims figures relating to social security schemes of State / Central Government and administered on behalf of any Government shall be excluded.

POWER TO REMOVE DIFFICULTIES AND ISSUE CLARIFICATIONS

18. In order to remove any doubts or the difficulties that may arise in the application or interpretation of any of the provisions of these regulations, the Chairperson of the Authority may issue appropriate clarifications or guidelines as deemed necessary.

SCHEDULE I [See Regulation 2 (d)]

Type of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Dwelling and contents, or livestock or tools or implements or other names assets or crop insurance—against all perils	Rs.1,00,000 Per Asset/ Cover	1 year	1 year	N.A	N.A
Health Insurance Contract (Individual)	Rs. 1,00,000	1 year	1 year	Product specific	Product specific
Health Insurance Contract (Family/Group)	Rs 2,50,000	1 year	1 year	Product specific	Product specific
Personal Accident (Individual/Family/Group)	Rs. 1,00,000	1 year	1 year	Product specific	Product specific

i. Maximum Premium limits under Crop Insurance to be reckoned on per season / per crop basis.

SCHEDULE II (See Regulation 2 (e))

1. The sum assured under an Insurance product offering Life or pension or Health benefits shall not exceed an amount of Rs. 200000.
2. The Annual Premium shall not exceed Rs. 6000 p.a. in a Micro Variable Insurance product under Non Linked Non-Par platform.
3. Add on riders may be offered in accordance to the provisions of the extant Regulations.
4. Micro Insurance schemes marketed to Groups with a minimum Group Size of 5.

SCHEDULE -- III [See Regulation (8) (3)]

NORMS FOR LIFE MICRO INSURANCE PRODUCTS:

(I) Notwithstanding anything contrary to the provisions of any other regulations for the time being in force, the life, health and pension products offered under micro insurance platform shall be subject to the following :

a. Micro Insurance Products may allow the flexible premium payment options to enable the policyholders to remit the premiums in fragmented parts of the modal instalments.

b. Insurers shall not offer micro insurance products under unit linked platform.

c. Except to the provisions explicitly provided for in this regulation, all other provisions of IRDA (Linked Insurance Products) Regulations, 2013, IRDA (Non Linked Insurance Products) Regulations, 2013 and IRDA (Health Insurance) Regulations, 2013 shall be applicable *mutatis mutandis* to the Micro Insurance Products approved as per the provisions of the IRDA (Micro Insurance) Regulations, 2015 as modified from time to time.

d. Except for a regular premium pure term/health policy, where premiums are received for one full policy year, all the non-linked non variable micro insurance policies shall have a paid up value of at least the total premiums paid along with any subsisting or vested bonuses or guaranteed additions already accrued to the policy. Such paid up value along with bonuses or guaranteed additions, if any, shall be payable either on maturity or on death / on the happening of the contingency covered.

e. The non-linked variable insurance policy, shall:

i. Have a lock-in period of five years from the date of commencement of the policy for payment of surrender value. If the policy is surrendered during the lock- in period:

1. The surrender value shall be payable only after completing the lock-in period.
2. The insurer shall not levy any charge to the policy account from the date of surrender request.

ii. After completing two years from the date of commencement of the policy, insurer may allow partial withdrawal provided the balance in the policy account after the partial withdrawal is not less than one full year's premium.

iii. In respect of Regular Premium policies, the Life Insurer is entitled to levy the discontinuation charges which shall not be more than those mentioned under 'Table – a' hereunder. No other fee shall be charged.

Table - a

Where the policy is discontinued during the policy year	*Maximum Discontinuance Charges applicable to Micro Variable Life Insurance Products*
1	Lower of 20% * (AP or policy account value) subject to a maximum of Rs. 800
2	Lower of 15% * (AP or policy account value) subject to a maximum of Rs. 600
3	Lower of 10% * (AP or policy account value) subject to a maximum of Rs. 400
4	Lower of 5% * (AP or policy account value) subject to a maximum of Rs. 200
5 and onwards	Nil

iv. In respect of Single Premium policies, the Life Insurer is entitled to levy the discontinuation charges which shall not be more than those mentioned under 'Table – b' hereunder. No other fee shall be charged.

TABLE – b

Where the policy is discontinued during the policy year	Maximum Discontinuance Charges applicable to Micro Variable Life Insurance Products
1	Lower of 2% *(SP or policy account value) subject to a maximum of Rs. 800/-
2	Lower of 1.5% *(SP or policy account value) subject to a maximum of Rs. 600/-
3	Lower of 1% *(SP or policy account value) subject to a maximum of Rs. 400/-
4	Lower of 0.5% *(SP or policy account value) subject to a maximum of Rs. 200/-
5 and onwards	Nil

***AP- Annualised Premium**
***SP-Single Premium**

v. Discontinuance of the premium during the lock-in-period:

1. The life cover shall be lapsed immediately on expiry of the grace period.
2. The Individual Policy Account shall be continued within the respective discontinued policy account without any life cover till the end of the lock-in-period or the end of the revival period whichever is later.
3. During the lock-in-period or revival period, if the policy is not revived, the policy shall be terminated at the end of the lock-in-period or revival period whichever is later by paying the balance in the Individual Policy Account, after allowing for the discontinuance charges, if any.
4. In case of death during the lock-in-period, the balance in the Individual Policy Account shall be paid.
5. On revival of the discontinued policies, the risk cover shall be restored upon receipt of all due and unpaid premiums without levying any interest or fee or charge as on date of revival, subject to terms and conditions of the policy contract.

vi. Discontinuance of the premium after the lock-in-period:

1. The Individual Policy Account shall be continued with life cover till the end of the of the revival period.
2. If the policy is revived, the policy shall continue with life cover upon receipt of all due and unpaid premiums without levying any interest or fee or charge as on date of revival subject to terms and conditions of the policy contract.
3. If the policy is not revived during the revival period the underlying policy account value shall be payable.

vii. *Difference between Gross Yield and Net Yield for all Micro Variable Life Insurance products:* The maximum reduction in yield for micro variable life insurance policies from the fifth policy anniversary shall be in accordance with the following Table (c).

Table – c

Number of years elapsed since inception	Maximum Reduction in Yield (Difference between Gross and Net Yield (% p.a.))
5	4.80%
6	4.50%
7	4.20%
8	4.00%
9	3.80%
10	3.60%
11 and 12	3.30%
13 and 14	3.00%
15 and thereafter	2.65%

(i) The net reduction in yield at maturity for policies with term:

(1) less than or equal to 10 years shall not be more than 3.60% and
(2) above 10 years shall not be more than 2.65%.

(II) Continuation of policy account of Micro Variable Life Insurance Policies under certain circumstances:

a) Notwithstanding the provisions of any other regulations for the time being in force, on discontinuance of the policy and after payment of such proceeds of the discontinuance policy account value, the life insurers may:

(1) At its discretion provide the option to continue the policy with zero policy account value under the micro variable life insurance products.
(2) Allow the life insured to commence the payment of premiums and life coverage anytime during the remaining term of the discontinued policy.
(3) Allow the Life Insured to choose this option either at the inception of the policy or on revival.
(4) Accept the payment of premiums to the zero policy account, on subsequent request to continue the policy, in accordance with the Board Approved Underwriting Policy of the Life Insurer.
(5) Not levy any charges and shall not provide any life cover, while the policy is on zero policy account value.
(6) Not provide the option of zero policy account value to policyholders who have surrendered the policy.
(7) The zero balance policy account that is continued or restituted subsequently shall be subject to these regulations, with revised date of commencement, subject to the terms and conditions of the underlying policy and the underwriting policy of the insurer.
(8) Not be required to continue the offer of the *'Zero Policy Account'*, if the product is withdrawn.
(9) No charges shall be collected for maintaining the *zero balance policy accounts*.
(10) No *'Zero Balance Policy Account'* policies shall be treated as being on-books of the life insurers and such policies shall be taken to books only on recommencement of the premiums from such date. 'Zero Balance policy account' policies shall not count for "Total Number of Policies" in books, unless premiums re-commence under these policies. Further, such policies shall not be treated as "New Business" on re-commencement of premiums.

(III) Customised benefit illustration and disclosure norms prescribed in IRDA (Linked / Non Linked Insurance Products) Regulations are exempted to the Micro Insurance business.

(IV) In respect of Micro Variable Life Insurance Policies the policy account statement shall be made available to the policyholders at least once in a year.

(V) Life Insurers shall forward Customised Benefit illustration along with the policy document in respect of all micro variable life insurance products, illustrating the guaranteed and non-guaranteed benefits at gross investment returns of 4% and 8% respectively or as specified by IRDA or Life Insurance Council from time to time.

(VI) All the existing Micro Insurance Products that are not in compliance to these regulations shall be withdrawn with effect from 01st January, 2016.

T.S. VIJAYAN, Chairman

[ADVT-III/4/ Exty./161/14 (331)]

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Annexure 9: Comparative financials of NGOs' microinsurance business

Table showing the business done by entities mentioned above for three financial years

Particulars	VimoSEWA*	Annapurna Pariwar Vikas Samvardhan	Shri Kshetra Dharmasthala Rural Development Project
Total Premium (in crore)			
2017-18	1.94	3.74	39.99
2018-19	2.34	5.84	46.33
2019-20	2.48	6.98	60.26
Claims Paid (in crore)			
2017-18	0.83	1.81	35.89
2018-19	0.98	2.87	123.19
2019-20	0.59	4.07	101.11
Fees/Income for distributor (in crore)			
2017-18	1.40	2.3	-
2018-19	1.65	2.89	-
2019-20	1.76	3.02	20.38
Expense for distributor (in crore)			
2017-18	1.20	2.17	-
2018-19	1.29	2.67	-
2019-20	1.46	2.53	-
PBT (in crore)			
2017-18	0.19	0.13	-
2018-19	0.35	0.22	-
2019-20	0.29	0.49	-
Capital Allocated (in crore)			
2017-18	2.16	3.87	-
2018-19	2.16	4.69	-
2019-20	2.16	5.02	-
No. of Policies sold (New)			
2017-18	31,865	1,27,287	2,36,749
2018-19	33,943	1,73,142	77,83,256
2019-20	33,397	1,96,347	82,87,860
No. of Lives covered (New)			
2017-18	33,149	4,17,746	8,33,186
2018-19	40,618	4,53,889	84,44,809
2019-20	36,341	5,08,768	87,12,443
Maximum Sum Assured			
2017-18	5,000 to 50,000	7,000	
2018-19	5,000 to 1,00,000	7,000	
2019-20	5,000 to 2,00,000	7,000	50,000-2,00,000
Age group insured	18 to 60	0 to 100	18-55
Time taken to settle claims	Variable (0 to 209 days)	8 to 45 days	
*** The data pertaining to VimoSEWA is for the calendar year (i.e. January to December)**			

Annexure 10: Note on Solvency Regime

S P Chakraborty
July 2020

Current Solvency requirements and Standalone Microinsurance Company (SAMI):

Existing framework in India for Solvency and Regulatory capital requirements are mainly governed by specific clauses of Insurance Act, 1938 and explicit regulations for computing solvency margin and its reporting. These are listed below:

1. Section 64V of the Insurance Act, 1938: Assets and Liabilities how to be valued.
2. Section 64VA of the Insurance Act, 1938: Sufficiency of assets
3. Section 13 of the Insurance Act, 1938: Actuarial report and abstract.
4. IRDAI (Actuarial Report and Abstract for Life Insurance Business) Regulations, 2016
5. IRDAI (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016.
6. IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016.

Each insurer must have an Appointed Actuary in place as a Key Management personnel whose statutory duties, functions and responsibilities are prescribed in the IRDAI (Appointed Actuary) Regulations, 2017. An Appointed Actuary, amongst its other functions, has the responsibility of ensuring solvency of the insurers at all times.

In terms of computation of minimum solvency capital (Required Solvency Margin – RSM), current system follows a factor-based formula approach where the minimum solvency requirement is determined on the basis of two factors which are intended to capture various risks embedded in the insurance business. Factors vary in accordance with line of business as risks differ with the line of business. In case of life insurance, factors are derived to apply on Reserves and Sum Assured part in order to cover Reserves risk and Insurance risk. Two factors in non-life segment aims at capturing premiums and Claims risk. All insurers must have a minimum Control level of solvency which is 1.50 times the RSM calculated above with reference to value of assets over value of liabilities.

Current regime has inbuilt elements which ensure prudence in the valuation of liabilities and assets so as to ensure that reserves are adequate and insurers are capable of meeting policyholders' liabilities as and when it arises. Implicit prudence ensures protection of policyholders' interest even at times when the actuals vary adversely from expectations.

Before moving to issues specific to SAMI, it may be relevant to list out main risks which are commonly faced by an insurer:

1. Insurance risk (Life): Mortality, Morbidity, Lapse risk, Expense Risk, Catastrophe Risks.
   In addition, for Non-Life: Premiums and Claims Risk.
2. Credit Risk: For example, risk of default by reinsurers. IRDAI Regulations does not allow reinsurance with reinsurers having credit rating below a minimum level. Thus, minimising the default risk.
3. Market Risk: Interest rate, Spread risk, inflation, equity, property and concentration risk. Current Investment Regulations limit investments in sectors and/or instruments resulting into minimal default risk and also reduce concertation risk.
4. Operational risk.
5. Regulatory compliance risk.

An RBC approach breaks up risk into various components, quantify risks and calculate capital requirements with a predefined Value-at-Risk (VaR) which is 99.5% for Solvency II capital calculation.

By virtue of its nature and scale of operation, SAMI companies, at least at the initial stage are likely to be of small size and specialized in terms of its business mix and volume and scale of operational activities. However, a SAMI is expected to be well equipped to have a robust and efficient system of risk management and internal governance and Some of the areas (at the minimum) which need special consideration may be listed as follows:

1. Initially, focus on a specific target market with known demographics: This will help in managing risks directly associated with insurance.
2. Expenses Management: Expenses are likely to be on lower side compared to other insurers due to its specific characteristics and expectation on clear vision and objective of the promoters. However, variability remains an issue which needs to be addressed.
3. Distribution: Likely to have direct contact with the insureds and therefore, aim is to be cost effective. Initially, the business will be more akin to that of a captive insurer.
4. Lapses and surrenders: Usually, small and marginal policyholders are likely to be subject to more lapses/surrenders. However, this can be reduced through creating more awareness for such customers and also through designing appropriate need-based products with reasonable pricing, such as single premium and other new and innovative customer centric initiatives.
5. Clear business philosophy and **long-term view on sustainability of business**.
6. Protection of policyholders: Policyholders' servicing and timely settlement of claims.

Minutes of the meetings of committee

Minutes of 1st meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Wednesday, 26.02.2020 at 10:00 AM at IRDAI Office, Hyderabad

2. The first meeting of the Committee on Development of a concept paper on standalone Microinsurance Company took place at IRDAI Office, Hyderabad on 26.02.2020 between 10 am to 3:30 pm.

The following members were present:

1	Ms. Mirai Chatterjee	Director	SEWA, Ahmedabad
2	Mr. Nachiket Mor	Independent Consultant	
3	Mr. T R Mendiratta	Retd. ED	LIC of India
4	Mr. Ajit Dayal	Founder	Quantum Mutual Fund
5	Mr. Biswa Bandhu Mohanty	Retd. CGM	NABARD
6	Ms. Tabassum Inamdar	Analyst	Banking and Financial Sector
7	Dr. Mamta Suri	C.G.M.	IRDAI
8	Mr. S.P. Chakraborty	G.M.	IRDAI
9	Dr. N.M. Behera	Secretary	Office of the Insurance Ombudsman, Bhubaneshwar
10	Mr. Aleem Afaque	A.G.M.	IRDAI

2. Smt. T. L. Alamelu, Member (Non-Life) welcomed all the committee members and highlighted the need and importance of microinsurance.

3. Thereafter, all committee members gave a brief introduction about themselves. After that the meeting was presided over by Ms. Mirai Chatterjee, Chairperson of the Committee. She gave a brief background on the purpose and objectives of the formation of the Committee.

4. Shri Suresh Mathur, ED, IRDAI and Chairperson of the earlier Microinsurance Committee also gave a brief summary of the report of this committee.

5. One of the committee members mentioned about the importance of ascertaining demand for microinsurance. He suggested examination of the viability of a standalone microinsurance company. He also suggested that before starting full-fledged standalone microinsurance company, it would be better to implement first on a pilot basis. In addition, he mentioned that it would be appropriate if this committee has a joint meeting with the combo product committee which has simultaneously been set up by IRDA to looking into the feasibility of such products.

6. The Chairperson of the committee discussed the tentative outline of the report.

7. A member suggested that we need to agree on basic principles and on whom we need to focus on as clients. Another member advised that sustainability is key to standalone microinsurance.

8. One of the members suggested that it would be appropriate if the committee provide its report in accordance with the terms of reference of the committee and not to deal with issues of product, services,

marketing and technology. I It was decided that the committee will not go in detail on these topics, but will touch upon these in the report.

9. The committee discussed on the issues that need to be examined for the purpose of the report, namely:
   a) Desirability for microinsurance (MI) company and target customers, market potential, review of MI thus far.
   b) Legal Framework for MI entity
   c) Financial Feasibility of MI.
   d) Capital requirement
   e) Structure of the entity
   f) Proper criteria for licensing
   g) Financing of MI entity
   h) Customer Protection
   i) Distribution and cost of MI products
   j) Persistency of MI Products
   k) Profitability and sustainability.
   l) Considering graded capital requirement like 10 crore, 25 crore and 50 crore depending on the services and geography served by the MI company.

10. Based on the discussions the following responsibilities for working on the various aspects to be considered for standalone MI were delegated to the committee members:

Area of work	**Committee Members**
1. Introduction/Overview: Journey of Microinsurance (MI) in India • What worked, what did not • Where we have reached • Challenges/barriers to spread/expansion/scaling up of MI---products, services, technology, data, management issues	Ms. Mirai Chatterjee Mr. T R Mendiratta Ms. Tabassum Inamdar
2. Market Potential for standalone Microinsurance entity in India 3. Products: what is needed, how to organise these & appropriate services (short note)	Ms. Mirai Chatterjee Mr. T R Mendiratta, Ms. Tabassum Inamdar
4. Financing of standalone Microinsurance entity (including capital requirement)	Dr. Mamta Suri Mr. Nachiket Mor Mr. Ajit Dayal Mr. S.P. Chakraborty Ms. Tabassum Inamdar
5. Legal requirements for standalone Microinsurance entity	Mr. Biswa Bandhu Mohanty

	Dr. N.M. Behera Mr. Aleem Afaque

11. It was decided to have one committee meeting and consultation with other players of MI at Hyderabad at IRDAI and another committee meeting and consultation of the committee in Ahmedabad at VimoSEWA.

12. The indicative list of entities to be called upon for consultation were identified as:
    a. Dhan Foundation
    b. Basix
    c. Uplift Mutual
    d. Annapurna Mahila Mandal
    e. Goat Foundation
    f. Shepherd
    g. SKDRDP
    h. Mandi Saksharta Samiti
    i. Swasti

13. The next date and venue for the committee meeting was fixed as under:

Date	Venue	Remarks
17.03.2020 & 18.03.2020	SEWA, Ahmedabad	Meeting with SEWA members on March 17th, Committee meeting and discussion of first draft report of respective members on March 18th
23.03.2020 & 24.03.2020	IRDAI Office, Hyderabad	Consultation with microinsurance players and committee meeting
15.04.2020 & 16.04.2020	IRDAI Office, Hyderabad	Committee meeting

14. The meeting ended with vote of thanks.

Minutes of 2nd meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 16.04.2020 at 1100 hrs vide video conferencing

1. The second meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 16th April, 2020 at 1100 hrs., through Zoom video conferencing. The list of participants is given below in point no. 16.

2. Leave of absence was granted to Dr. N.M. Behera, Secretary Office of the Insurance Ombudsman, Bhubaneshwar;

3. The committee discussed on present COVID-19 pandemic and its effect on the society.

4. It was highlighted by the IRDAI Officials that based on the data for underwriting, claims and financial data of SEWA they tried to evaluate the risk profile, solvency requirement of proposed Standalone Microinsurance Company. However, the said data is not sufficient for effective computation of the matter and requested for arranging more data on the matter. It was discussed that the data from more than one organization / model will help in assessing the feasibility of standalone Microinsurance with reduced capital. On this matter it was agreed that the members will try to arrange data from other organizations who are dealing in Microinsurance.

   Action: Ms. Mirai Chatterjee will provide data from VimoSEWA and also names and contact numbers of a few other microinsurance organisations. Mr. Mendiratta will also provide contacts of the two organisations he knows.

5. There was some discussion on the international practices, including capital requirement, on MicroInsurance. It was suggested to peruse Annual Reports of international insurance companies who are dealing in Microinsurance like CARD in the Philippines, and also take the help of the International Cooperative and Mutuals Federation (ICMIF) for obtaining examples of Microinsurance in other countries.

   Action: Ms. Mirai Chatterjee to obtain the contacts and send to Dr. Mamta Suri

6. Mr. Ajit Dayal will share details of the Brazilian model of a Microinsurance company and update the Committee;

   Action: Mr. Ajit Dayal to obtain information on this.

7. Some members were of the opinion that the Indian scenario, population and financial conditions may not be comparable with other countries. As per definition / income eligibility for availing Microinsurance in USA, the ninety-seven percent (97%) of Indian middle-class population will fall under eligible population who can avail Microinsurance.

8. Mr. B.B. Mohanty, volunteered to share some data of a Philippines Company model on Microinsurance. He also said that the two models (India and Philippines) may not be comparable because of geographic conditions, population etc.

Action: Mr. Mohanty to send the data (NOTE: this has been sent already)

9. Capital Requirement: It was noted that in none of the foreign countries there is a requirement of INR 100 Crore for formation of an insurance company. Mr. Nachiket Mor suggested that we think of key principles which would determine the capital requirement in the first place. In view of the same, members tried to understand the rationale for fixing minimum capital requirements of INR 100 Crore in India. The following submissions were made by the IRDAI officials on the matter:
   a. Before the IRDAI era there were state-owned insurance companies and capital requirement was very low;
   b. After opening of insurance market and introduction of private sector, the consideration for fixing capital amount was based on pan-India operational expenses, business projections, required solvency margin etc. Thus, the INR 100 Crore was stipulated as minimum required capital;
   c. The following is to be considered for arriving at capital requirement of an Insurance Company;
      i) Business projections submitted by the applicant company;
      ii) Features of insurance contracts proposed to market;
      iii) Capital risk associated with each insurance policy;
      iv) Protection of policy holders' interest;
      v) Initial capital requirement and on-going capital requirement based on business operations;

10. Solvency Stipulations: There was discussion on Factor Based Solvency (FBS) and Risk Based Solvency (RBS) and Risk Based Capital (RBC). The IRDAI officials apprised the Committee on the following:
   a. FBS, RBS and RBC;
   b. difference between FBS and RBS;
   c. Present status for implementation of RBS;
   d. RBC Committee Report of year 2010-11 was discussed in the meeting.

11. Capital l Requirement and Solvency Regime: It was discussed that, the present capital requirement and solvency regime is twenty years old and the committee should endeavor to design a new model, especially for low income segment of our population, and in view of the purpose for which the committee was formed. Also, we should consider exposure in the case of microinsurance, ticket size of microinsurance offered currently and also the possibility of reinsurance.

12. Ms. Tabassum Inamdar updated the committee that she had discussions with ICICI Lombard and HDFC Ergo on the feasibility of designing of Microinsurance products. The following issues are highlighted on the matter:
   a. They may not be able to design health products which can compete Ayushman Bharat health scheme;
   b. Distribution of Microinsurance products through Small Finance Bank, NGO is not successful;
   c. Persistency ratio is less than 50%;
   d. Claim ratios are going up / frauds are an issue
   e. Identity of proposer / policy holder is an issue;
   f. Anti-selection by NGOs

13. Mr. Mohanty suggested that the work of the Regulatory Sub-Committee should be expedited;

Action: Sub-Committee on Regulatory aspects should take up their brief as soon as possible

14. Mr. Mendiratta said that he has not received views / comments on an Overview Note shared by him. He also requested that all earlier papers and reports be sent to all members in one lot so it is easier to keep track of these.

    Action: Committee members to read the draft overview note. Mr. Bhaskar to send all papers to members.

15. The next meeting of the Committee is scheduled on Thursday, 30th April, 2020 from 1100 hrs. to 1300 hrs.

16. List of participants of the meeting held on 16th April, 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. Mendiratta, Retd. ED, LIC of India, Member;
    iv. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    v. Mr. Biswa Bandhu Mohanty, Retd. CGM NABARD, Member;
    vi. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    vii. Dr. Mamta Suri, C.G.M. IRDAI, Member;
    viii. Mr. S.P. Chakraborty, G.M. IRDAI, Member;
    ix. Ms. Yegna Priya Bharat, CGM, Non-Life Dept., IRDAI, Invitee;
    x. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
    xi. Ms. Uma Maheshwari, DGM, F&A Dept. IRDAI, Invitee;
    xii. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
    xiii. Mr. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee;

Minutes of 3rd meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 30.04.2020 at 1100 hrs via video conferencing

1. The third meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 30th April, 2020 at 1100 hrs., through Skype video conferencing. The list of participants is given below in point no. 9.

2. Leave of absence was granted to following members:
    a. Mr. S.P. Chakraborty, G.M., Actuarial Dept., IRDAI; and
    b. Dr. N.M. Behera, Secretary Office of the Insurance Ombudsman, Bhubaneshwar;

3. The committee discussed on present COVID-19 pandemic and its effect on the society.

4. Presentation by Officials of the IRDAI: The copy of presentation (PPT) was circulated to all members in advance. Based on business data received by VimoSEWA, the officials of the IRDAI had made presentation before the committee on microinsurance business models followed by VimoSEWA and Philippines. The following is the gist of the discussions:
    a. Ms. Inamdar, Dr. Mamta Suri and Mr. Ajit Dayal raised certain questions on the matter of claims experience of VimoSEWA. Mr. Shreekant, CEO, VimoSEWA has responded on the same;
    b. It is recommended by the IRDAI officials that, Rural Bank Model may be given a thought for microinsurance by mutual organisations within the legal framework;
    c. Mr. Mendiratta and Ms. Mirai Chatterjee, explained that at present VimoSEWA is working as an intermediary already, similar to the Rural Bank Model being suggested. IN order to increase microinsurance penetration among low income families, along with better services for the working poor, we are discussing a proposal for a standalone microinsurance organization.
    d. It was suggested by Ms. Mirai that, the IRDAI may consider permitting VimoSEWA and a few others to function as standalone microinsurer, as a pilot or test case, but with regulation and oversight.

5. The committee discussed the issues emerging from the note given by Dr. Behera on the legal aspects of microinsurance. It was discussed that the recommendations of the committee may be based on extant statute.
    Action: Committee to further deliberate.

6. The committee decided to further examine the South African microinsurance model, and the regulations notified by Ethiopia on the matter of microinsurance.
    Action: Committee to further deliberate.

7. The committee decided on drafting its recommendations to facilitate further deliberations. Mr. Nachiket Mor suggested that we base these on clear principles, and that COVID-19 pandemic has given an opportunity to work on the recommendations in a manner that will prevent and protect people.
    Action: Taskforces on finance and regulations to draft recommendations

8. Next meetings of the Committee: Ms. Tabassum Inamdar suggested meetings with other organisations to study their microinsurance models. It was decided that the committee will discuss with other organizations who are engaged in microinsurance business:
   a. A meeting will be held on 07th May 2020 from 1100 hrs. to 1300 hrs. to discuss the above with M/s. Annapurna Pariwar and M/s. Uplift Mutual

   Action: Mr. Shreekant CEO, VimoSEWA will help to communicate with the organizations and try to fix the meetings.

   b. Another meeting will be held on 08th May 2020 from 1100 hrs. to 1300 hrs. to discuss the matter with M/s. Dhan Foundation, M/s. SKDRP, M/s BASIX and Mr. Bhim Singh of Himachal Pradesh all of whom are engaged in microinsurance.

   Action: Mr. Shreekant CEO, VimoSEWA will help to communicate with the organizations and try to fix the meetings;

   c. The next meeting of the Committee is scheduled on Thursday, 20th May, 2020 from 1100 hrs. to 1300 hrs.

9. List of participants of the meeting held on 30th April, 2020:
   i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
   ii. Mr. Nachiket Mor, Independent Consultant, Member;
   iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
   iv. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
   v. Mr. Biswa Bandhu Mohanty, Retd. CGM NABARD, Member;
   vi. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
   vii. Dr. Mamta Suri, C.G.M. IRDAI, Member;
   viii. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
   ix. Ms. Uma Maheshwari, DGM, F&A Dept. IRDAI, Invitee;
   x. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
   xi. Mr. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee;

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Minutes of 4th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 07.05.2020 at 11AM via video conferencing

1. The fourth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 7th May, 2020 at 1100 hrs., through Skype video conferencing. The list of participants is given below in point no. 7.

2. Leave of absence was granted to following members:
   a. Mr. Ajit Dayal, Founder Quantum Mutual Fund;
   b. Mr. S.P. Chakraborty, G.M., Actuarial Dept., IRDAI; and
   c. Dr. N.M. Behera, Secretary Office of the Insurance Ombudsman, Bhubaneshwar;

3. Mr. Kumar Shailabh of M/s. Uplift Mutual, presented the details about their business model and answered questions raised by the committee members, invitees.

   Action: Nil

4. Dr. Medha Samant, CMD of M/s. Annapurna Pariwar, presented the details about their business model and answered questions raised by the committee members, invitees.

   Action: Nil

5. Mr. François-Xavier Hay, Actuary for Annapurna Pariwar, presented the details pertaining to actuarial aspects and solvency for products of Annapurna Pariwar and answered questions raised by the committee members, invitees.

   Action: Nil

6. Next meetings of the Committee: As agreed earlier:

   a. Another meeting will be held on 08th May 2020 from 1100 hrs. to 1300 hrs. to discuss the matter with M/s. SKDRP and M/s. MSJVS, MANDI who are engaged in microinsurance.

   Action: Request all members to attend the meeting.

   b. The next meeting of the Committee is scheduled on Thursday, 21st May, 2020 from 1100 hrs. to 1300 hrs.

7. List of participants of the meeting held on 07th May, 2020:
   i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
   ii. Mr. Nachiket Mor, Independent Consultant, Member;
   iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
   iv. Mr. Biswa Bandhu Mohanty, Retd. CGM NABARD, Member;
   v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
   vi. Dr. Medha Samant, CMD, Annapurna Pariwar, Invitee;
   vii. Mr. François-Xavier Hay, Actuary for Annapurna Pariwar, Invitee;
   viii. Mr. Kumar Shailabh of M/s. Uplift Mutual, Invitee;

ix. Dr. Mamta Suri, C.G.M. IRDAI, Member;
x. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
xi. Ms. Uma Maheshwari, DGM, F&A Dept. IRDAI, Invitee;
xii. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
xiii. Mr. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee;

Minutes of 5th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Friday, 08.05.2020 at 11AM via video conferencing

1. The fifth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 8th May, 2020 at 1100 hrs., through Skype video conferencing. The list of participants is given below in point no. 7.

2. Leave of absence was granted to following members:
   a. Mr. Ajit Dayal, Founder Quantum Mutual Fund;
   b. Mr. S.P. Chakraborty, G.M., Actuarial Dept., IRDAI; and
   c. Dr. N.M. Behera, Secretary Office of the Insurance Ombudsman, Bhubaneshwar;

3. Dr. L.H. Manjunath, Executive Director, SKDRDP presented the details about their business model and answered questions raised by the committee members, invitees.

   Action: Nil

4. Mr. Bhim Singh Thakur of MSJVS, Mandi, presented the details about their business model and answered questions raised by the committee members, invitees.

   Action: Nil

5. It was discussed that, the committee will request Mr. François-Xavier Hay, Actuary for Annapurna Pariwar for additional inputs / comments w.r.t. actuarial aspect pertaining to proposal for formation of standalone microinsurance Company. Specific questions to be sent to Mr. Hay on this matter;

   Action: Dr. Mamta Suri, Mr. Nachiket Mor

6. Next meetings of the Committee: As agreed earlier:

   a. Another meeting is scheduled to be held on 15th May 2020 from 1100 hrs. to 1300 hrs. to discuss the matter with M/s BASIX and M/s. Shepherd who are engaged in microinsurance.

      Action: Request all members to attend the meeting.

   b. The next meeting of the Committee is scheduled on Thursday, 21st May, 2020 from 1100 hrs. to 1300 hrs.

7. List of participants of the meeting held on 08th May, 2020:

i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
ii. Mr. Nachiket Mor, Independent Consultant, Member;
iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
iv. Mr. Biswa Bandhu Mohanty, Retd. CGM NABARD, Member;
v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
vi. Dr. L.H. Manjunath, Executive Director, SKDRDP, Invitee;
vii. Mr. Bhim Singh Thakur of MSJVS, Mandi, Invitee;
viii. Dr. Mamta Suri, C.G.M. IRDAI, Member;
ix. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
x. Ms. Uma Maheshwari, DGM, F&A Dept. IRDAI, Invitee;
xi. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
xii. Mr. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee;

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Minutes of 6th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Friday, 15.05.2020 at 11AM via video conferencing

1. The sixth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 15th May, 2020 at 1100 hrs., through Skype video conferencing. The list of participants is given below in point no. 6.

2. Leave of absence was granted to following members:
    a. Mr. S.P. Chakraborty, G.M., Actuarial Dept., IRDAI; and
    b. Dr. N.M. Behera, Secretary Office of the Insurance Ombudsman, Bhubaneshwar;

3. Mr. Peter Pallaniswamy of M/s. Shepherd presented the details about their business model and answered questions raised by the committee members, invitees.

    Action: Nil

4. Mr. Satheesh of M/s. Basix presented the details about their business model and answered questions raised by the committee members, invitees.

    Action: Nil

5. Next meetings of the Committee: As agreed earlier, the next meeting of the Committee is scheduled on Thursday, 21st May, 2020 from 1100 hrs. to 1300 hrs.

6. List of participants of the meeting held on 15th May, 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
    iv. Mr. Biswa Bandhu Mohanty, Retd. CGM NABARD, Member;
    v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    vii. Mr. Peter Pallaniswamy of M/s. Shepherd, Invitee;
    viii. Mr. Satheesh of M/s. Basix, Invitee;
    ix. Dr. Mamta Suri, C.G.M. IRDAI, Member;
    x. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
    xi. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
    xii. Mr. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee;

Minutes of 7th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 21.05.2020 at 1100hrs vide video conferencing

1. The Seventh meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on 21st May, 2020 at 1100 hrs., through Skype video conferencing. The list of participants is given below in point no. 12.

2. Leave of absence was granted to following members:
   a. Mr. S.P. Chakraborty, GM, Actuarial Dept., IRDAI;
   b. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar; and
   c. Mr. Aleem Afaque, AGM, Legal Dept, IRDAI.

3. Mr. R K Sharma, GM, F&A Dept, IRDAI made a presentation on the updates on microinsurance and summary of the presentations made in earlier meetings of the committee along with challenges and issues for discussion. He also shared about the models and capital requirements of South Africa and Nigeria. While the amendments to the regulatory framework are within mandate of the IRDAI, the changes to the law require the mandate of the parliament. The presentation highlighted the following issues for further discussion and the limitations of the existing statutory and regulatory framework:
   a) Solvency requirements beyond the statutory mandate are prescribed under the regulations.
   b) There is no provision in the statute to reduce the capital requirement. The minimum capital requirement is laid down in the Act.
   c) There is no provision in the Act for a mutual to set up an insurance company.
   d) A spoke model is an option to be explored.

4. Mr. Ajit Dayal inquired about the market size for microinsurance in India. He also shared the need for reaching out to reinsurance companies and bring them into the dialogue on standalone microinsurance companies with reduced capital, as this was seen to be critical in the case of microinsurance TPA company ParaLife in Latin America. A note on discussions with ParaLife has been circulated.

5. Mr. Nachiket Mor explained that the current market is about 10 to 11 lakh Crore or US$125 billion. Government insurance programmes are to the tune of 8000-10,000 Crore. Ms. Tabassum Inamdar said that in a report she had prepared, she had estimated that potential for microinsurance could be large at 250 Mn people even if 50% of those working in the informal sector were to buy insurance. If average premium ticket size is taken as Rs 500, then her estimate for life insurance alone is US $ 1-5-2 billion. Mr. Nachiket Mor further suggested that the committee may want to think not in terms of overall upper limits of amounts covered (such as Rs.5 lac sum assured or Rs. 2 lac sum assured) but more in terms of risks covered in actuarial terms. He indicated that in most countries insurance does not quite work the way it does in India. Most insurance policies have minimum deductible limits and condition specific DRG payout limits but no overall upper limits of the type that exists in India. The insurance premium (and other regulatory ratios) are calculated based on actual risks covered. Indian policies tend to transfer risk back to the insured very quickly and are closer to prepayment plans than insurance policies.

6. Ms. Mamta Suri explained that under the statute, the minimum solvency margin requirement has been provided at Rs.50 crore. The regulatory requirements have pegged the solvency requirement at 1.5 times. She also said that while the Committee could recommend lower capital requirement for the microinsurance companies, any steps in this regard would require an amendment to the Insurance Act.

7. Mr. Mendiratta expressed the opinion that the main issue to be addressed is the capital requirement. Also, we need to see what can be done with regulations in the interim before the Act is changed. Ms. Mamta Suri suggested that options for the way forward could be presented in the report so that these could be taken forward for implementation in the interim while pursuing amendments to the Act. Mr. Ajit Dayal pointed to the ToR of the committee, which at points 4(a) and 4(b) which clearly say that the committee is to enable standalone microinsurance companies by reviewing existing laws and regulations. Mr. Nachiket Mor expressed the opinion that if we are to serve 600-700 million Indians with microinsurance, minor changes will not help and many more insurers have to be permitted to serve people and enabled with less capital requirement. He expressed the concern that with small changes, only minor gains shall be achieved and it needs to be made clear by the committee that it is serious about serving low- and middle-income families and expanding insurance coverage to them, it will need a dramatic expansion, far exceeding the Rs. 30,000 crore of the current health insurance market for 10% of the population. The global experience consistently indicates that India's minimum capital requirements are exceptionally high and may be the most important barrier to serving the poor. He felt that this point should be clearly brought out in the committee's recommendations and indicated how without any dilution of any norms a safe and secure insurance market could nevertheless be created using the benefits of modern technologies and risk-analysis tools.

   In sum: Majority of the members expressed the view that capital requirement must be reduced if we are to have micro-insurers licensed to serve the low-income segment of the under privileged sections of the society.

8. Ms. Mamta Suri expressed concerns on the viability and the ability to meet the solvency requirements by the microinsurance entities with lower capital requirement. She asked what would be the situation of policy-holders if such companies were unable to honour their commitments and service the claims as these arose. All members agreed that this was a key concern but that there could be ways to deal with this including reinsurance and risk-based capital (RBC) approach. On the latter, Ms. Mamta Suri said that capital requirement is there for RBC also. Mr. Nachiket Mor shared RBI's experiences with licensing of small banks. He said similar concerns has been expressed in discussions on permitting small banks to set up their business. However, he pointed out that just as finally it was decided that small banks are less risky, so also it would be less risky to have microinsurance companies with less capital requirement as their ticket size and sums insured are smaller and the risks covered are smaller. And a far stronger prudential regime could be implemented for them than has been the case for the current insurance companies. It was, however, agreed that these need to be addressed in the Report.

   It was decided that the committee engage with reinsurers also to address the issue of risk when reducing capital and solvency requirements. Ms. Mamta Suri is to take this forward and arrange for interactions with reinsurance companies.

   Action: Dr. Mamta Suri, CGM, F&A Dept, IRDAI

9. Ms. Mirai Chatterjee summarised the present thinking on recommendations based on the presentations by those involved in microinsurance and also overseas experiences:

a) Reduction of capital requirement is strongly recommended by majority of the members. The Act will have to be amended for this to enable microinsurance with reduced capital requirements.

b) Whether to offer interim options is still under discussion, but in the meanwhile the sub-group working on this should work on such options.

c) Mr. Aleem Afaque and the sub-group on regulations and laws will be asked to expedite their work on reviewing the law and regulations and suggesting changes. The group will be asked to draft a comprehensive regulation for standalone microinsurance companies with reduced capital requirement.

d) All members agree that viability of the proposed microinsurance companies with reduced capital requirement is critical. To examine possible risk mitigation in such an eventuality, discussions with reinsurers must be undertaken. IRDAI will facilitate this.

Action: Mr. Aleem Afaque, AGM, Legal Dept, IRDAI

10. It was decided to invite Shri Arup Chatterjee and Shri Sanket Kawatkar in the next meeting of the committee. Both of them have extensive global experience in the field and their contribution would be useful for the committee.

Action: Dr. Mamta Suri, CGM, F&A Dept, IRDAI

11. Next meeting of the Committee: As agreed, the next meeting of the Committee is scheduled on Wednesday, 27th May, 2020 from 1100 hrs. to 1230 hrs.

12. List of participants of the meeting held on 21st May, 2020:

i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
ii. Mr. Nachiket Mor, Independent Consultant, Member;
iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
iv. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
vii. Dr. Mamta Suri, CGM, IRDAI, Member;
viii. Ms. Shruti Srivastava, AM, F&A Dept., IRDAI, Member-Convener;
ix. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
x. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
xi. Ms. Bhaskar Khadakbhavi, AGM, Re-insurance Dept. IRDAI, Invitee.

Minutes of 8th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 04.06.2020 at 11AM via video conferencing

1. The Eighth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on Thursday, 04th June, 2020 at 1100 hrs., through video conferencing. The list of participants is given below in point no. 21.

2. Leave of absence was granted to Mr. Aleem Afaque, AGM, Legal Dept, IRDAI.

3. Mr. Arup Chatterjee, Principal Financial Sector Specialist, Finance Sector Group, Asian Development Bank made a presentation on whether there is a business case for standalone microinsurance companies (hereinafter referred as SAMI Companies). He presented case studies on the models followed by Philippines and South Africa. The Philippines was keen to formalise the informal risk providers by setting up Mutual Benefit Associations (MBAs) with low minimum capital requirements which then were gradually enhanced to ensure that they are able to meet their obligations to their clients as well as boost competitiveness in the microinsurance space. The capital requirement for MBAs now is 125 million pesos (Rs. 19 Crore). In South Africa, the capital requirement for microinsurance companies is 4 million Rand (Rs. 1.82 Crore) or 15% of the net premium. He said that the microinsurance capital requirement and the solvency assessment and management regime for conventional insurers converge as they are risk-based. The type of risks that such companies can underwrite are restricted and the sum assured is capped. Third party cell captive model as adopted by South Africa was also discussed extensively. Capital requirement for this is 250,000 Rand.

4. He focussed on leveraging on InsurTech and also creating synergies between InsurTech and SupTech to reach and serve the last mile. He emphasised that a risk layered approach is a sine qua non as it allows the use of an appropriate mix of financial instruments based on the severity and frequency of an insured peril. These instruments include governments budgetary reserves for recurrent low-risk losses, with insurance and reinsurance best suited for the less medium and high-risk layers, especially for the catastrophic risks which are less frequent. He concluded with the following observations and recommendations:
    a) SAMI Companies are feasible and sustainable. These help in increasing insurance penetration and reaching the last mile.
    b) Minimum capital requirements may be calibrated based on a risk-based capital approach and for that assistance from Institute of Actuaries of India may be taken.
    c) However, he emphasised the minimum capital threshold should be low enough to attract sufficient number of players, otherwise in spite of reduction in the capital requirements there may not be many who are interested to open a SAMI company.
    d) He suggested that SAMIs should be built on a common technology platform which should be mandatory. The SAMIs can collectively enter into a Joint Venture with some digital technology providers to build, maintain and run the platform. Such an arrangement will ensure better regulatory compliance monitoring and customer servicing. It will also bring down the transaction costs.
    e) He said there could be a tiered and graded response to increasing capital based on Risk-Based Capital regime.
    f) He also pointed out the limitations in the microinsurance sector viz. lack of awareness, suitability of tailor-made products etc.

5. The presentation was followed by a discussion where the members put out questions to Mr. Chatterjee. Ms. Tabassum Inamdar enquired about the microinsurance environment and innovations in China, considering that China has fared well in FinTech and banking reforms. Further, she enquired whether the risks reduced as outreach increased. Finally, she asked which model out of the two (South African and Philippines) would be suitable for the Indian scenario. Ms. Mamta Suri enquired about the third-party cell captive model and challenges for SAMI Companies in India. Mr. Nachiket Mor enquired about the role of reinsurance and emergence of new class of insurers. Mr. Ajit Dayal asked about the cost of the tech platform and how long it took.

6. In response to the queries, Mr. Arup Chatterjee mentioned that there has not been much innovation in microinsurance in China. China has rather floated a mutual insurance scheme which is outside the ambit of the insurance regulator. He also mentioned that this mass health insurance uses technology including AliPay account system. There is also use of technology in agriculture insurance but it is still in the early stages.
   Further, he emphasised that India should adopt an approach which is most suitable to its peculiar environment. The South African model may be more suitable as India is likely to move towards a risk-based solvency regime in future.
   He then explained the cell captive model adopted by South Africa and its benefits which include more centralised risk management and reduction of transaction costs.
   With regard to the challenges that SAMIs face, he said the view that they are risky is a matter of perception. He further stressed on the major challenges of information asymmetry and presence of moral hazard which can be managed by collecting more granular risk information using new technology. More work must be done towards improving collection and analysis of risk data, increasing awareness and building trust
   In response to Mr. Nachiket Mor, he mentioned that if the risk modelling and actuarial modelling are robust, reinsurers will come in. Pooling of risk and use of risk layered approach will help in assessing the types of risks that can be retained and which ones are to be passed on to the reinsurer. Technology can also help in designing tailor-made products, including parametric products, with a reinsurance option.
   As regards technology costs, Mr. Chatterjee offered to provide the figures to the committee.

   Mr. Ajit Dayal suggested the idea of using a common technology platform as is the case with MF-UTIL, in the mutual fund industry. IRDAI can consider creating/ funding a technology platform which allows a potential microinsurance company to plug in and offer products (the front end) while there is a standardized back end for compliance and reporting to reduce costs per transaction. The microinsurance companies are charged a fee based on the proportion of usage of the platform to cover the costs.

   Mr. Mohanty then made an observation about laws and regulations. He said that self-regulation may be preferable to centralised regulations. He expressed his opinion that there is a conflict between law and regulation. Regulation is exhaustive but law is not so. Mr. Chatterjee said that both law and regulation need to be aligned and IRDAI is competent to look into this. He also said self-regulation is possible but requires more discipline. One could start in a centralised manner and then become more decentralised over time. However, he said that the cost of centralised regulation can be high and ultimately the policy holder will bear the cost of regulatory burden. Mr. Mohanty then asked about regulatory fees and what the experience has been. Mr. Chatterjee said in the Indian model, fees is levied on the insurance provider. This is based on international best practice as it allows the independence of the regulator.

7. The Chairperson, Ms. Mirai Chatterjee, thanked Mr. Arup Chatterjee for his time and valuable inputs on the subject matter.

8. The minutes of the 7th meeting of the committee held on Thursday, 21st May 2020 were confirmed and approved.

9. The Chairperson enquired about the update on the proposed legal and regulatory framework for SAMI Companies. Mr. Biswa Bandhu Mohanty expressed that in addition to the experience of Philippines and South Africa as mentioned in the draft document, cases of Indonesia and Nigeria may also be considered. He emphasised that lessons learnt from each country must be linked to the recommendations of committee specifically to the extent these could be replicated in India. With regard to the note circulated by Mr. Aleem, he said he was in favour of Option 3 which involved changes in the Act to bring microinsurance into sharper focus.

10. Mr. Behera said that the IRDAI has the power to authorize standalone microinsurance. Presently, companies can do either life or non-life business. He expressed his view that microinsurance companies should be permitted to do all kinds of business: life, non-life. On the issue of reducing the capital requirement he said the government can approve this.

11. Mr. Chakraborty said that Risk-Based Capital approach can be an option but this will take about three to four years.

12. Mr. Nachiket Mor emphasised the need to reduce the minimum capital requirements and suggested that the committee should make cogent sound recommendations to this effect. He further cited the examples of RBI doing the same in case of small finance banks and payment banks. Mr. Biswa Bandhu Mohanty seconded him.

13. Mr. Ajit Dayal mentioned that RBI is an institution pre-dating the Indian Constitution and when we give an example of how an existing Parliament-approved regulator should be given powers to change capital requirements, we should give the example of SEBI. He said that the SEBI has the power to change capital requirements for portfolio managers, for custodians, for mutual funds and other participants in the capital markets. The example of SEBI should be quoted when discussing the idea of allowing the existing insurance regulator, IRDAI, control over capital requirements rather than allowing such powers to be via an Act of Parliament. Hence, a proposal to amend the existing Act to allow the IRDAI to decide the level of capital should be encouraged. A SEBI-type regulator would be better model for IRDAI as this will then allow IRDAI to set rules and regulations and capital required for microinsurance – or other forms of insurance.

14. Ms. Mamta Suri emphasised on finding a via media instead of an “all or nothing” position—i.e. adhering to only reduction of capital requirement for SAMI or exploring other options. She mentioned, on the basis of her experience, that sticking to an extreme position will not serve any purpose. Mr. Ajit Dayal seconded her views.

15. Ms. Tabassum Inamdar enquired if IRDAI can work on the alternatives internally. Ms. Suri said this could be done and emphasised that the committee can provide practical suggestions, especially those from the people working on the ground.

16. Mr. T R Mendiratta agreed with the need for reduction in the limit of minimum capital requirement. However, he suggested that the committee must deliberate on alternatives that can be carried out within the existing legal framework till the time the requirements are revised by the government.

17. There was a discussion on the terms of reference of the committee followed by Mr. Nachiket Mor saying that committee has been specifically asked to provide recommendations on the capital requirements for SAMIs and that the other aspects were deliberated upon in an earlier committee on microinsurance in which Ms. Mirai Chatterjee and Mr. N M Behera were members. Ms. Chatterjee reminded all members that one of the recommendations of the earlier committee was to examine the possibility of SAMI. Hence, the Chairman appointed this committee with a specific Terms of Reference to do the same.

18. Ms. Mamta Suri emphasised that it is not only about the capital requirements but an entire gamut of regulatory framework that needs to be put in place for a new class of insurer. Then only it can result in creating a compact environment in which SAMI companies can operate.

19. The Chairman, Ms. Mirai Chatterjee, mentioned that the committee is not closed to any alternative and is still in the discussion mode. Further, she requested the sub-group working on the legal and regulatory framework to submit its first draft before the next meeting of the committee.

20. The next meeting of the Committee: As agreed, the next meeting of the Committee is scheduled for Monday, 29th June, 2020 from 1430 hrs. to 1630 hrs.

21. List of participants of the meeting held on Thursday, 04th June, 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
    iv. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
    v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    vii. Dr. Mamta Suri, CGM, IRDAI, Member;
    viii. Mr. S.P. Chakraborty, GM, Actuarial Dept., IRDAI, Member;
    ix. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar, Member;
    x. Ms. Shruti Srivastava, AM, F&A Dept., IRDAI, Member-Convener;
    xi. Mr. Arup Chatterjee, Principal Financial Sector Specialist, ADB, Invitee;
    xii. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
    xiii. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;

Minutes of 9th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Monday, 29.06.2020 at 1430hrs via video conferencing

1. The Ninth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on Monday, 29th June 2020 at 1430 hrs., through video conferencing. The list of participants is given below in point no. 13.

2. Leave of absence was granted to the following members:
   a. Mr. TR Mendiratta
   b. Mr. S.P. Chakraborty

3. Ms. Mamta Suri updated members about the collection of data from insurance companies on microinsurance requested by Ms. Tabassum Inamdar.

4. Ms. Mirai Chatterjee informed members that she has requested the Chairman of the IRDAI for an extension of the Committee on Standalone Microinsurance Company to end July 2020.

5. Mr. Aleem Afaque, AGM, Legal Dept, IRDAI, made a presentation on legal and regulatory aspects of proposed Standalone Microinsurance (hereinafter referred as SAMI) companies. He mentioned various approaches to form SAMI Company with or without amendments to the Insurance Act, 1938. He mentioned that amendment of the Act at times may take a long time. The approaches he outlined are as follows:

   a. Approach A: this would be without amending the Insurance Act, 1938 and would be within the purview of the Act. There are 2 options in this approach: first is SAMI with Rs.100 Crore capital doing only either MI Life or MI General or MI Health; second is the central government giving IRDAI power for making framework for SAMI by issuing Rules under Section 24 of the IRDA Act 1999 for additional power to IRDAI under section 14 (2) (q)- this approach was followed for allowing insurers in SEZs.

   b. Approach B: 2 options: first, amending the Act and inserting provision relating to microinsurance with reduced capital requirement; second by inserting an omnibus clause in Insurance Act 1938 which would give the IRDAI powers to make regulatory framework on SAMI, including capital requirement.

6. However, seeking the amendment to Insurance Act may be a long-drawn process. In such a case, the Central Government may be approached to issue Rules under Section 24 of IRDA Act, 1999 to empower IRDA under 14 (2) (q) to make framework for SAMI.

   The committee deliberated on the same. Ms. Tabassum Inamdar enquired about the manner in which issues would be resolved in case of power given to IRDAI for SAMI Company by Central Government under Section 24 of the Insurance Act, 1938 and Ms. Mamta Suri enquired about the feasibility of the omnibus clause regulating the SAMI Companies. Mr. Aleem Afaque, in response, mentioned that Central Government needs to provide specific powers to the IRDAI in this regard. He also quoted how Foreign

Branches of Reinsurers were formed and are regulated in the same manner. Mr. Sharma said that government can issue Rules and empower the IRDAI, if it deems fit.

Mr. Biswabandhu Mohanty was of the view that comprehensive amendment of the Insurance Act should be preferred from a long-term perspective, larger picture on the potential of the sector and above all, giving sharper focus on future expansion and intensification of the sector. However, he was not opposed to other options.

7. The Chairperson, Ms. Mirai Chatterjee, thanked Mr. Aleem Afaque for the presentation.

8. The minutes of the 8th meeting of the committee held on Monday, 29th June 2020 were confirmed and approved.

9. The Chairperson put out the first draft of the recommendations (circulated earlier) for discussion amongst the committee members. The following inputs were made:

   a. Mr. Nachiket Mor emphasised that the single most important impediment in forming the SAMI company is the minimum capital requirements as mentioned in the Act. He quoted how the same were substantially reduced in the case of creation of small finance banks. Further, he expressed the opinion that it is only a perception that smaller institutions are riskier. However, contrary to the belief, these are better managed and leverage latest technologies. Further, he also mentioned that the number of insurance companies must be related to the scale of the country to cater its insurance needs, quoting the example of Germany having 600 insurance companies, with population lesser than that of Bihar. Finally, he mentioned the committee must recommend for reduced capital requirements. The specifics of the SAMI Companies' regulations may then be decided between IRDAI.
   b. Members said that the recommendations should focus on all types of insurance and not only health insurance. Ms. Mirai Chatterjee said that these changes will be made.

   c. Mr. Ajit Dayal asked whether there had been any study on the number of districts in India which would represent the total microinsurance market in the country. He also enquired how Rs.2 crore figure was derived as proposed minimum capital requirement for SAMI companies, as mentioned in the draft recommendation. Ms. Mirai Chatterjee clarified that the same was based on European and French standards. She also suggested that IRDAI can also calculate and suggest the figure for reduced minimum capital requirements for SAMI companies. Mr. Ajit Dayal further requested the committee to also look upon the specifics of proposed companies as capital structure is the function of the kind of business that is undertaken. The structure of the proposed SAMI companies may be finalised first i.e. whether it shall be one composite entity transacting all types of insurance or different entities for life/non-life/health business. He further expressed his opinion that if the industry is more fragmented, the capital requirements should be lesser and in case it is consolidated, more capital should be required. He said that SEBI has the powers to decide capital requirements and suggested that IRDAI may pitch for one big time amendment to assume the power to decide upon the capital requirements of various entities and not just SAMI companies. Finally, he mentioned that the committee may focus on the route through Section 24 of Insurance Act, 1938 by which Central Government may notify SAMI companies without resorting to amendment in the Act and IRDAI may take up with the government separately, for the power to decide upon the capital requirements of various regulated entities.

d. Mr. Biswabandhu Mohanty referred to the comprehensive note he had prepared on the legal and regulatory aspects (circulated earlier). Keeping it as base, he mentioned that the proposal to government for any amendment to the Act should be accompanied with all facets of microinsurance including health insurance, emerging requirement in the post-Covid, demands of low-income people in rural area, international experience and the study reports. There should be flexibility for bundling general and life insurance and bundling of insurance should be allowed for standalone insurance companies. Further, proper definition of microinsurance may be incorporated in the Act and existing regulation, which should be evolved and introduced in the Act and Regulations. The current Microinsurance regulations 2015 have limitations and it will be better to have a comprehensive and robust regulation covering all necessary aspects as it is always advisable to have a balance between legal provisions and the related regulations. He further opined that lower capital for standalone companies can be acceptable with a view to enabling larger number of players to work in the space. And that the best practices from various countries which are comparable in nature must be adopted (covered in the note).

e. Mr. T R Mendiratta was not able to attend the meeting however he had emailed his recommendations on the draft. He felt that the draft is comprehensive in terms of health insurance. The other needs of the target segment like credit life, savings-oriented products etc., must also be a part of report in detail. The penetration concerns also need to be emphasised. Further, the products designed for Microinsurance should be exclusive and there should not be any overlap of Sum Assured limits between Microinsurance and Conventional Insurance.

f. Mr. Nachiket Mor enquired if any member disagrees with the draft recommendations. Mr. Ajit Dayal submitted his reservations about the figure (Rs.20 crore) for minimum capital requirement, mentioned in the draft. He quoted an example from mutual funds industry where the minimum capital requirement was initially set at Rs.3 crore which later increased to Rs.50 crore. He suggested that committee should recommend a much lower number. Ms. Mirai Chatterjee recommended that South African model may be followed in this regard where the capital requirement is also linked to the amount of business underwritten and is worked out as a percentage of this. Mr. Ajit Dayal mentioned that comparisons may be made with countries having similar per capita income as that of India like Bangladesh, Sri Lanka, or Nepal. Ms. Mirai Chatterjee mentioned that Nepal follows India in terms of setting capital requirements and the structure followed in Bangladesh and Sri Lanka may be studied. Ms. Suri expressed the view that it needs to established that the said capital may be considered adequate given the business the SAMI may carry out.

10. After the discussion, Ms. Mirai Chatterjee asked members for their views on both capital requirement and the legal options presented by Mr. Aleem. Members were in favour of reduced capital requirement as per international experience to enable SAMI and thereby microinsurance for the low-income market. Further, members were in favour of giving IRDAI powers to take decisions on SAMI through an omnibus clause that would require amendment in the Act and in the meanwhile, using Section 24 as mentioned above.

11. Ms. Mirai Chatterjee then recommended that the members must start drafting the report. She suggested the structure of the report stating that it would consist of three parts i.e. brief introduction, main body of evidence and tables and then the recommendations. The main body needs to be simple and succinct. The case studies, research and other supporting papers may be added as annexures. She also answered the

query of Mr. Ajit Dayal that the recommendations will focus on all three lines (Life, General and Health) being transacted by a single entity. She further suggested that additional paragraphs on solvency margins and governance may be added in the report which did not find the mention in draft recommendations. Mr. Nachiket Mor suggested that the recommendations must be framed broadly, and care must be taken that any side issue should not become a main point of contention at a later stage. He suggested, therefore, that the issues of solvency margin and governance can be addressed by the IRDAI separately. Ms. Chatterjee said the first introductory section of the report is almost ready and the main body with evidence needs to be worked on. She requested Ms. Inamdar to assist with this and also IRDAI officers to help prepare the comparative tables of capital requirement and regulations, based on evidence from the various presentations and Mr. Mohanty's paper. The members broadly agreed on the structure of the report and mutually decided to complete the same before the next meeting of the committee.

Action: Mr. R K Sharma will assist with preparation of tables with the evidence from other countries.

12. The next meeting of the Committee: As agreed, the next meeting of the Committee is scheduled for Monday, 13th July 2020 from 1430 hrs. to 1630 hrs. It was also decided that if the report does not get finalised by 13th July, the committee shall meet one last time on Monday, 20th July 2020 and proceed to submit the final report.

13. List of participants of the meeting held on Monday, 29th June 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
    iv. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    v. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    vi. Dr. Mamta Suri, CGM, IRDAI, Member;
    vii. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar, Member;
    viii. Mr. Aleem Afaque, AGM, Legal Dept., IRDAI, Member;
    ix. Ms. Shruti Srivastava, AM, F&A Dept., IRDAI, Member-Convener;
    x. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
    xi. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee.

Minutes of 10th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Monday, 13.07.2020 at 1430hrs via video conferencing

1. The Tenth meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on Monday, 13th July 2020 at 1430 hrs., through video conferencing. The list of participants is given below in point no. 22.

2. All the members were present in the meeting.

3. The Chairperson, Ms. Mirai Chatterjee, welcomed all the members and briefed everyone about the meeting held with Mr. S P Chakraborty on actuarial aspects relating to microinsurance companies. She also mentioned that the VimoSEWA team will work with actuarial support from Mr. Chakraborty's team to develop simulated models with varied capital requirements (Rs 5,10 and 20 Crore) to further gain practical insights into the feasibility of SAMIs with these levels of initial capital.

4. Ms. Mirai Chatterjee further referred to the draft of the report of the committee that was circulated to members and sought comments on the same.

5. Mr. Chakraborty mentioned his views about the solvency regime mentioned in the report and offered to review and redraft it. He further mentioned about the RBC structure citing that RBC has three blocks i.e. quantification of risks (involving calculation of capital etc.), qualitative aspects (actuarial function, audit function etc.) and disclosures (regulatory and public). It is not always the case that the capital requirements would reduce following the RBC structure especially in the case of smaller entities. However, the entity may minimise the risk and reduce the capital requirements by following robust risk management system and prudent corporate governance framework. He gave the example of European countries where the companies having premium income up to 5 Million Euros, are exempted from the compliance of Solvency II requirements as the said requirements are quite stringent in nature. However, an option is provided to them to voluntarily opt for the same.
   Further, he mentioned that justification for Rs. 20 Crore as maximum capital for standalone microinsurance company (SAMI company) must be provided and that data sources, wherever applicable, must be mentioned in the report.

6. Mr. Nachiket Mor reiterated that justification for the figure of maximum capital limit must be provided. However, he suggested that the risk-based model may be preferred instead of any fixed percentage of premiums or claims for calculation of required capital.

7. Mr. T R Mendiratta seconded the opinions of Mr. Chakraborty and Mr. Mor regarding justification for a specific figure for capital requirement. He further added that the long paragraphs in the report may be divided into smaller ones. He suggested that in case of microinsurance, the focus of the committee must be more on penetration in terms of number of lives covered and not in terms of premium. This will be in alignment with the report when it mentions that around 500 Million lives are to be provided insurance cover. He further mentioned that government initiatives (whether as enabler or competitive force) also needed to be a part of the report. Furthermore, he mentioned that all the entities which were invited by the committee in its deliberations must be acknowledged in the introduction. He said that the accuracy of

the figures mentioned in the report must be ascertained and it must be ensured that the report confirms to the ToR. Finally, he suggested that the report can mention government-run insurance schemes.

8. Dr. Mamta Suri suggested that rural and social sector business being done by the insurance companies must also be included in the report. This would make it clearer that insurance coverage is available in such sector and just because the sums assured are bit higher, these do not get counted under the microinsurance framework.
   Dr. Suri also suggested to incorporate Wheel and Spoke model whereby insurance companies can work along with NGOs, cooperatives etc. to promote and have an obligation to promote insurance for a certain segment of society.
   Furthermore, on the capital side, she suggested to have projections of 5 years indicating how Rs. 20 Crore be utilised and the size of business that could be generated out of such capital. In addition to this, specific parameters may be laid on aspects such as who will be the promoters (Individuals/NGOs/Any other entity etc.) and eligibility criteria, manner in which the capital would be brought in, capital that would be required during 5 years and who will bring that in etc., allowing donations and grants etc. These are critical elements as the same also involves issues such as fit and proper, due diligence etc., basis which the license is given to an entity.

9. Ms. Tabassum Inamdar offered her suggestions on the draft. She suggested to revisit the present structure of the draft of the report and put recommendations more upfront to be followed by data and supporting documents. She also mentioned that challenges being faced by existing commercial insurance companies and also NGOs in extending microinsurance coverage must also be a part of the report. We need to develop the case for why SAMIs are required. The report should also contain the experiences of other countries like the Philippines where the regulator made changes that have led to the growth of microinsurance---both standalone and also through commercial insurers. Finally, she seconded Dr. Mamta Suri's suggestion for allowing donations and grants etc. to be a part of capital for micro insurers.

10. Dr. N M Behera expressed his concern regarding the entry of non-serious entities in microinsurance. Further, he suggested that microinsurance companies must be mandated to do all lines of business rather than focusing on just one line---i.e. not just life business.

11. Mr. Aleem Afaque seconded the views of Mr. Behera on having a specific mandatory percentage of various lines of business to be done by micro insurers.

12. Mr. Biswa Bandhu Mohanty appreciated the simplicity and lucid nature of the report as the same is being expected from the microinsurance company as well. He further mentioned that the opening examples in the report restrict only to health insurance and that examples from other lines (life/ non-life) may be added. He also suggested to provide the details of various abbreviations used in the report. He also mentioned that due credits may be given to all the entities which helped the committee in its deliberations. Furthermore, he suggested to also have a definition for 'social insurance' so as to enable all the insurance companies to serve the segment in addition to microinsurance. He endorsed Dr. Suri's suggestion of having a futuristic picture of how microinsurance companies will aid in insurance inclusion, business, graduation of poor etc. He further emphasised that focus on technology must be given significant importance in the report. Apart from that, organogram of the micro insurer may also be discussed including the key posts in the company and how and by whom those shall be fulfilled. Further,

importance must be given to the existing financial literacy and also the uniformity of various parameters used in the report. Lastly, he appreciated the efforts put in creating the first draft of the report.

13. Mr. Ajit Dayal mentioned that significant focus must be given on the technology aspect as it shall help in keeping the costs of transaction low. He also offered to set up a meeting with MF Utilities Limited which created an e platform for mutual funds, to have deeper insights into the same. On the capital front, he enquired about the size of business that could be done by a microinsurance company with a capacity of Rs. 20 Crore doing business in blended products (Health/Life/Non-Life) and how the regulator is going to regulate the same as this is the most critical aspect of the same. Ms. Tabassum Inamdar answered the same citing that any retail business starts with low capital and it keeps raising capital as it grows. The focus must be on expanding the market and that could be done by enabling entry of multiple players by reducing the capital requirements. She also quoted the example of Philippines where the capital requirements were reduced and many players entered the market.
Mr. Dayal then mentioned that the main aspect of having a micro insurer is the impact it will have on poor people's lives and wondered how many companies would be required.

14. Dr. Mamta Suri expressed her concerns on initial as well as working capital required to run the microinsurance company. She further enquired about the technology platform as suggested by Mr. Dayal and how it was funded. Mr. Dayal offered the suggestion that the initial cost of building the platform may be borne by IRDAI and the working variable costs may be borne by the micro insurers. Dr. Suri mentioned that the Authority has never done anything like that in the past and thus it may be a part of the recommendations.

    Dr. Suri further mentioned that the report talks about the maximum capital of Rs. 20 Crore and that nothing is mentioned about the minimum capital required to set up a SAMI Company. Ms. Mirai Chatterjee mentioned that the committee may deliberate on the same and quoted Mr. François-Xavier Hay, Actuary who had recommended the minimum capital required for 2.5 Crore and 5 Crore for life and non-life businesses. She further mentioned that the ticket size in microinsurance is very low and that the license to run the business is expected to be given to co-operatives and mutuals and thus they would have built in ownership and thus built-in checks and balance mechanisms for frauds etc.

    Mr. Ajit Dayal suggested a scenario that if a microinsurance company is set up with a capital as low as Rs. 2 Crore and with that capital it can do business up to Rs. 6 Crore, the regulator may put a condition that once the micro insurer hits business up to Rs. 5 Crore, it needs to bring in more capital to advance from there and if it cannot, then restriction may be placed on the micro insurer in terms of doing more business.

    Dr. Suri reiterated that scenario testing must be done at various levels of capital in order to have deeper insights to which everybody agreed to.

    Further, Dr. Suri mentioned that minimum governance aspects must also be clearly defined. Further, she recommended that suitable standardised products could help in this segment as hiring actuaries could be expensive. Further, she also mentioned that regulatory mandating may be made for reinsurers in order to support SAMI companies.

15. Dr. N M Behera also focussed on the need of having suitable reinsurance arrangements for the SAMI Companies.

16. Mr. R K Sharma also mentioned that the point raised by Ms. Suri and Mr. Behera regarding reinsurance mechanism is very relevant. In addition to this, he emphasised that while deciding the minimum capital requirements, it must be kept in mind that certain portion out of this capital shall go towards maintaining infrastructure (workplace, IT structure etc.) and the remaining shall only be available to the micro insurer to undertake business. He expressed his view that the committee may deliberate that the remaining portion shall be sufficient or it may be recommended that the minimum paid-up capital of say Rs. 5 Crore shall be in addition to the minimum infrastructure that is required to be set. He further mentioned that there should be absolute clarity on the structure of the micro insurer i.e. whether it shall be Section 8 company or a cooperative or a mutual and the same needs to be mentioned in the report.

17. Mr. Mohanty suggested that initial capital may be kept low and gradually increased as the scale of the company increases. Further, he mentioned that some countries mandate annual renewal of licenses and, supervisory triggers. He also suggested that IRDAI could set up a development fund, as had been established by NABARD for microfinance, to support and promote SAMIs.

18. Mr. Ajit Dayal reiterated the importance of usage of shared plug and play type of technological platform. He also mentioned that Bombay Stock Exchange also launched an e-platform for selling insurance products. He mentioned that risk may be lowered by using technology.

19. Ms. Mirai Chatterjee endorsed the views of Mr. Ajit Dayal and also noted the concerns that the regulator may have in terms of risk management. She further suggested certain edits in the solvency, regulatory framework and international experience parts of the report. She seconded the view of Dr. Mamta Suri of undertaking scenario testing with different levels of capital. She mentioned about the recent innovations in risk management in China and suggested that the same may be a part of the report under the section on international experience. On the technology front, she mentioned Mr. Michael McCord, MD – Microinsurance Centre, Milliman, who had said that one of the main reasons that microinsurance did not fare well in majority of the countries was that the administrative costs were not consistent with the ticket size of the products being sold. She suggested that technology would help to reduce costs and requested Mr. Ajit Dayal to arrange for a meeting with MF Utilities to understand the portal better. She also endorsed Mr. Mohanty's idea on the creation of a development fund by IRDAI. Further, she mentioned that 25 years ago LIC was allowed to keep aside Rs.100 Crore for development of microinsurance and that would have amounted to more than Rs. 800 Crore today. She mentioned that such a fund would enable the growth of SAMIs and microinsurance penetration in India.

20. Ms. Suri mentioned that the platform being used in mutual fund industry came subsequent to the entities and in case of microinsurance it will be the other way round. Mr. Ajit Dayal confirmed the same and asked if IRDAI could fund the initial development cost. Mr. Nachiket Mor mentioned that in case of the approach followed by NABARD for small cooperative banks, there was no initial fixed costs and the banks were to pay variable fees based on the services being utilised on the platform. He suggested either of the approaches, based on feasibility, could be adopted. He also mentioned about the software being built by IRDAI and National Digital Health Blueprint for claims generation and processing etc. and suggested the same may also be available at variable costs.

21. Next meeting of the committee: The next meeting of the committee shall be held on Thursday, 30th July 2020 at 1430 hours through video conferencing.

22. List of participants of the meeting held on Monday, 13th July 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
    iv. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
    v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    vii. Dr. Mamta Suri, CGM, IRDAI, Member;
    viii. Mr. S.P. Chakraborty, GM, Actuarial Dept., IRDAI, Member;
    ix. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar, Member;
    x. Mr. Aleem Afaque, AGM, Legal Dept., IRDAI, Member;
    xi. Ms. Shruti Srivastava, AM, F&A Dept., IRDAI, Member-Convener;
    xii. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee,
    xiii. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee.

Minutes of 11th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Thursday, 30.07.2020 at 1430hrs via Video Conferencing

1. The Eleventh meeting of the Committee on Development of a concept paper on standalone Microinsurance Company was held on Thursday, 30th July 2020 at 1430 hrs, through video conferencing. The list of participants is given below in point no. 22.

2. All the members were present in the meeting.

3. The Chairperson, Ms. Mirai Chatterjee, welcomed all the members and referred to the draft of the report of the committee that was circulated to members and sought comments on the same.

4. Ms. Mirai Chatterjee invited Mr. R K Sharma to present on the cell captive model. Mr. R K Sharma made a presentation on the cell captive model for SAMI Companies. This model was developed in South Africa. He also mentioned about an alternative wherein an independent SAMI Company could be attached to one or more direct insurers.

   Cell Captive Model: There shall be a cell owner (Any company/organisation/HNI) who will provide capital to the insurance company. The capital will be ring-fenced to provide insurance to the cell owner or any other organisation whom the cell owner will direct. The cell captive can have its own reinsurance/ co-insurance arrangements. He also mentioned that the similar model had been followed in case of one entity wherein a cell owner for the purpose of providing health insurance coverage to their employees, had formed a mutual health insurance company.

   Another approach is when the cell captive is allowed to provide third party insurance using the capital provided by the captive owner. He recommended that this approach may be more suitable for the SAMI Companies as under this model, the capital provider and the beneficiaries (underprivileged people etc.) are different entities. Capital provider may be one or more insurance company, or any corporate undertaking CSR or any other organisation and the beneficiaries may include rural or social sectors.

   SAMI Company attached to one or more insurers: Under this model, one or more insurance companies can provide capital and on the basis of such capital, SAMI Company can underwrite insurance. This model entails considerations like the quantum of capital share by insurers (full/partial), form of investment (equity/grant/donation etc.), mode of capital infusion (one time/continuous) etc. He suggested the following alternatives:

   a. Capital partly provided by insurers and partly by members of SAMI in form of some fees etc.
   b. No fee is charged from the members however whenever anyone takes insurance from SAMI, he will be become a member and part of premium shall be allocated towards membership fees. The surplus is not distributed amongst members, however the same is used to reduce the premium so as to ensure maximum coverage at affordable rates.
   c. NGOs not fulfilling eligibility criteria, to be decided by Authority, may participate through this model as such NGOs as Cell Owner may provide capital to SAMI which in turn can be used to provide insurance to underprivilege people.

5. Mr. Ajit Dayal mentioned that the model resembles Lloyd's and would require adequate transparency. Mr. Sharma clarified that the model is different from Lloyd's as the money shall be coming in the form of equity and would be ring-fenced to provide insurance to specific class of persons.

6. Dr. Mamta Suri added that the model would be based on a specific set of regulations ensuring complete transparency. She said the benefit of this model is that there is the back-up of insurance companies, both for under-writing business and also to service claims. She also explained that policy-holders can also contribute capital.

7. Mr. Nachiket Mor enquired about the advantage of the cell captive model and whether it might lead to the 'pancaking' of capital. He said that RBI does not permit investment by one bank in another bank as this creates regulatory and accountability challenges.

8. Ms. Tabassum Inamdar enquired if the model has been developed with a view to retain the current capital requirement. Mr. Sharma clarified that it was not so. He explained that the model enables anyone having sufficient capital to enter into the microinsurance segment and that this model is being run successfully in South Africa.

9. Ms. Mirai Chatterjee mentioned that the main issue is not about where investments will come from. If an organisation with credibility and track record runs microinsurance in a financially viable manner and with clean governance, there would be many people and organisations willing to provide adequate capital.

10. Dr. Mamta Suri explained the concepts that were discussed in the presentation. She mentioned that Insurance Companies or NGOs or any other organisation may have a 'captive', including people willing to be insured and this model shall facilitate that as the cell owners would be involved in equity participation. She noted that the present law does not allow CSR to be used in providing equity support. However, she mentioned that the same can be taken up with the government for necessary enabling amendments. Furthermore, a mutual setup may be considered where the membership could be based on a fee or a scenario where insurance entails automatic membership and a part of the premium goes towards membership subscription. Surplus, if any, could be used in the form of reduced premium next year so as to ensure maximum coverage by the SAMI. Lastly, she mentioned about another alternative wherein an existing insurance company brings any NGO or any other entity under its umbrella and provides its microinsurance business with risk protection.
    She further suggested that the committee may provide various alternatives for the SAMI Company in its recommendations along with enabling regulatory framework.
    She emphasised that a regulatory environment is a prerequisite to envisaged objectives.

11. Mr. Ajit Dayal mentioned that the aim of getting the larger insurance companies to invest in SAMIs is a good one and he also suggested IRDAI may bring out necessary instruction on that behalf. IRDAI could say that 2 per cent of the insurance companies' profits can go to SAMIs.

12. Ms. Tabassum Inamdar suggested that the Philippines way of creating a competitive environment may also lead to expansion of microinsurance market. By changing regulations, even commercial insurers have taken up microinsurance.

13. Mr. Ajit Dayal further mentioned that at one end of the spectrum there are NGOs and how to make them SAMI-accessible and SAMI-ready is the point of discussion in terms of structure and capital infusion and on the other end there are large insurance companies with capital and expertise and how to get them into microinsurance may be discussed. The objective remains the same i.e. how to ensure insurance reaches the last mile in the society.

14. Mr. Nachiket Mor mentioned that so far the committee has discussed the capital requirements of a SAMI company. Now the model being discussed revolves about the source of such capital and one of the suggestions is that the larger insurance companies may provide the same. This is a question of investing in the SAMI. He added that there could be a separate discussion about potential investors in SAMI e.g. existing insurers, banks, NBFCs etc.

15. Ms. Mirai Chatterjee enquired about the capital requirement in the cell captive model. Dr. Mamta Suri mentioned that the capital requirement would be very specific to the model and it could be linked to the number of entities that would be under the umbrella of the insurers.

16. Mr. Shreekant Kumar provided an analogy with regular finance vis-a-vis microfinance and emphasised that it is just not the capital that is a factor in the creation of SAMI company, a particular mindset coupled with clear understanding of the sector are also important to cater to this segment.

17. Mr. Biswa Bandhu Mohanty raised several key issues:
    1) SÁMI Concept is central to the Committee’s recommendation and the committee has discussed at length its need, viability, regulatory framework and developmental aspects. Recommending Hubs and Spoke or Cell Captive model at this stage as an alternative might dilute the focus of core approach. SAMI will be characterized by its primacy, leadership, autonomy, flexibility, solidarity, participatory approach coupled with regulation and supervision+ approach. Hubs and Spoke model would dwarf the SAMI and may bring in operational complications, bring to the fore new regulatory challenges and affect the expected drive and initiatives of SAMIs.
    2) Dr. Rangarajan Committee on Financial Inclusion (2008) had discussed different existing models _(a)Partner-Agency Model, (b) Full-Service Model, (c) Community based model and(d) Provider Model and recommended leveraging existing networks /agencies and various linkages -credit/savings and microinsurance, etc. for expanding microinsurance inclusion. There is need for setting up and upscaling SAMI, with a policy environment and developmental interventions suggested by the Committee.
    3) The existing Microinsurance regulations-2015 should not be ipso facto made applicable to SAMIs. For instance, with a view to facilitating SAMIs to have flexibility in products and services, it was interallia suggested that they should be permitted to have blended products without any watertight distinction of life and non-life insurance business.
    4) If SAMIs with reduced capital backed by appropriate regulatory and developmental interventions could be found feasible, there is no need to provide another alternative model. It would better to focus on nurturing these SAMIs and ensuring their expansion to serve the purpose. Policy makers, Regulator, reinsurer and other investors should support and supplement them in the years ahead.
    5) As a commitment and compliance to consumers’ protection and promotion, SAMI should have arrangement for protection of policy holders, grievance redress, feedback mechanism and consumer education, etc.

18. Mr. T R Mendiratta mentioned that this model can co-exist with the prime recommendation of creating a SAMI company with lesser capital requirement. The cell captive model could be suitable for micro players not interested in floating their own SAMI company. In that case, the support of the existing Insurer might

be forthcoming willingly as it would help them in fulfilment of their regulatory obligations (rural and social) on a consistent basis. Further, existing Insurers may not be inclined to support the initiative unless they see some value in it for them. Giving them some relaxations in the rural and social sector obligations is a laudable suggestion.

19. Ms. Mirai Chatterjee mentioned that the entities which have been recommending for a specific SAMI Company for many years have developed a mutual or solidarity model like a co-operative structure, wherein the policyholders are also the shareholders. In her experience as a practitioner, she mentioned that such a model guards against frauds. The governance structure is also very important. The concern for SAMIs in the cell captive model would be one of control and governance. Agreeing with Mr. Shreekant Kumar, she explained that there is a difference in culture of those in the microinsurance sector and existing insurers. SAMIs would like to retain their culture and lean operations while adhering to highest prudential standards. She further mentioned about the democratisation of microinsurance is in not only in the form of reaching out to more and more people but also letting them run their own companies.

20. Mr. Aleem Afaque enquired whether the committee is also looking to recommend some ceiling on the sum assured of the microinsurance products. Ms. Mirai Chatterjee suggested that the existing micro regulations by IRDAI could be followed for the same. Mr. Nachiket Mor and Dr. Mamta Suri suggested the findings of the simulation model being worked on might provide insights on the same.

21. Mr. Chakraborty added that it is not desirable to call it simulation model as it has larger and long-term meaning with regard to insurance. The regulations are very much clear as to how much capital would be required to write one-rupee premium. He further added only the premium income is not sufficient to calculate the capital requirements. A lot of assumptions are required to be looked into to calculate the capital requirement. Further, initial as well as on-going capital requirements are prescribed for all lines of business. He mentioned that he along with his team is working on the capital requirements in accordance with the current regulatory model based on the data provided and will submit the same to the committee for consideration.

22. Mr. N M Behera quoted and seconded the views of Mr. ShreeKant where he mentioned that the SAMI must reach all the states, regions and districts to ensure maximum coverage. And thus, the committee may also recommend the physical presence of regulator in various states in the country. Further, the report must talk about the composition of portfolio if a composite license is to be issued to the SAMI company so as to ensure balanced coverage.

23. Ms. Mirai Chatterjee concluded by saying that hub and spoke or cell captive model may be added as an addition to the main recommendation of creating a SAMI Company with lesser capital requirements. Mr. Ajit Dayal mentioned that it could be a methodology to raise capital and thus becomes an alternative route for obtaining investments. Dr. Mamta Suri pointed out the objective of having insurers on board is to benefit from their expertise. A specific framework is warranted and therefore it just cannot be a matter of merely contributing to capital as the intent is to nurture the SAMIs. Mr. Ajit Dayal suggested that having insurers investing financially as well as with expertise can be an alternative way to create SAMIs. Ms. Mirai Chatterjee expressed her concern that the said model should not subsume the major recommendation of the committee of having a SAMI company with lesser capital requirements.

24. Next meeting of the committee: The next meeting of the committee shall be held on Monday, 10th August 2020 at 1430 hours through video conferencing. It will be the final meeting of the committee.

25. List of participants of the meeting held on Thursday, 30th July 2020:
    i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
    ii. Mr. Nachiket Mor, Independent Consultant, Member;
    iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
    iv. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
    v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
    vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;
    vii. Dr. Mamta Suri, CGM, IRDAI, Member;
    viii. Mr. S.P. Chakraborty, GM, Actuarial Dept., IRDAI, Member;
    ix. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar, Member;
    x. Mr. Aleem Afaque, AGM, Legal Dept., IRDAI, Member;
    xi. Ms. Shruti Srivastava, AM, F&A Dept., IRDAI, Member-Convener;
    xii. Mr. R.K. Sharma, GM, F&A Dept., IRDAI, Invitee;
    xiii. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee.

Minutes of 12th meeting of the Committee on Development of a concept paper on standalone Microinsurance Company held on Monday, 10th August 2020 at 1430hrs via Video Conferencing

1. The twelfth meeting of the Committee on Development of a concept paper on Standalone Microinsurance Company was held on Monday, 10th August 2020 at 1430 hrs, through video conferencing. The list of participants is given below in point no. 8.

2. All members were present during the meeting.

3. The Chairperson, Ms Mirai Chatterjee, welcomed all the members to the final meeting of the Committee. She thanked all the members for their valuable contributions towards building a deeper understanding of standalone microinsurance companies. She acknowledged the efforts of every member, the IRDAI team and Bhaskar Khadakbhavi and Shruti Srivastava. She said that Shruti Srivastava had provided excellent support.

4. Ms. Mirai Chatterjee informed the members that the minutes of the previous meeting held on 30th July 2020 were circulated to all the members prior to the meeting. The minutes were presented on screen and members discussed the same. Ms. Chatterjee confirmed the minutes however mentioned that the members may send in any further edits by 11th August 2020 for consideration.

5. Ms. Mirai Chatterjee further referred to the recommendations of the committee that were circulated to members and sought comments on the same. The discussion focussed mainly on Annexure 1 and Recommendations 8 and 9. The text of the recommendation is as follows:

   Recommendation 8: Captive cell model may be offered as an additional way for micro players to underwrite microinsurance business. As per this model, existing insurers can become a cell owner and share the underwriting risk with SAMIs and with a capital of no more than Rs 5 Crore.
   Dr. Mamta Suri suggested that the word 'additional' may be removed and also after cell owner the words "by bringing in capital" may be added. This was accepted. Further she said that there should be consistency in usage of Indian currency nomenclature. It should read crore and lakh and not crores and lakhs.

   Ms Tabassum Inamdar suggested that given the concerns raised by members, we insert here the paragraph that she had suggested in the section on international experience--- ie the advantage of this model is that participants with limited funds can join a cell structure to meet the insurance requirements of members they serve. This structure, however, can be more complicated than a SAMI. Regulators will thus need to formulate policies and processes to ensure transparency, accountability and governance for participating members and promoters of third-party cell structures. In addition, participating members will also need to have an exit route. Further details of this model are given in Annexure 4.

   Mr Mohanty reiterated his concerns on the pros and cons of different models, including the Hub and Spoke model. He emphasized that primacy should be given to the SAMI model. Further, he drew the attention of members to the detailed note he had prepared on regulatory framework which is part of the Annexures and suggested that some of the points therein could be incorporated in the main report with a reference to the relevant Annexure. Finally, he said that the IRDAI and the government should be major contributors to the proposed Development Fund. He suggested that aspects of what this Fund should be used for should be part of the main report with reference to the Annexure with his more detailed note.

Recommendation 9: Appropriate supervisory structure may be developed by the IRDAI thereby enabling offsite supervision, undertaking capacity-building of staff and developing a separate microinsurance division within the Authority.

Discussion on the need for this recommendation followed and members were agreed to retain it.

6. Annexure 1 was discussed which focuses on the Capital Modelling Requirements for a model SAMI Company. Mr. S P Chakraborty explained to the committee members how the figures have been derived and the various assumptions made and caveats used in the model. He mentioned that the model is only indicative in nature. It was suggested that the presentation of life, health and non-life business may be shown separately in different tables. Mr. Chakraborty agreed to this suggestion. Mr. Chakraborty further answered the query raised as to why net-worth is not being considered, explaining that net-worth is a broad financial term which includes all assets whereas Available Solvency Margin (ASM) is clearly defined in the regulations which is obtained by deducting liabilities from the admissible assets only. Ms. Mirai Chatterjee asked Mr. Chakraborty to put in Rs 5 Crore in the modelling as it was agreed to do this for Rs 5,10 and 20 Crore only. The Rs 30 and 50 Crore needed to be removed. Mr. Chakraborty agreed to this. Finally, Mirai Chatterjee asked him to clarify whether the capital shown in the table meant that these levels of premium for both life and non-life could be underwritten with that particular amount of capital. Mr. Chakraborty clarified that the capital suggested would cover only one line of business---either life or non-life and not both with the same amount of capital. It was then decided that for clarity for a given amount of capital, separate tables for life and non-life should be prepared and a line saying that if a SAMI wished to do composite business of life and non-life, then the capital required for the both lines of business would have to be calculated accordingly. Dr. Mamta Suri requested Mr. Chakraborty to incorporate changes as suggested by the committee members and submit the revised Annexure 1 as soon as possible. This would then be circulated to all. She also requested Mr. Aleem Afaque to review the wordings of Annexure 3 (Regulatory framework for SAMI companies) from the regulatory perspective and add a sentence referring to this Annexure with Recommendation 9.

7. Ms. Mirai Chatterjee informed the members of the committee that the deadline of the committee to submit its report is 15th August 2020 and she is hopeful that the report will be ready by 14th August 2020 and that the next step would be to take an appointment from the Chairman, IRDAI to present the same. She requested all members to remain present for the presentation. She once again thanked all the members and invitees. Members then expressed their gratitude for the opportunity to serve on this committee and appreciated the way in which the whole committee and its work had been conducted by the Chairperson. She then concluded the meeting.

8. List of participants of the meeting held on Monday, 10th August 2020:
   i. Ms. Mirai Chatterjee, Director SEWA, Chairperson;
   ii. Mr. Nachiket Mor, Independent Consultant, Member;
   iii. Mr. TR Mendiratta, Retd. ED, LIC of India, Member;
   iv. Mr. Biswa Bandhu Mohanty, Retd. CGM, NABARD, Member;
   v. Ms. Tabassum Inamdar, Analyst Banking and Financial Sector, Member;
   vi. Mr. Ajit Dayal, Founder Quantum Mutual Fund, Member;

vii. Dr. Mamta Suri, CGM, IRDAI, Member;
viii. Mr. S.P. Chakraborty, GM, Actuarial Dept., IRDAI, Member;
ix. Dr. N.M. Behera, Secretary, Office of the Insurance Ombudsman, Bhubaneshwar, Member;
x. Mr. Aleem Afaque, AGM, Legal Dept., IRDAI, Member;
xi. Ms. Jamuna Choudhary, AGM, F&A Dept., IRDAI, Invitee;
xii. Mr. Sumit Arora, AM, F&A Dept., IRDAI, Invitee.

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