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“Combating India's Rising Climate Risks Demands Urgent Need for Home Insurance Reforms”

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“From Gig Economy to Pension Gaps, India Must Fill the Unseen Challenges of its Workforce”

Intro: As climate change intensifies, India's insurance landscape faces unprecedented challenges. From safeguarding homes against natural disasters to securing pensions for gig workers, the industry is at a crossroads. In this revealing interview at **Socio-economic Voices** this week, **Arup Chatterjee of Asian Development Bank (ADB), Manila** discusses innovative solutions, technology's role, and the urgent reforms needed to protect vulnerable communities. The **Principal Financial Sector Specialist of ADB shares workable** strategies with **Mahima Sharma** of **Indiastat** that could reshape India's future. Read on for sincere solutions that we all need to look forward to...

MS: With the recent increase in climate-related disasters, what policy changes would you suggest that the government must pursue towards better and far reaching availability of home insurance in India?

AC: Changes in the climate are having far-reaching impacts across India. According to a **recent study**[1] by the Council on Energy, Environment and Water, more than 80 percent of people live in districts at risk of climate-induced disasters. The frequency and intensity of extreme weather—such as cyclones, heatwaves, heavy precipitation, landslides, and floods—are challenging existing systems, disrupting communities, and requiring the adoption of mitigating and adaptive measures to address the challenges of climate change.

Insurance is crucial in managing the effects of extreme weather and climate change, providing both reassurance and stability. It acts as a safety net, helping to mitigate economic and social impacts during uncertain times.

Home insurance is more than a policy; it’s a financial shield that protects households from the financial strain of extreme climate events and supports recovery and rebuilding after disasters. This security makes home insurance essential in the face of climate change.

Additionally, the lack of mortgage insurance for home loan borrowers presents a credit risk to banks. If a home is damaged, the borrower may face negative equity and increased likelihood of default. Even if default rates remain unchanged, the decreased value of damaged homes increases potential losses for lenders.

Amid these challenges, the government can consider several measures:

- **Strengthening data** used to quantify climate risk and mandatory disclosure of home insurance coverage.
- **Enforcing building codes for residential and commercial structures** and developing new building codes around energy efficiency and resiliency.
- **Establishing insurance pools** to make premiums more affordable for homeowners and reduce costs for insurance companies.
- **Introducing financial/fiscal incentives** to increase the uptake of home owners insurance.

- **Increasing awareness** of climate and disaster risks to which homeowners' property is. exposed to mitigate future unexpected losses.
- **Providing backstopping support** to existing insurers as the insurer of last resort.

MS: Recent discussions indicate a rising interest in the issuance of sovereign catastrophe bonds in Asia. What are these bonds, and how can they be explained to the common man? How effective are these instruments for India in mitigating financial risks from natural catastrophes?

AC: With climate change heightening the risk of natural catastrophes, governments of Asian countries urgently need to mobilise resources and implement a comprehensive risk-layered disaster risk financing strategy. This strategy must be risk-informed based on return periods and loss types and must be cost-effective. It must use a layered approach of ex-ante financing instruments for risk retention and transfer.

The lowest layer addresses medium to high-frequency events with low severity, and it is here where the risk retention happens using budgetary instruments such as reserves or contingency funds. **For the medium layer,** the severity of events is higher at a moderate frequency, and contingent credit products such as contingent disaster financing loans from the multilateral banks provide rapid and uncomplicated access to liquidity at manageable costs. **In the case with the highest layer,** there is risk transfer using market-based instruments for less frequent but highly severe events. The significance of insurance, reinsurance and catastrophe bonds as the most cost-efficient tools in this layer cannot be overstated, providing a reliable and effective means of managing the most severe disaster risks.

According to the **Swiss Re Institute's Natural Catastrophe Resilience Index[2],** insured economic losses from natural catastrophes during the five years 2018-22 were just $1.10 billion (Rs 9,130 crore). Notwithstanding its importance and utility, 93 percent of exposures were uninsured, resulting in uninsured economic losses of $32.94 billion (Rs 273,500 crore) during the same period. Beyond this, even after full utilisation of insurance and reinsurance capacity, more capacity must be made available to the insurance industry to fully cover the anticipated losses from future disasters.

Catastrophe (CAT) bonds are a type of insurance-linked security (ILS) and an alternative to reinsurance. They allow the transfer of catastrophe risk to the international capital markets. The main attractions are:

- **No Existing Insurance Market is Required** as these operate independently of traditional insurance markets.
- **Allow for quick payouts based on specific conditions,** like earthquake magnitude or hurricane intensity.
- **Higher Yields for higher risk** in exchange for assuming the risk of a disaster.
- Investors take on the risks of a catastrophe loss event occurring in return for attractive rates of investment return. Should a pre-agreed loss trigger for a qualifying catastrophe occur, bondholders may lose some or all of their invested principal, and the issuer will receive money to cover their losses.

CAT bonds offer diversification from economic and market risks since natural catastrophes often don't correlate with economic events or stock market movements. They reduce counterparty risk through full collateralisation with high-quality securities and enable efficient price discovery via a decentralised market.

However, the CAT bond market does face challenges, including a lack of modelled risk exposure data, funding constraints, and regulatory issues, with parametric triggers introducing basis risk.

MS: According to recent IRDAI data, insurance penetration in rural India remains below 10%. What initiatives need to be taken to address this gap?

AC: Despite the fact that 65% of India's population resides in rural areas, the penetration of insurance in rural India remains shallow. Even after the IRDAI's mandate in 2000, which required insurers to cater to the rural and social sectors, only 22% of the rural population owned life insurance products, compared to 73% in urban areas. **The**

Annuity and Pension Protection Gap[3] currently stands at a staggering 96%, with the non-life protection gap ranging from 85 to 92%. This disparity, particularly the skewed protection gap against females, underscores the pressing need to empower rural India's households for better financial protection. The time for action is now.

The insurance industry's main challenge is the lack of consumer trust and insufficient awareness. To address this, the industry must focus on building trust by creating client-centric products that meet real needs rather than just financial goals. The IRDAI's strategy to enhance insurance accessibility in rural areas, particularly through Gram Panchayats and the introduction of Bima Vahaks, aims to build local trust and improve service delivery, with a strong emphasis on onboarding women. The Bima Vistaar product offers affordable, comprehensive coverage for life, health, accident, and property, addressing rural insurance needs. However the real game changer is the Bima Sugam online marketplace, which is set to revolutionise insurance distribution by reducing reliance on intermediaries and promoting direct digital sales, showcasing the industry's adaptability to digital trends.

MS: Recent reports show a 30% increase in the adoption of fintech solutions for microinsurance in rural India. What are the key drivers of this growth?

AC: Fintech and microinsurance are transforming the insurance sector by redefining financial protection and bridging gaps in traditional coverage. They work together to offer customized insurance services to low-income populations, a significant advancement that was previously out of reach.

Let me share the key factors that have powered this impressive transformation:

- **The digital revolution has significantly influenced consumer behavior in India.** With increased internet and smartphone penetration nationwide, consumers are increasingly seeking convenience, speed, and customisation.
- The Indian government and IRDAI have been instrumental in advancing the Insurtech sector by facilitating foreign investment, streamlining new product approvals, and encouraging digital transactions. Their supportive regulations have lowered entry barriers for Insurtech startups and fostered innovation. Collaborative solutions, innovative distribution models, regulatory sandboxes, and advanced data analysis are driving progress. Mobile apps with intuitive interfaces and robust security measures enhance accessibility and responsiveness, especially for consumers at the bottom of the pyramid, ensuring a seamless and protected insurance experience.
- **Breakthroughs in AI, blockchain technology, and the IoT** have ushered unprecedented innovation in automating underwriting and claims processing. Blockchain offers a secure and transparent way to manage contracts and claims, reducing fraud. IoT devices, such as wearables and telematics, allow real-time data collection, enabling them to offer personalised insurance premiums and products.

However, there are challenges:

- Trust in digital channels
- Limited technological access
- Designing affordable products
- Navigating complex regulations
- And sparse data availability.

Yet, the potential for transformative change in financial protection is undeniable, offering an optimistic outlook.

MS: Experts argue that India urgently needs a Universal Pension Scheme to secure economic stability for its retirees and elderly. What are your thoughts on this pressing issue? How can we implement it effectively, given India's vast and diverse population?

AC: The India Ageing Report 2023 forecasts that the elderly population (60+) will more than double, reaching over 20% of the total population by 2050. The population aged 80+ is expected to surge by around 279% from 2022 to 2050, with many being widowed and heavily reliant on older women.

These demographic shifts highlight the urgent need to address the social and economic well-being of the older people. Currently, many seniors depend on family for financial support, which often falls short, especially given rising medical costs. The inadequacy of social security systems is a critical issue, demanding immediate and comprehensive action.

A significant component of old age social security is pensions, which helps smooth consumption and mitigates longevity risks, poverty, and inter- and intra-generational inequality. **While a significant component of the old age social security burden, the prevailing pension system cannot fulfill its purpose. We must clearly implement an adequately crafted means-tested-only contributory-universal pension scheme.**

- This scheme can guarantee that all citizens will have regular income in old age, regardless of their level of earnings or occupation.
- It will significantly increase the coverage of pensions without placing any fiscal stress.
- However, it's important to note that levels of poverty and informality put primary limits on the extent to which contributory coverage can expand in the short to medium term.

A pension, even if a minimal amount, can maintain the usefulness of older people to the household through its inherent goal of providing economic security and economic contribution or by being 'non-dependent. It will ensure the economic activity of older people if they cannot work due to any health emergency. With its potential to significantly enhance older people's economic and social well-being, the proposed pension scheme offers a promising future for them and society.

MS: Systematic Investment Plans vs Investing Pension Scheme from the Govt - which one is a wiser decision, at a time when geo-political disturbances have been rising across the globe?

AC: The National Pension Scheme (NPS) is a versatile tool designed primarily for retirement planning. It offers a structured way to build a retirement corpus by investing in equity, corporate bonds, and government securities. The flexibility it provides sets it apart, allowing members to choose their fund managers and investment options. Participants can join the program at any time and continue until they reach the age of 70. Upon retirement, at least 40% of the subscriber's accumulated pension wealth is invested to purchase an annuity, providing a series of payments over a certain period, typically a monthly pension. The member can elect to defer the remaining balance payment as a lump sum until 75 years of age.

Investors may invest in the National Pension Scheme whenever they feel it is the most convenient. **Participants are not obligated to make regular payments to the plan. The allocation toward stocks and shares shall not exceed 75%. That also means the scheme will respond more gradually to market shifts.** Regulatory restrictions cap the scheme's profit potential and the pace of capital appreciation.

Conversely, Systematic investment plans (SIPs) offer various investment choices across numerous asset classes, such as equity, debt, hybrid, and others, catering to different financial goals beyond retirement. With the power of compounding, an early investor in a diversified equity portfolio through SIPs can save significantly over time, providing a bright outlook for their financial future. **SIPs are beneficial in all market conditions, whether the market is rising, falling, or range-bound.** During a bull market, SIPs enable participation in growth without the need to time the market. By consistently purchasing units, investors may accumulate more units as prices increase. **During a market correction, SIPs utilise rupee-cost averaging effectively.** By buying more units at lower prices, investors can reduce their average cost per unit and position themselves for improved returns when the market recovers. This also eliminates the stress of market timing.

Additionally, debt fund investments may offer larger returns with lower risk than equity funds, promising a potentially higher return on investment and instilling a sense of optimism about wealth creation.

The once popular route for mutual funds to invest in foreign markets has largely been blocked due to RBI restrictions on fresh investments abroad. However, a recent SEBI consultation paper suggests allowing mutual funds to invest in overseas funds that allocate part of their assets to Indian securities. Adopting this would provide a new way for mutual fund investors to access international markets. Nonetheless, such investments would be capped, with overseas funds limited to 20 percent of their net assets in Indian securities.

Ultimately, the choice between NPS and mutual fund SIPs is personal and heavily influenced by individual financial objectives and risk tolerance levels. NPS is an efficient tool for those prioritising retirement planning with tax benefits. On the other hand, SIPs offer greater flexibility, broader diversification, and the potential for higher returns over the long term, catering to those with financial goals beyond retirement.

MS: With the recent spike in health insurance premiums due to increasing healthcare costs, what measures need to be taken by insurance companies to make policies more affordable?

AC: In India, the significant strides in medical technology and diagnostic tools have undeniably enhanced patient outcomes. However, these advancements have come with a price. The country's staggering medical inflation rate of 14% in Asia has led to a surge in healthcare costs. This surge has directly influenced health insurance premiums, which have escalated by 10-25% over the past year, underscoring the challenges of a costly healthcare landscape.

With rising life expectancy and healthcare improvements, the aging population is growing. This shift strains healthcare infrastructure and raises demand for services. **Insurance companies are responding by increasing premiums, making health insurance less affordable, especially for those with limited financial resources.** This trend places a heavy financial burden on policyholders.

To secure affordable health insurance premiums one must take the following steps, stringently.

1. **Securing a plan early** in life can lower premiums and ensure long-term financial security.
2. **Opt for long-term plans (2-3 years),** which often come with premium discounts.
3. **Choosing a higher deductible can reduce your premium,** which is ideal for those with a low risk of illness.
4. **Policies with co-payment clauses,** where you cover a fixed percentage of medical costs, can significantly lower premiums. The clauses can be adjusted as one ages.
5. **A family floater policy covers multiple family members** under one plan with a single sum insured, offering cost-effective coverage for families.

The lack of formal healthcare pricing regulation means that providers often have separate tariffs for insured and uninsured patients, leading to lower charges for those without insurance. The cost of the same surgical procedure can vary significantly within the same city, even when performed by the same surgeon in the same network hospital. Prices for consumables and drugs also differ across hospitals and are often above the maximum retail price.

Insurers should control excessive healthcare costs by implementing standardized billing codes for reimbursements and negotiating package rates with providers.

Preventive measures are crucial and often overlooked, such as missed early screenings, the need for early intervention, and poor care coordination.

Traditionally, insurers interact with their policies only at purchase and at the time of a claim.

Today, insurance-linked wellness programs offer an exciting opportunity to engage with consumers more consistently. The central benefits for policyholders are better health, longer lives, and greater well-being as they age. Incentivising healthy behavior includes additional benefits, such as discounts, reimbursements, and technology-enabled health tracking and support, while protecting data privacy.

Integrating wellness into insurance products offers benefits like easier upselling, improved risk assessment, and better policyholder health. These advantages stem from enhanced customer engagement and stronger relationships.

Common types of health insurance fraud include specific behaviours include:

- Hiding pre-existing conditions and chronic illnesses.
- Using fake documents to manipulate health checkup results.
- Submitting inflated bills and impersonating others.
- Staging accidents and making false disability claims.

To tackle fraud and maintain healthcare integrity, a unified platform for reporting fraud among insurers is essential. Additionally, developing a digital ecosystem for claims and policy management—using technologies like OCR, AI, and machine learning—can streamline processing, boost efficiency, and enhance healthcare management.

Awareness campaigns also play a key role in encouraging discussions between clinicians and patients, helping to reduce unnecessary tests and procedures.

MS: The Interim Budget had proposed a Pension Scheme for the gig workers, but the Final Union Budget had this missing. What's your take on this? And now with the gig economy becoming a vast reality, how should the players be better secured?

AC: India's gig workforce is projected to grow from 7 million in 2021 to 23.5 million by 2030, making up 4.1% of the country's workforce by 2029-30, according to a Nasscom Aon report.

Traditionally, social security has been tied to regular employment. However, the rise of the gig economy, with its flexibility and lack of formal contracts, has disrupted this model. Gig workers often struggle with irregular earnings, making it hard to save for retirement or handle unexpected expenses. They also lack access to health insurance and other social security benefits, which can lead to financial hardship in old age. This issue needs urgent attention.

The global debate on protecting gig workers highlights the need for a legal framework that balances flexibility with basic worker protections. **Countries like Spain and Australia have started to address this by classifying gig workers as employees and providing them with minimum wage and social security.** The EU's proposed platform worker directive aims to improve conditions for digital platform workers, showing the importance of regulating these platforms to ensure fair practices.

In India, the Rajasthan Platform-Based Gig Workers (Registration and Welfare) Act of 2023 is a pioneering step, providing a registration process and welfare measures for gig workers. While this state-level initiative is commendable, a national framework is needed to offer consistent protection nationwide.

Policymakers and stakeholders should advocate for legislation that includes social security benefits such as health insurance, accident insurance, and pensions for gig workers. This would ensure financial security for medical emergencies, accidents, and retirement, and help create a more stable and equitable gig economy.

MS: Recent partnerships between traditional insurers and fintech startups have been on the rise. Can you discuss the advantages and challenges of such collaborations?

AC: Financial technologies or "fintech" innovations are reshaping the provision of insurance services. These innovations, while posing new challenges, also bring a wave of new opportunities.

They have the potential to deliver a wide range of benefits –

- efficiency improvements
- cost reductions
- improved risk assessment
- superior customer experience
- greater financial inclusion.

This optimistic outlook can inspire confidence in the potential of these innovations.

These innovations create new opportunities but also present challenges, as tech-savvy firms gain a competitive edge, potentially squeezing profit margins for those who struggle to adapt.

As fintech continues to evolve, product comparability may decline due to increased customization. The regulatory capital framework may need adjustment to address new business models and changing risk profiles. Additionally, the rise of unregulated tech providers in the insurance value chain could heighten business conduct risks, highlighting the need for improved risk management.

While these advancements hold promise, they could also pose risks to consumers and the stability of insurance markets. It remains uncertain how these developments will impact the industry in the long term.

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Arup Chatterjee is the Principal Financial Sector Specialist at the Asian Development Bank (ADB) in Manila. He leads the capital markets, contractual savings, and insurance practice, and guides ADB's efforts to integrate and scale sustainable finance solutions in its operations. Previously, Arup worked at the Bank for International Settlements in Switzerland, the Insurance Regulatory and Development Authority of India, and the Ministry of Finance in India, where he focused on developing a sound, progressive, and inclusive financial sector.

About the Interviewer

Mahima Sharma is an Independent Journalist based in Delhi NCR. She has been in the field of TV, Print & Online Journalism since 2005 and previously an additional three years in allied media. In her span of work she has been associated with CNN-News18, ANI - Asian News International (A collaboration with Reuters), Voice of India, Hindustan Times and various other top media brands of their times. In recent times, she has diversified her work as a Digital Media Marketing Consultant & Content Strategist as well. Starting March 2021, she is also a pan-India Entrepreneurship Education Mentor at Women Will - An Entrepreneurship Program by Google in Collaboration with SHEROES. Mahima can be reached at media@indiastat.com