Sustaining Micro Insurance through Innovation

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Abstract

Micro insurance is a developmental tool that is intended to protect low income populations from the risks that they may face in their day to day lives. Of late, technology is being used to spread awareness about micro insurance. Despite this the reach of micro insurance has been limited. Penetration levels are abysmally low. Treating micro insurance as a scaled down version of traditional insurance is not a good idea. This results in marketing products to underprivileged communities that they may not need. This research effort traces the challenges facing micro insurance sector in India and also highlights the limitations.

Innovations are a need of the hour – whether it is product innovation or innovations in distribution mechanisms. New micro insurance covers have to consider the unique needs of low income population. Product innovations can be successful only if there is an adequate distribution/ delivery network to ensure that such innovations reach the underprivileged sections of society. Community involvement in new product design can help growth of the sector. Claims payment processes must be simple and build trust among the low income population. The poor need to be treated as customers. They need compelling value propositions so that they can opt for micro insurance cover. Segmentation of micro insurance covers as life, general and health will be a wise move that can further aid the growth of micro insurance. The paper has made recommendations which if considered can lead to sustainable growth of micro insurance in India.

Key words : Micro insurance, product innovation, new product design, socially underprivileged, low-income population, sustainability, scale, distribution channels, crop insurance, index-based cover, self help groups.

Introduction

Micro insurance addresses the insurance dilemma of low income populations whose risk coping mechanisms outside any form of insurance threaten to keep them poor forever. A product is generally defined as 'micro-insurance' if it is modest in premium and coverage. Micro-insurance can be found in all business lines, including life, accident and disability, health, property, and agriculture (crop and livestock).Any micro-insurance product will have the following basic features; relatively low premiums; defined and limited cover; short policy terms to limit risk; few, if any, exclusions; preference for group underwriting; simple and rapid claims processing while still controlling for fraud.

CSR thought leader Michael Porter has exhorted businesses to relook at the value chain to create shared social and economic value. The insurance industry is hardly known for getting inspired from Porter's theories and business models. However, insurers in a few countries are pioneering the idea of micro insurance. Micro insurance addresses the problem of poverty caused by unexpected life events like sudden deaths, crop failures or natural disasters. In developing nations, micro insurance represents a market of potential growth and profitability.

Product innovations need support through innovations in distribution and efforts to build awareness among low income populations. Actuarial interventions are definitely needed for designing new covers – however a better understanding of the needs of low-income population through regular interactions with them will be a great value addition.

The trajectory followed in this effort is delineated now. First, we gain some conceptual clarity and insights about micro insurance including operational definitions gleaned from a critical review of secondary sources of information available. This is followed by understanding the status of micro insurance in India, the challenges and limitations of micro insurance. Finally, observations from literature are recorded along with suggestions and recommendations. Conclusion is then drawn based on information collected, collated and reviewed.

Micro Insurance – Concepts & Definitions

The International Association of Insurance Supervisors (IAIS) defines micro insurance as "the protection of low-income people against specific perils in exchange for regular premium payments appropriate to the likelihood and cost of the risk involved." Low income populations have inadequate informal tools to manage their risks. So they need some kind of insurance cover.

Micro insurance is defined as insurance provided for low income people by a variety of insurers, run in accordance with generally accepted insurance principles, and funded by premiums. It comprises risk-pooling products. It is appropriate for low income market, cost, terms, coverage and delivery mechanisms.

Micro insurance has to strike a balance between market perspectives (insurers' view not to lose money) and social protection. The micro insurance schemes must balance the competing objectives (Cohen & Sebstad, 2006).

a. Providing coverage to meet the needs of the target population
b. Minimize operating cost for insurers
c. Minimize the price including transaction cost for policy holders to enhance affordability and accessibility.

Effective regulation and low cost distribution skills coupled with community involvement and consumer education can convert latent demand for micro insurance to a potent demand for the same.

Micro insurance faces several demand and supply driven barriers that are mainly due to

a. Attitude/ affordability of vast majority of people
b. Pricing and product design
c. Lack of cohesive and reliable data on insurance population and assets
d. Inadequate technical knowledge
e. Inappropriate skills
f. High distribution and service cost
g. Poor consumer awareness and knowledge

Poverty reduction requires sustainable income streams among the poor – but these incomes also need protection through proper risk management. Micro insurance can be an integral component of poverty reduction strategy.

Background of Micro Insurance in India

India's life insurance penetration is 2.72% and general insurance penetration is 0.77%. The total market size of the insurance sector in India is projected to touch US $ 350-400 billion by 2020. From Table 1, it is clear that the ratio of premium to GDP was 3.49% during the period 2016-17. It is clear that insurance continues to be underpenetrated in India. This is further supported by data in Table 2. The micro insurance sector in India has also not grown as much it was expected to.

IRDA drafted micro insurance guidelines in 2010; lower threshold limit for agents' commissions was fixed. Regional rural banks and NGOs in rural areas were designated to distribute micro insurance products.

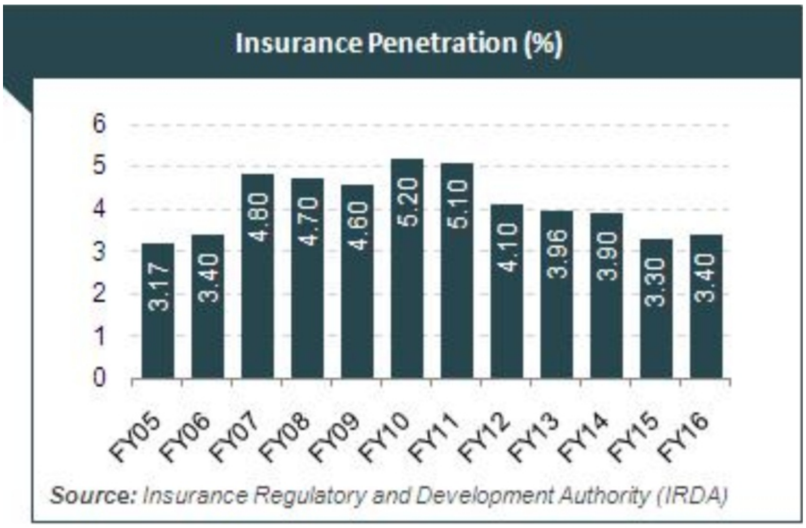
Table-1: Ratio of Premium to GDP

Name of country	Ratio of premium underwritten to Gross Domestic Product (2016-17)
India	3.49%
Thailand	5.42%
China	4.77%
Malaysia	4.77%

The main thrust of micro insurance regulations is protection of low income people with affordable insurance products to help, cope with and recover from common risks with standardized popular insurance products adhering to certain levels of cover, premium and benefit standards. NGOs and self help groups act as agents to insurers in marketing the micro insurance products and also allow both life and general insurers to promote combi-micro insurance products (combining different lines of business).

IRDA amended the micro insurance regulations in 2015 allowing district co-operative banks and regional rural banks to act as micro insurance agents for better penetration of micro insurance business.

Table-2: % Insurance Penetration



As of now, there are 60 products offered by general insurance companies targeting low income segment of the population – examples – cattle policy, kisan agriculture pumpset policy, Janata personal accident policy, silkworm sukshma bima policy, sheep and goat micro insurance policy, sampoorna griha suraksha policy. The regulator must also encourage comprehensive covers that are customized to the needs of the low income households.

In the year 2016-17, Pradhan Mantri Fasal Bima Yojana covered 50.9 million farmers. The gross premium was Rs. 1725524 lakhs and the number of claims was 8712396. The claim payout was Rs. 657366 lakhs.

Table-3: Micro insurance cover in India

For the year 2016-17	
Individual new business premium under micro insurance segment	Rs.38.22 crores under 9.56 lakh new policies.
Group business premium Number of micro insurance agents	Rs. 460.43 crores covering 3.22 crore lives. 35200
% share of agents	NGOs – 21.7%, Self help groups – 1.1%, Micro finance institutions – 1%, business correspondents – 0.2% , other micro insurance agents – 75.9%

Source : IRDA Annual Report 2016-17

Table-4: New business under micro insurance portfolio 2016-17 *(Premium in Rs lakh)*

Insurer	**Individual Policies**	**Individual Premium**	**Group Schemes**	**Group Premiums**	**Lives covered**
Private Total	475269	2234.37	387	12035.36	9281170
LIC	480892	1587.13	4812	34007.62	22965393
Industry Total	956161	3821.50	5199	46042.98	32246563

Source: IRDA Annual Report 2016-17

Table 4 clearly indicates that LIC has played a dominant role in covering more lives under micro insurance portfolio and that private sector has not focused on group schemes. Table 5 shows that the private sector has enrolled more number of micro insurance agents during 2016-17.

Table-5: Micro insurance agents of Life insurers 2016-17

Insurer	As on 1st April 2016	As on 31st March 2017	% change
Private Total	8990	15899	76.85%
LIC	18574	19301	4%
Industry total	27564	35200	28%

Source: IRDA Annual Report 2016-17

Table-6: Micro insurance agents of Life insurers 2016-17

Micro insurance agents	Private Total	LIC	Industry Total
NGOs	142	7504	7646
Self Help Groups	20	369	389
Micro finance institutions	22	337	359
Business Correspondents	6	74	80
Other Micro Insurance agents	15709	11017	26726
Micro insurance agents total	15899	19301	35200

Source: IRDA Annual Report 2016-17

Figures in Table 6 clearly indicate that LIC has joined hands with more number of NGOs, self help groups, micro finance institutions and business correspondents as compared to the private insurers.

Research Questions

1. How can micro insurance product innovations achieve social bottom line as well as financial bottom line?
2. How can innovations be used to drive a sustainable micro insurance sector?

Key Characteristics of Micro Insurance

Micro insurance must be physically accessible. The policy document must be simple and easy to understand. The premiums must be small to accommodate irregular cash flows. Exclusions must be few. Sums insured must be small – often for short terms. Pre-underwritten community or group pricing and innovative distribution channels are vital. There is a need for continuous engagement with customers.

Low income persons are vulnerable to numerous perils, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses and disasters. Vulnerable households suffer from ongoing uncertainty about whether and when a loss might occur. Due to this apprehension, the poor are less likely to take advantage of income generating opportunities that might reduce poverty. Micro insurance offers protection of low income people against specific peril in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved.

Micro finance helps improve people's livelihoods. Micro insurance helps them to protect the gains in the event of any unfortunate events. People in micro insurance need appropriate products, processes and knowledge. Policies, products and procedures must be simple.

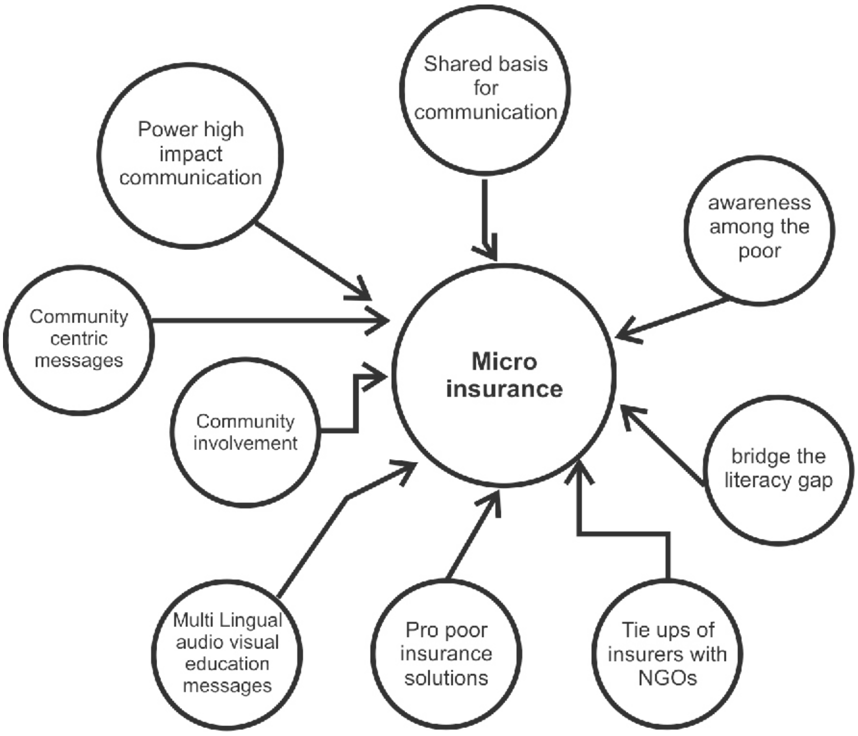


Chart 1: Characteristics of Micro insurance (Source: Author)

Need For Innovations in Micro Insurance

Innovations to address constraints of developing economies have led to extension of micro insurance schemes to mature economies as well. Innovations in the form of new products, distribution channels and segments characterize micro insurance.

Micro insurance helps insurers to increase insurance adoption and drive growth. Innovations across the value chain can lead to social and economic impact. Innovations are needed to tackle tough development challenges and arrive at inclusive solutions that enhance service delivery to the poor.

The market at the bottom of the pyramid (a marketing philosophy that was made popular by C K Prahlad and Gary Hamel) is immense; the economies of scale can drive profits from huge volumes despite low margins. However, the mindset of insurance company must change; in Indian villages, there is a myth that insurance is something that will benefit you only when you die; therefore consumer education is important to drive away ignorance.

Success in micro insurance will lead to a win-win proposition – the poor will benefit due to the protection and insurers will make profits that can drive further growth. However, insurers' skepticism to accept claims (as is usually wont in traditional insurance covers) will not work in case of micro insurance; if cover cannot help a poor person in times of need, all innovations will be merely confined to the garbage can.

263 million people are covered by micro insurance worldwide. Innovative products are needed based on the understanding of complexities of daily lives of the socially underprivileged section. There are geographical,

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regional, and religious and community based barriers. So, innovation is needed not only in products but also in exploring alternative channels and finding new partners.

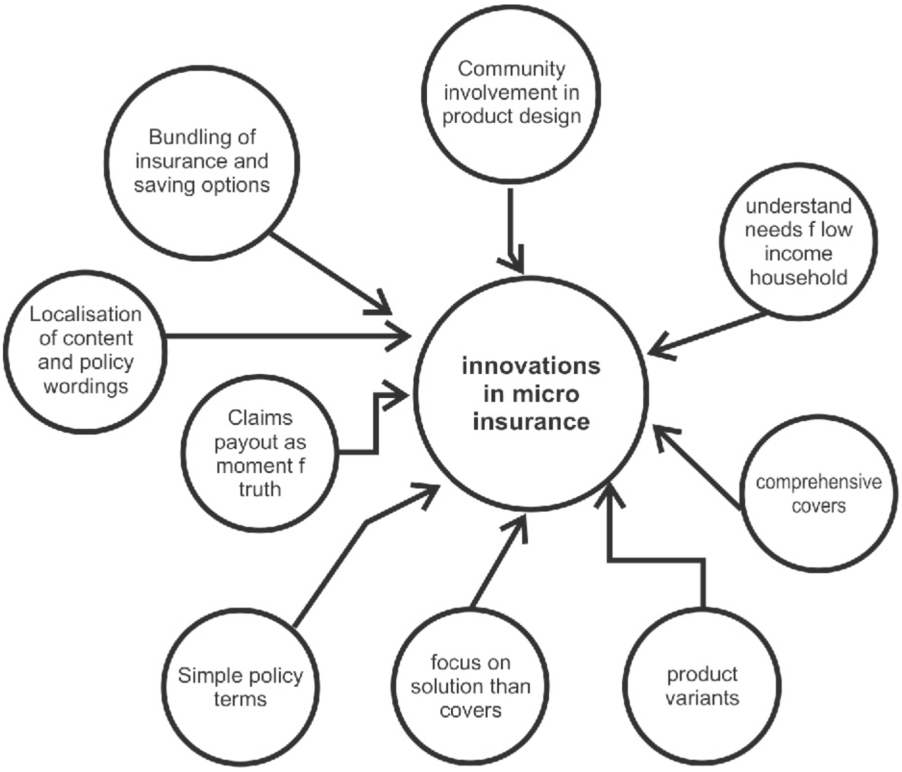

Chart 2: Innovations in Micro insurance (Source: Author)

Challenges in Micro Insurance

High operating costs and accessing clients in remote areas are the main ills plaguing micro insurance. Micro insurance is yet to achieve a critical mass. Lack of quality data for underwriting is also a challenge. If a compelling value proposition is conspicuous by its absence, then uptake of micro insurance by marginalized sections of society cannot be high.

Low levels of insurance awareness and education are main causes for the low level of penetration of micro insurance in India. However, not offering products and services that are of value to customers is also the main reason. Treating poor people as customers is important instead of thinking that they deserve something like charity. Dignity is for everyone – be it rich or poor.

Customers who need insurance the most – the mass market- are the last to get it. Listening to customers and their needs, re-shaping product terms and processes and partnering with large brands are essential to provide customers with innovative micro insurance covers.

If smart phones and mobile devices can reach nook and corner of the country and if mineral water can be found in remote corners of India, then micro insurance can also reach… innovative distribution is what is needed.

Pricing is the not the most important variable for micro insurance. Accessibility of rural communities continues to be a challenge. Estimating the probability of an event happening and the value of the loss are areas where micro insurance appears to be lagging. Connecting data sets and localizing them continue to be issues. The tendency of insurers to sell covers without knowing what risks the insured is experiencing can be a setback.

Limitations of Micro Insurance

Micro insurance is low-cost health insurance based on a community, cooperative, or mutual and self-help arrangements— this can provide financial protection for poor households and improve access to health care. However, low benefit caps and a low share of premiums paid as benefits—both designed to keep these arrangements in business—perversely limited these schemes' ability to extend coverage, offer financial protection, and retain members.

In India, micro insurance is still not popular due to following reasons:
1. Small ticket size
2. Poor agent and distributor commissions
3. Unviable proposition
4. Customer unfriendly

Designing Micro Insurance Covers

There are three main dilemmas in micro insurance model
1. What product type is relevant? – health, life, agriculture or property
2. What product features will meet needs of client?
3. How to market the product?

Sustainability and scale are essential for the growth of micro insurance in India.

Designing innovative products can involve learning from customers. In order to be successful and more relevant to the poor, micro insurance products need to provide both near-term and long-term benefits.

Innovative, simple, flexible products taking into account the lifestyle and needs of the low income group are a must. Exclusions must be clear and simple. Proposal approval must be quick and premium payment must be flexible; Maturity/ death claim settlement must be a simple affair. Product design must be simple. Policy wording must be in simple language with few exclusions. Premium collection must match frequent and irregular payments.

Designing 'micro insurance' products specifically covering an event risk reduces the price and increases acceptability among the customers. As they say, insurance is a product where everyone knows the price but only a few understand the value. It is an innovation at product level which is steadily attaining the attention of customers by the efforts of various online fin-tech players. Interestingly, India with all its diversity in income patterns, education levels, occupations etc is a huge experimental playground for micro insurance products.

Product innovation must address issues concerning flexibility and adaptability of the insurance cover to meet individual needs and preferences. Returning part of the premium at specific policy periods can be considered for low income populations. Customers can be given cash back bonus as part of “No claims” so that they are incentivized to take proper care of their assets.

Cultural factors must be considered while designing micro insurance products. The products have to be simple and communication must be in local language. People may be more willing to discuss a life plan rather than something called as funeral insurance. Ghana has a dial-a-doctor scheme wherein medical advice is provided to consumers via a mobile phone.

Promoting efficiency to cut down on administrative expenses is important. Efficiencies can be brought about by simple products, procedures, non-traditional delivery channels and deployment of technology. Use of hand held devices to manage claims along with innovative premium payment options are essential for achieving scale.

In some parts of the globe, leading insurers and brokers have established a consortium to aid the penetration of micro insurance in developing countries. While it is important for micro insurance to be affordable and accessible, the offer has to be customized to the unique needs of the people for whom micro insurance is targeted.

Index-based insurance is an innovation by which an external indicator triggers payments to claims rather than a claims process initiated by the insured. Insurers have to work hand-in-hand with clients, meteorologists, financial experts and brokers to build indexes that most accurately reflect the clients' risk.

Issues in Index Based Crop Insurance

Product innovations in rural micro insurance include “index based” products. These products cover losses when there are observable variations from standard local rainfall levels or crop yields.

In index insurance, basis risk results when index measurements do not match an individual insured's actual losses. One source of basis risk results due to poorly designed products and other source results from geographical elements. Robust product design can take care of basis risk. Geographical risk is a factor of the distance between the location where the index is measured and the production field. The greater is this distance, the greater is the basis risk. This often leads to a strange situation wherein those who do not suffer losses receive compensation and those who suffer losses do not receive the compensation. So, to address this risk, the index has to cover an area that is homogeneous both in terms of weather and in terms of farming techniques. Risk gets minimized as the density of weather stations and satellite pixels is increased.

Different Types of Innovative Products in Micro Insurance

1. Pure term assurance product
2. Term assurance with return of premium
3. Group insurance covers
4. Endowment insurance
5. Family health insurance
6. Individual health insurance contracts

"Freemium" products, positive experience of customers, easy settlement of claims are drivers for popularizing micro insurance covers. Essentially the two types of innovations that are relevant to insurance are: Sustainable innovation and disruptive innovation. Insurance product features may be added or fine-tuned, processes streamlined or distribution channels can be expanded. This kind of sustainable innovation delivers tremendous value. Disruptive innovation is a game changer – it changes the way an industry operates. Predictive analytics, usage-based insurance, insurance linked securitization and micro insurance can be classified under disruptive innovation.

Innovative designs of micro insurance covers must consider bundling the covers with savings plans. The insurance cover must go beyond 'protection against risks' to 'offering solutions for problems'. Regulation must not be merely prescriptive; it must also encourage research and collection of data to understand the ground realities.

It is high time that a think-tank is created to look at the possibility of creating two separate micro insurance verticals – life and non-life. Within non-life, health insurance must be offered as a separate product. Micro insurance is one area where apparently the interests of life and non-life sector converge; but innovative bespoke product design needs clear cut demarcation so that the right kind of efforts can be made.

Steps to Engineer Innovations in Micro Insurance Products

1. Redesign the micro insurance product to make it more relevant
2. Adapt product to market
3. Look at options for combining savings and risk cover at the same time
4. Innovative products need innovative and trustworthy distribution channels
5. Communicate about what is covered in insurance and what is not

Use buzz marketing to attract communities to subscribe to micro insurance. Mahindra Tractors and Asian Paints used village heads/ panchayats as advocates for their new products and this enabled building of trust among the villagers.

Use of Technology to Drive Growth of Micro Insurance

Technology plays an important role in innovative distribution – for example – customers access micro insurance through mobile network operators. Technology will be the key to increase the access to micro insurance. Micro insurance has now become a driver of poverty alleviation strategies by governments. Advances like satellite data, global positioning systems and point of sale terminals can improve micro insurance in a variety of ways.

Point-of-sale devices allow customers to enroll and make premium payments remotely. Tele-medicine is another innovation that has been providing support for rural health insurance efforts.The back office operations must be efficient to ensure value addition to customers of micro insurance schemes. It is also important for the micro insurance provider to choose the right kind of technology.

In Africa, mobile Network Operators (MNOs) have been playing an increasingly important role as a distribution channel for micro insurance products. Mobile applications can quickly transmit critical data to insurers' systems to determine eligibility of claims. Technology is being used to fight fraud and customize products and services to cater to the unique needs of micro-segments.

Micro insurance providers can team up with mobile phone operators to distribute micro insurance in rural and semi-rural areas. Some insurers are offering free insurance to clients for 12 months to help them to experience the product. Customers using a certain amount of airtime minutes per month receive free life insurance. The customers have the option to pay extra fees to increase insurance cover. The use of mobile based payments platforms is thus an exciting innovation.

Innovations in micro insurance must be aimed at delivering consumer-centric products. Innovation has to be relevant and has to deliver customer value. Mobile apps, fin tech systems and digital innovations are transforming the way micro insurance is administered. Commission-based selling is not going to drive micro insurance sales.
On demand coverage is slowly gaining popularity. Mobile technology has become the conduit for delivering micro insurance solutions. The term "insurance cover" may need to be rephrased as "solutions" when it comes to micro insurance.

Marriage of technology with business models is thus leading to path breaking innovations in micro insurance. A few insurance companies provide cover for car insurance only when people need it – the cover period ranges from a single hour to a whole day. It may appear that this sort of approach defeats the purpose of insurance as a protection tool against risks; however, in the era of Internet, when consumers are more informed, it makes sense to empathise with the customer – more so – when customer belongs to a marginalized section of society. On-demand covers in micro insurance is a innovation that is worth looking at.

Customers can use a mobile app to sign up, get a quote and buy coverage in less than 10 minutes. On-demand insurance is here to stay. It is best to remember who micro insurance aims to serve.

Caselet

A farmer goes to an approved dealer to buy a bag of fertilizer. He pays 5% extra to get climate coverage. The dealer scans a special bar code. The policy is now registered with the insurer. A text message is sent to the farmer's mobile phone. When data transmitted from a particular weather station indicates drought, the farmer registered with that station automatically receives payouts via a mobile money transfer service.

Distribution Channels to Support Product Innovations

Distribution channels in micro insurance rely on unconventional delivery methods like micro franchising through women's groups, mobile technology and sales and payment processing at rural kiosks. Micro insurance products are difficult to localize because they require on-the-ground knowledge of a product's design, administration and monitoring. Partnerships with local NGOs and micro finance institutions can help expand the reach of micro insurance. Making micro insurance products available through local retail stores or distributing policies through mobile phones are attractive options.

A low-cost policy covering cost of a farmer's crop investment – seeds, fertilizer and pesticides – in the event of a loss due to extreme drought or excessive rain. The coverage is generally limited to customers' up front expenses and this reduces the cost of the cover. Micro insurance products for low wage women can be offered through nonprofit organizations catering to protection against risks to life, health, property and accidents. Agro dealers selling seeds, fertilizers and chemicals can offer insurance on the spot for an incremental amount. The bar code on the bill can be scanned and the policy gets registered with the insurer; customer gets a text message that indicates policy details.

Innovation is a key to success that knows no geographical boundaries.

Successful Examples of Micro Insurance Innovations across the Globe

.In Peru, farmers buy micro insurance from water boards. In South Africa, micro insurance products are sold by retailers off-the-shelf. Philippines sells micro insurance through churches and schools in remote areas. Villagers can top up insurance product in the same way as they top up their mobile SIM.

Chinese insurers have delayed premium collection till the end of the insured period while underwriting pig insurance. Pakistan has introduced the scheme called "Easy Paisa Khush-hall". Mobile account holders are provided monthly life insurance coverage based on the average monthly balance in their mobile accounts. The cover amount ranges from Rs.50000 to Rs. 15 lakhs. Once customer is on board, regular dialog with him reminding that he is safe and secure with insurance subscription is vital.

Nano Health is a start up (a social enterprise) that offers micro insurance and tackles chronic diseases by providing door-to-door diagnostics via its network of community health workers. The slum-based electronic medical record system is facilitated by a low-cost point-of-care device called Doc-in-a-Bag.

In Thailand, micro insurance is sold at convenience stores. Special protection is offered during the Thai New Year Holiday of Songkran when the risk of travel accidents is higher. Distribution of micro insurance through mobile phones leads to lower transaction costs for insurers.

In Colombia, low cost health insurance is tagged along with delivery of gas for cooking. In Kenya, farmers can buy crop insurance cover by using a mobile phone to send the photograph of the bar code on a bag of fertilizer or seed; premiums can be paid using the M-pesa mobile banking system.

In Philippines, the Church became a partner in consumer education to teach residents personal finance and start a saver's club.

Revamping the Agency Model

Indifferent agents who are driven more by commissions instead of a service sense have caused immense harm to insurance industry; agents collecting insurance premium and vanishing are certainly not helping the cause of insurance. Rigorous selection process for agents is important; in case of micro insurance, this is even more relevant because once a community loses trust in a product they wouldn't want to touch that product with a large barge pole. Trained, competent and committed agents drawn from the community can provide end to end solutions to the marginalized sections. Their adeptness in communicating in the local language is an essential pre-requisite. Agents should not only understand the product design but also give suggestions to insurer based on field experience.

Achieving Scale & Sustainability in Micro Insurance

Minimization of operational costs is vital to ensure sustainability of micro insurance. Costs associated with insurance are related to those incurred for verification of claims, managing large volumes of data and huge number of transactions. In case of micro insurance, maintaining a good ratio of operating costs to premium payments becomes a challenge.

How quickly an insurer can scale, how low can margins go and how clearly the offering can be communicated to the marginalized sections of society – these will drive the success of micro insurance efforts.

Creation of self-help groups, raising community awareness about the benefits of micro insurance, use of posters and music/dance to propagate the message are time-tested ways of engaging the low income population about micro insurance. To meet the costs of such events, sponsors can be invited. At the end of the day, one should never forget that micro insurance has to be sustainable.

Observations

Micro insurance is a social safety net for low income households. Micro insurance is an exceptional example of a dual value proposition – a product that is as responsible as it is profitable. There is a need for paradigm shift – thinking has to change from "how to distribute micro insurance to the poor" to "how to help low income communities manage their own risks". How can communities make informed decisions to adopt micro insurance

solutions and improve local risk management?
Consumer education cannot always guarantee increased demand for micro insurance products like health cover. Demand is driven by personal characteristics of community, understanding of insurance, trust, ability to pay, availability of alternative risk coping mechanisms. Overcoming behavioral constraints can help in renewals of policies.

Single risk covers may be less appealing but composite products will need to be carefully thought out and planned. Achieving scale is difficult and explaining product features to clients is also a challenge. Free insurance cover can be provided initially to promote a savings mind set. Consumer education is essential for bundling schemes.

Avoiding lengthy paper work processes and preliminary health checks are important for health insurance. Subscription via text message leads to enrollment and periodic insurance premiums are set up for automatic deductions. Timely payouts (claims paid within three business days) can help low income families. Linking micro insurance with taking care of school fees can promote education in rural areas.

Insurers can learn from the popular bottom of pyramid model as well as the successful Grameen Bank model of Bangladesh. Doing market research using management students can provide rare insights about the needs of low income communities. Locally recruited and trained young graduates can work well as agents. Customers should understand the products sold to them. Plans have to contain simple descriptions and licensing requirements for micro insurance must be less stringent.

Micro insurance covers bundled with saving options are one among the many new product ideas that are being suggested in this effort. Marketing of micro insurance has to be evangelistic to promote customer advocacy and therefore it is essential that product innovations are clearly understood by self -help groups and those who need them. Micro insurance needs a unique approach across all fronts throughout the customer touch points and this is what will make it sustainable in the long run. The lessons learnt from experience underwriting micro insurance can help insurers implement them in traditional insurance covers. Last but not the least, insurers must not limit themselves to offering covers for protection of risks – they must go beyond offering their unstinted support for community development activities.

Designing innovative products is only part of the story; innovative distribution and a simple claims procedure is what it takes to grow the micro insurance portfolio. If we make the poor run from pillar to post to make claims then micro insurance cannot stake claim to be a cover for the marginalized.

Low-income households may not understand what risk protection is all about. They may feel that unless the insured event happens, the money that they spend for premium may be a waste. A term life product that gives cash benefit on survival of the policy term becomes attractive.

With increase in life expectancy across the globe, endowment products are becoming popular and relevant. These products pay a lump sum upon maturity or death. Earlier standard endowment products had become unpopular as they failed to deliver value in comparison to other saving options. Agents were paid high commissions. New products that combine savings and insurance are becoming popular. Linking micro insurance covers with annuity/pensions can fuel interest. The low income households can be assured of survival benefit in the form of micro annuities.

Often there is a complaint that insurance products are generic with a high premium. Generic product gives broadest coverage but confuses customers with a lot of expectations and disclaimers. Micro insurance brings down the cost for consumers by putting in innovative constraints on 'coverage', 'time' or usage.

For e.g. a customer might be interested in looking at a personal accident cover before she goes on a long weekend drive. Once the event is completed, her perception of risk drops significantly and so does the perceived need. This concept can be extended to micro insurance by giving on-demand covers.

As C K Prahlad mentioned in his research effort, the poor people also deserve respect as "customers". Micro insurance is not a charitable effort – it should not be misconstrued as one. Inclusiveness is all about appreciating dignity of the marginalized and underprivileged section of society. May be it is time for changing definition of micro insurance and stop using the word "poor" in the definition?

Suggestions & Recommendations

1. Micro insurance must be viewed from a different lens compared to conventional insurance methods. For example – insurers should think of providing annual life insurance covers at nominal premium.
2. The conventional agency model needs replacement with an innovative mechanism where the agent (mostly from the community itself) is trained and manages customer relationships, premium collection and claims payment.
3. Product innovation in micro insurance cannot be seen in isolation from innovations in distribution; an innovative product that is not accessible to customers makes little sense. All the 7Ps of services marketing are relevant for micro insurance – Product, Price, Promotions, Place, Physical Evidence, People and Processes.
4. Promotions must be evangelistic – with the intention of turning customers into advocates for products sold. Trust and credibility play a vital role in micro insurance and only community involvement can drive this.
5. Micro insurance products must be well-integrated with other savings products. Claim rejections must be minimized; benefits of volumes and scaling up of the model must be adequately leveraged.
6. The cover should be designed in such a way that part of premium can be given as cash back offer if there is no claim for 6 months.
7. Developing appropriate institutional arrangements that are viable and encourage a savings mindset is essential. For example – in case of no claims after a particular period, part of the amount can be diverted to a national savings certificate or a kisan vikas patra. The administration of this process must be carefully executed to make it as simple as possible.
8. Innovative distribution channels like retailers, mom and pop shops, schools, temples and churches must be used to distribute micro insurance.
9. Premium amounts for micro insurance need to be arrived at after understanding the income patterns of the insured.
10. Innovation must aim to deliver micro insurance products that are affordable as well as relevant. Information transmission must be made easy and simple.
11. Micro insurance can be provided on wheels
12. Incentives and promotions are essential to make micro insurance popular among the low income households
13. Use of digital marketing methods via app and localization of content can aid penetration of the market
14. Strategic tie up between insurers, mobile phone manufacturers and telecom services.
15. Exclude laborious form filling exercises
16. E-certificate confirming cover
17. Increase micro insurance density
18. New product variants
19. Partnership with local communities
20. New channels/ platforms
21. More payment gateways
22. Micro insurance can also be projected as a disaster risk management tool

Conclusion

Micro insurance products are hyper targeted offerings that meet precise needs of the customer taking into account the realities staring at poor people and the latter's limited purchasing power.
Micro insurance is a strong developmental tool for nations to encourage inclusive economic growth and socio-economic development. Innovation has to be considered across the total product cycle – product development, sales, and collection of premiums, servicing and processing of claims.

Innovation is not possible without understanding the environment in which one is working. Absorption of experience-based and context specific knowledge should drive product innovations in micro insurance. The policy makers, regulators, insurers and brokers need to interact meaningfully to understand how micro insurance can be made sustainable.

A Swiss Report highlights the fact that insurance is highly underestimated in emerging markets. The power of insurance to facilitate economic growth and provide economic stability has not been properly exploited. Public-private participation may be needed to enhance the prospects of micro insurance.

In the long run, customer life cycles can be managed through insurance offerings by linking products to needs that arise during life of a customer paired with branchless banking. The right product design and right pricing are essential to make offers meaningful to customers.

Micro insurance should not be treated as a scaled down version of regular insurance. The product and processes must be reengineered to meet the preferences of the low income market. When it comes to micro insurance, innovation is more than a response to customer demand for more convenient ways to interact – it is an operational imperative. Geographic isolation of rural communities, lack of infrastructure and illiteracy should drive insurers to develop new tools and combine them in novel ways with existing systems and devices. Financial inclusion must include micro insurance as an integral component.

Micro insurance has been developed as a derivative sector. In Uganda, Kenya and African countries insurance companies have started offering micro insurance products while in Bangladesh, NGOs and micro finance institutions are offering such products. In India, micro insurance has been driven more by regulation than real interest of insurers in promoting the welfare of the marginalized and underprivileged sections of society. This situation needs to change. A half-hearted approach can seldom lead to a sustainable business model. The Indian micro insurance market is characterized by absence of innovative products despite the fact that innovative distribution channels are being explored by a few insurers.

What is needed is a low cost, highly scalable model where self-help groups drive the growth of micro insurance. Mobile vans with digital displays showing videos must be used to engage the marginalized communities.
Policies need to be issued in 24 hours; claims must be easy to process and administer. Digital pens can be used by agents to convert handwritten notes to formal policy application; pen data can be transferred to company website through blue tooth or send to insurance officers through WhatsApp.

Smart cards can be given to insured to avail of subsidies in primary health care centers. Small retailers can sell scratch cards; customers buy scratch cards by paying premium; the concealed code can then be texted or sent as an image to the insurance company. Micro insurance products need to be bundled with niche products like loan protection. In case of death of the insured, loan can be waived off.

Businesses often focus on sales and collection of premiums but when it comes to claims, all efforts are made to reduce the claims ratio. This is a vicious cycle. Such an approach can be inimical to micro insurance because if insurance cannot help the socially underprivileged when they need help the most, this will lead to trust deficit.

Agents have often garnered a bad reputation due to their "sell and disappear" approach. So, building trust is important. In health insurance, tele medicine can help people in remote communities who can access quality health care through village health centres/ dispensaries. Weather-based index insurance can make payout claims based on the amount of rainfall. This kind of cover does not need an elaborate claims verification process.

Positive claims experience of insured will build confidence in others that they can rely on micro insurance to protect incomes and deal with risks. Cheap term insurance covers can be provided as part of micro insurance. This can be bundled with property insurance or livestock insurance.

Regular dialog with community members to understand the challenges faced by them is essential. These insights must drive further innovative product designs. Experiences must be shared with regulator and also on a common platform so that others can learn from the experience of one insurers. Competitive mindset must be replaced with a collaborative cum co-operative mindset among insurers who choose to underwrite micro insurance.

Micro insurance is a revolutionary new safety net system for the world's poor. Micro insurance involves pooling money among the poor to cover catastrophic expenditures associated with illness. Micro insurance has emerged out of the shadows of micro finance. The number of distribution channels has increased.

Insurance can also be a spring board. The cover can protect against losses of household income and help in preventive care. Insurers can create greater awareness about preventive health care. Micro insurance can be bundled along with loans.

Innovations at all stages for products, in pricing policy and in delivery channels are essential. The marketing of micro insurance must understand social and cultural needs of target population. Post offices can be used as distribution channels. Rural knowledge centers can be set up by government and this can also generate employment for the local population.

In some nations, payments via block chain technology and mobile platforms have increased the outreach of health and life insurance policies. On-line platforms make insurance administration an easier affair. Peer-to-peer insurance models are gradually making in-roads in UK, Germany, China and New Zealand. These models are based on a risk sharing network where a group of associated or like-minded individuals pool their premiums together to insure against a risk. These models simplify the insurance process, reduce costs and enhance efficiency to increase customer satisfaction. Mutual insurance companies or self help groups have a similar business model. Premiums are paid into a claims pool. Unclaimed money is donated for charitable causes.

Digitalization of insurance offers, block chain systems and peer-to-peer approaches can lead to massive reduction in costs and these innovations can also be extended to micro insurance. Peer-to-peer approaches are based on mutual trust and co-operation. The innovative covers must be so designed that behavior of insured to protect against the risk due to voluntary efforts must be rewarded suitably.

The whole micro insurance space is characterized by diversity. So, a unilateral approach may not always work. Insurers can learn from each other's innovations. The Indian Government can facilitate setting up of mobile clinics in rural areas. On a pilot basis, a model village can be created so that other rural areas can emulate the same.

The state must take efforts to build a community of financial wellness facilitators. The community must be mobilized to take part in the financial literacy program.

Micro insurance is a tool to fight social exclusion. It is social protection coverage outside the formal economy. While some experts say that there is a need for a market driven approach to provide services to low income households, the opinions are mixed. IAIS feels that there is a need to move away from market based approach. There are limits to extending the Bottom of Pyramid business model. Overselling is not going to help. Empathy-based selling is what is needed. Micro insurance is only one of the tools for risk protection.

Utility companies, cell phone manufacturers, micro finance institutions, retailers and consumer co-operatives can be used for distribution of micro insurance products. The success of "Amul" in India and "Grameen Bank" in Bangladesh is ample proof that community involvement and engagement plays a crucial role in success of rural developmental efforts. It is time that micro insurance is also popularized through a similar route. Credit linked micro insurance can be attempted and rural women can be roped in as partners.

Regulation must encourage public-private participation to underwrite micro insurance on a profit-sharing basis. Private insurers can design new micro insurance products that can be sold through distribution channels of public insurers. Micro insurance must be affordable, reliable, and accessible and trust worthy.

Claims payment is the moment of truth for micro insurance, so design of new products must bear this in mind. Across the globe, a consortium of insurers underwrites micro insurance with an aim to broaden the scope and deepen the reach of micro insurance. Gandhian innovation focuses on decentralization, accessibility, sustainability and affordability of new products and services. Here the main thrust is not on wealth but on people.

Brazil, India, Mexico, Peru, Philippines and Taiwan have implemented regulation for micro insurance. Uganda, Kenya, Nigeria, Pakistan and South Africa are contemplating legislation.

It is clear from all the arguments presented above that product innovations in micro insurance when complemented with innovative distribution mechanisms can lead to marginal profits for insurers. These innovations when scaled up can lead to a boost in profits. These innovations can be attempted for traditional insurance products as well. This will lead to a win-win situation wherein both low income population as well as insurers will benefit. Balancing social needs with commercial needs is a delicate act but if managed well, it can reap rich dividends.

Micro insurance is a low price – high volume business; its success depends on keeping the transaction costs down. The truth is that the future of insurance in emerging markets is closely linked to the future of micro insurance. Product innovations in micro insurance will act as a catalyst to expedite this development.

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