

### 2005 Microinsurance Conference Making insurance work for the poor Current practices and lessons learnt

**18–20 October 2005, Schloss Hohenkammer, Munich, Germany**

Welcome address – 19.10.2005

Dr. Hans-Jürgen Schinzler  
Chairman of the Board of Trustees of the Munich Re Foundation

### **Ladies and gentlemen, dear participants in the first Microinsurance Conference here at Hohenkammer.**

It is a pleasure for me to welcome you here at the Akademie Schloss Hohenkammer. As you may know, Munich Re is celebrating its 125<sup>th</sup> anniversary this year. That's quite an age, but we're still young compared to this castle, which has its origins in the 15<sup>th</sup> century and was only acquired by Munich Re as a training and conference facility about three years ago. However, I hope this beautiful venue will not distract you from the serious topic you will be discussing during this event.

I would like to take this opportunity to thank the CGAP Working Group on Microinsurance and especially its chairman, Craig Churchill, for their invaluable contribution towards making this conference happen.

Together with the CGAP Working Group, the Munich Re Foundation aims to facilitate the development and exchange of knowledge and experience in the field of microinsurance. And as chairman of the board of trustees of the Munich Re Foundation, I sincerely hope that this will be the start of a long and fruitful cooperation in the face of the challenges that lie ahead.

Let me briefly touch on the corporate responsibility to which Munich Re responds – as the founder of the Munich Re Foundation and as the world's largest reinsurer. With staff in more than 60 countries, we have become the world's leading risk carrier and financial services provider. Munich Re has been handling global risks for 125 years. A company with so much knowledge has a certain responsibility to share that knowledge. And with the establishment of the Munich Re Foundation in its anniversary year, the company is fulfilling that very responsibility. Following the



Foundation's motto "From Knowledge to Action", we want to use our knowledge to help people at risk – and that includes people in areas in which there is no particular economic interest. This is especially the case with poor people in developing countries.

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Reducing poverty is certainly one of the most challenging tasks in the world today. As one of the so-called Millennium Development Goals, the United Nations has pledged to halve the number of people living on less than one dollar a day by 2015. Progress has been made in economic development, for example in Southeast Asia. But this is not enough, since current studies come to the conclusion that many of the Millennium Development Goals will most likely not be achieved, especially in Africa.

Poverty is a multi-dimensional problem linked to other major challenges of our century: let me just point out a few of them.

Where and how will how many people live in the future?

We are now used to reading that the world's population will most likely reach 9 billion in the year 2050. If we look at population development in the past, we may be astonished to see that it took the entire period of history up to 1800 to reach a global population of one billion people. After that, it took only 200 years for the population to increase by a factor of six. And what is more, nearly half of these people live in urban areas today. So it is not just the absolute figure but also the speed of this tremendous increase which is an extreme problem for local and especially urban authorities that have to adapt their infrastructure to the increasing population. Air pollution and unsafe drinking water seriously affect human health, and again the people mostly affected are those who have to live in habitats without appropriate infrastructure. Moreover, many megacities are located in geographical areas with a high risk of natural disasters.

This leads me to the second aspect: As a reinsurance company, Munich Re is certainly very concerned about developments in the environment, one big issue being climate change and its effects, especially major



weather-related natural disasters. The United Nations University Institute for Environment and Human Safety warned that in 2010, we must expect there to be 50 million environmental refugees. This year, we have seen the largest number of hurricanes ever recorded in one single year.

The absence of disaster prevention schemes and a lack of awareness are key factors underlying the many catastrophic effects we have seen – not only after the tsunami at the end of 2004.

The vulnerability of poor people is extremely high. The knowledge and resources required to take the necessary precautionary measures are hardly available.

The statistics show that it is mostly the poor who are affected by natural disasters including earthquakes. Again Africa is an unfortunate role model in that respect. Despite being subject to the lowest number of severe natural disasters compared to other regions, Africa suffers the highest number of casualties and people affected in proportion to population in the world. But as we have also seen recently, in the course of Hurricane Katrina, even in the richest country in the world, it is mostly the poor that are affected by these severe events. Interestingly, there was a lot of media coverage of this aspect simply because it became manifest in the United States. But poor people have always suffered in the past and how much attention has that received?

However serious the problem of floods and too much water may be in many regions of the world, just the opposite is an even greater problem. The lack of safe drinking water nowadays affects over one billion people, and about 2.3 billion have no access to appropriate sanitation facilities.

Since many of you are development experts, there is no need for me to go into any more detail about the consequences related to bad health and economic development. I would just like to draw your attention to one aspect and that is education. Professor Wilderer, winner of the Stockholm Water Prize in 2003 – the so-called Nobel prize for water-related issues – said that solving the problem of sanitation does not only involve building

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sanitation facilities for a city the size of Munich every day until 2015 – we also need experts to build, operate and maintain these facilities – which is even more of a problem. This one example alone illustrates that financial resources are not the only bottleneck but also intellectual capacity.

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Let me come back to Munich Re's core business, which is assessing risks and providing sophisticated insurance and financial products. Studies performed by the United Nations show the enormous need especially for the basic financial products that have become normal for people in industrialised countries such as savings accounts, credits or insurances. According to the United Nations Capital Development Fund, up to 80% of the 5.1 billion people in developing countries derive their incomes from the informal sector. Of the 4 billion people who live on less than \$1,400 a year, only a fraction have access to basic financial services.

So-called microinsurances complement microcredits and microsavings and can provide a solution for poor people to better cope with their main risk, which is in most cases related to the severe sickness or even death of the person providing the family's income. Access to insurance enables people to look after their farms or concentrate more on developing their businesses while mitigating other risks to life, health, the ability to work or property.

The Year of Microcredit 2005 – which should really be called the year of microfinance, which also includes microinsurance – is the United Nations' call to build inclusive financial sectors and strengthen the powerful, but often untapped, entrepreneurial spirit existing in impoverished communities.

What are the challenges of microinsurance? There are many. Premium income is low and administration costs are relatively high – these are the main reasons why commercial insurers are still reluctant or have not taken more interest in this market. Reaching the people directly is difficult, however. And the benefit of insurance as a means of saving is often misinterpreted since people do not understand why the premium is not



reimbursed if no claims are made. Organisational problems need to be solved like how to build up the infrastructure and how to reach the people, especially the illiterate. How can the cost of handling such a large number of small contracts be reduced? Legislation to facilitate the insurance of poor people and to protect them against fraud is also an important issue. In the light of the challenges lying ahead, we strongly believe that only by pulling together, will we – insurance industry, local NGOs, development agencies as well as regulatory authorities – be able to provide appropriate solutions that meet the needs of the poor and help them to secure their livelihoods. Munich Re has therefore taken an important step in identifying microinsurance as a strategic topic for its innovation teams.

I encourage you to come up not only with studies but also with solutions. The Munich Re Foundation will be a reliable partner to facilitate that process.

I would like to thank very much all of you for your efforts and for the time you have taken to prepare this conference with its numerous sessions and for sharing your experiences. I do wish you a successful conference and I sincerely hope that you will find solutions to the problems lying ahead and that together we can turn these solutions into action step by step.

**Thank you for your attention.**

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