

# An Introduction to Microinsurance

*Savings- and Credit Forum*

*30 November 2007*

**Craig Churchill**

**International Labour Organization**

# Presentation Outline

1. What is microinsurance?
2. Characteristics of the insurable poor
3. Microinsurance products
4. Institutional options for delivering microinsurance  
-- case studies --
5. Microinsurance and commercial insurers
6. Roles of governments and donors
7. Key trends in the industry

## 1. What is microinsurance?

# ILO's interest in microinsurance

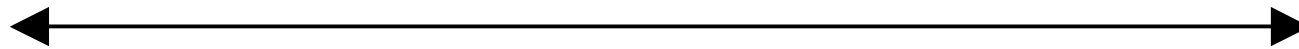
The ILO is concerned about the promotion of decent work: **more and better jobs**

- 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**

This reflects the two most common perspectives on microinsurance...

## 1. What is microinsurance?

# 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

## 1. What is microinsurance?

# Where did microinsurance come from?

- Origin of the insurance industry rooted in small policies and mutual protection in the 19th and early 20th century

More recently...

- Credit unions and cooperatives creating their own insurance departments or companies
- Microfinance institutions protecting their loan portfolios
- Social protection: creating health mutuals
- Formalization of informal schemes (e.g. burial societies, mutual benefit associations)
- Insurance companies going down market (especially in India and South Africa)

## 1. What is microinsurance?

# Microinsurance is...

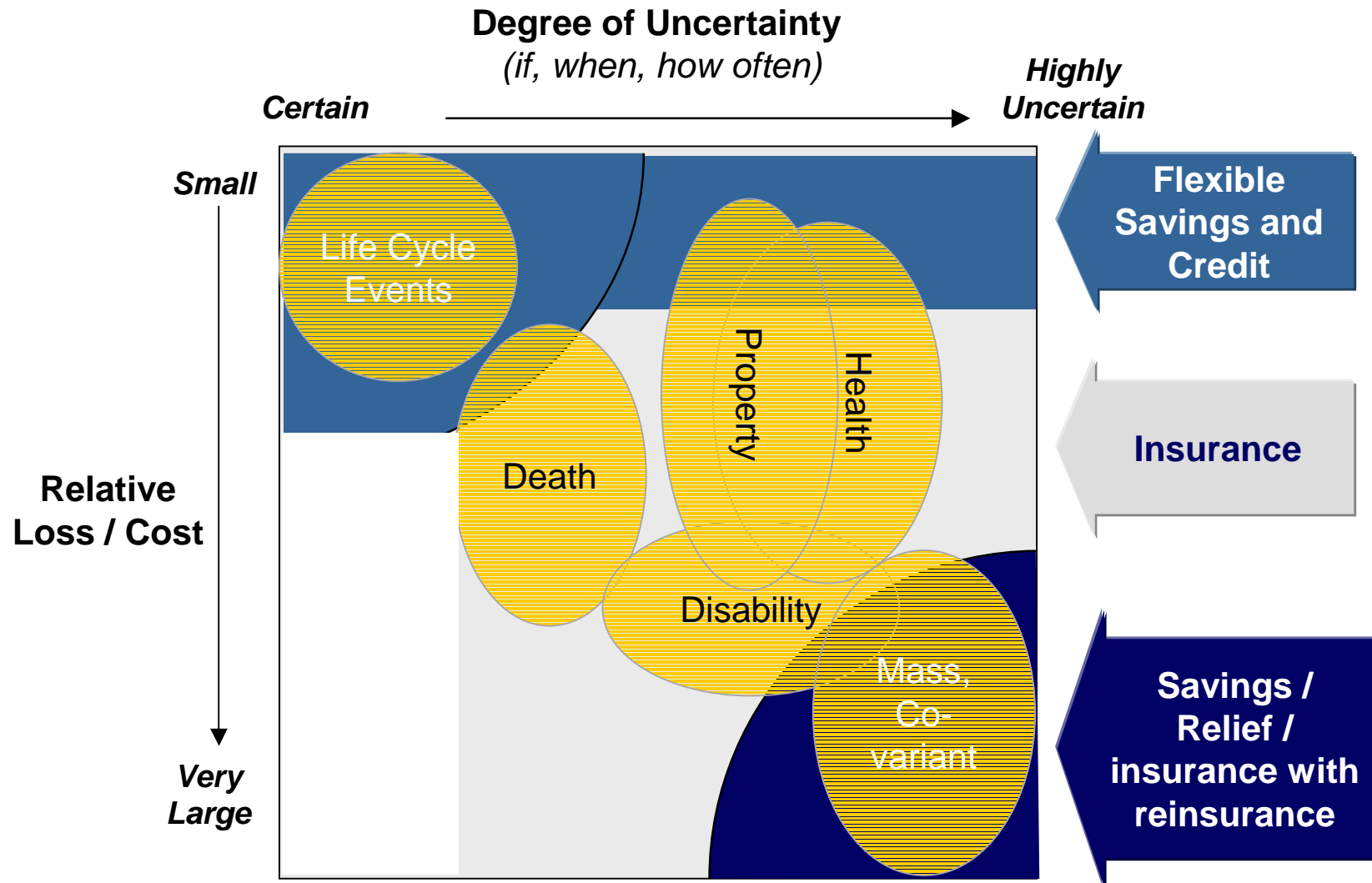
“...the protection of **low-income people** against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved” *Draft Donor Guidelines (2003)*

# Microinsurance is not...

- Small insurance companies
- Just another product offered by MFIs
- Regular insurance products with smaller sums insured and premiums
- Savings, credit, risk prevention

1. What is microinsurance?

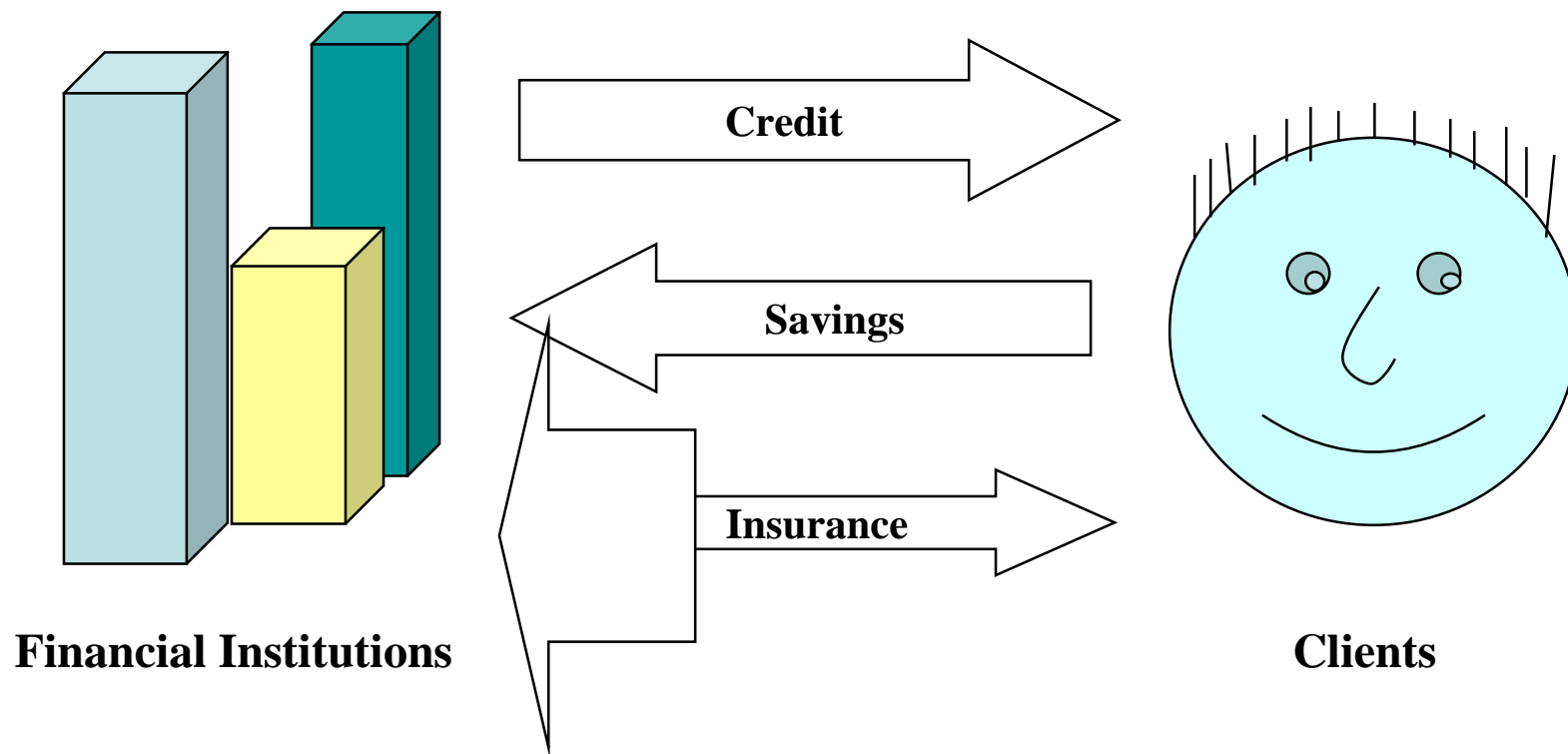
# Savings, credit or insurance?



# 1. What is microinsurance?

## Trust relationships

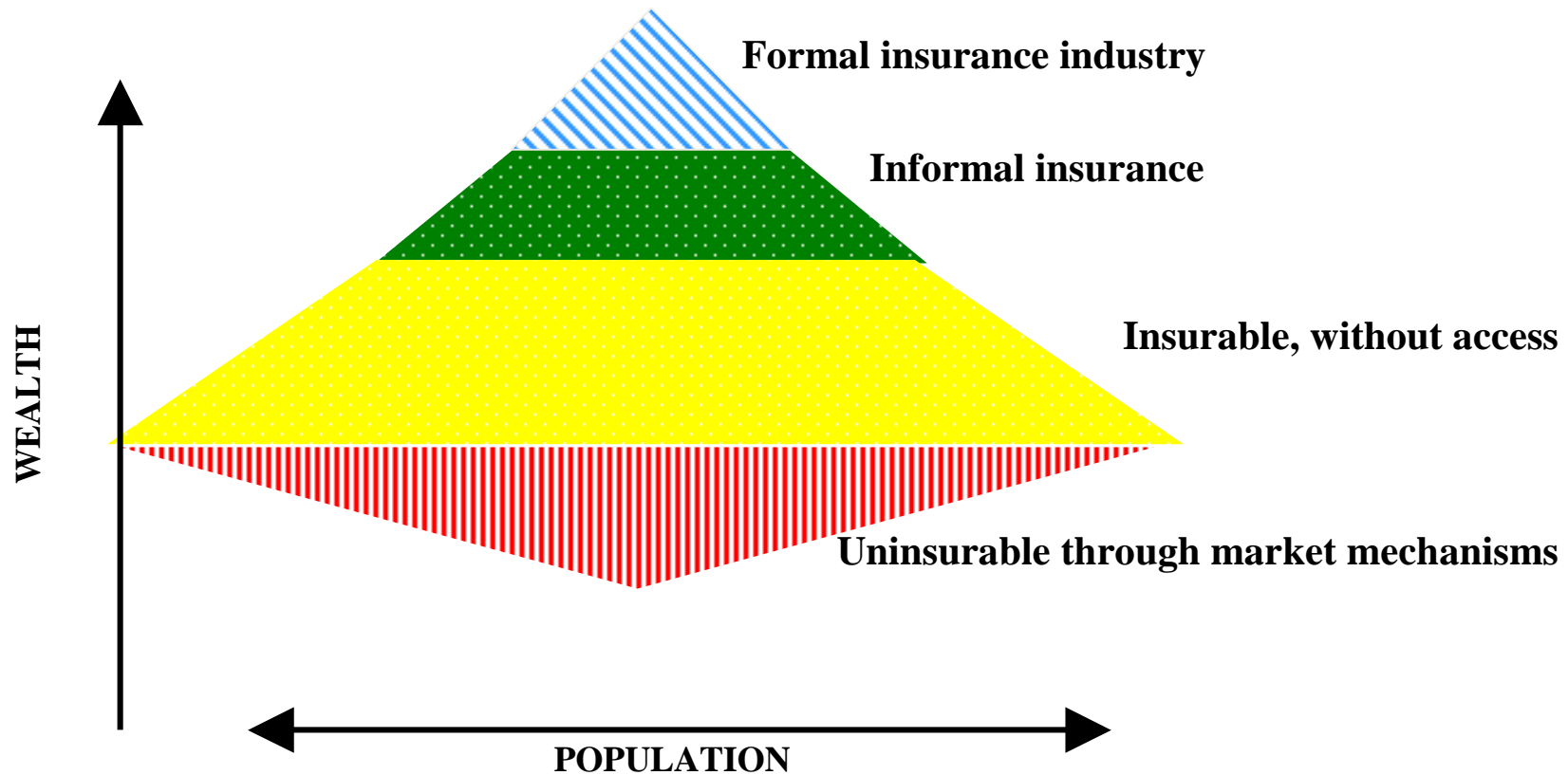
*Each product requires a different trust relationship with the customer*





## 1. What is microinsurance?

# Who is insured by whom?



## 2. Characteristics of the insurable poor

# Characteristics of the insurable poor

- Often work in the informal economy
- Irregular cash flows
- Manage risks through myriad of informal means, including social networks
- Limited familiarity with formal insurance
- May not trust insurance companies
- Vulnerable to risks...

## 2. Characteristics of the insurable poor



## 2. Characteristics of the insurable poor

# What risks are they concerned about?

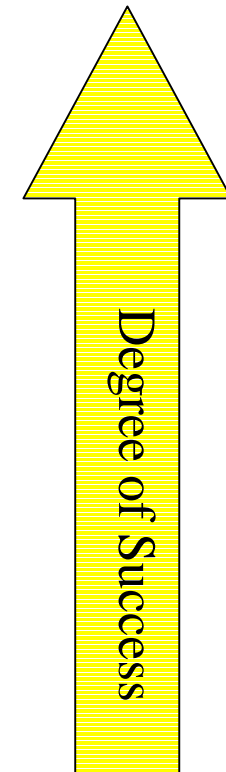
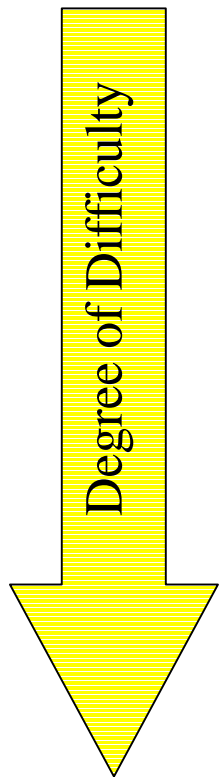
Country	Priority risk
Uganda	Illness, death, disability, property loss, risk of loan
Malawi	Death, food insecurity, illness, education
Philippines	Death, old age, illness
Viet Nam	Illness, natural disaster, accidents, livestock disease
Indonesia	Illness, children's education, poor harvest
Lao P.D.R.	Illness, livestock disease, death
Georgia	Illness, business losses, theft, death, retirement income
Ukraine	Illness, disability, theft
Bolivia	Illness, death, property loss (including crop loss in rural areas)

*Adapted from Cohen and Sebstad (2006)*

### 3. Microinsurance products

## Most common types of microinsurance products

- Credit life
- Term life/Personal accident
- Savings life
- Property insurance
- Endowment life
- Health insurance
- Agriculture



## Credit life

- Most common and “successful”
- Ensures that “debt dies with the debtor”
- Primarily benefits the lender
- Often offered in-house (e.g., MFI charges a separate fee but without separate insurance accounting or actuarial pricing)

### 3. Microinsurance products

## Term life/Personal accident

- Most commonly offered with credit life to provide a payout if the borrower dies
- Sometimes also covers spouse and dependents
- Term is linked to the loan term
- With mandatory policies, borrowers (and definitely their beneficiaries) often do not know they have coverage

### AIG in East Africa

- Pays \$800 for the accidental death of the borrower
- Pays \$400 for the accidental death of spouse
- Pays \$200 for the accidental death of dependents
- Premium 0.5% of loan amount
- Term: 4 months

# Life savings

- Common credit union product
- Simple to manage
- Low transaction costs
- Stimulates savings

## COLUMNNA in Guatemala

- Pays client's family 1-2 times the balance in their savings account at the time of death
- Size of benefit varies based on client's age
- Premiums paid by reducing the interest rate on savings
- Distributed for COLUMNNA by local credit unions



## Property insurance

- Almost always linked to a loan (exception: hut insurance rider)
- May not help with replacement, just repayment
- Most common examples are for livestock

### Network Leasing Corporation in Pakistan

- Repays outstanding balance on asset loans (leases) if asset is damaged or destroyed
- Risks covered include: fire, theft, floods and civil disturbances
- Borrower pays a % of loan balance as a premium, built into loan repayments
- Coverage is provided by the private insurer through a single, group policy for all NLC clients

## Endowment

- Combines long-term savings and insurance with emergency loans against the savings balance
- Premium payments accumulate value
- Potentially powerful product, but not currently providing sufficient value to clients

### Delta Life, Bangladesh

- Commercial company
- Targets the most vulnerable segments
- Serves the market directly (e.g., without an MFI agent)
- Provides long-term savings (5 to 15 years) with insurance if the depositor dies before the end of the term

# Health insurance

- Product for which there is the greatest demand
- Often coverage limited to hospitalization, or even a daily payment not linked to health care costs
- Straddles the gray area between social protection and commercial insurance
- Difficult to offer because:
  - Additional player involved (health care provider)
  - Prone to moral hazard, adverse selection and over-usage problems
  - Skewed incentives
  - On a commercial basis, can only be made affordable to the poor by severely limiting benefits

### 3. Microinsurance products

## Agriculture insurance

- No evidence yet of sustainable agriculture insurance, all heavily government subsidized
- Prone to moral hazard problems: farmers were less likely to pursue sound practices
- Expected losses virtually impossible to calculate
- Recent innovations such as rain-fall index insurance show some potential to make agriculture insurance measurable, objective and viable

### 3. Microinsurance products

## Key product issues

- Piggyback or standalone
- Mandatory or voluntary
- Group or individual
- Long or short term
- Inclusive vs. cherry picking risks
- Screening
- Basket coverage
- Benefits in cash or in kind, now or later
- KISS

#### 4. Institutional options

## Institutional options for microinsurance

- Partnerships between insurers and distribution agents like cooperatives and MFIs (e.g. Zurich Bolivia and BancoSol)
- Self-insuring MFIs that assume the risk of offering insurance to their clients (e.g. Spandana, India)
- Insurer created by an MFI (e.g. CARD MBA, Philippines)
- 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...*

#### 4. Institutional options




Regulated insurance companies that serve the low-income market directly (e.g. Delta Life, Bangladesh)



#### 4. Institutional options

**Sampoorn Bima  
Yojana**

**PROTECTION FOR DEATH AND  
RETURN OF PREMIUM PLAN!**



**MICRO INSURANCE PLAN**

Tata AIG Life brings you a way to stay protected from unforeseen events.

**TATA  
AIG  
LIFE** | *A new look at life*

Regulated insurance companies that serve that have created microinsurance agents  
(e.g. Tata-AIG, India)



#### 4. Institutional options



Insurance companies that target the low-income market through retailers (e.g. Seguros Azteca and Elektra, Mexico)



#### 4. Institutional options



Community-based schemes that pool funds, carry risk and manage a relationship with a healthcare provider (e.g. CIDR Benin)

## 4. Institutional options

Insurance distributed through cooperatives (e.g. Yeshasvini, India)



**YESHASVINI**

a unique Scheme  
founded on the Principle of Co-operation  
"Each for all and all for each".

**Special features:**

- A farmer who has been a member of a cooperative society for at least 6 months can avail the benefits of the scheme by paying a nominal sum of Rs. 200 per year. The yearly sum of Rs. 200 can also be paid the benefit by paying Rs. 200 per season.
- Safety from any kind of disease is to be enjoyed by the members of the scheme.
- Insurer has tried to avail the benefits of the scheme in 75 years.
- Members can pay their surplus, which is up to Rs. 200 lakh and Rs. 200 crore for higher surplus.
- List of basic supplies have been included in the **Minimum Scheme**, which is not available in the market.
- This scheme, which complies with the provisions set for the members that are mentioned in **Insurance Regulations** (Central Commission of the Government) and **Insurance Regulations** of the Ministry of the Finance, with the Deputy Director of Insurance, Government of the Government of Karnataka.

**Progress achieved**

- In the first phase of the project, 3000 village-level societies were created and the members of the scheme were 200000. The first phase has been completed.
- The first Chief Minister of Karnataka (Dr. B.S. Yashwantrao Chavan) laid the foundation stone for the scheme. Government of India committed to pay a sum of Rs. 750 crore for the "Minimum Risk" during the year 2004-05.
- Over 100000 surplus of various kind have been successfully distributed on quarterly co-operative members as of December 2005.
- Nearly 400000 farmer cooperatives have availed the CSR facility (which is Rs. 14 crore) as on December 2005.
- 144 members insurance have been recognized at over the State of Karnataka.

**Programme for 2004-05**

- To identify villages and create member of sub-schemes and help build up as a private insurance of the primary insurance.
- To take an effective extension work and create awareness among farmer cooperatives about the scheme.
- Accounting of all projected financial and insurance of insurance / health insurance LEP in various co-operative forms.

#### 4. Institutional options

Mutual insurance companies created by credit union/cooperative federations (e.g. TUV SKOK, Poland; La Equidad, Colombia)



**GWARANTOWANE OSZCZĘDZANIE**

OFERTA WAŻNA  
OD 01.02.2002r.

ubezpieczony rachunek systematycznego oszczędzania

wysokie oprocentowanie  
nie tylko dla zamożnych  
poczucie bezpieczeństwa  
gwarantowana przyszłość

**TUV SKOK**

TOWARZYSTWO UBEZPIECZEŃ WZAJEMNYCH  
SPÓŁDZIELCZYCH KAS OSZCZĘDNOŚCIOWO-KREDYTOWYCH

# Case Studies

- Zurich Bolivia
- Mutuelles de Santé au Benin

## 5. Commercial insurers

# 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	Agents may manage the entire customer relationship, perhaps including premium collection
Market is largely familiar with insurance	Market is largely unfamiliar with insurance

*Continued...*

## 5. Commercial insurers

# 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
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. Commercial insurers

# Ten factors for success for commercial insurers serving the low-income market

1. Understand the market's needs
2. Involve the market in designing simple products
3. Educate the market
4. Earn the trust of the market
5. Maximize efficiencies
6. Leverage existing relationships
7. Reach huge numbers of people, and keep them
8. Encourage claims
9. Create institution space to form a microinsurance culture
10. Adopt a long-term perspective

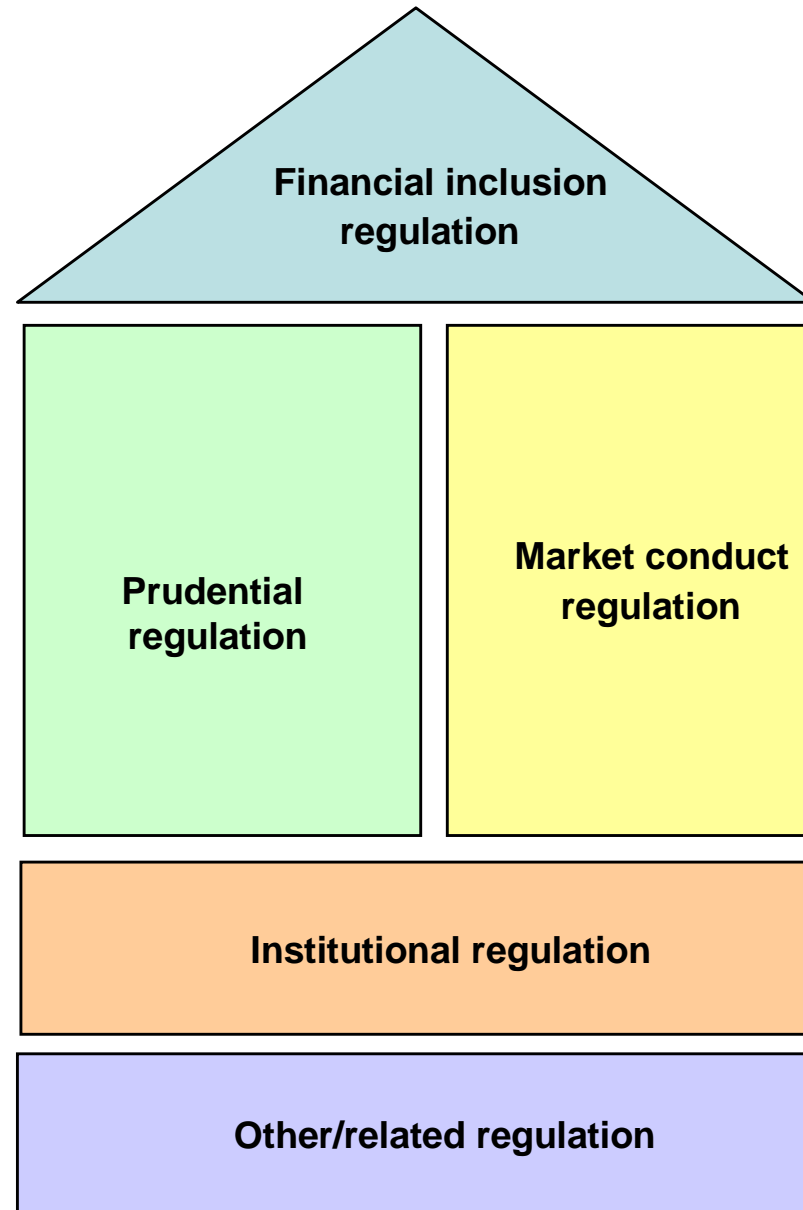


## Creating an enabling environment

- Social marketing
- Risk prevention
- Health care infrastructure
- Facilitate access to international donors (e.g. Global Fund)
- Consider transfer payments
- Legal and regulatory framework

6. Governments and donors

# The microinsurance regulatory house



# Recommendations for donors

<b>Client level</b> <ul style="list-style-type: none"><li>• Impact research</li><li>• Consumer education</li><li>• Ensure products provide good value</li></ul>	<b>Institution level</b> <ul style="list-style-type: none"><li>• Alternative business models</li><li>• R&amp;D for technology</li><li>• Upgrade management capacity</li><li>• Incentives for insurers to go downmarket</li></ul>
<b>Meso level</b> <ul style="list-style-type: none"><li>• Training and TA capacity</li><li>• Promote transparency,</li><li>• Consumer protection</li><li>• Facilitate access to reinsurance</li><li>• Collection and analysis of risk data</li></ul>	<b>Macro level</b> <ul style="list-style-type: none"><li>• Promote financial inclusion</li><li>• Advocacy to build enabling regulatory frameworks</li><li>• Encourage public-private partnerships</li><li>• Coordinate with other donors</li></ul>

*Adapted from Chandani (2007)*

## 7. Key trends

# What is next for microinsurance?

- Move beyond life insurance...focus on coverage for health, agriculture and disaster
- Role of technology to enhance efficiencies
- Understanding impact
- Early engagement of policymakers and supervisors
- New donors
- More informed market

# Concluding Thought

The challenge for all stakeholders is to...

Create a culture of insurance among low-income persons

Thank you!

Craig Churchill

[churchill@ilo.org](mailto:churchill@ilo.org)

Tel +41 22 799 6242