



# What is MicroInsurance?

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# MicroInsurance is ...

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- 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

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# MicroInsurance is ...

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- **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)
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# Some Myths

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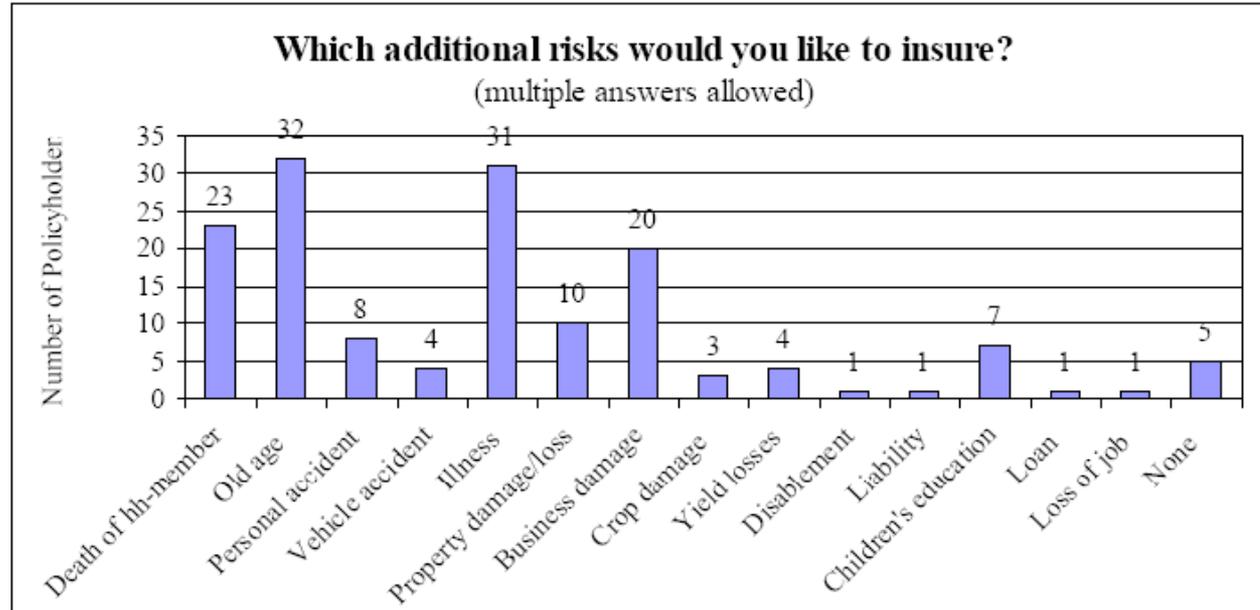
- MI is just conventional insurance sold with small premium amounts per risk.
    - Downscaling reflects a lack of understanding the market
  - MI is really all about particular products
    - Although technically interesting, rolling out templates is fraught with danger
  - MI policyholders can't afford to pay premiums
    - Many pay far more for informal risk management
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# Insurable Risks

## Demand for more insurance

Figure 13: Additional Risks Wanted to Be Insured





# Other features of the client base

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- 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.
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# 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.

Commercial Insurers	88
Public Insurers	74
Mutual Insurers	121
NGOs and others	42

Source: MI Landscaping Study in  
100 Poorest Countries



# Product offering is weak

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- 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.
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# Distribution

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- 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 policies 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
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# Servicing challenges

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- 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
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# Conventional Insurance and Microinsurance (1)

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



# Conventional Insurance and Microinsurance (2)

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



# Country Examples: global RSP view



\* RSP intervention under consideration or under way

Africa mapping required



# Policy Environment Challenges

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- 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.
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# Selected Resources:

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- 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](http://www.ilo.org/gimi/showresources.do)
  - MicroInsurance websites
    - [www.microinsuranceopportunities.org](http://www.microinsuranceopportunities.org)
    - [www.microlinks.org](http://www.microlinks.org)
    - [www.microinsurancecentre.org](http://www.microinsurancecentre.org)
  - “The green book”
    - *“Protecting the Poor: A Microinsurance Compendium”* edited by Craig Churchill
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