

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...

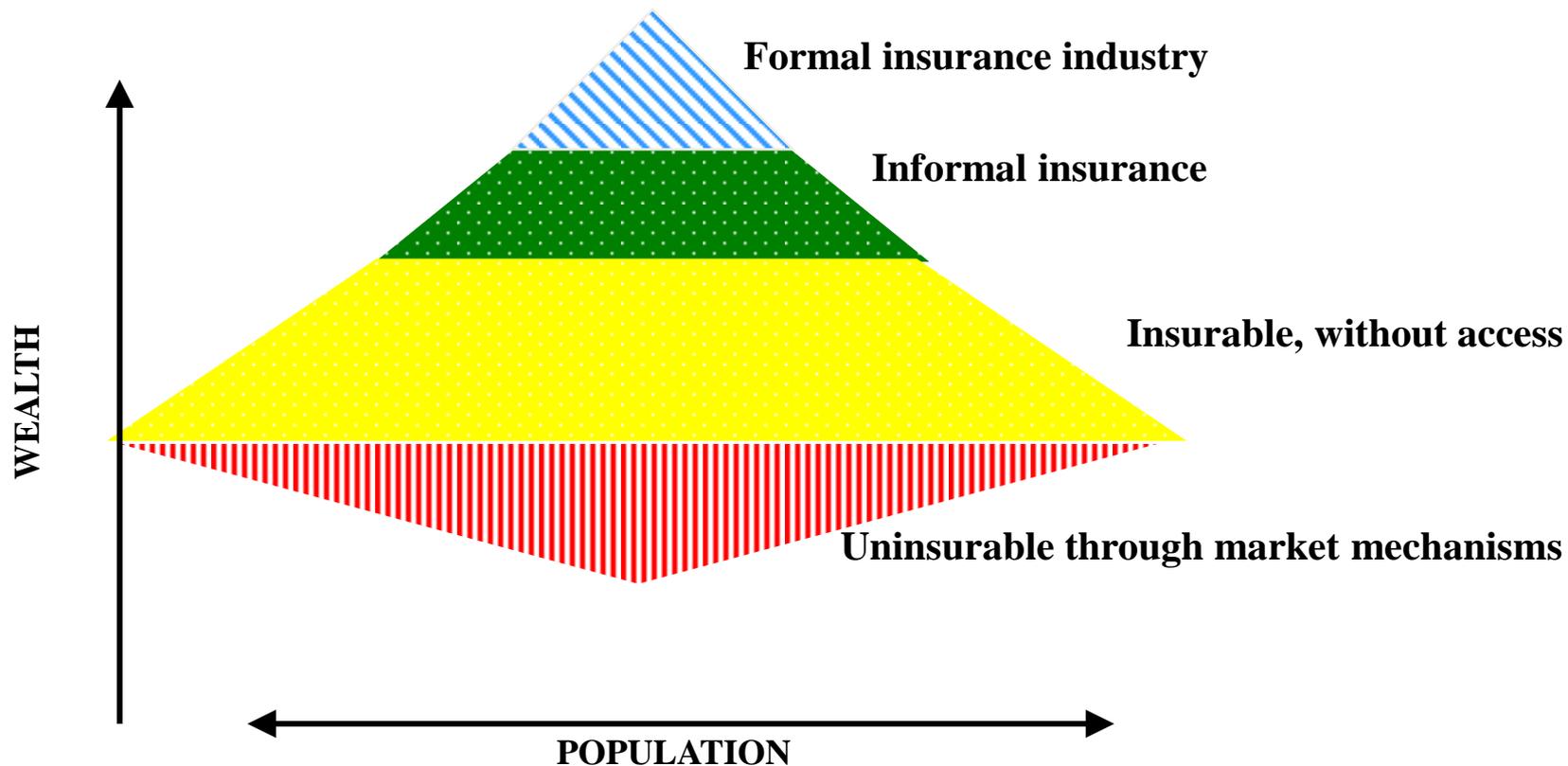
“...the protection of **low-income people** against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”

~ *Draft Donor Guidelines, CGAP Working Group (2003)*

“...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?



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

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

Continued...

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

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

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



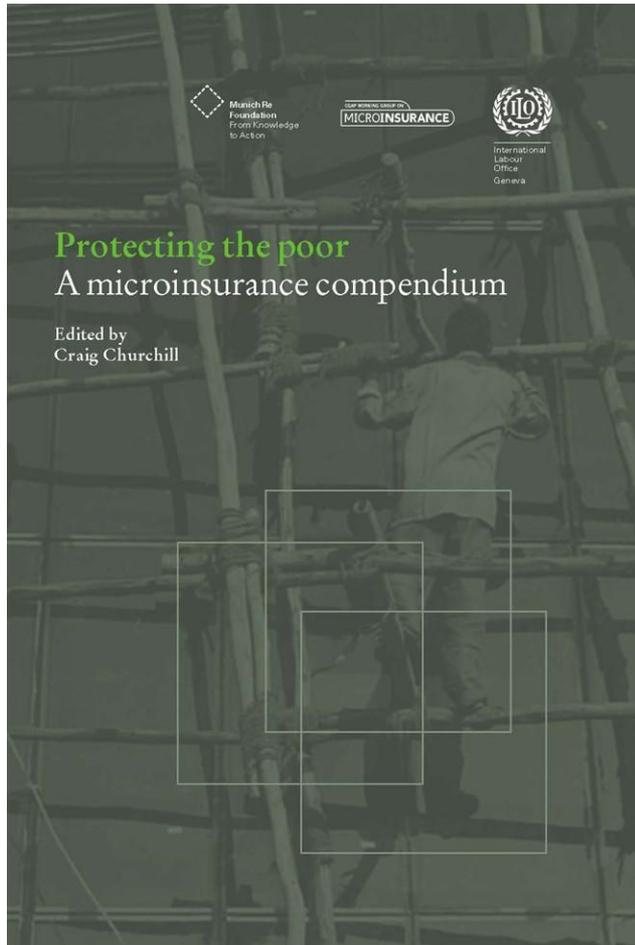
- Housed at the ILO and funded by the Gates Foundation
- Providing grants for microinsurance innovations
- Also supporting technical assistance and research

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
- Or on sale from the ILO

Thank you!

Craig Churchill

churchill@ilo.org

Tel +41 22 799 6242