

# Microinsurance Context and Opportunities

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# 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:

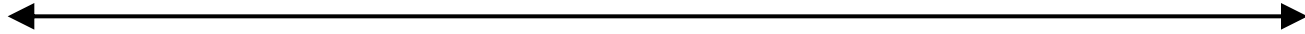
- The promotion of decent work: more and better jobs
- The availability of social protection for workers and their families
- The impact of financial policies on social justice, i.e. toward more inclusive financial markets

# 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...

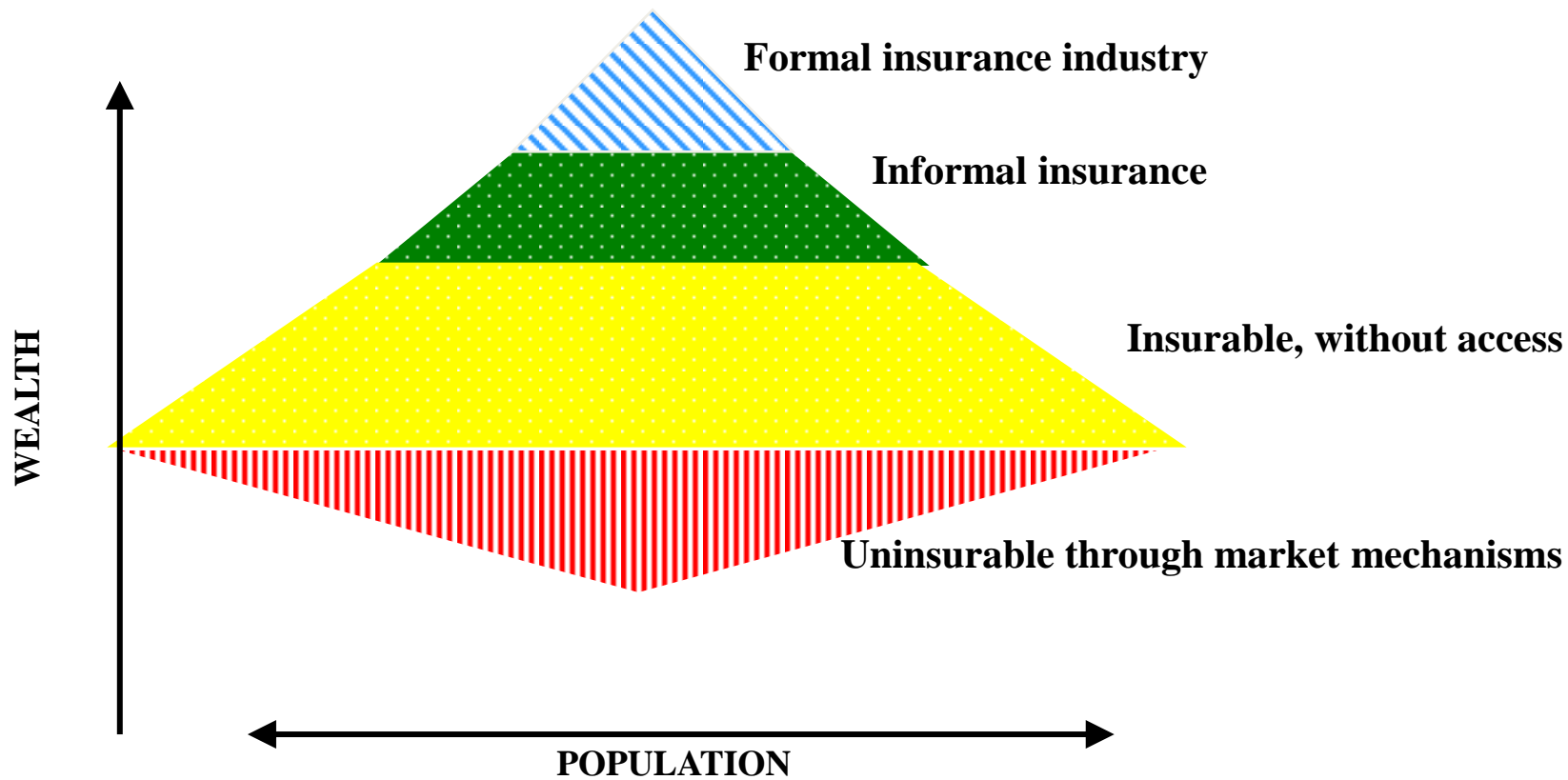
“...the protection of **low-income people** against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”

~ *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)

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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

| <b>Conventional Insurance</b>                            | <b>Microinsurance</b>   |
|--|---|
| 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   |

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

| <b>Conventional Insurance</b>                            | <b>Microinsurance</b>  |
|--|--|
| 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



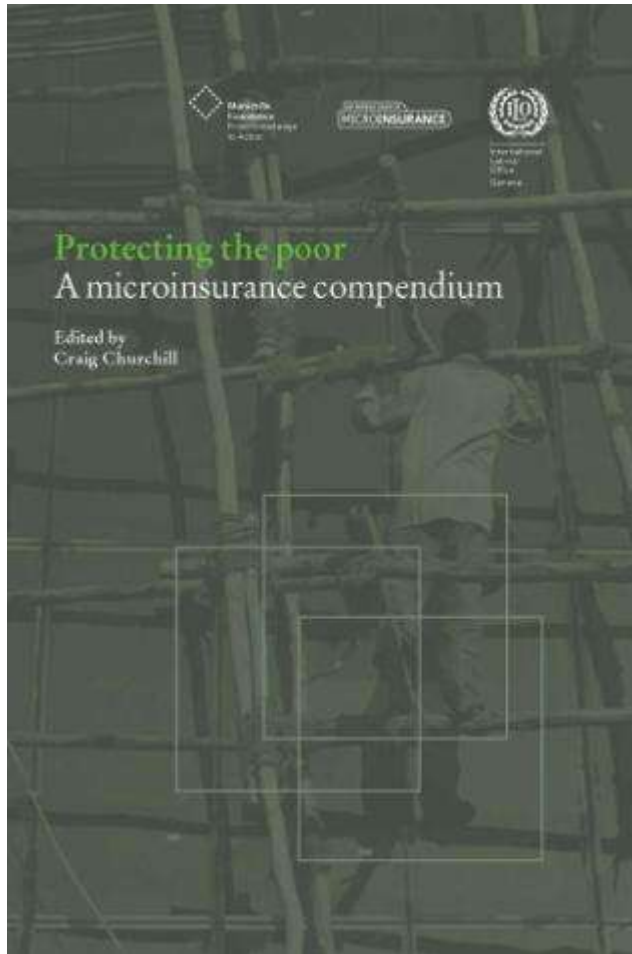
- Housed at the ILO and funded by the Gates Foundation
- Providing grants for microinsurance innovations
- Also supporting technical assistance and research

# 5. Opportunities and Challenges for Insurance Companies

## Challenges

- Understanding the market's needs
- Involve the target market in designing simple products
- Educating the market and earning its trust
- Innovating
- Maximizing efficiencies
- Leverage existing relationships, banks, MFIs, coops and social organisations
- 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!

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