

APPENDIX 2: Supplementary Material

Brief 13, “Providing Insurance through Microfinance Institutions: The Indian Experience,” by Rupalee Ruchismita and Sona Varma

Part 1: Alternative Delivery Channels for Microinsurance

The bulk of microinsurance in India is provided not by MFIs, but by the central and state governments. In April 2008, the central government launched Rashtriya Swasthya Bima Yojana (RSBY), a national health insurance scheme for which all families below the poverty line (BPL) are eligible for a registration fee of 30 Indian rupees (Rs. 30), or about US\$0.70. This program entitles them to hospital coverage worth up to Rs. 30,000 (about US\$700). Premiums are paid by the government. The program has progressive features, such as use of biometric identification, portability (useful for migrants), and cashless benefits. RSBY leaders envision using MFIs as intermediaries to facilitate outreach, thus creating a potential role for MFIs to act as delivery channels in this large-scale national program.

Among the state government-supported schemes, Yeshaswini, a healthcare program in the state of Karnataka, is a notable example of an insurance program for rural farmers and their dependents. The program is managed by a trust with contributions from the state government and the members of state cooperatives. Yeshaswini is the world's largest self-funded healthcare program, covering more than 2.6 million people for more than 1,600 surgical procedures at a low premium.

Another large-scale channel for microinsurance delivery is the state-led Self-Help Group (SHG) Bank Linkage model of microfinance outreach. The SHG Bank Linkage model is mostly used to provide life insurance. Its relatively weak mechanisms for accessibility and monitoring make it a fragile channel for delivering more complex products like agriculture, livestock, or health insurance, even though these products would address the livelihood-related risks to which the poor are heavily exposed.

The central and state governments have funded more than 14 “poorest-of-the-poor” insurance and safety net pilot schemes in recent years. With greater focus and more streamlined implementation plans, such schemes have achieved remarkable scale, although it is still to be seen whether the servicing capabilities are in place for such massive schemes. Also, since these schemes focus exclusively on the poorest of the poor, they do not cater to the large number of working poor. Because some of these schemes are funded through specific state governments, they are not always available in poorer states, and with increasing global prices, states have struggled to sustain these safety nets. These schemes are also exposed to political risks. Therefore, none of these channels offer sustainable and scalable opportunities for delivering insurance to the working poor. In contrast, MFIs—relatively stable channels with demonstrated commercial viability—are likely a more feasible option for insurance for the working poor.

Part 2: Innovations in Product Design: Livestock Insurance

Livestock insurance is among the most important productive risk management products in rural India. Because of high adverse selection and moral hazard risk, however, insurers need to charge very high premiums. Given the great need for livestock insurance and its mission to maximize the financial well-being of rural households, the IFMR Trust Holding Company Private Ltd, together with the insurance company Housing Development Finance Corporation (HDFC) Ergo, recently launched an innovative structure for livestock insurance in a small Indian village. IFMR Trust, a private trust based in Chennai, was set up with a mission of ensuring that individuals and enterprises in India have complete access to financial services. As a part of that mission, the trust established the IFMR Trust Holding Company, which in turn is rolling out a network of rural financial service companies, known as Kshetriya Grameen Financial Services. These entities offer a range of financial services to meet the huge unmet demand in remote rural locations in India.

It is often difficult to determine if a livestock insurance claim is for the animal that was actually insured. The use of radio frequency identification technology to identify the animal in the event of a claim significantly reduces false claims, thereby reducing premiums substantially. The IFMR Trust product also uses Herdsman software, which maintains each animal's health records, including deworming and vaccination records, to help track each animal's health and productivity. In conventional livestock insurance, normal copper or metal tags are used for tagging, a cover note is issued that is matched against the tag number, and then the policy is issued. The entire process often takes five days, if not longer, and involves large-scale manual intervention, data entry, and wastage of paper. For the new product rolled out by IFMR Trust, livestock details are sent from branches to HDFC Ergo on a real-time basis, and the policy certificate is issued in real time. For the first time, Indian farmers can get their policy certificates over the counter at the time they pay the premium. In addition, this system reduces paperwork and manual intervention, leading to further cost reductions and lower premiums. By leveraging technology and focusing on rural customers' needs, the new livestock insurance product piloted by IFMR Trust promises to be a useful product for productive risk mitigation in rural markets.