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Microinsurance through corporate-NGO partnerships in West Bengal: opportunities and constraints

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Abstract: This note examines the nascent microinsurance sector in West Bengal with particular attention to the corporate-NGO partnership model for microinsurance distribution, which has been enabled by India's unique regulatory framework. We challenge the popular construction of this model as a win-win for all parties involved by highlighting conflicting understandings of microinsurance schemes and their purposes by actors such as insurance companies, NGOs and poor villagers. The paper also considers the role of the specific political context of West Bengal in constricting corporate-NGO microinsurance.

Introduction

Microinsurance (MI) refers to insurance products designed for and marketed to the poor to protect them "against specific perils in exchange for regular premium payments" (Churchill 2006: 12). The first microinsurance schemes were initiated in the late 1990s when microfinance institutions (MFIs) diversified beyond microcredit schemes for small entrepreneurs (as exemplified by the archetypal *Grameen* Bank) and their less narrowly targeted savings schemes. Founded on the market-based principles of the microcredit movement, microinsurance extends social security and insurance products to groups that desperately need but have historically been bypassed by these services. Microinsurance undertaken by MFIs implies the expansion of microfinance from economic growth and employment generation to risk management as well (Churchill 2002).

From a development perspective, providing insurance to the poor is logical. These groups are most vulnerable to livelihood shocks, such as droughts, floods, hyperinflation, job loss and familial illness or death, as they lack sufficient savings, assets and social or kin networks to buffer against such events (Mosely 2003). Women's vulnerabilities are further pronounced due to risks related to maternity, domestic violence, widowhood and their generally weaker social and economic position in society (Ahmed and Ramm 2006). Common coping strategies, such as emergency loans from informal moneylenders and MFIs "misallocated" for urgent expenditures, bear high interest rates and can lead to cumulative indebtedness. The lack of financial recourse during calamities can also lead to consequences such as familial breakdown (due to migration, etc.) and the discontinuation of education due to forced entry of children into the workforce affecting women and girls

disproportionally. In light of these factors, mitigating livelihood shocks and losses through predictable regular payments of small insurance premiums is theoretically attractive (Mosely 2003).

However, previous state-provided insurance schemes targeting the poor have often failed both from client (inefficiency of payouts) and provider (administrative and monitoring costs hampering financial viability) perspectives. Given the small portfolio of conventional MI providers such as MFIs and NGOs, Mosely (2003) argues for (initial) subsidisation to render MI schemes economically viable. MI regulation is also deemed useful in protecting the poorest groups (MI clients) from exploitation in an uncontrolled environment (Mosely 2003).

India is among the first countries to support and introduce regulations in the MI sector. In India, MI schemes (like any other insurance) require adequate base-capital. Simultaneously, private and public insurance companies are obliged to serve set quotas of low-income customers. Also, NGOs can become MI agents in partnership with insurance corporations (see below). Such partnerships, the focus of this note, have been depicted in the (uncritical) microfinance literature as win-win propositions: MI offers corporations an opportunity to penetrate large untapped markets while advancing their corporate social responsibility, and NGOs are provided the opportunity to decrease reliance on donor support and adopt a business model injecting self-sustenance into their projects (Yunus, 2003).

This note aims to challenge these notions by illuminating constraints and hesitancies of various actors and stakeholders in supporting or engaging with MI and corporate-NGO

partnerships. Our “actor-oriented approach” (Long and Long 1992) describes MI-related discourses and actions of insurance companies, NGOs and poor communities in the concrete context of rural Malda district, West Bengal. Our findings are based on qualitative field research conducted during four months in late 2007. The research methods employed were villager and focus group interviews, interviews and participatory observation with local NGOs and interviews with local and state-level representatives of insurance companies. Evidently, the identified constraints and hesitancies regarding corporate-NGO partnerships in West Bengal are not universal or insurmountable, but they point to potential obstacles for this model of MI distribution. The next section will provide a brief overview of MI and the MI regulatory framework in India, before we launch into the findings of our particular research.

Microinsurance in India

A roughly estimated 14 million individuals (or 12% of households living on less than US$ 2 per day) have MI coverage in India (Sinha and Sagar 2009). In 2005, 60 operational and planned NGO-led MI schemes were identified in India (ILO 2005) with the number of schemes likely doubled at present. Insurance companies, both private and public, offer MI schemes, some in partnership with local NGOs, MFIs and CBOs. Currently, insurance companies account for 80% of the MI market in India (Sinha and Sagar 2009).

Thus although MI is comparatively evolved in India, particularly in southern states with strong MFI presence, there is still tremendous scope for growth. Presently, insurance coverage in India is limited to single perils. The most popular MI products are life and

health insurance, followed by protection against disability and asset and livestock loss. Insurance services for accidental death, accident-related expenses, loan default, houses, etc. are relatively rare (ILO 2005). An exception of a complex MI product is weather-indexed crop insurance – the first of its kind in the developing world – offered by BASIX, a Hyderabad-based MFI (Manuamorn 2007). Similarly, in India, few MI products are gender-specific or channelled through women; yet SEWA, a nation-wide union of self-employed women, offers maternity benefits and widowhood insurance to their members (Ahmed and Ramm 2006; Vimo Sewa 2009).

One reason for the abundant MI presence in India is extensive central government support via a regulatory framework. After nationalization of insurance in 1956 and 1972, the monopolies of the Life Insurance Company (LIC) and four General Insurance Company (GIC) subsidiaries were broken only by deregulation in 1999. The Insurance Regulatory and Development Authority (IRDA) was created in 2000 and large private corporations, mostly with foreign partners, re-entered India's insurance market. In 2002, regulation was introduced (by 2008 in its fourth amendment) that prescribed phased-in minimum quotas for both public and private insurance companies, obliging them into business with the "rural sector" and the "social sector" (defined as the informal workforce, economically vulnerable and backward classes). After ten years of operations, private companies must have 20% of life insurance and 7% of general insurance policyholders in rural areas, and 55,000 policies catering to the social sector (IRDA 2009). The quotas for public companies are slightly higher. The legislation intended wide geographic coverage by new private insurers, and most importantly, acquaintance of these companies with MI and the value of low-income markets. While a few private insurers now exceed their all-India quotas via

innovative and need/state-specific MI schemes, the majority of other companies have done little beyond satisfying minimum targets. The majority of these latter providers continue to sell poorly designed products to the upper, non-poor strata of the rural and social sectors (Wiedmaier-Pfister and Chatterjee 2006).

In 2005, the IRDA introduced specific microinsurance regulation. IRDA defines MI schemes for individuals, families and groups by specified coverage amounts and the requirement that policies are written in the vernacular. The policy specifically links MI to the rural and social sector obligations of insurance companies. The MI regulation created the institutional "MI agent" responsible for mediating between insurance companies and the (rural) poor. MI agents are NGOs, MFIs or SHGs that enter into agreements with a particular insurance company to distribute insurance policies to rural populations. The MI agent designates personnel to undergo basic training (monitored by the IRDA and paid for by the insurance company) and carry out the task of MI dissemination. Commissions to institutional MI agents are capped relatively high at 10-20% of the premium depending on the product (IRDA 2009).

The IRDA MI regulation aims to capacitate private insurance companies, lacking in non-city branches (unlike LIC and GIC subsidiaries), to meet and exceed their rural and social sector obligations cost-effectively (Wiedmaier-Pfister and Chatterjee 2006). It is assumed that insurer-NGO partnerships will reduce MI transaction and monitoring costs as NGOs are embedded in village communities. Another goal of the regulation is to minimise risks to policyholders by standardising the practices of microinsurers whose policies are insufficiently capital-backed and therefore financially unstable. Indeed, the current

regulation prescribes that in order to conduct business in India, insurance providers possess minimum capital of Rs. 1bn (US$ 21m). As these high capital requirements prevent MFIs from becoming formal insurers, the spread of MI is limited to the corporate-NGO "partner-agent model" (Wiedmaier-Pfister and Chatterjee 2006).

Sinha and Sagar (2009) guesstimate that at present only 1/6th of MI follow this partnership model while 2/3rd are distributed through insurers and their direct individual agents. The remaining 1/6th are typically small informal schemes that escape the attention of the IRDA. (An exception among informal insurance is the large and successful Yeshasvini Co-operative Farmers Health Scheme with over 3m members (Yeshasvini 2009). This scheme functions in partnership with co-operative societies, the state government of Karnataka and a licensed private implementing agency, but without the financial backing of an insurance company.)

Microinsurance partnerships in West Bengal

Although an inventory lists six community-based MI schemes in West Bengal (ILO 2005), our original research intended to study large MI partnerships between insurance companies and civil society organisations. At this planning phase, secondary information from newspaper and online sources suggested operational MI partnerships in West Bengal (and elsewhere in India). However, after failing to identify MI partnerships during preliminary field visits to two districts of southern West Bengal, we turned our attention to Kolkata, the state capital, and regional headquarters of private and public insurance companies.

Insurance company views

Visits to the Kolkata offices of insurance companies were, however, disappointing. The approached public and private companies were either uninvolved or in nascent stages of MI partnerships with third sector organisations. Moreover, the companies fulfilled their rural and social sector quotas through conventional rather than new innovative MI products. Interviews with company representatives revealed their awareness of the partner-agent MI model promoted by the central government. However, the embryonic nature of the model – along with the little understood human and resource requirements, risks and benefits of MI – deterred firms from undertaking variegated partnerships with NGOs. "Insurance requires door-to-door salesmanship. Microinsurance is not a priority for us as there is less return for our time commitment. Plus only the NGOs can approach the poor and it is hard to convince them [the NGOs] to get into insurance," commented the microinsurance manager [sic] of a large insurance company.

Visits to insurance company offices in Malda Town, the headquarters of Malda district in northern West Bengal, confirmed the paucity of MI partnerships. We could identify only one nascent MI scheme in our research radius. One public insurer was offering accident, disability, agricultural asset and livestock insurance, and special policies for women and girls at low premiums. The company presented us a list of their 27 NGO partners, three of which were in far-flung corners of Malda district. The insurer was however unable to provide concrete data on client numbers, for instance, indicating that the schemes were new and more on paper than in actuality. A senior branch manager, however, expressed

optimism that the MI schemes were sure to pick up in Malda and West Bengal with sufficient time and awareness: “[Our company’s] aim is to provide insurance to the common man [sic].” He continued that it was India’s insurance sector liberalisation that prompted his public-sector company to foray into microinsurance. “It [microinsurance] is the perfect mixture of social obligation and business twist,” he added, echoing the uncritical MI literature.

Curiously, the zeal – if not desperation – of the insurance manager to expand microinsurance into the rural market was evidenced in his eagerness to tap into our networks. For example, upon learning of our affiliations with a local NGO, the manager insisted that we recruit them as MI agents. He appeared similarly impressed by our research work and expansive village connections, to the point of brazenly trying to enlist our local female research assistant as an insurance agent with promises of glamour, work experience and modernity. “You will be able to work with so many different groups and interact with so many foreign donors!” he offered as enticement.

NGO views

We visited one of the three NGOs in Malda district partnering with the above-mentioned insurance company. This partner NGO is a small grassroots organisation devoted to improving education, livelihood skills and quality of life of rural women and disabled villagers. They were persuaded into the MI-agent role by a newspaper advertisement about MI for women and girl children posted by the insurance company. The miniscule annual premiums of Rs. 15 (US$ 0.32) for women’s insurance for violence-caused disability and

death of breadwinner, and girls' insurance for the accidental death of parents, that result in indemnities as high as Rs. 25,000 (US$ 525), were particularly attractive. The NGO applied and qualified as an MI agent with the insurance firm. However, after just two months, they ceased work as an active MI agent. Firstly, the insurance product was a hard sell to villagers due to the short five-year term (life insurances, in comparison, have 25-year terms and thus more certain payouts). Secondly, the commission of 15%, though significantly higher than for non-MI products, was very low in absolute terms due to the cheap premiums amounting to no more than Rs. 2.25 (USD 0.05) per policy. "This does not even cover our basic commuting, never mind marketing expenses," remarked an NGO staff member who claimed that the insurance company had not corresponded with them since they ceased MI-agent work. In this case, an inadequate product and insufficient support for the MI agent from the insurer accounted for the failure of a potential business-NGO partnership.

We also interviewed the director of an innovative NGO working on diverse issues such as community health, disaster preparedness and children rights. This NGO was offered the role of an MI agent by a representative of a nationalized rural bank already working (as mandated by NABARD, India's national development bank) as an MI agent for the above-mentioned public-sector insurer. However, the NGO declined the offered role. Although aware of the rising international importance of MI and convinced of fundamental benefits to vulnerable populations, they found the public insurance company's specific approach to MI inappropriate. "I just did not like their 'give us x number of clients in 1.5 weeks' approach. They are just promoting pure capitalist interests without even considering our work and needs. [This approach] is just not in sync with the grassroots ethic of our people-minded organisation," said the NGO director. (It must be noted that the quantitative-targets

approach is also characteristic of conventional government development schemes.) "You see, we have worked hard to establish goodwill with the people [here], if we wanted we could have easily marketed [this] microinsurance, but if for some reason the programs were detrimental, it would harm both our reputation and work," he added as another important reason for not entering into partnership as an MI agent prior to the concrete establishment of the partner-agent model as an effective development intervention in rural Malda and West Bengal.

Villager views

Our research confirms findings from other studies (see Churchill 2002, Collins *et al.* 2009) that there is little actualised demand among the rural poor for MI due to low levels of understanding and negative past experiences. Villagers admitted that though they had heard of the above-mentioned MI program, they did not purchase policies, as they were unable to understand the benefits. This has been echoed by one of our NGO interviewees: "Poor villagers just don't understand or want microinsurance policies even if they are mediated by a known and trusted NGO like us... Villagers think insurance is like savings and get upset when they cannot withdraw their money at will." The lack of comprehension is exacerbated by the fact that insurance, unlike savings and credit associations, is rarely an institutional arrangement found in traditional agrarian societies. Rather, traditional risk pooling normally takes the form of *balanced reciprocity* where some return can be expected at some point in time and not *mutual insurance* where only the unlucky are compensated (Platteau 1997). Governmental agricultural loans or credit schemes by MFIs often include

linked insurance against loan defaults. Our research in Malda has shown that loan takers tend to be unaware of this mandatory insurance component of their loans, consequently hampering understanding of insurance among the rural poor. We also heard of incidences where people lost money in chit funds that promised insurance-like benefits. One villager recalled that a chit broker absconded with villagers' money, leaving him and many others wary of insurance agents and insurance schemes.

Political environment

The contacted NGOs, in particular, were sceptical about the prospects for the corporate-NGO MI partnership model in West Bengal. Uniformly, they agreed that the state government, led by the Communist Party of India (Marxist) for over 30 years, would not champion such partnerships but rather restrict the growth and potential of the private and NGO sectors. The "party" would be reluctant to hand over more responsibilities to the NGO sector due to their desire to remain "the face of development", summarised an NGO representative. Indeed, the left government of West Bengal has carried out land reforms and political decentralization and thus can be seen as a vanguard of development. In the field of social insurance too, the West Bengal Government has been a leader within India, although more as an initiator of state-led initiatives than as a facilitator of business-NGO partnerships. For example, in 2001, the state government started a seemingly successful voluntary provident fund for (non-agricultural) informal workers and self-employed persons that would match workers' monthly contributions. West Bengal's strong political organisations including left political parties and affiliated trade unions (rather than civil

society groups) facilitated the rapid spread of the scheme through awareness campaigns and mobilisation (O'Keefe and Palacios 2008). An unorganized workers' welfare act providing selected casual workers health and accident insurance, as well as a maternity benefits and pension schemes, was also passed in West Bengal a year earlier than similar policy was enacted at the national level. Although it was beyond the scope of this research to assess the state government's priorities in the low-income insurance sector, West Bengal's state-run insurance initiatives suggest that there is little appetite for MI and corporate-NGO partnerships.

Concluding remarks

Our findings challenge the uncritical assumption that promotion and distribution of MI through corporate-NGO partnerships embody an easy win-win for all parties involved. Delivering MI remains "costly" for both insurance companies and NGOs in terms of high administration expenses. For NGOs, there is also the additional risk of jeopardised trust relations with constituents. Furthermore, understandings of MI vary between the various actors: public and private insurance companies are concerned with quantitative targets and quotas (set by insurance regulations); NGOs aiming to reduce vulnerability among the poor are unconvinced of personal insurance as a more effective guard against impacts of (environmental) hazards than direct investment in human capital or community-based disaster preparedness; and the poor as potential MI clients have difficulty comprehending insurance and the concept of paying for something that is unlikely to yield returns.

This research also underscores the influence of the political environment, apart from the regulatory framework, on the growth and success of MI provision through corporate-NGO partnerships. While the aim of this case study was to point at potential constraints of the nascent corporate-NGO partnership model, more extensive comparative research needs to be conducted on various forms of MI provision and on government social insurance in order to determine their relative effectiveness in reducing vulnerability among poor men and women.

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