TATA-AIG
Life Insurance Company Ltd.
India

CGAP Working Group on Microinsurance
Good and Bad Practices
Case Study No. 14

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Good and Bad Practices in Microinsurance

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1. A **series of case studies** to identify good and bad practices in microinsurance
2. A **synthesis document** of good and bad practices in microinsurance for practitioners based on an analysis of the case studies. The major lessons from the case studies will also be published in a series of **two-page briefing notes** for easy access by practitioners.
3. **Donor guidelines** for funding microinsurance.

The CGAP Working Group on Microinsurance

The CGAP Microinsurance Working Group includes donors, insurers and other interested parties. The Working Group coordinates donor activities as they pertain to the development and proliferation of insurance services to low-income households in developing countries. The main activities of the working group include:

1. Developing donor guidelines for supporting microinsurance
2. Document case studies of insurance products and delivery models
3. Commission research on key issues such as the regulatory environment for microinsurance
4. Supporting innovations that will expand the availability of appropriate microinsurance products
5. Publishing a quarterly newsletter on microinsurance
6. Managing the content of the Microinsurance Focus website: www.microfinancegateway.org/section/resourcecenters/microinsurance

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The views expressed in this paper are those of the authors alone.

Abbreviations and Acronyms

AIG	American Insurance Group (USA)
CEO	Chief Executive Officer
CGAP	Consultative Group to Assist the Poorest
CRIG	Community Rural Insurance Groups (India)
DfID	Department for International Development (UK)
ESI	Employees State Insurance (India)
FDCF	Financial Deepening Challenge Fund
GDP	Gross Domestic Product
GIC	General Insurance Corporation (India)
GTZ	German Technical Assistance
ILO	International Labour Organization
IRDA	Insurance Regulatory and Development Authority (India)
K	Thousands
LIC	Life Insurance Corporation (India)
m	Millions
MFI	Microfinance institution
n	Number of units or actions
N/A	Not Available
NCAER	National Council of Applied Economic Research (India)
NGO	Non-governmental organisation
NIC	National Insurance Corporation
NSAP	National Social Assistance Programme (India)
NSSF	National Social Security Fund (India)
PPP	Purchasing Power Parity
PR	Public relations
SA	Sum Assured
SHG	Self help group
SIDBI	Small Industries Development Bank of India
TBF	The Bridge Foundation (India)
TRoP	Term Return of Premium
TV	Television
UK	United Kingdom
UNDP	United Nations Development Programme
US$	United States Dollars
USAID	United States Agency for International Development
YCO	Swayamkrushi / Youth Charitable Organization (India)
YTD	Year to Date

Executive Summary

Tata-AIG entered into microinsurance as a condition for acquiring a license to sell insurance in India. Unlike many other insurance companies, the CEO of Tata-AIG, Mr Ian J. Watts, and Joydeep K. Roy, the Director Alternate Channels, immediately saw the benefits of microinsurance. These included fulfilment of corporate social responsibility; use of the microinsurance to get the brand into a new market (today's micro clients may be tomorrow's high premium clients); and as a means of developing a good relationship with the Indian insurance regulator. The Insurance Regulatory and Development Authority (IRDA) feels strongly about the importance of microinsurance and the need for private insurers to play a role in serving the rural and social sectors. The CEO realised that microinsurance would require innovative thinking because insurance products for low-income households was not just normal insurance with lower premiums and benefits. In particular, he realised that selling microinsurance would require a new distribution mechanism.

He created a specialised microinsurance department within Tata-AIG called the rural and social team and provided it with the support and resources it needed. In particular, he did not pressure it to make immediate profits and gave it latitude to consider alternative distribution strategies. He appointed Vijay Athreye (one of the co-authors of this paper) to head up the team and he was tasked with developing microinsurance distribution models.

At first, the rural and social team decided to collaborate with MFIs using a partner-agent model. The MFI became the agent selling and servicing the products in return for commission income. The limitations of this strategy soon became clear. Many insurers were seeking to develop relationships with microfinance institutions, but there were not enough good MFIs to go around.

So the rural and social team developed a model of micro-agents. In this model, Tata-AIG would obtain recommendations of NGOs that had a good relationship with a local community in an area it wished to sell microinsurance. It would develop a partnership with the NGO. In return for a consulting fee, the NGO would provide suggestions on members of the community who could be good agents for microinsurance policies (micro-agents).

If the suggested people show an interest in becoming micro-agents, they are asked to form into groups of peers. The group, referred to in the Tata-AIG model as a community rural insurance group (CRIG), operates in a similar fashion to an insurance agent's firm. Tata-AIG helps the group leader obtain an agent's license. The members of the group all refer policies for their own account, but the leader with the agent's license submits the policies and receives an additional commission for the extra work she does. The model relies on direct marketing similar to that used by firms such as Tupperware and Avon. The NGO can do a variety of tasks in this model including aggregating the premiums and sending them on as a single sum to Tata-AIG, allowing the agents to use their offices to conduct business, playing a role in the training of micro-agents, and helping to distribute benefits. The model thus has some additional positive externalities by providing a new income stream for rural NGOs and for micro-agents.

Tata-AIG's rural and social team is in the process of developing and establishing in distribution network. Consequently, the current figures on number of clients served and the costs of servicing need to be read with caution. To date, Tata-AIG has sold 34 100 term and endowment life policies from March 2002 to June 2005, of which more than half were sold to women. These products have thus far generated a premium income of $122 000. The total cost of establishing the channel to date is $234 000.[1]

This paper provides a broad overview of how the microinsurance programme at Tata-AIG emerged and how it operates. It places particular focus on the micro-agent. Because of the low value of microinsurance premiums, low cost distribution is critical in microinsurance. In its micro-agent model, Tata-AIG has introduced a new and exciting distribution methodology to microinsurance in India. The scheme's benefits and possible shortcomings are discussed in the paper. While the micro-agent model holds much promise, the scheme is still too new to be definitively declared a success or failure.

[1] The above cost is only the overhead cost of establishing the channel and includes expenses such as Tata-AIG's wage costs, travel and training expenses. It does not include claims, other policyholder benefits and the agents' commission.

1. The Context

Table 1.1 Macro Data

Category	Amount
GDP (US$ Billions)	$3.022 trillion (2003 estimate)*
Population (millions)	1,033.4 (2001)**
Population density per km2	318 (2002 estimate)***
Percentage urban / rural population	27.9 urban (2001 estimate)**
GDP/Capita (US$)	$2924 using above figures
GDP Growth Rate	7.6% (2003 estimate)*
Inflation	4.6% (2003 estimate)*
Exchange Rate (current, Rs Currency per US$1)[2]	45
PPP GDP per Capita	$2,840 (2001 data)**
Infant Mortality (per 1000 live births)	67 (2001 estimate)**
Under Five Mortality (per thousand)	93 (2001 estimate)**
Maternal Mortality (per 100,000 live births)	540 (2001 estimate)**
Access to safe water (% of population)	84 (2001 estimate)** (note: this is just to a sustainable water source which may not be safe)
Health Expenditure as % of GDP (public/private/total)	0.9 /4.0 / 4.9 (2000 estimate)**
Health Expenditure per capita (US$)	$71 (2000 estimate)**
Doctors per thousand people	48 (2001 estimate)**
Hospital beds per thousand people (urban/rural)	0.8 (1998 estimate)****
Literacy rate	59.5% (2003 estimate)*

*Central Intelligence Agency 2004 World Factbook
** UNDP 2004 - http://www.undp.org/hdr2003/indicator/cty_f_IND.html
*** http://www.nationmaster.com/encyclopedia/Asia
****World Bank 2001

1.1 The State of the Insurance Industry

India's insurance industry, private and public, has its roots in the 19th century. The British government set up state-run social protection schemes for its colonial officials, many of which evolved into today's schemes. The first private insurance company was the Oriental Life Insurance Company, which started in Calcutta in 1818. Under British rule, many insurers operated in India. In 1938, the British passed the Insurance Act, comprehensive insurance legislation, which remains the cornerstone of the insurance industry today.

Regulated insurers are divided into two categories: life and general insurance. Life insurance includes products like endowments policies and retirement annuities. General insurance covers all other types of insurance. In 1956, the Indian government nationalized the life insurance industry. The reasons given at the time were high levels of fraud in the industry and a desire to spread insurance more widely, as Nehru noted at time in parliament, "we require life insurance to spread rapidly all over the country and to bring a measure of security to our

[2] This exchange rate will be used in all calculations of current figures in this report.

people." The government combined 154 insurance providers and formed the Life Insurance Corporation (LIC) of India.

General insurance remained in private hands until 1973 when it too was nationalized. Prior to nationalization, 68 Indian and 45 non-Indian entities sold insurance. All of these were absorbed into one giant corporation, the General Insurance Corporation (GIC) with its four subsidiaries: Oriental Insurance Company Limited, New India Assurance Company Limited, National Insurance Company Limited, United India Insurance Company Limited.

Despite Nehru's desires, in the decades following nationalization, insurance products were designed primarily for those with regular income streams, i.e., those in formal employment. These were overwhelmingly men in urban areas. The poor, working mostly in agriculture, were largely overlooked by these new companies.

When the ideological winds of change blew in the early the early 1990s, the Indian government set about liberalizing its insurance markets. It set up a commission of enquiry under the chairmanship of R N Malhotra. The central outcome of the commission was the establishment of the Insurance Regulatory and Development Authority (IRDA) that in turn laid the framework for the entry of private (including foreign) insurance companies.

At the beginning of 2005, there were 14 life and 14 non-life insurers operating in India.[3] India's insurance penetration (premiums as a percent of gross domestic product) in 2003 is low at 2.9 percent, and ranks 54th in the world. In premium collection, the record is better, at 19th position collecting US$17 billion in 2003. The 2003 ratio of premiums collected per capita (insurance density) is 16.4. Compared with a world average of 469.6, India's insurance industry is still at a very nascent stage. Of the US$16.4 per capita expenditure on insurance, a mere US$3.5 is spent on general insurance. This is primarily because in India, non-life insurance is not considered important and people perceive it as an unnecessary expenditure.[4] Table 1.2 summarises basic information about the Indian insurance industry.

Table 1.2 Insurance Industry Basics

Issues	Observations
Name of insurance regulatory body	Insurance Regulatory & Development Authority (IRDA)
Key responsibilities of the regulatory authority	Regulate, promote and ensure orderly growth of the insurance and re-insurance industries
Minimum capital requirements for insurance license	Rs 100 Crores (1 Crore = $1x10^7$) ($22.22m) NB: No waivers are granted to microinsurers
Other key requirements for an insurance license	The IRDA distinguishes between life insurance that includes endowment and annuities, and insurance for all other risks that fall under a general insurance category. In India, an insurer must form separate entities and cannot sell life insurance and general insurance together on the same policy. Foreign companies can only enter the industry in collaboration with the domestic companies
Other key requirements for regulatory compliance	Investment in the rural and social sectors (see Section 1.2)

[3] A complete land up to date list can be obtained from the website of the IRDA – www.irdaindia.org
[4] Swiss Re Sigma No.3 / 2004

Minimum capital requirement for a reinsurer	Rs 200 Crores (1 Crore = $1x10^7$) ($44.44m)
Number of regulated private insurers / value of annual premiums	Life Insurance 13 / Rs 3 120.33 crores ($693.41 m) Non-Life 8 / Rs 2257.83 crores ($501.74 m)
Number of regulated public insurers / value of total annual premiums	Life Insurance 1 / Rs 63 167.60 crores ($14 037.24m) Non-Life 6 / Rs 15099.35 crores ($3355.41m)
Number and type of other regulated insurance organizations	None

1.2 Profile of Microinsurance

Microinsurance Legislation

As in much of the developing world, India has a large number of informal insurance schemes. These schemes are often run by cooperatives, NGOs, and other community organizations that pool their members' premiums to create an insurance fund against a specific peril, for example funeral costs. In many countries, there is specific legislation to regulate these schemes, but in India no such law exists; any individual or institution conducting insurance has to comply with the stipulations of, among other regulations, the 1938 Indian Insurance Act as amended.

Compliance with this Act requires, among other conditions, over $21 million of capital to get an insurance licence. Schemes that do not comply with the Act—such in-house insurance offered by MFIs, NGOs and trade unions—operate in a legal vacuum. At present, the IRDA has not taken action against these schemes. However, regulated insurers have expressed their unhappiness to the IRDA about needing to compete against non-regulated insurers. The situation may thus change if regulated insurers place sufficient pressure on the regulator to act. Two possible scenarios may occur: either the development of particular legislation to cater for microinsurers or active closure of non-regulated insurers. The authors recommend that the IRDA takes the former approach i.e., the development of particular legislation to cater for and support currently unregulated microinsurers.

Many unregulated insurance schemes are run by well-intentioned staff and confer positive social benefits. Indeed much of innovation in microinsurance has emerged from unregulated microinsurers. Moreover, informal insurers often sell insurance to clients that regulated insurers ignore. Unregulated microinsurers may hold significant funds on behalf of low-income clients. The risk of working with these unregulated organisations is that there is no legal framework that ensures that they meet minimum prudential standards and other professional insurance qualifications. In addition, they do not have a statutory ombudsman or other feasible means of enforcing consumer rights.

Rural and Social Sector Obligations

There are two central regulations that have shaped microinsurance in India. The first is a set of regulations published in 2002 entitled the "Obligations of Insurers to Rural Social Sectors." This is essentially a quota system. It compels insurers to sell a percentage of their policies to de facto low-income clients. It was imposed directly on insurers that entered after the market was liberalised. The old public insurance monopolies have no specified quotas, but have to ensure that the amount of business done with the specified sectors was not “less than what has been recorded by them for the accounting year ended 31st March, 2002.”

Rural areas are all locations outside of officially classified urban areas. Life insurers must sell 7% of total policies by number (not value) in the first year, with increasing amounts of up to 16% in Year 5. With general insurance, 2% of gross premium income must come from rural areas in the first year, 3% in Year 2, and 5% thereafter.

The regulations for the rural sector do not specify the income levels of clients directly. They specify that the clients must come from rural areas. With the great majority of poverty in India located in rural areas, the effect of such a stipulation is to ensure that poor clients are sold policies.

At present, the rural quotas are relatively low, so it is possible for many insurers to meet their rural sector targets by selling high value policies to wealthier residents of rural areas, but the quota rises each year. The targets for life insurance are likely to be easier to hit than for general insurance. Consider, for example, how many insurance policies covering huts need to be sold to equal 5% of the premium of a $100,000 house in Bangalore.

This regulation has generated massive pressure on insurers to sell microinsurance. Without selling microinsurance, they cannot sell their more profitable products. To date the IRDA has fined a number of insurers for failing to meet their targets. Continued non-compliance to the rural and social obligations could result in suspension of license to operate.

The social sector includes low-income groups consisting of unorganised workers and economically vulnerable or backward classes in urban and rural areas, for example Dalits or untouchables. Insurers must cover a specified number of new lives each year from these groups, from 5000 policies in Year 1, up to 20,000 policies in Year 5.

It is difficult to assess the costs and benefits of the regulation without further research. On the one hand, the regulation has created a frenzy of interest by regulated insurers to enter into microinsurance. The regulation has also been the motor for important innovation. To date, much of the innovation in other countries has derived from donors, academics or MFIs working on the issue. In India, in their drive to meet their rural and social sector targets, regulated insurers are developing innovative new products and delivery channels. They bring their considerable resources to this task.

The impact of the quota is of course not all positive. There have been unverified reports that some insurers are dumping poorly serviced products on clients solely to meet their targets. As soon as they have met their targets, some have immediately stopped selling microinsurance. This practice is difficult to regulate, as it is harder to police the quality of insurance sold and serviced to the poor than its quantity. It would certainly be socially unfortunate if the regulation resulted in a mass of poorly serviced products sold at a loss, to enable insurers to concentrate on their more profitable products. This situation would not result in meaningful sustainable financial deepening, but more akin to charity, forced on insurers to allow them to do business in India.

Concept Paper for Microinsurance Regulation

The next central regulatory document, published by the IRDA in August of 2004, is entitled "Concept Paper on Need for Regulations on Micro-Insurance in India." While not regulation, it nonetheless reflects the intentions of the regulator. Overall, the Concept Paper is commendable, but there are two significant concerns: 1) the implicit restriction of microinsurance to the partner-agent model; and 2) the lack of product flexibility. There are various models for selling and servicing microinsurance, for example co-operative insurance and NGOs or other institutions providing insurance on their own. These models all have strengths and weaknesses, but overall, with appropriate regulation, they expand the frontier microinsurance provision. By restricting microinsurance provision to the partner-agent model, the IRDA restricts the development of microinsurance. The concept paper also prescribes many of the products features, which may leave insurers with undesirable products that may not be bought by their clients.

Profile of Microinsurance in India

Prior to the passage of the Obligations of Insurers to the Rural and Social Sector, and its resultant partnerships between insurers and MFIs and NGOs, for the most part Indian microinsurance schemes were either some variant of a community-based model or managed by MFIs in-house.

An exception is the Self-employed Women's Association based in Ahmedabad, one of the world's microinsurance pioneers. In 1991, SEWA developed a relationship with LIC to act as an agent selling life insurance. In 1992, SEWA developed a health insurance scheme in partnership with the United India Insurance Company. Over the years, it has moved between partner-agent and in-house insurance, although now it only partners with insurance companies and provides integrated life, health and asset coverage for more than 90,000 adults.[5]

In the community-based model, a group of people get together and essentially develop their own insurance scheme in which they pool their own funds, develop their own rules, and run their own scheme. The Swayamkrushi / Youth Charitable Organization (YCO) is an example of a community-based model that still operates. Based in Andhra Pradesh, it is primarily a savings and credit association with an added insurance feature. The co-operative's 8,100 members pay an annual insurance premium of Rs 100 ($2.20) and receive insurance cover for life and assets. Their life cover is Rs 15,000 ($333) in the event of a natural death and double that in the event of an accidental death. The fund's premium pool is held and operated by members of the cooperative.

In the in-house model, an MFI or NGO runs an insurance scheme for its microcredit borrowers. For example, SPANDANA, a large MFI also in Andra Pradesh, operates such a scheme. Although its principle business is lending, SPANDANA has introduced a compulsory life and hut insurance scheme. The MFI has dealt with co-variant risks primarily by excluding them. So far, it has made a profit on the scheme because transactions costs are very low. Premiums do not need to be physically collected; they are deduced from the loan amounts. Claims are easily verified by loan officers, and benefits are paid directly by loan

[5] For more details, see Garand (2005), "VimoSEWA, India" CGAP Working Group on Microinsurance Good and Bad Practices Case Study No. 16. Geneva: International Labour Organization.

officers. SPANDANA has used the profits from the scheme to provide bursaries for the children of its clients.[6]

Although these informal schemes do, on the face it, provide a beneficial social service to low-income people, they are strictly speaking unregulated. These schemes often circumvent regulations by giving their insurance policies names that do not use the word insurance. Whatever the name of the schemes, their practices contravene the Insurance Act of 1938 as Amended.

1.3 The Role of the State in Social Protection

The primary social protection schemes available in India are listed in Appendix 1. When reading through the list, it is worth noting that, although many schemes exist, their coverage of the Indian population is on the whole miniscule. The risk of ill-health, for example, one of the most significant risks faced by poor and rich alike, is in theory covered by the Government of India's free universal health care. In practice, however, the health care offered by the state is so limited and often of such poor quality that, greater than 80 percent of total expenditure on health in India is private, and the poorest quintile of Indians is 2.6 times more likely than the richest to forgo medical treatment when ill (Peters, Yazbeck et al 2002).

[6] For more details on SPANDANA see Roth et al (2005), "Microinsurance and Microfinance Institutions: Evidence from India," CGAP Working Group on Microinsurance Good and Bad Practices Case Study No. 15. Geneva: International Labour Organization.

2. The Institution

2.1 History of the Institution

Tata-AIG Life Insurance Company is a joint venture between the Tata Group (74% equity stake) and American International Group Inc. (AIG) (26% equity stake). The company offers a broad range of life insurance products to individuals and groups. The products offered to individuals are variations of term life with or without a savings element, e.g., endowment policies and money back policies. Tata-AIG Life has been in operation since April 2001 (incorporated on Aug 23, 2000). While the company itself is relatively new, the Tata group is widely known in Indian households.

The Tata Group is one of the oldest and largest industrial conglomerates in India. Established in 1868, it has interests in engineering, consumer products, chemicals, financial services, hotels, information technology and telecommunications. With over 80 companies, and with revenues close to 1.8% of the country's GDP, the Tata brand is very well respected across the socioeconomic classes. Most importantly, it manufactures a large variety of goods that are highly visible to low-income households, like consumer goods, trucks and automobiles that bear the Tata logo. Having been around for over a century, the name Tata introduces immediate credibility in its microinsurance operations. Agents selling microinsurance products are able to assure potential clients that such a large conglomerate would have little interest in stealing their miniscule (in relative terms) premiums.

AIG is the one of the world's largest insurers. Aside from its massive pool of in-house technical capacity, it has experience working on microinsurance in Uganda.[7] Although Tata is the largest shareholder in Tata-AIG, AIG manages the company with strategic guidance from AIG's Hong Kong office.

Tata-AIG was among the few private sector insurance players to have a well-known, reputable local brand, but it did not have a strategic banking alliance with domestic banks or branch presence in smaller towns that could enable it to promote microinsurance sales. As a result, its microinsurance strategy had to be developed around other partner organizations to enable the insurer to penetrate rural areas. Rural India comprises of over 650 000 villages with over half of them having a population of less than 500. Even the state relies on NGOs to provide services to remote and poorly connected locations.

For Tata-AIG's rural programme, it was evident that the main partners would need to be NGOs. Fortunately, Tata has the reputation of having contributed to community development over the years. Substantial parts of the group's profits go into a trust and several social organizations across the country receive grants and assistance from these trusts. The link with Tata helped to create a climate in which many NGOs were favourably disposed towards Tata-AIG.

[7] See McCord et al (2005), "AIG Uganda," CGAP Working Group on Microinsurance Good and Bad Practices Case Study No. 9. Geneva: International Labour Organization.

> Although AIG was forced to find a local partner to get a license to do business in India, the choice of Tata, with its excellent reputation in the development community, made it an invaluable partnership. This was especially significant in India where many multinational corporations have faced significant difficulties in entering the India market.

Table 2.1 Insurance Organisation Basics

Issues	Observations
Legal structure	Joint venture Limited liability Company
Registration status	Registered
Regulation status	Regulated
Start of corporate operations	2001
Start of microinsurance operations	2001
Core business	Individual life insurance, group life insurance and pensions
Target market – core business	Individual life insurance through multiple distribution channels
Geographic area of operation	The republic of India comprising 28 states and seven Union territories
Reinsurance	Microinsurance portfolio is not reinsured

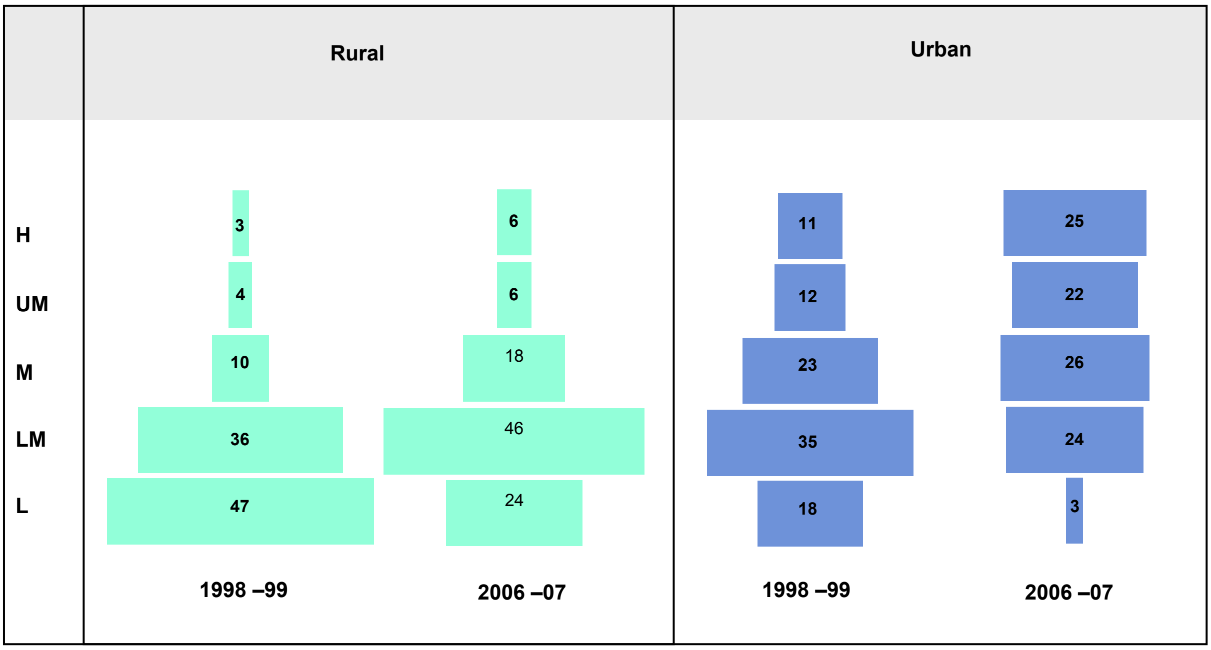
Tata-AIG embraced microinsurance as an opportunity, rather then purely as a cost of doing business in India. Ian Watts, the CEO, envisioned a need for a separate rural and social strategy and created a separate department, the *de facto* microinsurance division. The importance of microinsurance is reflected in the organisational chart (see Appendix 2).

The CEO had the foresight to recognise that microinsurance was not simply a matter of selling existing policies cheaply, but required new products and distribution mechanisms. Crucially the CEO approved of the distribution of resources towards microinsurance and the hiring of a specialised microinsurance team. He gave it space to think creatively about how the sustainable promotion and servicing of microinsurance products might work.

The CEO has been supportive of the microinsurance programme for a variety of reasons. Most obviously, the insurer is compelled to meet the rural and social sector obligations. That said, many insurers have simply seen the obligations as a cost of doing business in India. They have responded to the obligations by essentially selling only the required quantity of policies, and there are reports that those have been poorly serviced. Tata-AIG could have responded in this way, but instead saw microinsurance as a marketing opportunity. Although microinsurance would not make much profit (if any) initially, it helps get Tata-AIG's brand name out into the market place. With India's high growth rate, it is possible that today's microinsurance policyholder will be tomorrow's high value client. In particular, research by the National Council of Applied Economic Research has predicted rising levels of overall wealth in both the rural and urban areas of India, as depicted in Table 2.2.

The IRDA is very concerned with the promotion of microinsurance. By engaging so positively with microinsurance, Tata-AIG was able to strengthen its relationship with the regulator. Its microinsurance programme has generated considerable publicity for Tata-AIG because it is innovative. Much of the media in India is hostile or at least suspicious of the multinational corporations. The microinsurance activities helped promote a positive image of Tata-AIG.

Table 2.2 Predicted Changes in Wealth, 1998 to 2006



Source NCAER:

Guide to the figure: The *left hand column depicts income quintiles* (L - poorest quintile of the Indian population, H - wealthiest quintile of the Indian Population) / Numbers within the chart represent the proportion of the Indian population within each income quintile in a particular year)

From AIG's perspective, because of its microinsurance successes in Uganda, it was interested to see whether microinsurance would work elsewhere. If it could work in India, perhaps it could also be exported to other fast growing Asian economies like Indonesia. In addition, the microinsurance programme has helped Tata-AIG partially fulfil its own corporate social responsibility obligations.

Table 2.3 Insurance Organisation Basics – Trends

	2005 YTD 06/05	2004	2003	2002
Total assets (millions of US$)		8.15 m	5.8 m	4.3 m
Annual budget (millions of US$)		75.14 m	33.75 m	11.66 m
Total capital (millions of US$)	71.10 m	51.30 m	41.10 m	41.10 m
Number of branches (including sales offices)	57	36	23	8
Total number of all clients	147 244	207 607	133 465	81 624
Total number of microinsurance policyholders	13 390	10 073	3 232	7 380
Total number of microinsurance insured lives	As above	As above	As above	As above
Number of microinsurance staff	13	7	3	1
Staff turnover (%) company	21%	20%	15%	13%
Staff turnover (%) microinsurance	0	0	0	0
Number of policyholders/microinsurance staff per month	147	120	90	615
Microinsurance salary, travel, marketing and other overhead costs (1000s of US$)	110	106	8	10

Unlike many Indian insurance companies, because of the high level of commitment to microinsurance by the CEO and the Director Alternate Channels in particular, significant resources were allocated to it. It is unlikely that the programme would have been as innovative and grown at the rate that it did if the insurer had not created a specialised microinsurance section from the start.

2.2 Organisational Development

In many other Indian insurance companies, microinsurance products are developed by one department and then sold and serviced by another. The separation of these functions meant significant lags in processing customer feedback. Tata-AIG took a different approach by having a department focused solely on microinsurance, so a single team managed the entire process. The rural and social team of Tata-AIG is headed by Vijay Athreye (the co-author of this study). Athreye was hired by the CEO in 2001 to help Tata-AIG meet its Rural and Social Sector Obligations.

As shown in the organisation chart (Appendix 2), the rural and social team falls under the alternative distribution channel section. The team therefore is primarily concerned with sales, servicing and training of agents (e.g. MFIs) and micro-agents. Insurance experience was not a prerequisite for securing a place on the rural and social team. This is partly because in India those with insurance experience tend to come from the state-owned companies and have a "civil service mentality" of being rigid and rule-bound. The criteria for staff selection included: youth (because of the innovative, dynamic nature of the products and distribution channels), a university degree, commitment to the social sector work, and an ability to communicate with low-income people.

For the first two years, Athreye ran Tata-AIG's rural and social team by himself. In the first year (Dec 01- Nov 02), he was responsible 7 742 social policies. These were marketed with the help of The Bridge Foundation (TBF), a microfinance wholesaler, which became a corporate agent for Tata-AIG and promoted these policies through its network of microfinance institutions. Some of these policies were pilots and many lapsed. In the second year (Dec 02 - Nov 03), Tata-AIG had an additional 2 941 social policies again through TBF network. During this year, Athreye secured a grant from DfID's Financially Deepening Challenge Fund (FDCF) and began to develop the micro-agent model as an additional distribution channel.

By June 2005, less than 14% of the policies marketed by TBF were still active. Many of the policies lapsed because some MFIs fell out of TBF's microcredit programme. The other reason for the high lapse rate was that the microinsurance products were of a different length than the microloans. This meant that the servicing costs of the microinsurance products were a burden on the MFIs that no longer received assistance from TBF. Finally, the Tata-AIG insurance products have 5 to 15 years terms. A client may receive a single loan and may either not apply for another or be granted another at which point the link between the loan product and the insurance product severs as does the servicing. A further complication (unrelated to TBF) was that, initially claims payments were slow, which heavily affected client persistency.

After this initial experience, the rural and social team grew rapidly. In the third year (Dec 03 to Nov 04), the team launched the micro-agent model in four states and received resources to hire two additional staff members, for a total of 5 employees (in all including the staff outsourced to NGO partners on the DfID project). In the first half of 2005, the microinsurance programme received resources to hire 7 additional staff members.

2.3 Resources

Besides company funds, the microinsurance team has been able to harness external funds. In September 2002, DfID put out the bidding process for its Financial Deepening Challenge Fund, a matching grant for which the private sector could bid based on innovative ideas to reach the poor. Tata-AIG bid for an assistance of £89 500 ($168 620) and committed matching funds to the tune of £104 000 ($195 520). The FDCF grant is being used for product development, capacity building, and physical and communication infrastructure like vans and the Internet portal.

2.4 External Relationships

As described below, external relationships serve a number of purposes, including lobbying, fundraising, outsourcing, marketing and adding credibility.

Lobbying

Much of the development activity in India is influenced by the opinions of donors and other development agencies. Lobbying such agencies thus has created good PR for the programme and has opened doors by creating favourable disposition of potential partners towards Tata-AIG. With respect to parastatal development agencies, Tata-AIG has lobbied the Small Industries Development Bank of India (SIDBI), which funds several MFIs. Lobbying with SIDBI helped open doors with several potential partners in Andhra Pradesh.

Obtaining Additional Funding

There were multiple reasons for obtaining additional funding aside from the obvious one of reducing the need for in-house funding. The DfID grant acted as a catalyst in the development of the micro-agent distributional model. The prestige associated with a grant from an international development agency improved the status of the microinsurance project within Tata-AIG. In addition, many NGOs reacted favourably to collaborating with Tata-AIG once DfID was involved.

Outsourcing Front-end Processes

In the micro-agent model used by Tata-AIG, the front-end processes—mostly selling and servicing the product—are done by partly by an NGO and partly by a micro-agent. For example, the NGO might be responsible for aggregating premiums from several agents and depositing them in Tata-AIG's accounts. The outsourcing of these front-end processes helped to keep costs down.

Selection and Training of Agents

The NGO partner is enlisted on the basis of recommendations from donor agencies and others in the Indian development community. Once the NGO partner is selected, Tata-AIG asks the NGO to draw a list of appropriate persons based on a Tata-AIG's profile of ideal micro-agents. For example, the criteria for the selection of a CRIG leader include:

1. Must be a resident of the community in which she will sell and service policies.
2. Preferably having passed the 12th school year or at least the 10th—this is to ensure that she is eligible to be licensed (an IRDA requirement).
3. Married: Since MI is long-term commitment to policyholders, an unmarried CRIG leader may migrate to her (future) husband's village, leaving the CRIG and the policyholders in the lurch.
4. Ability to write English: Since the underwriting at the head office is in English, it is imperative that the proposal forms are filled in English.
5. Good track record of integrity: Money handling is integral part of her duty as a leader.
6. Effective leadership qualities: She has to manage a group of 4 other women.
7. Public speaking ability: She will be required to address large gatherings to promote Tata-AIG's products.
8. Training skills: Since she is the only one trained on insurance, she has to train the other four.
9. Must have a positive influence among the target market. Each leader, in her area, should preferably be a woman who is admired for her integrity, forward looking, and progressive nature, and must be able to use this influence to enable her CRIG members to achieve their targets.
10. Preferably, she should have some previous work experience in the social sector.

This profile is constantly updated to reflect new learning from operations across the country. On reflection, the skills required to become a CRIG leader are considerable and may restrict the replication of the model in states with a scarcity of such skills among the rural poor, especially women.

Once Tata-AIG has a list of candidates, they take a written test to assess whether they have the comprehension and analytical skills required for the job. This examination is mandated by the regulator and it's conducted by an external examiner. The successful candidates then go through three days of microinsurance product training where they learn about administrative processes.

After being licensed and forming their CRIGs, the agents start selling. Three months into their insurance careers, most agents qualify for a soft skills development programme that Tata-AIG refers to as the retraining module. There are three retraining modules held over a period of a year and each lasts three days. These modules impart basic knowledge on retail finance including insurance, analysing company data, advice on objection handling, team building, communications development, leadership practices, as well as general instruction on the relevance of microinsurance to the poor. Training is also provided on computer usage, particularly the Internet to facilitate the use of the agent's portal. The entire programme is in vernacular and based on activities and role plays.

Tata-AIG has recently started outsourcing the delivery of some of soft skills training sessions, such as team building and communication, to the NGO partners. The NGOs learn how to offer the training by attending an existing micro-agent training course and then receiving the training material and support from Tata-AIG. When the NGO holds the course for the first time, a trainer from Tata-AIG is present as a mentor. This is cost effective for Tata-AIG; it provides a revenue stream to the NGO and enhances its endorsement of the insurer's programme. It is too early to judge its success.

Lending Credibility to Sales Operations

Tata-AIG collaborates with NGOs in part to build sales credibility. For example, when there are claims payouts, the NGO is invited to a public claim distribution ceremony. Tata-AIG has also developed general literature on the nature of insurance, which is distributed by the NGO. There is no mention of Tata-AIG or its products in this literature. By promoting the literature, the NGO is establishing the legitimacy of insurance, which has the knock-on effect of building the creditability of Tata-AIG.

Partnerships with NGOs have played a central role in the success of Tata-AIG microinsurance. They have helped select agents; they have been hired to provide a range of cheap front-end services including policy servicing and training of agents. Most crucially, they have lent credibility in a market where many low-income clients are suspicious of multinational companies in general, and insurance companies in particular, an issue that is covered in detail in Section 3.3.

2.5 Profit Allocation and Distribution

Tata-AIG is private company and all profits generated by the company go to its owners (shareholders). The exception to this is with endowment policies where regulations require that 90% of profits must be returned to policyholders.

2.6 Reinsurance

The sum assured of microinsurance has been deemed too small to present any systemic risk to Tata-AIG and hence no reinsurance has been sought on the microinsurance portfolio. Tata-AIG typically seeks reinsurance on products with sums assured from Rs 1 million ($22 222) and upwards. The products sold by the rural and social team represent less than 0.1% of the total possible liabilities of Tata-AIG.

3. The Clients

Table 3.1 Client Information

Issues	Observations
Intended target groups/clients	Rural, low-income and landless adults
Actual clients and reasons if deviation from intended market	Mostly as per above
Exclusions of specific groups	Agents are discouraged from selling to the urban poor and the rural poor living directly along truck route stops
General economic situation of clients	Generally, monthly household incomes are less than US$100. The majority of clients have monthly household incomes less than US$50. About 80% hold no other insurance policies.
Key economic activities of clients	Daily waged labourers, petty traders, milk producers.
% of clients working in the informal economy	100%
Social characteristics of clients	Lower and lower-middle income persons in rural villages with population less than 5000
Geographic characteristics	Well dispersed
Nature of membership	Individual policyholders

3.1 Socio-economic Profile of Target Market

Approximately 74% of households in India are in rural areas. Close to 80% of these have an annual household income of less than US$1800 (Rs 81 000).

The characteristics of this market are:

- Potential microinsurance clients live in households of 5 or more sharing income and access to financial services. This has important implications for access to microinsurance. A policy can be bought by one member who has access to the insurer on behalf of another household member.
- Agricultural labour is the main source of income. The implications of this are that much of the income is irregular and seasonal. Not all income derives from agriculture, as households tend to pursue multiple livelihood activities with off-farm income as a component. Premium collection must take into account the particular variances of this market's seasonal income.
- The poverty of the target market means that they present a higher than average risk profile for many types of insurance. The lack of sanitation, unavailability of clean water, hazardous working conditions and poor nutrition all contribute to disease and higher rates of death.
- On the other hand, small rural communities often have better internal surveillance than large urban sprawls and so there may be opportunities for controlling fraud and moral hazard.

- Low levels of literacy imply that marketing needs to be done without written media, for example film, radio, street theatre and word-of-mouth.
- The rural poor often live in areas with poor road and telecommunications infrastructure, which increases the costs of selling and servicing policies.
- There is a often no definitive socio-economic data for this target group, such as mortality rates, which makes rate making difficult.

In general, private insurance companies are using the data from LIC as a basis for their own assessment. Although this is the most comprehensive database, it does not cover detailed information specific to the situation of poor and low-income groups. Tata-AIG has had to obtain its mortality figures in part through its own experience. Its products have been sold mostly in the rural areas of Southern India to clients aged between 18 and 45 years (55 years with a lower sum assured for one term product). In the last three years, the insurer estimates a mortality rate of just less then 3 per thousand.

3.2 Risks and Vulnerabilities

The poor by definition own few assets. In contrast to the urban poor, many of the rural poor own their dwelling and the land that it is constructed on. Income for the landless poor is largely a function of daily agricultural labour rates and the number of days such work is available.

The insurable perils are:

- **Loss of life**. Most household members contribute to household income, except those too old, young or infirm to work.
- **Critical illness**. This has the dual impact of loss earnings/household labour as well as treatment expenses.
- **Sickness**. Reduces the working days, and thus productivity, and also generates expenses, though at a smaller level then critical illness.
- **Old age**. There are few income options for the elderly. In addition, there is some evidence of emerging social trends in which the obligation of the young to take care of the old is weakening.
- **Risk of lowered agricultural productivity** or returns e.g., through low levels of rainfall or natural catastrophes.
- **Asset loss**, especially those assets used to generate income.

One of the few general microfinance demand studies carried out in the region identified the needs for microinsurance based on major adverse events that a rural household has experienced in the previous 10 years.[8] The researchers found that 44% of households reported losses due to flood/heavy rains, 39% drought and 27% pest attack. The average value of loss per annum was Rs 2 641 ($60) per household. The survey also found that 64% of respondents wanted some form of insurance: 50% wanted life cover, 30% livestock, and 20% crop and other asset insurance. Only 15% already possessed an insurance policy, mostly because it was a condition for getting a loan.

[8] Price Waterhouse: Financial Services to the rural poor and women in India: Access and Sustainability-Demand and Supply Analysis: Client Survey, 1997, New Delhi, pp.11-15.

3.3 Familiarity with Insurance

There are two broad classes of client *vis-à-vis* familiarity with insurance that create challenges for Tata-AIG: 1) those with no or little knowledge or exposure to insurance, and 2) those with some negative exposure to insurance.

Rural India has had a tradition of households that share income, which reduced the impact that the death of a family member would have on the household's economic condition. Religious and social institutions also have a history of providing some benefits to the very poor and marginalised. These circumstances, coupled with the generally limited education of many poor people in rural areas, have tempered the demand for insurance.

The slightly higher income groups, the so-called "rich-poor," are somewhat aware of insurance because the public insurers, in particular the LIC, have had activities in their geographical regions for many years. However, the LIC agents have focused on selling endowment products with annual premiums of Rs 2,000 ($44) and more. Many in the lower and middle-income groups have had bad experiences with such products, as they could not afford to pay their premiums when their incomes were not sufficient, and received small surrender values, often after many years of contributions.

Pure protection policies (e.g., term life) for individuals were never offered in rural areas prior to the entry of private players. The prevalence of endowment policies has created difficulties for selling term-life because of the expectation that insurance may involve some return of premium. Overall, while the public insurers have raised awareness about insurance, they have also polluted the market.

There are also past instances of defunct insurance schemes in areas where Tata-AIG is selling its policies. Sahara and Peerless had bundled savings with insurance benefits (mostly accidental death and disability) by purchasing such coverage from state-owned general insurance companies. So did some local chit funds—a type of informal savings scheme (rotating savings and credit organizations). Marketed through a multilevel/network marketing system, some of the schemes turned delinquent, thus depriving many investors of their long-term savings.

Consequently, large segments of the target market have had access to products they could not afford, or had some bitter experience with insurance in the past, which resulted in them being wary of approaches by Tata-AIG's sales representatives. Creating awareness of microinsurance and demonstrating its relevance to the target market remains an ongoing process for Tata-AIG.

4. The Products

Because of the Rural and Social Sector Obligations, Tata-AIG has characterised its products as targeted to meeting either the rural or social sector. Note that only social sector obligations correlate very strongly to poverty. The rural sector obligations can be met by in theory by selling to high-income clients that live in rural areas, e.g., tractor insurance that is sold to wealthier clients when they buy new tractors. Within Tata-AIG, microinsurance policies are termed social policies, while rural policies are high value policies sold in rural areas.

The broad strategy of Tata-AIG in designing its microinsurance products was to limit underwriting as this was seen costly and to focus rather on claims verification. While reducing costs, the problem with such a strategy is that is if the products are mis-sold by agents—for example, products are sold to people who do not qualify for them—they may subsequently be rejected during claims verification. This does not create a good impression of the products and Tata-AIG.

Table 4.1 Product Details

Products Features	Kalyan Yojana	Karuna Yojana	Jana Suraksha Yojana
English Translation	Welfare/well-being plan	Mercy plan	Mass protection plan
Microinsurance Type	Term life insurance	Life insurance (savings element)	Life insurance (savings element)
Group or individual product	Individual		
Term (years)	5	15	15
Eligibility requirements	Age limit for entry 18-55, cannot renew beyond age 60, for men and women	Age limit for entry 18-45, cannot renew beyond age 60, for men and women	
Renewal requirements	Grace period of 30 days for lapse. Policy can be renewed within 5 years of lapse		
Premium payment periods	Monthly, quarterly, semi annual, annual		
Waiting period	None (see Section 4.7)		
Non-forfeiture clause (if the client fails to pay a premium, it is taken as a premium loan from the surrender value)	Nil	Automatic	Automatic
Surrender clause	NA	The surrender value of the policy after three years is a minimum of 30% of all premiums paid less the first year's premium.	
Voluntary or compulsory	Voluntary		
Product coverage (benefits)	See Table 4.2	See Table 4.3	See Table 4.4
Key exclusions	Suicide 1st year		
Pricing – premiums	See Table 4.2	See Table 4.3	See Table 4.4
Co-payments and deductibles	For claims in the first year, the cost of the first year premium is deducted from the benefit.		

The microinsurance products outlined in Table 4.1 were designed in 2002 by Tata-AIG with the help of The Bridge Foundation, a local NGO with significant knowledge of the target market. Three products were developed initially: one cheap pure term policy and two policies with a savings element.

Table 4.2 Premiums and Benefits of Kalyan Yojana (5-year Term Life)

Age	Annual Premium * Rate (per Rs 1000 SA)	Annual Premium in USD	Sum Assured (SA in Rs)	Sum Assured in USD
18	4.34	$0.10	**15,000**	$333
19	4.41	$0.10	**15,000**	$333
…	…	…	…	…
29	4.86	$0.11	**15,000**	$333
30	4.98	$0.11	**15,000**	$333
…	…	…	…	…
39	7.76	$0.17	**15,000**	$333
40	8.33	$0.19	**15,000**	$333
41	8.84	$0.20	**10,000**	$222
…	…	…	…	…
49	15.87	$0.35	**10,000**	$222
50	17.30	$0.38	**10,000**	$222
…	…	…	…	…
55	25.82	$0.57	**10,000**	$222

* The premiums in the table above represent the level annual premium for the five years depending on age at entry. The policy is a five-year term that is renewable at the end of the term with premium for the next five years based on attained age at time of renewal.

Table 4.3 Premiums and Benefits of Karuna Yojana (15-year Endowment)

Issue Age	Sum Assured (SA in Rs)			Monthly Premium	Projected Maturity Benefit (in Rs)	Quarterly Premium	Projected Maturity Benefit (in Rs)	Semi-Annual Premium	Projected Maturity Benefit (in Rs)	Annual Premium	Projected Maturity Benefit (in Rs)
	term rider	term with RoP	Total								
18	6,000	19,000	**25,000**	25	5,175	73	5,025	143	4,913	279	4,800
19	6,000	19,000	**25,000**	25	5,175	73	5,025	144	4,950	282	4,838
20	6,000	19,000	**25,000**	25	5,175	74	5,100	145	4,988	284	4,875
…	…	…	…	…	…	…	…	…	…	…	…
29	9,000	16,000	**25,000**	25	4,725	74	4,725	145	4,613	285	4,519
30	10,000	15,000	**25,000**	25	4,500	75	4,500	148	4,425	281	4,331
31	11,000	14,000	**25,000**	25	4,500	72	4,275	143	4,238	279	4,144
…	…	…	…	…	…	…	…	…	…	…	…
39	13,000	8,000	**21,000**	25	3,375	75	3,375	148	3,338	289	3,263
40	13,000	7,000	**20,000**	25	3,150	75	3,150	146	3,075	286	3,000
41	11,000	7,000	**18,000**	25	3,375	74	3,300	146	3,225	286	3,169
…	…	…	…	…	…	…	…	…	…	…	…
45	8,000	5,000	**13,000**	25	2,925	75	3,000	146	2,925	286	2,850

Table 4.4 Premiums and Benefits of Jana Suraksha Yojana (15-year Endowment)

Issue Age	Sum Assured (in Rs)			Monthly Premium	Projected Maturity Benefit (in Rs)	Quarterly Premium	Projected Maturity Benefit (in Rs)	Semi-Annual Premium	Projected Maturity Benefit (in Rs)	Annual Premium	Projected Maturity Benefit (in Rs)
	term rider	term with RoP	Total								
18	5,000	49,000	**54,000**	60	13,050	177	12,900	347	12,638	687	12,394
19	6,000	48,000	**54,000**	60	13,050	176	12,750	345	12,488	677	12,244
20	6,000	48,000	**54,000**	60	13,050	177	12,825	348	12,600	682	12,338
21	6,000	48,000	**54,000**	60	13,050	179	12,900	351	12,675	687	12,413
…	…	…	…	…	…	…	…	…	…	…	…
29	10,000	42,000	**52,000**	60	12,600	178	12,375	352	12,113	682	11,869
30	11,000	40,000	**51,000**	60	12,150	177	12,000	342	11,775	680	11,531
31	12,000	39,000	**51,000**	60	12,150	176	12,000	345	11,738	677	11,513
…	…	…	…	…	…	…	…	…	…	…	…
39	16,000	25,000	**41,000**	60	10,800	178	10,575	349	10,388	684	10,181
40	15,000	23,000	**38,000**	60	10,575	175	10,275	343	10,088	672	9,881
41	14,000	22,000	**36,000**	60	10,575	177	10,350	347	10,163	681	9,975
…	…	…	…	…	…	…	…	…	…	…	…
45	15,000	14,000	**29,000**	60	8,550	176	8,325	345	8,138	677	7,988

4.1 Partnerships

Tata-AIG has NGO partnerships with over 50 NGOs. Over 40% of its 35 000 social sector policies were sold through the partner-agent model. In this model, the NGO/MFI partner performs the sales and servicing functions, primarily for its current microfinance clients. The two other models, the business associate model and the CRIG model, account for the remaining 60% of the new business and are described in more detail below.

4.2 Distribution Channels

The most interesting and innovative aspect of Tata-AIG's work lies in the development of the micro-agent delivery model, which is being tested in the southern State of Andhra Pradesh. There are essentially two types of micro-agent models. One is that of groups of micro-agents called CRIGs and the other of individual micro-agent. Both are supervised by NGOs (termed business associates) who perform a range of tasks including the recruitment of agents, front-end administration, and mentoring.

Community Rural Insurance Groups (CRIGS)

The central building block of the group micro-agent model is the Community Rural Insurance Groups, a partnership firm registered under the Andhra Pradesh Societies Act consisting of five women, of whom the leader is licensed as an agent. The CRIG members are typically women because they tend to work with, and come from, self-help groups (SHGs)[9] whose

[9] An SHG is a group of 15 to 25 people (usually women) selected from a broadly homogeneous socio-economic background. They are formed and assisted by NGOs, banks or government agencies. The members are encouraged to collect regular savings on a weekly or fortnightly basis and lend the deposits to members of the group. Often a savings account is opened up at a local bank, a step that enables the bank to learn about SHG

members are usually women. While not the only target market, the SHGs represent an easy way to reach large numbers of potential policyholders because the members are already accessing financial services and making regular payments.

The CRIG, which is essentially a firm of insurance agents, is supervised by a nearby rural organisation, like an NGO. The CRIG's members are involved in promotion, sales and collection of premiums, and maintaining records. The CRIG leader documents all fortnightly meetings with the NGO and all weekly CRIG meetings. At the weekly CRIG meetings, the leader records the microinsurance activities of CRIG members related to premium collection. Aside from this, the CRIG members discuss the operations of their firm. The fortnightly meetings are used by the NGOs to collect proposal forms, premiums and renewal notices. The NGO also provides policy documents for the CRIG to pass onto its clients.

Commissions and Incentives

Tata-AIG has not undertaken a study to ascertain what percentage of the micro-agents livelihood is provided by their micro-agent work. As shown in Appendix 4, the monthly income earned by CRIG members ranges from Rs 55 ($1.20) to Rs 2487 ($55.26), with an average of Rs 665 ($14.78). Income figures can be misleading because they are not segmented by such factors as the number of years as agent, location, assistance provided by the NGO etc. Currently, Tata-AIG assumes that the income micro-agents receive for their efforts is likely to be higher than the opportunity cost of their time or they would desert the programme.

For every policy sold, the NGO gets 10% in the first year. The CRIG itself receives commission income, but not the individual CRIG members. The CRIG decides how to divide up commission income. The standard model is that the member of the CRIG who sold the policy gets all the commission income due to them except for 5% of the commission in the first year, which they give to the CRIG leader for the extra work she does in preparing and submitting the policy. Generally, the CRIG commission per policy is 26 to 30% of the premium for the first year, and between 5.5% and 6% for the 2nd and 3rd years. From the forth year onwards commissions vary between 4 and 5 percent.

In addition, there are various bonuses and incentives. CRIGs that build a client base of 600 policies gets a bonus of Rs 10 000 and the NGO gets a Rs 5 000 bonus. There is no time limit for achieving these goals. In addition, Tata-AIG will organise a conference for those rural micro-agents with the best performance. There will be seats in the convention for NGO business associates as well as NGOs in the partner-agent model.

Tata-AIG also organises contests from time to time to enhance persistency and stimulate new business. For a description of the some of the prizes they receive and the number of policies they need to sell, refer to Appendix 3 where a recent contest named Kharif Hungama is detailed. There are also incentives to SHGs to subscribe in greater numbers to the programme, which would reduce the collection costs for the agent in the long run.

members and eventually allow them to graduate to individual accounts. After good performance with their internal loans, the SHG can be eligible for larger external loans from the bank.

Although initially the CRIGs are only involved in microinsurance, over time they could take on other activities to enhance their income, for example trading in agricultural inputs or becoming an agency for regular insurance products.

Training CRIGs

The micro-agent model will only succeed if the frontline personnel have been properly selected and are sufficiently trained in general insurance awareness, the product details and sales techniques. The major training events for Tata-AIG's CRIGs are presented in Table 4.5.

Table 4.5 Trainings Provided for the CRIGs

Event	Training Provided
CRIG leader training	Training for the CRIG leader to pass the 100-hour IRDA exam.
Formation of the CRIG—initial training	All CRIG members provided with 3 days of training. Stress is placed on persistency and anti-selection.
CRIG's first 3 months of operation	Off-site training with other CRIGs from other parts of the state—emphasis on selling and servicing skills. Micro-agents share difficulties with one another and come up with solutions together.
CRIG's first 6 months of operation	Trained in using the Tata-AIG Internet portal. This includes information of sales, premiums and lapses by CRIG. The Internet arrangement is described in Section 4.5.
CRIG's first 9 months of operation	Basics of personal finance. Trained in the sale of high value rural policies.

CRIGs: An Assessment

Although still early days, the CRIGs appear reasonably stable. As long as the financial incentives remain sufficiently enticing, there is likely to be limited dropouts. But in the event of a member or leader dropping out, they could be replaced by another from the community, thus mitigating the risk of orphaned policies. If a CRIG disbands, the business associate NGO can facilitate the transfer of the orphaned policies to another CRIG.

In an MFI partner-agent model, the MFI collaborates with an insurance company and sells its products. The sales are usually linked to loans; typically, loan officers sell and service these policies. Compared to the MFI partner-agent model, the CRIG model has a number of advantages:

1. The CRIG model creates an insurance distribution infrastructure in low-income neighbourhoods; it creates a new profession, the micro-agent, with new livelihood opportunities for poor women.
2. The problem with the MFI partner-agent model in India is that, because of the pressure to meet the rural and social quotas, most large, efficient MFIs are already in partnerships. The CRIG model can draw from many suitable NGO partners, while not being dependant on a few good MFIs.
3. It is sometimes difficult to sell long-term policies through MFIs because of the link to the loan. The loan may be for a short term (often 4 to 12 months) and may not be repeated. Without the link to loan, there are no economies of scope for the MFI.

4. The MFI partner-agent model only serves its existing client base, which naturally inhibits growth; and the insurance is (almost always) linked to a loan. Not everyone wants to be in debt, at least not all the time. The CRIG model creates a cheap distribution channel that is not linked to a loan, that can easily serve an NGO existing client base, but is not limited to it.
5. Since the CRIG members are earning income from their efforts, it creates incentives for them to increase their sales volumes, incentives not found in most MFI partner-agent models. In contrast, for the field staff in the partner-agent model, insurance is often very low on their priority list; they are much more interested in issuing and recovering loans.
6. It is possible that, in the long run, the CRIGs may not need the assistance of the NGO and may deal with Tata-AIG directly, providing long-term sustainability.
7. Driven by livelihood considerations, the micro-agent model can also expand to higher premium products to richer segments of the rural market. The introduction of rural products, after achieving a critical mass of social products, serves to integrate microinsurance into mainstream insurance, while benefiting the insurer and the agent. This inclusive nature of the model would be difficult to achieve with an MFI since it tends to focus on a narrower target market.

The CRIG methodology is not without disadvantages. It is of course more costly to train many CRIGs than to interact with a single aggregator, e.g. an MFI. In addition, the CRIG methodology suffers from the drawbacks common to direct door-to-door selling methodologies:

- Training is costly in relation to premium values.
- The transactions costs of the sales agent are cheap at first, but increase after they have sold policies to all the people they know and need to sell to strangers, especially those that live far away from the sales agent.
- In many cases in the partner-agent model, when a claim arises, the MFI or NGO, investigates the claims themselves, pays the benefit immediately and then claims it from the insurer. An immediate claims payment helps maintain client confidence and is not possible with a CRIG methodology.

Individual Micro-agents

Besides the group approach of the CRIGs, the micro-agent model could also be done on an individual basis. Again, the model involves an NGO business associate that recommends the agents and monitors them. Like the CRIGs, micro-agents tend to be women who are either office bearers of an SHG or a voluntary worker of an NGO. After being certified, micro-agents are encouraged to source business from the geographical vicinity of their homes, which may extend to 4 or 5 villages depending on the size of the village.

It is estimated that micro-agents could earn at least US$15 per month, over 15 years, if they sell 250 policies in 2 years, and then service the policies for the full term of 15 years. The earnings are larger in the first two years because the commissions are frontloaded. However, in the third year micro-agents are trained to enhance their incomes by focusing on sales of higher premium products, so they could earn significantly more than $15 per month if they succeed with the wealthier market.

The main advantage of a CRIG relative to an individual micro-agent is that non performing/non interested members could be replaced by changing the partnership deed. Tata-AIG gets better penetration density and fewer orphaned policies because other CRIG members could take over the servicing roles. Possibilities also exist for developing specialist competencies within a CRIG by assigning specific tasks to different members. For example, one person may be responsible for collecting premiums from existing policyholders while other CRIG members focus on stimulating new business—such a division of responsibilities is obviously not possible with the individual model. In addition, the risk of agent fraud is slightly lower in the CRIG model as the members may police each other.

4.3 Benefits

Before designing the social products, the preferences of the target market were determined. During the research, it was clear that the target market desired products with a savings element, but at the same time could not afford annual premiums in excess of US$25. It also became clear that the there were slightly wealthier households who, while still poor (with a monthly household income of less than US$125), could afford slightly more expensive products. This finding suggested to Tata-AIG that it needed a diverse portfolio of products to meet the preferences of this heterogeneous market.

Unfortunately, it was not actuarially feasible to offer very significant returns to counter inflation at such low premium levels. The two “term return of premium products” (TROP) were designed to be sold for an annual premium of US$7 (Rs 300) and US$17 (Rs 720). These TROP products essentially return the cumulative premiums paid over 15 years plus 25 percent.

A further issue emerged once the products were priced. The death cover at higher ages of entry worked out very low. To keep the premium low, it was decided to increase the death benefit and reduce the maturity benefit. This is the reason for the decreasing savings element for the Karuna and Jana Suraksha Yojana products (see Tables 4.3 and 4.4). The agents have been trained to emphasize the death benefit while selling.

The third social product is a 5-year term product where there is no return on maturity, but only a death cover capped at Rs 15000 ($333) with an entry age of between 18 and 40 and at Rs 10,000 ($222) if they enter the scheme in the more risky age group of 41to 55. This offering was designed to suit the needs of pure term cover at the lowest cost so that even the poorest could afford it. Part of the motivation for the product came not from client demand but rather from MFIs that wanted insurance to cover their loans. By far the most successful products have been those offering a TROP, perhaps indicating the importance that clients attach to savings.

4.4 Premium Calculation

The premium was calculated by the in-house actuary. The lack of actuarial data caused difficulty in calculating the premium. In the initial design, the actuaries simply assumed that mortality figures were significantly higher for rural areas and low-income clients. Future life insurance policies will be calculated with greater accuracy using the experiences generated by the initial policies.

4.5 Premium Collection

Premiums are collected by the micro-agents. The micro-agent hands the premiums over to the CRIG leader. She then hands the funds on to the NGO that is associated with the CRIG (at fortnightly meetings with the NGO). The NGO bundles together the premiums from all of its CRIGs and forwards them on to Tata-AIG via a demand draft (monthly).

The recording of premiums is done in the first instance by the micro-agent, who records the payments in the policyholder's passbook. Passbooks not only prove that the client paid the premium, but also provide clients with a sense of security and "membership" to Tata-AIG. For policies that have been renewed, the CRIG leader completes a renewal sheet that is handed to the NGO, which checks the premiums against the renewal sheet. The renewal sheets are then passed on to Tata-AIG. The policyholder does not receive a statement or a receipt from Tata-AIG (a cost reduction strategy); the agent receives monthly collective renewal sheets from Tata-AIG with cumulative details on all the policies sourced by her, and this serves as evidence in the field of the agent having remitted the premium to the company. The policyholder is notified, however, of a toll free number that they can access to ascertain the up-to-date payments on their policy.

For clients who miss premiums on policies that have accumulated value, Tata-AIG deducts the premium payment from the accumulated value to keep the policy in force.

Quite recently, with financial assistance from DfID, Tata-AIG has introduced two new servicing tools on a pilot basis:

1. A branded van for marketing activities, such as the showing of the Tata-AIG movie (see Section 4.8). In addition, the van helps micro-agents sell policies when they have exhausted the market within walking distance.
2. Providing Internet access to each CRIG. The Internet will be used as a portal to help agents retrieve the renewal sheets and submit renewal data online. The CRIGs in the DfID-supported areas are being trained to download their renewal sheets instead of the company having to courier it to them, which is costly and prone to delays.

The use of the Internet in renewal processing is innovative and may prove to be a significant advance (at least in terms of being quicker) than paper processing. As this system is still new, the jury is still out on its efficacy.

4.6 Claims Management

Tata-AIG's microinsurance products were designed to require almost no underwriting. The thought behind this was that underwriting all applicants is more expensive then verifying a few claims extensively. While this saves costs, claims rejections cause ill will. Such ill will could be avoided through more underwriting. The claims requirements for a policyholder are as follows:

- Completed claim form by beneficiary/policyholder, the micro-agent, and the NGO
- Letter from a doctor as to the cause of death
- Death Certificate (or Certified Death Register Extract in lieu of it)
- Original policy document
- Relevant hospitalization records and relevant government records. Additional specified documents such as, in the case of an accidental death, a first incident report from a local police station that indicates that the death was a result of an accident.
- Verifiable identity documents of insured and beneficiary

The policyholder's beneficiary, through the Agent/NGO, couriers these documents to the Tata-AIG Office.

The claim process is as follows:

1. Tata-AIG branch verifies claim documents (collected monthly from the NGO)
2. Tata-AIG Branch sends documents to home office at Mumbai
3. Claims are be settled by cheque in the name of the beneficiary.
4. NGO ensures receipt of the claim by beneficiary and liaises with a local bank to open account.

At present, claims processing has been brought down to 30 days from receipt of a claims form to settlement. This is still longer then it would take if the NGO settled the claim and then claimed from the insurer. This lengthy process does not help the client with immediate expenses that result from the death. In addition, as many do not have bank accounts, there may be additional delays and transaction costs for the client to cash the cheque. The NGO partner typically assists the beneficiary with opening a bank account. This is to comply with insurance law that requires that the insurance company settles directly with the client, not through an agent.

4.7 Risk Management and Controls

Adverse Selection

Detailed training of agents has resulted in favourable claims experience so far. For example, micro-agents are trained in spotting very risky clients and are taught how to avoid areas that have high levels of HIV prevalence, e.g., areas surrounding truck stops. Adverse selection is controlled by excluding people over 55 years of age (or 45 for the endowment policies). This criterion has not always been successful because of the poor quality of many identity documents where age is sometimes misreported.

Tata-AIG could not proceed with a waiting period because of the regulatory requirements against it. The regulators feel that such a provision can cause ill will among clients with little knowledge of insurance when a claim emerges within the waiting period. Tata-AIG has paid claims out within the first month of the policy's life.

The micro-agents have an incentive to avoid selling to potential clients with pre-existing health condition or risky groups. The micro-agents want repeat clients from whom they can continue to earn commission. Initially the first year's commission was subject to a claw back if the policy lapsed in the first six months. The claw back had a detrimental affect on the agents' motivation and was discontinued.

Fraud and Moral Hazard

Suicide, the primary moral hazard that faces a life insurer, is excluded in the first year. Fraud, however, is a concern. Premium collection is vulnerable to fraud at number points. Firstly, the agent and the nominee can collude to defraud the insurer and back date an insurance policy. This is guarded against through the premium forms that are sent in on a monthly basis. The same defence is used against clients who allow their policies to lapse and then attempt to collude with the agent to receive a backdated receipt. It is unlikely that much fraud can take place during the claims settlement process as the requirements of Tata-AIG are so onerous, for example both a doctor's certificate and a death certificate.

The risk of agent fraud exists. For example, agents could keep the premiums and not issue receipts, or issue fake receipts. The NGO's careful selection of the agents partly controls this risk. The agent is also usually a member of an SHG, which provides for some monitoring of agent integrity. Many policies are sold in small rural communities in which transactions tend to be public and agent fraud is often difficult in such an environment. So far, these factors seem to be sufficient to manage agent fraud; there have only been two instances where premium payments to the company were delayed because of the agent.

In addition, internal audits are done at random on the documentation of CRIGs. This however would not prevent fraud from occurring on clients about whom Tata-AIG had no knowledge.

Covariant Risk

Tata-AIG is not concerned with co-variant risk on its microinsurance policies as they are of such low value. It does not exclude claims from co-variant events like floods and earthquakes.

4.8 Marketing

One of the most difficult aspects of marketing microinsurance in rural India is gaining the trust of potential clients. While this problem is common to the sale of all insurance and/or savings products, it is particularly difficult in rural India because the market has been polluted by a combination of fraudulent and/or inefficient insurers.

To counter this problem, Tata-AIG highlighted its link to the Tata group, a conglomerate well know and trusted by rural households. It developed strategic partnerships with NGOs that were well trusted by local communities. Where it developed sufficient business, it sent its branding material to the NGOs to create a sense of permanence and investment. When it pays benefits, it does so publicly, in a ceremonial fashion. When policies are sold through micro-agents, at least initially, they are sold by people the policyholders know and hopefully trust.

Because of high levels of illiteracy and the massive culture of film watching, Tata-AIG decided to create a marketing movie. It created a film using a Bollywood narrative and structure, a short film (20 minutes long) complete with tragedy, comic moments and song.

The protagonist of the film encounters a tragedy, the death of a breadwinner, but thanks to Tata-AIG's insurance policy, the household can weather the hardship. This film, which has been translated in a variety of local languages, is played from the back of a branded van that provides additional advertising. Tata-AIG also uses usual low-cost advertising strategies such as painting adverts on school walls (a common practice in India), and printing pamphlets and flyers. It also provides branded merchandise as incentives to agents who have sold a certain number of policies (see Appendix 3 for details).

4.9 The Micro-agent Model in Practice: St Anne's Case Study

Micro-agent Recruitment

The first step in acquiring new micro-agents is to find a local NGO or trustworthy group that could screen potential agents. Tata-AIG uses a snowball approach. In this example, it approached an NGO that it worked with, The Bridge Foundation, and asked it to recommend another NGO. The Bridge Foundation suggested St Anne's, a nunnery in Andra Pradesh that runs a lending programme for women. The Bridge Foundation had provided wholesale finance to St Anne's and vouched for its integrity and grassroots presence. Since The Bridge Foundation has very strict criteria for partner evaluation, Tata-AIG felt confident with the choice of St Anne's.

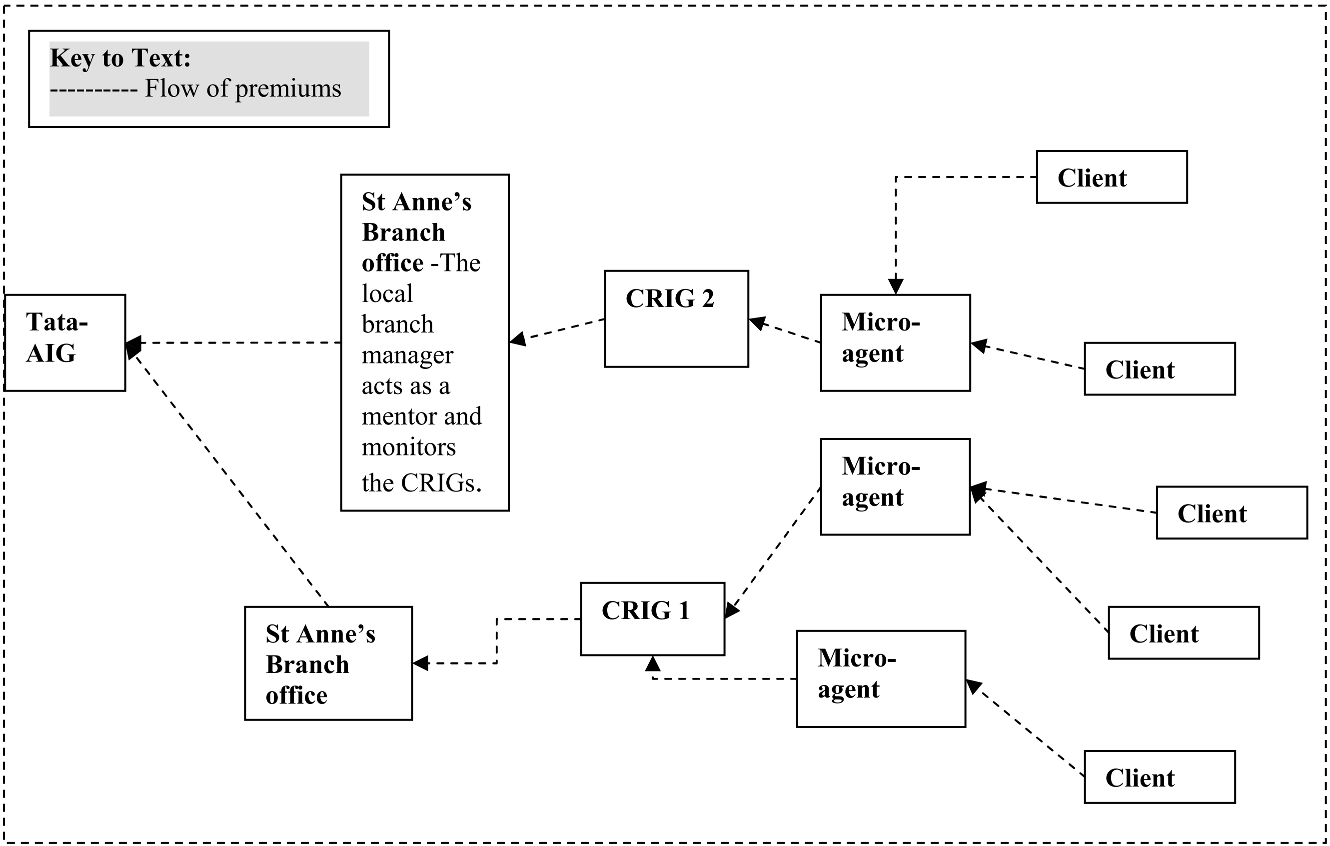
St Anne's proved ideal for a number of reasons. It operates in several districts where Tata-AIG had no presence. Specifically it operates in 6 districts of Andra Pradesh covering 220 villages across three divisions, i.e., Andhra Pradesh (Coastal Area), Telangana and Rayalaseema. In addition, the mission of St Anne's, of financial deepening through the delivery of a wide range of financial and non-financial services (including capacity building and livelihoods) to its clients, in an affordable and cost-effective manner, was similar to that of Tata-AIG's. Finally, St Anne's had been able to mobilize 27,840 members through its microcredit programme out of which 25,056 members were active savers with St Anne's, a sizable market for microinsurance. In addition, Tata-AIG was seeking a partner with a good work ethic.

After initial discussions with St Anne's, two of the nuns who run the organization saw first hand the CRIGs at a training session in Bangalore in May 2004. The sisters were particularly pleased with the livelihood aspect, i.e., that women working as micro-agents would be able to secure additional income. They were also pleased that the products that Tata-AIG had developed were targeted to the same community that they were interested in serving. After viewing the training session, Tata-AIG discussed some of the practical issues of partnering with St Anne's. Tata-AIG did not want St Anne's loan officers to collect premiums and disburse benefits because of fear that the agent would be difficult to control. In addition, Tata-AIG had poor experience with some MFIs that had used premium income as capital for on-lending.

Once St Anne's had agreed, Tata-AIG set about forming the CRIGs. The first part was the selection of CRIG leaders. One of the most crucial inputs of St Anne's was to suggest the micro-agents and leaders. The process of forming CRIGs began in November 2004. It took a month to form the first 6 CRIGs; in May 2005 another 6 CRIGs were added. There has been no case of early claims indicating that the message of anti selection has been understood by the micro-agents.

What the Parties Do

Each CRIG is attached to the local branch of St Anne's where they are located. The local branch manager acts as a mentor and monitors the CRIGs. Every month, premium aggregation takes place at the branch where these CRIGs assemble. Policies along with the premium are dispatched to Tata-AIG by St Anne's. The flow of premiums is illustrated in the following diagram.



The St. Anne's branch manager, along with the Tata-AIG salesperson, ensures that the CRIGs maintain details of all the policies they have sold. The CRIG maintains a register of sales and premiums collection that acts as a back up to the company's records. With respect to documentation, Tata-AIG sends the policies, passbooks and renewal sheets to the respective branches of St Anne's, which in turn pass them on to the CRIGs. Tata-AIG personnel regularly monitor the performance and also provide van facilities to the CRIGs (3-4 days in a month for each CRIG) for publicity and premium collection purposes.

What is Sold and What Sells?

Initially the CRIGs are encouraged to sell social products with premiums ranging from Rs 10 ($0.22) a month to Rs 60 ($1.33) with death benefits ranging from Rs 10,000 ($222) to Rs 54,000 ($1020).

The St. Anne's CRIGs have so far sold 1,530 Jana Suraksha, 880 of Karuna Yojana and eight of Kalyan Yojana. In terms of the preference for premium payments, approximately 25% percent of clients prefer semi-annual payments and the rest prefer quarterly. The figures, as well as feedback from the clients, show that the target market has a strong preference for insurance with a savings component.

So far, these CRIGs have cumulatively covered 2,414 lives and collected Rs 470,000 ($10,444) in premiums. Of all the policyholders, 80% have never previously owned an insurance policy. On average, 60% of all social policies are sold to women. Because the CRIGs are so new, it is difficult to draw strong inferences from lapse rates, which on December 2004 were 2%.

Commissions

Commission income accrues to both St Anne's and the micro-agents. The CRIG members earn between Rs 440 ($10) to Rs 580 ($13) per month depending on their performance. St Anne's is reimbursed on a monthly and annual basis for committing manpower as well as other resources for the project. It earns up to 10% of the first year's premiums collected, subject to conditions with respect to number as well as quality of the business.

Apart from the revenue flow to St Anne's, the other benefit is in the form of a credit life cover that the insurance programme provides to some of their beneficiaries that opt to get covered by Tata-AIG.

The Role of CRIGs in Marketing and Financial Education

CRIGs use the meetings of SHGs to market Tata-AIG's policies. These meetings are usually held at the places where St Anne's conducts its operations; it could be a small church in the village or at a St Anne's field office. On occasions, meetings are held in the houses of SHG leaders. At these meetings, the CRIG leader who has access to a TV and video, plays the Tata-AIG's marketing film. After the film is played, details of the different products are explained and questions are answered by the CRIGs.

Typical concerns raised by the clients centre around trust, i.e., concern that they will actually receive their benefits when they have a claim or on the maturity of a savings product. The tie in with Tata has proved vital. Micro-agents are able to reassure potential clients by pointing out that Tata is a large company that has been around for a long time and would not have incentives to steal their comparatively small premiums. Prospective clients also raise issues of forfeiture arising out of non-payment. Tata-AIG collated concerns raised by prospective microinsurance clients from all over India and developed a training module to coach micro-agents in meeting the concerns raised by prospective clients. The staff of St Anne's play an active role in encouraging prospective clients to buy policies. This is especially important in cases where CRIG members do not know the people in the SHG meeting.

Remaining Concerns and the Way Forward

All direct marketing schemes face the problem that eventually the agents have approached all the people they know and now need to approach strangers. Often these strangers live further away and are more reluctant to buy. The cost of selling to strangers is thus much higher than selling to familiar people in one's neighbourhood. In the case of the St Anne's CRIGs, they are expected to sell a minimum of 50 policies a month. Upon reaching a count of 600, they will have reached a threshold where their microinsurance client base growth will slow down for the reasons mentioned above.

A micro-agent receiving a prize of a branded Tata-AIG brief case from a Sister at St Anne's

To address this issue, Tata-AIG plans to open up a branch office in the area with a permanent vehicle. This vehicle would be used by CRIGs to sell policies outside of their immediate area. In addition, Tata-AIG is and training micro-agents to sell high value policies. By using the CRIG infrastructure to serve a diverse market, it will enable the agents to continue to expand their portfolios. It will also enable Tata-AIG to reap a bigger return in its investment in forming and training the CRIGs. To date, 10 rural policies of annual premium greater than Rs 2500 have been sold by St Anne's CRIGs.

5. Results

Tata-AIG does not maintain separate financial statements for its microinsurance business. It monitors premium income, the liability on its microinsurance products and the staff costs of its microinsurance programme. The reason it does not maintain separate cost accounts for its microinsurance business is because of the miniscule size of the operation (premiums less 0.5% of total Tata-AIG premiums, staff 1% of Tata-AIG staff, and liabilities are less then 1% of total liabilities) has not justified the expenses of separate cost accounting for the rural and social sector team. Given the motivation for entering into microinsurance (legal requirement, marketing, corporate social responsibility) as well as the fact the entire programme is new and innovative, careful monitoring of its profitability has not been seen as justifying its expense. That said, the channel itself has kept a record of policies sold, revenue and expenses, as presented in Table 5.1. As the rural and social channel is relatively new, the figures represent for the most part the costs that Tata-AIG incurred in establishing the channel, rather than any indication of long-term profitability of the distribution methods or products.

Table 5.1 Income and Expenses for Tata-AIG's Rural and Social Sector Team

Item	Amount/Number/Value
Rural and Social Policies Sold	
Policies sold by TBF through the partner-agent model between March 02 and Nov 03	10 680
Policies through CRIGS Dec 03 to June 05	5 900
Policies sold through other individual agents Dec 03 to Jun 05	17 535
Policies by Product March 02 - June 05	
Social Products	
Kalyan Yojana (With and average annual premium of US$ 2.5)	12 300
Karuna Yojana (With and average annual premium of US$ 7.5)	16 400
Jana Suraksha Yojana (With and average annual premium of US$16)	4 900
Rural Products	15
Total Policies sold from March 02 to June 05	34 100
Claims	
Number of Claims since inception (March 02)	65
Number of Claims settled with payout	35
Revenue	
Premium Income March 02 to Nov 03	$26 000
Premium Income Nov 03 to Jun 05	$96 000
Total premium Income March 02 to June 05	$122 000
Expenses	
Rural and Social Channel expenses from March 02 to Nov 03	$234 000

The policies sold by the social and rural channel of Tata-AIG are expected to break even in three to four years after 2005 provided that: a) the social products portfolio grows at the current rate with 65% persistency; and b) the rural business has a 75% persistency and forms a 8 to 10 % part of the portfolio (by number not value). This will translate to a cumulative 150,000 lives covered by social policies with 12,000 rural policies. If past growth and persistency continue, the rural and social channel will meet this goal.

One of the many reason for the development of microinsurance at Tata-AIG was to meet the regulatory requirement. As shown in Tables 5.2 and 5.3, Tata-AIG has consistently exceeded the requirements.

Table 5.2 Achievements against Regulator Mandate

Mandate/Achievement	4/01 to 3/02	4/02 to 3/03	4/03 to 3/04	4/04 to 3/05	4/05 to 3/06		Yr 6 onwards
	Year 1	Year 2	Year 3	Year 4	YTD Jun	Projected	Projected
Rural Sector							
Requirement: Rural Percent of Policies	5%	9%	12%	14%	16%	16%	18%
Achievement Rural Percent of Policies	10.6%	10.3%	14.3%	17.9%	25.5%	21%	23%
Social Sector							
Requirement No. of New Social Sector lives	5000	7500	10000	15000	20000	20000	25000
Achievement No. of New Social Sector lives	9000	9344	10758	16117	100000	40000	Will be met

Table 5.3 Comparison: Microinsurance / Total Rural / Total Company

Details	12/01 to 11/02	12/02 to 11/03	12/03 to 11/04	12/04 to 11/05	Jun 05 - Nov 05	Dec 05 - Nov 06
MI Numbers	7380	3232	10073	13388	17427	64000
Total Rural	Not Collated	Not Collated	34000	33934	37100	135000
Microinsurance percent in Rural	NA	NA	30	39	45	48
Microinsurance percent of Company numbers	NA	NA	5	9.1	9.3	12

Notes on the Tables 5.2 and 5.3:

- Regulatory achievement follows the April to March year
- Total rural represents all the rural policies sold by the Company including high premium by other channels
- Table 5.3 furnishes the proportion of MI in the Companies rural Numbers
- Regulator requirement for rural in first year was 5 % but later increased to 7%
- June 05 onwards are projections
- Percentages and figures in Table 5.2 were audited and reported to the regulator

6. Conclusions

Microinsurance is never likely to be a significant contributor to profits, therefore the CEO's support can never be assumed. Without the CEO's support from the inception, the project would not have taken off. There are a number of reasons why the CEO may be motivated to support microinsurance. In the case of Tata-AIG they included:

i. Partial fulfilment of Corporate Social Responsibility
ii. Marketing – getting one's brand into the market early and creating a positive association with the brand.
iii. Future profitability – in a growing economy like India, today's microinsurance clients may be tomorrow's high premium clients
iv. The promotion of microinsurance often helps develop a good relationship with the local regulator. This is especially important for entrants into a foreign market, which was the case with AIG in India.

Many insurance companies make the mistake of assuming that microinsurance is simply a matter of reducing the price and benefits of existing policies. Microinsurance requires specialised staff and different distribution channels. The CEO of Tata-AIG realised this and created a specialised rural and social products channel within the company. It was also important to give the team a degree of latitude to be entrepreneurial and innovative. The staff chosen to run the microinsurance section were young and enthusiastic, with little or no previous experience in insurance, but often some experience working with low-income communities. This has been important because of the dramatically different approach that was needed to sell and service microinsurance products.

The insurance business requires trust from policyholders, especially among the India's rural poor. Much of the Indian microinsurance market is unaware of insurance. However, for those that do have awareness, their perspective has been tainted by poor previous experiences of insurance. Teaming up with a trusted local company (Tata) helped to create policyholder trust in the insurer.

While most insurers in India tried to fulfil their regulatory obligations to sell microinsurance by partnering with an MFI, Tata-AIG realised that the total number of MFIs was limited with respect to both quantity and quality. Relying solely on MFIs to sell one's products would not be sufficient in the Indian context. This lead them to explore other distribution channels. Partnering with MFIs or NGOs nonetheless remained a crucial component in Tata-AIG's distribution strategy. They relied on MFIs and NGOs for information about the local community, to help build trust with the local community, and finally Tata-AIG outsourced some operations to the MFI/NGOs to lower servicing and selling costs.

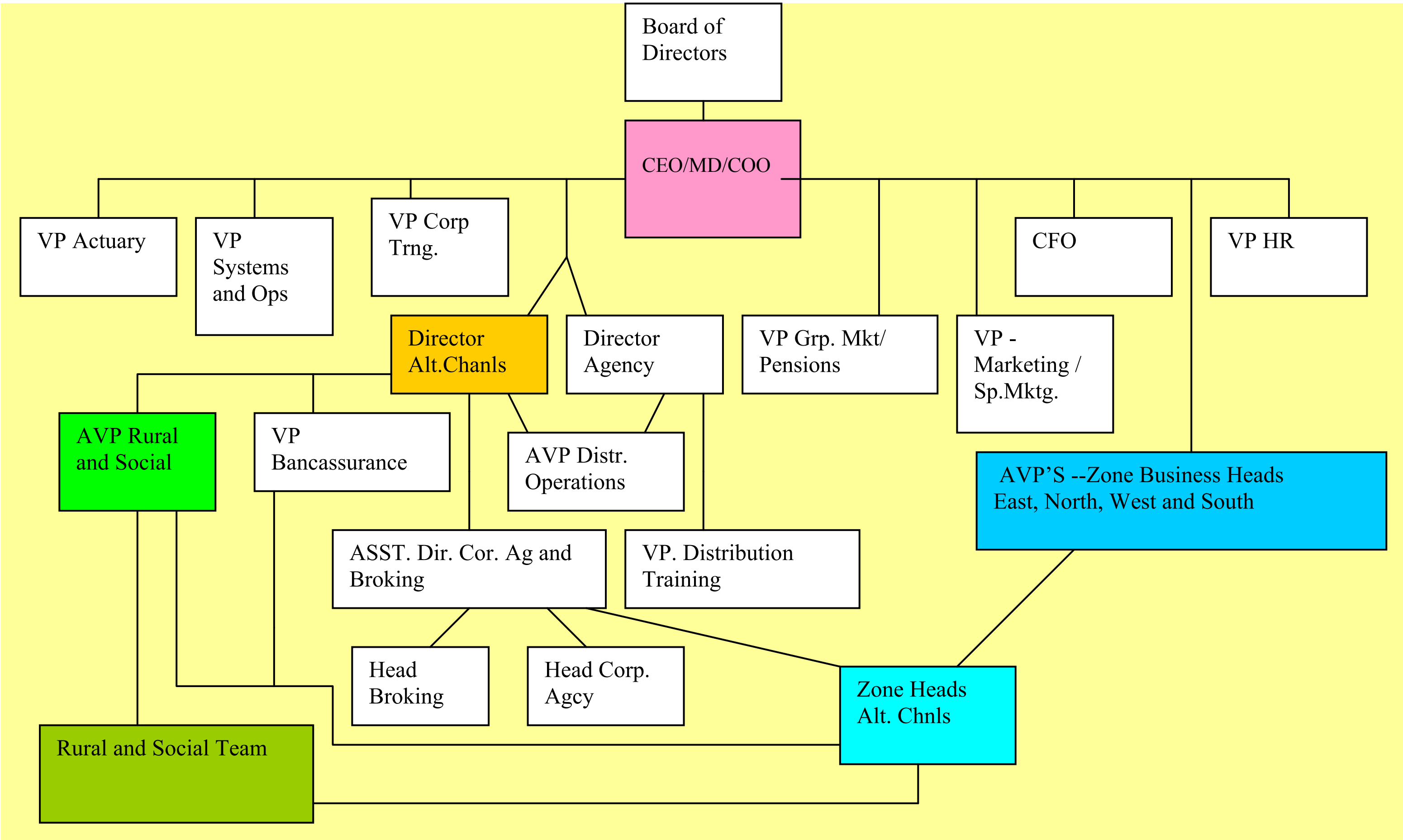
The development of micro-agents and their firms (CRIGs) is the most significant innovation of Tata-AIG's microinsurance work. Microinsurance is a high volume, low cost business. In such businesses, cheap and efficient distribution is crucial. It is too early to make a judgement on whether the model is successful. If it is successful, the model will provide a major new means of overcoming the microinsurance distribution problem.

Appendix 1. Social Security Schemes in India

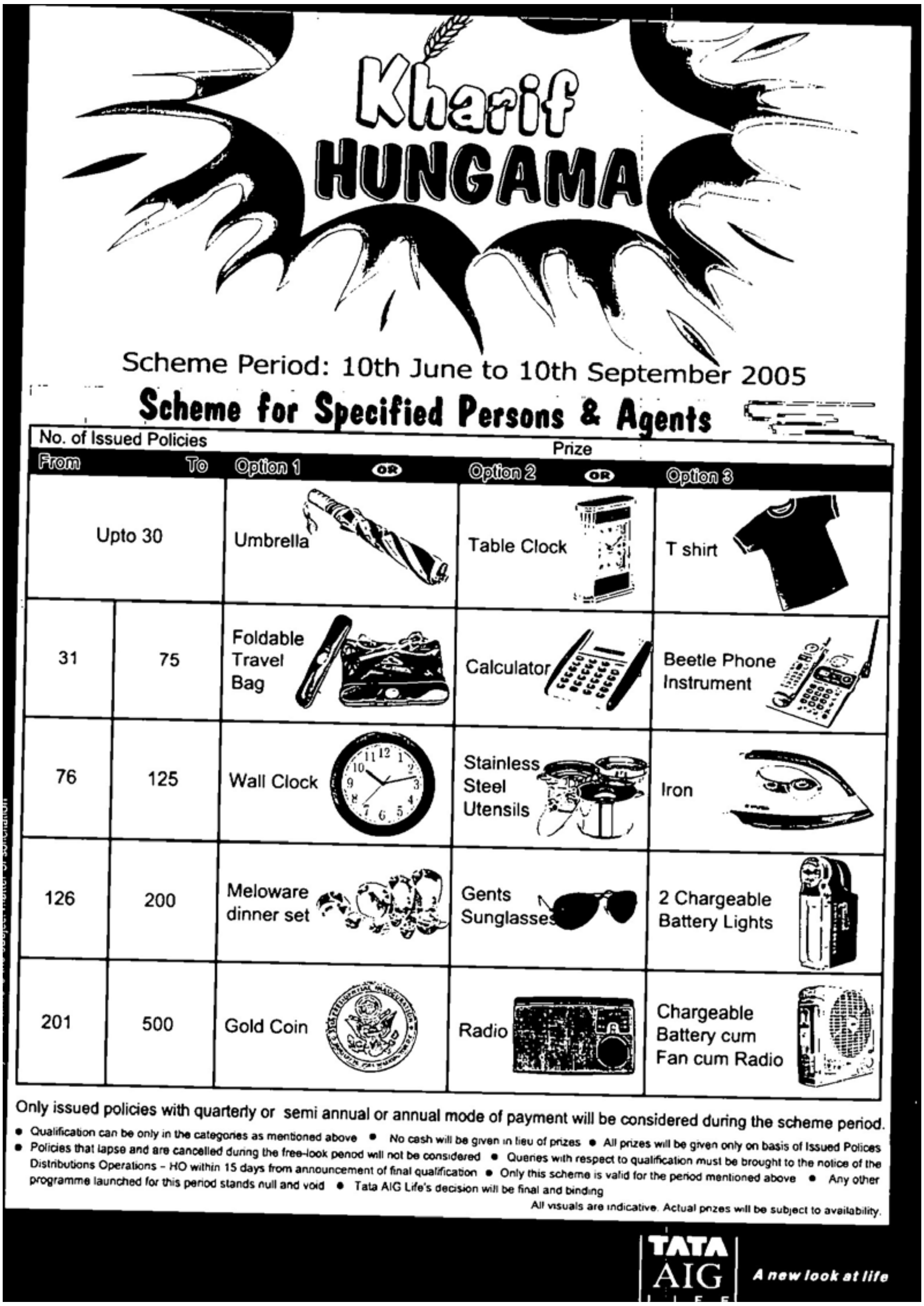
Contingency	Public Employees	Private Sector Workers	The General Poor	Comment
Medical Care	Free treatment in state hospitals and drugs	Free treatment in ESI hospitals and dispensaries; reimbursement of drugs	Treatment in public hospitals. Free Supply to a limited extent of through primary health centres	The quality of care is low, so low in fact that there is a massive private health care industry
Sickness	Medical leave on Full Pay for up to 2 years in a 3 year period	Same if covered under the ESI	Nil	Given the large numbers of Indians considered poor, loss of income form sickness remains a significant concern for most Indians.
Maternity	Maternity leave 12 weeks on full pay	Same if covered under ESI or the MBA	Social Assistance under the NSAP	
Unemployment	Retrenchment benefits under Renewal Fund for employees of public sector enterprises	Retrenchment benefits under the Industrial Disputes Act	Public employment generation schemes	
Work related injury	*Ex-gratia* relief plus benefits under the ESI and the Workmen's Compensation Act	ESI and the Workmen's Compensation Act	Social Assistance from welfare funds for those engaged in hazardous occupations in certain states	
Invalidity	*Ex-gratia* relief plus benefits under the ESI and the Workmen's Compensation Act	ESI and the Workmen's Compensation Act	Pensions for the physically handicapped in certain states	
Old-age	Pension and Gratuity or contributory provident fund and gratuity	Payments under the Employees' Pension Scheme, 1995 and under Payment of Gratuity Act	Old age pensions provided under the NSAP and state governments for the destitute poor	EPF payments described as " woefully inadequate to meet any kind of retirement need… offer no protection against inflation… contributions made by employer on employees behalf cannot be claimed by employee" (Outlook Money, 2003)
Survivor (widow, orphan)	Subsidised group insurance for death while in service; family pension in the case of death after retirement	Deposit Linked Insurance and Family pensions under the EPF	Subsidised life insurance under the NSAP; survivor benefit and relief schemes available in certain states; pensions for windows in each state	

Adapted from Ginneken 1998.

Appendix 2. Tata-AIG Organisational Chart



Appendix 3. Incentive Prizes for Micro-agents



Kharif HUNGAMA

Scheme Period: 10th June to 10th September 2005

Scheme for Specified Persons & Agents

No. of Issued Policies		Prize		
From	To	Option 1 OR	Option 2 OR	Option 3
Upto 30		Umbrella	Table Clock	T shirt
31	75	Foldable Travel Bag	Calculator	Beetle Phone Instrument
76	125	Wall Clock	Stainless Steel Utensils	Iron
126	200	Meloware dinner set	Gents Sunglasses	2 Chargeable Battery Lights
201	500	Gold Coin	Radio	Chargeable Battery cum Fan cum Radio

Only issued policies with quarterly or semi annual or annual mode of payment will be considered during the scheme period.

- Qualification can be only in the categories as mentioned above • No cash will be given in lieu of prizes • All prizes will be given only on basis of Issued Polices
- Policies that lapse and are cancelled during the free-look period will not be considered • Queries with respect to qualification must be brought to the notice of the Distributions Operations - HO within 15 days from announcement of final qualification • Only this scheme is valid for the period mentioned above • Any other programme launched for this period stands null and void • Tata AIG Life's decision will be final and binding

All visuals are indicative. Actual prizes will be subject to availability.

TATA AIG LIFE A new look at life

Appendix 4. CRIG Income Table

	CRIG name	Kalyan	Karuna	Jana	Total	Net.Comm	CRIG Startup Bonus	Performance Bonus on reaching 600 policies	Total earnings of the CRIG	Production months	CRIG earnings per month	Member earnings per month	No of active members	Earnings by active members per month	Earnings by active members in USD per month
1	Velugu-317942	1	413	164	578	19303	1500		20803	14	1486	297	5	297	$7
2	Uday Kiran-317900	35	240	150	425	21384	1500		22884	14	1635	327	2	817	$18
3	Asha Jyothi-317968	25	363	290	678	44098	1500	10000	55598	14	3971	794	4	993	$22
4	Jeevan Jyothi-317926	1	328	300	629	36698	1500	10000	48198	14	3443	689	5	689	$15
5	Jeevan Vikas-329367	58	471	105	634	21667	1500	10000	33167	14	2369	474	5	474	$11
6	Chaithanya Jyothi-329561	15	112	202	329	17732	1500		19232	14	1374	275	5	275	$6
7	Surya-329545	0	97	4	101	2345	1500		3845	14	275	55	2	137	$3
8	Nirmal seva	3	152	446	601	50668	1500	10000	62168	5	12434	2487	7	1776	$39
9	Navya Teja	0	53	76	129	5612	1500		7112	5	1422	284	2	711	$16
10	Adarsha	0	121	93	214	8733	1500		10233	5	2047	409	2	1023	$23
11	Bullemma D	0	0	40	40	1772	1500		3272	2	1636	327	1	1636	$36
12	D.Jhansi Rani	0	117	41	158	14808	1500		16308	2	8154	1631	2	4077	$91
13	Navodaya	1	40	159	200	10968	1500		12468	5	2494	499	5	499	$11
14	Spandana	0	29	374	403	27172	1500		28672	5	5734	1147	5	1147	$25
15	Ushodaya	0	12	197	209	12519	1500		14019	5	2804	561	3	935	$21
16	Mangamma	0	145	15	160	4148	1500		5648	2	2824	565	5	565	$13
17	P.Ramathulasi	0	99	28	127	4253	1500		5753	2	2876	575	2	1438	$32
18	Sailaja Padma Shesha	0	193	104	297	7247	1500		8747	2	4373	875	3	1458	$32
19	Vipparla Suneela	0	5	6	11	359	1500		1859	1	1859	372	1	1859	$41

	CRIG name	Kalyan	Karuna	Jana	Total	Net.Comm	CRIG Startup Bonus	Performance Bonus on reaching 600 policies	Total earnings of the CRIG	Production months	CRIG earnings per month	Member earnings per month	No of active members	Earnings by active members per month	Earnings by active members in USD per month
	Total	**139**	**2990**	**2794**	**5923**	**311486**	**28500**		339986						
	Average										**3327**	**665**		**1095**	**$24**

1 The commissions are net of income tax , clawback and service tax

2 With the refund of clawback and income tax , the earnings of the CRIG are expected to go up by a minimum of 18%

3 Column L denotes average earnings of originally constituted CRIG consisting of five members

4 Column O denotes average earnings of only the active members of the CRIG

5 The earnings of the first seven CRIGs includes second years' renewal commissions also

6 Column N denotes earnings by the active members only. For example, those members who may have dropped out or may be performing irregularly have been omitted while calculating the earnings

7 Nominal Travelling allowance paid to the CRIGS in the early stages have not been included

8 Contest earnings have not been accounted for in the overall earnings

9 The Older CRIGs have been trained on rural products recently and the earnings pertain largely to Social products.