

Microinsurance Conference
Making insurance work for the poor
18 – 20 October 2005, Schloss Hohenkammer

Microinsurance – a reinsurer's view

Christian Lahnstein, Munich Re
Principles of Risk, Liability & Insurance

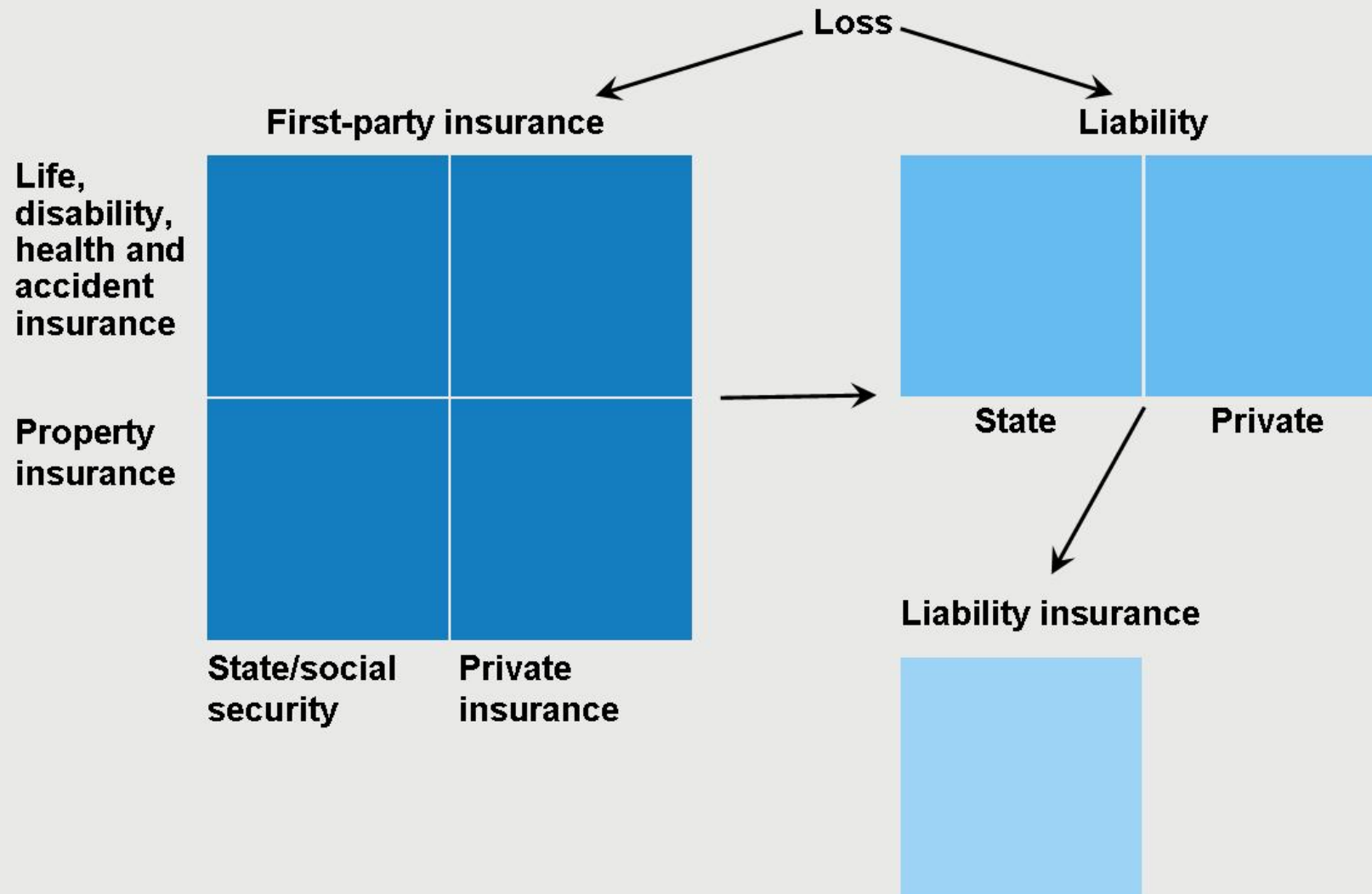


Münchener Rück
Munich Re Group



1. Just for the poor? Informal economy and the hidden wealth of developing countries
2. Microinsurance and the diversity of market structures
3. Insurance of the person: why modern social security did not succeed in developing countries, and the absence of private insurance
4. Property insurance: absence of both, social security and private insurance
5. The role of liability insurance

Microinsurance and market structures



Microinsurance and market structures

Accidents and diseases, property damage, loss of crops and animals or financial losses may be covered by insurance of the person - life, disability, health, workers' compensation -, by property and liability insurance. It is essential to look at market structures, which vary from country to country. These structures are characterised by varying forms of interaction between private and state prevention, modern social security and traditional solidarity schemes, in case of disasters by ad hoc government aid programmes and compensation funds, and finally by private insurance. There are differences from one country to another, and market structures also change over time, often following spectacular losses that prompt political pressure to take action.

Only a fraction of the population covered by social security systems has so far taken out any private life, disability, health or accident insurance, and these are mainly in the middle- and higher-income bracket. But even social security systems cover only about 20% of the world's population. During the 20th century, governments and international organisations endeavoured to introduce obligatory workers' compensation, pension, disability and health insurances following the Bismarck Model, i.e. employment-contract-based systems, and the comprehensive Beveridge Model. However, these models were ultimately only a limited success. In rural areas, there are often no social security institutions at all. But also in the megacities of developing countries, even today large sections of the population continue to be excluded from such insurance systems, despite the presence of the authorities, infrastructure and hospitals. Social security has become the privilege of the wage-earners in the formal sector.

Why modern social security did not succeed in developing countries?

Social security has two basic aims:

- **to maintain social normality, to prevent or reduce the drop to subnormality**
- **poor relief: to help those living in a state of subnormality and to prevent misery**

This needs a broad range of normality on the basis of which social deficits can be identified and to which definitions of need, the appropriate level of benefits etc. can be related. This causes difficulties where living conditions are extremely divergent, even in the USA and more in developing countries where the scale of social economic conditions ranges from the rural subsistence economy to the living conditions of an urban society with international standards.

Whereas in the life, health and accident insurance sector there have been at least systematic attempts to establish comprehensive social security systems, less effort has been made in property insurance. Property insurance is consequently a traditional domain of private insurance. Catastrophes are even more heavily underinsured with respect to property insurance than with respect to life, health and accident insurance: on the one hand there is no basic cover and, on the other, specific risks like earthquake or terrorism are often excluded in private property insurance. Obligatory insurances to create the necessary balance in exposed risks like earthquake insurance in Istanbul are the exception rather than the rule. In addition, competition law rules impede monopolistic and pool solutions, and there are adverse trends in regulation.

The role of liability insurance

Liability insurance protects victims of all social levels, or should do so.

Industrial accidents: Indian legislators responded to the Bhopal disaster by making public liability insurance compulsory for hazardous industrial plants. This was because the claims for compensation by the victims of industrial accidents should be met, particularly where the victims are poorly protected by direct, “first-party” insurance. This was also the intention of the Seveso Directives on prevention, compensation and liability insurance for hazardous industrial plants.

Motor liability insurance as a contributor to urban development: In most developing countries, road accidents are covered by optional or compulsory motor liability insurance. This sometimes underlies obligatory motor accident insurance, as in Brazil, Chile or Colombia, mostly combined with additional obligatory liability and accident insurance for public transport and the transportation of hazardous substances.

The role of liability insurance

In practice, all such insurance models combined only provide a very basic cover, a small part of the real costs of road accidents. This is one of the main tasks of private insurers over the next decades. It will be a laborious process, but what applies in theory in most countries must be put into practice, i.e. the cost of road traffic accidents must be borne by motorists and their liability insurers. However, the insurance density varies sharply from country to country. The sums insured are often low. Where they are higher, they are not exhausted in the event of serious bodily injury, or are used only selectively. Motor liability insurers often hide behind the shortcomings of justice systems that prevent the law from being enforced efficiently.

The role of liability insurance

Sometimes, there is no provision for subrogation by state health insurance institutions, or else such claims are not enforced in practice or are inefficient or unenforceable. Hospital emergency units may only accept accident victims who can prove they are covered under a state or private health insurance scheme. Another problem is that, due to intense competition and the lack of political influence, motor insurers are often unable to implement rates that are appropriate to the risk. They also often fail to play the role that could be expected of them with regard to improving road accident prevention. What often appears to be impossible to achieve nationwide should at least be implemented in the cities.