



What is Microinsurance?

*Making Insurance Work for the Poor
Current Practices and Lessons Learnt*

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The social dimension of finance



First, what is it not?



- Savings, credit, risk prevention...
- Small insurance companies
- Just another product offered by microfinance institutions

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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*



Microinsurance defined (cont.)



- Involves a risk-pooling element
- One of several risk-management tools available to low-income households
- Could cover a variety of different risks (i.e., illness, death, property loss)...
- Delivered through a variety of different channels



Who is this?



- Janus, Roman God of Gates and Doors
- Also the God of Beginnings
- From whose name we get “January”
- Depicted with two faces

The Two Faces of Microinsurance

A new market
for the private
sector



Social security to
workers in the
informal economy



A new market for the private sector

“The private sector, in its desire to ... gain market coverage, will invent new systems depending on the nature of the market. That is precisely what we need. We need the capacity to bring more people into the market system.”

CK Prahalad, Fortune at the Bottom of the Pyramid



Twelve principles of innovation for BOP markets

1. New understanding of price-performance relationship
2. Combine advanced technologies with existing infrastructure
3. Scale of operation: basis for returns on investment is volume
4. Sustainable development: Eco-friendly
5. Requires different functionality
6. Process innovation





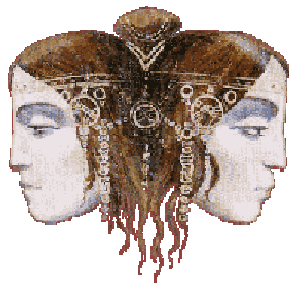
Twelve principles of innovation for BOP markets (cont.)

7. Deskillling work
8. Significant investments in educating customers
9. Designing for hostile infrastructure
10. User-friendly interfaces
11. Distribution: Accessing the customer
12. Challenge the conventional wisdom in delivery of products and services



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Social security to workers in the informal economy



Government policies and programmes to reduce poverty and vulnerability by diminishing people's exposure to risks and enhancing their capacity to protect themselves, such as...

- a) Unemployment and disability benefits
- b) Universal health care
- c) Maternity benefits
- d) Old age pension
- e) Protection for children and the disabled



Challenges to the provision of social security to informal workers



- No mechanisms to systematically reach informal workers...workers are unorganized
- No employer contribution
- The poor may not be able to afford the full cost
- Insufficient government resources to cover recurring expenses
- Inadequate infrastructure to provide appropriate services (e.g., health care)

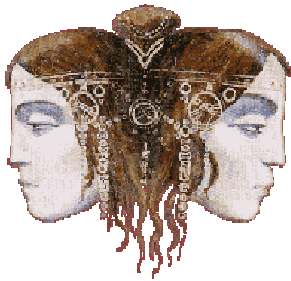




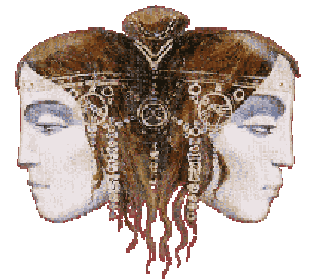
Microinsurance as social security...

- Fills the gap to provide coverage to the excluded
- Responds to an urgent need in the absence of formal social security
- Creates delivery mechanisms to extend government programmes (and subsidies) to the informal economy
- Strives to integrate the informal and the formal

The social dimension of finance



Either way, the intention is to reduce the vulnerability of the working poor by enticing the **public** (social security) and the **private sector** (new market)—or both—to do what neither has been particularly effective in doing: providing insurance to the poor...
microinsurance!



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Top Ten List:

What makes insurance *micro*?

1. Relevant to the risks of low-income households
2. As inclusive as possible
3. Affordable premiums payable in small amounts
4. Small benefit amounts
5. Clearly defined and simple rules and restrictions
6. Easily accessible claims documentation requirements
7. Fast payment of benefits
8. Client education
9. Strategies to overcome the wariness of customers
10. Microinsurance attitude: help people to manage risks

