

DEMAND FOR MICROINSURANCE BY THE POOR

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Microfinance Opportunities

Making Insurance Work for the Poor
18-20 October, 2005
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Questions

- Who has a life insurance policy?
- Who has property insurance?
- Who has health insurance or access to publicly funded quality health services?

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“LIFE FOR THE POOR IS ONE LONG RISK”

A CARD Bank client

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THE ROAD OUT OF POVERTY.....

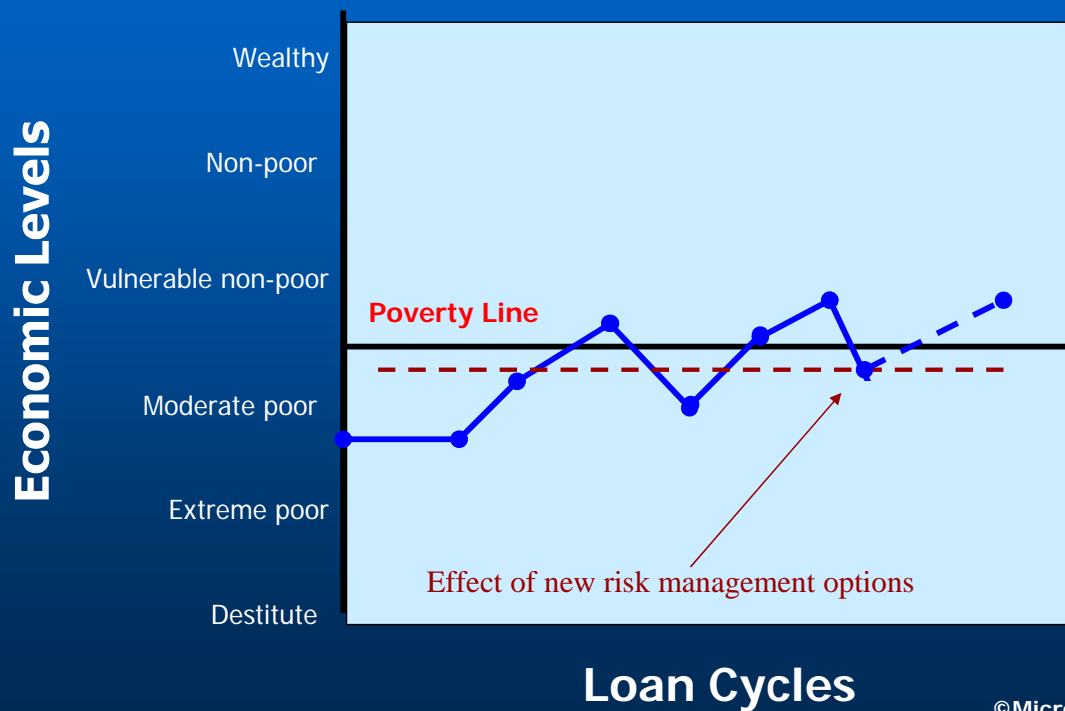
- Increasing income
- Building assets
- Managing risks



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IMPACT OF SHOCKS ON FAMILY INCOME



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Source: M.J. McCord. The Microinsurance Center

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Microinsurance innovation requires understanding demand

- What shocks or economic stresses do poor people face and what is their impact?
- How do they currently cope?
- What are the opportunities and challenges for delivering insurance for the poor?

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Why include economic stresses?

- Stress events: expected short term expenses that cannot be covered by regular cash flow

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SHOCKS AND STRESS EVENTS

- Most stressful:
 - Death of an income earner
 - Illness
 - Property loss
 - School fees
- Other:
 - Crop loss
 - Animal loss
 - Enterprise risk
 - Risk of a microfinance loan
 - Loss from economic downturn



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COPING STRATEGIES

SELF INSURANCE

(retain risk)

Financial Services
Current income
Borrow from family/friends/Money lenders
Sell or pledge assets
Precautionary measures

INFORMAL GROUP-BASED MECHANISMS

(share risk)

Welfare associations
Burial societies
Church group loans
Fund raisers
Hiring of guards

SOCIAL PROTECTION

(transfer risk)

Public health services
Disability compensation

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FORMAL INSURANCE

(transfer risk)

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Coping Strategies, by Risk

Risks	DEATH INCL. FUNERALS	HEALTH	PROPERTY
Coping Strategies			
SELF INSURANCE	FINANCIAL SERVICES Money lender	FINANCIAL SERVICES Current income Family/friends Sell/pledge assets Money lender	FINANCIAL SERVICES Current income Sell assets Precautionary measures
INFORMAL GROUP- BASED MECHANISMS	WELFARE ASSOCIATIONS	WELFARE ASSOCIATIONS Borrow from church groups Fund raisers	WELFARE ASSOCIATIONS Hiring of guards
FORMAL INSURANCE	Partnerships between insurers and MFIs	Health insurance	
Social Protection October 2005	Disability Compensation	Health services	© Microfinance Opportunities "Putting Clients First"

IDENTIFYING OPPORTUNITIES FOR MICROINSURANCE

- Where are the gaps?
 - Credit
 - Savings



PRODUCT ATTRIBUTES

- Coverage
- Accessibility
- Timeliness
- Affordability



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Lessons from existing risk management practices

- Product design reflects client preferences and heterogeneity
- Premium payments reflect customer's cash flow



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CHALLENGES TO ENTRY INTO THE LOW-INCOME MARKET



- By income level
- By gender
- By location

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Insurance Education

- Change perceptions and financial behavior:
 - Knowledge
 - Skills
 - Attitudes
- Insurance products must use local concepts and language



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MOVING FORWARD

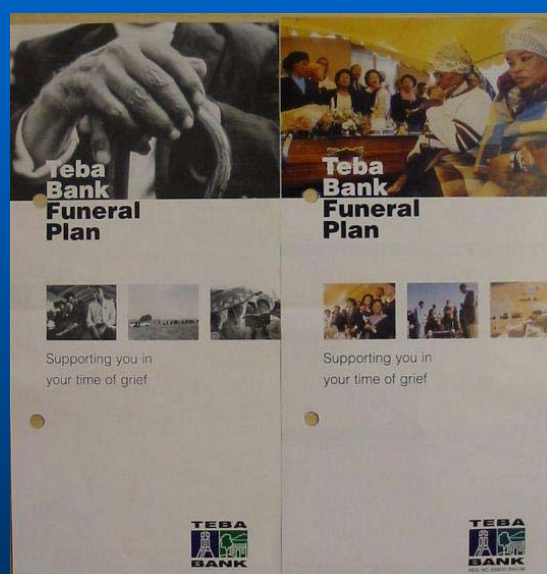
Create new risk management products and institutional delivery mechanisms that work for the low-income market

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MOVING FORWARD

- Microinsurance is likely to complement existing (formal and informal) risk management mechanisms, not displace them.



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MOVING FORWARD

- Few poor people will be able to afford more than one insurance product
- But.....this is an enormous market!

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