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Insurance as a Tool for Financial and Social Inclusion

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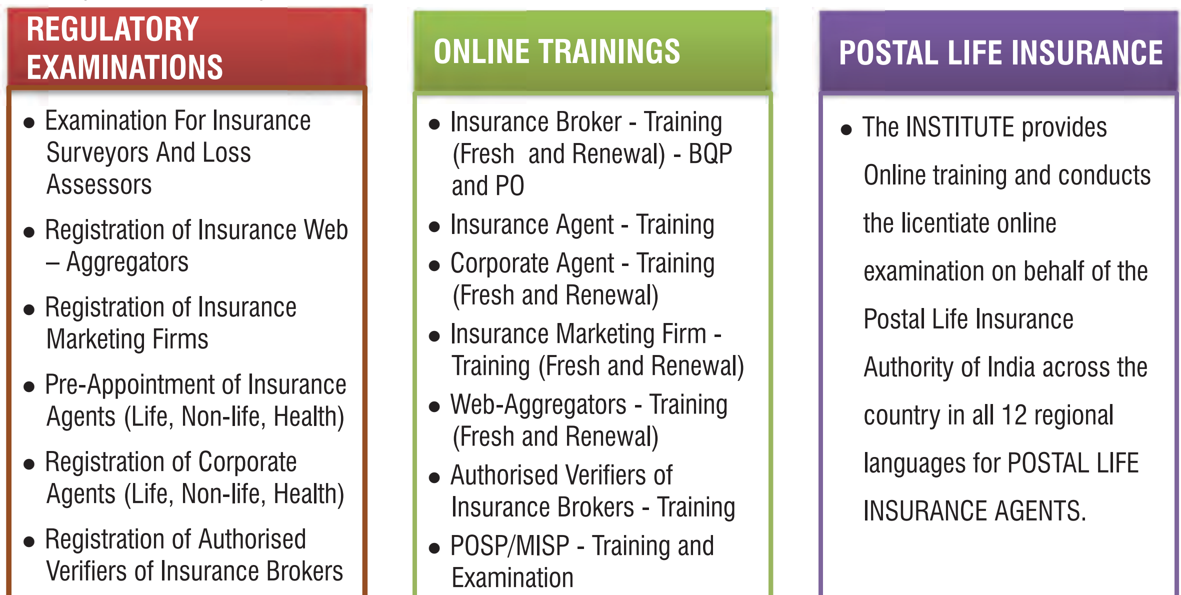

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EDITORIAL

It has been a period for the insurance industry where a lot of activities have happened, along with belied expectations. The IRDAI has come up with many instructions and regulations which favour policy holders. Medical insurance has received a lot of attention from the regulator. Motor insurance has also got an impetus from the regulator. Instructions with regard to surrender values have been given for life insurance policies. These are but just a few.

There were expectations in many quarters that the budget would carry certain developments with respect to insurance. Except for some small changes in TDS, the budget did not take up items in insurance.

One major issue which the industry has been asking for is the removal of GST on insurance policies. At 18% it is on the higher side and the industry has been saying that removal of this would improve penetration of insurance. This did not happen. There was no mention of removal of GST in the budget. Post the presentation of the bill there was a lot of protest and the government has stated that this matter would be referred to the GST Council which is the appropriate authority for deciding on it. Speculation is that, the GST would not be withdrawn but could be reduced for medical insurance policies to 5% from the existing 18%. Could there be changes in GST for life insurance policies also is something to be watched for.

There have also been expectations regarding other issues, some of which, require amendments to the Insurance Act. The proposal to have a single composite license for both life and on life Insurance, sale of other financial products by insurance companies, reduction in solvency ratio, lowering the capital requirement for certain types of companies, are some of the areas where movement was expected. Further, with regard to FDI, there have been calls from foreign insurers for hundred percent FDI. There was no mention about the same also.

While all this was happening, came news of the Microsoft/ Crowdstrike event. It was soon clarified that it is not a cyber attack. Yet, damage it caused. There is speculation on whether business interruption claims would lie and if so, what would be the extent of loss hitting the industry. While business interruptions linked to other perils is not new, losses arising out of such events will open up areas hitherto untested.

The theme for this issue is insurance as a tool for financial and social inclusion. Many well thought out and researched articles have been included. Each of these articles should enrich our knowledge and thought processes. Wish you all a very happy reading.

Editorial Team

Empowering Economic Resilience: The Role of Inclusive Insurance in Bridging Financial Gaps to Enhanced Financial Inclusion

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Abstract

This study examines into the profound effects of financial inclusion on India's insurance sector, which is a vital component of societal financial services access. It emphasizes the catalytic role of financial inclusion in expanding the industry's reach and creativity, which has a substantial impact on insurance penetration rates, product development, and technology integration. Thus, policymakers believe that financial inclusion will remain incomplete unless insurance inclusion programs are also pushed to increase penetration. The synthesis offered seeks to provide a thorough understanding of financial inclusion's role in transforming the Indian insurance business. By combining findings gathered from various research and papers, the study provides a comprehensive picture of the links between financial inclusion policies and insurance sector achievements in India. The current study covers the importance of microinsurance in promoting financial inclusion in India's rural and urban populations as well as the transformative impact of digital solutions, and the results of government and corporate attempts to integrate marginalized communities into the insurance environment The study is based on secondary data, and this paper examines insurance inclusion as a tool for financial inclusion in India.

Keywords

Financial Inclusion, Insurance, Microinsurance, Social Inclusion.

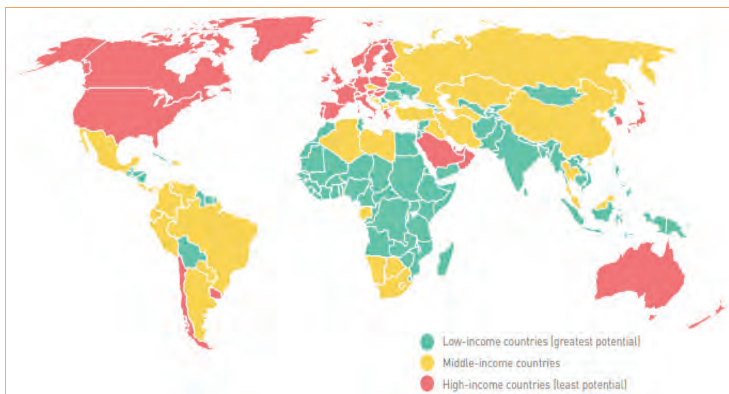
Introduction

Insurance is crucial in today's world because risks have grown in all aspects of life, leading to a booming insurance industry with many types of coverage. Insurance not only helps people manage risks but also encourages saving and investment, playing a big role in a country's economic growth. Likewise, as a country develops economically, it helps the insurance sector to grow further. **(Shekar, 2017)** The insurance industry in India has undergone substantial changes since its deregulation. There

have been big changes in what they offer to customers, both in terms of products and services. Making sure that people, especially the poor and vulnerable, can easily access safe and affordable credit, as well as other financial services like having a bank account, saving money, and getting insurance, is seen as really important for making the economy grow faster and for reducing the gap between rich and poor. **(Mukesh et al., 2024**) A financial sector that includes everyone offers loans to those who can repay them, insurance to those who need it in cities and countryside, and basic banking services like savings and payments to everyone. **(Demirgüç Kunt, & Hess., 2018)** Providing affordable banking services and credit to disadvantaged and low-income groups is really important in India. Financial inclusion means not just having a bank account, but also access to things like insurance and postal services. Making sure everyone, especially those in rural and socially disadvantaged areas, can access these services is crucial for long-term sustainability **(Ozili, 2023).**

Financial inclusion is a crucial part of a country's development plans, as it promotes fair and lasting economic growth. It means making sure that everyone, especially those who are often left out or don't have much money, can easily access important financial services without paying too much for them. These groups are at high risk from various life and livelihood-related challenges, so offering them insurance is key for providing sustainable protection **(Sharma & Singh.,2019).** Regulations and obligations from authorities like IRDA are helping to promote financial inclusion and social protection, but there's still work to be done. We need more innovative insurance products and better ways to reach the large number of people who need them. there's a big challenge in educating people about insurance. Micro insurance is seen as a good fit for reaching these targeted groups as part of financial inclusive Insurance**. Swain et al.,(2020).**

Chart 1: Financial inclusion development potential based on Income level



Source: MAPFRE Economics with data from the World Bank

Concept of Financial Inclusion and Social Inclusion

Financial inclusion, as a result, has become a global concern, with relevant countries providing basic banking services such as savings, loans, insurance, and remittance facilities. Building an inclusive financial sector has yielded benefits that are gaining worldwide attention, bringing to the forefront the financial demands for growth through effective tactics that touch all lives in society rather than just a select few. **(Nandi et al., 2017).** There is a need to promote institutions by introducing new financial instruments, developing healthy partnerships, and establishing financing arrangements that are properly suited to provide quality, fundamental financial services to the majority of individuals who do not have banking services. Households in these categories face a lot of risks in their lives and work, so offering them insurance is a really important way to protect them in the long run (**Joshi & Ratna.,2021).** Regulations and rules from IRDA, as well as micro insurance, are helping to make sure that people in rural and urban areas who don't have much money are included in financial services and protected socially. Even though there are new rules and many insurance companies in India, we still need to find new and better ways to provide insurance for these groups**. (Kumar & Mohanty.,2020).**

Social inclusion in insurance means ensuring that everyone, including those who are often left out or overlooked, can easily get insurance that fits their needs and doesn't cost too much. This includes people who don't have much money, live in rural

areas, belong to minority groups, or have disabilities or other challenges **(Kumar & Singh., 2021).** To make sure everyone can access insurance, efforts might involve creating insurance plans that suit the needs of different groups, teaching people about insurance through educational programs, making sure insurance is available in places that are hard to reach, and making rules that ensure everyone can get insurance fairly (**Kumar 2019).** The goal of promoting social inclusion in insurance is to help people and communities handle risks better and improve their financial stability and happiness.

Chart 2: Dimensions of Financial inclusion

Source: Rangarajan committee report

Micro Insurance

Mass-market insurance, inclusive insurance, and microinsurance. Microinsurance has recently emerged as an important element in the pursuit of financial inclusion in insurance The term "microinsurance" is used to refer to insurance for low-income populations; this insurance may be included in the broader category of "inclusive insurance"—insurance that targets groups that are generally excluded or underserved by the insurance market.

Micro insurance is an insurance technique that can protect this vulnerable group against the risks of death, accident, illness, material damage and major accidents with appropriate insurance and prices.

Table 1: Number of micro insurance policies issued

Private	Public	Total
1.66387	21,814	1,88,201

Source: IRDA Report 2022-2023

Table 2: Micro Insurance Agents

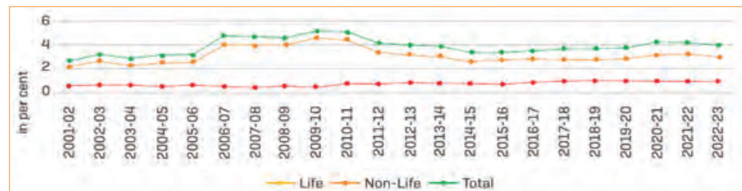
Micro Insurance Agents	Public Sector	Private Sector	Total
NGOs	4759	11	4770
SHGs	260	0	260
MFIs	221	29	250
Business correspondents	103	42	145
Other micro insurance agents	14,094	82.397	96,491
Total	18,437	82,479	1,01,916

Source: IRDA Report 2022-2023

Insurance Penetration and Density

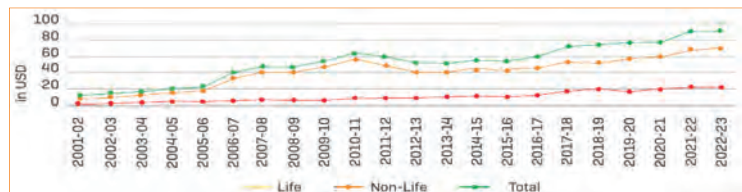
Insurance penetration" refers to the amount of money spent on insurance compared to the economy as a whole, while "insurance coverage" refers to the amount of money spent on insurance per capita. These measurements show us how much insurance has grown in the world. Because Indian financial services would focus on expanding insurance revenues and increasing density In India, financial inclusion measures have dramatically increased insurance penetration, from 3.69% in 2001 to roughly 4.2% by 2023. **(IRDAI, 2023).** The programs have worked well in countryside and towns that are not fully urbanized, where regular insurance was not very common. **(Sharma & Choudhary, 2021).**

Chart 3: Insurance Penetration in India



Source: Swiss Re-sigma world insurance Report

Chart 3.1: Insurance Density in India



Source: Swiss Re-sigma world insurance Report

Product Innovation and Personalization

Financial inclusion has not only increased reach but also changed the product landscape in the Indian insurance business. The development of microinsurance products is a direct result of focused financial inclusion activities. These plans, which have lower premiums and coverage quantities, are specifically created for lower-income groups and marginalized communities, meeting their unique needs and risk profiles. (**Johnson & Brown., 2019).** These unique micro-insurance plans cater to many segments, including health, life, and agricultural industries, providing a safety net against prevalent risk. **(Patel & Rajgor, 2019).** These specialized products encourage an insurance culture among demographics that were previously excluded from the official insurance system, therefore minimizing unique risks and obstacles. For example, the Rashtriya Swasthya Bima Yojana (RSBY) has been essential in providing health insurance to below-the-poverty-line (BPL) families, granting them financial security against health-related expenses. **(Swain & Kalamkar, 2020).**

Technology integration has played a critical role in expanding the reach of financial services, particularly insurance, to previously inaccessible locations. The use of mobile technologies and digital platforms has transformed the delivery of insurance services, making them more accessible and usable. Fintech advances have been critical to this shift, allowing for frictionless transactions, premium payments, and claim processing. InsurTech startUps, which use big data analytics, artificial intelligence, and blockchain technology, have played an important role in this respect. These technology improvements have considerably lowered operational costs, allowing insurance companies to provide policies at lower prices, boosting financial inclusion. **(Tellez, 2020).**

Role of Insurance in Financial Inclusion

Insurance is an effective financial strategy that protects against unanticipated events and risks. It serves as a shield, providing financial security to people and families at difficult times such as accidents, sickness, natural disasters, or the death of a breadwinner. We can build a more resilient and secure society by incorporating insurance into the conversation about financial inclusion.

Here are some ways that insurance promotes financial inclusion:

Risk Mitigation

Health insurance is one of the most significant costs that can put a household into poverty. Health insurance ensures that people can get appropriate medical treatment without worry of financial ruin. By expanding health care coverage to everyone, we create a healthier and more economically secure society.

Crop Insurance

Crop insurance is essential in rural economies like India, where a large section of the population relies on agriculture. It protects farmers from the financial consequences of crop loss owing to causes beyond their control, such as bad weather. This increases agricultural resilience and protects rural livelihoods.

Savings and Investments

Life insurance is more than just paying out a single amount in the case of the policyholder's death; it is also a long-term savings and investing instrument. By marketing life insurance, we encourage people to plan for the future, protect their families, and build wealth over time.

Microinsurance

Microinsurance solutions are designed to protect the economically weak by covering smaller, more precise risks. These products, which are frequently offered in partnership with microfinance organizations, make insurance affordable and accessible to those who have little financial resources.

Entrepreneurial Support

Business interruption insurance: Small and medium-sized firms (SMEs) are the foundation of the Indian economy. Business interruption insurance protects these companies from financial losses caused by unexpected disruptions such as natural disasters or market downturns. By protecting their enterprises, we help to ensure the country's general economic stability.

Measures to Increase Insurance's Integration into the Financial Inclusion Landscape

Government Initiatives: The government can play an important

role in promoting insurance as a tool for financial inclusion by enacting targeted policies and offering incentives to insurance businesses. Tax credits or subsidies, for example, can be provided to encourage low-income individuals to get insurance.

Partnerships and Collaboration: Collaboration between insurance firms, microfinance institutions, and non-governmental organizations (NGOs) can improve outreach and delivery. By pooling their resources and knowledge, these companies can develop bespoke insurance solutions that answer the specific needs of certain demographic groups.

Technology Adoption: Adopting digital technology is critical for broadening the reach of insurance services. Mobile apps, online platforms, and digital payment systems can make acquiring and filing insurance claims easier and more accessible to a wider audience.

Education and Awareness Campaigns: To educate the general people about the benefits of insurance, comprehensive awareness efforts should be implemented. This includes using traditional media, community outreach initiatives, and digital platforms to convey information in a language and manner that appeals to a varied audience.

Product Innovation: Insurance businesses should always innovate to develop products that meet the special demands of various segments of society. This includes producing microinsurance products, customisable policies, and solutions to address the unique difficulties that different communities face.

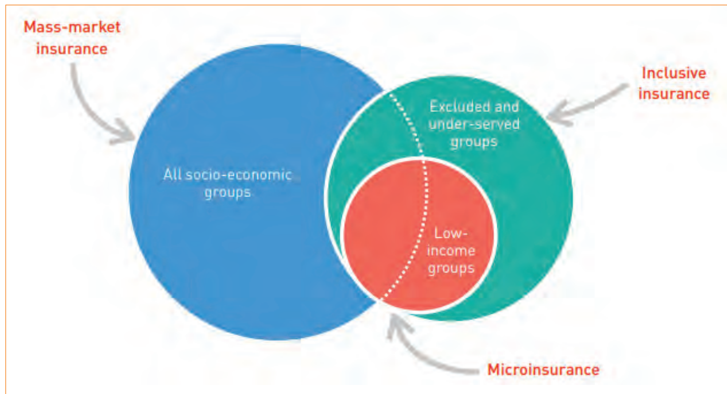
Challenges to Financial Inclusion through Insurance

While the potential benefits of incorporating insurance into the financial inclusion agenda are enormous, numerous problems must be addressed. (**Chen & Wang., 2020).** Many people, particularly those living in rural regions, are unaware of the benefits of insurance products. Financial literacy initiatives are critical in educating the public about the value of insurance and how it may protect their financial well-being. (**Garcia & Martinez.2019).** Despite efforts to offer more cheap insurance products, there is still a sense that insurance is expensive. Tailoring items to the individual demands of diverse parts of the population and making them available at reasonable pricing is critical to breaking down this barrier. **(Garcia & Fernandez.,2021)** Establishing trust in insurance products is difficult, especially in areas where formal financial institutions have long been distrusted. Transparent communication, streamlined policies, and rapid claims settlement processes can all help to improve trust in the insurance industry. **(Jones & Patel.,2019).** Infrastructure issues, especially in rural places, might make it difficult to distribute insurance products. Investing in technology and building creative distribution channels, such as mobile-based solutions, can assist overcome these challenges **(Patel& Rajgor.,2019).** Insurance documents are often hard to understand because they use complicated language. This can be a problem for people who don't read well or aren't fluent in the language the documents are written in. If people can't understand what their insurance covers, they might not want to get insurance at all. The World Bank says it's important to use clear and easy language to help people who struggle with reading understand their insurance options better **(Singh & Chander.,2018).**

Chart 4: Challenges to financial inclusion in insurance

Source: MAPFRE Economics

Chart 5: Taxonomy of mass market and inclusive insurance



Source: MAPFRE Economics

Solutions for Inclusive Insurance

Microinsurance:

Developing microinsurance solutions that are affordable for low-income individuals is vital.

Digitalization:

Using mobile technologies for insurance access and claim settlements can increase efficiency and reach.

Regulatory Reforms:

Governments may promote microinsurance by clarifying policy terms and encouraging providers to increase their reach.

Financial Inclusion Initiatives on The Insurance Sector In India

Financial inclusion programs have had a considerable impact on India's insurance sector, particularly among low-income and vulnerable parts of society. This section goes into several case studies and success stories to demonstrate the transformative potential of these projects.

Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):-

PMJJBY, which was launched in 2015, promises to provide life insurance coverage to marginalized communities for a low annual price of INR 330. The initiative targets people aged 18 to 50 who have a bank account and has made significant progress in increasing life insurance penetration among low-income groups. According to the Insurance Regulatory and Development Authority of India (IRDAI), the scheme had over 100 million subscribers as of March 2020, proving its efficiency in widening insurance coverage among the economically vulnerable sectors. The success of PMJJBY demonstrates the potential for government-led financial inclusion initiatives to increase life insurance acceptance among underserved communities **(Sharma & Singh, 2019).**

Rashtriya Swasthya Bima Yojana (RSBY):-

RSBY, established in 2008, is intended to provide health insurance coverage to below-poverty-line (BPL) families, protecting them from catastrophic health shocks. The program covers up to five family members, including the head of household, spouse, and up to three dependents, with an annual coverage maximum of INR 30,000. According to studies, RSBY has had a positive influence on enrolled families' healthcare utilization and out-of-pocket expenses. According to (**Nandi et al. 2017**), RSBY enrolees have significantly higher hospitalization rates and lower out-of-pocket expenses than non-enrolees, demonstrating the scheme's effectiveness in improving access to healthcare services and reducing financial burdens.

Aam Aadmi Bima Yojana (AABY):-

Another significant example of financial inclusion in the insurance industry is the AABY scheme, which targets rural landless households. The policy, which was launched in 2007, covers the family breadwinner's life and incapacity. The government and the Life Insurance Corporation of India (LIC) subsidize premium expenses, making the plan affordable to the target demographic. AABY has had a huge influence on providing financial security for rural landless families. (**Singh and Chander 2018)** conducted a study that highlighted the scheme's importance in lowering financial risks connected with mortality and disability in rural areas,

hence contributing to the economic stability of vulnerable families.

Microinsurance through Self-Help Groups (SHGs):-

Microinsurance initiatives enabled by Self-Help Groups (SHGs) have emerged as a successful strategy for expanding insurance coverage to the grassroots level. SHGs, which typically have 10-20 members and are primarily women from comparable socioeconomic origins, have played an important role in fostering financial awareness and inclusiveness. Insurance companies work with SHGs to deliver microinsurance products suited to the needs of low-income households. These efforts have not only raised insurance awareness and adoption among SHG members, but have also provided them with economic and social empowerment. Kumar and **Mohanty's (2020)** study highlights the success of SHG-facilitated microinsurance models, emphasizing their significance in improving the financial resilience of vulnerable groups.

Conclusion

Financial inclusion in India demands a comprehensive approach that includes insurance as a key component. By expanding the protective umbrella of insurance to all parts of society, we not only improve financial resilience but also contribute to the country's overall economic prosperity. Ensuring that no one is left behind in India's livelihood is a shared responsibility that requires teamwork, creativity and relentless commitment. This paper establishes the groundwork for understanding the relationship between insurance and social/financial inclusion. More study can look into specific microinsurance models, the influence of insurance on poverty reduction, and the role of social impact investing in supporting inclusive insurance programs. TJ

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Making Insurance an Inclusive Tool for Financial Protection

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Abstract

Developed economies like USA, UK etc. have utilised insurance as a supplementary tool for creating a protected society by strengthening the existing social security net through affordable health insurance programmes, pension and annuity insurance plans, liability insurance etc. In comparison, insurance in India is still seen as an investment tool, rather than as a risk mitigation mechanism. Though Government has taken measures to replicate the model followed in West through social security schemes like Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY), Pradhan Mantri Jan Arogaya Yojana (PMJAY) etc., but still a large section of the society perceives insurance as a means to get tax benefits, instead of a buffer to protect against financial losses in case of an unfortunate event. Protection Gap which is a measure of the uninsured losses of a country, is significantly higher for India when compared to other developed or developing nations. The mortality protection gap in life insurance, which dominates the Indian insurance industry, is at staggering 87% as per a survey done by National Insurance Academy. Despite health insurance being the top contributor under non-life segment in India, the health protection gap stands at 73%. The estimated pension protection gap is even higher at 93%. Thus, it becomes imperative for the Indian insurance industry to bridge these gaps through high decibel awareness campaigns, so that citizens can leverage insurance as a tool for financial protection (and not as substitute for return-oriented investments) and reap its real benefits.

Keywords

Protection Gap, Insurance as a Protection Tool, Tax Benefits through Insurance.

Challenges Faced By Insurance Industry

Insurance density and penetration are the two key metrics that are used worldwide to assess the importance of insurance for individuals and entities as well as determine the maturity of insurance industry in a country. Insurance density, expressed in USD terms, is the ratio of insurance premium to total population of the country (per capita premium). Insurance penetration, measured in percentage term, is the ratio of gross insurance premium underwritten to Gross Domestic Product of the country, both expressed in USD. The value of these key metrices is $92 and 4% for India against a value of $853 and 6.8% for the world respectively. A further drill down shows that life industry contributes majorly for these statistics in India (Insurance density and penetration figures for Life are $70 and 3% against Non-Life's $22 and 1% respectively).

As per recent data by UN, India is projected to surpass China to become the most populous country in the world, yet not even 2% of the global premium is underwritten in India. A key reason for this is due to the fact that a large section of Indian society, comprising of average middle-class households, still considers insurance as an unnecessary expense. Even those people, who opt for insurance are not enthusiastic to advocate the importance of insurance due to various reasons, like mis-selling, complex policy wordings and jargonised terms and conditions, unsuitable products, unmet customer requirements or unresolved grievances at the time of

policy servicing or at claims time. The lengthy documentation process for insurance coverage and claim settlement has been a deterrent for many to opt for insurance. The challenges for industry are numerous. But one has to see insurance as a vital risk management tool, for which it has earned praise by legal and economics scholar's world over. Not only does it provide financial protection against potential economic devastation, but also act as a supplementary tool for regulating the conduct of policyholders by incentivizing better risk management and in some cases restricting or promoting certain behaviours for overall benefit of the economy. Thus, it becomes crucial that we address the pain points and other growth barriers for insurance industry to enable individuals and businesses to recover from financial setbacks, continue operating, and invest in the future. Some of the ways which can help achieve the above objectives are discussed in the ensuing article:

1. **Rationalising taxation rate on insurance premium under Good and Services Tax (GST):** Affordability is a significant barrier to insurance adoption, especially for low-income households. To increase adoption of insurance, it is important to reduce the input cost of insurance for the customer. One such benefit that can be given is through reduced taxation rates for insurance. Prior to introduction of GST regime in India in 2017, insurance policies were taxed @15%. Being touted as one of the biggest reforms in the country, which aimed to simplify taxation structure and aid in ease of doing business, the GST regime became a bane for the Indian insurance industry. The tax rate was increased to 18% under GST from 15% under erstwhile Service Tax regime, which put additional burden on prospective customers to take insurance. In contrast, GST for most type of insurance is 12% in UK, 9% in Singapore for non-life insurance policies (life insurance is exempt from GST in Singapore), while insurance premiums are exempt from GST in Canada. Though Government has exempted application of GST on social security schemes like PMJJBY, PMSBY, PMJAY, PMFBY etc., but these schemes target a specific section of the population. The protection offered under these schemes may not be adequate for all citizens of the society. If any person wishes to opt for voluntary insurance or top up his/ her existing cover, he/ she has to pay approximately one-fifth of the premium additionally towards taxes in India, which sometimes forces them to opt for a lower (or rather inadequate) insurance cover. Owning to this reason, a majority of the policyholders, nearly 75%, perceive that their life insurance policy coverage or sum insured needs to be enhanced further. Similarly, 63% people feel that their current health insurance policy falls short in addressing their risk exposures, considering escalating healthcare costs and medical inflation. A reduction of GST rate on insurance premium, will help in bringing down this ratio. Reduction in total outgo would also help in supplementing the savings of households, which than can be invested towards economic activities, thus ushering an era of economic prosperity.

2. **Preventing systemic abuse**: Insurance is based on law of large numbers, where insured members contribute funds into a pool account in proportion to their risk profile, which is then utilised by the pool administrator (insurance company) to pay for claims intimated by members over the period of time and build reserves for any future contingencies. However, supervisory and regulatory authorities in India have taken an excessively pro-policyholder protection stand, which always may have not been in the best interest of the industry. By leveraging the non-contestability benefit available to life insurance policyholders under Section 45 of the Insurance Act, 1938, certain anti-social elements of the society circumvent the very basic principle of Utmost Good Faith on which the insurance contract is based upon. Similarly, the introduction of moratorium period by regulator to make health claims incontestable after certain period of continuous coverage, may make it possible to extract undue benefits from health insurance policy by deceiving the insurance companies and makes them vulnerable to fraud and abuse, if policyholder chooses to suppress material information at the time of taking the policy. This results in distrust between the contracting parties i.e. insurer and the insured. Also, such practice may not only

disincentivise customers to report accurate facts and information at proposal stage, but also leads to unwarranted hikes in premium for other innocent policyholders in the longer run. The aim should be to promote and protect policyholders' interests so as to create a resilient and robust system with adequate safeguards and not make system susceptible to systemic abuse. In order to strengthen the policy servicing framework, guidelines can be issued in consultation with the industry, which provide for penalties on insurance companies in case ratio of (Ombudsman, Court) awards going in favour of complainants exceeds a certain threshold limit. Alternatively, insurance company may be asked to discount renewal premiums or refund a proportion of original premium paid as a penalty along with claims due (including interest) if it is unable to prove otherwise to charges of violation of policyholders' interests. More stringent measures like restriction on onboarding of new customers or underwriting new business on the same lines as followed by banking regulator may be implemented in case of repeated offences.

3. **Designing all-inclusive insurance products**: The industry should opt for simplified coverage insurance solutions with no scope of ambiguity and unnecessary interpretations to reinforce customer faith and protect policyholders' interests. E.g., the theft claim of a policyholder of an insurance policy was declined by the insurance company stating that insurance cover provided for burglary only. The company contested that as per policy terms and conditions, theft is not covered by the insurance policy as no burglary took place in the godown by use of force or violence, even though both theft and burglary are often used interchangeably in common parlance. The Hon'ble Supreme Court of India too had to concur with the above argument. Any such interpretations, no matter how valid, leaves the policyholder high and dry at the time of need and defeats the very purpose of taking insurance. E.g., in a similar scenario, an insured may believe that a comprehensive motor package policy (also marketed as bumper-to-bumper insurance) covers damage to entire vehicle, while in reality engine damage (other than due to accident, theft or fire) is a common exclusion under such policy. When a customer purchases insurance, he seeks assurance for financial protection and peace of mind. Any technical interpretation of jargonised terms which defies the common understanding of a laymen leads to trust and credibility issues and erodes the confidence of prospective customer to opt for insurance. Thus, it becomes important for all stakeholders to collaborate and devise insurance solutions that iron out such differences and cater to all-inclusive coverage as per requirements of the customer. As a starting point, industry may also replicate the successful models of Government's flagship schemes like PMJJBY, PMSBY, PMFBY, PMJAY, APY etc. that provide an all-inclusive insurance coverage option to the insured. Transparency in information sharing regarding coverage without a need or reference for technical interpretation will reimpose the faith of the customer and avoid unnecessary litigation at a later stage. This would also ensure that customer is fully protected against any eventuality.

4. **Unbundling tax benefits for insurance protection only**: The current perception of perceiving insurance as an investment tool stems from the fact that an additional benefit on account of exemption from income tax for insurance premium paid is available to individual tax payers under Section 80C (life insurance premium) and Section 80D (health insurance premium) of the Income Tax Act, 1961 ("IT Act"). To take advantage of the situation, insurance companies too, esp. life insurers which dominate the insurance market in India, in the name of innovation have come up with such products that bundle investment-linked returns along with a life protection component. To make these products attractive and marketable, a large portion of the premium is allocated towards investment for generating higher returns, with small amount reserved for protection element, which results to under-insurance. However, in majority of the cases such products have neither been able to generate market-competitive returns, nor have

been able to provide adequate protection cover, often leading to mis-selling complaints later. As per a report by PwC, hardly one-fifth of the eligible population is subscribed to pure retail term offerings and the protection penetration (basis sum assured) is at 12%. To realise the full potential of insurance, tax benefits should be restricted to pure protection cover only. Wherever there are investment-oriented insurance solutions, the exemption under Section 10(10D) of the IT Act may continue, so that policyholder is aware that opted insurance policy is in the nature of an investment decision. Further, to build a protected society, it is beneficial to introduce tax benefit for other form of insurance also that provide cover for our assets viz., motor premium payment, property insurance, crop insurance. This will give the covered individuals and business entities, a sense of financial freedom and allow them to get better returns from the balance surplus, which otherwise would have been earmarked as a contingency fund.

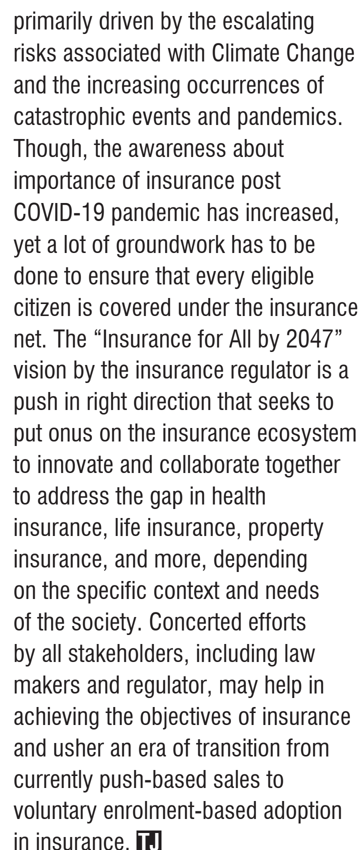
5. **Encourage embracing Tech for innovation and disruption**: Insurance is a direct application of data models (based on historical data) on current risk profiles or perils being insured. Even though, the data models are used to assess losses in future, nonetheless the underlying genesis is the application of simulations on present data based on past experience to predict future loss outcomes. However, the pace at which customer needs are changing, it leaves little room for insurers to go back to conventional models for providing customized solutions which can tick all requirement boxes of the customer. It becomes crucially important for insurance companies to be agile and innovative than ever before to cater to the changing needs of the society. It is a painful truth that industry has been conservative in adopting latest technologies, which puts them at a disadvantage. Today, apart from personalised products and services, a customer also demands more flexibility and convenience in their interactions with insurance companies. It is the need of the hour that industry players implement automation solution in business operations to reduce turnaround time in policy servicing and adopt artificial intelligence, big data, blockchain and machine learning to leverage customer data to gain insights into customer preferences and behaviours and use this information to tailor their offerings to be market relevant. To achieve sustainable growth, it is essential that insurance companies enhance their data crunching and analytical abilities to gauge the multi-year loss development patterns and design their business strategies accordingly. To increase reach of insurance to every nook and corner of the country, industry has to look past traditional methods of insurance intermediation and distribution and embrace digital. Also, it would be in best interests of all stakeholders, if insurance companies integrate their systems with every possible source of customer information (E.g., birth and death registry, healthcare ecosystem, financial fraud information database etc.) that makes them better equipped to ensure seamless delivery of services. The Regulatory Sandbox initiative provides industry a platform to leverage technology to design disruptive yet efficient insurance solutions, which can then help companies to offer insurance covers for hitherto uncovered population.

6. **Accounting ESG risks in insurance**: Insurance professionals act as risk managers. They have earned this coveted title based on their unique capabilities to quantify potential future losses into present money value terms based on equitable distribution of risk profiles of covered members. However, as the society is progressing, new and new set of challenges and risks have spurt up. Thus, it is critical for insurance companies to broaden their risk assessment framework. Being the second-largest group of asset owners behind pension funds, insurance companies can play an important part in the transition to a greener economy by considering environmental, social, and governmental (ESG) factors in underwriting and incentivizing those businesses and individuals that fare better on this account. As demand for concrete action in response to climate change grows louder, insurance companies can

suggest options for better risk management and loss mitigation to their client, which in turn can help in managing their exposure to losses as well.

7. **Aligning with International standards and best practices**: There are numerous reforms happening for Indian insurance industry as it aligns itself with the best practices accepted globally. The convergence of Indian accounting standards with globally accepted accounting standards (IFRS 17) and adoption of Risk-based solvency regime for insurance operations will be a gamechanger for the industry in how it functions. The greater transparency in operations and reporting will help prospective customers in taking an informed decision and make the industry better equipped to serve the needs of the society. This will also benefit insurance companies with sound corporate governance processes and procedures, as investors and shareholders get to benchmark performance parameters with other international peers. To ensure a smooth transition, the industry and regulator must also collaborate with their global counterparts to understand their journey, pain points and way forward. This will also facilitate in laying a strong foundation for the proposed changes and ensure cost, time and effort savings for all the stakeholders in implementation.

Conclusion

Insurance plays a critical role in supporting economic activity, and a stable insurance ecosystem can make a substantial contribution to the sustainability and growth of the national economy. As per NIA, the Insurance Protection Gap in India currently exceeds 90%, and this gap is continually expanding, primarily driven by the escalating risks associated with Climate Change and the increasing occurrences of catastrophic events and pandemics. Though, the awareness about importance of insurance post COVID-19 pandemic has increased, yet a lot of groundwork has to be done to ensure that every eligible citizen is covered under the insurance net. The “Insurance for All by 2047” vision by the insurance regulator is a push in right direction that seeks to put onus on the insurance ecosystem to innovate and collaborate together to address the gap in health insurance, life insurance, property insurance, and more, depending on the specific context and needs of the society. Concerted efforts by all stakeholders, including law makers and regulator, may help in achieving the objectives of insurance and usher an era of transition from currently push-based sales to voluntary enrolment-based adoption in insurance. TJ

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Insuring Wellness: Uniting Financial and Social Inclusion through Ayushman Bharat (PMJAY)

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Abstract

Ayushman Bharat (PMJAY), a flagship initiative of the Government of India and the world's largest government health insurance program, aims to transform India's healthcare landscape by providing comprehensive medical cover to a significant portion of the population. This article explores the potential of PMJAY in not only bridging the financial gap for accessing healthcare but also in fostering social inclusion within the healthcare system. The article examines how PMJAY's focus on primary care and preventive healthcare can contribute to overall wellness and empower individuals to take charge of their health. It further discusses the challenges associated with implementing such a large-scale program and suggests potential solutions to ensure its long-term success.

Keywords

Ayushman Bharat, Healthcare Access, Financial Inclusion, Social Inclusion, Preventive Healthcare, Wellness.

1. Introduction

The concept of wellness has evolved beyond mere physical health. Today, it encompasses a holistic approach that integrates physical, mental, and social well-being. Achieving this holistic wellness is crucial for individuals and societies alike. It empowers individuals to lead productive lives, fosters stronger communities, and fuels economic growth. However, ensuring access to quality healthcare, a fundamental pillar of wellness, remains a significant challenge, particularly for vulnerable populations in low- and middle-income countries (LMICs) like India.

India's healthcare landscape presents a complex picture. While the country boasts rapid advancements in medical technology and a burgeoning private healthcare sector, a vast segment of the population, especially those residing in rural areas and belonging to socioeconomically

disadvantaged groups, continues to grapple with limited access to affordable healthcare. This disparity not only exacerbates existing social inequalities but also hinders economic progress.

In recent years, healthcare has emerged as a critical focus area for policymakers worldwide. Ensuring access to affordable and quality healthcare services has become a paramount goal, especially in developing nations like India, where millions still lack adequate health coverage. In this context, initiatives such as Ayushman Bharat, specifically the Pradhan Mantri Jan Arogya Yojana (PMJAY), have garnered significant attention for their potential to bridge the gap in healthcare accessibility and affordability.

Ayushman Bharat, launched in September 2018, represents one of the most ambitious healthcare schemes globally. It aims to provide health coverage to over 500 million vulnerable individuals, making it the world's largest government-funded healthcare program. Central to this initiative is PMJAY, which seeks to provide financial protection to economically disadvantaged families against catastrophic health expenditures. By offering coverage of up to INR 5 lakh per family per year, PMJAY intends to alleviate the financial burden associated with medical treatment, thereby promoting wellness and social inclusion.

The graph 1 illustrates the number of beneficiaries enrolled in the Pradhan Mantri Jan Arogya Yojana (PMJAY) over time, measured in millions. PMJAY is a flagship healthcare program launched by the Government of India to provide financial protection to vulnerable families against catastrophic healthcare expenses.

From September 2018 to December 2023 (with estimations for December 2023 and 2024), there is a noticeable upward trend in the number of beneficiaries enrolled in PMJAY. The graph's upward trend in enrollment suggests that PMJAY is successfully reaching a significant portion of the population, thereby enhancing financial inclusion by providing them with access to healthcare services without facing financial hardship. By extending healthcare coverage to vulnerable families, PMJAY contributes to social inclusion by ensuring that marginalized communities have equitable access to healthcare services, irrespective of their socio-economic status.

Recent data underscores the urgent need for initiatives like Ayushman Bharat. Despite substantial improvements in healthcare infrastructure and service delivery over the years, millions of Indians continue to face barriers in accessing quality healthcare, primarily due to financial constraints. According to the National Health Accounts Estimates for India (2018-23), out-of-pocket expenditures accounted for nearly 63% of total health spending, placing a considerable burden on households, especially those from low-income backgrounds.

Graph 1: Number of Beneficiaries Enrolled in PMJAY Over Time

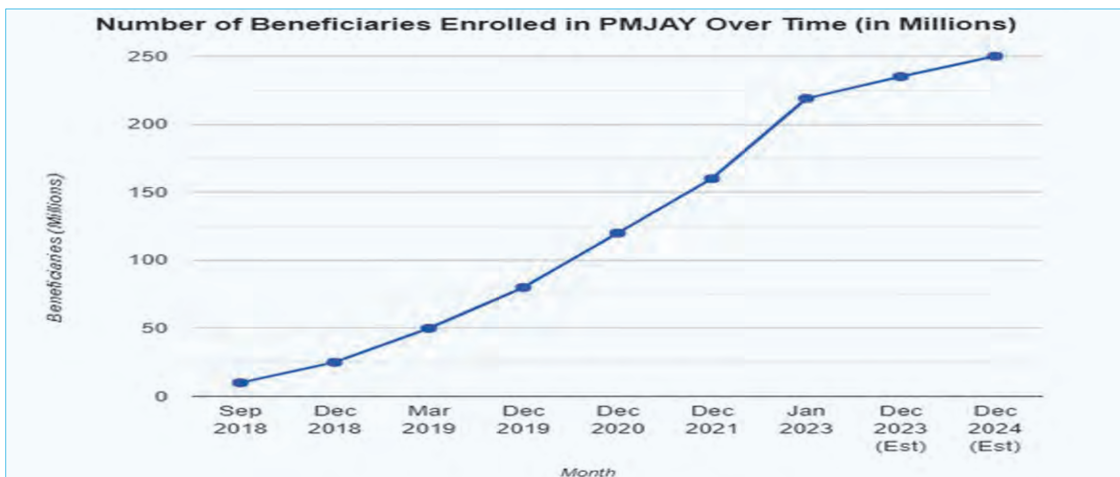
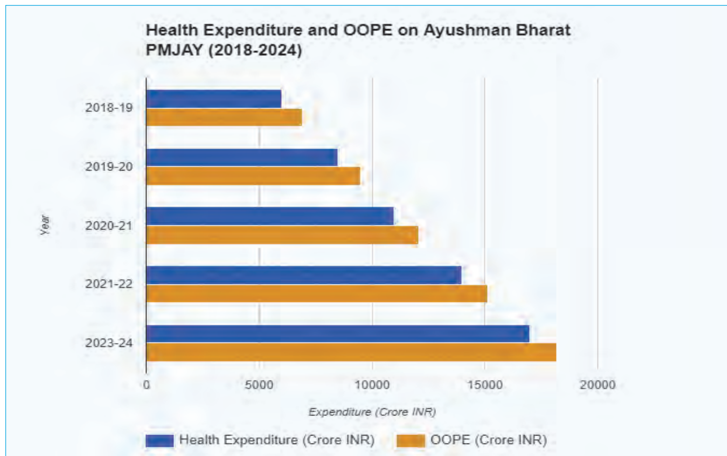


Chart 1: Health Expenditure and OOPE on Ayushman Bharat PMJAY (2018-2024)



Source: Performance Audit Report of the CAG on PMJAY, 2023.

The chart.1 titled "Health Expenditure and OOPE on Ayushman Bharat PMJAY (2018-2024)" shows both government health expenditure and out-of-pocket expenditure (OOPE) on the Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (PMJAY) scheme from 2018 to 2024. The concept of Ayushman Bharat is to achieve universal health coverage (UHC), and financial and social inclusion are key parts of achieving UHC. Out-of-pocket expenditure is the amount that people pay for healthcare services out of their own pockets. High OOPE can be a barrier to people using health services, especially for the poor. By reducing OOPE, the PMJAY scheme can help to improve access to healthcare for all Indians. Ideally, we would see health expenditure increasing and OOPE decreasing over time. This would suggest that the scheme is successfully reducing the financial burden of healthcare for people.

The impact of PMJAY extends beyond financial protection, encompassing broader dimensions of social inclusion and well-being. Recent research indicates that improved access to healthcare services can lead to better health outcomes, increased productivity, and enhanced overall quality of life. By providing coverage for a comprehensive set of secondary and tertiary care services, including hospitalization, surgery, and critical treatments, PMJAY empowers individuals to address their health needs without fear of financial ruin.

This table 1, provides information on the number of Ayushman Cards generated, the number of hospitals empanelled under the Ayushman Bharat (PMJAY) scheme, and the amount of funds released in crores (Indian Rupees) for the years 2019-20 to 2022-23. There is a fluctuation in the number of cards generated, with a peak in 2019-20 and a subsequent decrease in 2020-21 and 2021-22 before rising again in 2022-23.

The intersection of financial and social inclusion lies at the heart of PMJAY's objectives. By providing health coverage to economically disadvantaged families, the scheme not only safeguards against medical impoverishment but also fosters greater social cohesion and resilience. Recent studies have highlighted the positive correlation between health insurance coverage and household welfare, with insured families experiencing reduced financial stress and enhanced economic stability.

Overall, Ayushman Bharat's PMJAY represents a paradigm shift in India's healthcare landscape, with its innovative blend of financial

Table 1: Year-wise progress of PM-JAY

S. No	Year	Number of Ayushman Cards generated	Number of hospitals empanelled	Amount of funds released (Rs crore)
1.	2019-20	4,80,71,333	8,331	2,993
2.	2020-21	3,22,36,112	2,543	2,544
3.	2021-22	2,37,34,262	3,273	2,941
4.	2022-23	4,23,17,571	12,108	4,030

Source: Lok Sabha Unstarred question No. 620, answered on December 6, 2022, Ministry of Health, and Family Welfare; PRS

protection, social inclusion, and preventive care. Recent data and research underscore the transformative potential of the scheme in addressing the twin challenges of healthcare access and affordability. As PMJAY continues to evolve and expand its reach, it holds the promise of ushering in a new era of wellness and prosperity for millions of Indians, thereby realizing the vision of a healthy and inclusive society.

2. Financial Inclusion Through PMJAY Health Insurance

Financial inclusion, defined as access to affordable financial services, plays a critical role in promoting overall well-being. In the context of healthcare, health insurance serves as a powerful tool for achieving financial inclusion, particularly for vulnerable populations. The Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) exemplifies this transformative potential.

Health insurance, by providing financial protection against hospitalization costs, disrupts this vicious cycle. The following are few how AB-PMJAY fosters financial inclusion.

Reducing Out-of-Pocket Expenditure*:* One of the primary mechanisms through which health insurance fosters financial inclusion is by reducing out-of-pocket expenditure on healthcare. In India, where a significant portion of healthcare expenses is borne directly by individuals at the time-of-service utilization, the burden of medical costs can often lead to catastrophic expenditure, pushing households into poverty. Recent research, such as the study by Prinja et al. (2023) mentioned earlier, has demonstrated the impact of PMJAY in mitigating this financial risk. By providing cashless access to healthcare services for enrolled beneficiaries, PMJAY shields individuals and families from the full brunt of medical expenses, thereby promoting financial stability and inclusion.

Preventing Indebtedness and Borrowing*:* Health shocks can often force households to resort to borrowing or selling assets to cover medical expenses, exacerbating existing financial vulnerabilities. Health insurance, including PMJAY, acts as a buffer against such scenarios by offering a safety net against unforeseen healthcare costs. A study by the World Bank (2022) highlighted the role of PMJAY in preventing indebtedness among low-income households, thereby preserving their economic well-being, and promoting financial resilience.

Promoting Savings and Investment*:* By alleviating the immediate financial burden of healthcare expenses, health insurance enables individuals and families to redirect resources towards savings and investment, thereby fostering long-term financial inclusion. Recent data on household savings patterns following enrolment in PMJAY would provide valuable insights into the scheme's impact on savings behavior and financial planning among beneficiaries. Such data could complement existing research on the economic implications of health insurance in low-income settings.

Enhancing Access to Credit*:* Health insurance coverage can also enhance access to credit by reducing lenders' perception of risk associated with potential health-related expenses. Studies have shown that individuals with health insurance coverage are more likely to qualify for loans and credit facilities, as they pose lower financial risks to lending institutions. PMJAY's role in improving creditworthiness and facilitating access to financial services for enrolled beneficiaries warrants further exploration through empirical research and analysis.

Stimulating Economic Growth*:* Beyond individual financial inclusion, health insurance schemes like PMJAY contribute to broader economic development by promoting productivity and human capital formation. By ensuring timely access to healthcare services, PMJAY helps maintain a healthy and productive workforce, thereby fueling economic growth and prosperity. Research on the macroeconomic impact of PMJAY, including its implications for labor market participation, productivity gains, and poverty reduction, would provide valuable insights into the scheme's role in fostering financial inclusion at the national level.

3. Integrating Social Inclusion for Holistic Wellness

The Ayushman Bharat - Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) has emerged as a significant force in ensuring financial inclusion

and access to healthcare for a vast segment of the Indian population. However, achieving holistic wellness necessitates going beyond financial protection. Social determinants of health, such as poverty, education, sanitation, and gender equity, play a crucial role in shaping individual and community well-being. Integrating social inclusion with AB-PMJAY presents a unique opportunity to address these determinants and unlock the program's full potential for promoting holistic wellness.

Integrating social inclusion for holistic wellness through health insurance, particularly in the context of schemes like Ayushman Bharat (PMJAY), involves addressing not only physical health needs but also the broader social determinants of health. The following are the few strategies how it can be achieved.

Comprehensive Coverage: Health insurance schemes like Ayushman Bharat aim to provide coverage for a wide range of healthcare services, including preventive, promotive, curative, and rehabilitative care. By ensuring comprehensive coverage, individuals from marginalized communities who often face barriers to accessing healthcare can receive the necessary services to maintain their wellness.

Focus on Preventive Care: Integrating social inclusion involves placing a strong emphasis on preventive care measures. This includes health education, screening programs, and vaccination drives targeted at vulnerable populations. By preventing diseases before they occur or detecting them at an early stage, health insurance can contribute to better overall wellness and reduce the burden on the healthcare system.

Addressing Social Determinants of Health: Health insurance schemes can collaborate with various stakeholders to address the social determinants of health, such as poverty, education, housing, and employment. For example, partnerships with government agencies, NGOs, and community-based organizations can facilitate access to social services like housing assistance, education programs, and skill development initiatives, thereby improving overall wellness outcomes.

Ensuring Accessibility and Affordability: Social inclusion necessitates ensuring that health insurance coverage is accessible and affordable for all segments of society. This may involve subsidizing premiums for low-income individuals, providing financial assistance for transportation to healthcare facilities, or establishing outreach programs to remote and underserved areas. Additionally, simplifying the enrolment process and offering multilingual support can further enhance accessibility.

Cultural Sensitivity and Linguistic Diversity: Health insurance providers should be culturally sensitive and responsive to the linguistic diversity of the population they serve. This includes offering services in multiple languages, training healthcare providers to understand and respect diverse cultural beliefs and practices, and incorporating community feedback into program design and implementation.

Monitoring and Evaluation: Continuous monitoring and evaluation are essential to ensure that health insurance schemes are effectively promoting social inclusion and holistic wellness. This involves collecting data on key indicators such as healthcare utilization rates, health outcomes, satisfaction levels, and disparities among different population groups. Research studies and evaluations can provide insights into the impact of the scheme on social inclusion and identify areas for improvement.

By integrating social inclusion principles into health insurance schemes like Ayushman Bharat (PMJAY), policymakers and stakeholders can work towards achieving holistic wellness for all segments of society, thereby contributing to the overall development and well-being of the nation.

4. Focus on Preventive Healthcare and Wellness

The Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY) has revolutionized healthcare access for millions of Indians. However, ensuring long-term well-being goes beyond simply treating illnesses; it requires a proactive approach that emphasizes preventive healthcare and wellness. By integrating a focus on preventive care, AB-PMJAY can empower individuals to take charge of their health and reduce the burden of chronic diseases on the healthcare system.

The Shift from Reactive to Preventive Care: Traditional healthcare systems often focus on reactive care, treating illnesses after they arise. While AB-PMJAY provides crucial financial protection for hospitalization, a shift towards preventive care holds immense potential for improving overall health outcomes and reducing long-term healthcare costs.

The Benefits of Preventive Healthcare: Preventive healthcare encompasses a range of measures aimed at preventing diseases, promoting healthy lifestyles, and detecting health issues early on. Here's how preventive care contributes to well-being:

- *Reduced Risk of Chronic Diseases:* Regular checkups, screenings, and vaccinations can help identify potential health risks early, allowing for timely intervention and potentially preventing the development of chronic diseases like diabetes, heart disease, and cancer.
- *Improved Health Outcomes:* Early detection and management of health conditions lead to better treatment outcomes and a higher quality of life.
- *Reduced Healthcare Costs:* By preventing the onset of chronic illnesses, preventive care can significantly reduce the financial burden on individuals and the healthcare system.

Integrating Preventive Care with AB-PMJAY

AB-PMJAY offers a unique platform for promoting preventive healthcare. Here are some ways to integrate preventive care into the program:

- **Comprehensive Coverage for Preventive Services:** AB-PMJAY can expand its coverage to include preventive services such as routine checkups, screenings for common diseases, vaccinations, and mental health consultations.
- **Incentivizing Preventive Care:** Developing incentive programs that reward beneficiaries for participating in preventive health screenings and adopting healthy habits can encourage proactive wellness practices.
- **Leveraging Technology:** Telehealth consultations and mobile health apps can provide convenient access to preventive care services, particularly for geographically isolated populations.

Recent Research on Preventive Care and Health Insurance*:* A recent research study published in Health Affairs examined the impact of preventive care coverage on health insurance plans. The study found that plans with comprehensive preventive care coverage witnessed a decrease in hospital admissions and overall healthcare costs. This research reinforces the link between preventive care and cost savings within health insurance programs.

AB-PMJAY has made significant strides in ensuring financial security for healthcare needs. However, a focus on preventive healthcare is crucial for achieving long-term well-being. By expanding preventive care coverage, offering incentives, and leveraging technology, AB-PMJAY can empower individuals to take charge of their health, reduce the burden of chronic diseases, and build a foundation for a healthier future.

5. Challenges & Suggestions

Implementing a large-scale program like Ayushman Bharat's - Pradhan Mantri Jan Arogya Yojana (PMJAY) comes with multifaceted challenges that require careful consideration and strategic solutions to ensure its long-term success.

One of the primary hurdles is financial sustainability, given the immense scale and scope of the initiative. As PMJAY aims to provide health coverage to over 500 million vulnerable individuals, securing adequate funding and managing resources efficiently is paramount. To address this challenge, policymakers must explore innovative financing mechanisms, such as public-private partnerships, earmarked taxes, or contributions from corporate social responsibility initiatives, to supplement government funding and ensure the program's financial viability. Additionally, enhancing transparency and accountability in fund allocation and utilization through robust monitoring and evaluation mechanisms can help identify inefficiencies and optimize resource allocation.

Another significant challenge lies in ensuring equitable access to healthcare services, especially for marginalized communities and rural populations. Despite the expansion of healthcare infrastructure and

empanelment of hospitals under PMJAY, geographical barriers, lack of awareness, and cultural barriers continue to hinder access to care for many beneficiaries. To overcome these obstacles, targeted outreach and awareness campaigns tailored to local contexts are essential to educate communities about the benefits of PMJAY and how to avail themselves of its services. Moreover, leveraging technology, such as mobile health clinics, telemedicine, and digital health records, can bridge gaps in access by bringing healthcare services closer to remote and underserved areas.

Furthermore, addressing the quality of care and patient outcomes is critical to the program's success. While PMJAY provides financial protection against catastrophic health expenditures, ensuring that beneficiaries receive timely, appropriate, and high-quality care is essential for improving health outcomes and building trust in the healthcare system. To enhance the quality of care, policymakers should focus on capacity building and training for healthcare providers, implementing clinical guidelines and protocols, and strengthening regulatory mechanisms to monitor and enforce standards of care. Additionally, investing in healthcare infrastructure, medical equipment, and technology upgrades can help modernize healthcare delivery and improve the overall patient experience.

Lastly, sustaining community engagement and fostering social inclusion are indispensable for the long-term success of PMJAY. Building partnerships with community leaders, civil society organizations, and local stakeholders can facilitate community participation in program design, implementation, and oversight, ensuring that the needs and preferences of beneficiaries are adequately addressed. Moreover, promoting inclusivity and cultural sensitivity in service delivery, such as offering language interpretation services and respecting diverse beliefs and practices, can enhance trust and acceptance of PMJAY among different social groups.

6. Conclusion

In the landscape of healthcare, Ayushman Bharat represents a monumental stride towards holistic wellness, intertwining financial and social inclusion through the Pradhan Mantri Jan Arogya Yojana (PMJAY). The scheme, launched in 2018, ambitiously aims to extend health coverage to over 500 million vulnerable individuals, marking it as the world's largest government-funded healthcare program. Analysis of the data reveals a notable upward trajectory in PMJAY enrollment, underscoring its efficacy in reaching a substantial portion of the populace, especially those historically marginalized. This enrollment surge signifies a significant step towards financial inclusion by shielding families from the debilitating burden of healthcare expenses, thus promoting wellness and social equity.

The correlation between healthcare access and economic stability is unmistakable, with out-of-pocket expenditures representing a considerable share of total health spending in India. PMJAY's provision of comprehensive secondary and tertiary care services, including critical treatments, not only mitigates financial risk but also empowers individuals to address their health needs without fear of impoverishment. The scheme's dynamic nature, as depicted by fluctuations in beneficiary enrollment and healthcare infrastructure expansion, underscores its adaptability and responsiveness to evolving healthcare needs.

Furthermore, PMJAY's emphasis on beneficiary identification and enrollment reflects a concerted effort towards inclusivity and equity within the healthcare system. Through data analytics and state-level partnerships, PMJAY endeavors to reach the most vulnerable segments of society, bridging the gap in healthcare accessibility. By prioritizing outreach and awareness campaigns, PMJAY seeks to surmount barriers to access and empower individuals to avail themselves of their entitlements under the scheme.

The convergence of financial and social inclusion at the heart of PMJAY's objectives heralds a paradigm shift in India's healthcare landscape. Recent research affirms the positive correlation between health insurance coverage, household welfare, and economic stability, highlighting the multifaceted impact of PMJAY beyond mere financial protection. Moreover, PMJAY's investment in primary healthcare infrastructure aligns with broader

efforts to promote preventive care and community-based wellness initiatives, fostering long-term wellness and prosperity.

In summary, Ayushman Bharat epitomizes the transformative potential of insurance in advancing both financial and social inclusion in healthcare. By leveraging insurance to mitigate financial risks and promote equitable access to healthcare services, PMJAY holds the promise of improving health outcomes, uplifting millions out of poverty, and fostering a healthier, more equitable future for all. However, realizing this vision necessitates sustained commitment, innovative solutions, and collaborative efforts from all stakeholders involved. As Ayushman Bharat continues to evolve, its impact on insuring wellness and fostering inclusive development will serve as a testament to the transformative power of insurance in shaping a healthier, more equitable future for all. TJ

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Promoting Social and Financial Welfare through Retirement Planning: Role of Pension Funds and Insurance Companies in the National Pension System

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Abstract

The present research investigates the pivotal role of pension funds and insurance companies within the National Pension System, as well as their contributions to financial welfare through retirement planning. It also analyzes the challenges these institutions confront as well as the opportunities for growth in the Indian pension and insurance markets. Secondary data was gathered from a variety of reliable sources, including PFRDA, NPS Trust, NSDL, World Bank, OECD, Economic Survey of India, CRISIL, and SEBI. The year-on-year growth rate, compound annual growth rate, percentage share, and graphical representations were utilized to analyze the trend of variables. The findings demonstrate that collaboration between pension funds and insurers can improve financial inclusion and long-term wealth creation, hence promoting social and financial well-being during retirement. However, retirement literacy in India is extremely poor, and if it improves, the need for pension and insurance products will grow exponentially given India's demographic trajectory.

Keywords

Financial Welfare, Insurance Company, National Pension System, Pension Funds, Retirement Planning.

1. Introduction

Social and financial welfare are two dimensions of human well-being that concern the wellness and stability of individuals and societies. The term "social welfare" relates to one's quality of life, access to basic requirements, and opportunity to participate in society. It includes education, healthcare, housing, and social support activities. While financial well-being focuses on individuals' and households' economic security and stability. It involves access to financial resources, and income generation through savings and investment opportunities. Both parts seek to guarantee that individuals have the resources and assistance to live fulfilled lives and actively contribute to their communities.

On the other hand, retirement planning is crucial for ensuring social and financial stability during old age. It allows people to save, invest, and accumulate assets to support themselves during retirement when regular income is absent. Adequate financial resources help the elderly meet daily expenses, healthcare, and leisure activities, resulting in a dignified and enjoyable retirement lifestyle that promotes social welfare.

When it comes to retirement planning, there are two crucial entities to consider: pension funds and insurance companies. They are unique institutions as their primary focus is on financial well-being throughout the working years by giving a means to save for the post-working years as well as to minimize any unforeseen events and enjoy life after retirement. Insurance and pension funds play an important role in fostering not just capital creation, infrastructure development, and economic progress in the country, but also improving the living standards of the citizens strengthening their social and financial well-being.

However, India's social security programs, notably insurance and pensions, have major coverage gaps due to inadequate affordability in the informal sector, and widespread financial illiteracy. These are critical for controlling life cycle risks and reducing elderly poverty. Regulatory bodies in India, including the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA), are working to improve financial inclusion through enhanced insurance and pension services. While the Indian government aims to make India a developed country by 2047, the IRDAI has also launched a campaign to ensure everyone by 2047. PFRDA is also working in the same direction, implementing necessary changes and increasing accessibility to the National Pension System (NPS) for all citizens of India (Bhandari B, 2018).

Given the importance of pension funds and insurance companies in retirement planning, the present research has found its relevance in investigating the role they play in improving social and financial well-being through retirement planning. In the meantime, the challenges and potential for growth will be investigated to forecast the future development of these Indian institutions.

2. Research Methodology

This study intends to fulfill two objectives. First, it attempts to understand the roles of pension funds and insurance firms in India's National Pension System (NPS). This includes studying how these institutions contribute to the NPS, assisting individuals in planning for retirement, and providing financial welfare. Secondly, the research will look at the challenges and opportunities for pension fund and insurance company growth in India. The study is useful for people in the financial sector since it identifies the difficulties of growth and potential development opportunities.

The present study employs a descriptive analysis methodology, employing secondary data collected from various reliable sources. These sources include PFRDA, NPS Trust, OECD, World Bank, SEBI Investors Survey, CRISIL, CRA NSDL, and the Economic Survey of India. To understand the changing population dynamics of India, data was sourced from the World Bank spanning from 1960 to 2022. Additionally, data on social welfare expenditure as a percentage of GDP for the year 2020 was obtained from the OECD database for various countries, while for India, it was sourced from the economic survey of India 2019-2020. This data was analyzed to enable a comparative analysis of social welfare expenditure between India and OECD countries, offering insights into India's standing in this regard.

Furthermore, data on annuity rates from various annuity service providers was derived from NSDL, a Central Record Keeping Agency under NPS. Analysis of growth opportunities for pension funds and insurers was done with the help of subscriber trends and the Compound Annual Growth Rate (CAGR) under NPS from March 2010 to February 2024. Additionally, data on the expected retirees from NPS within the next five years was collected to understand the potential growth for insurance companies in India. To gauge the awareness levels of retirement planning and public response, survey data from the SEBI Investor Survey 2015 and the report of CRISIL were referenced. Statistical tools such as graphical representation, CAGR,

and Year-on-Year growth rate were utilized to interpret the trends of variables observed in the present study.

The article is organized into three sections. The first section discusses how pension funds and insurance firms might help improve retirement planning and, ultimately, financial well-being. This section includes comments on NPS, pension funds, insurance companies, and how they might work together to enhance financial well-being. The second segment discusses potential difficulties and possibilities for the growth of India's pension and insurance markets. The final part discusses the study's findings and conclusions.

3. Role of Pension Funds and Insurance Companies in Enhancing Social and Financial Welfare

Pension funds and insurance firms are critical entities that encourage retirement planning. Pension funds promote responsible investing and long-term growth of retirement savings by effectively allocating resources across asset classes and optimizing returns. Similarly, insurance firms offer significant risk mitigation tools in the form of annuities, which enable retirees to protect themselves against unanticipated financial problems and get regular income streams after retirement. This symbiotic relationship between pension funds and insurance companies under the NPS architecture fosters financial stability by shielding individuals from longevity risk and strengthening their economic resilience.

3.1 National Pension System

The National Pension System (NPS) is a government-sponsored retirement savings system in India that was launched in 2004 for government employees and later extended to all citizens of India. It provides Defined Contribution[1] and Defined Benefit[2] pension plans and is available to all Indian nationals, including organized, unorganized, and self-employed workers. Unlike the traditional pension system in India, the NPS provides coverage regardless of employment status or type. It provides a flexible retirement planning option while promoting financial stability for all participants. Citizens can contribute to their retirement savings to a selected Pension Fund, which is subsequently invested in a variety of asset classes such as stocks, bonds, and government securities to generate long-term returns. At the time of exit, the corpus can be utilized to buy an annuity from annuity service providers. This then offers an annuity based on the annuity choice selected by the subscriber at the time of retirement.

NPS is a popular retirement savings scheme in India that mandates investment until age 60, promoting discipline and long-term capital building. It provides tax advantages under Sections 80 CCD (1)[3], 80 CCE[4], 80 CCD(1B)[5], and 10(12A)[6] of the Income Tax Act for contribution and maturity amounts. The NPS also enables users to select investment funds and fund managers depending on their risk tolerance and objectives. The low cost of investment and administrative fees ensure that a significant portion of contributions are invested in wealth creation.

As of February 2024, NPS had a total of 7.24 crore subscribers across various programs. In terms of enrollment, NPS is gaining popularity among unorganized sector workers. **Figure 1** depicts sector-wise subscribers. It shows members from the organized sector account for 15% of all subscribers, whilst the all-citizen model and APY, including the discontinued NPS Lite scheme, account for almost 80%.

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1 Pension scheme where both the employer and employee contribute from the salary towards retirement fund which is market linked.

2 Pension scheme which provides guaranteed retirement benefits to employees, and fully funded by employer.

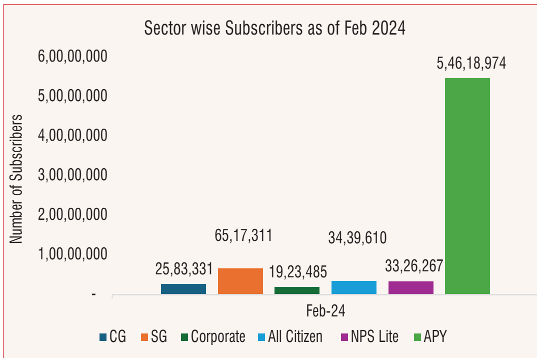
3 10% of salary (Basic + DA) in case employed.

4 Up to Rs. 1.50 lakh in case of voluntary contribution.

5 Up to ₹50,000 over and above the overall ceiling of Rs. 1.50 lakh of Sec 80 CCE.

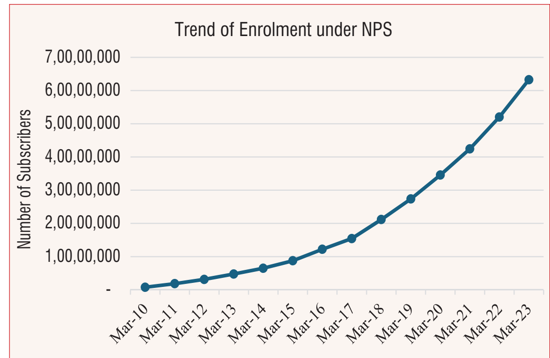
6 Lump sum withdrawal of 60% of total corpus at the time of retirement.

Figure 1: Sector Wise Subscriber under NPS as of February 2024



Source: Handbook of National Pension System Statistics (PFRDA, 2023)

Figure 2: Enrolment Trend under NPS, 2010 to 2023



Source: Handbook of National Pension System Statistics (PFRDA, 2023)

Table 1: Subscriber Growth under NPS

Month End	Total Subscribers	YoY Growth
Mar-10	7,79,969	-
Mar-11	18,57,064	138.09%
Mar-12	31,33,835	68.75%
Mar-13	47,60,718	51.91%
Mar-14	65,06,180	36.66%
Mar-15	87,48,649	34.47%
Mar-16	1,22,11,398	39.58%
Mar-17	1,54,39,013	26.43%
Mar-18	2,11,69,427	37.12%
Mar-19	2,73,54,805	29.22%
Mar-20	3,45,54,902	26.32%
Mar-21	4,24,39,695	22.82%
Mar-22	5,20,20,887	22.58%
Mar-23	6,32,55,575	21.60%

Source: Handbook of National Pension System Statistics (PFRDA, 2023)

The year-on-year growth in the NPS subscriber base for the year 2022-23 was 21.60%. The NPS subscriber base has grown at a CAGR of 40.23% since March 2010 (**Table 1**) (**Figure 2**). Given the increased membership in NPS, there will be a significant and regular inflow of funds in pension funds which will also increase the demand for annuities in India.

3.2 The Role of Pension Funds in NPS

Pension fund managers in the NPS are entities managing the investment portfolios of subscribers' retirement contributions under the framework set by the PFRDA. According to PFRDA regulations, any financial firm licensed by the Reserve Bank of India, the Securities and Exchange Board of India, and the Insurance Regulatory and Development Authority of India, can sponsor a Pension Fund for the management of retirement funds under the NPS in India. Pension funds manage risk and maximize returns by selecting appropriate investment instruments from an array of asset classes. They monitor portfolio performance, conduct periodic reviews, and maintain regulatory compliance. Pension fund managers play an important role in maintaining NPS members' long-term financial stability and welfare by adhering to PFRDA requirements while balancing risk appetite, investment horizon, and market circumstances.

As shown in **Table 2**, a total of 11 pension fund managers are registered with PFRDA as of Feb 2024. These pension funds offer different investment schemes to the subscribers of NPS and manage the contribution and maximize the wealth. The members of NPS can select any pension fund managers at the time of enrolment or during the retirement accumulation phase. NPS provides flexibility to change pension fund once a year.

Table 2: Registered Pension Funds under PFRDA as of 2024

Sr. No.	Pension Fund Name
1	LIC Pension Fund Limited
2	SBI Pension Funds Pvt. Limited
3	UTI Retirement Solutions Limited
4	HDFC Pension Management Company Limited
5	ICICI Prudential Pension Funds Management Company Ltd
6	Kotak Mahindra Pension Fund Limited
7	Aditya Birla Sun Life Pension Management Limited
8	TATA Pension Management Private Limited
9	Max Life Pension Fund Management Limited
10	Axis Pension Fund Management Limited
11	DSP Pension Fund Managers Private Limited

Source: NPS Infrastructure (NPS Trust, 2024)

3.3 The Role of Insurance Companies in NPS

Insurance firms play an important role in the NPS by offering measures to mitigate risks and financial security to subscribers. They provide annuities, which ensure a steady income stream for pensioners during their post-employment years. Subscribers can ensure a consistent income stream to cover living expenses and maintain their retirement standard by purchasing annuities with a percentage of their accrued retirement corpus (which is managed and accumulated by pension fund managers). In schemes such as the Employees Provident Fund[7], life insurance coverage is also provided. This guarantees beneficiaries get financial support in the event of their premature death or disability, therefore protecting their financial well-being. They help retirees mitigate the risks associated with longevity, market volatility, and unexpected life events by offering products like life annuities and life insurance in India.

The following are the 15 Annuity Service Providers (ASPs) registered with PFRDA as of March 2024 (**Table 3**). Five of the 15 ASPs have their own sponsored pension fund managers registered with the PFRDA. This is how they can enhance customer involvement from the moment they register for the NPS until they leave the scheme.

Table 3: Registered Annuity Service Providers under PFRDA as of 2024

Sr. No.	Annuity Service Provider
1	Aditya Birla Sun Life Insurance Company Limited
2	Bajaj Allianz Life Insurance Company Limited
3	Canara HSBC Life Insurance Company Limited
4	Edelweiss Tokio Life Insurance Company Limited
5	HDFC Life Insurance Company Limited
6	ICICI Prudential Life Insurance Company Limited
7	IndiaFirst Life Insurance Company Limited
8	Kotak Mahindra Life Insurance Company Limited
9	Life Insurance Corporation of India
10	Max Life Insurance Company Limited

[7] Employees Provident Fund Organisation runs different retirement schemes offered to private sector employees which includes The Employees' Provident Funds Scheme 1952 (EPF), The Employees' Pension Scheme 1995 (EPS) and The Employees' Deposit Linked Insurance Scheme 1976 (EDLI).

Sr. No.	Annuity Service Provider
11	PNB MetLife India Insurance Company Limited
12	SBI Life Insurance Company Limited
13	Shriram Life Insurance Company Limited
14	Star Union Dai-Ichi Life Insurance Company Limited
15	Tata AIA Life Insurance Company Limited

Source: NPS Infrastructure (NPS Trust, 2024)

Insurance companies provide a variety of choices in annuities as seen in **Table 4**, including single- and joint-life annuities, as well as with the return of purchase price and without return of purchase price, allowing subscribers to tailor their annuity plans to their preferences and circumstances. The annuity rate of annuity service providers under PFRDA ranges from 3.06% to 7.28% for various annuity options as of April 2024. This annuity rate was calculated on the website of CRA NSDL.

Table 4: Annuity Options under NPS

Option	Annuity Type
Option A	Annuity for life
Option B	Annuity for life with Return of Purchase Price (ROP)
Option C	Joint Life Annuity
Option D	Joint Life Annuity with Return of Purchase Price (ROP)
Option E	NPS - Family Income Option
Option F	Life Annuity with Return of Premium/Purchase Price in parts
Option G	Life Annuity with Return of Premium/Purchase Price on diagnosis of CI

Source: NSDL website (CRA NSDL, 2024)

3.4 Synergies between Pension Funds and Insurance Companies

The study by Bhandari B. (2018) emphasized the importance of pension funds and insurance firms in raising financial literacy. Integrating pension funds and insurance firms into retirement solutions has the potential to considerably enhance retirement planning outcomes. They can design new retirement plans that combine asset management and risk mitigation aspects. These policies can also offer growth potential through market investments, downside protection, and longevity insurance via guaranteed income streams or death payments through pension plans. It also improves efficiency in product development, marketing, risk management, and customer service areas. Moreover, accessibility and affordability for retirement planning solutions can be increased by lowering expenses for marginalized communities and rural populations.

According to the Insurance Industry report by (IBFE, 2023) in September 2023, the UK and India announced a collaboration to increase cross-border investment in the insurance and pension industries. This decision is viewed as a key step in improving bilateral economic ties. India's dynamic economy, fueled by rising personal disposable incomes and family savings, creates potential in crop insurance, auto insurance, micro-insurance, health insurance, and low-income urban and pension markets. This policy fosters not just economic growth, but also financial inclusion.

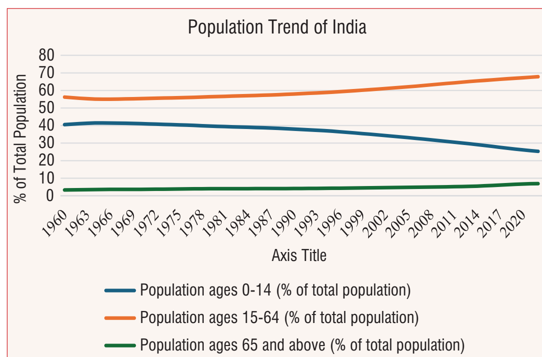
4. Challenges and Opportunities

4.1 Opportunities for Growth of the Pension Fund and Insurance Market in India

Collaboration between pension funds and insurance firms presents several challenges as well as opportunities. Given India's demographic pattern, there is a significant potential for growth in pension requirements. As can be seen in

Figure 3, India's working population between the ages of 15 and 64 is steadily expanding, while the population above the age of 65 is also growing. On the other hand, the population under the age of 14 is decreasing, indicating that more individuals will age, and fewer people will be available to care for them. This will increase the demand for pension and retirement planning instruments in India.

Figure 3: Age-wise Population Trend in India



Source: World Bank data on population (World Bank, 2024)

Figure 4: Purpose of Household Investment in India

Source: SEBI Investor Survey 2015 (SEBI, 2016)

Under NPS only we can see that the number of pensioners in the system is expected to increase during the next five years (**Table 5**). This rising trend is noticeable showing a consistent increase in retirees. As a result, there will be an increase in the flow of funds from pension funds to insurance companies. This rising demand trend is expected to continue in India, fueling exponential expansion for both of these key institutions.

Table 5: Individuals Retiring under NPS in the Next Five Years

Sr. No.	Financial Year	Central Gov.	State Gov.	Corporate	All Citizen	NPS Lite
1	2023-2024	3,961	15,671	6,728	19,944	49,416
2	2024-2025	9,234	35,063	14,516	45,040	98,355
3	2025-2026	10,216	40,518	15,329	48,141	91,785
4	2026-2027	10,305	47,769	16,297	47,701	1,10,133
5	2027-2028	10,742	55,769	18,142	50,875	1,02,146

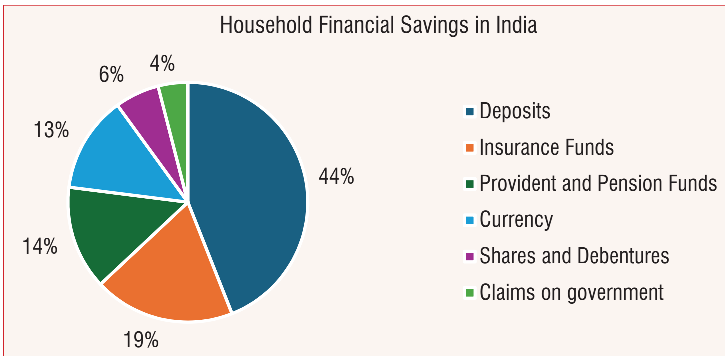
Source: Handbook of National Pension System Statistics (PFRDA, 2023)

4.2 Challenges Faced by Pension Funds and Insurance Companies in India

The biggest challenge for pension funds and insurance companies is the financial awareness of households in India. According to the Investor survey conducted by SEBI (2016), it was discovered that retirement planning is not even in the top five investment goals of Indian households (**Figure 4**). This typically results in poor participation rates, particularly among informal sector workers and low-income persons.

As seen in **Figure 5**, almost 44% of the investment funds are in deposits which is not that rewarding compared to other investment avenues. Increasing financial literacy is the biggest task the government and regulators have on their hands right now. RBI, PFRDA, SEBI, IRDAI, and the government all are running different awareness campaigns which will hopefully increase financial awareness among Indian citizens. There is also an issue of pension data management highlighted by Bhandari B (2018). In India, financial regulators administer several pension programs for which no comprehensive information is available. The country has an urgent need to create a pension database for improving pension coverage.

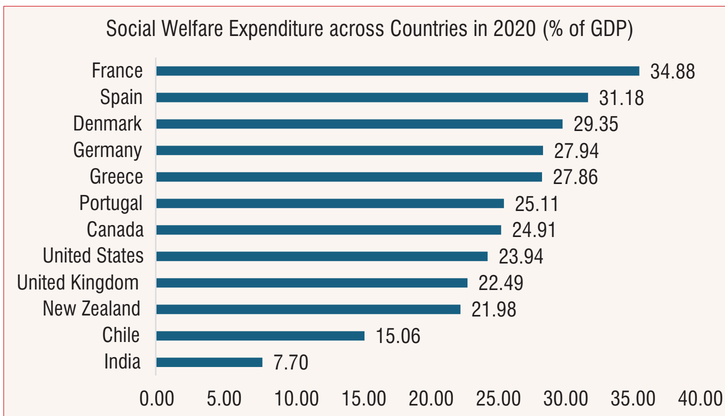
Figure 5: Financial Savings of Indian Households as of 2015-16



Source: RBI Annual Report 2015-16 (Reserve Bank of India, 2016), derived from (CRISIL, 2017)

Social and financial well-being cannot be improved without the support of government. Looking at the social welfare expenses of select OECD countries and India in **Figure 6**, it can be seen that India lags substantially behind OECD countries in terms of social spending as a proportion of GDP. The social sector expenditure ranges from 14% to 34% of GDP. India only spends 7.7% of GDP on social welfare. This should be increased to improve social welfare and promote economic development.

Figure 6: Social Welfare Expenditure as % of GDP of Select OECD Countries and India (2020)



Source: OECD Social Expenditure (OECD, 2024), and Economic Survey of India 2019-20 (Ministry of Finance, 2020)

India's pension funds and insurance businesses have the opportunity to improve retirement planning outcomes and financial security by developing innovative retirement solutions combining investment and insurance components. They can develop customized retirement plans that are flexible, transparent, and affordable by utilizing technology and data analytics. Digital platforms and fintech solutions may also be used to increase client engagement, operational efficiency, and access to pension and insurance services. This digital revolution may reduce distribution costs, increase efficiency, and reach a larger audience, allowing people to take charge of their financial goals. Collaboration with government agencies, companies, and non-profit organizations can also help to promote financial literacy and education, raise retirement planning awareness, and encourage participation in pension and insurance plans.

5. Findings and Recommendations

Financial literacy and specifically retirement awareness is very low in India as discussed above. Looking at the changing population dynamics, retirement planning will become crucial for households in India. Given changing demographics, retirement planning will become increasingly important for Indian households. If financial literacy is enhanced, there would be a high demand for pension and insurance products. Which will eventually help both industries develop immensely. As stated by Bhandari B. (2018), citizens should be encouraged to participate in pension funds and manage risk through insurance coverage. The Indian government is providing several tax incentives to individuals who invest in insurance and pensions, which is an excellent effort. People invest in these products

for a variety of reasons, including tax savings.

India's pension funds and insurance companies have the ability to transform retirement planning and financial security through innovation and collaboration. Pension fund managers and insurance companies are collaborating to promote financial inclusion by offering retirement savings and insurance products to people from various socioeconomic backgrounds under NPS. Initiatives such as the Atal Pension Yojana and the Pradhan Mantri Jeevan Jyoti Bima Yojana seek to provide inexpensive pension and insurance coverage to all residents, especially those in the low-income and informal sectors. These initiatives also attempt to reduce poverty by encouraging long-term wealth creation and resilience to financial shocks. Pension plans and insurance products help households acquire assets and protect themselves from poverty in old age or during difficulties. Furthermore, pension fund managers and insurance companies get extremely long-term savings, allowing them to allocate assets toward productive investments and infrastructure development, thus promoting economic growth and job creation.

Both institutions can employ technology, data analytics, and digital platforms to provide personalized retirement solutions, broaden market reach, and improve client engagement. With the help of the government, regulators, employers, and non-profit organizations financial literacy and inclusion can be increased, allowing people to make more educated decisions about their financial goals. The alliance between the two has the potential to generate genuine change, promote social welfare, and provide every Indian with a dignified and secure retirement. TJ

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Promoting Financial and Social Inclusion in India - A life insurance Perspective

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Despite being a booming economy, India grapples with a significant financial inclusion gap. A large portion of the population, particularly in rural areas, lacks access to essential financial services like insurance. This not only exposes them to financial vulnerability but also hinders social mobility. However, insurance, with its core principle of risk-sharing, can be a powerful tool to bridge this gap and empower a more inclusive society.

Financial Safety Net

Insurance acts as a safety net against unforeseen events like accidents, illnesses, or loss of income due to death of the primary breadwinner. In a country like India, where a significant portion of the workforce is employed in the informal sector with little to no social security, insurance plans can provide much-needed financial support during such crises. This financial cushion prevents families from falling deeper into poverty and helps them maintain a basic standard of living.

The Three Approaches and the Recent Regulatory Initiatives

In the last 24 years, the Objective of Insurance Inclusion was sought to be achieved by means of three approaches, namely

1. **Legal and Regulatory Mandate** in the form of Rural and Social Sector Obligations for the Insurers
2. **Regulatory Facilitation** in the form of Micro Insurance Regulations
3. **Government Schemes and Initiatives**

We will complete the discussion by giving the details of recent regulatory initiatives in the making which together are popularly called **Bima Trinity**.

Rural and Social Sector Obligations: Section 32B of Insurance Act mandates every Insurer to undertake such percentage of insurance business in the rural and social sectors as may be specified by IRDAI. Following this IRDAI has notified necessary Regulations (The last being in 2015) specifying percentages of business to be written in Rural and Social sectors which also includes workers in unorganised or informal sector or economically vulnerable or backward classes of the society and crop insurance.

There are stiff penalties for failing to comply with the Obligations, which may go up to Rs 25 Crores under Section 105 B of the Insurance Act. Barring sporadic failures, the Insurance Companies have been complying with these obligations as can be seen from Annual Reports of IRDAI over the years. For instance the IRDAI Annual Report for the financial year 2022-23 states the percentages of life insurance business in rural and social sectors as below

Industry	Rural Sector Target	Rural Sector Achievement	Social Sector Target	Social Sector Achievement
Life Ins	20% of New Policies	24.05%	5% of New Lives	17.74%

While on the face of it, this appears successful, but it may be worthwhile measuring the Persistency of this business separately to understand the quality and effectiveness of the business done in compliance to statutory mandate in promoting Insurance Inclusion. Similar aggregate data such as the above table in respect of General Insurers and Standalone Health Insurance Companies if provided in the Annual Report of IRDAI will also be useful.

Positive Incentives in the form of higher allowance in Expenses of Management for Rural and Social Sector is a welcome move by IRDAI.

Micro Insurance

Micro insurance is a distinct category of products catering to the specific needs of low-income individuals, which mainstream Insurance products/Insurers may not serve effectively, is another crucial aspect of financial inclusion. These plans offer smaller coverage amounts at affordable premiums, making them accessible to a wider population.

India was considered a Pioneer in facilitating Micro Insurance business through exclusive Micro Insurance Regulations way back in the year 2005. Serious thought went into how to improve Insurance access to remotely accessible and low income and vulnerable sections of the Population. These Regulations introduced the following distinct features.

i. Partner Agent Model involving entities working with the targeted segments of the low income populations such as NGOs, SHGs, MFIs

ii. Proportionality Principle in allowing easier entry barriers for MI Agents such Insurers appointing them with 25 hrs of training without the mandatory examination but subject to adequate due diligence

iii. Higher Commission limits on account of additional jobs on behalf of Insurers

iv. Insurance Coverage limits at policy level, filed and approved as MI Products

v. Facilitation to provide Combi Micro Insurance Products with arrangements between Life, General and Health Insurers

There was robust growth in both Individual Policies as well as in Group Business in the next 10 years from 2005 to 2014, at least in Life Insurance. The number of individual life micro policies has reached a high of close to 40 lakhs in a year but came down with certain market conduct issues with both MI Agents as well as Life Insurers. 2015 Micro Insurance Regulations tried addressing these issues apart from expanding the base of who can be a Micro Insurance Agent to various other categories such as district Cooperative banks, Regional Rural Banks, Urban Cooperative banks, Business Correspondents etc. The Insurance Coverage limits were enhanced and additional product categories allowed.

The noteworthy business trend thereafter has been consistent growth of Group Micro Life Insurance and near stagnation of individual micro life policies. The Micro Insurance business figures for the FY 2022-23 as per IRDAI Annual Report are given below

Type	Policies/ Lives	Premium
Individual Life Insurance	4,49,520 Policies	Rs 200 Cr
Group Life Insurance	16.27 Cr Lives	Rs 8593 Cr
General Insurance	1,88,201 Policies	--

There are nearly 1.01 lakh Micro Insurance Agents working in Life Insurance Sector. While the way forward appears to Group Micro Insurance, there is a need to analyse the composition of this business.

Challenges and Opportunities in Micro Insurance

One probable flaw in this Micro Insurance Model is continued dependence on Mainstream Insurance Companies who may not have cost effective business models and commitment to this segment due to challenges in the Viability and Profitability. Leveraging technology could still be a redeeming feature with replete mobile penetration even in remote areas and lower income population segments, subject to however regulatory facilitation. Successful MI Agents, the organisations working among these

population segments themselves are reportedly coming forward to start their own Standalone Micro Insurance Companies which however face the statutory high entry barrier of Rs 100 Cr initial Paid up Capital for Mono-line and Rs 200 Cr for Composite Insurance Companies. We are all aware of much talked about probable amendments to the Insurance Act once the new Union Government takes office which includes delegation of powers to decide capital to IRDAI and allowing exclusive Micro Insurance Companies.

There is another notable gap between the Insurance Product attributes and aspirations which the low income segments desire and those which are on offer in Micro Insurance which are mostly plain vanilla covers. For each type of cover (Life, General and Health) one has to approach a different Insurance Company. In this regard, the proposed rural women centric distribution channel Bima Vahak and a Combi product Bima Vistar offer hope of better understanding and appreciation about low income families' aspirations and insurance needs and also providing last mile connectivity and access.

Government Schemes and Initiatives: For low income groups and below poverty line population segments, the primary concern is securing two square meals a day for self and the family. Therefore it is only pragmatic to realize the limitations of how far they can plan and fund their Insurance needs. Recognizing the transformative power of insurance, the Indian government has launched several initiatives to promote financial inclusion and more specifically Insurance Inclusion. While all of them are not subsidized by the Government, they secure valuable insurance cover at nominal cost and are backed by smart distribution mechanism. I have listed five of the schemes here.

1. Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY)
2. Pradhan Mantri Suraksha Bima Yojana (PMSBY)
3. Pradhan Mantri Fasal Bima Yojana (PMFBY)
4. Pradhan Mantri Jan Arogya Yojana (PMJAY)
5. Pradhan Mantri Shramyogi Maandhan Yojana (PMSYM)

Scheme	Age group	Nature of cover	Cover Amount	Premium
PMJJBY	18-50 years	Group Life	Rs 2 Lakh	Rs 436
PMSBY	18-70 years	Group PA, Disability	Rs 2 Lakh	Rs 20
PMFBY	-	Crop Insurance	Crop value	2% for all Kharif Food & Oilseeds crops, 1.5% for Rabi Food & Oilseeds crops and 5% for Annual Commercial/Horticultural Crops
PMJAY*	BPL Family	Health Cover	Rs 5 Lakh	Free
PMSYM**	18-40 Income upto Rs 15000	Pension	Rs 3000/- PM	Rs 55-200 per month till age 60 - Equal contribution by Central Govt

* Only 3 states running on Insurance Model, 6 in Hybrid Model, the remaining states follow Trust Model -Economic Times March 15, 2024.

** Should not have joined EPF or ESIC

The coverage by these Government initiated Schemes is a significant contribution to bridging the gap in Insurance Inclusion.

Road Ahead

Despite the progress made, challenges remain. One of the primary challenges is the availability of authentic data at a single point to understand where exactly we have reached in terms who is covered (as well as extent of coverage) and what remains to be covered. It is high time we introduce Insurance coverage/

ownership in the National Population Census Enumeration as done in case of bank accounts. Limited financial literacy, complex insurance products, and lack of awareness in rural areas continue to be hurdles. Furthermore, traditional insurance models often rely on physical distribution networks, which might not be readily available in remote locations.

Insurance Awareness

I am of the opinion that this endeavour, though distinct from usual marketing pitch for a specific company's products, has to be necessarily integrated into the sales process. The reason for this is the awareness building when taken up as an isolated standalone activity tends to get relegated to the inner recesses of the memory and cannot be usefully retrieved by the Individual when the need for it in actual purchase scenario arises. The sector also needs to come up with a neutral comprehensive website and call centre for reference and answering queries in an impartial manner without favouring a particular insurance company. This could be a welcome initiative if taken up by Insurance Councils.

Technology as an Enabler:

Digital platforms can simplify insurance processes, increase accessibility, and raise awareness. Mobile technology allows for easy premium payments and claim settlements, making insurance more convenient for rural populations. Technology should also substantially reduce costs in providing access and connectivity to low income populations of remote areas.

Recent Initiatives of IRDAI

Bima Trinity

To realize the aspirational goal of Insurance for All by 2047, IRDAI has unveiled three important initiatives which are collectively referred to as Bima Trinity.

Bima Sugam (The electronic Market Place)

It is primarily an online platform for customers to select insurance plans from different companies. When fully developed it is expected to facilitate customer service including electronic claims settlement, simplifying the process. Thus in short, it aims to offer a one-stop solution for all insurance needs, emphasizing digitalization bringing in cost advantages with improved access using the mobile phone and internet connectivity even in remote and rural areas.

Bima Sugam regulations further throw light on the following expected salient features of the platform

- End-to-end digital solutions to meet the requirements of the market.
- Consent based architecture for its services.
- Role-based access of its services.
- Operative and accessible at all times.
- Access to data providers with appropriate consent mechanism.
- Storing, holding, maintaining, sharing and/or processing any data, in accordance with applicable laws

Bima Vistaar (A combi product)

As per the broad details available so far, Bima Vistaar is comprehensive insurance protection plan, that is expected to offer financial protection to an individual in case of

- Death (Rs 2 lakh)
- Personal Accident Benefit (Including Total Permanent Disability due to accident) (Rs 2 lakh)
- Daily Hospital Cash Benefit (Rs 500)
- Property Damage (Rs 1 Lakh)
- Total Annual Premium: Rs 800 – 1200/-

Bima Vistaar also offers an option to cover additional adult family members for all risks except 'Physical damage to house / business property' by paying additional premium.

Bima Vaahak (A women centric rural distribution channel)

It envisages Women's involvement in expanding insurance services, especially in rural communities, to build trust within local communities. Their responsibilities include data collection, KYC management, and support for claims and policies.

A Bima Vaahak shall

i) Sell and service Bima Vistaar and such other products specified by IRDAI

ii) Use handheld electronic communication devices for sales and service that are directly integrated to the IT system/ platform of the Insurers

iii) Not be allowed to collect any fees or charges from the policyholder or prospective policyholder, other than the insurance premium

USPs of Bima Trinity

On full implementation of Bima Trinity as above, they are expected to achieve

Comprehensive Coverage: It covers a wide range of risks, including life, health, property, and accident risks.

Accessibility: Bima Trinity is designed to increase the accessibility of insurance products, especially in rural and underserved areas.

Digital Convenience: It leverages digital platforms for easy policy purchase, claims settlement, and insurance management.

Affordability: The program aims to provide affordable insurance coverage to a diverse customer base by working with insurance companies to offer competitive pricing.

Technology Integration: Bima Trinity utilizes cutting-edge technologies like artificial intelligence (AI) and machine learning (ML) to expand insurance penetration.

Market Expansion: Insurance companies can tap into previously untapped rural markets, expanding their customer base.

Increased Awareness: The program promotes insurance awareness and trust in rural areas, leading to higher demand for insurance products.

Simplified Processes: Digital platforms simplify policy issuance and claims settlement, reducing administrative overhead and easy terms and conditions.

Collaboration with State Governments: Insurance companies collaborate with state governments to create localized insurance plans, similar to those in the banking sector, enhancing market reach.

Women Focus-oriented: It introduces the concept of "Bima Vahaks," focusing on women as agents to promote insurance awareness and adoption in rural households.

It is hoped that the regulatory initiatives of Bima Trinity combined with Rural and Social Sector Obligations Regulations of 2024 will transform the Insurance Inclusion Landscape and enhance the rural coverage of insurance in India as we march towards the Vision of Insurance for all by 2047.

Conclusion

Insurance has the potential to be a game-changer in India's journey towards financial and social inclusion which can truly make the vision of Vikasit Bharat more meaningful. By addressing existing challenges, leveraging technology, and fostering collaboration, stakeholders can create a more inclusive insurance ecosystem, empowering individuals and families to build a secure future. This will not only strengthen the economy but also foster a more equitable and resilient society.

"The Insurance Pill" for Financial and Social Inclusion in India

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A curious explorer in the vast realms of insurance, charting the intricate waters of marine and soaring through the complexities of liability. Armed with a PGDM in Insurance from BIMTECH, Noida, and a background in engineering and programming, attempt to decipher the intricacies of insurance, all in pursuit of a stronger, more inclusive insurance ecosystem.

Abstract

Insurance has proven to be a key driver of economic and social inclusion in India, with activities ranging from disaster management to empowering marginalized communities. This article examines the impact of insurance in several dimensions on financial empowerment and societal welfare. Discussing the case studies of various global programs, it highlights the transformative potential of insurance in this regard.

In India's economic environment where a large portion of the population lacks adequate access to financial services, insurance is a powerful tool for promoting financial inclusion and addressing social disparities. The article discusses how insurance enhances financial resilience, promotes social welfare, and promotes inclusive growth. Furthermore, the article explores policy initiatives and industry innovations that have facilitated India's inclusive insurance journey. This article sincerely tries to establish the effectiveness of "the insurance pill" in managing risks and promoting economic and social inclusion in the Indian context.

Keywords

Insurance, Financial Inclusion, Social inclusion, Case studies, Programs, Challenges, Innovations.

1. Introduction

In recent years, the worldwide awareness of inclusive development has intensified significantly, spotting the importance of recognizing how economic progress benefits all segments of society. This emphasis on inclusivity characterized by socioeconomic disparities is required in India, and has a huge scope for improvement. In this context, the pursuit of inclusiveness has turned out to be a key parameter, specifically for the Indian subcontinent in its efforts to ultimately reach the last person standing in the queue.

Insurance has emerged as a pivotal tool for advancing monetary and social inclusion. Financial inclusion, which refers to access and usage of formal financial services by all members of society is paramount for sustainable growth and poverty alleviation. Despite tremendous development in recent years, a huge segment of India's populace remains excluded from the formal economic machinery. According to the World Bank's Global Findex Database, approximately 190 million adults in India do not have a bank account, highlighting the persistent challenge of financial exclusion.

Insurance products like life, health and crop insurance not only provide a safety net against unexpected events like diseases, accidents and natural disasters but will also serve as investment-led saving tools. Insurance contributes to their financial flexibility and prosperity by enabling individuals to mitigate unknown risks. In addition, insurance also contributes to social participation by providing access to essential services and opportunities.

By protecting against risks and uncertainties, insurance can help reduce the vulnerability of marginalized communities and ultimately increase their resilience.

By providing risk protection, encouraging savings and investment, and providing access to essential services, insurance is facilitating inclusive growth and reducing disparities. This highlights the transformative impact of insurance on the lives of millions of people in India and beyond.

2. The Landscape of Financial and Social Inclusion in India

Before exploring the specific contributions of insurance, it is important to understand the current scenario of economic and social inclusion in India. Despite tremendous economic growth, a large proportion of the population remains out of formal financial services. This exclusion is particularly evident in rural areas, women and marginalized communities. These segments also lack access to essential services such as health and education, perpetuating a cycle of poverty and vulnerability. Against this backdrop, policies aimed at expanding economic and social inclusion have flourished, and insurance has emerged as a central component of the rescue plan.

The economic and social inclusion environment in India is complex and shaped by demographic, economic and structural factors. Although progress has been made, challenges remain in ensuring that all sections of the population have access to formal economic services and basic social amenities. This section will describe the current state of financial and social inclusion in India:

Financial Inclusion:

Bank Account Penetration: Despite efforts to increase inclusion, a large portion of the Indian population still remains out of the banking ambit. However, the silver lining lies in the momentum attained in the last few years and our ability to fuel this further. The percentage of banked population increased from 53.95% in 2011 to 86.71% in 2021 as per reports on the banking readiness for 2030.

Digital Payments: Driven by initiatives like the Unified Payment Interface (UPI), the adoption of digital payment systems has increased in recent years. In 2023, transactions via UPI recorded massive growth of 59% and 45% YoY in volume and value respectively - marking the growing adoption of digital payments.

Microfinance Sector: The microfinance sector plays an important role in expanding access to finance for under-served communities. In the financial year 2023, the value of microfinance loans in India was around 3.55 trillion, an 21% increase from last year. The value of microfinance loans outstanding has continuously increased since the financial year 2020.

Insurance Coverage: While insurance penetration in India remains low compared to global standards, coverage has continued to grow. In the financial year 2023, the Life Insurance Corporation (LIC) of India issued over 20.4 million new individual policies. In comparison, private insurers issued around eight million policies. Overall, there were over 28 million new individual policies issued across India in the financial year 2023.

Government Initiatives: The Government of India has launched a number of initiatives to promote financial inclusion, such as the Pradhan Mantri Jan Dhan Yojana (PMJDY), aimed at providing access to financial services to all households in the country. In FY 2023, a total of 51.04 crore Pradhan Mantri Jan Dhan Yojana (PMJDY) accounts have been opened having a deposit balance of Rs. 2,08,855 crores.

Social Inclusion:

Education: Access to quality education remains a challenge in India, especially in marginalized rural and urban areas, however it has shown us areas of improvements. The latest data from the Annual Status of Education Report (ASER) 2021-22 shows that the number of out-of-school children in India has decreased from 25 million in 2020 to 12.97 million in 2021-22 for the age group 6 to 17 years.

Healthcare: While significant strides have been made to improve access to healthcare, disparities remain. According to the National Family Health Survey (NFHS-5) for 2019-20, only 61.4% of children aged 12-23 months were fully immunized in India.

Housing: Adequate housing is a challenge for many in India, especially in urban areas. According to the Economic Outlook reports, a total of 118.63 lakh houses have been sanctioned under Pradhan

Mantri Awas Yojana PMAY-U; of which 78.15 lakh houses have been constructed/delivered as of November 2023.

Social Protection: The Government of India has implemented social security schemes to help the vulnerable population. For example, the National Social Assistance Program (NSAP) provides financial assistance to the elderly, widows and persons with disabilities.

3. Case Studies from Around the World

In this section, we will be checking the various case studies where Insurance programs have been implemented across the globe including the developed ones.

Kenya:

M-Pesa	
Benefits	M-Pesa has facilitated financial inclusion by providing access to banking services for the unbanked population. It has also enabled efficient and secure transactions, reducing the reliance on cash.
Tech Used	Mobile technology has been instrumental in the success of M-Pesa, allowing users to access financial services through their mobile phones.
Impact	M-Pesa has contributed to economic growth in Kenya, with transactions amounting to over 50% of the country's GDP. It has also improved financial resilience among individuals and businesses.
Challenges	One of the challenges faced by M-Pesa is the risk of fraud and security breaches. There are also concerns about the exclusion of certain populations, such as the elderly or those without access to mobile phones.
Innovations	M-Pesa has introduced innovations such as M-Shwari, a mobile-based savings and loans product, further expanding financial services to the unbanked population.
Agriculture Insurance Program	
Benefits	The program has provided insurance coverage for over 2 million farmers, protecting them against crop and livestock losses.
Tech Used	Technology has played a crucial role in scaling up the program, allowing for efficient enrollment and claims processing.
Impact	The program has improved the financial resilience of farmers, enabling them to recover more quickly from crop losses.
Challenges	Challenges include low insurance literacy among farmers and the need for better risk assessment mechanisms.
Innovations	Index-based insurance has been introduced to improve the accuracy of payouts and reduce administrative costs.

Ghana:

National Health Insurance Scheme (NHIS):	
Benefits	The NHIS has significantly reduced out-of-pocket healthcare expenses for Ghanaians, improving access to healthcare services.
Tech Used	Technology has been used to improve the efficiency of the NHIS, with digital platforms enabling faster claims processing and enrollment.
Impact	The NHIS has covered over 40% of Ghana's population, with over 11 million active members. It has improved health outcomes and reduced financial barriers to healthcare.

Challenges	Challenges include inadequate funding and low provider reimbursements, which have affected the sustainability of the scheme.
Innovations	Telemedicine and mobile health clinics have been introduced to improve access to healthcare services in remote areas.
Microinsurance Programs	
Benefits	These programs have provided insurance coverage to over 5 million Ghanaians, improving their financial resilience.
Tech Used	Technology has been used to reach more people with microinsurance products, with mobile insurance agents and digital payment platforms facilitating enrollment.
Impact	Microinsurance programs have improved the financial well-being of households, particularly in rural areas.
Challenges	Challenges include low insurance literacy and the need for better product design to meet the needs of the target population.
Innovations	Microinsurance for specific risks, such as health or agriculture, has been introduced to address the needs of different segments of the population.

Vietnam:

Crop Insurance Programs	
Benefits	These programs have helped stabilize farmers' incomes by protecting them from crop losses, thereby reducing the impact of agricultural risks on rural livelihoods.
Tech Used	Technology has been used to improve the efficiency of crop insurance programs, with digital platforms enabling faster claims processing and payment.
Impact	Crop insurance programs have covered over 1.5 million farmers in Vietnam, providing them with financial security against crop losses.
Challenges	Challenges include the need for better risk assessment and the development of more affordable insurance products for smallholder farmers.
Innovations	Innovations such as satellite technology have been introduced to improve the accuracy of crop loss assessments and reduce fraud.

Brazil:

Bolsa Família:	
Benefits	The program has reduced poverty rates from 25% in 2003 to 11% in 2019, benefiting over 14 million families.
Tech Used	Technology has been used to improve the efficiency of Bolsa Família, with digital platforms enabling faster and more accurate payments.
Impact	Bolsa Família has improved social inclusion and reduced income inequality in Brazil, leading to improved health and education outcomes for beneficiaries.
Challenges	Challenges include the need for better targeting of beneficiaries and the development of sustainable exit strategies for families.
Innovations	Dwelled into conditional cash transfers and digital vouchers to improve the effectiveness of Bolsa Família.

Public Health Insurance Program:	
Benefits	The program has provided health coverage to over 80% of Brazil's population, significantly reducing infant mortality rates and improving health outcomes.
Tech Used	Technology has been used to improve the efficiency of the public health insurance program, with digital health records and telemedicine enabling better healthcare delivery.
Impact	The program has improved access to healthcare services for vulnerable populations, reducing the financial burden of healthcare expenses.
Challenges	Challenges include the need for better management of healthcare resources and the development of more cost-effective healthcare delivery models.
Innovations	Facilities such as mobile health clinics and community health workers have been introduced to improve access to healthcare services in remote areas.

United States:

Affordable Care Act (ACA):	
Benefits	The ACA has led to a significant reduction in the uninsured rate, from 16% in 2010 to 9% in 2019, providing coverage to over 20 million Americans.
Tech Used	Technology has been used to improve the efficiency of the ACA, with digital platforms enabling faster enrollment and claims processing.
Impact	The ACA has improved health outcomes for millions of Americans, with increased access to preventive services and reduced financial barriers to healthcare.
Challenges	Challenges include rising healthcare costs and political opposition, which have affected the implementation of the ACA.
Innovations	Value-based care and telehealth services are implemented to improve the quality and efficiency of healthcare delivery.
Private Health Insurance Market:	
Benefits	The market serves over 180 million Americans, offering a wide range of insurance products.
Tech Used	Technology has been used to improve the efficiency of the private health insurance market, with digital platforms enabling faster claims processing and payment.
Impact	The private health insurance market has provided individuals and businesses with options to meet their insurance needs, improving access to healthcare services.
Challenges	Challenges include rising premiums and out-of-pocket costs, which have affected affordability for some consumers.
Innovations	Health savings accounts (HSAs) and Telehealth services were introduced to improve access to healthcare services and reduce costs for consumers.

Germany:

Social Insurance System:	
Benefits	Germany's social insurance system covers over 90% of the population, providing comprehensive healthcare, unemployment benefits, disability benefits, and long-term care.
Tech Used	Technology has been used to improve the efficiency of the social insurance system, with digital platforms enabling faster claims processing and payment.

Impact	The social insurance system has improved social protection and inclusion in Germany, reducing poverty rates and improving health outcomes.
Challenges	Challenges include rising healthcare costs and an aging population, which have put pressure on the sustainability of the system.
Innovations	Introduction of electronic health records and digital health services to improve healthcare delivery and efficiency.

Bangladesh:

Microinsurance Programs:	
Benefits	These programs have provided insurance coverage to over 45 million people, improving their financial resilience.
Tech Used	Technology has been used to improve the efficiency of microinsurance programs, with digital platforms enabling faster enrollment and claims processing.
Impact	Microinsurance programs have improved financial inclusion and access to insurance products for low-income individuals and households.
Challenges	Challenges include low insurance literacy and the need for better product design to meet the needs of the target population.
Innovations	Innovations such as mobile insurance agents and digital payment platforms have been introduced to reach more people with microinsurance products.

India:

Pradhan Mantri Jan Dhan Yojana (PMJDY):	
Benefits	PMJDY has led to the opening of over 43 crore bank accounts, providing access to financial services for millions of Indians.
Tech Used	Technology has been used to improve the efficiency of PMJDY, with digital platforms enabling faster account opening and transactions.
Impact	PMJDY has expanded financial access and improved financial inclusion in India, particularly among low-income individuals and rural populations.
Challenges	Challenges include the need for better financial literacy and the development of more innovative financial products for under-served populations.
Innovations	Aadhaar-enabled payments and mobile banking have been introduced to improve financial inclusion and access to insurance products.
Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY):	
Benefits	These schemes have provided insurance coverage to over 30 crore people, offering affordable life and accident insurance.
Tech Used	Technology has been used to improve the efficiency of these schemes, with digital platforms enabling faster enrollment and claims processing.
Impact	PMSBY and PMJJBY have improved financial resilience among low-income individuals and families, providing them with a safety net against unforeseen events.
Challenges	Challenges include the need for better awareness and outreach to ensure that more people benefit from these schemes.

Innovations	Innovations such as simplified enrollment processes and mobile insurance applications have been introduced to improve access to these schemes.
Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (AB-PMJAY):	
Benefits	AB-PMJAY has provided health coverage to over 10 crore families, making it the world's largest health insurance scheme.
Tech Used	Technology has been used to improve the efficiency of AB-PMJAY, with digital platforms enabling faster claims processing and payment.
Impact	AB-PMJAY has improved access to healthcare services for millions of Indians, reducing the financial burden of healthcare expenses.
Challenges	Challenges include the need for better infrastructure and healthcare delivery systems to ensure that beneficiaries receive quality care.
Innovations	Innovations such as health camps and telemedicine services have been introduced to improve access to healthcare services in rural areas.

A comparative study of programs in India compared to other countries provides valuable insights into the progress and challenges faced by different countries in promoting financial inclusion through insurance. For this, we can compare the Insurance business analysis with data points and figures from global benchmarks as follows:

Parameters	India	Global Benchmarks
Insurance Penetration and Density	IRDAI report reveals that the insurance penetration in India is 4% of its GDP. It reduced from 4.2% of the GDP in FY 22.	Global average of 6.8%.
Health Insurance Coverage	Approximately 514 million people across India were covered under health insurance schemes in 2021, which merely covers 37% of the people in the country. Nearly 400 million individuals in India have zero access to health insurance.	In comparison, countries like Germany and Switzerland have almost universal health insurance, with more than 99% of their population covered. These countries have a comprehensive and compulsory health insurance system.
Inclusive Insurance for Vulnerable Populations	The government of India has implemented inclusive insurance schemes like Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY) aiming to provide affordable insurance to individuals who lack access to a lot of money. These systems have been widely accepted but has shown immense potential still.	Countries such as Brazil and South Africa have implemented similar inclusive insurance policies targeting vulnerable populations. Brazil’s Seguro Safra and South Africa’s National Health Insurance (NHI) are examples of programs aimed at improving financial inclusion through insurance.
Crop Insurance for Farmers	Crop insurance has become a major focus of the Government of India, with schemes such as PMFBY aimed at providing farmers with risk protection. However, the effectiveness of these programs has been debated, citing issues such as low awareness and delays in coverage.	Countries like the US and China have a well-established crop insurance system that provides full coverage to farmers. These programs usually involve public-private partnerships and have high levels of farmer participation and satisfaction.

Parameters	India	Global Benchmarks
Supporting Rural Development	Insurance has played a role in supporting rural development in India, especially through micro-insurance schemes. With projects like the National Health Insurance Scheme (RSBY) penetration of these schemes has improved substantially.	Countries such as Kenya and Bangladesh have implemented successful microinsurance programs that have significantly improved financial inclusion in rural areas for example, Kenya's M-Pesa mobile money platform has revolutionized financial services that are given to rural people.

Thus, we can establish that, while India has made great strides in promoting financial inclusion through insurance, there are some areas where it lags behind global standards. Improved insurance and expansion of health insurance should be addressed for the development of an inclusive insurance system.

The lessons learned from these programs can be summarized as below:

Role of technology	Mobile and digital technologies are crucial to increase financial inclusion and efficiency in insurance schemes. They provide easy access to insurance products and services, especially in remote areas without traditional banking systems. Digital platforms streamline insurance processes, reduce administrative costs and improve the overall customer experience.
Customization	Designing insurance products to meet the specific needs of different populations can improve usability and relevance. Customized products may include low-cost microinsurance policies and coverage limits tailored to the income and risk profile of low-income individuals. A convenient and streamlined payment process can increase access and utilization further.
Risk Mitigation	Insurance policies, especially for agriculture, can provide income stability and protection against natural disasters and pests. By covering crop failures and livestock losses, insurance helps farmers reduce the economic impact of unforeseen events and promotes economic stability and food security.
Controlling Remittances	Schemes such as conditional cash transfers reduce poverty and improve social inclusion. By providing financial incentives for behavior change, such as school attendance or seeking preventative health care. These programs break the cycle of poverty and provide long-term outcomes for individuals and families.
Universal health care	Universal health coverage improves health outcomes and reduces poverty. Ensuring essential health services prevents disease, improves health outcomes, and reduces the financial burden of healthcare costs on individuals and families.
Microinsurance	Microinsurance schemes promote financial inclusion by providing low-cost insurance products to low-income individuals. These programs include life, health, and property insurance tailored to the needs of low-income people thus improving financial security.
Role of institutions	NGOs and other organizations are expanding access to insurance and financial services, especially in rural areas. They provide education, facilitate access to insurance products, and advocate for policies that promote financial inclusion and consumer protection.
Innovations in Healthcare	Telehealth and digital healthcare are improving the efficiency and accessibility of healthcare. Telehealth enables remote conversations, reduces the need for in-person visits and improves health care, especially in underserved areas.
Improve Regulatory Frameworks	Policymakers should develop new regulatory frameworks to promote inclusive insurance markets. It includes measures to facilitate the entry of new insurers, simplify regulatory frameworks, ensure fairness, transparency and accessibility of insurance products and enhance consumer protection.

Enhance Financial Literacy	Broader financial literacy programs teach about private insurance benefits and risk management. These programs help individuals make informed insurance decisions and understand their rights and responsibilities as policyholders.
Innovative Products	Insurers need to create new products for low-income individuals. Flexible payment options and convenient payment methods, such as pay-as-you-go insurance and mobile coverage, makes insurance accessible and easy to consumers.
Strengthen Partnerships	Collaboration between insurers, microfinance institutions and stakeholders expand insurance coverage for underserved populations. The partnership strengthens financial inclusion by developing and distributing quality insurance products, promoting financial literacy and improving services.

4. Insurance as a Catalyst for Financial Inclusion

To emphasize the effectiveness of insurance as a catalyst for growth in financial inclusion we can focus on the following points in detail:

a. Microinsurance for Rural Communities

Microinsurance plays an important role in providing financial security to rural communities, where traditional insurance services are often inaccessible. Here is a detailed description of how microinsurance helps rural communities:

Figure 1. Parameters for Insurance to act as a catalyst

Overall, microinsurance plays an important function in improving the financial security and well-being of rural groups, providing them with the gear they want to manage dangers and build an extra stable future.

b. Expansion of Insurance Reach through Technology

Expanding insurance choice through technology has been a game changer in reaching under-served populations, particularly in remote or rural areas, and this includes increasing dialogue.

Increased accessibility	Mobile phones and the internet have made it possible for people in remote areas to access insurance. Mobile insurance apps and online platforms allow individuals to research, purchase and manage insurance policies from anywhere, eliminating the need to physically visit insurance offices.
Lower delivery costs	Digital channels can reduce expenses on distribution networks such as branches and agents, reducing operational costs. These cost efficiencies can be passed on to consumers at low premiums or advanced premiums.
Customization	Data-driven approach enables customized insurance products that address the specific risks faced by different populations, including those in rural areas.
Improved customer experience	Technology has enhanced the overall customer experience in insurance. Digital platforms provide customers with a seamless and easy way to interact with insurance companies, from the purchase process to filing claims. This enhanced experience can lead to greater customer satisfaction and loyalty.
Risk assessment and management	Advanced analytics and machine learning algorithms can analyze large amounts of data to accurately identify risks, leading to better underwriting decisions and better pricing strategies.

Fraud detection	Algorithms can analyze data structures to pinpoint suspicious activity, helping insurers reduce fraudulent claims and maintain the integrity of their insurance programs.
Regulatory challenges	Despite its advantages, the expansion of insurance choices through technology presents regulatory challenges. Regulators require digital insurance plans to comply with regulatory requirements such as data protection and consumer rights to protect the interests of policyholders.

Extending coverage through technology has transformed the insurance industry, making insurance more accessible, affordable and customer-focused. As technology continues to evolve, insurers have the opportunity to dramatically improve their product offerings and reach new markets, increasing penetration.

c. Role of Government in Financial Inclusion

The role of government in financial inclusion is crucial, as it formulates policies and implements infrastructure to ensure access to affordable financial services for all sectors of society including:

- **Policy formulation**
- **Infrastructure**
- **Financial Literacy and Education**
- **Consumer Protection**
- **Credit mechanisms**
- **Social safety net**
- **Regulatory Environment**
- **Data Collection and Analysis**

Insurance for Social Inclusion

Insurance plays an important role in providing social inclusion by providing vital financial security and promoting economic empowerment, especially among vulnerable populations like:

a. Health insurance for vulnerable people:

Health insurance greatly improves access to health care for vulnerable populations. According to the WHO , globally, health costs push approximately 100 million people into extreme poverty every year. Health insurance can help reduce this risk by providing financial protection. The implementation of the Affordable Care Act (ACA) in the United States has led to a significant reduction in the number of uninsured among vulnerable populations such as low-income individuals and minorities.

b. Additional insurance for persons with disabilities:

Insurance policies should be specifically designed for the needs of people with disabilities. Including them under the protection umbrella is important for their financial and social security in a whole. According to the World Bank, an estimated 15% of the world's population has some form of disability. Inclusive insurance policies, such as disability insurance and personalized health insurance policies, can help meet the specific needs of people with disabilities and enhance their social inclusion and economic participation.

c. Crop insurance for farmers:

Crop insurance is important for farmers especially in developing countries where agriculture is an important livelihood. According to the Food and Agriculture Organization (FAO), crop losses due to natural disasters and pests can lead to food insecurity and extreme poverty among farmers. In India, for example, the Prime Minister's Crop Insurance Scheme (PMFBY) crop insurance scheme has provided compensation to millions of farmers, helping them recover crop losses and improve their economic adjustment.

d. Supporting Rural Development:

Insurance plays an important role in supporting rural development by providing financial security and encouraging investment in rural areas. According to the International Labor Organization (ILO), agriculture employs 40% of the global workforce, with the vast majority of workers in rural areas. Insurance including crop insurance, livestock insurance and property insurance helps create rural assets and protect livelihoods, encouraging investment in agriculture, infrastructure and small businesses, thus improving living standards in rural areas.

In conclusion, insurance is a powerful tool for social inclusion by providing financial security, promoting economic empowerment, and supporting sustainable development efforts, especially in rural and vulnerable areas.

5. Recommendations and Conclusion

To enhance economic and social inclusion through the use of insurance, policymakers should consider the following policy implications and recommendations:

Strengthening Regulatory Frameworks	Provide improved regulations to ensure consumer protection and market stability.
	To promote transparency and fairness in insurance products and services.
	Encourage the development of inclusive insurance policies to cater to vulnerable populations.
	Establish legal sandboxes to ensure consumer protection and facilitate innovation.
Promoting innovation and digitization	Encourage the use of digital technologies such as mobile insurance apps and online platforms to expand insurance services.
	Support research and development in insurance technology (Insurtech) to improve the efficiency and procurement of insurance products.
	To facilitate partnerships between insurers and technology companies. This will facilitate the use of data analytics and AI for risk assessment and better customer service.
Increasing financial literacy and awareness	Use of financial education programs to improve understanding of insurance products and benefits.
	Collaborate with schools, universities and community organizations to integrate financial literacy into the educational curriculum.
	Use targeted campaigns and outreach programs to raise awareness about the importance of insurance and its role in financial planning.
	Provide simple and user-friendly information about insurance options through digital channels and community centers.
Fostering Public-Private Partnerships	Encourage collaboration between government, insurers and not-for-profit organizations to develop and implement inclusive insurance policies.
	Establish risk-sharing mechanisms between the public and private sectors to expand access to funding for high-risk populations.
	Provide incentives for insurers to engage in public-private partnerships, such as tax breaks or legal assistance.
	Develop mechanisms for sharing knowledge and exchanging best practices between public and private stakeholders in the insurance industry.

In conclusion, enhancing economic and social inclusion through insurance requires a multipronged approach involving regulatory frameworks, innovation, financial literacy and partnerships. Strengthening regulatory frameworks can ensure consumer protection and market stability and thus result in greater acceptability. Moreover expanding access to insurance services will promote innovation and digitization further. Increasing financial literacy and awareness is critical for raising awareness on the benefits of insurance and encouraging public-private partnerships can enhance inclusive insurance growth. By implementing these recommendations, policymakers can design insurance policies that can offer inclusivity for economic transformation and social prosperity for all. TJ

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Health Insurance: Gateway to Health Care Access to All

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Introduction

Countries worldwide have long grappled with the issue of social exclusion, where certain groups face unequal access to resources and opportunities. In order to ensure societal well-being and advancement, the development of robust healthcare systems is a national priority for most countries across the globe. However, recent events such as the Covid-19 pandemic have exposed vulnerabilities within healthcare infrastructure, underscoring the urgent need for universal healthcare access. It's evident that significant disparities persist, with substantial portions of the population lacking adequate coverage, posing formidable challenges to community well-being and economic resilience.

In this context, health insurance emerges as an essential element, serving not only to safeguard individual health but also to promote broader financial and social inclusion. Beyond its primary role in facilitating access to healthcare services, health insurance holds the potential to democratize access to essential health resources across diverse socio-economic strata. Ensuring equitable access to healthcare resources can not only enhance individual health outcomes but also has the potential to foster a sense of security, dignity, and belonging within communities. The pursuit of universal health coverage through health insurance has the power to nurture inclusive societies where every individual can thrive and contribute meaningfully.

Healthcare Disparity: Insurance Protection Gap

The healthcare insurance protection gap represents a significant challenge in ensuring universal access to essential medical services. This gap refers to the disparity between those who have adequate health insurance coverage and those who do not, leaving millions of individuals and families vulnerable to financial strain and limited healthcare access. The consequences of this gap are profound, with uninsured or underinsured individuals often delaying or forgoing necessary medical treatments due to cost concerns. Consequently, this exacerbates health disparities and leads to poorer health outcomes across communities. The healthcare insurance gap is mostly evidenced through disparities in wealth, gender, geography and more recently, through digital access.

1. Wealth Disparity

Across the globe, especially in developing nations, individuals face the enduring threat of illness, posing a significant risk to their financial stability. Beyond the direct costs of treatment and medication, households often grapple with the burden of lost income due to illness, perpetuating cycles of poverty and inequality. Disparities in wealth often manifest in access to health insurance. In many countries, including India, individuals from lower-income backgrounds are less likely to have health insurance coverage compared to their wealthier counterparts. This discrepancy can be attributed to various factors, including affordability, awareness, and the availability of insurance options tailored to different income brackets.

The latest National Sample Survey of India indicated that a significant proportion of the Indian population lacked health insurance coverage,

with disparities evident across different wealth brackets. While the wealthiest segments often relied on private insurance, the poorest largely depended on government schemes. However, a glaring gap exists for the middle 30% of the population, who lack adequate financial protection due to issues of affordability and overlaps between schemes.

2. Geographic Disparity

Data from various studies and reports consistently highlight the disparities in health insurance coverage between urban and rural areas. Rural residents are more likely to be uninsured compared to their urban counterparts. This disparity can be attributed to several factors, including limited availability of employer-sponsored health insurance in rural areas, higher rates of unemployment or underemployment, and lower incomes among rural residents. Additionally, the lack of competition among insurers and healthcare providers in rural markets can lead to higher insurance premiums and limited coverage options, further exacerbating disparities in access to healthcare insurance.

According to the World Health Organization (WHO), rural areas often contend with shortages of healthcare professionals and limited access to essential medical facilities, leading to disparities in healthcare access. The limited availability of specialty care services in rural areas may necessitate travel to urban centres for specialized medical treatments, placing an additional financial burden on uninsured or underinsured individuals from rural communities. India, with its diverse population and geographical landscape, mirrors global challenges in ensuring equitable access to healthcare services, particularly between urban and rural areas. According to a report by McKinsey Global Institute, rural areas face a shortage of nearly 6,00,000 doctors and 2 million nurses, aggravating the urban-rural healthcare divide. Bridging the urban-rural healthcare divide requires targeted investments in rural healthcare infrastructure and innovative delivery models tailored to local contexts.

3. Gender Disparity

According to data from the World Health Organization (WHO), women face numerous barriers to healthcare access, including cultural norms, limited financial resources, and geographical challenges. In many regions, cultural beliefs and societal expectations prioritize the health needs of men over those of women, leading to unequal treatment and neglect of women's health issues. Additionally, economic factors such as lower income and employment opportunities further exacerbate disparities, making it difficult for women to afford essential healthcare services. In terms of health insurance coverage, gender disparities also exist, with women often facing higher premiums and fewer coverage options compared to men.

According to a report by the Commonwealth Fund, women are more likely to be uninsured or underinsured, leading to greater financial burdens and barriers to accessing timely and appropriate healthcare. On average, women earn less than men across various industries and occupations worldwide. As a result, women may struggle to afford health insurance premiums or out-of-pocket healthcare expenses, leading to delays in seeking care or forgoing preventive services altogether. Furthermore, women are more likely to work in part-time or informal sectors with limited access to employer-sponsored health insurance, further increasing disparities in coverage.

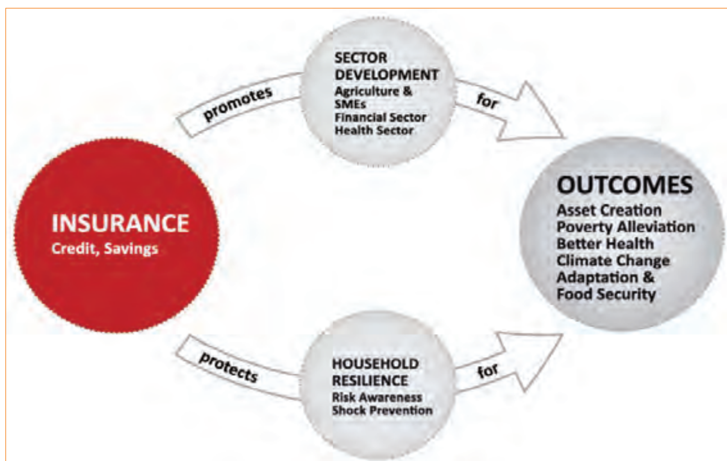
4. Digital Access Disparity

The COVID-19 pandemic catalysed the adoption of digital technologies in healthcare and health insurance services. However, this digital transformation has also revealed a widening gap between those who can easily access digital healthcare and those who cannot. Particularly concerning is the exclusion of vulnerable groups, such as the elderly and individuals with disabilities, from online healthcare services. According to a report by the World Health Organization (WHO), digital healthcare disparities disproportionately affect marginalized populations, exacerbating existing health inequities. To bridge this gap, governments and healthcare organizations must prioritize digital inclusion initiatives, including improving digital literacy among vulnerable populations and ensuring that digital healthcare platforms are accessible and user-friendly for individuals of all ages and abilities.

Inclusive Healthcare through Insurance

Insurance has the capacity to promote social inclusion by acting as a crucial "financial safety net," safeguarding against a wide array of risks. The sector also plays a broad role in fostering inclusion, beyond simply mitigating risks to actively preventing them and bridging protection gaps, across both life and non-life domains. Despite the seemingly inevitable occurrence of extreme events, insurance, when paired with proactive risk management strategies, can significantly mitigate their impact on individuals and communities. When integrated with other financial services such as credit or savings, insurance can propel agricultural, health, and financial sector development while bolstering household resilience. Ultimately, these collective efforts translate into enhanced welfare and resilience for individuals and communities alike. Inclusive insurance contributes to sector development and household resilience through two distinct pathways- the promotion pathway and the protection pathway (Chart 1).

Chart 1: Pathways to Inclusive Insurance



Source: Access to Insurance Initiative

- **Promotion Pathway-** In this pathway, insurance facilitates access to markets and entrepreneurial activities, thereby fostering the development of agricultural, financial, small and medium-sized enterprises (SME), and health sectors. In terms of health insurance, the sector can induce behavioural changes through "ex-ante" effects, where individuals alter their behaviour due to the security provided by insurance coverage. Health insurance incentivizes higher and timelier utilization of preventive and curative care, driven by insurers' vested interest in ensuring positive health outcomes for policyholders. Additionally, health insurance coverage encourages individuals to seek medical care promptly after falling ill. A robust health sector not only fosters employment and economic growth but also builds human and social capital, particularly in rural areas, thereby shielding individuals from losing livelihoods, social standing, and falling into poverty traps.

- **Protection Pathway-** The protection pathway of insurance shields individuals from the adverse consequences of risk events, bolstering household resilience to shocks. Through this pathway, insurance, coupled with financial inclusion, safeguards vulnerable populations from the negative economic impacts of risk events. By providing immediate access to healthcare services following the occurrence of a health issue, insurance enables individuals to mitigate some of the effects of the shock without depleting their livelihood assets. Furthermore, insurance can play a proactive role in preventing shocks by raising awareness of risks and implementing risk-reduction measures. The combined effects of shock protection and prevention enhance household resilience, preventing individuals from regressing into poverty and promoting stable development outcomes.

Building Resilience through Health Insurance

Some of the ways in which health insurance works as a tool for social and financial inclusion are given below.

1. **Mitigating Economic Hardships-** In economies where formal

risk pooling options are limited, households facing poverty often resort to harmful coping mechanisms, such as selling off vital assets. Health insurance emerges as a vital buffer, easing the financial strains of adverse events and preventing individuals from resorting to such detrimental strategies. By emphasizing preventive measures, insurance not only cushions against economic hardships but also cultivates resilience within communities. Additionally, insurance plays a crucial role in pre-empting risk events by encouraging and facilitating access to preventive healthcare, thus reinforcing social protection systems.

Chart 2: Improving Well-Being through Insurance

Source: MAPFRE Economics

2. **Safeguarding Livelihood Assets-** Health insurance serves as a crucial safeguard against the depletion of livelihood assets following health-related shocks. During crises, households frequently adopt distress measures, such as selling livestock or withdrawing children from school, to alleviate financial burdens. However, these coping mechanisms undermine long-term development prospects by eroding essential assets. Health insurance mitigates such risks by reducing out-of-pocket expenses during health emergencies, thereby safeguarding livelihood assets. Studies also indicate the positive impact of insurance coverage on reducing out-of-pocket health expenditures, underscoring its role in preserving economic stability for vulnerable households.

3. **Proactive Risk Prevention-** Beyond merely mitigating the impact of shocks, health insurance acts as a proactive instrument in risk prevention. By facilitating access to preventive care and incentivizing healthier behaviours, insurance lowers the likelihood of adverse health events before they occur. This preventive approach not only enhances individual health outcomes but also contributes to overall risk reduction within communities. Similarly, other forms of insurance, such as property insurance, promote safety standards and encourage risk-reducing measures, thereby enhancing resilience against potential hazards.

4. **Strengthening Social Protection-** Insurance enhances the effectiveness of social protection systems by distributing the burden of significant shocks and enhancing their operational efficiency. Collaboration with insurers enables governments to leverage their expertise in risk assessment and financial resources, thereby bolstering the sustainability of social safety nets. Insurers play a pivotal role in streamlining claims processing and contribution management, particularly in regions with weak governance structures. By complementing government initiatives, insurance fosters greater inclusivity within social protection frameworks, ensuring that the most vulnerable populations receive adequate support during times of crisis.

Determinants of Inclusive Health Insurance

Health insurance schemes are being increasingly recognized as crucial tools for financing healthcare provision, especially in low-income countries. These schemes address the high demand for quality healthcare services and the underutilization of health services in many regions. Non-profit, mutual, community-based health insurance schemes have emerged in various countries, and these schemes operate on principles of mutual aid, solidarity, and collective pooling of health risks, often in collaboration with local healthcare providers like hospitals.

Some of the determinants of inclusive and sustainable insurance are:

1. **Flexibility in Payment Mechanisms**- Ensuring the inclusivity of health insurance schemes hinges on flexible payment options. Tailoring payment methods to local contexts can help surmount financial barriers and encourage participation among diverse populations. Strategies like instalment payments via community-based systems or fundraising activities such as lotteries can render insurance more accessible to those with limited financial resources. Additionally, exploring state intervention, such as targeted subsidies, can further bolster affordability and foster widespread coverage.

2. **Community Engagement and Social Protection Expertise**- The success of health insurance initiatives heavily relies on experience in social protection and community involvement. Grassroots organizations often serve as crucial intermediaries between healthcare providers and community members in community financing schemes. Simplifying administrative processes and ensuring transparency in claims management are vital for cultivating trust and ensuring the effective utilization of insurance benefits. Moreover, forging partnerships with established organizations experienced in financial services and social protection can enhance the performance and longevity of insurance schemes.

3. **Availability of Quality Healthcare Providers**- The presence of reliable healthcare providers is indispensable for the sustainability of health insurance schemes. Collaborative partnerships between insurers and healthcare facilities are important for stimulating demand and maintaining financial stability. The quality of care offered by healthcare providers significantly influences consumer confidence and willingness to invest in insurance coverage. Addressing healthcare delivery issues concurrently with insurance implementation is crucial to instilling confidence in potential beneficiaries.

4. **Community and Household Dynamics-** Community and household characteristics play a crucial role in shaping the demand for health insurance. Socio-economic factors, cultural norms, and risk perceptions all influence individuals' inclination to enrol in insurance schemes. Poverty and social exclusion can pose formidable barriers to enrolment, highlighting the necessity of targeted outreach and affordability measures. Understanding local beliefs and practices concerning illness and risk can inform the design of insurance products and outreach strategies, fostering greater community engagement and trust.

5. **Cultural Perceptions of Illness and Risk**- Prevailing notions of illness and risk perception significantly shape individuals' attitudes towards health insurance. Cultural beliefs and traditions regarding saving and solidarity also impact participation in insurance schemes. Building solidarity and trust within communities is pivotal for garnering collective support for insurance initiatives, especially in diverse or fragmented populations. By aligning insurance offerings with community values and addressing cultural barriers, health insurers can enhance inclusivity and promote widespread coverage.

Challenges to Inclusive Insurance

In mature markets where insurance has long been valued, successive crises such as the 2008 global financial crisis and the Covid-19 pandemic, coupled with shifting work and career patterns, have disproportionately affected the middle class. Many working individuals now find themselves in vulnerable positions, caught between declining or uncertain incomes and increasing expenses. As such there is a growing trend of people opting out of insurance, potentially leaving them inadequately protected in times of need. Despite these trends, insurance companies have been slow to adapt to this new reality. The traditional bias towards linear career paths, based on full-time employment with a single company, persists in many insurance

models. Moreover, the changing landscape of work, characterized by flexible arrangements and gig economy jobs, is often overlooked, further widening inclusion gaps.

Conversely, most emerging markets lack adequate insurance coverage altogether. While the middle class in these markets is expanding, it is often characterized by precarious earnings and informal work arrangements. Many households remain precariously close to falling into poverty with just one crisis. In the absence of formal insurance, reliance on more expensive, uncertain, and informal risk management strategies becomes prevalent. Yet, insurers tend to focus on a small segment of high-income earners, missing out on a significant opportunity to cater to a broader market. Moreover, insurance products are often imported from Western models without sufficient adaptation to local needs, and distribution networks remain underdeveloped.

As such, companies whose primary purpose is to mitigate risks have not evolved to address emerging challenges adequately. This lack of evolution has repercussions for trust: in emerging markets, there is often a lack of familiarity with insurance models, while in mature markets, mutual suspicion exists between companies and potential customers. The lack of insurance inclusion has significant implications for resilience, leading to widening protection gaps and increased exposure to risks. This situation underscores the urgent need for a new model of inclusive insurance that considers points of disruption and transition, while also fostering resilience by safeguarding against financial and social vulnerabilities.

Chart 3: Barriers to Inclusive Financial Insurance

Source: MAPFRE Economics

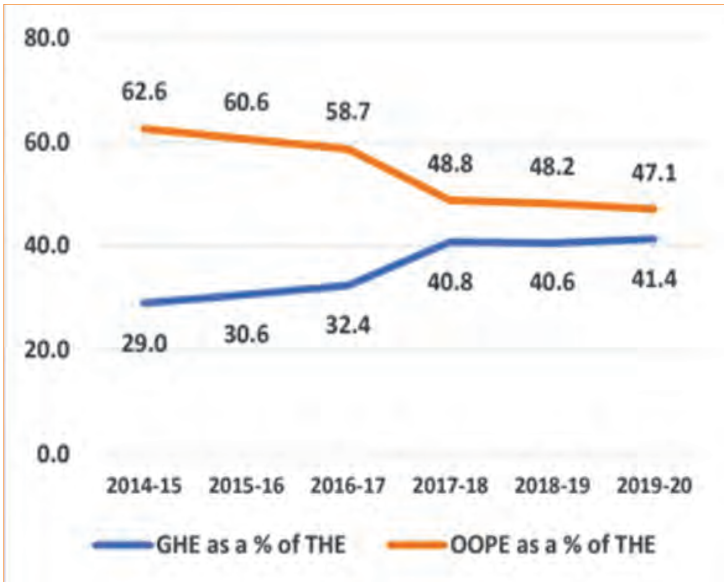
Inclusive Healthcare Finance: Indian Context

A report titled “Decoding India’s Healthcare Wallet: A $100bn Tale” by Enzia, shed light on the dynamics of healthcare expenditure, revealing a concerning statistic- a mere 26% of healthcare spending in India is covered by insurance, leaving a substantial 74% of healthcare expenses uncovered. This includes private insurance schemes, government initiatives, and other similar programmes. This means that only a fraction of the population benefit from government-sponsored plans (300 million), group insurance (200 million), and personal policies (60 million). This leaves a staggering 900 million Indians without any form of health insurance protection. National Health Accounts (NHA) 2019-20 has found that out-of-pocket expenses constitute a significant 47.1% of total healthcare spending, as against the world average of 18%. This heavy reliance on personal funds places immense financial strain on individuals and families, often forcing them to forgo crucial medical treatment or plunge into debt.

In India’s current financial landscape, a significant portion of household income is held in traditional assets such as land and gold (Household Finance Committee). Despite efforts to promote financial literacy and encourage investment in financial instruments like insurance, many individuals remain unaware of the benefits and coverage offered by health insurance policies. This lack of awareness, coupled with the perceived complexity of insurance contracts and high premiums, contributes to low insurance penetration rates and leaves a substantial portion of the population vulnerable to financial risks associated with healthcare expenses.

According to data from the Insurance Regulatory and Development Authority of India (IRDAI), the non-life insurance segment, which includes

Chart 5: Government Health Expenditure (GHE) and Out-of-Pocket Expenditure (OOPE) as a share of Total Health Expenditure (THE) in India



Source: National Heath Accounts

health insurance, has struggled with low density and penetration rates over the years. Between 2001 and 2017, penetration rates remained below 1%, reflecting a glaring lack of adequate risk coverage for individuals across the country. This disparity is particularly acute in rural areas, where voluntary participation in insurance schemes is minimal, and access to healthcare services is limited. The urban-centric focus of private insurers further compounds the issue, as rural residents face challenges related to affordability, comprehension of insurance products, and accessibility to insurance providers.

Several factors contribute to this substantial health protection gap, including the poor state of healthcare systems and limited awareness and understanding of health insurance plans. The lack of awareness and understanding of complex insurance products as a key challenge, particularly among the "missing middle" segment of society. However, the challenges facing the health insurance sector in India extend beyond issues of accessibility and affordability to encompass broader systemic concerns within the insurance industry. Market overcrowding, pricing problems, and a capital crunch have raised concerns about the financial stability of insurance companies and their ability to meet the evolving needs of consumers. The lack of innovative and tailored insurance products further limits the options available to individuals, particularly those in low-income and unorganized sectors.

In a recent report, the National Insurance Academy (NIA) has proposed a series of policy recommendations aimed at bridging the health insurance gap and promoting greater inclusivity. Their recommendations include waiving GST on premiums for low-income and unorganized sector workers, offering discounts for the elderly, and promoting preventive health practices such as outpatient department (OPD) covers and fitness-related services. Additionally, the report also emphasizes the importance of long-term critical illness cover and suggests extending premium payment options to enhance affordability and accessibility for all segments of the population. Along with these policy changes, consumer education and awareness campaigns and digital sales channels, can play a pivotal role in improving the acceptance and uptake of health insurance, ultimately making it more affordable and accessible for end-users in the country.

Conclusion

From providing financial security to mitigating risks, insurance plays a pivotal role in empowering individuals and communities worldwide. However, despite its significance, there are still substantial challenges to overcome in ensuring that insurance is accessible and equitable for all. Some of the actionable steps for achieving equitable access to healthcare and fostering inclusion and sustainability include the following:

1. **Policy Reforms for Financial Inclusion**- Policymakers must prioritize reforms aimed at enhancing financial inclusion, creating an enabling environment

for insurance markets to thrive. This includes implementing measures to reduce barriers to entry, encouraging innovation, and ensuring regulatory frameworks that prioritize consumer protection.

2. **Enhanced Consumer Education-** There is a pressing need for enhanced consumer education initiatives to increase awareness and understanding of insurance products and their benefits. By providing clear and accessible information, consumers can make informed decisions about their insurance needs, thereby increasing uptake and participation.

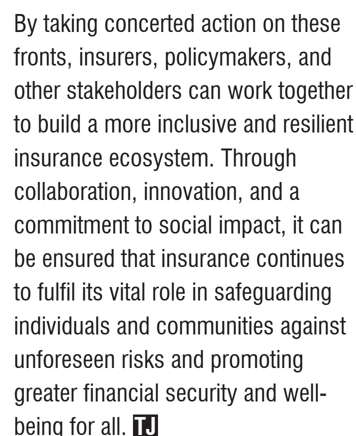
3. **Innovative Distribution Channels-** Developing innovative distribution channels, such as leveraging technology and partnering with non-traditional intermediaries, can help reach underserved populations. By expanding access to insurance products through mobile platforms, community networks, and other channels, insurers can broaden their reach and serve a more diverse customer base.

4. **Regulatory Oversight and Consumer Protection-** Regulators play a crucial role in ensuring the integrity and stability of insurance markets. Strong regulatory oversight, coupled with effective enforcement mechanisms, is essential to protect consumers from predatory practices and ensure fair and transparent market conduct.

5. **Partnerships for Social Impact-** Collaboration between insurers, governments, NGOs, and other stakeholders is key to driving social impact and addressing societal challenges. By working together, these entities can leverage their respective expertise and resources to develop innovative solutions that promote inclusivity and resilience.

6. **Investment in Research and Development-** Continued investment in research and development is essential to drive innovation and address emerging risks and challenges. By investing in cutting-edge technologies, data analytics, and risk modelling, insurers can better understand and respond to the evolving needs of their customers.

7. **Promotion of Sustainable Practices-** Insurers have a responsibility to promote sustainable practices that mitigate environmental, social, and governance risks. By incorporating sustainability criteria into underwriting and investment decisions, insurers can contribute to building a more resilient and sustainable future for all.



By taking concerted action on these fronts, insurers, policymakers, and other stakeholders can work together to build a more inclusive and resilient insurance ecosystem. Through collaboration, innovation, and a commitment to social impact, it can be ensured that insurance continues to fulfil its vital role in safeguarding individuals and communities against unforeseen risks and promoting greater financial security and well-being for all. TJ

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Micro Insurance as a Tool for Financial Inclusion in India: Issues and Road Ahead

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Abstract

Micro insurance products can play a distinctive role in accelerating the financial inclusion. With very low insurance density and penetration in India, there is a need for introducing insurance products for lower income groups especially in rural and semi-urban areas so that they can be protected from unforeseen risks. Micro-insurance in life insurance sector is specially designed for protecting the economically vulnerable group of people with affordable insurance products. But the issues like inadequate information and awareness, lack of variety, poor product design and poor business model act as barrier for the growth of micro insurance business in India. To attain the objective of financial inclusion through extending the coverage of life micro insurance, holistic approach involving insurance companies, government, local agents, NGOs, SHGs are required to be adopted.

Keywords

Insurance Density, Insurance Penetration, Financial Inclusion, Economically Vulnerable.

Introduction

Economic and social inequalities generally create a major hindrance for the growth and development process of a country. Like many other developing countries, India has also experienced growth to a certain extent but the benefits of such growth could not percolate to all the sections of the society. The economic inequalities across the states of India and uneven growth across the region have made the situation precarious and for holistic development of the country a collective approach is required to be adopted by the government which is expected to bring the economically and socially vulnerable groups into the mainstream society and uplift them socially and economically. Considering the sensitivity of the scenario, inclusive growth strategies have been adopted by the Government of India in the recent past to elevate the status of the disadvantaged section of the society. The existence of underprivileged people across the states of India clearly vouches the proposition that the development cannot be achieved in its truest meaning unless and until its benefits percolates down to the

lowest income strata of the society. Thus, inclusion of the disadvantaged class at the financial front is extremely important and financial inclusion is one of the tools to meet the objective of inclusive growth.

Financial inclusion is the process of ensuring that individuals especially poor people have access to basic financial services in the formal financial sector (Ozili, 2020). It ensures access to useful and affordable financial products and services that meets their needs and demands in a responsible and sustainable manner. It is the participation of weaker section and low-income group in the formal financial sector through banking, insurance and equity products. Financial Inclusion is a crucial action taken by the government towards building a progressive economy with inclusive growth and development of marginalized and socially neglected section of the society. It will ensure inclusive and equitable growth of the nation. Access to financial services will empower the vulnerable groups. Financial Inclusion along with financial literacy and Consumer protection improves the financial stability of a country.

In India, inclusion of people in the financial sector through banking products has been growing tremendously. It started with the nationalization of banks in 1969 together with introduction of priority sector lending approach in 1971 and establishment of Regional Rural Banks in 1975. Thereafter in 2015 a remarkable breakthrough came with the launch of Pradhan Mantri Jan Dhan Yojana (PMJDY) which is the biggest financial inclusion initiative in the world. The scheme brought 50.09 crore people within the purview of banking facilities as on August 2023 which included 67% from rural and semi urban areas. It was initiated with a motive that availing banking facilities to all citizens will encourage savings which is related to broader economic objectives i.e., lending and ultimately GDP growth.

Financial Inclusion and Insurance

Apart from financial inclusion through banking services, Insurance products also contribute towards financial inclusion. Insurance occupies a major role in managing the risk of individuals and businesses. It mobilizes the savings to productive investment avenues thus boosting capital formation in the economy (Devarakonda, 2016). Policyholders generally pay an agreed amount called premium to the insurance company with an assurance to get indemnified in case of any loss or uncertainty. Poor and weaker section, who are vulnerable to risk and losses, should insure themselves with life and non-life insurance products. But owing to low disposable income, the benefits of these services could not be availed by them. Providing easy, safe and affordable life insurance services will ensure a sustainable social protection to the poor households. This necessity has led to the introduction of Life Micro Insurance products in India by Government of India and IRDAI. Life micro insurance is specially designed for protecting the low-income group people with affordable insurance products to help them recover from common health risks (Nandru, et al., 2016). Access to micro-insurance will contribute significantly to attaining two of the Sustainable Development Goals adopted by UN Members by 2030 i.e., ending poverty in any form and reduce inequalities within and among countries.

Status of Insurance Density and Penetration in India

India has overtaken China and is the highest populated country in the world as per UN's projection in 2023. The country being a developing nation, it's financial sector especially the insurance sector has a great potential to grow in future. The development of insurance sector in any country can be measured using two important tools i.e., Insurance Density and Insurance Penetration which are also important measures for assessing the status of inclusion of individuals/groups under the umbrella of insurance (Vimala and Alamelu, 2018; Prasad and Sharma, 2017). Insurance Density is measured as ratio of premium (in US Dollar) to total population. Insurance penetration is measured as ratio of premium to GDP. Table 1 shows Insurance Density and Insurance Penetration of Life Insurance and Non-Life Insurance Sector of India over the past ten years from 2013-2022. These data will help us understand the present status of insurance inclusion in India. The table

1 also shows the range of the measures along with mean, standard deviation and Compounded Annual Growth Rate over the years. It is worth noting that the growth rate of insurance density for non-life insurance is higher than life insurance. And the combined growth of insurance density for the industry is 5.87% which is much higher than the population growth rate of the country. However, Insurance Penetration is seen to have negative growth rate for life insurance sector and very low for non-life insurance. Overall industry growth rate of insurance penetration is also negligible at 0.25%. This indicates that insurance sector is not growing at the same rate as of the country's GDP. In case of absolute values, both insurance density and penetration are higher in life insurance than non-life insurance sector. The mean value also shows a similar picture. This indicates that the citizens are more aware about life insurance than general insurance products.

Table 1: Insurance Density and Insurance Penetration over the years in India

Year	Life		Non-Life		Industry	
	Density (in USD)	Penetration (in %)	Density (in USD)	Penetration (in %)	Density (in USD)	Penetration (in %)
2013	41	3.10	11	0.80	52	3.90
2014	44	2.60	11	0.70	55	3.30
2015	43	2.72	12	0.72	55	3.44
2016	47	2.72	13	0.77	60	3.49
2017	55	2.76	18	0.93	73	3.69
2018	55	2.74	19	0.97	74	3.70
2019	58	2.82	19	0.94	78	3.76
2020	59	3.20	19	1.00	78	4.20
2021	69	3.20	22	1.00	91	4.20
2022	70	3.00	22	1.00	92	4.00
Mean	54.05	2.89	16.62	0.88	69.97	3.77
SD	10.38	0.22	4.38	0.12	15.39	0.31
CAGR (%)	5.49	-0.33	7.18	2.26	5.87	0.25

Source: Handbook in Indian Insurance Statistics 2022-23

The Insurance Industry has experienced high insurance penetration after liberalization which brought many private players along with their foreign counterpart in the market. However, at this point insurance density is progressing very low and insurance penetration is at declining stage.

The reason may be attributed to the cause how insurance products are launched in the market. They are widely used just as a saving tool and not as a tool for providing protection against risk. Awareness of people in this regard is highly needed to avail the benefits of insurance products (Vimala & Alamelu, 2018). People need to be aware of the benefits that they can avail by effectively utilizing their money and the available financial products in the market. Apart from that, high amount of premiums can be another issue inhibiting the entry of people of middle or low income group in insurance market. Thus, there's need for introducing insurance products for lower income groups especially in rural and semi-urban areas to protect them from unforeseen risks.

Micro Insurance and Financial Inclusion

In order to facilitate insurance penetration among the low income groups, IRDAI has introduced several micro-insurance policies to promote insurance coverage among economically weak sections in society. The micro insurance products and regulations of IRDAI provide direction for rural and social poor upliftment thus ensuring financial inclusion and social protection. Micro insurance products mainly focus on life, disability, health, property, crop and livestock insurance. Micro-insurance is a low premium risk management product designed especially for low income people in rural or semi urban areas who are not served by formal insurance sector (Singh and Bihari, 2018). It is a risk transfer device with low premium and low coverage or sum assured with life or pension or health benefits not exceeding an amount of Rs. 200000 as per IDRAI (Micro Insurance) Regulations, 2015. Among the 24 life insurance companies operating in India and offering life micro insurance product, LICI lead the market significantly followed by India First Life Insurance Companies in 2022-23. However, there is still a demand for variety of affordable and easy insurance product in the market for the vulnerable section of the society. These products are delivered by Life Micro Insurance Agents who are entities or individuals like Non-Government Organisation (NGO), Self-Help Group (SHG), Micro Finance Institution, RBI regulated NBFCs, District Cooperative Banks, RRBs, Urban Co-operative Banks, Primary Agricultural Cooperative Societies, Cooperative Societies registered under any of the Cooperative Societies Acts and Business correspondents appointed in accordance to the extant RBI Guidelines with any of the Scheduled Commercial Banks (Adhana and Saxena, 2017).

With India's national mission for financial inclusion, in 2015 three initiatives have been taken up by government of India under Jan Suraksha Scheme to safeguard human life against unforeseen risks and losses. This led to the introduction of Pradhan Mantri Jeevan Jyoti Bima Yojana (PMJJBY), Pradhan Mantri Suraksha Bima Yojana (PMSBY) and Atal Pension Yojana (APY). These three schemes aimed at financial inclusion and social security coverage. These schemes aim to provide essential financial services to individuals from underprivileged backgrounds, thereby reducing their financial vulnerability. On 26 April 2023, PMJJBY, PMSBY and APY had 16.2 crore, 34.2 crore and 5.2 crore enrolments respectively. The Social insurance schemes of the government PMJJBY and PMSBY provided support to 6.64 and 1.15 lakh families respectively. Claims settles amounted to Rs. 13,290 crores and Rs. 2,302 crores respectively for PMJJBY and PMSBY as on 2023. Undoubtedly the social insurance schemes launched by government are lucrative options for poor people which pose a great threat to the micro insurers to grow their business in India (Singh, 2019).

Life Micro Insurance Business in India

Micro Insurance in India is provided for insurance of life, disability, health, property, crop and livestock of economically vulnerable section of the society. It focuses on rural and urban poor who cannot afford the mainstream insurance policies having high amount of premium (Singh and Gangal, 2011). Several insurance companies have come up with micro insurance products with the approval of IRDAI. The products include life insurance (endowment/savings/pension), term insurance (Protection), health insurance, property insurance (damage cover for loss of assets/agricultural inputs) and personal accident (disability). However, life micro insurance data could be recovered from IRDAI. Thus, data relating to the micro insurance business of life insurance companies over the years under Individual and Group Insurance category has been highlighted in table 2 and table 3 respectively.

Table 2: New Business under Individual Micro-Insurance Portfolio -Life Insurers

Year	Life Insurance Corporation of India		Private Insurers		Industry	
	No. of Policies	Premium (₹ in lakh)	No. of Policies	Premium (₹ in lakh)	No. of Policies	Premium (₹ in lakh)
2013-14	2,205,820	8,635.77	561,339	929.29	2,767,159	9,565
2014-15	400,341	1,640.23	416,027	1,249.22	816,368	2,889
2015-16	452,291	1,953.78	458,655	1,217.95	910,946	3,172
2016-17	480,892	1,587.13	475,269	2,234.37	956,161	3,822
2017-18	564,541	1,786.81	274,470	2,917.02	839,011	4,704
2018-19	617,653	2,091.43	247,444	1,118.44	865,097	3,210
2019-20	859,375	22,208.97	169,017	456.74	1,028,392	22,666
2020-21	992,200	35,293.18	77,464	233.94	1,069,664	35,527
2021-22	732,007	25,792.36	144,975	3,921.85	876,982	29,714
2022-23	323,767	16,474.15	125,753	3,544.68	449,520	20,019
Mean	762,888.70	11,746.38	295,041.30	1,782.35	1,057,930	13,529
SD	548,289.73	12,413.64	170,584.80	1,295.34	623,681	12,411
CAGR (%)	-17.46	6.67	-13.89	14.33	-16.62	7.67

Source: Handbook in Indian Insurance Statistics 2022-23

Table 2 shows the number of policies and total new premium of private and public life insurance companies under individual life micro insurance product over the past ten years. The data reveals that during 2014-15, a steep decline in number of policies could be seen due to superseding of IRDA (Micro Insurance) Regulations, 2005 with Insurance Regulatory and Development Authority of India (Micro Insurance) Regulations, 2015. The new regulations brought several restrictions in carrying out micro insurance business. Especially in the life micro insurance business, it was resolved that insurers shall not offer micro insurance products under unit linked platform. ULIP was one of the star products of LICI, which got discontinued with the introduction of new regulatory regime, thus resulting into fall in the business of LIC in 2014-15. The new regulation introduced lock-in period of five years, discontinuance charges and further if any policies not in compliance to these regulations were to be withdrawn from 2016 which severely affected the life micro insurance business, especially of LICI. The regulation further permitted several more entities in micro insurance business like Business Correspondents of Scheduled commercial banks, District Co-operative banks, Regional Rural Banks, Urban Co-operative banks, Primary agricultural co-operative societies, other co-operative societies, RBI regulated NBFC-MFI's to improve Micro Insurance penetration in India (IRDAI Annual Report, 2024-25).

However, the number of policies of LICI increased from 2015-2016 to 2021-22, but there was more than 50% fall in the year 2022-23. As a result, the premium of LICI also fell sharply. Aggressive marketing of social micro insurance products by Govt of India may be one of the factors leading to decline in life micro insurance products of LICI. In private insurers, a drop in number of policies and premium can be seen in the year 2022-23. The CAGR also reveals a

drop in the number of policies over the years for both LICI and private insurers. However, premium amount shows growth of 6.67% and 14.33% for LICI and private insurers respectively. The overall growth rate of premiums over the years is 7.67% while number of policies face negative growth of -16.62% over the years.

A large sum of business is procured under group portfolio of life micro insurance. The group represents people with similar profession such as self-help groups, cooperative societies, domestic worker, drivers association, etc. The group mobilizes their savings collectively to cover themselves with insurance which would not have been possible with individual insurance products as they could not afford it individually (Paramasivan and Rajaram, 2015). The group micro insurance products have been very popular among the unorganized groups.

Table 3: New Business under Group Micro-Insurance Portfolio -Life Insurers

Year	Life Insurance Corporation of India		Private Insurers		Industry	
	Lives Covered	Premium (₹ in lakh)	Lives Covered	Premium (₹ in lakh)	Lives Covered	Premium (₹ in lakh)
2013-14	11,887,303	12,581.45	1,291,741	1,595.23	13,179,044	14,177
2014-15	20,596,725	28,193.80	2,555,150	3,368.98	23,151,875	31,563
2015-16	22,603,919	25,426.39	6,650,805	4,816.67	29,254,724	30,243
2016-17	22,965,393	34,007.62	9,281,170	12,035.36	32,246,563	46,043
2017-18	37,316,017	63,184.98	21,586,921	75,452.04	58,902,938	138,637
2018-19	NA	NA	121,307,855	320,573.78	121,307,855	320,574
2019-20	5,796,172	3,455.13	134,932,822	439,190.29	140,728,994	442,645
2020-21	4,262,206	11,452.57	97,036,954	409,853.18	101,299,160	421,306
2021-22	5,496,957	6,736.63	126,575,890	598,151.75	132,072,847	604,888
2022-23	7,220,631	5,114.31	155,463,417	854,147.07	162,684,048	859,261
Mean	13,814,532	19,015	67,668,273	271,918	81,482,805	290,934
SD	11652694.68	19285.49	64414954.59	301379.54	56146197.24	290105.1
CAGR (%)	-4.86	-8.61	61.45	87.44	28.57	50.75

Source: Handbook in Indian Insurance Statistics 2022-23

Under the group micro insurance new business of LICI and Private life insurers over the last ten years, the growth of business of LICI reveals a negative growth of premium at -8.61% as depicted in table 3. The number of lives covered also shows a negative growth of -4.86% over the study period. The reason may be attributed to the significant reduction in the purchase of micro insurance products of LICI over the years. In 2013-14, where 5292 schemes were underwritten by LICI, it got reduced to 0 in 2018-19 and only 1 in 2019-20. Thus, the lives covered and premium also decreased significantly. The business of LICI might have got influenced by the clarification on new group insurance products administration in 2019 released by IRDAI, where it was said that insurance will cease as soon as member leaves the group except where it is agreed in advance to continue the benefit even after the member leaves the group. Also, half yearly compliance certificate of group insurance portfolio of life insurer to be filed with the authority

regularly. Though the business of LICI shows negative growth, group business by private insurers, shows a commendable growth in premium as well as lives covered. The CAGR of premium accounted for 87.44% over the past ten years and lives covered at 61.45%. If we look at the absolute figures of premium and lives covered of both the group of life insurers, private players are leading the market since 2017-18 where LICI constituted majority of the share before 2017-18. Overall industry growth in lives covered accounted for 28.57% while growth in premium accounted for 50.75% in the last decade.

The rise in the business of private insurers can be attributed to their investment in marketing for generating awareness among the citizens and smooth disbursement of the policies. LICI had very slow growth in micro insurance agents. While private insurers grew at a very faster rate every year since 2015 (Philip and George, 2019). Talking about the numbers, LICI had 18401 MI agents in 2014 which went up to 19437 in 2023, while private MI agents were 1656 in 2014 which rose to 82479 in 2023. Since numerous private insurers introduced micro insurance products and also had stressed in their marketing of products through agents and other mass media which led to positive growth in premium collection.

Major Issues in the Growth of Micro Insurance for Financial Inclusion

Introduction of social insurance schemes by government of India, like PMJJBY and PMSBY attracted numerous low income group people which also affected the growth of life micro insurance products available in the market. But there are several more severe issues hindering the growth of life micro insurance products in India which are highlighted as follows:

Inadequate Information and Awareness: One of the major issues for slow growth of the insurance business is the lack of awareness about the benefits of insurance. People consider it simply as a saving tool and not as protection from unforeseen losses. Similar is the situation in Micro Insurance business as the poor and low income group people are unaware about the necessity and benefits received with a regular small contributions in micro insurance products (Platteau and Gelade, 2017). The delivery agents and insurance companies should spend on marketing medias to provide information and generate awareness among the prospective buyers which shall then build customers' trust on the insurance companies regarding the products.

Claim Settlement Complications: The microinsurance policy mainly covers those who are illiterate or have little knowledge regarding documentation etc. A simple mismatch between the policy documents and their personal documents may cause trouble in settling their claims. This effects the claim settlement ratio of the insurers thus undermining the service standards of insurers and hindering the growth of micro insurance market. A common person feels lost at the time of claim filing because of lack of awareness about claim process. Complying with documentations makes it difficult and time consuming for the insured or legal heirs.

Lack of Variety and Improper Product Design: India is a vast country with 1 out of 5 people belonging to poor category. To cater to the need for insuring their life, health, crops, etc., a wide variety of insurance products are needed. In micro insurance, the variety of insurance products are not available as the participation of the insurance companies are also very low and the schemes provided by the insurers are also limited. Further, customization of insurance products is also not available in micro insurance.

Inefficient Delivery Mechanism: The delivery mechanism of these products also raise concern for the insurers. The service delivery by micro insurance agents is very costly which raises the expense load of the companies. Apart from that the small ticket size also carry higher per unit transaction cost. Due to inefficient intermediaries, the renewal of life policies does not happen on time and majority of policies get lapsed thus resulting into high policy lapsation rate.

Poor Business Model: The business model for these micro insurance products does not attract good intermediaries. The model focuses on traditional insurance distribution model with brokers

and agents. Further, small margin for the intermediaries hinders their involvement in marketing of micro insurance products. The IRDAI regulations 2015 also limits the scope of micro insurance agents to micro insurance products only. They cannot distribute any other insurance products in their agency which further hinders the growth of micro insurance business.

The Road Ahead

India being a developing economy has a strong potential for growth of insurance sector. With very low insurance density and penetration, if adequate measures are adopted, can result into enormous rise in insurance policy holders in the country. India being a country having very large number of low income group people, the need for insurance arises as these people are vulnerable to any and every uncertain events. Since they have low and unstable income, there is a necessity for insuring their life and property to further avoid any damage. To attain the objective of financial inclusion through extending the coverage of micro insurance in every nook and corner of the country, holistic approach is required to be adopted and this can be ensured through collective and collaborative effort from the Insurance Companies, Government, IRDAI, NGOs, Intermediaries and Media.

Role of Insurance Companies: Insurance companies are expected to put relentless efforts for product innovation that cater to the specific needs of each segment of society. Research and Development department of Insurance Companies are supposed to conduct continuous research and develop customized micro insurance products to address the specific needs of low income population of the country. Apart from that the insurance companies should spend on various marketing medias to spread awareness about the products which will also generate trust among the buyers for investing in the tool.

Role of Government: The role of the government in promoting micro insurance to achieve the goal of financial inclusion is of paramount importance. The government in order to include the underprivileged class of the society can introduce subsidies and tax breaks for some targeted policies and can motivate the downtrodden class for adoption of micro insurance products. The micro finance lending may be tagged with micro insurance for availing dual benefit for the beneficiaries.

Role of IRDAI: Complications on tie up between life and general micro insurance provider may be eased for faster settlement of claims. Apart from that, to improve micro insurance density, IRDAI can provide micro insurance policy targets to the private insurers for accomplishing during a year. Guidelines for necessary awareness campaign can also be initiated by IRDAI so that all the insurance companies should adopt necessary campaign for educating the people of low income group about the benefits of micro insurance in their life.

Role of NGOs and Agents: The role of NGOs can hardly be ignored keeping in view the ground realities and the reach of NGOs at the doorstep of poorest of the poor. NGOs can play a catalytic role to spread awareness about the probable benefits of micro insurance among the marginalized section of the society. The product delivery mechanism should involve community collaboration in distributing micro insurance products. Insurance employees and agents need to be given adequate training to provide necessary assistance and information to the insured during the complete procedure of taking up a micro insurance policy. Several short duration training should be imparted to the agents from time to time to generate awareness regarding the need and benefits of insurance among the people. The agents should be given the complete responsibility by the insurers to handle and dispose the complaints of the policy holders.

Role of Media: Awareness among the vulnerable groups need to be spread regarding the usage of micro insurance products for saving them from various risks. The reach of media in generating awareness about potential benefits of micro insurance among the common people of both rural and urban areas can hardly be denied. The power of media to create a perception and direct the behaviour of common masses is well recognised. Awareness campaigns through media may be a powerful weapon to educate the marginalized class of the society about the potential benefits of micro

insurance. The social media can also disseminate the relevant information and can persuade the target group.

Conclusion

Micro Insurance is a powerful tool to empower poor and uplift the socially and economically vulnerable group. The present insurance density and penetration level reveals nominal insurance cover which may be raised by bringing the weaker section under the umbrella of insurance. Micro insurance holds hope for extension of protection to millions of poor households in India. Micro Insurance has gained much popularity in group insurance products than individual products and private sector companies have emerged with various products to become market leader in group business. The growth of the micro insurance business has been very slow due to various issues pertaining to Inadequate Information and Awareness, Claim Settlement Complications, Lack of Variety and Improper Product Design, Inefficient Delivery Mechanism and Poor Business Model. To overcome the challenges, the insurance companies should collaborate with the society to facilitate awareness and distribution of micro insurance products among the poor (Singh and Bansal, 2017). The proposition may be linked with various SHGs including a group of people insuring their lives with the finances of their business. It is believed that micro insurance along with micro finance lending will help people come out of poverty (Ukpong and Acha, 2019). Micro finance focuses on utilization of resources for productive ventures thus bringing the beneficiaries out

of poverty while micro insurance will prevent them from falling back into it. Micro insurance along with micro finance will reduce the overall portfolio risk of the people. Further, various measures should be taken to encourage regulatory changes, product development, distribution and financial literacy. Continuous innovation in the product development and distribution should be encouraged by the regulators so that every stakeholders get benefitted. To attain the objective of financial inclusion, coverage of micro insurance needs to be extended to every nook and corner of the country. Thus, a holistic approach is required to be adopted through collective and collaborative effort from all the stakeholders including Insurance Companies, Government, IRDAI, NGOs, Intermediaries and Media. TJ

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Insurance as a Tool for Financial and Social Inclusion

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Abstract

The article describes the contribution of insurance in financial and social inclusion in society. The article presents a picture of past initiatives of the Indian insurance sector to promote financial and social inclusion in India, the future plans and the challenges ahead in achieving this aim. It also highlights the role of digital technology in helping the insurance sector achieve financial and social inclusion.

Keywords

Insurance for Financial and Social Inclusion, IRDAI Initiatives, Micro Insurance, Digital Technology in Insurance, Government Initiatives, Insurance Schemes.

Financial inclusion refers to the availability and equality of opportunities to access financial services. This includes banking, insurance, savings, credit, and other financial products and services. Financial inclusion aims to ensure that individuals and businesses, particularly those in underserved or marginalized communities, have access to affordable and appropriate financial services that can help them manage their finances, invest in their future, and protect against risks.

Social inclusion, on the other hand, refers to the process of ensuring that all individuals and groups in society have equal opportunities to participate in social, economic, and political activities. It involves removing barriers, such as discrimination and marginalization, and promoting equality, diversity, and social cohesion.

When financial and social inclusion are combined, it creates an equitable society where everyone, regardless of their background or circumstances, has access to the financial tools and opportunities they need to participate fully in economic and social life. This can contribute to reducing poverty, inequality, and exclusion, and promoting sustainable development and prosperity for all.

Insurance has a key role to play in developing financial and social inclusion. With the increasing amount of risk in every aspect of life, insurance has assumed significance. This in turn has led to the growth of the insurance and the development of various insurance covers. Insurance policies can act as a saving instrument for people of diverse groups. It helps these groups to build their assets, manage risks and take care of their economic progress.

The catastrophic impact of uncertainties has a particularly severe effect on the most vulnerable sections of population and hence it is but natural that financial and social inclusion through insurance is of paramount importance

Insurance is an important tool that offers protection against unforeseeable risks or events. It offers financial protection in case of deaths, accidents, illnesses or natural disasters.

Under the protective nature of an insurance cover, financial security is accessible to low income groups and marginalized sections of society. Consequently insurance creates social inclusion through risk mitigation, promoting savings and

investment and providing security of livelihood and property for women and other vulnerable groups in society.

The increased percentage of insurance coverage among all strata of society promotes financial stability in the country and helps to increase the pace of sustainable development. This is because protective insurance covers encourage citizens of a country to invest in their education, health or business.

Hence insurance is a crucial factor in promoting financial and social inclusion in a country and its people.

How Insurance Promotes Financial Inclusion

Insurance promotes financial inclusion through the following ways:

Health insurance policies provide policyholders access to high quality medical facilities without worrying about the cost. Insurance makes healthcare affordable and accessible to everyone.

Life insurance not only promises financial stability in the event of the policyholder's death but can also be a valuable method of saving for the long-term and an investment option. With a life insurance policy, families are encouraged to save for the future, and protect their families in case of death of a valuable family member.

Micro insurance is another insurance tool for financial inclusion. Micro insurance is specifically aimed at economically weaker sections where the policies cover small and specific risks. These insurance products are created in collaboration with microfinance institutions. This makes it affordable and accessible to economically weaker sections of the population.

Insurance towards Social Inclusion

Insurance can help achieve social inclusion by bringing the vulnerable and low income groups under the insurance ambit. This should include the unserved and underserved sections of the population.

One way of doing this is through micro insurance products that are accessible to low income groups and the introduction of new products and services to sections of the population like the middle class who find it difficult to afford traditional insurance products.

Social inclusion through insurance is happening through micro insurance products and the introduction of affordable and accessible policies. This will help to bring people from diverse social groups under the insurance umbrella.

Various research studies on how insurance can promote social inclusion point towards micro insurance. It has been defined as a form of protection against risks which is designed for low-income group people that runs on the basic principles of insurance and requires payment of premiums.

Micro insurance can target groups that cannot buy nor has access to mainstream or commercial insurance products. Even though low income groups face the same risks as higher income groups, they are more vulnerable owing to limited knowledge and resource constraints and have limited means to cope with losses. Micro insurance can help them restore their wealth when faced with losses and regain confidence.

Micro insurance products provide suitable premiums and benefits that match the needs of these groups and can protect them from specific risks. Micro insurance is a means to bring social inclusion through insurance. Some even call it inclusive insurance. The features of micro insurance are accessibility, low cost, simple terms, and basic coverage.

Many countries have taken steps to achieve social inclusion through insurance. Many countries in Latin America follow the concept or mass insurance while China follows the concept of inclusive insurance.

As for India there have been various government initiatives in the past to bring more percentage of the Indian population under insurance protection and promote financial and social inclusion.

Insurance for Financial and Social Inclusion-Notable Initiatives

The government of India, especially in the last decade has created the infrastructure for financial inclusion

by making it easy for every Indian to access financial services. The combination of the Jan Dhan, Aadhar digital ID and mobile connectivity has significantly improved accessibility.

Apart from this, insurers are now obliged to serve rural and socially backward sectors. This has been made possible through developments in digital technology and extensive distribution networks.

Some of the notable insurance schemes implemented by the Indian government to bring about financial and social inclusion implemented by the Indian government include:

Rashtriya Bima Swasthya Yojana or RSBY was started in 2008 by the Indian government. Also known as the National Health Insurance Program, it is intended to provide Indians belonging to lower income groups access to healthcare facilities.

In 2018 it was relaunched as the Pradhan Mantri Jan Arogya Yojana (PMJAY) otherwise popularly known as the Ayushman Bharat Yojana Scheme. This government sponsored health insurance scheme offers financial aid in the event of hospitalization due to medical conditions.

This insurance scheme provides health insurance plans for a maximum sum insured of Rs.5 lakhs. The scheme covers costs for medical treatment, diagnostics, pre-hospitalization expenses and medicines. Beneficiaries can access cashless hospitalization services through the Ayushman Bharat Yojana e-card in any of the empanelled hospitals across India.

The Pradhan Mantri Fasal Bima Yojana (PMFBY) was launched in 2016 to protect farmers from crop loss. The insurance plan has covers for damage to crops due to national calamities and risks related to sowing, planting and germination of seeds. It provides protection against loss to the standing crop and any damages to the crop post their harvest.

This insurance scheme aims to provide financial protection to framers in case of failure or damage to crops. It seeks to stabilize the income of farmers in spite of losses so that they continue farming. The insurance scheme is aimed at promoting the flow of funds to farmers. Its main objective is to promote the financial inclusion of farmers.

The Insurance Regulatory Development Authority of India or IRDAI has launched certain insurance policies for the MSME sector that include:

- Bharat Sookshma Udyam Suraksha is meant for enterprises with a risk value of up to Rs. 5 crores.
- Bharat Laghu Udyam Suraksha is meant for enterprises where the total value at risk is more than Rs. 5 crores and up to Rs 50 crores.

These policies particularly target the small and medium businesses and pays for financial losses caused by unexpected events. It covers the damages to building, plant and machinery and stocks related to the business.

The launch of the Bharat Griha Raksha policy aims to cover the insurance needs of a house owner. It covers the building, contents, PA cover so that hard earned assets such as houses are protected.

The launch of the Corona Kavach (standard health policy) and the Corona Rakshak (standard benefit based policy) during the Coronavirus pandemic by the IRDAI in 2020 was a testimony to the intention to help those without a standard health insurance policy get cover if affected by Corona.

Micro Insurance for Financial and Social Inclusion

Micro insurance schemes are designed to benefit the low income groups of society. The advantage of micro insurance schemes is the affordable premium which helps to improve their reach among low income families and women workers in the informal sector.

According to the World Bank more than 90% of India's 1.4 billion population belong to the informal economy. Micro insurance policies are more relevant to people in the informal sector because they do not have a regular income or access to any kind of social security.

A majority of people in the informal sector belong to low-income groups.

For them any calamity such as accidents, illness, and loss of assets or death creates a major dent in their financial resources and pushes them to further poverty. They take loans to tackle such calamities, forcing them to sell assets, withdraw their children from school, compromise on their health by cutting down on their nutrition or leaving illnesses untreated. This acts as a setback for their financial and social inclusion.

Micro insurance policies in India were established by IRDAI in 2005 to protect low income groups. Micro insurance policies come under both general and life insurance categories. They are different from regular insurance policies because the sum assured in these policies is less than or equal to Rs. 50,000. This feature helps the low-income groups have access to financial security without having to rely on traditional insurance options.

General micro insurance plans cover health insurance, personal accident cover and covers for assets like livestock. Life insurance covers can be term or endowment plans. Both general and life micro insurance can be taken on a group or individual basis.

Micro insurance policies are distributed by NGOS, self-help groups and microfinance institutions. The premiums are nominal to ensure wider reach and engagement on a larger scale and insurers can offer a composite cover.

Micro insurance covers act as risk management tools to reduce financial vulnerability during uncertain times. The affordable premium makes it possible for the poor to buy insurance, helps them save money and encourages a positive attitude towards insurance.

Recently the IRDAI, in pursuit of its vision to provide insurance for all by 2047 has announced the launch of Bima Trinity by 2025. This initiative is aimed at improving insurance, widening the scope of cover, creating greater collaboration between life and general insurance companies and offering a cohesive insurance solution of life, health, property and accident cover for every Indian citizen.

In order to achieve this vision, the Bima trinity has three products:

Bima Vistaar- This product aims to encompass covers for life, health, property and accident in a single policy. Bima Vistaar will be a simple product with little ambiguity in terms of benefits and exclusions.

Bima Vaahak- These are the intermediaries who will sell the insurance policies as well as renew them. IRDAI proposes to recruit women as Bima Vaahaks who they feel will have better convincing power in persuading women in rural households to buy insurance policies.

Bima Sugam- This will be the online platform that will handle claims. It is proposed to turn Bima Sugam into a large, integrated, single platform using technology such as AI and ML.

Challenges to Financial and Social Inclusion through Insurance

Indians, especially those belonging to rural areas are not aware of insurance and its benefits. They are not financially literate. There is a need to educate them on the importance of having an insurance policy and its advantages. The financial and social security aspect of insurance needs to be highlighted.

Many Indians perceive insurance is expensive and difficult to afford. It is necessary to design products suited to specific segments of the population with affordable premiums. The removal of the price will encourage more people to buy insurance policies.

The distribution of insurance products especially in remote areas is a challenge that can be overcome by using digital technology and distribution channels using mobile technology.

Some of the other challenges in the way forward could be the following:

- Developing simple and affordable products which are easy to understand and distribute.
- Timely and appropriate claims settlement procedures to be in place as also various grievance redressal mechanisms to be taken care.
- Preventing frauds in the transaction cycle as the insurance industry is a victim of high level of frauds.

- Adoption of technology to improve the distribution and service standards in the industry such that it promotes trust and results in improved customer satisfaction.
- Balancing the insurers primary responsibility to its shareholders of profitability with the objective of financial inclusion - In the past , the industry's response to events like COVID , standardized covers to residential units (Bharat Griha Raksha policy) and small businesses (Bharat Sookshma Udyam Suraksha and Bharat Laghu Udyam Suraksha) was only after nudge from the government / regulator.
- Ensure that each of the segment and line of business such as Corporate versus Retail, Rural versus Urban, are independently profitable at least over a longer time frame of say beyond 5 years of its launch. Excessive cross subsidization will eventually lead to tapering off of volumes in the loss making segments unless there is scope of pass through in pricing of the products

Digital Insurance for Financial and Social Inclusion

The insurance regulator and the insurance companies should adopt digital technology to improve on the traditional insurance models so as to reach those segments of the population that are unfamiliar with insurance.

Here are some ways by which digital technology can pave the way for insurance to being about financial and social inclusion:

- Provide access to remote areas and unserved sections of the population Easy access to insurance services through mobile technology
- Digital platforms can help insurers customize insurance policies based on the preferences of specific needs or risks.
- Use of digital platforms can promote financial literacy especially in understanding policies and other matters of insurance.
- Digital outreach can help develop micro insurance solutions that meet the needs of the uninsured sections of the population.
- Collaboration with NGOs and government agencies through digital technology can help develop inclusive community specific insurance solutions.

Conclusion

Insurance is an important component in the quest for financial and social inclusion In India. When every section of the population comes under the protection of insurance policies, it promotes the economic growth of the country. Insurance helps to build the crucial financial resilience required for the growth of the country.

Financial and social inclusion assures that no one is left behind. The journey to achieve this requires collaboration between the stakeholders- the government, regulatory authorities and the insurance companies. They will have to work together to develop creative, scalable and sustainable solutions that deliver the desired value to the target audience- the unserved and underserved sections of the population. TJ

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Crop Insurance as a Tool for Financial and Social Inclusion amongst Agrarian Community of India

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Abstract

Insurance services is reading available and accessible to everyone in present scenario. One who understands its principles and nature of providing financial, socio-economic security, would happily subscribe for this and harness benefits. This paper provides an insight into how crop insurance as a tool has uplifted the financial and social status of farmers in rural India backed by Theory of Change. Data and charts are presented, vividly demonstrates the consistent improvement in various parameters depicting farmers uptake of insurance, enabling their inclusion in financial and socio-economic fabric of society. A picture of how insurance services has bestowed opportunity, not only to insureds, but to lesser explored territory of inclusion for channel partners like Common Service Centres (CSC), Point of Sale Person (PoSP). Ultimately, it cannot be denied that vast potential of insurance still remains dormant, which can be harnesses by widespread publicity and awareness activities by stakeholders at all levels.

Keywords

Financial Inclusion, Social Inclusion, Crop Insurance, PMFBY, Farmers, Channel Partner.

Introduction

Insurance products as a financial service, are by and large the most accessible products to every prospective individual/organisation who intends to protect themselves against risks and simultaneously abiding by the basic principles of insurance.

This is also evident from the fact that Insurance Regulatory and Development Authority of India (IRDAI) has committed to enable 'Insurance for All' by 2047, where every citizen has an appropriate life, health and property insurance cover and every enterprise is supported

by appropriate insurance solutions and also to make Indian insurance sector globally attractive. This reform agenda taken up by IRDAI derives inspiration from the Government of India's vision of financial inclusion and strong emphasis on accelerating reforms[1].

Insurance products can be availed by any individual as per their requirement on payment of requisite consideration, like motor, health, life and in Indian scenario, availing insurance is a very calculated decision by the client and not suo-motu on his part. This is reflected in the fact that total insurance penetration (ratio of premium to GDP) in India, stands at 4.2 %[2].

Hence, the government has to step in to enable the vulnerable sections of society to avail insurance products. For instance, Government of India subsidise premiums for farmers at an average of 80 per cent[3]. Insurance product of any kind should be perceived akin to a protective shield against uncertainties, which is also manifested on any insurance product advertisement with the statement, "Insurance is a subject matter of solicitation".

Governments often use insurance products/schemes as part of subsidised social welfare programs to provide assistance to vulnerable populations comprising of economically weaker sections, tribal/hilly area population, women, farmers. In India, programs like PMJJBY (Pradhan Mantri Jeevan Jyoti Bima Yojana) is a life insurance scheme, PMSBY (Pradhan Mantri Suraksha Bima Yojana) is an accidental insurance scheme, PMFBY (Pradhan Mantri Fasal Bima Yojana) is a crop insurance scheme for farmers, Ayushman Bharat Pradhan Mantri Jan Arogya Yojana (ABPMJAY) is a public health insurance scheme and similarly many other insurance products, aims at extending benefits of financial and social inclusion to entire population of India.

Financial Inclusion

Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way. Financial inclusion has been identified as an enabler for 7 of the 17 Sustainable Development Goals[4].

Insurance products such as life, health, property, and crop insurance help individuals and/or businesses mitigate financial losses due to unforeseen events like illness, accidents, natural disasters, or death. This protection ensures that people can maintain financial stability even in times of crisis, preventing them from falling deeper into poverty. Anonymous has rightly quoted, "A middle class family is only one major medical expense away from poverty and bankruptsy".

Having insurance coverage can increase access to credit for individuals and businesses, as it mitigates the lender's risk. This enables people who may not have collateral or a stable financial history to access loans and other financial services, promoting economic growth and entrepreneurship.

Insurance encourages individuals to save for the future by offering products like retirement plans and endowment policies. This helps in building a culture of saving and long-term financial planning, particularly among underserved communities who may not have access to traditional banking services.

The penetration of financial services in the rural areas of India is very low. The reasons for low demand for financial services is attributed to a combination of factors such as low levels of income, lack of financial literacy, other bank accounts in the family, etc. On the other hand, the supply side factors include: no bank branch in the vicinity, lack of suitable products meeting the needs of the poor people, complex processes, and language barriers[5].

Social Inclusion

Enshrined in the 2030 Agenda is the principle that every person should reap the benefits of prosperity and enjoy minimum standards of well-being. This is captured in the 17 Sustainable Development Goals that are aimed at freeing all nations and people and all segments of society from poverty and hunger and to ensure, among other things, healthy lives and access to education, modern energy and information[6].

Social inclusion is the process of improving the terms on which individuals and groups take part in society—improving the ability, opportunity, and dignity of those disadvantaged on the basis of their

identity[7]. It focuses on creating opportunities for all people, thereby addressing deep rooted systemic inequalities.

Insurance allows businesses, especially small and medium enterprises (SMEs), to manage various risks such as liability, property damage, machinery repairs and business interruption. This encourages entrepreneurship and job creation by providing a safety net for businesses to take calculated risks and invest in expansion, diversification and growth. Such SMEs and start-ups are spread across the country and are prominent places of job creation for skilled and semi-skilled workers. Thereby, promoting social inclusivity.

Insurance contributes to social stability by reducing the financial burden on families and communities in times of crisis. For example, health insurance (Mediclaim) provides financial support to the family in case of a sudden major medical expenses falling on the family, thereby preventing economic hardship.

In Indian context, when it comes to naming the most important and vulnerable section of society, the 'Annadaata' (the food provider) would be at the foremost. India is an agriculture-based economy and depends on monsoon for its sustainability.

Indian Agriculture vis-a-vis Crop Insurance

Agriculture and allied sector contributes 21.1 % as its sectoral share in Total Gross Value Added (GVA) at Current Basic Prices. Percentage share of Agricultural Workers (Cultivators and Agricultural Laborers) in Total Workforce as per Population Census 2011 is 54.6 % (26 crore), and is 21.7% of the total population of India[8], which is a substantial number. The point to note here is that the entire 100 % of the population depends on this 21.7 % of people for food today and future's food security. Hence, it becomes the responsibility of the incumbent government and general public to provide this section, the needful assistance and support (financially and socially respectively) so that they continue to be in this profession of agriculture which is the sole of food security for today and tomorrow. Someone has rightly said, "If you had a good meal today, thank a farmer".

One such prominent tool which has enabled financial and social inclusion of the farmers/cultivators is implementation of crop insurance schemes in India. It is a tool for managing agricultural risk and is flourishing well in India since past few decades only. From concept to implementation and its acceptance, it has evolved sporadically and tested with the times, it is still evolving in terms of scope, methodologies and use of advanced technology is emphasized in all aspects of implementation.

The first crop insurance scheme began in 1972-73 and thereafter many schemes have been introduced in our country. Professor V. M. Dandekar, often referred to as the "Father of Crop Insurance in India". Comprehensive Crop Insurance Scheme (CCIS) was launched in 1985 and was based on homogeneous area approach[9].

Experimental Crop Insurance Scheme (ECIS) was implemented in 1997 and was somewhat similar to CCIS except that it was meant only for small and marginal farmers with 100% subsidy in premium. National Agricultural Insurance Scheme (NAIS) or Rashtriya Krishi Bima Yojana (RKBY) was implemented From Rabi 1999 season. This scheme was compulsory for the loanee farmers, however, it was voluntary for the non-loanee farmers. The scheme was in operation from 1999-2000 till 2015-16 and during this period 26 states and 2 Union Territories had participated[9].

PMFBY was launched from Kharif 2016, a crop insurance flagship scheme, which extends risk coverage to participating individual farmers against crop losses occurring due to weather adversaries. The aim of PMFBY is to support production in agriculture by providing an affordable crop insurance product to ensure comprehensive risk cover for crops of farmers against all non-preventable natural risks from pre-sowing up to 14 days of post-harvest stage. The Scheme has completed 8 crop seasons and is being implemented across States/Union Territories (UTs) of India.

PMFBY is currently being implemented in 22 states and union territories, the premium to be paid by farmers is fixed at just 1.5% of the sum insured for rabi crops, and 2% for kharif crops, while it is 5% for cash crops. The balance premium is equally shared (subject to certain

capping) amongst the Centre and states, and in case of North-Eastern states, the premium is split between the Centre and states in a 9:1 ratio. It is optional for both loanee (farmers who have been sanctioned short-term Seasonal Agricultural Operations (SAO) loans/Kisan Credit Card (KCC) for the notified crops from defined Financial Institutions) and non-loanee farmers to opt for PMFBY.

As envisaged in Revamped Operational Guidelines of PMFBY, this insurance product/scheme aims at supporting sustainable production in agriculture sector by way of[10]:

- Providing financial support to farmers suffering crop loss/ damage arising out of unforeseen events.
- Stabilizing the income of farmers to ensure their continuance in farming.
- Encouraging farmers to adopt innovative and modern agricultural practices.
- Ensuring credit worthiness of the farmers, crop diversification and enhancing growth and competitiveness of agriculture sector besides protecting the farmers from production risks.

PMFBY is the world's third largest crop insurance programme aimed at providing risk cover to the farmers against the non-preventable natural risks[11]. PMFBY provides cover to loanee and non-loanee farmers, wherein loanee farmer should have availed loan from a bank for that crop season-year, thereby, ensuring the credit is institutionalised, which is a way of bringing cultivator in the mainstream of financial inclusion. Having insurance coverage can increase access to credit for cultivators, as it mitigates the institutional lender's risk. This enables people who may not have collateral or a stable financial history to access loans and other financial services, promoting economic growth and entrepreneurship.

Coverage area under crop insurance PMFBY is also considered an indicator for appraisal of the Aspirational Districts Programme (ADP) launched by the Government of India in 2018, with the objective of expediting the transformation of 112 most backward districts across 28 states through the convergence of government programmes and schemes.[12]

Coverage under PMFBY is mostly a Micro-insurance product (Sum Insured less than Rs. 1 lakh per asset). Micro-insurance is specifically intended for the protection of low -income people, with affordable insurance products to help them cope with and recover from financial losses. The need of insurance for underprivileged section cannot be avoided as this section of society is more prone to many risks which ultimately leads to incapacity to face such uncertain situations. Hence, the role that micro insurance plays thus becomes inevitable[13].

Table 1: Limits for Micro-insurance products classification as per IRDAI regulations[13]

Type of Cover	Maximum Amount of Cover	Term of Cover Min.	Term of Cover Max.	Minimum Age at entry	Maximum age at entry
Dwelling and contents, or livestock or tools or Implements or other names assets or crop Insurance—against all perils	Rs.1,00,000 Per Asset/ Cover	1 year	1 year	N.A	N.A
Health Insurance Contract (Individual)	Rs. 1.00,000	1 year	1 year	Product specific	Product specific
Health Insurance Contract (Family/ Group)	Rs. 2,50,000	1 year	1 year	Product specific	Product specific
Personal Accident (Individual/Family/ Group)	Rs. 1,00,000	1 year	1 year	Product specific	Product specific
I. Maximum Premium limits under Crop Insurance to be reckoned on per season / per crop basis.					

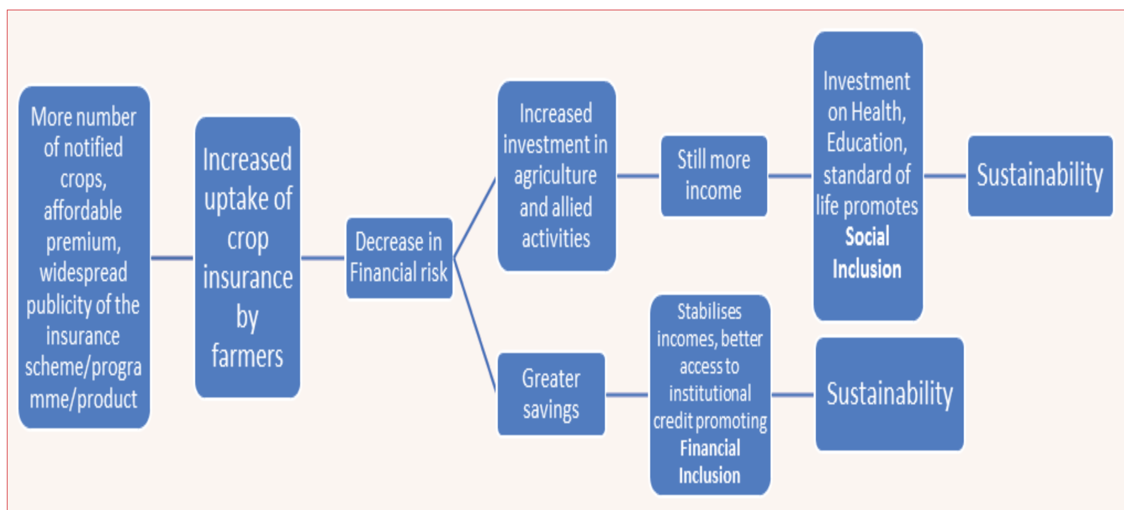
The micro-insurance portfolio has made steady progress. More insurers have commenced their micro-insurance operations and many new products

are being introduced every year. The distribution infrastructure has also been considerably strengthened and the new business has shown a decent growth, though the volumes are still small[14].

Theory of Change (ToC) methodology

The theory of Change explains the process of change by outlining causal linkages in an initiative, i.e., its shorter-term, intermediate, and longer-term outcomes[15]. The theory of change as envisioned by PMFBY targeted at small and marginal farmers. The goal is to ensure sustainable livelihoods and lives for individual farmers, and also the agricultural sector as a whole. Any crop insurance scheme tries to mitigate the uncertainty faced by farmers. The immediate outcomes of a well-designed, affordable and well publicised crop insurance scheme is its increased uptake by farmers, which leads to decrease in future's uncertainty clubbed with decrease in financial risk, and greater savings. On the financial side, greater savings would lead to moving away from informal sources of credit, income stability, greater financial inclusion. This in turn, should lead to higher investments in education, health and better standard of life enabling social inclusion of the farmer's family, thereby fulfilling the aim of the insurance holistically.

Chart 1: Outcome pathway of Insurance uptake by a farmer – Theory of Change illustration



Source: Author

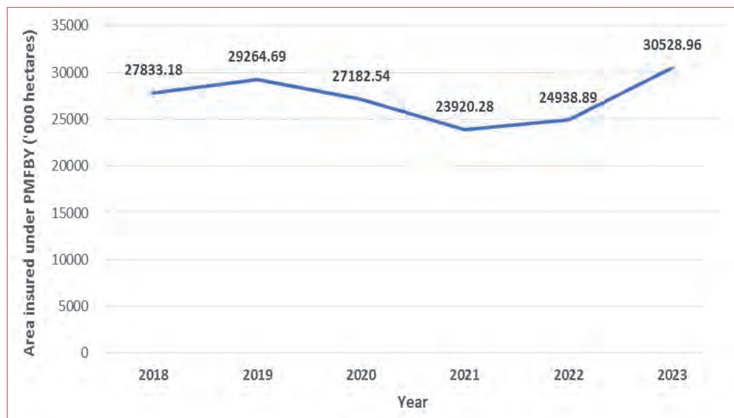
Financial Inclusion affected due to Crop Insurance

The quantum of land cultivated area insured under crop insurance scheme is an apt indicator of its acceptance amongst the cultivators in an area/region. Alternatively, we can say that, more the area insured under insurance, more is the product acceptance, more would be the financial inclusion. Below given chart supports the statement. The chart shows past 6 years (2018 to 2023) area insured under PMFBY Kharif season Pan India, where we can notice the increase in area insured year-by-year.

A slight dip in year 2020, 2021 may be attributed to COVID related restrictions, which might have affected the coverage. But as soon the restrictions were relieved, the coverage has again picked up and currently stands high enough.

The increase in area insured, indicates the increase in number of farmers participating in the scheme, through various modes of enrolment bringing those farmers under the user category of financial services, thereby promoting financial inclusion. The eligible claim payment is made directly into the bank account of beneficiary.

Chart 2: PMFBY Kharif insurance Covered area Pan India (Year Vs '000 hectares area insured)



Source: Data source: PMFBY Portal (https://pmfby.gov.in) dashboard[16]

Case study of Maharashtra – Crop insurance as a tool for Financial inclusion.

The average share of the State of Maharashtra in All-India nominal GDP is highest (14.0 per cent)[17]. Hence, considering the case of Maharashtra, the uptake of insurance by farmers of the state shows similar trend as noticed for Pan India. The chart shows past 6 years (2018 to 2023) area insured under PMFBY Kharif season in Maharashtra only, where we can notice the increase in area covered under insurance year-by-year. The sudden spike in year 2023 can be attributed to the Universalization of the crop insurance scheme in the state, which means, farmer pays only Rs. 1 for enrolling under the scheme. This clearly shows the acceptance level of insurance in Maharashtra, which made the Government pitch in to increase its uptake by farmers and subscribing to the additional subsidy burden. As cited earlier, via the illustration of Theory of Change, the increased uptake of insurance, would allay the insured's (in this case, the farmer) fear of uncertain farm income, and he would venture for allied agriculture activity, crop pattern changes to enhance his income, thereby playing a role in adding to the overall financial health of the community.

Social Inclusion affected due to Crop Insurance

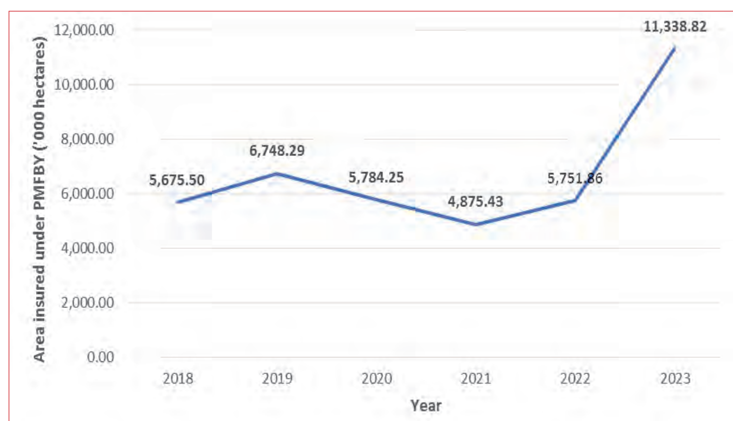
It focuses on creating opportunities for all category of farmers, irrespective of gender, caste or social and financial status. In agriculture Census, the operational holdings are categorised in five size classes as follows[18]:

Table 2: Categorisation of farmers based on land holding size

Sl. No.	Category	Size-Class
1	Marginal	Below 1.00 hectare
2	Small	1.00-2.00 hectare
3	Semi- Medium	2.00-4.00 hectare
4	Medium	4.00-10.00 hectare
5	Large	10.00 hectare and above

Source: Press Information Bureau[18]

Chart 3: PMFBY Kharif season insurance Covered area of Maharashtra state (Year Vs '000 hectares covered)



Source: Data source: PMFBY Portal (https://pmfby.gov.in) dashboard[16]

The operational holdings are also classified in three social groups, viz., Scheduled Castes, Scheduled Tribes and Others.

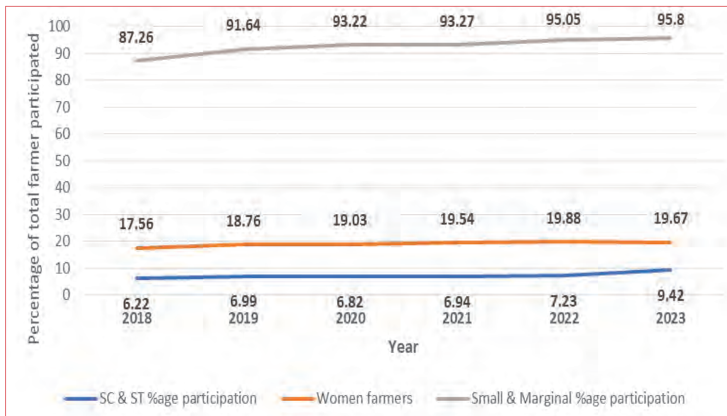
India is an agrarian economy with about 54.6 percent of total workforce engaged in agricultural and allied sector activities (Census 2011). Women are extensively engaged in the activities pertaining to agriculture and allied sector. The workforce participation rate for rural females is significantly higher at 41.8 percent against urban women participation rate of 35.31 percent[19].

Case study of Maharashtra – Crop insurance as a tool for Social inclusion

The chart shows past 6 years (2018 to 2023) data trend of farmer category wise participation %age of total farmer participated under PMFBY Kharif season in Maharashtra only.

Under all categories, the trend shows a consistent increase in the participation of less privileged farmer societal segments. This clearly indicates the social inclusivity brought about in the region due to insurance. Year wise, increasing number of women farmers, Small & marginal farmers, and SC/ST category of farmers have entered the ambit of scheme participation and have joined the mainstream of progressiveness.

Chart 4: PMFBY Kharif season participation in Maharashtra state (Farmer category wise; Year Vs %age)

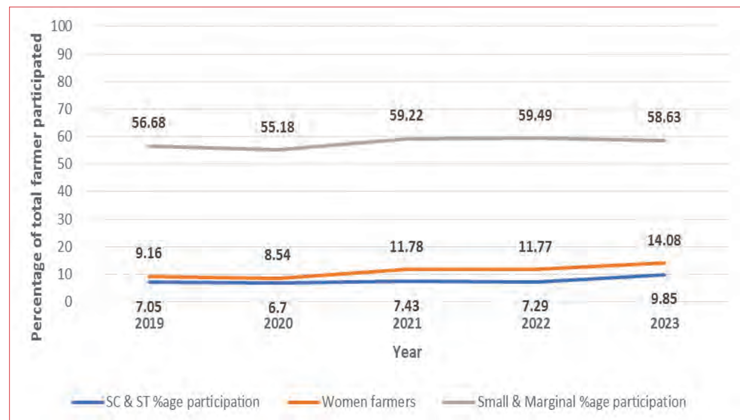


Source: Data source: PMFBY Portal (https://pmfby.gov.in) dashboard[16]

Case study of Uttar Pradesh (UP) – Crop insurance as a tool for Social inclusion

Similar analysis was done for the State of UP, with past 5 years (2019 to 2023) data trend of farmer category wise participation %age of total farmer participated under PMFBY Kharif season in UP only.

Chart 5: PMFBY Kharif season Participation in UP state (Farmer category wise; Year Vs %age)



Source: Data source: PMFBY Portal (https://pmfby.gov.in) dashboard[16]

Under all categories, the trend shows continuous improvement in the participation counts of farmers from less privileged segments, reaping the benefits of crop insurance, and it is their increasing interest in joining the economic mainstream of the country justifying their social inclusion.

Financial and Social Inclusion of Channel Partners through Crop Insurance

Till now, we have observed as to how insurance has acted as a catalyst for linking the insured, financially and socially in the current scenario. Another important member in this

chain is the channel partner, which might be an entity or a person, who sells insurance to the client on behalf of the insurer. Distribution is the most critical link in the insurance value chain, especially for micro insurance where the customer is semi-literate or even illiterate, has limited financial resources and is largely inaccessible. Distribution becomes even more crucial in case of voluntary micro insurance since it also involves a 'hard-selling' element[13].

One of the successful models is the IT platform created by the Government of India called Common Service Centres (CSC), through which micro-insurance is sold along with other financial services and other public and private services. In 2013, IRDAI granted license to CSC-SPV (Special Purpose Vehicle) to work as an authorized Channel partner to market specific approved insurance products through the Rural Authorized Persons VLEs (Village Level Entrepreneurs). These VLEs are based in rural areas and act as Channel partner to provide financial services till the last mile in the country. This has provided the rural youths an in-situ business opportunity, becoming financially independent and blending in the social fabric. In certain cases, CSCs are run by Women Self-Help Groups (SHGs) which is another form of women empowerment enabling social and financial independence for women[20].

Another model is PoSP (Point of Sales Person). IRDAI has launched the PoSP model, which allows a person to sell pre-underwritten and approved insurance policies. This person can be working in your neighborhood grocery store or a cellphone repair shop, whoever has the necessary qualifications can be PoSP. Thus, the local connect of the person would enable insurers to increase their reach and sell relevant insurance products at the point of sale. This model needs to be further encouraged to not only increase the penetration of insurance, but to also increase employment opportunities in India[21].

Conclusion

In the wake of various facts and figures presented, it is evident that our society is moving in the right direction towards sustainability in both rural and urban areas, wherein Insurance as a tool is a paradigm shift in the evolution process.

Untapped potential of insurance, especially in rural areas is to be harnessed. For instance, most farmers also keep livestock, agricultural machinery and a bundled insurance will help provide income stability to the farmer making use of this twining approach.

IRDAI has come up with a "Regulatory Sandbox Approach", the objectives of which is to facilitate innovations in the insurance sector, make the insurance products more affordable and relevant for the insured and to give a fillip to insurance penetration[22].

Concentrated efforts from all stakeholders are required. Widespread Information, Education and Communication (IEC) activities about insurance products and provisions would make uptake of insurance, a subscription based voluntary process, and not merely of obligatory nature. Insurance penetration is poised to accelerate with suitable incentivising of the Channel partners in remote and rural areas.

Overall, insurance serves as a powerful tool for promoting financial resilience, fostering economic growth, and advancing social inclusion by providing individuals and communities with the means to manage risk and build a more secure future. TJ

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Can Platform Companies be the Precursor for New Age Cooperatives for Gig Workers?

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Abstract

Over the past decade, the gig/platform economy has experienced substantial expansion due to the adoption of technology and its ability to cater to various everyday needs. Consequently, informal work arrangements have proliferated and are characterized by diverse employment structures distinct from traditional contracts. Projections indicate that the global gig economy will reach a value of $50 billion by the decade's end, engaging over 500 million individuals. However, gig workers face vulnerability to health and economic crises without the safety net of contractual social benefits. Mutual insurance, with its longstanding history of providing crucial financial coverage and risk management solutions, offers a potential avenue for addressing these challenges. This paper examines how the mutual care model can capitalize on the platform economy's growth worldwide, proposing solutions to urgent issues concerning the health and economic welfare of a significant population lacking access to formal social security benefits within an informal work setting.

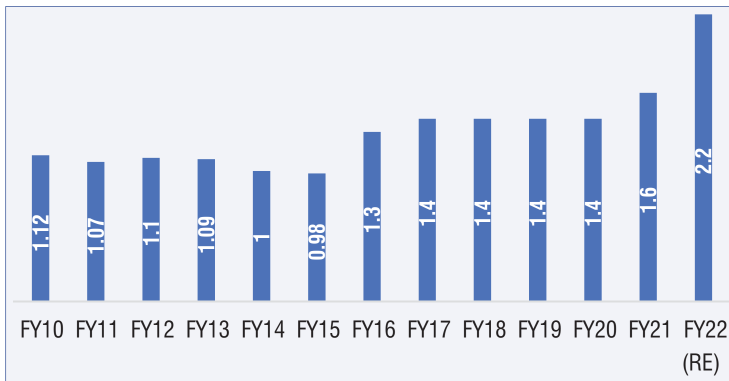
Keywords

Mutual Insurance, Cooperative Insurance, Gig Economy, Gig Workers, FinTech, InsurTech, New Age Businesses, Platform Companies, Universal Health Coverage, Healthcare Financing, Financial Inclusion.

Healthcare Financing in India

Compared with the size and growth of the Indian economy, the Government of India's healthcare spending is very low. Consistently, healthcare spending as a percentage of GDP has hovered around the one per cent mark for decades. India is a lower-middle-income country, but its healthcare spending has been lower than in some low-income countries. As a result of consistently low spending, the citizens have borne the financial burden of healthcare. A closer look at the sources of financing healthcare in India (Figure 2) indicates that the largest share of the Total Health Expenditure (THE) spending comes from individuals/families in the form of Out-of-Pocket Expenses (OOPE).

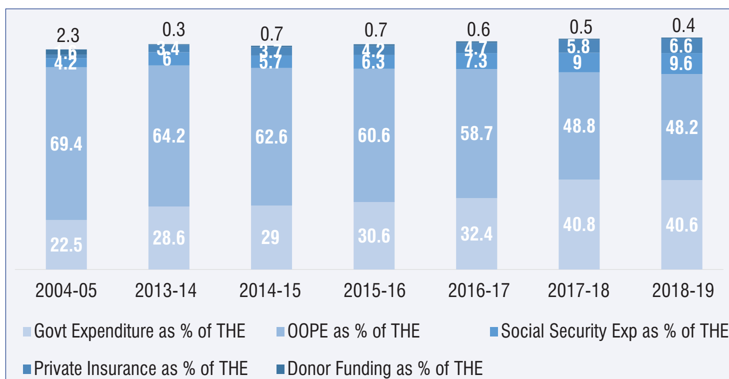
Figure 1: Government Expenditure on Health (% of GDP)



Source: (Ministry of Finance, 2024)

This severely strains family budgets and leads to delay/avoidance in taking the necessary care required. As of 2018-19, private insurance accounted for a mere 6.6 per cent of the Total Healthcare Expenditure, indicating low penetration and density of health insurance in the country and a massive health protection gap.

Figure 2: Sources of Financing Healthcare in India



Source: National Health Accounts, 2022

Health Protection Gap

Owing to different legal and institutional structures, it is often difficult to define the protection gap in a way that is acceptable to all (Geneva Association, 2018). Protection gaps differ widely in size, nature and dynamics, depending on the line of business and the general maturity of the insurance market. Below are some of the more commonly used definitions for protection gap;

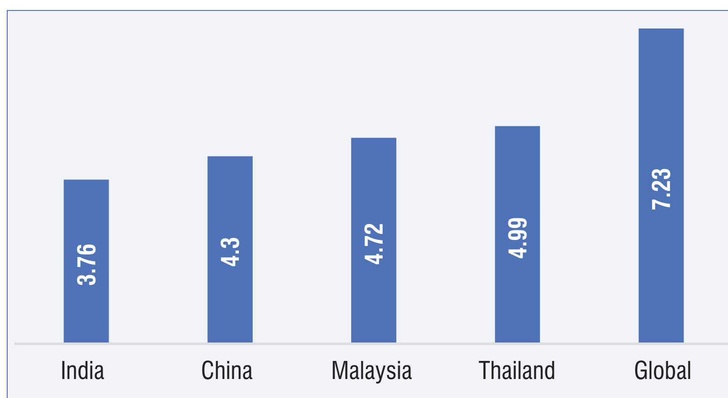
1. *The health protection gap is defined as the sum of financial stress arising from unforeseen, direct and out-of-pocket medical expenses and that unaffordable portion that households avoid* (Swiss Re, 2012).
2. *Underinsurance is the gap between the amount of insurance that is economically beneficial and the amount of insurance actually purchased* (Schanz & Wang, 2014).
3. *The difference between the level of healthcare costs which would be required to meet the consumer needs versus the amount that would be available to cover those costs* (Geneva Association, 2018).

In non-life insurance, the protection gap can be measured by a benchmarked insurance coverage ratio. However, this gap is often smaller than the broader risk protection gap, which describes the difference between total and insured losses. Since government financing is a function of the taxes it raises,

countries with a higher tax-to-GDP ratio tend to have better-financed healthcare systems. Low and middle-income countries with poor tax-to-GDP ratio find it difficult to meet the demand for financing the healthcare requirements of their citizens.

The Insurance Regulatory and Development Authority of India (IRDAI) estimates the protection gap to be approximately USD 400 billion (IRDAI, 2018). Another study puts the protection gap in India at USD 369 billion as of the end of 2017 (Swiss Re Institute, 2018). With one of the highest protection gaps in Asia, Indians are vulnerable to health and economic shocks. The graphs below explain the extent of insurance penetration and density in India.

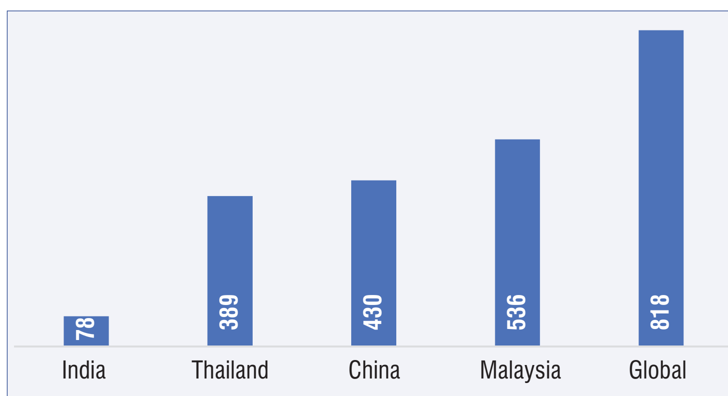
Figure 3: Insurance Penetration, 2019 (% of GDP)



Source: Insurance and Regulatory Development Authority of India (IRDAI)

In 2019, India's combined life and non-life insurance penetration stood at 3.76 per cent. It is substantially lower than its Asian peers like China, Malaysia, and Thailand and almost half the global average (Figure 3). Of the 3.76 per cent, the

Figure 4: Insurance Density, 2019 (USD)



Source: Insurance and Regulatory Development Authority of India (IRDAI)

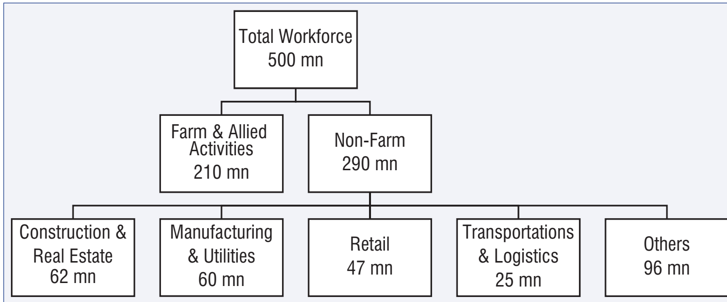
health insurance penetration is a mere 0.94 per cent. On the other hand, the insurance density is also abysmally low for a growing economy like India. At USD 78, it is far below its Asian peers and is less than a 10th of the global average.

Due to India's under-financed healthcare system, the Out-of-Pocket Expenses (OOPE) are very high. As of 2019, the OOPE in India stood at 54.78 per cent of the Total Health Expenditure (World Bank, 2022). Further, households are considered to be incurring catastrophic health expenditure (CHE) when the OOPE exceeds 10 per cent of their total monthly expenditure. The incidence of CHE in India rose to 18 per cent in 2014 from 15 per cent in 2004, pushing nearly 55 million individuals below the poverty line (National Health Systems Resource Centre, 2017).

Indian Workforce

With a population of over 1.4 billion, India boasts a workforce of approximately 500 million (BCG and Michael & Susan Dell Foundation, 2021), of which approximately only 10 per cent is in the formal sector, and the remaining is in the informal sector. The graph below explains the breakup of the Indian workforce. Agriculture and allied activities account for over 40 per cent of the total employment. Within the non-farm sector, businesses in Construction and real Estate, Manufacturing and utilities, Retail, Transportation, and logistics are key employment generators.

Figure 5: Total Workforce in India (Mn)



Source: Adapted from Unlocking the Potential of the Gig Economy in India: BCG and Michael & Susan Dell Foundation, 2021.

In India, around 53.5 per cent of the total workforce or 274.1 million people, were self-employed in 2019-20, of which the agriculture sector alone engages over three-fifths (Chand & Singh, 2022). The share of the self-employed workforce has gradually increased from 52.2 per cent in 2017-18 to 53.5 per cent in 2019-20. There were 120.9 million casual workers, of whom nearly 54 percent were engaged in non-farm activities. Sectors like Construction and real Estate, Transportation and Logistics are primary non-farm sources of casual employment generation. The size of the regular wage/salaried workforce was 117.3 million, approximately 23 per cent of the total workforce. The COVID-19 pandemic created havoc on employment, forcing millions to rely on themselves for their livelihood.

India's Gig Workforce

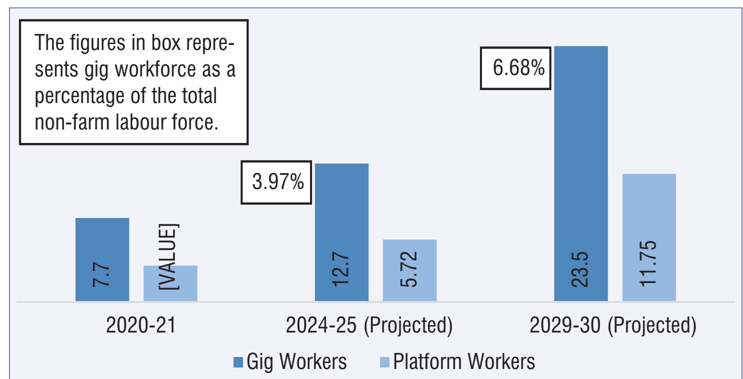
"*Gig*" refers to a single performance done by a musician, or a group of musicians, or a comedian (Cambridge Dictionary, 2023). In contemporary business, it refers to on-demand work with little or no formal contracting. Advances in technology have made gig work more accessible and feasible using platforms that connect the provider and the seeker of such services.

The Code on Social Security, (Ministry of Law and Justice, 2020) defines;

- A *gig worker* as a person who performs work or participates in a work arrangement and earns from such activities outside of traditional employer-employee relationship.
- *Platform work* as an employment form in which organizations or individuals use an online platform to access other organizations or individuals to solve specific problems or to provide specific services in exchange for payment.

Regarding the number of gig workers, India is considered the biggest market after the US. The graph below (Figure 6) shows the current gig and platform workers' size and potential growth by the end of the current decade. India currently has over 7.7 million gig workers, of which nearly 3.3 million are associated with some or the other platform (NITI Aayog, 2022). Some of India's largest platforms for gig work are Swiggy and Zomato for food delivery, Ola and Uber for ride-hailing, Flipkart and Amazon for e-commerce and Urban Company for a range of services from a hairstylist to a carpenter, among others. By 2030, the number of gig workers is expected to triple to 23.5 million, and those aligned with a platform for work will likely quadruple.

Figure 6: Size of Gig and Platform Workers in India (Mn)



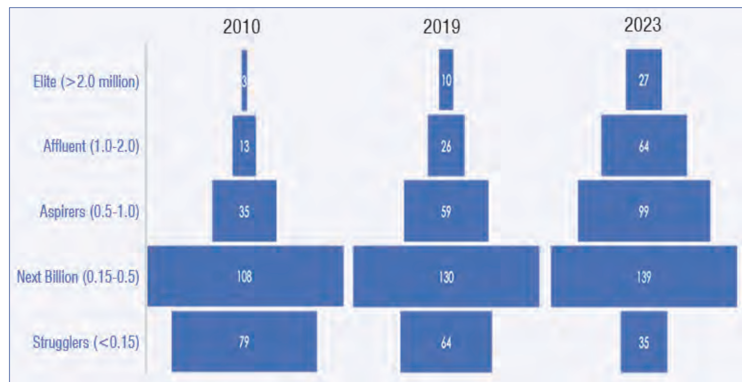
Source: India's Booming Gig & Platform Economy: Perspectives and Recommendations on the Future of Work, NITI Aayog, 2022.

In terms of expertise, India leads with the largest share of high-skill freelancers compared to China, Brazil, and Indonesia, thanks to its strength in IT and management. Meanwhile, approximately 40% of the gig workforce in India falls under the "Low Skill and Others" categories, which include roles like cleaning, ridesharing, and delivery services. (BCG, 2018). As observed, the self-employed workforce is expanding, with the Covid-19 pandemic hastening this trend. Much of this self-employment is found in the unorganized sector, characterized by low skills and incomes, and lacking social safety nets. Without formal employment and its associated benefits, Gig and Platform work emerge as a potential avenue for formalizing a significant portion of this workforce. This particular group typically earns between INR 15,000 and 50,000 per month, often referred to as the "missing middle." This paper centers its focus on examining this segment.

The Missing Middle

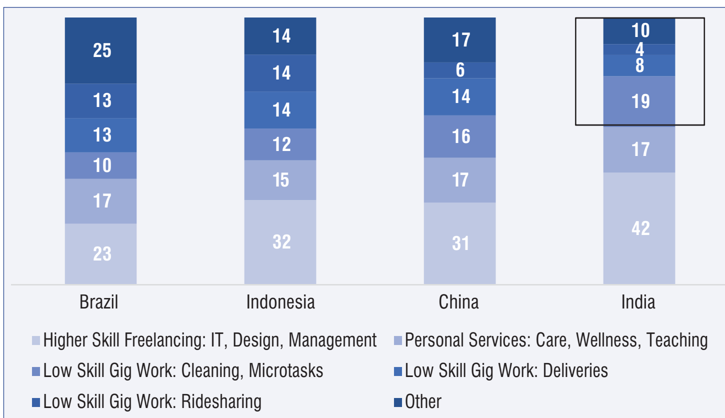
As per the study by (BCG and Michael & Susan Dell Foundation, 2021), in 2019, India comprised 289 million households, with approximately two-thirds earning less than INR 500,000 annually (combining the next billion and strugglers categories). Nearly all households categorized as Strugglers (as depicted in Figure 8) qualify for the Government of India's health insurance scheme, known as Pradhan Mantri Jan Aarogya Yojana (PMJAY), commonly referred to as Ayushman Bharat (Healthy India). Assuming an average household size of around five individuals, this encompasses over 900 million people within the lowest two segments alone. However, the majority of those classified in the Next Billion category do not meet the eligibility criteria for government-sponsored health insurance. This group, often engaged in self-employment

Figure 8: Indian Households' Annual Income (Mn)



Source: Unlocking the Potential of the Gig Economy in India, BCG and Michael & Susan Dell Foundation, 2021.

Figure 7: India's Gig Workforce by Level of Skills (Figures in %)



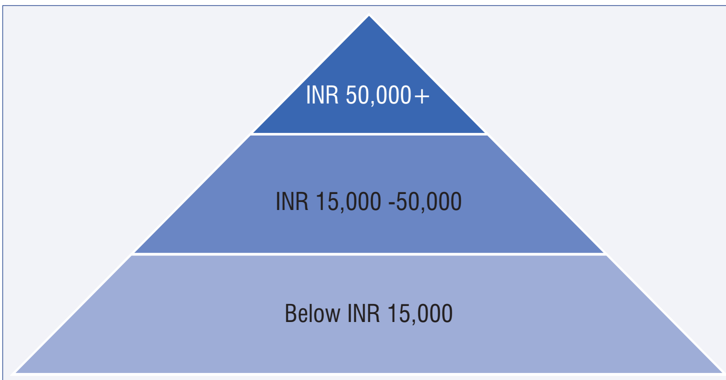
Source: Future of Work, BCG 2018.

or contractual work, lacks social security benefits from employers. The gig and platform economy attract a significant portion of this workforce, particularly in low-skilled roles (refer to Figure 7). Formalizing platform work presents an opportunity to include this segment in the social safety net, which has historically been overlooked for various reasons, including affordability and financial feasibility.

As outlined in the study "Insuring Bharat – Scaling Up People Led Risk Protection" (Agarwal,

Kumar, & Nisar, 2021), there is a discernible demand for risk management products and services within the missing middle-income segment. However, current risk management solutions often fail to meet their needs or prove financially impractical. The research highlights community-driven risk management solutions, offering promising avenues to tackle these challenges at an affordable cost. These local risk protection mechanisms are frequently recognized as Mutual and Cooperative Insurance.

Figure 9: The Missing Middle of Indian Insurance



Source: Adapted from Insuring Bharat – Scaling Up People Led Risk Protection, 2021

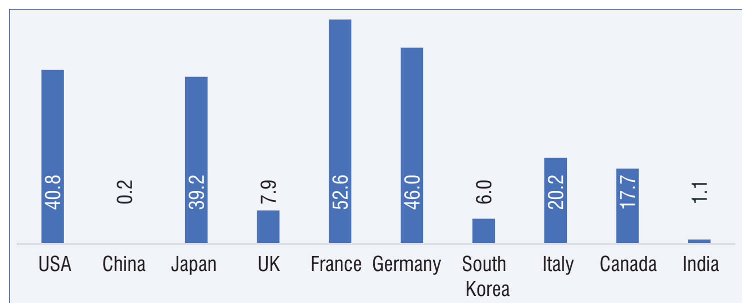
Landscape of Mutual & Cooperative Insurance

Mutual and cooperative insurance, also known as Community-Based Health Insurance (CBHI), constitutes roughly 30 percent of the non-life insurance market and approximately 26.2 percent of the overall insurance market. According to the International Cooperative and Mutual Insurance Federation (ICMIF), the collective market share of mutual and cooperative insurers globally increased from 24 percent in 2007 to 26.2 percent in 2021, surpassing annual premiums of USD 1.42 trillion in 2021 (ICMIF, 2023). These insurers boast a combined membership exceeding one billion individuals and hold total assets valued at USD 10.4 trillion. Moreover, they provide employment to nearly 1.1 million individuals.

In terms of geographical distribution, North America commands the largest market share at 38.4 percent of the total insurance market, trailed by Europe at 31.9 percent. The United States represents the largest single market for mutuals, accounting for 40.8 percent of the market share. Notably, mutuals maintain a significant presence in all of the top 10 largest insurance markets worldwide, with the exception of China and India. China only permitted mutuals access to its insurance market in 2015, while in India, despite their century-old existence, mutuals have a limited presence.

Mutuals are gaining traction in emerging economies across Asia, Africa, and Latin America (Coop News, 2013). In India, mutuals began some 150 years ago. The very first insurance company in India for Indians under British rule, named Bombay Mutual Life Assurance Society, was established in 1870 on the principles of mutuality. Since then, there have been numerous attempts at establishing mutual insurance institutions in India; some have survived, and others have not. For instance, Bombay Mutual Life and Calcutta Hospital and Nursing Home Benefits Association Ltd. (CHNHBA)

Figure 10: Share of Mutual/Cooperative Insurance in 10 Largest Insurance Markets



Source: ICMIF, 2023

had legal disputes with regulators/ government institutions regarding taxation of their surplus/profits (EPW, 1953) (Calcutta Hospital & Nursing Home Benefits Association Ltd., Calcutta vs. Commissioner of Income Tax, W. B. Calcutta, 1961). After this landmark judgment, the General Business Nationalisation Act (GIBNA), 1972, specifically exempted CHNHBA from nationalization and the subsequent merger of 107 companies into four companies (Ministry of Law and Justice, 1972). The amendments to the Insurance Act in 2002 also acknowledged the presence of mutuals and cooperatives, and even their formation and registration were allowed, provided they met the conditions laid out in the act (Ministry of Law and Justice, 2002). However, the subsequent amendments to the Insurance Act (2015) removed mention of mutual and cooperative insurance companies from the Act and thus created a regulatory vacuum (Ministry of Law and Justice, 2015).

Recent country-wide studies have documented the presence of CBHIs in India operating in life, non-life, and livestock insurance (ICMIF and III, 2017) (Agarwal, Kumar, & Nisar, 2021). The 2017 study documents that CBHIs provide insurance coverage to over 1.2 million people through a pure mutual model, and over 90 per cent of the primary members are women. Further, through a partner-agent model, another 1.2 million lives were covered. Further studies by (Ranson, 2003) (Devadasan, Kent, Damme, Acharya, & Criel, 2006) (Devadasan N. , et al., 2011) (Devadasan N. , et al., 2010) have documented different aspects of CBHIs including their functioning and effectiveness.

New Policy Thrust

I. *Code on Social Security*: Acknowledging the high proportion of the informal workforce in India without any social safety net, the Government of India recently announced new policy initiatives. The Code on Social Security (Ministry of Law and Justice, 2020) proposes to bring the informal workforce under the ambit of social security. As part of the proposal, the government aims to establish social security funds for unorganized, gig and platform workers. The Union and State governments and the platform owners/aggregators will jointly fund the proposed scheme for gig and platform workers. The scheme proposes a contribution of up to one-two per cent of the total annual turnover of the platform/ aggregators or a maximum of five per cent of the total amount paid by the platform/aggregators to the partners/ workers, whichever is lower. In other words, up to five per cent of the employee cost. To identify platforms/ aggregators, the law bifurcates them into nine categories, including ride-sharing, food & grocery delivery, travel & hospitality, content & media services, e-marketplaces, etc.

II. *RAISE Framework:* The National Institute for Transforming India (NITI) Aayog, the Government of India's umbrella body for policymaking, undertook a study on India's gig and platform economy (NITI Aayog, 2022). The study "*India's Booming Gig and Platform Economy: Perspectives and Recommendations for the Future*", documents the increasing role of gig and platform work in generating employment across different sectors and levels of skills. As part of its recommendations, the study proposes a RAISE framework to capitalize on the potential of gig work in India and ensure the quality of work. The RAISE framework stresses on;

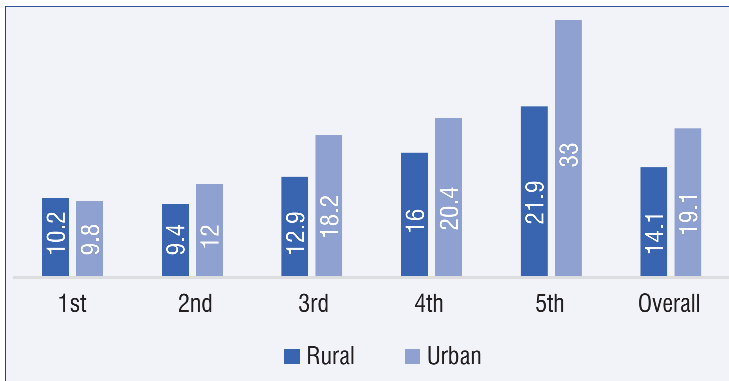
- *Recognise* the varied nature of platform work to equitable schemes
- *Allow* augmentation of social security through innovative financing
- *Incorporate*, while designing schemes, the specific interests of platforms, factoring the impact on job creation, platform businesses and workers
- *Support* workers to subscribe to government schemes and welfare programmes through widespread awareness campaigns
- *Ensure* benefits are readily accessible to platform workers

While both policy initiatives are nascent, it will be a while before the actual impact, if any, is seen on the ground. However, a common thread amongst both is the recognition of the potential of gig and platform work to formalize the unorganized/casual employment structures and hence, the possibility of social security for a large segment which is hitherto outside the ambit of any safety net.

Role & Scope for Mutuals in India

As seen above, the density and penetration of insurance in India are very low compared to its Asian peers and the global average. This provides a vast scope for businesses to offer potential insurance and risk management solutions. The graph below shows insurance penetration in each income quintile and the overall average. The conventional insurance form coupled with the government-financed/supported insurance is progressing. There remains scope for other players not only in the conventional space but also in other forms of insurance too. Mutuals and Cooperative insurance have shown potential in offering such services and solutions in their markets. Their adoption is rising in newer markets like Southeast Asia, Africa, and Latin America. India, with its large uninsured population and experience of cooperatives, provides an ideal platform for Mutual and Cooperative Insurance. The industry regulator has also shown an inclination to green lighting the mutual insurance practices for accelerating the country's density and penetration of insurance (IRDAI, 2020).

Figure 11: Percentage of the Population Covered by Health Insurance in Each Income Quintile

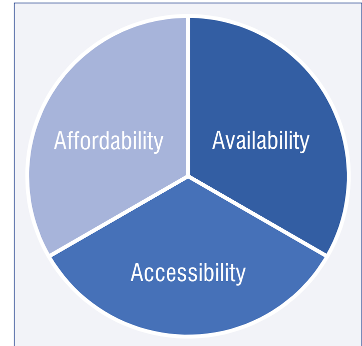


Source: National Sample Survey Organisation (NSSO), 75th Round

Achieving Health Security

Within the realm of finance, 'AAA' holds the esteemed position of the gold standard, denoting top-tier financial strength, growth prospects, stability, and discipline. For the insurance sector in India to attain levels of penetration and density comparable to global standards and to narrow the protection gap, reflecting its status as the fifth largest economy, it must embody the essence of AAA Rating: Availability, Accessibility, and Affordability. These three pillars must operate harmoniously in unison. The deficiency or fragility of any one of these components would equate to a rating lower than AAA.

Figure 12: Elements of AAA



Source: Authors' Own

Below, we elaborate on the components of each of the following AAAs;

- ***Availability***: The notion of "One-Size-Doesn't-Fit-All" is frequently echoed, guiding various policy interventions in the country. This approach grants autonomy to sectors such as health, education, and cooperatives, allowing them to function as independent State subjects and tailor unique solutions to their specific needs. The Reserve Bank of India has similarly adopted this strategy by issuing differentiated banking licenses, catering to diverse segments of society. However, the Indian insurance industry currently lacks this differentiated approach. To foster a more inclusive and comprehensive insurance market, the insurance regulator could employ a multi-faceted strategy to offer products that address the diverse needs and financial circumstances of Indians. The existence of mutuals and cooperative insurance entities underscores

the potential and acceptance of community-driven solutions to fulfill people's requirements. A regulatory acknowledgment has the potential to expand and strengthen the market for such products while establishing governance standards to safeguard consumers.

- ***Accessibility***: One of the hurdles impeding insurance penetration in the nation is accessibility. Establishing distribution networks beyond major metropolitan areas and tier-I cities proves both time-consuming and expensive for companies. While technology holds the potential to significantly reduce both time and cost, there remains a challenge in terms of financial literacy. The emergence of the gig and platform economy, which has integrated millions of partners across various products and services, has the potential to function as modern-day cooperatives, uniting individuals under a common cause. Unlike traditional cooperatives, which may face geographical limitations, the technology-driven nature of platforms blurs such boundaries. Recent policy initiatives emphasizing social security for informal and platform workers have the potential to formalize millions of jobs. Additionally, social security coverage can assist platforms in reducing attrition rates and incentivize members to maintain their association by offering extra perks or incentives in the form of insurance coverage.

- ***Affordability***: The affordability component of the AAA system constitutes the third element. Platforms possess a unique position to lower insurance costs for their partners. The majority of platform workers fall within the 18 to 45 age bracket, rendering them relatively healthier, which is advantageous for insurance premiums. Leveraging their substantial partner/employee base, platforms can engage in collective bargaining for medical services from hospitals across various cities, securing discounted rates and thereby reducing treatment expenses. Moreover, platforms already boast a robust technological infrastructure, enabling efficient management of claim settlements and detection of fraudulent claims, consequently mitigating moral hazard, a significant challenge in the insurance sector. To further deter fraudulent activities, claims processing could be linked to a partner's affiliation with the platform, thereby placing their livelihood at risk for engaging in unethical practices. Additionally, this approach can significantly reduce claim processing times. Importantly, platforms can pivot towards a preventive approach by monitoring their partners' health and democratizing platform operations, allowing members to participate in policy-making and claims settlement processes.

Table 1: Ingredients for Achieving AAA Rating

Availability	Accessibility	Affordability
New-dimensions	Formalization of the economy	Focus on prevention rather than cure
Multi-pronged approach for a diverse economy	Platforms are urban-centric	Low cost of operations
Inclusive for all segments of the society	Linked to a common-purpose and platform	Increased transparency through use of technology
	Network of medical facilities	Low instances of moral hazard
	Low Turn-Around-Times through use of technology	A younger and healthier population

Source: Authors' Own

Challenges for Mutuals in India

With a history of a mutual organization dating back over 150 years, the legacy and future for CBHIs is gloomy to say the least. Numerous challenges continue to plague the country's development and progress of mutual and cooperative insurance institutions. For this study, the authors categorize these challenges into three broad spectrums;

- ***General Challenges***: These originate owing to a host of factors that affect the country at large and not to CBHIs or even the insurance industry; they also plague the financial services industry to an extent. Financial literacy and the financial prowess of the population are the major impediments to the growth and development of the insurance industry in India. As of 2019, two-thirds of the households had an annual income of less than Rs. 500,000 (Figure 8). With five members on average in a family, most of the income is spent on sustenance. With the cost of living and education shooting through the roof, there is limited possibility of savings, let alone paying for health costs. Most of these households are also engaged in work where they are self-employed or casual workers. Thus, further eliminating the possibility of social security coverage from the employer.

  Further, the regulatory indifference to CBHIs is a major concern. As seen above, the subsequent amendments to the Insurance Acts have gradually created a regulatory vacuum for the functioning of CBHIs in the country. While a section of the regulatory apathy or the lack of sympathy is well founded on the premise of consumer protection, the same argument also points to banking and financial markets regulators. In the decades since the country's independence, the Reserve Banking of India (RBI), the banking regulator in India, leveraged the strength of cooperatives to penetrate banking amongst the masses in the country's hinterlands. Its approach and regulation of cooperative banks differed greatly from full-service or universal banks. There were instances of misappropriation of funds, lack of adherence to capital adequacy norms, negligence on loan disbursements, poor know-your-customer (KYC) compliance, and collapse of some cooperative banks. However, instead of completely banning cooperative banks, the RBI regulated and encouraged them through differentiated regulations to harness their potential to channel savings and increase financial inclusion in the country. A similar approach is lacking on from the insurance regulator in the country. Can the IRDAI take a leaf or two from its senior regulatory peer, the RBI, and allow for differentiated insurance companies in the country?

- ***Platform Challenges***: The technology platform/aggregators have revolutionized how consumers access products/services and the nature of work. From formal employment contracts with guaranteed remuneration to contractual on-demand work without any guarantee of honorarium. In an ever-expanding digital coverage, the demand for aggregators/platforms is rising across various services. However, in the quest for faster growth, a substantial portion of these platforms yearn for high valuations and lucrative returns on investments, in the process, biting more than what they can chew. Thus, making themselves highly volatile and vulnerable. Often, these platforms, which spend a few dollars to earn a dollar, are cash-strapped and have a long gestation period before they start to make money. In such a scenario, the ability of the platform to focus on the welfare of its business partners (as platform workers are legally defined) diminishes substantially. Also, since the work involves pay for play, often there are long and stressful working hours with limited or no consideration for health and well-being. In the low-skilled segment (ride-sharing, food delivery, etc.), the attrition rate is very high, thus making it difficult even for the platforms to offer suitable social security benefits. Unlike in developed economies, the implementation record for laws in general and labour laws in particular is poor, thus allowing the platforms/aggregators to exploit and propagate unfair business practices concerning the honorarium and benefits for its business partners.

Table 2: Two-Way Challenges

General	Platform
Regulatory indifference	Volatile nature of the businesses
Lack of financial literacy	Very stressful work leading to high attrition rate and unhealthy lifestyle
Financial prowess of the populace	Risk of concentration
Feasibility of standalone health Mutual & Cooperative Insurance Firms	Weak laws and poor implementation record

Source: Authors' Own

Conclusion

Healthcare financing in India has experienced minimal growth over an extended period. While proposals exist to increase the Government of India's healthcare spending to approximately 2.5 percent of the GDP, much remains theoretical. Several policy initiatives aim to furnish free or subsidized healthcare to the lowest-income segment, while those at the top of the economic pyramid can typically afford personal health coverage. However, the challenge lies in addressing the missing middle, who neither qualify for government-sponsored health insurance nor possess the financial resources for personal policies. Historically, insurance has predominantly adopted a top-down approach, with limited variation in product offerings.

Compounding these challenges, nearly 90 percent of the Indian workforce operates in the informal sector, lacking adequate social security benefits. Without such coverage, Indians are susceptible to health and economic crises. Nonetheless, two promising developments offer a glimmer of hope: the gig and platform economy present opportunities for formalizing work arrangements, and the recent enactment of government legislation on social security for informal and unorganized labor. Together, these factors could accelerate insurance penetration and density across the country. Furthermore, a NITI Aayog policy paper recognizes the gig and platform economy as potential sources of employment generation, emphasizing the need for innovative financing to address the existing protection gap and provide social security benefits.

Mutual and cooperative insurance stands poised to bridge the gap by offering innovative and customizable risk-protection solutions. Community-based health insurance schemes (CBHIs) are particularly well-suited to meet this demand through their unique offerings and member engagement. Moreover, leveraging existing platform technology could facilitate rapid scaling, enhance transparency, and substantially reduce costs, potentially decreasing attrition rates for these platforms.

While there is intent to address these challenges, the question remains: Will regulators permit the introduction of differentiated insurance products to narrow the protection gap? Are regulators prepared to emulate the Reserve Bank of India's approach by implementing diverse regulatory standards for different entities to serve the broader interests of the populace and the economy? Although challenges exist for CBHIs, could they be embraced with a limited role to meet the urgent need for social security? Lessons gleaned from global experiences in scaling up community-led solutions are invaluable. Failure to act risks India aging before achieving optimal health outcomes. TJ

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Violations of Insurance Regulations: An Analysis of Recent Penalty Orders issued by IRDAI toward Life and General Insurance Industry

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Abstract

The main objective was to examine the various enforcement action (penalties) which were imposed by IRDAI on Life and General insurance industry for violation of various insurance rules and regulations. The research was a fact-finding descriptive research based on historical penalty orders published by IRDAI. After analysing the 67 orders published on IRDAI website, it was found that penalty amounting to Rs 1190 lakhs was imposed on general insurers and Rs 206 lakhs was imposed on life insurers. Total penalty amount combined for life and general insurers was 1396 lakhs. Out of which 607 lakhs (43.48%) was related to uncommon category violation and 789 lakhs (56.52%) was related to common category violation between life and general insurers. Total frequency of violation for general and life insurance industry combined was 127 times, with common category violation was 101 times (79.52%) and uncommon category violation was 26 times (20.48%).

Keywords

Insurance Rules and Regulations, Penalty, Violations, Insurers

1. Introduction

Insurance Regulatory and Development authority of India (IRDAI) is a statutory body that regulates and licenses the insurance business in India. One of the functions of IRDAI is to inspect and investigate insurers, their intermediaries, and other relevant organizations. For long term sustainability of insurance business, there should be high standards of integrity, fair dealing, and financial soundness among market players who are involved in conducting insurance business. However, there are cases where such standards are inadequate or ineffectively enforced by market players conducting insurance business. Thus, IRDAI must step in to act against those market players who are violating relevant insurance rules and regulations.

2. Research Objectives

- To find the recent trend in penalty orders for approximately last 6 years based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for General and Life Insurance Industry.
- To find and discuss the various common violations of insurance rules and regulations between Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for which penalty was imposed.
- To find the common category which was violated the greatest number of times by Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021.

- To discuss the uncommon violations of insurance rules and regulations between Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for which penalty was imposed.

3. Literature Review

Many times, we come across news articles published in newspapers that IRDAI has imposed penalty on market players for not complying with regulatory obligations. Below are the news articles discussed, which confirms that there were some lapses in the conduct of insurers for which IRDAI had to step in and act against insurers for violating insurance rules and regulations.

In an online article, "IRDAI imposes Rs 51 lakh penalty on 4 insurers," dated 18 April 2021 published on The Economic Times, under Industry News, it was mentioned that SBI had not fulfilled motor obligations under Motor Third Party Business and a penalty of Rs 25 lakh was imposed on it. Further, it was mentioned that a penalty of Rs 13 lakhs had been imposed on Liberty General Insurance Limited for violating certain provisions of Motor Insurance Service Provider Guidelines. The penalty of Rs 10 lakh was imposed on Bajaj Allianz General Insurance Company Limited for violating provisions of Insurance Act, 1938. Further, a penalty of Rs 3 lakh was imposed on Royal Sundaram General Insurance for violating the provision of Motor Insurance Service Provider Guidelines.

In an online article, named "IRDAI imposes Rs 10 lakh penalty on Max Life Insurance," dated 1 July 2016 published on The Times of India, it was mentioned that penalty was imposed on Max Life Insurance Company for violating norms related to outsourcing and file and use clause. Furthermore, the article mentioned that this amount shall be remitted by debiting shareholder's account within 15 days from the receipt of the order. The violation relating to outsourcing was remuneration of brokers in name of contests above the prescribed brokerage. It was also noted that under the guise of agreement, payouts were made to parties of broker. It was also noticed that the insurer adjusted balance premium without the consent of policyholders for violation related to file and use.

The above articles led to above research objectives as no study was found which answered the above research objectives.

4. Methodology

The research will be fact finding descriptive research based on historical penalty orders published by IRDAI under the category Non-Life Insurers, Health Insurers, and Life Insurers on its website. The research methodology encompassed secondary data which was taken from the IRDAI website under the section enforcement actions. Here, warnings and penalties were listed from the year 2007 to year 2022. However, this study will include only orders related to penalties under the category Non-Life Insurers, Health Insurers, and Life Insurers for various violations and not for warnings. To be more recent and relevant, total 67 orders (46 penalty order for General Insurers and 21 penalty order for Life Insurers) from the year 2016 to year 2021 will be analysed with reference to the above research objectives. The data will be categorized and analysed using excel spreadsheet.

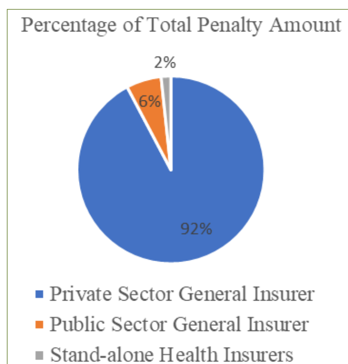
5. Finding and Analysis

5.1 To find the recent trend in penalty order for approximately last 6 years based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for General and Life Insurance Industry.

The total amount in penalty for approximately last 6 years (2016-21) based on 21 orders published on IRDAI website under the category Life Insurer was Rs 206 lakhs for private sector life insurers. No penalty reported for public sector life insurer during the study period of last 6 years (2016-21).

The total amount in penalty for approximately last 6 years based on 46 orders published on IRDAI website under the category Non-Life Insurers and Health Insurers was Rs 1190 lakhs. For the public sector, the penalty amounted to Rs 72 lakhs. For the private sector, the penalty amounted to Rs 1098 lakhs. For stand-alone health insurers, the penalty amounted to Rs 20 lakhs. The below chart 1 shows the breakdown of penalty amount in percentage terms.

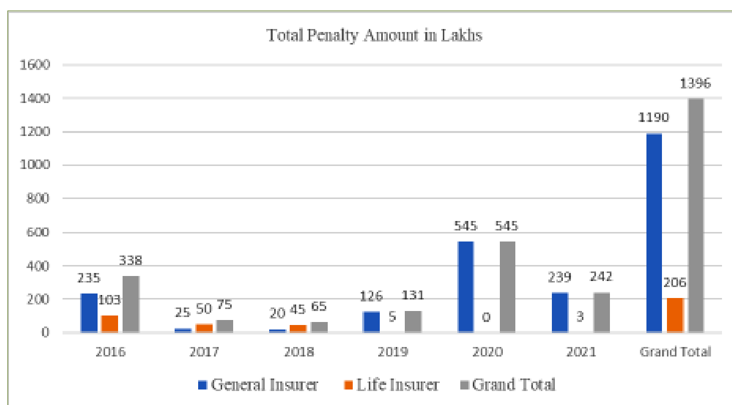
Chart 1: Penalty Breakdown of General Insurance Industry



Source: Complied from 46 penalty orders (2016-21) from https://irdai.gov.in/warnings-and-penalties under category: Non-Life Insurers and Health Insurers

The below chart 2 shows the total amount in penalty starting from year 2016 to year 2021. The total penalty combined for general and life insurance industry for year 2016 was Rs 338 lakh. The combined total penalty then showed a decreasing trend for year 2017 (Rs 75 lakhs) and year 2018 (Rs 65 lakhs) in comparison to year 2016. In year 2019, the combined total penalty, amounting to Rs 131 lakh was imposed. In year 2020, there was no penalty for life insurers but penalty amounting to Rs 545 lakh was imposed on general insurers. In year 2021, the total combined amount of penalty imposed was Rs 242 lakhs.

Chart 2: General Insurer Vs Life Insurer (Order Penalty Trend 2016-2021)



Source: Compiled from 67 penalty orders (2016-2021) from https://irdai.gov.in/warnings-and-penalties under category: Non-Life Insurers, Health Insurers, and Life Insurers

5.2 To find and discuss the various common violations of insurance rules and regulations between Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for which penalty was imposed.

This study attempted to categorize the violations related to violation of various insurance rules and regulation based on 67 penalty orders. It was observed that violation of insurance rules and regulation for which penalties were imposed can be divided into following common categories as per below table. The total amount in penalty for general insurers for common violation was 584 lakh and that for life insurer was 195 lakhs.

Table 1: Common Category of Violations related to General and Life Insurance Industry

	Penalty Amount (lakhs)		
Common Category Violation	**General**	**Life**	**Total**
Group insurance guidelines on claim settlement practices	5	3	8
IRDA (Protection of Policyholders' Interests) Regulations, 2002	144	29	173
Outsourcing (Excess Payout and Additional Relationship)	81	110	191
Product Filing Guidelines	279	25	304
Sharing of Database Regulation	10	8	18
Solicitation of Business through other than Licensed Entities	65	20	85
Section 33 (3) of Insurance Act, 1938	5	5	10
Grand Total	**589**	**200**	**789**

Source: Compiled from 67 penalty orders (2016-2021) from https://irdai.gov.in/warnings-and-penalties under the category: Non-Life Insurers, Health Insurers, and Life Insurers

These above categories are discussed in below Table 2 as follows.

Table 2: Short Discussion of Categories Related to Common Violation

Violation	Explanation
Group insurance guidelines on claim settlement practices	Group insurance guidelines on claim settlement practices states that, a group organizer can only facilitate in registering and settling claim. It is insurer's responsibility to ensure that claim payment is given in the insured's name only.
IRDA (Protection of Policyholders' Interests) Regulations, 2002	It defines the obligation of insurers, intermediaries, and lay down time frames for compliance which covers the entire life cycle of a product. One of the examples related to time frame relates to general insurer, wherein the general insurer should appoint surveyor within 72 hours of receiving intimation from the insured. The surveyor should not take more than six months from appointment date to furnish his/her report. The insurer within 30 days from the receipt of survey report shall offer settlement of claim to the insured. The insurer within 7 days from the acceptance date of the offer by the insured shall pay the amount to the insured. Another example related to life insurance was not properly incorporating provisions of Section 45 of Insurance Act, 1938 on its proposal forms
Outsourcing (Excess Payout and Additional Relationship)	According to the outsourcing guidelines, the insurer should not agree to the payment terms which is not in the interest of the insurer. Furthermore, insurer should not enter additional relationship with corporate agents by paying remuneration. Corporate agent/ agents can perform only those activities which govern their licensing and functioning and cannot be outsourced any other activity.
Product Filing Guidelines	The insurers must adhere to the terms and underwriting guidelines which are approved under product filing. The insurers must file for product modification if any change is needed due to emerging experience. Further, if there are add on covers in the policy, it should be filed under Product filing guidelines.
Sharing of Database Regulation	The insurers will take prior approval of authority to modify existing referral agreements which could be eligible for data sharing. The insurers should get referral leads only from the registered referral partners.
Solicitation of Business through other than Licensed Entities	According to Section 42D (Sub-section 8) of the Insurance Act, 1938, a penalty extending up to 10 lakh rupees may be imposed on any person acting as an insurance intermediary without being registered under this section. A person appointing an insurance intermediary which is not registered to transact insurance business shall be liable to penalty extending 1 crore rupees. ("advocatekhoj.com," n.d., para.8). Furthermore, according to the Corporate Agents Regulations / guidelines, insurance business can only be solicited by the persons qualified as "Specified Persons" of the corporate agents. A valid certificate/ licence is required for soliciting or procuring insurance business by specified person.
Section 33 (3) of Insurance Act, 1938	Insurers should produce all documents, information, registers, and book of accounts as required by the investigating authority.

Source: Compiled from 67 penalty orders (2016-2021) from https://irdai.gov.in/warnings-and-penalties under category: Non-Life Insurers, Health Insurers, and Life Insurers

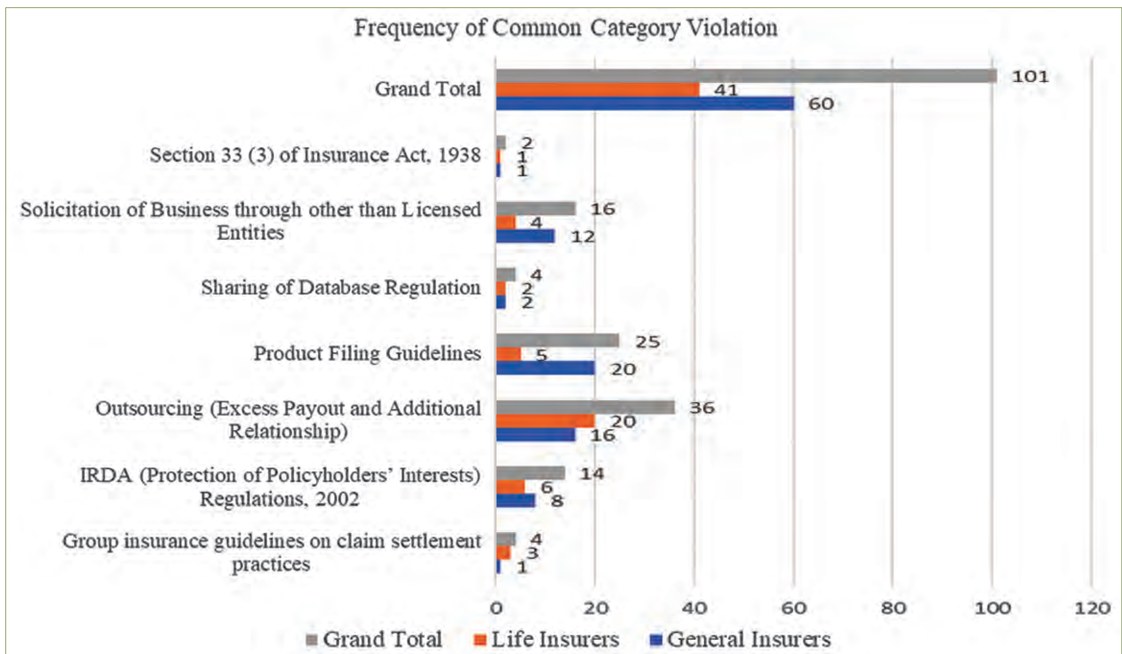
5.3 To find the common category which was violated the greatest number of times by Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021.

The below chart 3 attempts to give the bifurcation regarding number of times the common category was violated. It was observed after analysing the various orders, that guidelines related to "filing procedures" were violated by the general insurance industry the greatest number of times (20 times). On the other hand, for the life insurance industry, category of Outsourcing (Excess Payout and Additional Relationship) was violated the greatest number of times (20 times). Overall, it was seen after taking life insurance and general insurance combined, category related to outsourcing (excess payout and additional relationship) was violated the greatest number of times (36 times).

5.4 To discuss the uncommon violations of insurance rules and regulations between Life and General Insurance Industry based on 67 orders published on IRDAI website starting from the year 2016 to the year 2021 for which penalty was imposed.

The below table 3 gives the short explanation of uncommon violation with penalty amount, frequency of times the violation occurred, and type of industry in which the violation occurred. The highest frequency of violation (6 times) was related to Motor Insurance Service Provider Guidelines and General Regulation 8 of India Motor Tariff, 2002. The total amount in penalty for uncommon violation was 607 lakhs with total frequency of violation was 26 times based on the below categories in table 3. Comparing chart 2, table 1 and table 3, total penalty amount combined for life and general insurer was 1396 lakhs. Out of which 607 lakhs (43.48%) was related to uncommon category violation and 789 lakhs (56.52%) was related to common category violation. Comparing Chart 3 and table 3 Total frequency of violation for general and life insurance industry combined was 127 times, with common category violation was 101 times (79.52%) and uncommon category violation was 26 times (20.48%).

Chart 3: General Insurer Vs Life Insurer Common Category Violation Frequency (2016-2021)



Source: Compiled from 67 penalty orders (2016-2021) from https://irdai.gov.in/warnings-and-penalties under category: Non-Life Insurers, Health Insurers, and Life Insurers

Table 3: Short Discussion of Categories Related to Uncommon Violation

Violation	Explanation	Total Penalty Amount (lakhs)	Frequency of Violation	Type
Repudiation of claim under Section 45(4) of Insurance Act, 1938	The misstatement or suppression of fact shall be considered material if it has a direct bearing on risk the insurer undertakes. The death claim cannot be repudiated just because the life assured at the time of taking the policy didn't disclose that it had existing insurance cover with other life insurance company.	1	1	Life
Regulation 52 of IRDA (Linked insurance products) Regulations, 2013	It deals with the treatment of advance premium by life insurers It mentions that the advance premium shall be collected by insurer only for premiums falling due within the same financial year and such collected advance premium shall be adjusted on the due date of premium.	5	1	Life
IRDAI (Obligation of Insurer in respect of Motor Third Party Insurance Business) Regulations, 2015	The basic objectives are to reduce the count of number of uninsured vehicles, to make certain that no insurer refuses to underwrite motor third party insurance, to ensure that risk is spread across the entire industry, and there is no concentration of risk with few general insurers only. Example of violation is when the insurer does not fulfil the motor third party obligation.	90	4	General
Motor Insurance Service Provider Guidelines	The objective is to monitor motor dealer's activities in distributing and servicing motor insurance policies. These guidelines aim to check undesirable practices such as payouts made to motor dealers under various heads of management expenses by the insurers at the expense of policyholders.	133	6	General
Lack of sufficient control functions	There should be sufficient internal controls to make sure that there is proper compliance with policies of risk management. There should be robust mechanisms to identify, assess, quantify, control, mitigate, and monitor risks	15	3	General
IRDAI (Insurance Surveyors and Loss Assessors) Regulations, 2015	It states that insurers should appoint surveyors and loss assessors for loss above Rs 50000 in case of motor insurance and loss above Rs 100000 in case of other than motor insurance. Furthermore, the surveyors can only assess losses in those departments which are specified in their licenses	28	1	General
IRDA (Health Insurance) Regulations, 2013	It states that on acceptance of ported policy no commission shall be paid to any intermediary. There are also provisions, in which individual health products may be offered with a minimum tenure of one year and maximum tenure of three years. Group health insurance policies shall be one-year renewable contracts.	205	3	General
IRDA (Insurance Advertisements and Disclosure) Regulations, 2000	It mentions that the advertisements should not be misleading or unfair. Further, the advertisements should not disclose the benefits partially without disclosing the corresponding implications, conditions, and limitations	100	1	General

Violation	Explanation	Total Penalty Amount (lakhs)	Frequency of Violation	Type
General Regulation 8 of India Motor Tariff, 2002	It states that IDV (Insured Declared Value) will not change during the currency of the policy period. Furthermore, it shall be treated as market value throughout the policy period without any further depreciation for the purpose of Total Loss/Constructive Total Loss Claims	30	6	General
	Grand Total	607	26	

Source: Compiled from 67 penalty orders (2016-2021) from https://irdai.gov.in/warnings-and-penalties under category: Non-Life Insurers, Health Insurers, and Life Insurers

6. Summary, Conclusion, and Recommendations

After analysing the 67 orders published on IRDAI website, it was found that penalty amounting to Rs 1190 lakhs was imposed on general insurers and Rs 206 lakhs was imposed on life insurers. Total penalty amount combined for life and general insurer was 1396 lakhs. Out of which 607 lakhs (43.48%) was related to uncommon category violation and 789 lakhs (56.52%) was related to common category violation. Total frequency of violation for general and life insurance industry combined was 127 times, with common category violation was 101 times (79.52%) and uncommon category violation was 26 times (20.48%). For common category violation, filing guidelines were violated the greatest number of times (20 times) by general insures and guidelines related to outsourcing (excess payout and additional relationship) was violated greatest number of times (20 times) by life insurers. Overall, it was seen after taking life insurers and general insurers combined, category related to outsourcing (excess payout and additional relationship was violated the greatest number of times (36 times). For uncommon category violation, the highest frequency of violation (6 times) was related to Motor Insurance Service Provider Guidelines and General Regulation 8 of India Motor Tariff, 2002. It is recommended that insurance industry's market players re-examine their strategies so that they follow the insurance rules and regulations for their enduring stay in the insurance business.

7. Limitations of the Study and Further Research

This study does not include cases that may be preferred to the Securities Appellate Tribunal, with subsequent modifications, if any, to the orders referred here in. Further research can also be carried out to analyse the violations related to insurance intermediaries such as TPAs, Surveyors, and Corporate Agents of Insurers. TJ

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Appendix

Sr. No.	Company Name	Type	Reference Number	Published Date
1	Acko General Insurance Ltd	General	IRDAI/NL/ORD/MISC/029/001/2020	24-Jan-20
2	Bajaj Allianz General Insurance Company Ltd	General	IRDA/F&A/ORD/DATA/148/07/2016	03-Aug-16
3	Bajaj Allianz General Insurance Company Ltd	General	IRDAI / Enf / ORD / ONS / 030 / 01 / 2020	28-Jan-20
4	Bajaj Allianz General Insurance Company Ltd	General	IRDAI/NL/ORD/MISC/092/04/2021	17-Apr-21
5	Bajaj Allianz General Insurance Company Ltd	General	IRDAI/NL/ORD/MISC/160/09/2019	13-Sep-19
6	Bharti Axa General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/157/ 08 /2016	11-Aug-16
7	Bharti Axa General Insurance Company Ltd	General	IRDAI/ENF/ORD/ONS/142/07 /2016	25-Jul-16
8	Bharti Axa General Insurance Company Ltd	General	IRDA/NL/ORD/MISC/305/12/2020	31-Dec-20
9	Bharti Axa General Insurance Company Ltd	General	IRDA/NL/ORD/MTP/303/12/2020	31-Dec-20
10	Chola MS General Insurance Company Ltd	General	IRDAI/Enf/ORD/ONS/193/10/2019	22-Oct-19
11	Chola MS General Insurance Company Ltd	General	IRDA/NL/ORD/MISC/039/03/2021	09-Mar-21
12	Future Generali India Insurance Company Ltd	General	IRDAI/Enf/ORD/ONS/082/04/2021	12-Apr-21
13	Future Generali India Insurance Company Ltd	General	IRDA/NL/ORD/MISC/148/06/2020	10-Jun-20
14	GO DIGIT General Insurance Ltd	General	IRDAI/NL/ORD/PRO/159/09/2019	13-Sep-19
15	GO DIGIT General Insurance Ltd	General	IRDA/NL/ORD/MISC/21/01/2021	29-Jan-21
16	HDFC Ergo General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/253/12/2016	26-Dec-16
17	HDFC ERGO General Insurance Company Ltd	General	IRDAI/NL/ORD/ONS/198/12/2018	05-Dec-18
18	ICICI Lombard General Insurance Company Ltd	General	IRDAI / Enf / ORD / ONS / 035 / 01 / 2020	29-Jan-20
19	IFFCO TOKIO General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/006/01/2016	07-Jan-16
20	IFFCO TOKIO General Insurance Company Ltd	General	IRDAI /NL/ORD/ONS /205 /12/2018	20-Dec-18
21	IFFCO TOKIO General Insurance Company Ltd	General	IRDA/NL/ORD/MISC/099/04/2021	27-Apr-21
22	Liberty General Insurance Ltd	General	IRDA/ENF/ORD/ONS/252/12/2016	26-Dec-16
23	Liberty General Insurance Ltd	General	IRDA/NL/ORD/MISC/91/04/2021	16-Apr-21
24	Magma HDI General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/076/04/2017	06-Apr-17
25	Magma HDI General Insurance Company Ltd	General	IRDAI/Enf/ORD/ONS/230/09/2020	20-Sep-20
26	Max Bupa Health Insurance Company Limited	General	IRDAI/ENF/ORD/ONS/79/04 /2016	29-Apr-16
27	National Insurance Co Ltd	General	IRDA/ENF/ORD/ONS/085/05/2016	10-May-16
28	Raheja QBE General Insurance Company Ltd	General	IRDAI/NL/ORD/MISC/034/01/2020	27-Jan-20
29	Reliance General Insurance Company Ltd	General	IRDAI/NL/ORD/ONS/134/08/2018	24-Aug-18
30	Royal Sundaram General Insurance Company Ltd	General	IRDAI/NL/ORD/ONS/204/12/2018-19	20-Dec-18
31	Royal Sundaram General Insurance Company Ltd	General	IRDAI/ENF/ORD/ONS/086/05/2016	11-May-16
32	Royal Sundaram General Insurance Company Ltd	General	IRDA/NL/ORD/MISC/085/04/2021	15-Apr-21

Sr. No.	Company Name	Type	Reference Number	Published Date
33	SBI General Insurance Company Ltd	General	IRDA/NL/ORD/MTP/122/05/2021	10-May-21
34	SBI General Insurance Company Ltd	General	IRDA/NL/ORD/MISC/086/04/2021	15-Apr-21
35	Shriram General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/145 /07/2016	01-Aug-16
36	Shriram General Insurance Company Ltd	General	IRDA/ENF/ORD/ONS/123/05/2021	06-May-21
37	Tata AIG General Insurance Company Ltd	General	IRDA/Enf/ORD/ONS/081/04/2017	17-Apr-17
38	Tata AIG General Insurance Company Ltd	General	IRDAI/HLT/MISC/ORD/37/01/2020	29-Jan-20
39	The New India Assurance Co Ltd	General	IRDA/ENF/ORD/ONS/046/03/2016	17-Mar-16
40	The New India Assurance Co Ltd	General	IRDAI/HLT/MISC/ORD/016/01/2016	21-Jan-16
41	The New India Assurance Co Ltd	General	IRDAI / Enf / ORD / ONS /164/ 09/2019	18-Sep-19
42	The Oriental Insurance Co Ltd	General	IRDA/ENF/ORD/ONS/23/02/2016	12-Feb-16
43	United India Insurance Co Ltd	General	IRDAI/NL/ORD/ONS/ 003 /01/2019	03-Jan-19
44	United India Insurance Co Ltd	General	IRDAI / Enf / ORD / ONS / 033 / 02 /2019	06-Feb-19
45	Universal Sompo General Insurance Co Ltd	General	IRDA/ENF/ORD/ONS/005/01/2016	07-Jan-16
46	Universal Sompo General Insurance Co Ltd	General	IRDA/NL/ORD/MISC/124/05/2021	07-May-21
47	Aviva Life Insurance Company India Ltd	Life	IRDA/ENF/MISC/ONS/227/11/2016	18-Nov-16
48	Bharti Axa General Insurance Company Ltd	Life	IRDA/ENF/MISC/ONS/074/04/2016	13-Apr-16
49	Birla Sun Life Insurance Co Ltd	Life	IRDA/ENF/ORD/ONS/247/12/2016	13-Dec-16
50	DHFL Pramerica Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/075/04/2016	15-Apr-16
51	Exide Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/053/03/2016	22-Mar-16
52	Exide Life Insurance Co Ltd	Life	IRDA/F&A/ORD/MISC/185/11/2018	14-Nov-18
53	Exide Life Insurance Co Ltd	Life	IRDA/LIFE/ORD/MISC/188 /11/2018	15-Nov-18
54	HDFC Standard Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/ 008 /01/2017	11-Jan-17
55	ICICI Prudential Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/061/03/2017	28-Mar-17
56	Kotak Mahindra Old Mutual Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/88/05/2016	06-May-16
57	Max Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/128/06/2016	29-Jun-16
58	Max Life Insurance Co Ltd	Life	IRDAI/LIFE/ORD/MISC/105/04/2021	28-Apr-21
59	PNB Metlife Life Insurance Co Ltd	Life	IRDA/Enf/Ord/ONS/065/03/2017	29-Mar-17
60	Reliance Nippon Life Insurance Co Ltd	Life	IRDAI/LIFE/ORD/MISC/218/11/2016	04-Nov-16
61	Reliance Nippon Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/271/12 /2017	22-Dec-17
62	Reliance Nippon Life Insurance Co Ltd	Life	IRDAI/LIFE/ORD/MISC/184/11/2018	13-Nov-18
63	SBI Life Insurance Co Ltd	Life	IRDA/ENF/ORD/ONS/185/09/2016	22-Sep-16
64	SBI Life Insurance Co Ltd	Life	IRDA/ENF/ORD/ONS/194/10/2019	25-Oct-19
65	Shriram Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/199/10/2016	18-Oct-16
66	Star Union Dai-ichi Life Insurance Co Ltd	Life	IRDA/ENF/MISC/ONS/052/03/2016	22-Mar-16
67	Star Union Dai-ichi Life Insurance Co Ltd	Life	IRDAI/ENF/MISC/ONS/008/01/2019	11-Jan-19

Determination of Rate of Contribution in National Pension System for Equalization of Pension under National Pension System and Old Pension Scheme

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Abstract

Shifting from Old Pension Scheme (OPS) to National Pension System (NPS) was a major financial reform undertaken by Govt. of India during the last decade and this paradigm shift has significant impact on the retirement benefits of employees as well as on public exchequer.The OPS createdhuge financial challenges on public exchequer and leads to the introduction of the NPS.However the absence of a guaranteed minimum pension under NPS and its link with the market has sparked demand for OPS restoration by the employees of various States and Center. To address these concerns, a Committee is formed by Central Government to review the existing NPS. The pension under NPS is significantly lower than the pension under OPS and largely depends upon the rate of return on NPS Corpus and length of service. Present paper aims to determine the rate of contribution needed under NPS to achieve equilibrium with OPS benefits. Regression analysisreveals a statistically significant relationship between length of service, rate of return and NPS contribution rate. These results will be helpful for the policymakers in drafting a sustainable pension system that helps in compensating employees

against potential losses due to NPS implementation. Ultimately this research contributes to the ongoing pension reforms debate in India.

Keywords

Old Pension Scheme (OPS), National Pension Scheme (NPS), Pension.

The concept of retirement and pension system has undergone significant transformations over the years reflecting the evolving economic, social and demographic landscapes of nations worldwide. In India, the shift from the traditional Old Pension Scheme (OPS) to the National Pension System (NPS) has been one of the most notable developments in recent times. This transition has brought significant impact on the retirement benefits and financial security of government employees and on the sustainability of the pension system itself. According to Girijesh Kumar Tiwari (as cited in Gayithri, 2007), Indian pension system has found its origin in 3rd BC where a king started providing pensions to its citizens who completed 40 years of age offering them half of their wages they were earning. The modern civil service pension system in India was originated in 1881 following recommendations of Royal Commission. This system introduced the idea of employees contributing 4 percent of their salary to their pensions. Subsequent amendments were made by the Government of India Acts of 1919 and 1935. Later on the scheme was extended to cover all public sector workers. It operated as a Defined Benefit (DB) scheme that means the government guaranteed specific pension amounts paid from its own resources.

The Indian government faced challenges in sustaining the Old Pension Scheme (OPS) due to its generous benefits (Goswami, 2011) which imposed substantial financial burdens on both the Central and State Government's exchequer. Considering this, the Central Government introduced the New Pension Scheme (NPS) as a Defined Contribution (DC) scheme for new employees entering Central Government Service (except the Armed Forces) on or after January 1st, 2004. The various State Governments also implemented the NPS to ease the financial burden on public exchequer and make it applicable to state government employees from the date of notification of the scheme in respective state.All the states except the State of West Bengal have implemented the NPS however some states have reverted back to OPS.

The employees of Central and State Government are agitating at a large scale for the restoration of OPS as the pension under NPS is much smaller than the pension under OPS. Government employees were entitled to receive a fixed pension under OPS based on their year of active service and average salary. In contrast, the NPS requires individuals to contribute a portion of their salary to their pension account which is then invested in various financial instruments, potentially leading to marketlinked returns. Sanyal at el. (2011) and Stelton(2011) have highlighted the absence of guarantee of minimum pension under NPS as a main reason for the unacceptability of NPS in India.

Presently, the restoration of OPS is one of the most prominent demands of government employees. Some states e.g. Rajasthan, Chhattisgarh, Jharkhand, Punjab and Himachal Pradesh have either reverted back to Dearness Allowance (DA) linked Old Pension Scheme or trying for the same.

Recognizing the need to address these concerns, the Government of India has constituted a Committee led by Finance Secretary Sri TV Somanathan including Secretary of Department of Personnel and Training, Chairman of PFRDA and the Special Secretary of the Department of Expenditure to review the pension system for government employees. The Committee will analyse the architecture of current National Pension System, evaluate the pension payable under NPS and will recommended the necessary changes to improve NPS. The team will take the fiscal implications and impact on budget into consideration to maintain fiscal prudence.

Presently, 10 percent of Basic and DA is deducted from the employee's salary while the Government contributes 14 percent of their Basic and DA towards the National Pension System (NPS). The key question that arises in the context is how to determine the rate of contribution

under the NPS to achieve equilibrium with the pension benefits available under OPS. Achieving this equilibrium is essential not only to ensure fairness for employees but also to maintain the long term sustainability of the pension system. This equilibrium is critical for addressing the financial needs of retirees while considering the fiscal constraints of the government.

The present study has been undertaken to know the rate of contribution for equalization of the present value of pension receivable by retired employees in 20 years after retirement under OPS and the value of accumulated funds under NPS as on the date of retirement. It is important to know the rate for equilibrium of both schemes for formulating better plan for government employees and government both.

Review of Literature

No specific study has been undertaken on the present topic. Most of the studies in this field focused on the performance of various fund managers operating in NPS architecture. Akalonu and Ipinyomi(2014)in their study of Nigerian Pension Act No. 102 of 1979 and the Pension Reform Act of 2004 found that old pension scheme provides the retirees with significantly higher gratuity payments compared to new scheme with the minimum ratio of about 3.5:1. Similarly, the pension benefits under the old scheme exceeded than new scheme with the minimum ratio of 2.3:1. Kali(2014) in her study on pension benefit of Government Employees in India and Chile found that the pension amount depends on the length of service and pension wealth of the individual retirement account of the employees. Kamath and Patil(2017) focused on assessing the cost and benefits associated with the NPS in India considering individuals of various age groups. This study also analyzed the advantages and disadvantages of participating in the NPS. Sane and Thomas(2014)revealed the drawbacks of NPS in their working paper. The study highlighted that presence of multiple schemes create confusion on one hand while system is not transparent on other hand. Murari(2022) conducted a study to evaluate the performance of Pension Fund Managers (PFMs) operating under the NPS in India employing risk-adjusted performance measures such as Sharpe, Treynor and Jensen’s alpha. LIC Pension Funds Ltd emerged as the top performing PFM as per this study. It also highlighted the need for continuous monitoring and evaluation to ensure that PFMs continue to meet the expectation of subscribers and deliver competitive and sustainable returns while managing associated risks effectively. Prasad and Ghosh(2023) explored the optimal asset allocation for the New Pension System using a Genetic Algorithm approach for this purpose. The primary objective of the study was to determine the most suitable asset allocation weight for subscribers for investments in this pension plan. Kumar and Mahalakshmi(2023) evaluated the pension schemes available to government employees in India highlighting the difference between OPS and NPS, their impact on financial security and the challenges and disparities arising from the introduction of NPS within the government sector. The study advocated the need for a revaluation of the pension sector reforms particularly for government employees and the possibility of adopting an alternative approach. Aggarwal et al.(2023) carried out a research to determine the difference between old and new pension systems under various assumptions. The study identified that the ROI and age of entry into the job exerted the most significant influence on the pension amount. Solanki et al. (2023) found that the cumulative fiscal burden in case of OPS could be high as 4.5 times that of OPS, with the additional burden reaching 0.9 percent of GDP annually by 2060. The study shows that the expected cumulative pension burden for the states over the period from 2023 to 2084 due to the OPS is substantially higher than that of the NPS. However, the study did not suggest the alternative ways to provide pension which will be acceptable to employees.

The present study has been undertaken to find out the rate of contribution required for equilibrium of pension payout under NPS and OPS under certain assumptions. The present study will be useful in formulation of strategy to fulfill the dual objectives viz. to formulate a

sustainable pension scheme from the government perspective and to compensate the employees against the losses incurred due to reduction in pension amount due to implementation of NPS. Further study may be undertaken to estimate the difference between OPS and NPS after considering the taxation on pension amount, family pension and commutation of pension. The financial burden of OPS on Government exchequer can be also be studied under different rates of contributions. Similarly some alternative plan can be formulated to minimize the loss of employees due to implementation of NPS.

Objective of the Study

1. To determine the rate of Contribution towards NPS which equates the present value of OPS with funds accumulated under NPS at the time of retirement.

Hypothesis

The present study has been undertaken to test the following null hypothesis:

H_0: There is no relationship exist between the predictor variable (Length of Service) and the response variable (Rate of contribution towards NPS) under assumptions of different eXtended Internal Rate of Return (XIRR) on NPS funds.

Research Methodology

The present study has been undertaken to find out the percentage of contribution required to be made by employees and employers towards NPS which equates the present value of pension payable under Old Pension System in 20 years after retirement and the present value of corpus accumulated on the date of retirement under NPS. Certain assumptions have been taken for making calculations which are given as follows:

1. The employee has joined the Government services as on 01.01.2024. The effective length of service is taken as 20 years, 25 years, 30 years and 35 years before retirement. The Basic Pay taken for the study is inclusive of Grade Pay/Personal Pay etc.
2. The employees get the benefit of Assured Career Progression (ACP) after 8, 16 and 24 years of regular service and get the benefit of one additional increment at the time of granting ACP.
3. The Dearness Allowance is assumed to be increased by 4% on a biannual basis.
4. The benefit of pay commission is given to employees after every ten years starting from 01.01.2026. A common multiple of two has been taken as a multiplier for the fixation of pay in the new pay scale after the implementation of the pay commission. The DA is taken as nil from the date of implementation of pay commission.
5. The employees invest the whole amount of Government Contribution for the purchase of annuity after the retirement. They purchase the annuity having feature of repayment of Principal alongwith interest on monthly basis for a period of 20 years.
6. The employee will not get the commutation of pension and will prefer to take full pension in OPS.
7. The employees will take the benefit of Old Pension Scheme upto 20 years after the retirement and benefit of family pension is ignored.
8. The XIRR has been taken for computing the total amount of corpus available at the time of retirement.
9. The effect of taxation and deferment of annuity are not considered in the present study.

The XIRR and Present Value are used as main statistical tools in the present study. XIRR is a single rate of return that provides the current value of the entire investment when applied to each Systematic Investment Plan (SIP). It is used where many transactions happen during a period. Similarly Present Value (PV) is the current value of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate and the higher the discount rate, the lower the present value of the future cash flows. The calculations have been carried out in MS Excel with the help of various formula and logics.

Table 1 shows that in case length of service is 20 years andthe rate

of return on investment is 10 percent, then the required contribution towards NPS will be 49 percent for equalization of the sum receivable from NPS with present value of Pension as on the date of retirement which is discounted at 8 percent discount rate.

Table 1: Rate of Contribution to NPS for Equilibrium if the Length of Service is 20 Years

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Initial Basic Pay as on 01.01.2024	20000	30000	40000	50000	60000
Gross Pay at the End of Service	238080	356160	474240	594080	713120
Initial Gross Pension (Basic + DA)	122016	182532	243048	304548	365556
Terminal Gross Pension (Basic + DA)	476160	712320	948480	1188480	1426560
Rate of Contribution for equilibrium at 10% XIRR	49	49	49	49	49
Original Contribution to NPS	12525348	18738132	24963576	31265100	37534068
Total Corpusin NPS @ 10% XIRR as on date of Retirement	26910000	40260000	53610000	67200000	80600000
Rate of Contribution for equilibrium at 12% XIRR	41.5	41.5	41.5	41.5	41.5
Original Contribution to NPS	10608192	15870036	21142614	26479608	31789062
Total Corpusin NPS @ 12% XIRR as on date of Retirement	26910000	40260000	53610000	67200000	80600000
PV of Pension @ 8% Discount Rate as on the date of Retirement	26914541	40263275	53612023	67177823	80635073
Pension under NPS if rate of interest on Annuity is 8%	225421	336751	448416	562088	674171

Source: Own Calculations

The contribution rate will remain same for all the persons irrespective of different basic pay at the time of initial joining. Similarly, if rate of return on NPS is 12 percent then the required contribution will be reduced to 41.5 percent of Basic and DA to equate the accumulated funds under NPS at the time of retirement with present value to pension receivable in 20 years after retirement. Under such situation, the initial pension under OPS will be around 0.54 times of pension under NPS whereas the terminal pension under OPS will be around 2.11 times of pension under NPS.

Table 2: Rate of Contribution to NPS for Equilibrium if the Length of Service is 25 Years

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Initial Basic Pay as on 01.01.2024	20000	30000	40000	50000	60000
Gross Pay at the End of Service	426240	637440	848640	1063080	1276320
Initial Gross Pension (Basic + DA)	220224	329344	438464	549320	659432
Terminal Gross Pension (Basic + DA)	852480	1274880	1697280	2126400	2552640

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Rate of Contribution for equilibrium at 10% XIRR	40.4	40.4	40.4	40.4	40.4
Original Contribution to NPS	18319254	27405030	36499176	45714822	54883074
Total Corpusin NPS @ 10% XIRR as on date of Retirement	45440000	67960000	90500000	113400000	136300000
Rate of Contribution for equilibrium at 12% XIRR	32.4	32.4	32.4	32.4	32.4
Original Contribution to NPS	14691666	21978288	29271618	36662364	44015148
Total Corpusin NPS @ 12% XIRR as on date of Retirement	45440000	67960000	90500000	113400000	136300000
PV of Pension @ 8% Discount Rate as on the date of Retirement	45441762	67957945	90474134	113348508	136069399
Pension under NPS if rate of interest on Annuity is 8%	381000	568445	756978	948523	1140068

Source: Own Calculations

Table 2 reveals that if the length of service is increased from 20 years to 25 years then the required rate of contribution to match the sum receivable under NPS at the time of retirement and present value of pension at 8 percent discount rate receivable in 20 years after retirement will come down to 40.4 percentfrom 49 percent (in case XIRR is 10percent) and from 41.5 percent to 32.4 percent (in case XIRR is 12 percent). There will be no effect of initial Basic Pay on the required rate of contribution for equilibrium purpose and the required rate of contribution will remain same for all employees having different initial basic pay at the time of initial joining but having same length of service of 25 years. The initial pension under OPS will be around 0.58 times of the pension under NPS and terminal pension under OPS will be 2.24 times of the pension under NPS.

Table 3: Rate of Contribution to NPS for Equilibrium if the Length of Service is 30 Years

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Initial Basic Pay as on 01.01.2024	20000	30000	40000	50000	60000
Gross Pay at the End of Service	658880	985120	1311840	1643200	1972960
Initial Gross Pension (Basic + DA)	337676	504956	672400	842140	1011224
Terminal Gross Pension (Basic + DA)	1317760	1970560	2624000	3286400	3946240
Rate of Contribution for equilibrium at 10% XIRR	33.4	33.4	33.4	33.4	33.4
Original Contribution to NPS	26237952	39242160	52259136	65458062	78587712
Total Corpusin NPS @ 10% XIRR as on date of Retirement	74480000	111500000	148400000	185700000	223000000
Rate of Contribution for equilibrium at 12% XIRR	25.5	25.5	25.5	25.5	25.5

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Original Contribution to NPS	20031942	29960352	39898464	49975488	59999604
Total Corpusin NPS @ 12% XIRR as on date of Retirement	74480000	111100000	148000000	185200000	223000000
PV of Pension @ 8% Discount Rate as on the date of Retirement	74485254	111384221	148319352	185760953	223057845
Pension under NPS if rate of interest on Annuity is 8%	622981	929285	1241277	1549087	1865261

Source: Own Calculations

Table 3 predicts the rate of contribution for equilibrium if the length of service is 30 years. The required rate of contribution will be 33.4 percent if the XIRR on NPS corpus will be 10 percent and similarly the required rate of contribution will be 25.5 percent if the XIRR will be 12 percent. The rate of contribution will remain same for all the employees having different initial basic pay but having same length of service of 30 years. The initial pension under OPS will be 0.54 times of initial pension under NPS and terminal pension under OPS will be 2.11 times of the pension under NPS.

Table 4: Rate of Contribution to NPS for Equilibrium if the Length of Service is 35 Years

Particulars	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.	Amount in Rs.
Initial Basic Pay as on 01.01.2024	20000	30000	40000	50000	60000
Gross Pay at the End of Service	1145760	1713120	2281200	2857320	3430680
Initial Gross Pension (Basic + DA)	591976	885112	1178620	1476344	1772580
Terminal Gross Pension (Basic + DA)	2291520	3426240	4562400	5714880	6861600
Rate of Contribution for equilibrium at 10% XIRR	28.5	28.5	28.5	28.5	28.5
Original Contribution to NPS	37876950	56641980	75428124	94478820	113433576
Total Corpusin NPS @ 10% XIRR as on date of Retirement	122100000	182600000	243200000	304600000	365800000
Rate of Contribution for equilibrium at 12% XIRR	21	21	21	21	21
Original Contribution to NPS	27909348	41736186	55578612	69615978	83582586
Total Corpusin NPS @ 12% XIRR as on date of Retirement	122100000	182600000	243200000	304600000	365800000
PV of Pension @ 8% Discount Rate as on the date of Retirement	122150306	182636967	243200384	304633751	365760080
Pension under NPS if rate of interest on Annuity is 8%	1021293	1527340	2034222	2547796	3059698

Source: Own Calculations

Table 4 reveals that the required rate of contribution will be 28.5 percent and 21 percent to equate the funds receivable under NPS at the time of retirement and present value of pension receivable under OPS at 8 percent discount rate if the rate of return on NPS corpus will be 10 percent and 12 percent respectively. Again the rate of contribution will remain same for all employees irrespective of their basic pay at the time of initial joining. The initial pension under OPS will be 0.58times of pension under NPS and terminal pension under OPS will be 2.24 times of pension under NPS.

Table 1 to 4 reveals that the required rate of contribution for equalization of funds receivable under NPS and present value of pension receivable in 20 years after retirement under OPS depends mainly on two factors i.e. (1) Length of service and (2) Rate of return on NPS funds for all employees having different basic pay but governed by similar set of service rules for promotion, financial up-gradation etc.

Table 5: Rate of Contribution to NPS for Equilibrium under different scenarios

Length of Service in years	Rate of Contribution if XIRR=10 percent	Rate of Contribution if XIRR=12 percent
20	49.0	41.5
25	40.4	32.4
30	33.4	25.5
35	28.5	21.0

Source: Own calculations

Taking required rate of contribution at XIRR of 12 percent and at 10 percentas dependent variable and length of service as independent variable, the linear regression model suggest that there is significant relation between dependent and independent variable as the p-value<0.05 in both cases. The coefficient of determination is approximately 0.98 which shows that the independent variable is able to predict the 98 percent variation in dependent variable under both the scenarios. On the basis of results from regression analysis, the following equation can be formed for calculating the required rate of contribution for equilibrium:

1. **In case XIRR=12 percent**

Reqd. Rate of Contribution = 67.72 + (-1.368)*Length of Service + Error

$$Y = a + bX + e \quad \ldots\ldots\ldots\ldots\ldots 1$$

2. **In case XIRR=10 percent**

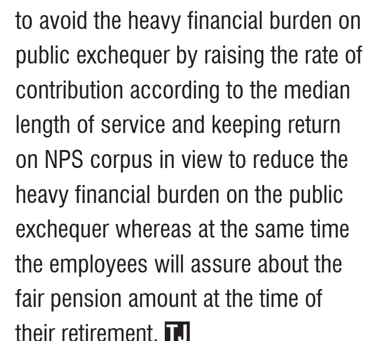
Reqd. Rate of Contribution = 75.5 + (-1.37)*Length of Service + Error

$$Y = a + bX + e \quad \ldots\ldots\ldots\ldots\ldots 2$$

Since, the p-value is less than 0.05 in both cases hence the researchers fails to accept the null hypothesis and it can be concluded that there is statistically significant relationship between the predictor (Length of Service) variable and the Response variable (Rate of Contribution to NPS).

Conclusion

It is clear from the above discussion that various State Governments and Central Government are hesitating in implementation of OPS due to its severe financial impact on public exchequer and at the same time the employees are worried about the less payout of pension under NPS. The present paper suggest a medium way



to avoid the heavy financial burden on public exchequer by raising the rate of contribution according to the median length of service and keeping return on NPS corpus in view to reduce the heavy financial burden on the public exchequer whereas at the same time the employees will assure about the fair pension amount at the time of their retirement. TJ

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Point of View on How an Life Insurance Company can be Future-Ready

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Abstract

Every industry whether it is Oil & gas, Manufacturing, Life sciences, Financial services etc. are embracing digital technologies to remain competitive as well better serve the customers. Life Insurance industry cannot be lagging in this journey.

The Life insurance industry future depends on exploring new models of doing business to ensure its relevance. To succeed in this competitive insurance market, companies will require speed, agility, efficiency, faster policy issuance, claim processing and ease of doing business across with its channel partners. To serve better, Insurance companies should be going digital way. This article speaks about the key drivers for digital transformation in Life insurance industry and which areas insurance company should focus on to stay viable and grow in this age of digitalization.

Keywords

Application Program Interface (API), Artificial Intelligence (AI), Machine Learning (ML), Gen AI, Omni-Channel, Micro Front End Architecture.

Introduction

According to a 2021 study by Information Services Group (ISG) report on Insurance platforms, Covid 19 pandemic served as a catalyst for insurers in adapting to modern technologies. Carriers were reluctant mainly because of large amount of data in legacy systems, risk aversion, data sensitivity, long term policy cycles and complex regulatory environment. But in the last few years we see a visible change and the carriers in the Life insurance space have also embarked on the digital transformation journey.

Digital Transformation is not just automating the manual process and increasing the bottom line of the carrier, but it is also about creating more VALUE for the customer. Any digital transformation will be successful only when the core goal is to improve the customer experience.

Key Trends driving the digital transformation in Life insurance industry:

- According to a Swiss Re Study in 2020 "Going Digital- Insights to optimize consumer appetite for online insurance in India" nearly 70 % of respondents in 5 major cities of India were ready to buy Life and Health products online. Survey found that the product simplicity and quality of user experience are the major deciding factors for the decision to buy online or offline. For the survey six digital life and health products of small ticket sizes and few health questions were tailored to fit a mobile screen.
- With the advent of smart phones and other technology advancements, even the middle to older generation (>40 yrs.) are looking for enhanced digital experience throughout the insurance life cycle like purchase, Policy servicing and claims processing.

- People want their Life Insurer to be their relational partner throughout their life and health journeys. They are looking for more digital offerings from Insurance companies in the way of Apps that can help them to stay healthy, maintain good habits by incentivizing them in a way of premium discounts.
- According to the Global insurance consumer study by Accenture 7 out of 10 (69% people) are willing to share their health, exercise and driving habits data with insurance carrier. The new age customers are ready to share their health information and are looking for products and offerings which are based on "Usage based & behavior based" instead of fixed premiums.
- Insurers need to have a more pro-active approach in risk prevention and mitigation by making wellness a 'priority' and an integral part of the solutions developed to support customer needs. The offerings by insurers in the space of wellness should aim to put society at its core by supporting young families lead a healthier, longer, and better lives.
- With the evolution of technology and online commerce, Embedded insurance (Insurance purchased along with commercial transaction-product/service) is the new reality which Insurance companies must manage.
- Rise in No code/Low code in enterprise IT can help the insurance companies quickly respond to changes in the market and customer needs without waiting for the lenghty traditional development process.
- Application Program Interface (APIs) is gaining popularity as need of digital integration increases. APIs can serve as intermediary between different insurance applications or can help insurance company share data with their select partners (with the user's consent). APIs especially useful with the rise of concept of Open insurance where carriers are expected to share or consume data from many sources across industries.
- Recent Improvements in the Artificial Intelligence (AI) and Machine learning (ML) can help the insurance carriers in significant improvement in the processing time for claims and policy administration. Files are increasing becoming digitized which can easily be analyzed by AI algorithms, eliminating manual process.

For Insurers, Digital Transformation should focus on below points:

- **Agility in launching new products.**

  It is difficult to align IT resources, connecting data and new product ideas. An insurer should look for a digital platform that gives more flexibility to add new products with little or no coding effort to reduce product launch lifecycle. Also, the platform should already have pre-built life insurance features for different product lines. To survive in the competitive market, rolling out the competitive product at a faster pace is key for the carrier.

- **Faster Underwriting capabilities**

  Underwriting requires review of multiple documents from the customer to take a decision. Use of Gen AI can help in this case. Gen AI can help provide summary of the documents so that the Underwriter can take a faster decision without putting in efforts to read the whole document. Going further, professionally trained Gen AI LLM models can even take decision of accepting or rejecting or accept with modification and sending the counteroffer letter based on the past data and underwriting guidelines of the carrier.

- **Faster Policy Management**

  For faster response to queries companies can use conversational AI for digital transformation in insurance by improving customer interactions. Insurance companies can use Chat GPT like Gen AI tools and other Artificial intelligence/ Machine Learning capabilities to introduce intelligent virtual assistants (chatbots) into their platforms. Use cases where conversational AI can help are Policy updates and modifications, Billing and payment support, General policy related inquiries, discount eligibility and renewal reminders.

  By automating policy management carrier can not only reduce operational cost

but can also improve customer satisfaction and increase retention rates.

- **Digital Quick Claim processing**

  Claim is a formal request by the insured/nominee to reimburse against losses covered under the insurance policy contract. It provides financial security to the insured/nominee. Faster claim processing can go a long way in improving the company's reputation and customer satisfaction. Digital claim processing in simple terms refers to using technology for managing and processing of insurance claims. Steps involved in digital claims processing:

  - Claim submission: Ability to submit claim details and supporting documents through an online portal or app.
  - Data validation: Advanced algorithms and Gen AI tools to validate the data as well as the documents submitted by customers for authenticity. These systems can provide summary of the documents provided, identify potential inconsistencies or frauds based on the patterns and anomalies so that Claim adjuster can take an informed decision at a faster pace.
  - Automated decision-making: In simple and many of the complex cases as well, digital claims processing systems can make automated decisions based on preset rules. This will speed up the process, reduce human error and increase customer satisfaction.
  - Claim settlement: Once the Claim approver approves the insurance claim, payment can be made quickly to payee through online channels, eliminating physical checks or paperwork by saving the cost of correspondence and stale check issues.
  - Fraud detection: Digital claims processing systems should be equipped with fraud detection capabilities that use AI algorithms to identify suspicious patterns and flag potential fraudulent claims.
  - Real time Claim status communication: Insurance Claim is an exhaustive process involving multiple steps. It would be helpful for the claimant if, he can receive real-time updates on the status of his claim throughout the process. Also, the claimant should be able to communicate seamlessly with claim handlers through the digital platform to answer and clarify things at a faster pace.

- **Micro Front end architecture**

  An insurance carrier deals with multiple tasks daily, like policy issuance, policy servicing or processing claims. Supposing the company uses a reliable Legacy filing system, but the system is outdated and now the company needs to update it. Only way to update the whole legacy system in an insurance company without risks and disruptions of operations is with micro frontend architecture. In this case an insurance company can update claims processing without the downtime of the entire system. In summary we can say a micro frontend architecture allows the company to update and improve distinct parts of its operations independently. This will help in making the overall experience more modern and efficient without disrupting the reliable old systems. It will help quick launch of digital initiatives in insurance companies.

- **Easier Omnichannel Communication**

  Customers expect a seamless and integrated experience across multiple channels such as websites, mobile apps, social media, email and chatbots. For example, Chatbots can be integrated with website, mobile apps or social media platform which provide 24/7 assistance to users. The bots can answer the simple repetitive queries and route complex queries to human assistants. Also, bots can learn using AI over time from human assistant's response and learn to answer more complex queries with time.

- **Customer-driven approach**

  Insurance carrier growth strategy should be centered around the customer's needs and behaviors.

Analyzing the issues, defining the most popular products, and predicting future demands, are critical for the growth of the company. In case insurance carrier does not maintain a proper channels of communication with existing and prospective new clients, the competition will take that business. Carrier should have a proper mechanism to take regular feedback from customer/ prospects as to their needs, expectations, and feedback about the products. To remain competitive in market the future of insurance management systems is with customer-oriented services.

- **Analytics for improving Customer retention and identify Cross Selling opportunities**

  Using data and Machine Learning techniques, insurance companies can identify the probability of future outcomes based on historical data. Usage of predictive analytics improves customer retention and cross-selling in following ways:

  - Insurance carrier can analyze customer data to understand needs and preferences of customer. It will allow them to offer more personalized products and services, which in turn improves customer satisfaction and retention.
  - Analytics can help life insurers to identify the best products to offer their existing customers based on their needs and preferences. By analyzing customer data, we can identify which products are likely to be of interest to a particular customer and then target them with personalized marketing campaigns.
  - The risk associated with a particular customer and detection of fraudulent activities can be done by using Predictive Analytics. Customer data analysis can help identify customers who are at an elevated risk of making fraudulent claims or who are likely to miss premium payment and lapse the policy. This data analysis will help the company to take pro-active measures to prevent frauds and improve risk management.

Path Forward

Digital transformation encompasses taking many actions throughout the insurance carrier operations. It is a journey not a destination which every carrier has to take to thrive in the current market. Insurance carriers need to bring in agility, efficiency, faster policy issuance, quicker product launches, improved claims processing, and ease of doing business across the policy value chain. Carrier should not draft their digital transformation journey just because everyone is doing it. Each carrier's digital strategy should be based on their target customer demographics, geography they operate in, regulations of the land, and their transformation budget. Apart from right strategy the key to success of program is proper governance framework, lining up right talent and proper change management process.

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Adoption of Artificial Intelligence in Insurance Industry

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Dr. Ramesh Kumar Satuluri joined College of Insurance (Insurance Institute of India) as Faculty-Research on 5th October 2023. Prior to this, he was working with HDFC Life Insurance as Zonal Training Manager & National Training Manager (Learning & Development) for 14 yrs. He completed his MBA, M.Phil and PHD in Finance. He has presented papers in various seminars on his area of study.

Abstract

With the passage of IRDA Act 1999, Insurance Industry was opened to private companies and as of now we have 70+ Insurance Companies in India including Life, General and Reinsurance Branches. In order to encourage technological innovation IRDAI has constituted Sandbox committee which allows insuretech companies to innovate products and adopt Use and Tile instead of File and Use.

Artificial Intelligence and Data Analytics started impacting businesses across spectrum positively. Insurance Industry is no exception. Role of Artificial Intelligence has only quadrupled in recent years. What started as a Sandbox moment approved by regulator has taken a giant leap with the advent of AI, Block chain and Analytics?

This paper is to highlight key developments in Insurance Industry adopting Artificial Intelligence, Block chain and Analytics.

Keywords

Artificial Intelligence, Blockchain, Insurance, Analytics.

Introduction

Artificial Intelligence has made great progress in the operating environment of insurance industry. Impact of AI advent is very much visible in certain functions like Underwriting, Risk Assessment can be analysed with higher standards of precision through Big Data and AI. This eventually will help the industry price a product closure to the reality. Gone were the days when entire pricing was merely dependent on mortality or morbidity table. Now we have machines reading patterns and other minute details which allows insurer to assess the risk with a pragmatic approach.

Artificial intelligence is also automating mundane activities of insurers through machine and focussing on core activities. This will not only lead to higher cost savings but also builds efficiency without human errors. Certain functions and units in the industry can be fully integrated with AI and few others would be partially influenced by the advent of Artificial Intelligence.

As a whole Artificial Intelligence is redefining the existing of contours of innovation and allowing insurers to apply an out of box thinking. However AI brings in its own challenges. Data Privacy is one of the biggest impacts of AI followed by cyber frauds, deep fake and other ethical considerations which are challenged due to newer technologies. At a macro level, Artificial Intelligence is sure to bring in cost containment thus leading to higher profitability for insurance companies.

We will discuss impact of Artificial Intelligence in the below areas/ functions of insurance industry.

AI in Parametric Insurance

Through deep neural networks and machine learning techniques, AI will start identifying pattern in terms of subtle changes in environment which will give model the ability to carry predictive and prescriptive analysis.

Libraries like Tensor Flow will allow us to create deep learning models or Multi-dimensional data arrays which in turn aids in creation of computational graphs specific to natural catastrophe basis big data. Data continues to flow from IOT devices which helps the model build nodes and edges for studying patterns of natural catastrophe.

Agriculture embraced parametric insurance wherein farmers are paid basis pre-determined triggers on weather and the same is achieved with precision by deploying Artificial Intelligence.

Technology in driving Embedded Insurance

Embedded insurance is a type of insurance that is embedded with existing products and services. Technology is acting as tailwind for promotion of embedded insurance. Digital payment network provides a conducive platform for carriers to reach out to the entire universe. With Cloud holding voluminous data and Big Data Analytics, carriers may customize product offerings for deeper penetration.

A model or framework on deep neural network can provide an output from data derived from cloud/wearables and customers can be reached through virtual assistants and bots in promoting embedded insurance.

Business Transformation through Block chain

Block chain provides a security layer in accessing comprehensive health records thus reducing the need for medical tests and operating cost. Integrating with the database of National Health Mission and other IOTs will provide comprehensive info and update on the wellbeing of the insured.

Any fraudulent transaction can be detected with precision thus providing the most secured environment through Smart Contracts. Block chain's ledgers are decentralized, so they can't be corrupted or manipulated by one authority. Instead, all data is chronologically timestamped to ensure a clear recording of events. Insurers can also wield these block chain capabilities to single out false claims and remain in compliance with industry standards. Proper tuning of weights can be done in Neural Network by backpropagation basis the error rate obtained in previous epoch.

Behaviour-Based Artificial Intelligence for On-Demand and Event Based Insurance

Carriers no longer may rely on pricing the product basis level premium. Premium may be dependent on the behaviour of the insurer hence the

concept of pay-as-you-go/pay-per-mile auto insurance and pay-as-you live. Credit needs to be given to the regulator as well for mooting the idea of Sandbox Committee which allows product innovation using technology.

Telematics is aiding insurers analyse the behaviour of the driver in fixing the premium. Telematics is a disruptive automotive technology that utilizes IT and communication protocols to send, receive and store information pertaining to remote vehicles. The data is transmitted over a wireless network through secure means and an in-vehicle electronic device or smartphone is employed for establishing remote connectivity.

Wearables is the other input device which studies the lifestyle of the user measuring the wellness through data transmission. Health Insurance carriers started alluring customers by incentivizing them through renewal premium discount basis the daily healthy and active routine.

Usage of Generative Artificial Intelligence in Claim settlement process

Workflow analysis of claim processing will go through sea change by deploying Generative Artificial Intelligence. Generative AI can learn from big data, identify patterns and trends and then decide whether to accept the claim or reject the same. The same can be achieved by keeping threshold in neural networks to accept a particular input basis weightages and threshold value. Discovery Navigator, one of the leading medical record review platforms for property and casualty claims professionals. The Discovery Navigator platform has already proven to be up to 90% faster than manual record review with up to 95% accuracy.

Image classification can be looked at using convolutional neural network (CNN). This will speedup claim settlement process. Checking health through wearables not only acts as preventive care but also aids in early detection of ailments. IOT sensor monitoring through 5G and AI enabled network of sensors connected to cloud allow efficient monitoring of vitals thus supporting preventive care.

Cognitive Computing in Customer Service

Virtual Assistants, Chabot are at the inception level in adopting Question Answering System utilizing Natural Language Processing techniques to comprehend NLP questions and retrieve pertinent information from structured and unstructured data source to provide accurate answers. A step ahead is cognitive computing.

Cognitive computing is emulating human thought processes. It is based on artificial neural networks which are mathematical models replicating human brain. Cognitive computing is giving reasoning power to computing methods in order to understand customer behaviour, moods and intentions during interaction with the customer. Cognitive computing will be very helpful to customize the conversation basis big data, identify patterns in the behaviour and build interaction. This is one step ahead than normal computing.

Immersive experience through augmented reality can be achieved through AR meeting with customers. It metamorphosis the meeting outcome by adding up voice, video, data, objects, annotation thus bringing in an experience quite different from usage of legacy method of communicating.

AI in Learning & Development

AI is used in L&D in various ways, including content creation, personalised learning, content curation, adaptive learning, and the automation of learning management system processes and features. In order to monitor or enhance the learning of the user, the same may be tracked on a real time basis. Wearable can be installed which send data pertaining to neurons in brain can function thus understanding the mental presence of participants attending the session.

Content Development can be automated through various sources of data by using Text Summarization feature which involves generating concise summaries of longer texts while preserving the key information and meaning. This task is valuable for quickly extracting relevant information from large documents, news articles, and research papers. Language Translation is the other

feature deploying NLP technologies that enable the automatic translation of text from one language to another. Machine translation systems, such as Google Translate, utilize advanced algorithms and large-scale language models to produce accurate translations across different language pairs.

Having understood the areas where AI can be effectively deployed, it is imperative that we analyse the Pros and Cons of AI adoption and they are as follows.

Slno	Pros	Cons
1	Higher Standards of Precision	Hallucination of Large Language Models
2	Agility in Processing Data	Lack of intuitive Artificial Intelligence
3	Customer Delight	Heavy cost in deploying AI machines
4	Automating Repetitive Task	Higher computation requires lots of energy

Conclusion

Artificial Intelligence is surely going to be a game changer for Insurance Industry. Companies adopting Artificial Intelligence may not only move mundane activities to machine thus containing cost but also bring-in lots of precision. While AI provides lots of opportunities for Insurance Companies in building efficiency, at the same time it also throws up various challenges to the industry to handle.

With deeper penetration for digitization, cyber frauds have increased by leaps and bounds. The other challenging task for the industry would be data protection. Data security is of paramount importance to the industry as this is the first step in protecting customers from cyber frauds. Deep fake is the other mania which is at an alarming level thus acting as a hindrance in building an AI ecosystem. Government and Private Industry need to have an integrated approach involving all stakeholders in handling these teething issues effectively so that the industry will reap benefits from the advent of Artificial Intelligence. TJ

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   - ii. Font: Times New Roman - Normal, black
   - iii. Line spacing: Double
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4. **Abstract:** A concise abstract of maximum 150 words is required. The abstract should adequately highlight the key aspects or state the objectives, methodology and the results/major conclusions of analysis. The abstract should include only text.
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- **Reference to a Web Source:** Author. (Date published if available; n.d.--no date—if not). Title of article. *Title of website*. Retrieved date. From URL.

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Retrieved May 13, 2005, from http://www.studygs.net/citation.htm.

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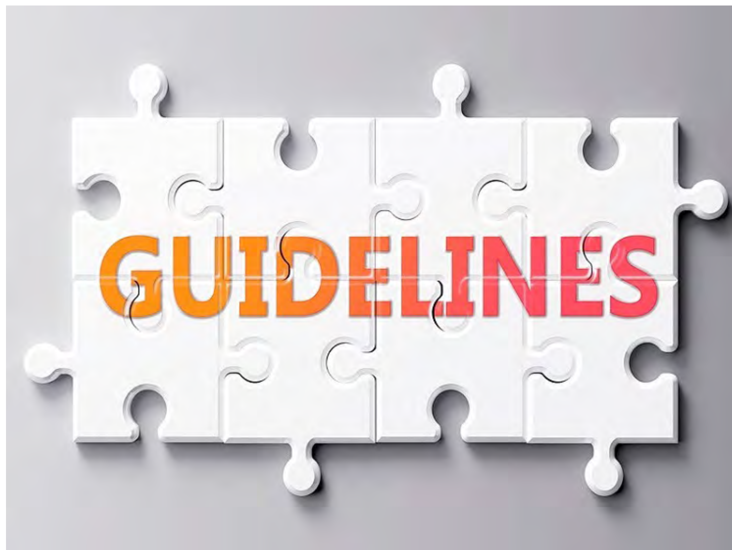

Appendix I

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I/we (Full Name of the Author(s)) .... hereby declare that I/we are the author(s) of the paper titles ".." (Title of the paper), which is our original work and not the intellectual property of anyone else. I/we further declare that this paper has been submitted only to the Journal of the Insurance Institute of India and that it has not been previously published nor submitted for publication elsewhere. I/we have duly acknowledged and referenced all the sources used for this paper. I/we further authorize the editors to make necessary changes in this paper to make it suitable for publication.

I/we undertake to accept full responsibility for any misstatement regarding ownership of this article.

…………………………….	…………………………….
(Signature Author I)	(Signature Author II)
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Date:	
Place:	

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- **Post Graduate Diploma in Health Insurance (PGDHI)**
    - The Post Graduate Diploma in Health Insurance (PGDHI) is a one year part time post graduate (two semesters) program.
    - The PGDHI Course comprises *7 Papers and a Research Project.*
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CC1 - Certificate course in Life Insurance Marketing

- **Duration of the course - 4 months**
- **Mode of Teaching -** Self-study + 3 days Online Contact Classes
- **Total hours of Teaching -** 18 hours for Online Contact Classes (to solve queries)
- **Exam pattern -** Assignments + MCQ Final Exam

CC2 - Advanced Certificate in Health Insurance – Virtual

- **Duration of the course - 4 months** [3 hours (morning) session on **Saturday** and **Sunday**]
- **Mode of Teaching -** Virtual Training
- **Total hours of Teaching -** 90 hours
- **Exam pattern -** Project Work + MCQ Final Exam

CC3 - Certificate Course in General Insurance

- **Duration of the course - 3 months** [full day session (6 hours) on **Saturday** and half day session in morning (3 hours) **Sunday**]
- **Mode of Teaching -** Virtual Training
- **Total hours of Teaching -** 100 hours
- **Exam pattern -** Weekly Exam + MCQ pattern

CC4 - Certificate Course in Investigation and Fraud Detection in Life Insurance

- **Duration of the course - 3 days** [full day session (6 hours)]
- **Mode of Teaching -** Virtual Training
- **Total hours of Teaching -** 15 hours for Online Contact Classes
- **Exam pattern -** MCQ pattern

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