Expanding the Penetration Frontier in Indian Insurance Sector Through Cooperatives, Mutuals and Community-Based Organizations

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Globally Mutuals and Cooperatives play a significant role in garnering insurance business. The global mutual and cooperative premium income in 2014 was US$ 1.29 trillion. The global mutual and cooperative market registered a growth of 29.6% during 2007-14. The market share during the same period grew by 27%. However, the contribution of Cooperatives and Mutuals in the Indian Insurance market has been pathetic largely due to unfavourable regulatory provisions. The paper throws light on the decline of Cooperatives and Mutuals in insurance business in India, the regulatory provisions and the role played by some community-based organizations.

Key Words – Cooperatives, Mutuals, Community-Based Organizations

Introduction

Globally Mutuals and Cooperatives have been playing a very important role in procuring insurance business. The mutual insurance sector did an aggregate premium of US$ 1.3 trillion. Between 2007 and 2014, the growth of the Mutual insurance market was far better in comparison to the total insurance market. In terms of the Compound Annual Growth Rate (CAGR), the Mutuals grew around 4%, whereas the total insurance market registered a mere growth of 1.8%.

The Mutual insurers have contributed significantly both to global life and non-life market growth between 2007 and 2014. As against 5.1% of the total life insurance growth during the period under study, the life business generated by the life Mutuals registered a growth of approximately 28%. The rise of the global share of life Mutuals has also been impressive during the above period – rising quite significantly – almost registering a phenomenal growth of 24% in 2014. The world non-life Mutual insurers didn't only keep pace with the growth of the life insurance business but in terms of premium, fared even better and were quite above the total market average growth. The rise of the mutual non-life market has been steady – their market share grew from 29.1% to 30.4%.

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The developed economies have contributed very substantially when it comes to Mutual insurance market share, with Europe and North America leading the market in 2014. Together they did a whopping business of over 80% of the total global mutual business in 2014. The mutual Insurers of Europe with over US$ 540 billion in collective premiums, raised their share of global premium to 42.2% in 2014 .During the same period, North America alone raised its global share to 38.8%.

Table 1
Country-wise Market Share, Penetration and Density

Country	Mutual Market Share	Penetration-2015	Density -2015 US $
USA	37.1 %	7.28 %	4095.8
Japan	40.8 %	10.82 %	3553.8
UK	7.7 %	9.97 %	4358.5
PR China	0.3 %	3.57 %	280.7
France	47.4 %	9.29 %	3392.0
Germany	44.4 %	6.24 %	2562.5
Italy	23.9 %	8.68 %	2580.5
South Korea	10.4 %	11.42 %	3034.2
Canada	19.1 %	7.40 %	3209.1
Netherland	51.0 %	10.72 %	4763.1
India	0.7%	3.44 %	54.7

Source: Global Mutual Market Share – 2014, ICMIF and Sigma, 3/2016

The above table clearly demonstrates that countries that have a major market share of Mutuals also have better insurance penetration as well as density.

- Netherland has 51% mutual market share and their penetration is as high as 10.72% of its GDP and the insurance density is US$ 4763.1.
- In the US where the Mutuals play a major role in garnering premium, the market share is 37.1% and the density is US$ 4095.8 and the penetration is around 7.28%.
- Japan is another example where mutual insurers have contributed in a big way in bolstering the penetration and density of insurance premium. The share of mutual insurers is extremely high at 40.8%, thus, enabling them to register a double digit penetration of 10.82% and a density of US $ 3553.8.

- France is yet another example where Mutuals have played an important role in generating good insurance premium. 47.7% share of mutual insurers has resulted in good penetration (9.29%) and insurance density of US$ 3392.
- Germany also has taken the mutual route to penetrate the insurance market.

Both PR China and India are deficient in terms of penetration and density. It is found that the contribution of mutual insurers is insignificant in both these countries. The penetration and density of PR China is 3.57% and US$ 280.7 respectively. The mutual market share is merely 0.3%. In the case of India, the market share of mutual insurers is tad better than PR China but significantly low at 0.7%. The penetration is 3.44% and the density is US$ 54.7.

PR China has been seriously looking at the mutual option to increase its penetration and density. In June 2016, the China Insurance Regulatory Commission (CIRC) accorded approvals for the formation of three mutual insurance companies, thus paving the way for better management of mutuals. The Chinese Regulator also gave approval for mutual credit insurance for small enterprises, followed by approvals for construction, pension and healthcare insurance products for specific community groups.

On the other hand, India has neglected the role of Mutuals and Cooperatives. As a result, both penetration and density of insurance have suffered considerably. India could also learn a lesson by taking note of the social impact of Mutuals globally. Mutual insurance companies have served around 955 million policyholders in 2104 and employed 1.11 million people worldwide in 2014.

Decline of Mutuals and Cooperative Form of Insurance in India Post-Nationalization and IRDAI Acts

There is some evidence to show that Mutuals in India did good business during the early 1950s. The Bombay Mutual Life Assurance Society Ltd. during that period, mustered a business totalling to approximately Rs.4 crore. The sum guaranteed was only little more than Rs.2500 in 1953.

In fact, there were 154 Indian life insurance enterprises in 1956 and in addition 75 provident fund societies were also engaged in life insurance business and issuing life insurance policies.

There is passing mention of business through Cooperatives/Mutuals in the GIBNA Act. In Para 36, under "exemptions", there is mention about the business of a mutual that was allowed to undertake business. Beyond that nothing was mentioned therein.

While perusing the regulatory provisions, it is found that the cooperative life insurance society was permitted to underwrite life business only. According to Section 95 (1) (b) of the Insurance Act, 1938, a Cooperative Life Insurance Society was recognized as an insurer that was incorporated as per the provisions prevalent at that time. The above section of the Insurance Act, 1938 , contains the definition: "Co-operative Life Insurance Society means an insurer being a society registered under the Co-operative Societies Act, 1912 (2 of 1912), or under an Act of a State Legislature governing the registration of co-operative societies which carries on the business of life insurance and which has no share capital on which dividend or bonus is payable and of which by its constitution only original members on whose application the society is registered and all policy-holders are members".

It appears that the cooperatives were not allowed to underwrite non-life or general insurance business. However, within the purview of the above act, any state could permit the cooperatives to undertake insurance of cattle and crops.

Section 95(1) (a) of the Insurance Act, 1938, defined Mutuals as: "Mutual Insurance Company means an insurer, being a company incorporated under the Indian Companies Act, 1913 (7 of 1913), or under the Indian Companies Act, l882 (6 of 1882), or under the Indian Companies Act, 1866 (10 of 1866) or under any Act, repealed thereby, which has no share capital and of which by its constitution only and all policy-holders are members".

As per Section 95(1) (a) of the Insurance Act, a Mutual Insurance Company, like a Cooperative, was also recognized as an insurer, constituted as per the various acts established at that time, thus making it mandatory that all policy holders would enjoy its membership.

But from the above definition, it was not clear whether a mutual could write non-life business or not. The above definitions were relevant prior to the introduction of IRDA Act in 1999.

The changes introduced in 2002 in the Insurance Act gave an altogether different dimension to the definition of cooperatives. According to the modified act, an insurance cooperative society means any insurer being a co-operative society-that is registered as per the relevant existing acts governing them and required that at least Rs 100 crore paid up capital to start an insurance business.

The changes made in the definitions were sweeping. It used the word "insurance cooperative society" instead of "Cooperative Life Insurance Society".

However, the definition also added a disturbing clause with regard to the requirement of paid up capital. Like any other insurance company, a cooperative society also needed to have a fixed minimum capital base of one hundred crore. This was a big blow to the growth of cooperative movement in the Indian insurance landscape. The cooperatives, however, are now was allowed to underwrite both life and general insurance businesses in India. Another glaring omission was not to include the word 'Cooperative Society' while defining an Insurer.

The changes in the Insurance Rule in 2015 made changes via Clause (9), in the Amendment Act,

2002. The definition of an insurer now includes 'an insurance cooperative society'.

The definition of mutual was not altered either in the 2002 amendment or in the changes made in 2015. On the other hand, the scope of cooperative was enlarged as the cooperatives were allowed to underwrite business in health along with life and general insurance. Nobody knows the reason as to what prevented the regulator from disallowing the Mutuals to operate in India. Part IV of the Insurance Act, 1938, which contained the definitions of Cooperatives and Mutuals was omitted in the Insurance Laws (Amendment) Act, 2015. Whereas the word “Cooperative” is mentioned elsewhere in the amendment Act of 2015 – the definition of Mutuals is not mentioned in the new legislation.

Penetrating the Insurance Market through Mutuals, Cooperatives and Community-Based Organizations (MCCOs)

While most countries in the world are going in for MCCOs mode to increase their penetration and outreach in insurance, in India the insurance regulator discourages insurance penetration and outreach through either Cooperatives or Mutuals. The steep capital requirement for cooperatives to start or do insurance business in India is also not helping the cause either.

In this context, it may be noted that the National Insurance VimoSEWA Cooperative Ltd. (VimoSEWA) made a concerted representation to the Select Committee, seeking a reduction in the capital requirement for cooperative societies looking forward to entering the Indian insurance sector. The select committee of the Rajya Sabha did make strong recommendations to reduce the capital requirement for Cooperatives, but the current legislation has not considered the above recommendations.

As stated earlier, Insurance Laws (Amendment) Act, 2015, has made no provision for Mutuals to do insurance business in India.

The Way Forward

Mutuals are better placed, equipped and suited to do insurance business in areas and regions otherwise untouched by others. In this context the definition of Mutuals is interesting to note. A mutual is an autonomous association/organization of legal entities or persons operating in (and sometimes across) different sectors, including healthcare, banking, insurance and many others. The primary purpose of the mutual is to satisfy its members' common needs, rather than to make profits or provide a return on capital. Mutual organizations are run for the benefit of its member-owners, as opposed to being owned and controlled by outside investors. (Source: Swiss Re sigma, No 4/2016). Thus, we find from the above definition that Mutuals are member-driven and exist primary for the satisfaction of common needs of their members.

(a) Need to Rely upon MCCOs naturally

Mutuals, Cooperatives and Community-based organizations are wide range of organisations of various shapes and sizes. The divergent legal entities function in many ways in similar manner and play pivotal roles in garnering insurance business from a low paying population. They are member-driven and are naturally guided by the principle of both democracy and solidarity.

(b) Varied Shades of Mutuals

Mutuals operate in various forms depending upon the requirements and the level of mutuality forged among the members.

(c) The Structure India Needs to Adopt for Mutuals

The structure of MCCOs changes with different jurisdictions as per the legal requirements of each jurisdiction. India should recognize Mutuals in Insurance Law itself for the simple reason that they function in a spirit of democracy and solidarity. Mutuals and MCCOs have been growing substantially in emerging markets, and India should take leaf out of it. A country like Philippines has 14,000 cooperatives servicing 14 million customers by providing both life and property line of business. MCCOs have potential to serve a wide, varied, disparate and unorganized population like that of India because they can deliver a wide range of services from garnering premium to claims settlement of the members. Since they themselves are the policy holders, they automatically take up the issues concerning them. Besides being risk carriers, they also take on the role of educators, thus, disseminating the values of insurance particularly that of health insurance. MCCOs can thus build resilience among its members by providing effective means of risk mitigation. No other form of insurance has possibly this type of flexibility in taking together a vast community towards a common cause. India, being a socio-democratic country, cannot ignore this form of outreach particularly in insurance.

(d) The Need to Focus Our Attention on Mutuals/MCCOs

First of all MCCOs are member-owned and based on principles of democracy and solidarity. The spirit of solidarity drives them to tackle the common cause of the community together. They serve a specific group with a particular purpose. All the members are entitled to the profit generated. The profit sharing attribute allows MCCOs to override the various barriers to better serve insurance requirements of the unorganized and low-income population.

(e) Cooperative Health-Care Model

The MCCOs have a great future. Access to health is everybody's fundamental right as life is. Living can be enhanced through cooperatives as they ensure accessibility of the rural poor to healthcare. They provide excellent business models to reach the disparate rural population for their sheer reach and acceptability. The very nature of their constitution allows democratic, participatory, value-oriented participation giving them flexibility to serve the indigent and marginalized segments of the society.

(f) Public-Private Partnership (PPP)

It is another option to penetrate the untapped market and MCCOs can play a vital role in this area. PPP drives towards assembling all the players wedded to a shared value say that of enhancing the health of the populace with well-defined activities. PPP is a relationship between two parties committed to the same collective value and work towards the accomplishment of a project with clearly defined set of activities and expectations. Both the definitions of MCCOs point towards the spirit of mutuality and cooperation and they can definitely change the health landscape in India if they work towards a common goal.

(g) Reach the unreached through cooperative healthcare models

Despite the various constraints, many cooperative healthcare models exist in India. They are wonderful examples of reaching out to far-flung communities, hitherto, uncovered. Some examples are:

SKDRDP is a Karnataka-based Charitable Trust that works for the needy people having severe health-related issues. The driving force stems from camaraderie among the members. Sampoorna Suksha Health Insurance covers maternity, hospitalization, accident and death. This organization serves approximately 12 lakhs members.

Karuna Trust has been in existence for more than 30 years. It is an integrated tribal development project located in B R Hills. Its sway is spread over close to 70 health centres. It serves a population of approximately 14 lakh. The Trust has built a repertoire of health professionals who work tirelessly for and with the unprivileged. The organization is a perfect example of how well a PPP model works in certain scenario.

ACCORD has been working relentlessly for the last 32 years providing substantial health care for deprived aboriginals of a remote South Indian village. Started with a small group of deprived populace with meagre means, the programme has gradually emerged as a model institution to reckon with for its significant contribution in health care. It now boasts of an impressive healthcare infrastructure.

ASHWINI runs a health insurance scheme in the spirit of cooperativeness that believes in helping each other in the times of crises.

Yeshasvini has been in existence for the last 15 years. The Yojana has 41.47 lakh members in 2016-17. The contribution is Rs.300 per member with a 15% discount for five or more members enrolled from a single family. The scheme offers surgical treatment at a relatively low price. In 2016-17, the members' contribution was Rs.91.83 crore; and government's contribution was to the tune of 170.43 crore. During the same period, the free out-patient services utilized were 2, 43,318 in number. The surgical operations carried out were 177,045. The total surgery amount reimbursed to the hospital was Rs.285.60 crore.

National Insurance VimoSEWA Cooperative Ltd, Ahmedabad, has been successfully functioning for the last 27 years. It has caught the attention of one and all. The scheme initially started with life insurance. When it found that its reach out could be even more extensive, the scope was broadened in 1992 with the introduction of health-related services. The scheme was further extended in 2003 to include also the husbands and children of its members. In September 2009, the VimoSEWA was registered as the National Insurance VimoSEWA Cooperative Ltd. As of January 2013, close to 1, 19,000 individuals were covered under the scheme. The premium is contributed by the insured members. The SEWA looks after the healthcare needs of its members through trained health-care workers.

Annapurna Pariwar works for the healthcare needs of its 2 lakh members who contribute a small sum, which helps them get healthcare solutions along with health care education as well.

Conclusion

Mutuals and Cooperatives are organizations that make great social impact. Globally, they have generated good employment and taken insurance to the doorsteps of the poor and needy. They have increased the insurance penetration and density both in developed and developing economies. They also help in making the society a cohesive unit working on the principle of solidarity and self-help. In India also, some cooperatives have been playing important role for years. Time has come to revive and revisit these modes to reach out the hitherto unreached and help bridge the yawning gap between the privileged and the underprivileged.

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