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# Around The World – India

## How simple can it get?

By Greg Becker



Greg Becker is a Product Development Actuary at the Reinsurance Group of America, in a role that covers Europe, the Middle East and Africa. He can be contacted at: [gbecker@rgare.com](mailto:gbecker@rgare.com)

This is the first article in a series titled “Around The World.” Each issue will focus on the protection market of a different country or region, looking at interesting product developments, new distribution ideas, regulatory responses, industry initiatives and so on. Simple financial products can meet the needs of many. What can we learn from India?

Our story begins with a personal accident policy that has been sold to more than eight million Indian farmers.

The product, *Sankat Haran Bima Yojana (SBY)*, is sold by IFFCO Tokio General Insurance Co. Ltd. (ITGI), where IFFCO is an acronym for The Indian Farmers Fertiliser Cooperative Limited<sup>1</sup>. IFFCO is the largest fertilizer distributor in the world. With every bag of SBY fertilizer they sell, the purchaser automatically receives Rs4000 (\$80) of personal accident cover, Rs2000 (\$40) in the event of total and permanent disability or on loss of two eyes or limbs, and Rs1000 (\$20) on the loss of one eye or limb.

A person who buys multiple bags of fertilizer can be covered for up to Rs100,000 (\$2,000), which can be realized by purchasing 25 bags.<sup>2</sup> The coverage lasts for

one year, which naturally aligns with a fertilizing cycle. This useful product differentiation contributes to helping sell fertilizer the following year.

What makes this product special is that it has neither an explicit premium nor a policy form. The policy document is “the empty fertilizer bag” with the policyholder’s name and the date purchased (which locks in the term) written on it. With over 8,800 claims paid, substantial goodwill has been created, and customers who may lack financial astuteness have reaped a positive insurance experience.

IFFCO bears the benefit cost, a mere Rs1 (\$0.02). IFFCO uses this partly as a branding initiative to help sell more fertilizer, as well as insurance products. ITGI has developed explicitly-priced cattle insurance and weather-related insurance products and sold them to the same group of customers.

With many Indians having little exposure to insurance products, or a positive buying experience, these types of interesting initiatives are needed, as well as others.

In terms of product, there are some protection products that can best be described as bank accounts that provide insurance coverage in lieu of crediting interest on their customers’ account balance. In terms of distribution, there have been some interesting banking initiatives to broaden the access to this bank insurance product.

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Mobile phones have been used to enable people to become trusted agents for these banking products. The company, A Little World, sells a kit for \$450 that enables one to set up an online bank branch to distribute the bank account insurance coverage.

Some of these initiatives have been made possible due to incredibly low administrative costs. Max Vijay, a partnership between New York Life and Max Vijay has launched an Insurance Savings Box. This is a savings product that provides some protection benefits. The product has flexible contributions and accepts contributions as low as Rs10 (\$0.20). It returns a substantial portion of premiums on lapse, 90 percent of recurring premiums.<sup>3</sup> This is only possible with very modest administrative costs.

Turning our attention to the United States, many would argue that the potential for simple financial products is not only being held back by product differentiation strategies that confuse the customer, but also by process complexity that raises the barriers to sale. This Indian Personal Accident product is an example of one with no underwriting and no exclusions. While an underwriter

could easily and rightly argue that short-term personal accident protection requires less underwriting than almost any other product, we should be questioning the extent to which precautions could be preventing innovative products from being developed. The first world has exported insurance expertise to the developing world. It could be argued that the innovations in the future may be imported! IBM is Max Vijay's technology partner—when are they going to be bringing these systems and that cost structure to the United States?<sup>4</sup> ■

#### END NOTES

- <sup>1</sup> <http://www.iffco.nic.in/applications/iffcowebr5.nsf/?Open>
- <sup>2</sup> <http://www.thehindubusinessline.com/todays-paper/tp-agri-biz-and-commodity/article999830.ece>
- <sup>3</sup> [http://www.maxvijay.com/products\\_rajat.aspx](http://www.maxvijay.com/products_rajat.aspx)
- <sup>4</sup> <http://www-03.ibm.com/press/us/en/pressrelease/24781.wss>