Microinsurance Context and Opportunities

Microinsurance Roundtable
Addis Ababa, October 2008

Craig Churchill
International Labour Organization
Overview of Presentation

1. Explain the ILO’s interest in microinsurance
2. Define microinsurance
3. Describe how insurance is delivered to the low-income market
4. Clarify the main differences between insurance and microinsurance
5. Summarize the microinsurance opportunities and challenges
1. ILO’s interest in microinsurance

The ILO is concerned about:

• The promotion of decent work: more and better jobs
• The availability of social protection for workers and their families
• The impact of financial policies on social justice, i.e. toward more inclusive financial markets
1. The ILO: A microinsurance microcosm

In the ILO, and elsewhere, microinsurance can be seen from two complementary perspectives…

1) A way of extending social protection to excluded populations

2) A new market for the insurance industry
The microinsurance continuum

Social Protection
- Benefits are a human right (e.g. health, pension)
- Contains a redistributive element

New Market
- 4 billion persons living on less than $2/day
- Product and distribution innovations can make the poor a viable market for insurers
2. What is microinsurance?
2. Microinsurance is…

“…the protection of low-income people against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”


“…not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e. low-income persons.”

~ IAIS Issues Paper (2007)
2. Who is insured by whom?

- Formal insurance industry
- Informal insurance
- Insurable, without access
- Uninsurable through market mechanisms
2. Scope of microinsurance around the world

• Approximately 80 million low-income people have insurance coverage, less than 3 percent (MicroInsurance Centre, 2006)

• Mandatory products often have low claims ratios as policyholders often do not understand the product they have purchased

• Most products available offer little value to the poor, such as credit life…but innovations are emerging to improve the value proposition, particularly for term life and health insurance
3. How is insurance delivered to the poor?
3. Microinsurance delivery channels

- Partnerships between insurers and distribution agents like cooperatives and MFIs (e.g. AIG and Ugandan MFIs; Zurich and Bolivian MFIs; CIC and Kenyan SACCOs)
- Informal mutual assistance schemes (e.g. burial societies, South Africa)
- Healthcare providers offering health care schemes (e.g. Nkoranza Community Health Insurance Plan, Ghana)

Continued…
Regulated insurance companies that serve the low-income market directly (e.g. Delta Life, Bangladesh)
Insurance companies that target the low-income market through retailers (e.g. Hollard, South Africa; Max New York, India)
Community-based schemes that pool funds, carry risk and manage a relationship with a healthcare provider (e.g. L’Union Technique de la Mutualité Malienne, Mali)
4. Key differences between micro and conventional insurance

<table>
<thead>
<tr>
<th>Conventional Insurance</th>
<th>Microinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premium collected mostly from deductions in bank account</td>
<td>Premium often collected in cash or associated with another financial transaction</td>
</tr>
<tr>
<td>Regular premium payments</td>
<td>Premiums should be designed to accommodate customers’ irregular cash flows</td>
</tr>
<tr>
<td>Agents and brokers are primarily responsible for sales</td>
<td>Distribution channel may manage the entire customer relationship, perhaps including premium collection and claims payment</td>
</tr>
<tr>
<td>Market is largely familiar with insurance</td>
<td>Market is largely unfamiliar with insurance</td>
</tr>
</tbody>
</table>

*Continued...*
### 4. Key differences between micro and conventional insurance (cont.)

<table>
<thead>
<tr>
<th>Conventional Insurance</th>
<th>Microinsurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Screening requirements may include a medical examination</td>
<td>If there are any screening requirements, they would be limited to a declaration of good health</td>
</tr>
<tr>
<td>Limited eligibility with standard exclusions</td>
<td>Broadly inclusive, with few if any exclusions</td>
</tr>
<tr>
<td>Sold by licensed intermediaries</td>
<td>Often sold by unlicensed intermediaries; maybe underwritten by unregulated risk carrier</td>
</tr>
<tr>
<td>Large sums insured</td>
<td>Small sums insured</td>
</tr>
<tr>
<td>Priced based on age/specific risk</td>
<td>Community or group pricing</td>
</tr>
<tr>
<td>Complex policy document</td>
<td>Simple, easy to understand policy document</td>
</tr>
</tbody>
</table>
5. Opportunities and Challenges

Opportunities

• Vast un- or under-served market provides huge growth potential
• Lessons from serving the low-income market could benefit the mainstream operations
• Public-private partnerships to improve social protection
• Do well by doing good
• Increased interest by donors to promote microinsurance
5. Opportunities and Challenges

- Housed at the ILO and funded by the Gates Foundation
- Providing grants for microinsurance innovations
- Also supporting technical assistance and research
5. Opportunities and Challenges for Insurance Companies

Challenges

- Understanding the market’s needs
- Educating the market and earning its trust
- Innovating
- Maximizing efficiencies
- Reaching huge numbers of people, and keep them
- Encouraging claims!
- Adopting a long-term perspective
Recommended reading

- Based on 25 case studies of 40 microinsurance providers
- Available online at [www.microinsurancecompendium.org](http://www.microinsurancecompendium.org)
- Or on sale from the ILO
Thank you!

Craig Churchill

churchill@ilo.org

Tel +41 22 799 6242