What is MicroInsurance?

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MicroInsurance is ...

- insurance accessed by low-income people
- provided by a variety of institutions
- run in accordance with generally accepted Insurance Core Principles
- funded by premiums

Source: IAIS Issues Paper
MicroInsurance is ...

- a financial service, besides savings, credit and cashless payments which the poor use to manage their risks
- Insurance targeting those that are “ignored by mainstream commercial insurance and social insurance schemes”. That is, “persons who do not have access to benefits” often because they are not part of the formal sector or have no access to benefits normally provided through formal employment.
- closely linked with other financial services via clients, products, insurers, intermediaries, policy decision makers, regulation and national strategies
- a strategic tool for different development agendas (pro-poor financing, agricultural and rural development, social security development, mitigation of climate change)
Some Myths

• MI is just conventional insurance sold with small premium amounts per risk.
  – Downscaling reflects a lack of understanding the market

• MI is really all about particular products
  – Although technically interesting, rolling out templates is fraught with danger

• MI policyholders can’t afford to pay premiums
  – Many pay far more for informal risk management
Demand for more insurance

Figure 13: Additional Risks Wanted to Be Insured

Which additional risks would you like to insure?
(multiple answers allowed)

- Death of info-member: 23
- Old age: 32
- Personal accident: 8
- Vehicle accident: 4
- Illness: 31
- Property damage/loss: 10
- Business damage: 3
- Crop damage: 4
- Yield losses: 1
- Displacement: 1
- Liability: 7
- Children’s education: 1
- Loan: 1
- Loss of job: 1
- None: 5

Source: GIGA, Demand for Microinsurance among Low-income Households in Rural Ghana, June 2008.
Other features of the client base

• Irregular incomes
• Informality
• High vulnerability to risk
• Low financial and actual literacy
• Higher risk environment (low security, more vulnerable living environments, limited access to services)
• Experience of exposure to misinformation and abuse
• Lack of trust of large and formal institutions
• They do not define their insurance as “small” in their mind.
Different types of insurers

- MFIs (NGO MFIs, licensed MFIs)
- Member- and community based organizations (Cooperatives, Mutual Health Organizations)
- Commercial insurers (increasingly)
- Public insurers
- There are very few specialized microinsurers (Philippines).
- Informality is a problem for growth and soundness.

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<tbody>
<tr>
<td>Commercial Insurers</td>
<td>88</td>
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<tr>
<td>Public Insurers</td>
<td>74</td>
</tr>
<tr>
<td>Mutual Insurers</td>
<td>121</td>
</tr>
<tr>
<td>NGOs and others</td>
<td>42</td>
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</table>

Source: MI Landscaping Study in 100 Poorest Countries
Product offering is weak

- Most commonly offered insurance is credit-life; a diversified product offer is missing.
- Services, staff and systems of insurers are not prepared to microinsurance provision.
Distribution

• Traditional distribution systems are not designed to serve low income markets:
  – Agents and brokers: licensed and unlicensed financial service providers, few specialized agents/brokers
  – Incentives for agents focus on larger polices or sales instead of servicing
  – Restrictive remuneration can be prohibitive (commission caps)

• Adequate channels such as banks or MFIs are not always allowed to distribute microinsurance

• Innovative delivery channels may reduce transaction costs:
  – Financial intermediaries close to the potential clients
  – Non-financial intermediaries such as retail
  – Electricity companies (Colombia) where microinsurance is attached to the bill
Servicing challenges

• It is not all about distribution
• For example
  – Client registration and identification
  – Premium collection
  – Management of non payment of premiums
  – Claims settlement
    • Many innovations available
    • Claims in kind instead of cash
    • “Close to the client” delegated claims assessment
## Conventional Insurance and Microinsurance (1)

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<tr>
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<th>Conventional Insurance</th>
<th>Microinsurance</th>
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<tbody>
<tr>
<td><strong>Premiums</strong></td>
<td>Typically regular annual, quarterly, monthly</td>
<td>Frequent or irregular premium payments</td>
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<tr>
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<td>Based on age or other specific risk characteristics, and collected regularly</td>
<td>Group pricing with links to other services</td>
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<td>Mostly from bank deductions</td>
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<tr>
<td><strong>Policies</strong></td>
<td>Complex policy document, many exclusions, usually annual terms</td>
<td>Simple language</td>
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<tr>
<td></td>
<td></td>
<td>Few to no exclusions</td>
</tr>
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<td></td>
<td></td>
<td>Terms appropriate to market</td>
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<tr>
<td></td>
<td></td>
<td>May require life and non life benefits</td>
</tr>
<tr>
<td><strong>Claims</strong></td>
<td>Claims process for large sums insured may be quite difficult</td>
<td>Claims process for small sums insured is simple yet still</td>
</tr>
<tr>
<td></td>
<td></td>
<td>controls fraud</td>
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<td>Rapid claims processing</td>
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# Conventional Insurance and Microinsurance (2)

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<tr>
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<th>Conventional Insurance</th>
<th>Microinsurance</th>
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<tbody>
<tr>
<td><strong>Delivery Channels</strong></td>
<td>Sold by licensed agents or brokers to wealth, middle class, or companies that typically understand insurance</td>
<td>Often sold by unlicensed non-traditional agents to low-income persons, preferably in groups requiring significant consumer education</td>
</tr>
<tr>
<td><strong>Control efficiencies</strong></td>
<td>Screening requirements may include a medical examination, or other tests Death certificates confirming event</td>
<td>If there are any screening requirements, they are very limited to keep costs low Confirmation of death by local leaders</td>
</tr>
</tbody>
</table>
Country Examples: global RSP view

- BRAZIL: Microinsurance as a national policy priority, product rules
- SA: Financial Access Charter; Intermediary Act; new tier for MI providers envisaged
- PERU: Intermediary and product regulation
- MEXICO: National Microfinance Policy
- COLOMBIA: Intermediary and product regulation
- PHILIPPINES: New tier of MI providers
- ETHIOPIA: Access to Finance Strategy/Microinsurance Strategy
- S: Financial Access Charter; Intermediary Act; new tier for MI providers envisaged
- BRAZIL: Microinsurance regulation in 8 countries for mutual social health organizations

* RSP intervention under consideration or under way

Africa mapping required
Policy Environment Challenges

• Policy frameworks are often not favourable to microinsurance market development.

• Policymakers’ awareness and know-how on microinsurance is low.
• Limited Supervisory capacity impedes them being proactive.
• Coherence among different policy areas is weak.
• There are mandate crossings between government agencies.
• Fiscal burden on premiums and intermediation hinders demand.
• Subsidies can impede market based solutions.
• General customer protection frameworks and financial literacy work often do not include insurance or low-income customers.
Selected Resources:

- MicroInsurance Network
  - Conferences
  - Working Groups and Committees
- IAIS MIN Joint Working Group on RSP
  - Issues paper, standards and guidance
  - Seminars and roundtables
  - Including site visits to MI projects (eg India 2007, China 2009)
- CGAP / World Bank / ILO
  - www.ilo.org/gimi/showresources.do
- MicroInsurance websites
  - www.microinsuranceopportunities.org
  - www.microlinks.org
  - www.microinsurancecentre.org
- “The green book”
  - “Protecting the Poor: A Microinsurance Compendium” edited by Craig Churchill