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The role of microinsurance for social protection in India

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Introduction

People worldwide are exposed to risks but poor and low-income people are particularly vulnerable to economic shocks and crises such as sickness, old age, unemployment or extreme weather events. The occurrence of such adverse events can result in the loss of income, deplete people's savings and force them into debt. This, in turn, may compel families to sell assets or take their children out of school, pushing them (deeper) into poverty. Vulnerability tends to make people more risk averse and reluctant to invest extra income in productive assets and education. They are often forced to retain their limited income for unforeseen contingencies which, consequently, often perpetuates their poverty. Nevertheless, societies as a whole have developed a variety of mechanisms to protect their members from risks. These perils and adverse events can be overcome through:

- **risk reduction instruments:** preventive measures prior to the event such as immunisation, skills training, natural disaster prevention, and/or establishing health infrastructure;
- **risk mitigation:** mechanisms to limit the potential effects of shocks before the event occurs such as community arrangements, microinsurance, microfinance and/or government social protection programmes like social insurance.
- **coping strategies:** actions effected after the event has occurred – for example, borrowing money, selling assets and/or disaster relief programmes.

These strategies can be further categorised according to their level of formality and the actors involved, for example: informal mechanisms practised by the people and communities themselves; market-based strategies that involve insurance providers; banks; and public systems organised by the government. Obviously, a single arrangement is not sufficient and has to be combined with several other mechanisms¹.

Microinsurance is one possible instrument to manage risks and to reduce the vulnerability of poor and low-income households. From a social protection perspective, the benefits of microinsurance are often most effective when embedded in a comprehensive social protection framework. Microinsurance can help close the gaps in overall social protection that particularly affect informal sector workers by acting as²:

- **a substitute for social insurance** where the state is unable or unwilling to build up social insurance schemes or does not want to extend them to informal-sector workers;
- an alternative to social insurance where social insurance schemes do exist but are not (and are unlikely to become) attractive for all informal sector workers;
- **a linkage to social insurance** where social insurance is potentially attractive for the entire population but fails, for instance, to reach out to rural areas;
- **a complement to social insurance** for when social insurance schemes cover the most serious risks faced by households but refund only part of the costs incurred, often leaving low-income households unable to shoulder the remaining costs. In this case, the presence of both microinsurance and social insurance is crucial so each instrument can have a significant positive impact.
- **a supplement to social insurance** to top up the provisions granted by social insurance schemes but covering different risks or different effects of the same risk.

However, experience of the systematic integration of microinsurance in social protection systems is still limited. First, NGOs often simply add microinsurance to their portfolios of other risk management strategies without thoroughly assessing how these could complement each other to maximise the cover. Secondly, although the Indian Government promotes microinsurance, they have only recently linked microinsurance products to social protection schemes and designed more useful benefit packages. By combining the advantages of the different tools, they can now potentially overcome the fragmented social protection system.

¹ Ramm, G., Schmitt-Diabate, V., et al.: The role of microinsurance as a tool to face risks in the context of social protection. Geneva 2006.

² Deblon, Y., Loewe, M.: The potential of microinsurance for social protection. Eschborn/Bonn 2012.

Against this background, the purpose of the study is to compile evidence on practices in India: How is micro-insurance integrated into the social protection strategy of the Indian Government? Which products are offered to whom? Who are the relevant actors and how do they cooperate? What are the outcomes and synergies of the integration?

The definition of social protection differs across development agencies. The ILO³ focuses more on core contingencies, while others like the World Bank⁴ and the OECD⁵ apply a broader perspective. Within the context of this study, social protection is defined “as the total set of public interventions which address risk, vulnerability or chronic poverty and which support individuals or households to prevent, mitigate and cope with risks. These interventions can be carried out by the state or other actors such as commercial companies, charitable organisations, self-help groups, etc.”⁶

This report analyses microinsurance linked to the Indian social protection system and, as such, will focus on the risks that are officially recognised in the Government of India’s strategies and social protection bills. It will also look at the most important national social assistance programmes in terms of strategic relevance, scale and impact. Secondly, it will focus on those risks that can be covered by microinsurance such as death, accident and disability, health, old age and weather-related catastrophic risks.

The study is structured in three parts: Chapter 1 describes and analyses the social protection system in India, its benefits for the formal and the informal economy, and the respective legislative framework. Chapter 2 presents the microinsurance policy of the Indian Government and its regulation. It assesses the role of the relevant actors involved and the microinsurance products offered, including selected multi-stakeholder public-private partnerships. Chapter 3 documents the linkages between microinsurance and the Indian social protection system and this system’s strengths and challenges. It shows what the strategies can deliver in terms of outcomes for the population and, more specifically, for informal economy workers. Finally, it concludes with the advantages of a comprehensive, systemic social protection framework that overcomes the currently fragmented approach.

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3 International Convention No. 102, ILO includes sickness, maternity, employment injury, unemployment, invalidity, old age, death, the need for long-term medical care and child support. In the World Social Security Report 2010/11 it is defined in slightly broader terms.

4 Holzmann, R., Jørgensen, S.: Social Risk Management: A New Conceptual Framework for Social Protection and Beyond. Washington D.C. 2000. The recent social protection typology of the World Bank has promotional, preventive and protective measures similar to the social risk management framework (see Social Protection for a Changing India, WB 2011).

5 OECD: Promoting pro-poor growth: Social protection. Paris 2009.

6 Deblon, Y., Loewe, M.: The potential of microinsurance for social protection. Eschborn/Bonn 2012.

Executive summary

People worldwide are exposed to risks but poor and low-income people are particularly vulnerable to economic shocks and crises such as sickness, old age, unemployment or extreme weather events.

Societies as a whole have developed a variety of mechanisms to protect their members from risks: a) risk reduction instruments, including preventive measures; b) risk mitigation, which limits the potential effects of shocks before the event occurs; and c) coping strategies to deploy when the event has occurred. These risk management instruments are applied using informal mechanisms practised by people and communities themselves; market-based strategies that involve, among others, the insurance industry; and public systems organised by the government. Obviously, a single arrangement is insufficient and should be combined with several other mechanisms.

Given microinsurance is playing an increasing role as a risk mitigation strategy, the purpose of this study is to compile evidence on practices in India: How is microinsurance integrated into the Indian Government's social protection strategy? Which products are offered to whom? Who are the relevant actors and how do they cooperate? What are the outcomes of such integration?

Within the context of this study, social protection is defined "as the total set of public interventions that address risk, vulnerability or chronic poverty and that support individuals or households to prevent, mitigate and cope with risk. These interventions can be carried out by the state or other actors such as commercial companies, charitable organisations, self-help groups, etc."

Social protection in India

More than 94% of the Indian working population still works in the informal sector and, in contrast to the formal economy, informal sector workers are not covered by a comprehensive social protection system. While high and middle income informal workers can arrange for some protection measures, low-income, poor and very poor people do not have access to sufficient coverage. And although public spending on social safety nets is relatively high by international standards of low and middle income countries, these safety nets need to be adjusted so they place greater emphasis on ex ante risk mitigation. The social protection system in India can be divided into three categories:

- 1) **Universal programmes**, such as schooling, health care and drinking water.
- 2) **Formal economy**: statutory social protection, particularly the Employees' Social Insurance Scheme (health, invalidity, unemployment and survivor benefits) and the Employees' Provident Fund (old age and gratuity).
- 3) Several programmes for the **informal economy** and vulnerable population:
 - The Unorganised Sector Workers' Social Security Act (2008) is designed to provide the informal economy with life, disability, health and old-age cover and may be extended at a later stage. However, current schemes provide only minimal social security benefits for below the poverty line (BPL) unorganised workers and a few vulnerable occupations above the poverty line.
 - Targeted government social assistance programmes provided irrespective of one's status as a working or non-working poor and vulnerable person. The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA), covering some 40 million households, is one of the most successful examples of these programmes, whereas the Public Distribution System (PDS), which consumes one per cent of GDP, has a low impact.

- Subsidised and contributory (micro)insurance for BPL, poor and low-income groups. The subsidised National Health Insurance Scheme, Rashtriya Swasthya Bima Yojana (RSBY), which insures around 30 million families, is the largest social insurance scheme and provides Rs 30,000 coverage for hospitalisation and has similar attributes to microinsurance products. Apart from subsidised insurance, many contributory microinsurance products also provide cover for death, illness, livestock, accident and disability, as well as index-based products for weather-related risks.
- Welfare Funds are confined to selected occupations and are supported by the Central and State Governments. They provide housing, medical care, water supplies, children's education, etc. to workers in the informal economy regardless of their income – for example, to beedi workers (cigarette rollers) and selected mining and construction workers. Welfare Funds are financed by the taxes collected on the respective manufactured products, on the export of related mining products, or from builders.
- The Indian National Pension System (NPS) aims to extend social protection to the weaker sections of society with the Swavalamban Yojana scheme for the informal sector. It is a voluntary contribution-based pension scheme, which provides government subsidies in order to promote small savings for old age.

Despite the large number of government programmes, the social security system is still ineffective and inefficient in several ways:

- Inconsistencies and fragmentation: Government programmes are characterised by the multiplicity of initiatives operating in Central Government, the departments in different states, welfare boards and other institutions. Social security schemes are scheme-driven and lack a consistent policy, often being developed ad hoc or when a new government wants to present additional initiatives to its constituents. The picture is further complicated by the sometimes arbitrary distinctions made between target groups, which can result in some people having access to two or more benefits, while other large sections of the low-income earning population are left uncovered. Added to this, the required bureaucratic procedures cause delays and engender disproportionately high administration costs compared to the often meagre benefits people can access – if they are even aware of these many schemes and programmes.

- Targeting: Existing mechanisms fail to accurately estimate either the numbers of entitled beneficiaries or who these people are, and there are significant problems in identifying those with entitlement to target group specific benefits. Moreover, the BPL targeting process is not updated and figures differ between the Central and State Governments.

Microinsurance in India

The government (including the regulatory authority, IRDA) plays a proactive role in providing (micro)insurance to low-income earners, the poor and the very poor (BPL) by:

- introducing rural and social obligations for the private insurance industry to ensure rural areas and the low-income population are reached;
- defining and regulating 'Microinsurance' through the IRDA Microinsurance Regulations (2005);
- legalising new microinsurance delivery channels – such as NGOs and MFIs – as 'microinsurance agents' in the IRDA Microinsurance Regulations and subsequent policies. All these policies enhance the role of the insurance industry as they only permit the partner-agent model with regulated insurance providers;
- officially acknowledging microinsurance as a risk management mechanism for poor and low-income informal workers, particularly in the 'Unorganised Sector Workers' Social Security Act';
- supporting subsidised (micro)insurance schemes for BPL people as a part of social assistance and incorporating microinsurance products into Welfare Fund benefit packages for selected occupations, thereby following a market-based approach. Whereas in earlier years the Government rolled out various social assistance programmes, nowadays it increasingly passes risks to insurance providers;
- entering into various public-private partnership microinsurance agreements with the insurance industry and other (healthcare) actors.

Despite the positive action taken by the Indian Government and the regulator, some microinsurance practices have an ambivalent or even adverse impact on the microinsurance sector:

- Although the range of products for the low-income market continues to grow, only 28 microinsurance products are listed in the IRDA Microinsurance Regulations. The

IRDA-defined product parameters for microinsurance have seemingly not hindered the development of (micro) insurance for poor and low-income earning people, rather they result in a situation where the regulator is not fully aware of the diversity of products available and cannot supervise them. So, a legal framework intended to protect customers appears to have given rise to non-transparent product design.

- Several other delivery channels, which do not conform to the partner-agent model, operate without regulation and are hence difficult to supervise (e.g. community-based systems or full NGO/MFI insurance providers). Other channels are still new and need more testing and development, such as the increased use of technology in delivery structures (e.g. points of sale, kiosks, mobile phone providers). These new channels sell microinsurance to individual customers but offer insufficient support to help clients choose suitable products and process claims.
- The regulations limit microinsurance agents to cooperating with one life and one non-life insurance provider only. As a result, customers are not able to choose from the range of products offered by different insurance companies. This is not in the client's best interest and goes against market principles.

Government strategies for microinsurance in the context of social protection

Striving for a systemic social protection system

India's public spending on social safety nets is relatively high by the international standards of low and middle income countries. However, given the large number of government programmes, there is a need to overcome the fragmentation, enhance the consistency of benefit packages with a stronger emphasis on ex ante mitigation, extend social protection to people who are insufficiently covered (inclusion), and develop a more effective and efficient delivery system.

With respect to microinsurance, some product standardisation would be useful and need not necessarily compromise client value. Further, this would be attractive to the insurance industry, which perceives the design of multiple highly targeted products for limited numbers of clients as too expensive. This standardised approach could add to the economies of scale.

In order to extend social protection to those who are currently neglected or underserved and to relieve the burden on fiscal budgets, the government should review the eligibility criteria for its many (group-specific) programmes and undertake a more precise assessment of target groups, especially of BPL people.

A few recent government initiatives have aimed to overcome these shortcomings, for example: a) the Unorganised Sector Workers' Social Security Act laid the ground for the potential introduction of countrywide social security systems, and b) the Government of National Capital Territory of Delhi (GNCTD) launched the Mission Convergence Policy to incorporate relevant social protection schemes in a common implementation platform and involve civil society organisations as partners to oversee the entire process.

Despite these initiatives, convergence is in its infancy and has to overcome the multiple interests of the government departments with harmonising social policy measures. A conceptual change is also desirable for civil society organisations, who often implement microinsurance in isolation from other risk management mechanisms. Ideally, through the joint efforts of all stakeholders, a basic social protection benefit package for the informal economy would be developed. A national common social protection system of this kind should come with a certain level of flexibility to allow Indian States to provide additional benefits to those needing special cover or to those who can contribute more.

Using microinsurance as a part of (public) social protection programmes

With its new market-based approach, (micro)insurance increasingly supplements targeted social assistance schemes. The most prominent example of this is the RSBY, which forms part of the Unorganised Sector Workers' Social Security Act benefit package. This Act leads to increasing the outreach of schemes because most vulnerable people were not previously aware of the full range of programmes available and often did not apply because the benefits were deemed too marginal. For extremely poor (BPL) people, voluntary contributory microinsurance only becomes an option once their economic situations have improved. Social assistance programmes can help in

this respect as the study on the National Rural Employment Guarantee Scheme, for instance, shows. Since the risks of microinsurance are usually pooled among poor and low-income people, the products have to be integrated into the public social protection system – only then can the problem of redistribution be overcome. It is expected that this market-based strategy will reduce the pressure on the Treasury for social assistance funding as, with this approach, the government is passing some of the risks to the insurance industry.

Apart from the few occupational groups that are covered by the Welfare Funds, the majority of low-income earners are neglected. Microinsurance products are increasingly linked to Welfare Fund packages but other stand-alone products could provide additional coverage for informal workers in precarious employment. This option is not promoted because the Welfare Boards are unaware of the relevant microinsurance products. If Welfare Boards were trained in the concept of systemic social protection and cooperated with civil society organisations, coverage might yield better outcomes. As stated in the Central Government's Eleventh Five-Year Plan (2007–12), the vision of 'faster but socially inclusive growth' may extend social protection to those who are currently underserved.

Including microinsurance in public-private partnerships (PPPs)

The majority of PPPs are small partnerships with the insurance industry. The important and subsidised RSBY health insurance programme, covering 100 million people, is helping to improve health facilities and has created an incentive for the private sector to establish hospitals in rural areas.

The few positive examples of comprehensive PPPs mainly comprise health programmes delivered in collaboration with the insurance industry and high-quality hospitals, and which draw on government support for those currently neglected by the system. These initiatives include preventive measures to reduce exposure to common illnesses, which should help decrease the number of claims. This in turn contributes to improving the viability of health insurance products and encourages private insurers to enter the health market. Donor agencies could play a supportive role by, for instance, testing new approaches or qualifying the stakeholders.

Incorporating civil society organisations in micro-insurance and public social protection programmes

In order to implement social protection mechanisms more effectively and efficiently, the government has extended its cooperation with civil society. Using the same institutions create channels that can be deployed to operate microinsurance and assist in social protection delivery. The process to design microinsurance should be based on a dialogue between the insurance industry, delivery channels and potential customers which, in itself, constitutes a form of empowerment, particularly for women. Positive outcomes like these cannot, however, be expected from new channels like shopkeepers and 'monoline' agents, who are only permitted to sell one product and do so with less than 25 hours insurance training. If the government expects the non-government sector to play an increasingly supportive role beyond microinsurance, they should arrange for the necessary capacity development in social protection. Further, they need to institutionalise and authorise civil society's mandate and arrange for financial compensation. In contrast to microinsurance, where the IRDA has defined the role of civil society organisations and regulated microinsurance agents, similar developments have not yet taken place in social protection.

A large part of the population is neither organised in groups nor linked to NGOs, MFIs, etc. and cannot therefore be reached through civil society organisations. Mobile phone payment systems, handheld data transfer devices, smart cards, etc. offer technological solutions to interface with these individuals. However, these approaches must be complemented by institutional structures that can raise awareness and help individuals select and access appropriate microinsurance products and social protection mechanisms. Local administrative bodies and/or the Workers' Facilitation Centres which should implement the Unorganised Sector Workers' Social Security Act in certain states offer other institutional structures, should the necessary human resources be developed. This approach is already practised in selected public programmes in some Indian states, and also in certain PPP projects, but it has yet to become a consistent policy, which contributes to building the required capacity. To date, there are still no social protection training materials or local training institutions for these purposes.

Social protection in India

While India's economy has been constantly growing, economic development has neither led to significantly lower poverty rates nor been able to generate an expansion of the formal economy. According to the Unorganised Sector Workers' Social Security Bill, more than 94% of the working population still works in the informal sector. Poverty particularly persists in rural areas and especially among social and ethnic groups (the scheduled castes and scheduled tribes respectively). Women (and children) are particularly vulnerable as they are less educated, are often paid extremely low wages and work in very hazardous conditions. Women (and girls) are more susceptible to illness due, for instance, to malnutrition and complications in pregnancy and childbirth. Housework also adversely affects their health (e.g. cooking with firewood or charcoal may lead to respiratory problems and burns).⁷ At the same time, only a fraction of the workforce is covered by statutory social protection in the formal economy. So, if a minimum level of protection for the whole economy is to be achieved nationally, social protection will need to be extended to the informal economy.

In the absence of universal social protection coverage for all – which is the aspiration – the population is divided into the following very broad economic levels for defining the key groups of the study:

- High and middle income workers that can currently arrange their own social protection or are covered by the social protection system for the formal economy (including civil servants). Only in exceptional circumstances would microinsurance offer additional value to this group. For this reason, their social protection schemes are only briefly described and are not the focus of this study.

- Low-income workers who can only afford (micro)insurance if the premiums are relatively low or who may be willing to buy a higher priced product if it is attractive.
- Poor people above the officially defined poverty line who are vulnerable, have little available money, can save marginal amounts and are only in a position to pay very small premiums for limited insurance coverage.
- Extremely poor people categorised as 'below the poverty line' (BPL)⁸ who are entitled to various social assistance programmes and subsidised (micro)insurance schemes.⁹

1. The government's social protection strategy

The constitutional 'Directive Principles of State Policy' determine that the State shall within the limits of its economic capacity make effective provision for securing the right to work, to education and to public assistance in cases of unemployment, old age, sickness and disability. Broadly the Indian social protection system can be divided in the following three categories.

⁷ Ramm, G., Ahmed, M.: Meeting the special needs of women and children. Geneva 2006.

⁸ BPL persons are registered with the Central and the State Government. Parameters and figures differ between Central and State government levels as well as among States, causing significant problems around entitlements for targeted government programmes (social assistance). The latest definition of BPL (from the Tenth Plan, 2002-07) sets the degree of deprivation in respect of: 13 parameters for rural areas: land holding, type of house, clothing, food security, sanitation, consumer durables, literacy status, labour force; and seven parameters for urban areas: roof, floor, water, sanitation, education level, type of employment and status of children in a house. In 2007 approximately 25 per cent of the population was defined as BPL.

⁹ Detailed information in the NCEUS Report 'Comprehensive Legislation for Protection of Unorganised Workers', Delhi 2007.

Box 1: Overview of the Indian Government's social protection strategy

Category of people	Social protection	Benefits (summary)
Universal programmes for all citizens	Basic social/human development funded by the public exchequer	Literacy, schooling, healthcare, drinking water and sanitation, technical training, etc.
Formal economy	Employees' State Insurance	Health cover, maternity, unemployment, invalidity, and survivor benefits
	Employees' Provident Fund	Old age, gratuity
Informal economy	Unorganised Sector Workers' Social Security Act (intended for 'every unorganised worker' but currently only for those BPL and some of those marginally above)	Health and maternity, death and disability, old age but can be extended at a later stage (not yet fully provided)
	Subsidised and contributory (micro) insurance	Health (including RSBY), death, disability, weather-related risks/agriculture insurance
	Several Welfare Funds	Housing, medical care, water supply, education of children, and others
	Indian National Pension System (including NPS light)	Old age security
	Targeted social and human development schemes (social assistance)	For example, the Public Distribution System, National Social Assistance Programme, Integrated Child Development Scheme, Employment Guarantee Scheme (MGNREGA) ¹⁰

The Indian system is characterised by a number of social assistance, welfare and social sector development programmes and schemes. They are cross-sectorial and have been developed for a broad range of different occupations and specific groups, involving various ministries, welfare boards, and departments. Since social protection is a concurrent subject, the States have the flexibility to design or adjust additional programmes and schemes as long as they do not contravene Central Government laws. Consequently, hundreds of programmes and schemes have been developed, making it almost impossible to gain an overview and confusing the limited section of society that is aware these schemes exist. Such a fragmented and, hence, costly system has necessarily compelled governments to tighten the eligibility criteria and set quantitative ceilings for benefits.

While there is a social protection framework in place for the organised sector, there has been a serious gap in social protection policy for the informal economy. And although public spending on social safety nets is relatively high by international standards of low and middle income countries, these safety nets need to be adjusted so they place greater emphasis on ex ante risk mitigation.

The government realised these shortcomings and constituted the National Commission for Enterprises in the Unorganised Sector (NCEUS). They prepared the Unorganised Sector¹¹ Workers' Social Security Bill (2007), which was enacted by parliament in 2008. Subsequently, further initiatives were undertaken, such as the National Health Insurance Scheme (RSBY) and the National Pension System (NPS) to move towards a more consistent social protection policy.

¹⁰ As social assistance programmes consist of various benefits, they are not listed in the table. Given its relevance, MGNREGA will be described in due course.

These are initial but significant steps towards coherence and extending social protection to the informal economy, which should result in the 'faster but socially inclusive growth' mentioned in the Central Government's Common Minimum Programme and Eleventh Five-Year Plan (2007-12).

1.1. The formal economy

For the majority of workers in the formal economy, statutory social security entitlements are financed by contributions from employers and employees. The main programmes are the Employees' State Insurance scheme and the Employees' Provident Fund.

- The Employees' State Insurance (ESI)¹² Scheme was the first comprehensive social security scheme set up by the Indian Government for the formal sector and is based on the Employees' State Insurance Act (1948). It is governed by the Employees' State Insurance Corporation (ESIC), which comprises employer and employee representatives, Central and State Government representatives, members of parliament, and healthcare personnel. According to Section 2 (12), the act applies to factories using electricity and employing 10 or more staff, as well as to shops, hotels/restaurants, road motor transport firms and certain other establishments employing 20 or more persons. The scheme is being implemented area by area in all states except the northeast. Currently, the employee's contribution rate is 1.75% while the employer contributes 4.75% of wages paid.¹³ The key benefits are:
 - full medical benefits for the employed and their families, including maternity benefits for 12 weeks and periodical cash payments during certified sickness;
 - disablement benefits covering temporary and permanent disability – the payment rate is calculated as percentage of loss of earning capacity;

- unemployment allowances providing up to 50% of one's salary for a maximum period of one year;
- other benefits, including funeral expenses up to Rs 5,000 (approximately €76¹⁴) and vocational training to upgrade skills.
- The Employees' Provident Fund (EPF) was enacted by Parliament under the terms of the EPF¹⁵ and Miscellaneous Provisions Act (No. 19 of 1952), is supervised by a tripartite body headed by the Union Minister for Labour, and is administered by the Employment Provident Fund Organisation (EPFO). In establishments with more than 20 members of staff, the Act provides for a deposit-linked insurance scheme and the Employees' Pension Scheme. As per the Act amendment (1997), both employees and employers contribute to the Fund at the rate of 12% of the basic wage and allowances, if any, and 10% in establishments with less than 20 employees. Members of the EPF can draw their full entitlements upon retirement when reaching 55 years of age and in the case of retirement due to permanent and total disability and certain other situations such as immigration, retrenchment, meeting housing costs, and medical care. The Provident Fund is payable to nominees or legal heirs of a deceased member.

1.2. The informal economy

For the informal economy, various government departments have designed a variety of Central and State-level social protection programmes. Often they offer meagre benefits coupled with complicated, time-consuming application processes but the government is slowly improving the situation by consolidating programmes.

11 The Indian Government uses the term 'social security' in contrast to 'social protection'. Furthermore, they use the terms 'unorganised and organised' workers in contrast to 'informal and formal economy'. For this reason, when referring directly to the Indian context, the study uses 'social security' and 'unorganised/organised workers' and, when referring to the general context, the terms 'social protection' and 'informal/formal' economy are applied.

12 <http://www.esic.nic.in/>

13 Employees earning a daily average wage of less than 70 are exempted from paying contributions but are entitled to the same benefits. Employers will, however, contribute their own share for them.

14 All Euro figures above €1 have been rounded up or down as appropriate. The exchange rate for Euros to Indian Rupees is that of 13 March 2012 and, herein, €1 is worth Rs 65.50. For reader friendliness, conversions of Rupee figures into Euros occurs only once in each paragraph or insurance product description.

15 <http://www.epfindia.com/epf.htm>

A legal breakthrough came with the decision on the Unorganised Sector Workers' Social Security Act in 2008 (based on Bill No. LXVII of 2007). It introduces a minimum social security package for 'every unorganised worker' but this currently only covers unorganised workers who are below the poverty line (BPL) or marginally above it and who are registered by the State Governments. As the Government has planned to implement the Act in phases, presently only three schemes form a part of the benefits. The 2009-constituted National Social Security Advisory Board may suggest additions such as provident funds, housing and education schemes for children, which the State Governments can adjust at a later stage. The initial three schemes are as follows:

- The Indira Gandhi National Old Age Pension Scheme provides financial assistance of Rs 200 (€3) per month to destitute applicants above the age of 65 who have no regular means of subsistence. The scheme is delivered by local governments, which are encouraged to involve voluntary agencies such as NGOs, and it now covers approximately two million people¹⁶.
- The Aam Admi Bima Yojana (AABY)¹⁷ (and Janashree Bima Yojana [JBY], with similar benefits mentioned below) provides with the Life Insurance Corporation (LIC) life and disability insurance to the main income earner of all rural landless households, which is administered by nodal agencies such as NGOs that are appointed by the State Government. The State Government in consultation with the Panchayats identifies eligible people aged between 18 and 59 years. The scheme currently covers around two million people. In the event of death Rs 30,000 (approximately €456) will become payable to the nominee (Rs 75,000 in the event of accidental death or permanent total disability and Rs 37,500 for specified partial disability). A Rs 100 scholarship is provided for a maximum of two children between 9th and 12th Standard (school grade). The Rs 200 premium is borne by the Central and the State Governments.
- The Rashtriya Swasthya Bima Yojana (RSBY), the fully subsidised national health insurance scheme¹⁸, was introduced by the Ministry of Labour and Employment in October 2007. The States are given flexibility to modify the details as per State requirements. Each state must establish an independent 'State Nodal Agency' to implement the scheme through insurance providers. In the first phase, the RSBY is targeting BPL workers in the informal economy and their families, as well as those marginally above the poverty line. Central Government funds 75% of the premiums, with the remaining 25% provided by State Governments¹⁹ subject to later specifications. Insurance beneficiaries pay a Rs 30 (€0.46) registration fee to the insurance provider. RSBY provides annual hospitalisation coverage up to Rs 30,000 for a family of five and includes all pre-existing diseases as well as transportation up to Rs 1,000 per year with a limit of Rs 100 per hospitalisation.²⁰ In 2011, the government considered extending the subsidised RSBY to other vulnerable occupational groups, especially those who have been working for at least 15 days under the Mahatma Gandhi National Rural Employment Guarantee such as Beedi workers, domestic workers and street vendors. Other Ministries and Departments can also make RSBY available to their members (e.g. the Railway Ministry to railway coolies, the Postal Department to postmen, construction workers). The premium may be shared between workers and the Government. In addition, the Central Government permitted 'above the poverty line' (APL) groups (not individuals) to join RSBY as a contributory stand-alone social insurance. These new developments have yet to be implemented. As of 29 February 2012, some 30 million families were enrolled and this number is increasing. It is also planned to provide JBY microinsurance benefits jointly with RSBY in a one-card package.

16 As of 29 February 2012 (the end of the fiscal year in India) – applicable for all subsequent coverage data under the Act, from the NASS presentation at the IGSSP workshop, Delhi 30 May 2012.

17 http://www.licindia.in/aam_admi_benefits.htm

18 Government of India: RSBY Transaction System Specifications. Delhi 2008.

19 In Jammu and Kashmir and the North-Eastern States 90% is paid by the central government and 10% by the respective state governments.

20 <http://www.rsbby.gov.in>

There is a huge number of Government targeted social assistance programmes aiming to eradicate poverty, irrespective of the beneficiaries' status as working or non-working poor. There are variances between Central and State Government programmes and also between those of different States. Some examples of these programmes are: the Integrated Child Development Scheme (ICDS), Development of Women and Children in Rural Areas (DWCRA), Midday Meal Scheme for school children, the Public Distribution System for Food Security (PDS), housing for the poor, and the National Social Assistance Programme (NSAP). The Urban Self-Employment Programme supports schemes for microenterprises, savings and credit groups, and skills training. The National Rural Employment Guarantee Programme, described below, can be considered to be the most important of these in terms of strategic relevance, scale and impact.

• **Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA):** Public works programmes have been a central component in social assistance policies since the 1960s. The coverage of these programmes constantly grew, ultimately culminating in the creation of the MGNREGA in September 2005.²¹ Since then, the Act has reached over 40 million households across India and aims to: 1) create employment; 2) regenerate the natural resource base and create productive assets in rural areas; and 3) strengthen grassroots democratic processes through transparent and accountable governance. It entitles poor rural households (self targeting) to 100 days of employment per year, with reservations for women workers. If the local government (Panchayat) does not generate requested work within 15 days – to be submitted in writing – it must provide an unemployment allowance for each day employment is not given. The Act stipulates equal wages for men and women workers, which are set in parity with the minimum unskilled agricultural wage in each state.²²

Subsidised and contributory (micro)insurance for BPL, poor and vulnerable low-income groups have gained importance. In 2000, Central Government introduced the first group product 'Janashree Bima Yojana' (JBY) for BPL people or those on the margin who work in defined occupations. It is administered by the state-owned Life

Insurance Corporation (LIC) and applies to groups comprising at least 25 members. For a premium payment of Rs 200 (€3) which is 50% subsidised, the scheme provides Rs 30,000 to the nominee in the event of the natural death of the insured person; Rs 70,000 in the case of accidental death or permanent disability; and Rs 37,500 in the case of partial disability. Policy holders can apply for a scholarship of Rs 1,200 per annum per child for the education of two children from 9th to 12th Standard (school grade) under the Shiksha Sahayog Yojana scheme.

In 2004, the Central Government and subsequently several State Governments initiated group health (micro) insurance products that served as positive examples for the design of the subsidised National Health Insurance, RSBY, in 2007. Apart from subsidised social insurance, many contributory microinsurance products are available (see Chapter 2).

Welfare Funds are limited to three occupational categories supported by Central Government and a few State Governments: cine workers (film industry), beedi workers (cigarette rollers) and mine workers in selected mining sectors. Welfare Funds are one model for providing social protection to workers in the unorganised sector, regardless of worker income. They are set up by the Central Government and are financed out of taxes (cesses) collected on manufactured beedis, feature films, the consumption of related mining products, and the export of iron, manganese and chrome ores in accordance with the separate Acts:²³

- The Beedi Workers Welfare Fund charges a premium of Rs 18 (€0.27) per member per year. Beedi workers are insured under the General Insurance Scheme that provides: Rs 3,000 in the case of natural death; Rs 25,000 in the case of accidental death or total permanent disability; and Rs 12,500 in the case of partial permanent disability.
- The Cine Workers Welfare Fund provides cover for film industry workers earning less than Rs 1,600 per month and the Welfare Fund itself pays the annual premium of Rs 30. Benefits include Rs 5,000 in the case of natural death and Rs10,000 for accidental death.

21 Hagen-Zanker, J., et. al.: India's Story: Progress in providing employment for the poor. London 2010.

22 Government of India: The Mahatma Gandhi National Rural Employment Guarantee Act (NREGA), 2005.

23 Government of India: Mica Mines Labour Welfare Fund Act (1946); Limestone and Dolomite Mines Labour Welfare Fund Act (1972); Iron Ore, Manganese Ore and Chrome Ore Mines Labour Welfare Fund Act (1976); Beedi Workers Welfare Fund Act (1976); Cine Workers Welfare Fund Act (1981).

- Mine workers (Mica, Limestone, Dolomite, Iron, Manganese and Chrome Ores) receive: Rs 150 for eyeglasses; Rs 1,500 in the case of permanent incapacitation; Rs 450 per month over five years for members' widows; various benefits for diseases commonly afflicting mine workers²⁴; and other benefits for housing and education.

In addition, there are several State Welfare Funds, one of the most important being the 'Construction Workers Welfare Fund' based on a Central Government Act (1996). The Construction Workers Welfare Board administers the Fund with the aim of regulating employment. Broadly, the package provides benefits for health expenses, maternity, old age pensions, funeral expenses, accidents occurring in the workplace and any subsequent total disability, educational grants, and housing loans²⁵ but these can be adjusted by the different States. The Fund is partially financed by workers contributions of Rs 145 annually, but the major source of funding is the tax paid by the builder (one to two per cent of construction costs).

Some States have established additional Boards for occupations including truck drivers, weavers, cashew workers, fishermen, and even agricultural workers as in Kerala. It would, however, exceed the scope of the study to elaborate further on specific State Welfare Funds and government schemes.

The **Indian National Pension System (NPS)**²⁶ is an initiative of the Pension Fund Regulatory and Development Authority (PFRDA), an apex body established by the Central Government to develop the pension sector in India. The NPS was first introduced in 2004 as a mandatory contribution scheme for new employees of the government bodies that had opted into the scheme. Later it was offered to employees in the corporate sector as well. To extend coverage to the weaker sections of society, in May 2009 PFRDA launched the Swavalamban Yojana Scheme (including 'NPS Lite' as a special form of delivery) for the informal sector and economically disadvantaged sections of the population. It is a voluntary contribution-based pension scheme, which provides government subsidies in order to promote small savings for old age:

- Every NPS account holder between the ages of 18 to 60 pays from Rs 1,000 (€15) to Rs 12,000 per year. In return, the Central Government contributes Rs 1,000 per annum for a period of four years. In the event of premature death, a nominee either receives the full pension in a lump sum or continues the NPS account under his or her own name.
- The Swavalamban Yojana Scheme operates in two forms: 'NPS Unorganised Sector (UOS)' and 'NPS Lite'. NPS-UOS serves as an individual pension scheme, while NPS Lite is a group scheme delivered through 'aggregators' such as NGOs and/or MFIs. It is applicable to all citizens in the unorganised sector who join the NPS²⁷.

24 20,000 for tuberculosis hospitalisation, treatment and a subsistence allowance of up to 750 monthly in the case of tuberculosis; reimbursements up to 1,000,000 for heart disease, kidney transplants, etc.

25 Government of India: The Building & Other Construction Workers' Welfare Cess Act, 1996.

26 PFRDA: Manual for Swavalamban, 2010.

27 <http://pfrda.org.in>

28 RSBY Connect, No 5, June 2012.

2. The complexity of the current social security system and the need for convergence

The Unorganised Sector Workers' Social Security Bill was a significant legal achievement, laying the ground for the potential introduction of countrywide social security systems. However, it presently focuses on people below the poverty line (BPL) and leaves a huge number of low-income informal workers uncovered, although an extension to other occupational groups is in the process. As Central Government is implementing the Act in phases, currently only three of the many products and schemes mentioned in the Act are operational. To develop synergies between the RSBY and the JBY, Central Government decided to place both the (micro)insurance products on the RSBY smart card²⁸. This offers the kind of consumer-friendly package that was envisaged when the Act was introduced, prior to its implementation. Following low take-up by the States, the National Social Security Council started a consultation process with the various State Social Security Councils, including civil society representatives, to seek feedback on the design of a minimum social security benefit package for all 'unorganised workers', which relates to the subsequent implementation phases.

As social security is a concurrent subject, States are required to comply with the general prescriptions of Central Legislation but have the flexibility to decide when to implement the Act, whether all benefits will be provided and how they will operate²⁹. This policy reflects the diversity of the Indian subcontinent but, as experience show, it also leads to delays in implementation of programmes. Despite the policies mentioned above and the existence of a large number of government schemes, the social security system is still ineffective and inefficient in several aspects:

- **Awareness and limited benefits:** In many cases, those who are eligible to access schemes are unaware they exist. Even if they do know, the benefits are spread too thin to significantly improve the situations of poor and low-income people.
- **Inconsistencies and fragmentation:** Government programmes are characterised by the multiplicity of initiatives operated at the Central Government, the departments of different states, welfare boards and other institutions. Social security programs are scheme-driven and lack a consistent policy, often being developed ad hoc or when a new government wants to present additional initiatives to its constituents. The picture is further complicated by the sometimes arbitrary distinctions made between target groups, e.g. people 'below the poverty line', 'destitute widows', 'rural landless households', selected 'occupational groups', people organised in 'self-help groups'. This can result in some people having access to two or more benefits, while other large sections of the low-income population are left uncovered. Added to this, the required bureaucracy causes delays and engenders disproportionately high administration costs compared to the benefits actually disbursed.
- **Targeting:** Existing mechanisms fail to accurately estimate either the numbers of entitled beneficiaries or who these people are, and there are significant problems in identifying those with entitlement to target group specific benefits. Moreover, the BPL targeting process is not updated and figures differ between the Central and State Governments.

29 Currently the Act is implemented in a modified form in the States of Gujarat (only to selected occupational groups), Karnataka (in close accordance with the outlines of the Act), Kerala (through a different delivery structure, using Gram Panchayats and Welfare Boards) and in Pondicherry (also delivered through Welfare Boards).

Microinsurance in India

Recognising these shortcomings, the Government of National Capital Territory of Delhi (GNCTD) launched the Mission Convergence Policy to incorporate the plethora of welfare schemes (like health, education, social security, and employment) in a common platform; strengthen the government implementation at the lower levels; and involve civil society organisations as partners to oversee the entire process³⁰. Despite these examples, the Government still needs to develop a coherent social protection strategy, accelerate consolidation of the policy and simplify the implementation of the systems.

Two key factors are driving the rapid expansion of microinsurance in India. First, India has a strong civil society, which kick-started the development of the microinsurance sector. Second, the Insurance Regulatory and Development Authority (IRDA) adopted a quota system for private insurers to serve rural areas and the low-income population. These policies stimulated initial microinsurance activities.

According to IRDA a 'general microinsurance product' means any 'health insurance contract, any contract covering 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 appended to these regulations;(...).³²

Internationally, there is ongoing discussion to define 'microinsurance'. With members including multi- and bilateral agencies, international non-profit organisations, insurance professionals and microinsurance experts, the Microinsurance Network (MIN) asserts the following broad definition which reflects an inclusive concept:

*'Microinsurance is the protection of low-income people against specific perils in exchange for regular payments proportionate to the likelihood and cost of the risk involved.'*³²

1. The Government's microinsurance strategy

Looking at the microinsurance experiences, the government (including IRDA) plays a proactive role in providing insurance to low-income market, the poor and the very poor (BPL) by:

- introducing IRDA-enforced rural and social obligations for the private insurance industry for reaching out to rural areas and the 'social sector' (2002)³³;
- defining and regulating 'microinsurance' through the IRDA Microinsurance Regulations (2005);
- legalising new microinsurance delivery channels, such as Self-help Groups (SHGs), NGOs, and MFIs;
- officially acknowledging microinsurance as a risk management mechanism for poor and low-income informal workers, particularly in the 'Unorganised Sector Workers' Social Security Act' (2008);
- supporting subsidised microinsurance schemes for BPL people and, in so doing, incorporating (micro)insurance into social protection (and, in particular, social assistance) policies, thereby following a market-based approach;
- entering into various public-private partnership agreements.

Rural Social Sector obligations³⁴ comprise a quota for private insurers to sell a minimum level of insurance portfolio which is compulsory for all private insurers who entered the Indian insurance market after liberalisation.³⁵ The intention of the IRDA policy was to avoid cream skimming by the then new private insurance industry and to respond to the development agenda by encouraging the design of products for low-income clients and, thereby, provide cover for otherwise neglected rural areas.

30 Government of National Capital Territory of Delhi: Concept Note of the Samajik Suvidha Sangam – A Mission Convergence Model for Empowering Poor, 2008.

31 IRDA: Regulations on micro-insurance Notification F. No. IRDA/MI/3/2005, REGD. NO. D.L.-33004/99, 2005.

32 Churchill, C., Matul, M. (ed.): Protecting the poor – A microinsurance compendium Volume II, Geneva 2012.

33 'Social sector' is specified as unorganised workers, economically vulnerable or backward classes in urban and rural areas, etc.

34 IRDA: Obligations of insurers of rural social sectors, Regulations 32, 2005.

35 IRDA did not impose the same quota on the public insurers but, in order to avoid market distortion, they have to ensure that their business in the specified sectors will not be less than what has been done by them for the accounting year.

Box 2: Insurer's obligations to rural areas (last updated by IRDA in 2009/10)

Definition of 'rural areas'	<ul style="list-style-type: none"> • A minimum population of 5,000 people on less than 400 km² or • 25% of men working in agricultural pursuits (cultivators, agricultural labourers, livestock workers, forestry, fishing, hunting plantations, orchards and allied activities)
Life insurance	<ul style="list-style-type: none"> • 5% of total policies in Year 1 • Increasing to 16% in Year 5
General insurance	<ul style="list-style-type: none"> • 2% of gross premium income in Year 1 • 3% in Year 3, 5% in Years 4 and 5, 10% in Years 6 to 10

Box 3: Insurer's obligations to the social sector (last updated by IRDA in 2009/2010)

Definition of 'social sector'	<ul style="list-style-type: none"> • Unorganised workers, economically vulnerable or backward classes in urban and rural areas
Life and general insurance	<ul style="list-style-type: none"> • 5000 policies in Year 1, increasing to 20,000 in Year 5 and 55,000 policies (life insurance) after Year 6

According to the IRDA's 2010 annual report, these obligations have contributed to the development of insurance for the low-income market. However, it is indicative that, according to the latest IRDA update in November 2009, only 23 products were designed under the "microinsurance" definition compared with more than 83 insurance products which have been registered under the Rural Social Sectors obligation. This shows that insurers are striving to meet the quota obligations³⁶ either by developing products for the middle- and low-income market as part of their 'rural sector' quota (note that 'rural area' does not specify the economic situation of customers) or by entering into agreements with MFIs, NGOs and large cooperatives targeting the 'social sector' with microinsurance products for the low-income market.

Though this policy stimulated the market, the results for microinsurance are mixed and some private insurers have yet to see microinsurance as a viable business opportunity - usually by starting with simple and profitable credit life insurance to more complex products.

The large number and variety of microinsurance activities in India prompted the definition and regulation of 'microinsurance' in IRDA Microinsurance Regulations (2005). As a single insurer is not allowed to offer both life and general insurance (unless the insurer forms two separate companies), the IRDA distinguishes two types of microinsurance: 'life' and 'general products'. It has further defined microinsurance products primarily in terms of qualitative parameters (details in Annex 1):

- Life product benefits must guarantee a minimum cover of Rs 5,000 (€76) up to a maximum of Rs 50,000 (term life), and Rs 30,000 for endowment policies for a defined number of years (usually from five to 15 years) for insured persons aged between 18 and 60 years of age.
- For general insurance, the benefits for various health products range from a minimum Rs 5,000 for individuals and Rs 10,000 for families up to maximum Rs 30,000 for both individuals and families. Personal accident benefits are set from a minimum of Rs 10,000 to a maximum of Rs 50,000. Asset insurance ranges from a minimum of Rs 5,000 per asset to a maximum of Rs 30,000 per asset.

36 According to an assessment of 83 rural and social obligation products by the ILO in 2005 - quoting only those insurers that responded.

This definition provides little space for shaping products but the ‘file and use’ process offers some leeway. Newly developed microinsurance products must be registered by IRDA and the regulator can call for information, including audits of insurers and others connected with the insurance business. If the regulator makes no such requests within 90 days, the insurance provider is permitted to use the policy as it is.³⁷

The first IRDA Microinsurance Regulations in 2005 provided the opportunity to legalising civil society channels and other delivery channels as ‘microinsurance agents’. Henceforth, self-help groups (SHGs), NGOs and non-profit MFIs could officially play a key role in product delivery and, for the first time, reach poor and low-income groups with microinsurance. In order to further increase (micro) insurance penetration, additional policies and amendments were introduced:

- In 2008, IRDA extended the previous definition of organisations to include ‘all non-profit organisations registered under the appropriate law (including companies, social trusts, etc. that are registered under Section 25 of the Companies Act)’³⁸.
- As part of the Reserve Bank of India’s ‘financial inclusion’ policy, bank correspondents can use technology, like electronically readable cards for low-income ‘no frills’ bank account holders to promote microinsurance delivery³⁹.
- In 2009, the IRDA put forward guidelines for ‘monoline’ insurance agents who are authorised to sell a single simple insurance product. For example, a helper at the local medical shop could sell one specific personal accident insurance product. For these agents, the present requirement to undergo just 25 hours of training was reduced even further and they now need only receive an introduction to simplest product they will sell.

The use of innovative practices, such as point of sale marketing, mobile phone providers involving call centres, and the development of more complex products is increasing and in May 2010 the IRDA, sensitive about the impact of these changes, addressed some legal loopholes:⁴⁰

- The amended ‘Insurance Advertisements and Disclosure Regulations’ removed any scope for the involvement of unlicensed personnel/entities in the sale of insurance products.⁴¹
- Retail counters and/or other companies registered under the Companies Act (1 of 1956) can act as ‘referrals’ by sharing their general customer databases with an insurer. They are not, however, permitted to sell insurance. To do this, the company has to refer the microinsurance business to microinsurance agents (see Annex 2).⁴²

All these policies enhance the role of the insurance industry as the regulations only permit the partner-agent model with regulated insurance providers. Other microinsurance models such as community-based systems and the so-called ‘in-house’ or ‘full service provider’ operated by NGOs and/or MFIs are officially not accepted. Despite the new policies, IRDA is not strictly enforcing these regulations due to a lack of capacity to supervise the variety of often very small schemes. Furthermore, some other schemes may not precisely adhere to the IRDA definition of ‘microinsurance’ and are therefore not controlled. As a 2009 ILO study⁴³ revealed, even health products that were earlier dominated by community-based systems are increasingly operated in collaboration with the insurance industry.

The ‘Unorganised Sector Workers’ Social Security Act’ recognises the importance of microinsurance for extending social protection to unorganised poor people. Since (micro)insurance products form a part of the benefit package, the Act boosts the insurance industry and product development for the low-income market.

37 IRDA: Regulations on micro-insurance Notification F. No. IRDA/MI/3/2005, REGD. NO. D.L.-33004/99, 2005.

38 IRDA: (Micro-Insurance) Regulations 2005 – Micro Insurance Agents, Circular No. IRDA/F&A/062/Mar-08, 2008.

39 Sinha, S.; Sagar, S.: Making insurance markets work for the poor – India case study; Washington D.C. 2009. 40 IRDA: Guidance notes on recent regulatory changes related to Unit Linked Insurance products (ULIPs), 2010.

41 IRDA: Insurance Advertisement and Disclosure (Amendment); Regulations, 2010.

42 IRDA: Notification – Sharing of Database for Distribution of Insurance Products, Regulations, 2010. For instance, the private insurer Max Vijay had to suspend microinsurance sales through retail counters in October 2010 due to, among other reasons, the new IRDA Insurance Act on ‘Referrals’.

43 ILO: Health Micro-Insurance Schemes, India: Diversity, Innovations and Trends – A National Review 2009, Delhi 2009.

Box 4: PPP Example – Rajiv Aarogyashri Community Health Insurance Scheme

The Rajiv **Aarogyashri Community Health Insurance Scheme** was initiated by the Indian State Government of Andhra Pradesh with the aim of increasing rural BPL people’s access to the advanced medical treatments that the state health system was unable to cover (the premiums of more than 36 million insured persons are paid by the Government). The Aarogyashri Scheme can be seen as a broad public-private partnership between the Aarogyashri Health Care Trust under the chairmanship of the Chief Minister, the insurance industry (Star Health and Allied Insurance), the service providers, the district administration of the State, and the federations of self-help groups who appoint health workers. The role of the Aarogyashri Health Care Trust is to assist the beneficiaries, supervise the insurance company and coordinate all parties involved, which includes the Medical and Health Department, District Administration, Rural Development Department, and all local organisations partnering in the implementation of the scheme.⁴⁴

Moreover, there seems to be a paradigm shift in the government’s approach towards social protection: whereas in earlier years the Government operated various social assistance programs, nowadays the Government increasingly transfers risks to the insurance industry for rolling out insurance products – not only as a part of the Unorganised Sector Workers’ Social Security Act but also within the benefit packages of the Welfare Funds or as stand-alone products. The premiums for BPL people are paid by the government, for other groups partial subsidies are provided.

Public-private partnerships (PPP) between the Indian Government and the insurance industry are increasing. The most prominent scheme is the fully subsidised RSBY, which provides health benefits to informal workers. Since the number of comprehensive health products is still low compared to the huge demand, the Indian Government has entered into more complex public-private partnerships. Healthcare providers are included in these multi-stakeholder agreements to ensure better healthcare service provision. This is important because low quality treatment is one of the greatest obstacles to selling health microinsurance.

2. Microinsurance products

According to the 2010 IRDA annual report, there has been a ‘steady growth’ in the design of products catering to the needs of the poor.

When comparing the insurance products mentioned in the IRDA microinsurance list⁴⁵ with the products available on the market, it shows that most products are not registered as ‘microinsurance’. Consequently, a comprehensive and reliable overview of the number of microinsurance products is not available. This is particularly true for community-based schemes and/or NGO full-service providers that have not obtained an insurance licence. In addition, there are a number of products offered by official insurance providers targeting the low-income market that are also not registered as ‘microinsurance’ and, therefore, are not listed in the IRDA microinsurance list. Similarly, most of the insurance products mentioned under Rural Social Sectors obligations are not noted under “microinsurance” but are available to “disadvantaged groups”, whose economic situation remains unspecified.

44 Ramm, G.; Public Private Partnership – Extending the Scope of Partnerships. Luxembourg 2011.

45 IRDA: Micro-Insurance Product List, 2009.

Apart from IRDA sources, the most systematic data were obtained from various ILO studies.⁴⁶ Since each of the documents has a different focus, the data are not strictly comparable and do not easily collate to form a single, consistent and updated overview. Despite this data diversity, the following section aims to provide an overview of the (micro)insurance landscape that can be broadly classified as:

- IRDA approved microinsurance products under the ‘microinsurance’ stipulation in the ‘microinsurance’ regulations;
- IRDA quota-based (micro)insurance products according to the Rural Social Sector obligation;
- informal microinsurance schemes offered by community-based organisations and full-service providers (e.g. NGO/MFI in-house models), which are neither registered nor approved by IRDA;
- (Micro)insurance products that cover catastrophic weather-related risks;
- Registered insurance products designed for BPL people that are subsidised by the Indian Government – in particular the relevant products forming part of the Unorganised Sector Workers’ Social Security Act protection package (see section 1.2 for a description).

2.1. IRDA-registered microinsurance products

According to the latest IRDA microinsurance list update (November 2009), only 23 microinsurance products by private insurers have been officially approved. The IRDA Annual Report 2010, however, accounts for 28 micro-

insurance products⁴⁷, which are registered under the ‘Microinsurance’ Regulations (15 for individuals, 13 as group insurance). Most of them are term life and 11 are combined with endowment policies. The usual sum assured ranges from a minimum of Rs 5,000 (€76) up to a maximum of Rs 50,000 payable to a nominee in the case of the insured person’s death. The usual age range for entry spans from a minimum of 18 years to, in general, a maximum of 60 years, although some notable exceptions have upper limits of 45 years of age. Policy terms mostly define a duration period of at least five years, except for three group insurance schemes that are renewable on a yearly basis. Most of the terms offer the choice of a 5-, 10- or 15-year policy period.

2.2. (Micro)insurance products according to the Rural Social Sector obligation

IRDA has confirmed that all 22 private life insurance companies fulfilled their Rural Social Sector obligations in 2009-2010 (except one insurer for the social sector)⁴⁸. In the non-life business, all 17 private insurance providers operated above the prescribed stipulations.⁴⁹

The 2005 ILO overview of public and private insurance products covered by the Rural Social Sector obligation, analyses insurance products targeting the low-income segment of the population. A total of 46 (55%) products cover a single risk, most product packages focus on two risks (20%) or three risks (18%).⁵⁰

Box 5: (Micro)insurance products offered under the Rural Social Sector obligation

Risk covered	No. of products	Specific benefits
Death	42 life products	23 covering pure risk (death of insured) 19 various types of maturity benefits/savings plans
Accident, disability (some including life)	29 accident products	21 covering accidental death, disability 7 including health expenses linked to accidents
Illness (most exclude delivery, pregnancy-related illness, HIV/AIDS)	14 health products	9 providing reimbursement for hospitalisation 5 covering only specific and defined critical illnesses

46 ILO: Insurance products for disadvantaged groups (Geneva 2005); Community-Based Schemes (Geneva 2005); Health Microinsurance Schemes (Delhi 2009).

47 According to the IRDA Annual Report 2010, of the 28, five products have yet to be included in the IRDA microinsurance list, which only names 23 products.

48 IRDA Annual Report 2010.

49 State-owned insurers have a more flexible arrangement and fulfilled their obligation as follows: The public Life Insurance Corporation (LIC) was compliant with its obligations in the rural and the social sector. The public non-life insurers were 7% above the rural quota and 10% above the stipulated number of lives for the social obligation, except one insurer (source: IRDA Annual report 2010).

50 ILO: Insurance products provided by insurance companies to the disadvantaged groups in India. Geneva 2005.

Box 6: Microinsurance products including community-based schemes

Risk covered	% of products
Natural and accidental death, including credit life	81%
Accidental death	10%
Partial and permanent disability	25%
Illness: mostly hospitalisation (gradually beginning to include outpatient care, maternity cover in 58 schemes, and wage loss compensation during hospitalisation)	57%
Loss of assets due to death of livestock and/or damage of property	35%

2.3. Microinsurance including community-based schemes and others

Since these products are not registered by IRDA, the prime source of information is the ILO⁵¹, which has conducted several relevant studies. Approximately 60% of schemes operate in rural areas while some 30% cover both rural and urban areas and around 10% are purely urban based. They illustrate the availability of a wide range of insurance services for poor and low-income people, with life and health insurance schemes predominating. As the insurance organisations included in the studies partially overlap, the following data for all 151 products are approximate.

Despite this encouraging trend in the development of 100 health products in 2009, most schemes still provide a low level of health protection with benefits ranging from Rs 500 to Rs 10,000 (€ 152), 29 schemes provide protection up to Rs 29,000, and 24 schemes provide Rs 30,000 or more. The average premium level remains low in most schemes, with a maximum contributory capacity of around Rs 400. In 2010, more than 70% of the health schemes received financial support, either from international agencies or the government.

2.4. (Micro)insurance against catastrophic weather-related risks

Insurance against catastrophic weather-related risks is not strictly part of social protection in India; however, the vast majority of India's 116 million farms cultivate rain-fed crops and are particularly vulnerable to the uncertainties of the monsoon. To counter these weather-related risks,

the Indian Government has introduced several subsidised crop insurance schemes but has recently acknowledged a need for disaster microinsurance as well. International experience reveals that the role of stand-alone microinsurance in reducing catastrophic risks is limited and should be considered in connection with a range of additional services. Microinsurance could play a role in complementing and supplementing government crop insurance.

Public crop insurance schemes

The Central Government started the Comprehensive Crop Insurance Scheme (CCIS) in 1985, which was replaced by the National Agricultural Insurance Scheme (NAIS) in 1999. NAIS is offered by the state-owned Agriculture Insurance Company of India (AIC). The payout is fully funded by the government and provides insurance coverage for farmers in the event that specified crops fail as a result of (weather-related) disasters. Insurance is mandatory for all farmers that borrow from financial institutions (irrespective of their land holdings) and voluntary for non-borrowers. The scheme is index-based: if the average crop yield of a defined area is lower than the pre-fixed threshold yield, all insured farmers in the area are eligible for the same rate of payout. The average premium per farmer ranges between 1.5-3.5% of the sum insured or actuarial rates, whichever is less⁵². The sum insured would be at least equal to the amount of crop loan for borrowers.⁵³ According to a World Bank report⁵⁴, issues in design and delays in claims settlement resulted in relatively low take up.

51 ILO: Community-Based Schemes – India: An inventory of microinsurance schemes. Geneva 2005.

52 The World Bank: Enhancing Crop Insurance in India, 2011.

53 GoI: Guidelines of the National Agricultural Insurance Scheme (NAIS), 2003.

In 2010, the Central Government responded to the low uptake of NAIS by piloting a modified National Agricultural Insurance Scheme (mNAIS) involving private industry. This market-based scheme entails risk-based premiums paid by farmers complemented by upfront premium subsidies paid by the government. It is based on actuarial calculations – which is rare – and allows for better financial planning. The NAIS, on the other hand, causes highly variable fiscal exposure through its open-ended unpredictable post-disaster compensation. The mNAIS speeds up claim settlement by using weather indices, reduces the insurance area size from sub-district to Village level for major crops and covers additional areas such as the need to replant and localised losses due to hail or landslides.

In 2007, the Weather Based Crop Insurance Scheme (WBCIS)⁵⁵ was introduced by the AIC as another alternative to the NAIS. This subsidised index scheme is only available in regions not covered by the NAIS. It pays out in the event of deficient and/or excess rainfall during summer (kharif crops) and adverse incidences in weather parameters like temperatures causing frost or heat, relative humidity, unseasonal rainfall, etc. during winter season (rabi crops).⁵⁶

In addition to these major insurance programmes, the government subsidises a number of small (micro)insurance initiatives operated through NGOs and MFIs that reach out to low-income farmers.

Private (micro)insurance products

In order to explore new avenues for insurance products targeting poor and low-income farmers, a number of private institutions have started to develop alternatives. As it would exceed the scope of this study to provide a detailed overview, this section illustrates three different types of delivery channels and partnerships.

- **Microfinance Institutions:** In 2003 the microfinance institution BASIX realised unexpected disasters severely affect microcredit services. With the support of the World Bank they developed the first index-based weather microinsurance as a security for institutions to ensure the continuity of their microfinance business as well as to improve the financial position of affected low-income farmers.⁵⁷ The ICICI Lombard initiative that initially insured two rainfall-affected crops in one region has significantly expanded over the last years. Now policies with more crops and other triggers, such as temperature for wheat, are available.
- **Private agricultural suppliers:** PepsiCo maintains long-term contracts with potato farmers for its production of potato crisps and it has added private index insurance⁵⁸ to their potato contract farming package in 2007. The package consists of discounted fertilisers, access to pesticides, potato seeds and technical advice, such as information about weather data and how to avoid crop losses delivered via mobile phones. The insurance also covers late blight disease due to humidity and temperature. The premium is Rs 1,500/acre (€23), equalling 3-5% of the sum insured (Rs 25,000-30,000/acre). The maximum payout is calculated to cover the investment cost of production plus a small amount for family farm wages and opportunity costs.
- **Community-based models:** To overcome the financial risk when developing insurance against catastrophic events without transferring the risk to commercial insurance providers, the member-based Dhan Foundation offers index products in collaboration with Swiss Re – one of the rare examples between a mutual model and a reinsurer. The insurance covers major crops such as groundnuts and rice against deficit and excessive rainfall and the premium ranges from 5-12% of the expected payout of Rs 2,500-9,000.

54 The World Bank: Enhancing Crop Insurance in India, 2011.

55 WBCIS description; Agriculture Insurance Company of India Limited.

56 The World Bank: Enhancing Crop Insurance in India, 2011.

57 Prem, K.; Bhargava, H.: Role of Micro Insurance in Disaster Management - A Concept Paper, 2006.

58 Hazell, P. et al.: The Potential for Scale and Sustainability in Weather Index Insurance for agriculture and rural livelihoods, Rome 2010.

3. Summary and challenges of microinsurance

Despite the positive action taken by the Indian Government and the regulator some microinsurance practices have an ambivalent or even adverse impact on the microinsurance sector, as some of the following examples show:

- Although IRDA describes a continuous growth in the design of products for poor and low-income people in its 2010 annual report, only 28 microinsurance products are listed under the IRDA 'microinsurance' regulations. This reveals that there are many insurance products available to this market segment which does not fall within the IRDA 'range prescribed for microinsurance'. It seems that the product parameters set for microinsurance may be counterproductive. This may not hinder the design of (micro)insurance in itself, but it means the regulator is unaware of the product diversity and is therefore unable to supervise them. Thus, a policy intending to create a suitable legal framework could not result in a transparent overview of microinsurance products for enabling agents (and potential customers) to enhance their information-base.
- Many delivery practices are difficult to supervise and are not regulated (e.g. community-based systems and for-profit MFIs interacting with several insurers). The IRDA-promoted partner-agent model neglects other models in which NGOs or community-based groups independently provide insurance services. These are not promoted by the legislation because these models can potentially lead to insolvency. If the products are offered to members of their member-based organisations, these own-created funds are not strictly defined as 'insurance' and are therefore not regulated. This is a shortcoming, which even IRDA representatives have noted as problematic.
- Other practices are still new and need more testing and development, such as the increased use of technology in the delivery structures used to promote insurance (e.g. points of sale like kiosks, mobile phone providers, etc.). These channels sell microinsurance to individual customers but have no support structure in place to assist clients in processing claims⁵⁹.
- The attempt of the regulator to scale up microinsurance using agents who may be barely trained will not enhance the insurance awareness of the low-income market and may potentially increase misselling. This would be counterproductive to customer protection regulations and will jeopardise the newly established IRDA Consumer Affairs Department that focuses on issues like redressing grievances and consumer education through insurance awareness campaigns.
- The regulation limits the relationship of a microinsurance agent to one life insurance provider and one non-life insurance company, based on the assumption that too many arrangements would confuse NGOs and other delivery channels as well as potential customers who are not familiar with microinsurance. As a result, customers are not able to choose between products from different insurance companies. This is not in the interest of the clients and runs counter to market principles.

59 Ramm, G.: Reaching out to individual microinsurance clients, ILO 2012.

Government strategies for microinsurance in the context of social protection

The microinsurance and public social protection landscape is characterised by a multiplicity of products and schemes as well as a confusing number of actors and forms of delivery. This fragmentation is further complicated by the range of different approaches to implementation. Only in recent years has the government made an attempt to better coordinate the diversity of both government programmes and microinsurance, leading towards their convergence.

The following section describes the role microinsurance plays in social protection. It analyses examples of the most relevant strategies mentioned in chapter 2.1 to integrate microinsurance into public social protection and the strengths and challenges of applied strategies. Further, it assesses the outcomes of those strategies according to the extent to which they:

- expand outreach, specifically to neglected groups of the population;
- increase benefits, in particular for BPL, poor and low-income people;
- enhance services with a focus on BPL people, and poor and low-income informal workers;
- empower those involved in (micro)insurance ; and
- increase the effectiveness, efficiency and sustainability of government-supported social protection schemes.

1. Outcomes of using microinsurance as a part of social protection programmes

Summary – some of the positive effects for BPL and APL/low-income people

- *Increased benefits for BPL, poor and low-income people*
- *Scaling up of microinsurance and (public) social protection when both are bundled as one package and enhanced outreach to the neglected sectors of society*
- *Easier access and no extra application costs for BPL persons when microinsurance and social protection schemes are combined in one package*
- *Reduced costs for social assistance programmes as government can transfer some risks to insurance providers*
- *Microinsurance bought by MFI members can serve as collateral for ‘high risk groups’ to obtain the MFI loans for productive activities that would otherwise not be made available to them (potential economic growth)*

1.1. Outcomes for people below the poverty line (BPL)

With the new market-based approach, microinsurance increasingly supplements targeted social assistance schemes. The most prominent examples of these insurance approaches are RSBY⁶⁰, AABY and JBY, which form part of the Unorganised Sector Workers’ Social Security Act benefits package.

⁶⁰ RSBY is a fully subsidised government social insurance operated through the insurance industry and, although it does not strictly comply with the definition of microinsurance, its characteristics – namely its premium and benefits – are similar to those of contributory microinsurance health products and it is therefore mentioned in this analysis.

Strengths and challenges: It was an important step to recognise (micro)insurance as a risk reduction instrument and integrate it into the social protection benefit package for BPL and other defined vulnerable people. Although the benefits of the Act are still offered separately, the government is now going to bundle the RSBY and JBY (micro) insurance products, striving slowly towards convergence if this initial process continues.

Presently the Act is only implemented in a few states, has limited benefits and currently focuses on the poor, it has the scope to increase its reach because most people have so far been unaware of their entitlements and have either never applied for the lesser-known government schemes or have not applied because the benefits have been deemed too marginal compared to the costs and effort of applying. The effect will be greater when the government extends coverage beyond the BPL population and includes additional benefits mentioned in the Act. It is expected that this market-based strategy will reduce the burden on the Treasury because the government can pass some of the risks to the insurance industry. One example is the old subsidised government crop insurance that is complemented by the market-based mNAIS operated through private insurers. The other example is the partially subsidised JBY life insurance product, which acts as an alternative option to the National Family Benefit Scheme – where the government must pay full social assistance benefits upon the death of the income earner. However, as social protection is a concurrent subject, state governments can decide whether, when and how to implement the Act, as long as they do not violate Central Government legislation.

For BPL persons, microinsurance needs to be embedded in social assistance benefits because very few BPL people can afford the premium – a fact that makes additional stand-alone microinsurance effectively irrelevant for them. However, if social transfers increase the productivity of the BPL population and enable them to move out of extreme poverty, contributory microinsurance could become affordable for them. For instance, a Centre for the Study of African Economies (CSAE) study revealed that the MGNREG has not only served to provide people with

public work but could also boost daily agricultural wages by 5.3%.⁶¹ As such, microinsurance can prevent people falling back into poverty when crises arise. Although these linkages are positive, their impact is limited. These approaches need, therefore, to be combined with the entire set of risk management practices and other promotional measures, such as better education and vocational training.

1.2. Outcomes for vulnerable people above the poverty line and low-income earners

Low-income earners and people above the poverty line, though vulnerable, are not entitled to social assistance. Alongside the Universal Programmes and a few social security schemes (e.g. the National Pension System), selected occupational groups have the opportunity to enrol in Welfare Funds specific to their occupations. In some of these Funds, the risks of death, total disability or health are covered by microinsurance as part of the Fund's benefit package. In 2011, the Central Government took the decision to offer RSBY as a partially subsidised health scheme to selected occupational groups and as a fully contributory social insurance to 'above the poverty line' groups. However, the latter option is not yet implemented. Low-income earners are currently the main customers for the broad range of microinsurance products.

Strengths and challenges: Microinsurance is very useful when combined with the social protection benefits of the different Welfare Funds. Additional stand-alone microinsurance products, which are not a part of Welfare Fund packages, could complement and supplement the benefits, depending on the specific coverage of the occupational group.⁶² This option, however, is not promoted by the government because the Welfare Boards are unaware of the relevant microinsurance products and cannot, therefore, recommend a more comprehensive coverage. If Welfare Boards were trained in the concept of systemic social protection and cooperated with civil society organisations to implement additional microinsurance products, the results could be much better. Furthermore, many microinsurance products are group policies and beedi, cine and mine workers are not necessarily organised in groups, so even if the workers are aware of these products

61 Berg, E.; Durgam, R.: et al: Can Rural Public Works Affect Agricultural Wages? CSAE Working Paper WPS/2012-05.

62 The relevance of microinsurance for construction workers is limited as the Construction Workers Act benefit package offers good value for money. The slow enrolment in three States has been caused by construction workers' lack of awareness.

they are not able to access them. This is also the case for the contributory RSBY, which are supposed to be sold to groups. This policy avoids adverse selection but neglects the large number of individuals who are not organised in such groups.

Apart from the few occupational groups covered by the Welfare Funds, the majority of low-income informal workers are the people with the least access to public social protection. For them, microinsurance could be an important mechanism for mitigating their current risks. If RSBY will be available to more occupations above the poverty line, stand-alone microinsurance products, which offer additional benefits such as out-patient treatment, could be a useful complement. Often, microinsurance asset products and life insurance serve as collaterals enabling high-risk groups (e.g. fishermen) to obtain loans, which would otherwise not be made available to them and, as such, they offer the potential of enhanced investment and economic growth. To the majority of uncovered low-income people currently microinsurance is the most prominent mechanism to enhance access to social protection and plays a substitute role – however, it does not yet provide sufficient protection.

2. Outcomes of including microinsurance in public-private partnerships (PPP)

Summary – some of the positive effects of PPP

- Reaching BPL and poor people with health protection and farmers with index-based agricultural insurance
- Better quality healthcare services
- Integrating preventive measures into microinsurance PPP reduces the incidence of illness and the number of claims – consequently product viability is improved (meaning premiums may also reduce)
- Encouragement for commercial insurance providers to develop health products (serving as positive examples for replication)

Despite the high rate of enrolment in RSBY, the majority of PPPs are small and simple partnerships with the insurance industry for increasing (micro)insurance penetration and reach underserved regions and people. These partnerships were, and still are, important for exploring the low-income market and gaining acceptance of the insurance industry, but only a handful of complex multi-stakeholder partnerships exist that combine several activities, especially in the area of social health protection (see box below).

Box 7: Government collaboration with Apollo Hospitals and Oriental Insurance

The Government in Andhra Pradesh invests in telemedicine through a PPP collaboration with Apollo Hospitals, local governments (Gram Panchayats), the Oriental Insurance and National Insurance Companies, and the Indian Space Research Organisation (ISRO), which provides the satellite facilities and citadel.

Healthcare services for over 50,000 people are complemented by health education and physical infrastructure like clean water supply, sanitation, drainage, solid waste management, better roads and preventive healthcare programmes. Community service is carried out in partnership with primary healthcare centres.

Local government supports this health insurance covering 50% of the cost of premiums. Apollo Hospitals bear the remaining 50% and any extra costs.⁶³

63 ILO: Health Micro-Insurance Schemes, India – A National Review 2009. Delhi 2009.

The above example presents a unique combination of different levels of intervention within the Government's social protection policy, as described in section 1.1:

- Investment in telemedicine is a part of the 'Universal Programmes' that contribute to more widespread healthcare. The collaboration with a renowned private hospital chain improves healthcare services and the sanitation programme combined with health education adds to preventive measures.
- The subsidised premium payments for BPL people are a part of the targeted Social Development Schemes (social assistance).
- The collaboration with insurance providers improves microinsurance services and constitutes the third level of the government policy, reaching out to the informal workers.

enhanced awareness and reduces moral hazard and fraud. The preventive measures should reduce exposure to common illnesses that is of particular importance to women and girls who are exposed to waterborne disease and many other domestic hazards. This will decrease the number of claims and thus contribute to improving the viability of health products and engaging the interest of private insurers. Consequently, premiums could be reduced or benefits expanded.

A strong RSBY health scheme insuring 100 million people combined with the political will to extend health services to informal workers can have a nationwide scope and could provide an incentive for improving public health facilities and for establishing private hospitals in rural areas⁶⁵.

Box 8: Arogya Raksha Yojana Trust

The Arogya Raksha Yojana Trust designed a health insurance scheme targeting BPL people (launched in 2004) and provides discounted pharmaceutical products, ambulatory transportation services and an accessible healthcare provider network. In addition, the Trust pays some administrative costs, conducts preventive health education, improves sanitation and builds village health centres with the support of the Yeshasvini Trust. The programme focuses primarily on women's and child health, and on reducing infant mortality. It is a partnership between public hospitals, the Yeshasvini Trust (Narayana Hrudayala Foundation in association with the Department of Cooperation, Government of Karnataka), Biocon Pharmaceutical Company and ICICI Lombard General Insurance. The programme offers assistance to other States wishing to replicate the insurance model.⁶⁴

The Arogya Raksha Yojana Trust health microinsurance programme is one of the few examples with a strong gender component, preventive health measures and basic infrastructure development. At the same time, the Trust cooperates with quality hospitals and, in this way, contributes to the universal social protection programmes and to targeted social assistance. The Trust's microinsurance component employs a market-based approach and forms part of the government's informal workers social protection strategy.

Strengths and challenges: Each approach reaches out to the neglected sections of the population, increasing health benefits and improving health services in underserved areas thus having a regional impact. The participation of the PPP people's committees contributes to

In this way, the government gains as these approaches contribute to fulfilling their responsibility to provide better health services to the low-income population without putting an additional strain on fiscal spending as the improved benefits are part of the cooperation with the private partner.

Despite several positive examples of comprehensive partnerships, the industry is still reluctant to cooperate as people's expectations of insurance products and services do not necessarily coincide with the approaches of the insurance industry, health care providers or other private partners – even RSBY faces occasional problems. International agencies could play a supportive role by, for instance, working to remove initial obstacles, testing new approaches and training stakeholders.⁶⁶

⁶⁴ Ibid.

⁶⁵ Jain, N.: Social protection in India – Recent initiatives and Role of GTZ. Geneva 2010.

⁶⁶ Elaborating on other challenges inherent in PPPs exceeds the scope of this study but these are presented in a PPP paper published by the Microinsurance Network (MIN): Ramm, G.: Public Private Partnership – Extending the Scope of Partnerships. Luxembourg 2011.

3. Outcomes of incorporating civil society organisations in microinsurance and public social protection programmes

Summary – some of the positive effects of cooperating with civil society organisations

- *More effective and efficient delivery of microinsurance and social protection services*
- *Potential reductions in government administration costs*
- *More customised products, when designed through dialogue with people, the civil society sector, insurance providers and the government*
- *Empowerment of people and improved acceptance of civil society organisations as delivery channels*
- *Increased awareness of insurance and social protection through the civil society sector, which may improve the acceptance of social assistance programmes*

If access to social protection benefits is difficult – or is, in effect, denied because of poor delivery – the existence of improved products hardly matters. In order to implement social protection mechanisms more effectively and efficiently, the government has extended its cooperation with civil society and the IRDA has regulated microinsurance delivery channels by involving the civil society sector. In some of the public social protection programmes, civil society organisations are directly and/or indirectly involved. For example, seven delegates from civil society and seven unorganised workers are officially represented in the National and State Social Security Boards of the Unorganised Sector Workers' Social Security Act. The Boards suggest additional schemes and advise the government on the implementation and monitoring of the Act. Since only a few state-level Boards exist, the involvement of civil society is still limited but networks of civil society organisations are working with the government to improve the current Act and (informally) assist workers in accessing the schemes.

More officially, Delhi State has established 'District and Gender Resource Centres' for its Mission Convergence

process and assigned NGOs, together with community-based groups and district functionaries, to develop local 'micro plans' to prioritise people's needs and identify the individuals who are entitled to access the programme's schemes. Although not specifically referring to microinsurance, an ODA study⁶⁷ and the recent World Bank report⁶⁸ have both revealed that a major success of the public Mahatma Gandhi Rural Employment Guarantee programme (MGNREGA), which covers over 40 million households, was the involvement of a committed civil society, an existing decentralised government system and high levels of national ownership.

Strengths and challenges: Compared to government administration, civil society organisations have often succeeded in achieving greater reach, lower transaction costs and better services in both microinsurance and social protection programmes. Microinsurance should be designed through dialogue between the insurance industry, delivery channels and potential customers as this offers the opportunity to raise awareness, improve people's powers of negotiation, increase their risk management opportunities and, in general, should lead to more customised products, faster claim settlement and more appropriate (premium) payment mechanisms for clients with irregular incomes. All this contributes to empowering people and women in particular. Positive outcomes similar to those resulting from collaboration with civil society organisations cannot, however, be expected from the recently relaxed IRDA policy, which now permits channels such as shop keepers and 'monoline' agents who have received less than 25 hours training to sell insurance.

If the government aims at further integrating microinsurance into social protection, they should ensure the capacity building of civil society organisations and other delivery channels on a comprehensive, systemic social protection concept because few organisations are currently informed and can act in a most effective way. Moreover, the government must also compensate channels financially for handing this role given that microinsurance commissions are insufficient to cover the extra responsibilities of social protection. So far, these issues have been largely neglected, with the notable exceptions mentioned above.

67 Hagen-Zanker, J.; Holmes, R. et.al.: India's Story – Progress in providing employment for the poor. London 2010.

68 World Bank: Social Protection for a Changing India. Washington D.C. 2011.

4. Conclusions – striving for a systemic social protection system

Given the large number of government programmes and microinsurance products, there is a need to overcome the fragmentation and to extend social protection to those who are insufficiently covered (inclusion). Moreover, it is important to enhance the consistency of benefit packages and develop a more effective and efficient delivery system.

Extending social protection to poor and low-income people: Microinsurance can play a vital role for the huge number of low-income women and men that fall through the social safety net described above. It can even provide additional coverage for precariously employed low-income workers that are insufficiently covered by the Welfare Funds, because benefits differ from state to state and from occupation to occupation and are lost when workers change occupations.

For the extremely poor (i.e. BPL people) who are entitled to public social assistance programmes, voluntary contributory microinsurance can only be an option once they have improved their economic situation and can afford the premium payments. Social assistance such as cash transfers and/or employment guarantee schemes can help in this respect.

For employees in the formal economy, who constitute around six per cent of the working population, microinsurance does not provide any relevant benefit over and above their statutory social protection – except perhaps in the case of index-based microinsurance if their household members are engaged in agricultural activities.

One of the limiting factors of microinsurance is the problem of redistribution. Microinsurance risks are usually pooled among poor and low-income people, who are considered to be ‘high-risk’ groups. Only if microinsurance is integrated into the public social protection system can a solidarity effect be achieved. This requires carefully designed benefits that would complement and supplement existing social protection (or newly designed packages in future) rather than create a substitute and an

alternative role. Fully contributory microinsurance puts the financial strain on the poor and low-income people who buy insurance products.

In order to extend social protection to those who are currently neglected or underserved and to relieve the burden on fiscal budgets, the government should review the eligibility criteria for its many programmes; undertake a more precise assessment of target groups, especially of BPL people; and find out who can contribute how much for which services. A few studies⁶⁹ have shown that even poor people are able and willing to pay, assuming the benefits and services are appropriate.

The extension of RSBY to other groups in the low-income sector, the IRDA initiatives to achieve higher (micro)insurance penetration and Central Government’s Eleventh Five-Year Plan (2007–12) with its vision of ‘faster but socially inclusive growth’ offer a few examples of how better cover for those currently underserved might be achieved.

Social protection benefits: The Indian government has designed many single, isolated schemes (only the formal economy, which includes civil servants, has a consistent system). Such is the state of the microinsurance landscape. It is doubtful that each and every one of the ‘hundreds’ of products available offers optimal benefits, which calls into question whether this diversity provides client value. Attractive as it may sound, the policy to ‘let a thousand flowers bloom’ in microinsurance leads to confusion rather than enabling people to make the best choice. Hence, some standardisation of products would be useful and need not necessarily compromise client value. Further, this could be attractive to the insurance industry, for which the design of multiple highly targeted products covering only a limited numbers of clients would be too expensive. This standardised approach could add to the economies of scale. The de facto introduction of standardisation by the IRDA has, however, limited the flexibility of insurance providers and neglected the requirements of the customers. Hence, there has to be a trade off between some standardisation and greater relaxation of microinsurance regulations to permit the design of customised products.

⁶⁹ Rajasekhar, D.; Manjula, R. et al: Social Security Needs and Willingness to Contribute to Social Security - Agarbathi Workers in Karnataka. Bangalore 2006. And Karanath, G., Rajasekhar, D., et al: Design and Management of Social Security Benefits for Unorganised Workers in Karnataka. Bangalore 2006.

Microinsurance approaches are obviously limited in scope and should be combined with other risk management mechanisms. However, they can provide protection against risks that, at present, are not covered or are insufficiently covered by the public social protection system, such as products against the loss of livestock and/or extreme weather events and even out-patient health-care. Some microinsurance products are more suitable for some risks than for others: life and total disability insurance are easy to develop and operate whereas health and index-based products and endowment policies are more difficult.

The Central Government of India has realised the shortcomings of its fragmented social protection system, which consumes funds without achieving the intended outcomes. According to a recent World Bank report, public spending on social safety nets is relatively high by international standards of low and middle income countries but adjustments are needed to ensure a stronger focus on ex ante risk mitigation.⁷⁰ The Unorganised Sector Workers' Act and the Delhi State Government's Mission Convergence policy are initial steps towards a more coherent system. Convergence is in its infancy and has to overcome the multiple interests of the government departments tasked with harmonising social policy measures and enhancing coordination, but a consolidated national policy framework is the most promising approach.

A conceptual change is also desirable for civil society organisations as they often implement microinsurance in isolation from other risk management mechanisms. Ideally, through the joint efforts of all stakeholders, a basic social protection benefit package for the informal economy would be developed. Such a national common social protection system should come with a certain level of flexibility to allow Indian States to provide additional benefits to those needing special cover (e.g. accident-risk prone occupations) or to those who can contribute more – without falling into the trap of the current highly diverse and ineffective system, which fails to facilitate people's access to appropriate mechanisms or help them make informed choices.

Delivery systems: The Government must ensure access to social protection through legislation and regulation. This does not mean that all services have to be operated by public or semi-public institutions as long as the roles of different actors are defined.

Delivery through the Welfare Boards is often so poor that, depending on the occupation and the implementing state, workers fail to take full advantage of packages that would otherwise often offer good value for money. In general, government procedures are similarly ineffective, although effectiveness varies from state to state. The national and state-level Social Security Boards, which are tasked with coordinating the Unorganised Sector Workers' Act, could play an important role in reducing benefit duplications and in enhancing the effectiveness of implementation. Given the Boards include representatives from industry and civil society, they could provide an opportunity to jointly shape social protection policy – assuming the government has the political will and incorporates all relevant stakeholders.

Civil society organisations are already being mandated to play an increasingly important role, not only in microinsurance but also in public social protection programmes. This makes sense, as using the same institutions creates channels that can be deployed to sell and service microinsurance, to raise social protection awareness and to assist in its delivery. They are close to their member base but this does not automatically convert into effectiveness and efficiency. Significant training is still required for the provision and monitoring of microinsurance. Orientation is also required for those in the insurance industry who are not yet familiar with the low-income market. Embedding microinsurance into a comprehensive, systemic social protection framework requires an analysis of different products (client value) and of the advantages and limitations of all other risk management strategies.

70 The World Bank: Social Protection for a Changing India. Washington D.C. 2011.

Experience has shown that most civil society organisations lack a holistic knowledge of social protection (and even of microinsurance). New microinsurance delivery channels (e.g. shopkeepers, mobile phone providers, etc.) that cater to individual clients are becoming increasingly important, as the majority of the population is not organised in groups. Their role, however, should not be overestimated as they are certainly not in a position to assist clients in selecting the most suitable microinsurance products for the given environment of individual customers.

So far, international agencies have supported the development of microinsurance training tools and courses but a suitable training curriculum for comprehensive social protection is lacking. Furthermore, there are only very few local training institutions that could enhance the capacity of civil society organisations and other relevant stakeholders to operate microinsurance in all its complexity, let alone up skill them to advise on a comprehensive framework of social protection. If the government expects the non-government sector to play an increasingly supportive role, it needs to further institutionalise and authorise civil society's mandate and arrange financial compensation for delegated tasks – without interfering in their internal matters. In contrast to microinsurance, where IRDA has defined the role of civil society organisations and regulated microinsurance agents, similar developments have not yet taken place in social protection.

Without underestimating the role of civil society organisations, it must be realised that a large part, if not the majority, of the population (including migrant workers and many urban dwellers) are neither organised in groups nor linked to NGOs, etc. – at least not permanently – and therefore cannot be reached in this way. For those people, the government has to develop other strategies. Issuing of more national ID cards through the Unique Identification Authority of India, using the RSBY smart card for other schemes, using mobile phones for payments and handheld devices for data transfer, etc. are technological solutions. These must be complemented by institutional structures that can raise awareness and help individuals

to select and access appropriate social protection mechanisms. Local Panchayats and/or the Workers Facilitation Centres, which should implement the Unorganised Sector Workers' Social Security Act in some states, would also be appropriate institutions, but the necessary human resources would need to be available, committed and trained. This approach is already practised in selected public programmes in some Indian states and also in certain PPP projects but it has yet to become a consistent policy that contributes to building the required capacity. The Government should support structures that provide technical advice on social protection as well as microinsurance. It could further promote the exchange of experiences between actors, including community-based groups, and to facilitate access to information to ensure that regional successes can be replicated.

Annexes

Annex 1 – IRDA microinsurance regulations, 2005: product parameters

Schedule I [see regulation 2(d)]							
Item	Type of cover	Min. amount of cover	Max. amount of cover	Term of cover - min.	Term of cover - max.	Min. age at entry	Max. age at entry
1	Dwelling and contents, or livestock or tools or implements or other named assets or crop insurance against all perils	Rs 5.000 Per asset / cover	Rs 30.000 Per asset / cover	1 year	1 year	N/A	N/A
2	Health insurance contract (individual)	Rs 5.000	Rs 30.000	1 year	1 year	Insurers' discretion	
3	Health insurance contract (family) (Option to avail limit for individual / float for family)	Rs 10.000	Rs 30.000	1 year	1 year	Insurers' discretion	
4	Personal accident (per life / earning member of family)	Rs 10.000	Rs 50.000	1 year	1 year	5	70

Note: for group insurance a minimum of 20 group members is required.

Schedule II [see regulation 2(e)]						
Type of cover	Min. amount of cover	Max. amount of cover	Term of cover - min.	Term of cover - max.	Min. age at entry	Max. age at entry
Term insurance with or without return of premium	Rs 5.000	Rs 50.000	5 years	15 years	18	60
Endowment insurance	Rs 5.000	Rs 30.000	5 years	15 years	18	60
Health insurance contract (individual)	Rs 5.000	Rs 30.000	1 year	7 years	Insurers' discretion	
Health insurance contract (family)	Rs 10.000	Rs 30.000	1 year	7 years	Insurers' discretion	
Accident benefit as rider	Rs 10.000	Rs 50.000	5 years	15 years	18	60

*Notes: 1. Group insurance products may be renewable on a yearly basis.
2. For group insurance a minimum of 20 group members is required.*

Quantifying microinsurance using a fixed definition may work at the national level but at the international level, working across diverse economic conditions and with substantial regional differences, it is difficult. Even between similar microinsurance products, premiums and coverage may differ widely.

Annex 2: IRDA adjustment of delivery channels: 'Referrals'

IRDA Notification, THE GAZETTE OF INDIA – EXTRA-ORDINARY REGULATIONS, 2010, (sharing of database for distribution of insurance products)

Excerpts selected by the author

- h) "Micro Insurance Agent" shall have the meaning as assigned to it in clause (f) of regulation 2 of the IRDA (Micro Insurance) Regulations, 2005;
- i) "Referral Arrangement" means the arrangement between a referral company and an insurer in terms of an agreement entered into for the purpose of sharing of the database of the customers of the referral company but does not include the soliciting or sale, directly or through an agent, corporate agent or an insurance intermediary including a micro insurance agent of an insurance product;

Eligibility criteria for approval of the referral company

6. (1) For the grant of approval of the referral company, the insurer shall ensure the fulfilment of the conditions including but not limited to the following:
- (a) The referral company is a company formed and registered under the companies Act, 1956 (1 of 1956) unless otherwise provided under sub-regulation (b) of regulation 6 of these regulations;
- (b) The referral company is not in any of the businesses of extending loans and advances, accepting deposits, trading in securities on its own account or on the accounts of the customers;
- Provided that any bank including a Regional Rural Bank or a co-operative bank that is not eligible for grant of corporate agency license under the relevant eligibility criteria stipulated by the Reserve Bank of India may be approved as a referral company, subject to such conditions as may be imposed by the Authority and the Reserve Bank of India;
- (c) The referral company is engaged in a business that has no linkage, direct or indirect, with the transaction or distribution of the business of insurance;

- (d) The referral company does not carry out the sale or promotion of insurance products in its premises or elsewhere at all times;
- (g) The referral company does not have an existing referral arrangement with an insurer carrying out the same class of insurance business;

Restrictions on the business activities of the referral company

9. The referral company that has been approved by the Authority and registered with the insurer shall not:
- (a) carry out the sale of insurance products in its premises or elsewhere, at all times;
- (b) undertake any insurance related activity except activities in the nature of sharing of the database of its customers for the sale or distribution of insurance products;
- (c) create a database of its customer groups by specifically soliciting or scouting prospective policyholders, for the sale or distribution of the insurance products;
- (e) receive any payment from the insurer for providing the database of its customers, over and above the remuneration as outlined in sub-regulation (7) of regulation 11;
- (g) be licensed/registered as an insurance agent, corporate agent, micro insurance agent or a broker under the relevant Regulations framed by the Authority;
- (h) enter into a referral arrangement with more than one life and/or one general insurance company and /or one standalone health insurance company;
- (k) earn more than 10% of its total income from the referral business with an insurer or any other organization not involved in any insurance related activity, at any time during the tenure of the referral arrangement;

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Abbreviations and acronyms

	Aaam Admi Bima Yojana Insurance
AIC	Agriculture Insurance Company of India Limited
APL	Above the poverty line
AIC	Agriculture Insurance Company of India
BMZ	Federal Ministry for Economic Cooperation and Development
BPL	Below the poverty line
DWCRA	Development of Women and Children in Rural Areas
EPF	Employees' Provident Fund
ESI	Employees' State Insurance
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH
GNCTD	Government of National Capital Territory of Delhi
ICDS	Integrated Child Development Scheme
IGSSP	Indo-German Social Security Programme
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority
JBY	Janashree Bima Yojana Insurance
LIC	Life Insurance Corporation
MFI	Microfinance organisation
MGNREGA	Mahatma Gandhi National Rural Employment Guarantee Act
mNAIS	modified National Agricultural Insurance Scheme
NAIS	National Agricultural Insurance Scheme
NASS	National Alliance for Social Security
NCEUS	National Commission for Enterprises in the Unorganised Sector
NGOs	Non-governmental organisation
NPS	Indian National Pension System
NSAP	National Social Assistance Programme
OECD	Organisation for Economic Co-operation and Development
PDS	Public Distribution System for Food Security
PPP	Public private partnership
Panchayat	Lowest administrative Unit/local government in India
RSBY	Rashtriya Swasthya Bima Yojana – National Health Insurance Scheme
SHGs	Self-help groups
UWSSA	Unorganised Sector Workers' Social Security Act
WBCIS	Weather-based Crop Insurance Scheme

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