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Small means, massive impact

Thanks to Muhammad Yunus and his Grameen Bank, microcredit is now part of the standard repertoire of global development efforts. Microinsurance is a useful complement. It protects poor peoples' livelihoods from the financial consequences of relatives falling ill or even dying. For the past 10 years, experts have been looking into how insurance schemes can reach people even in countries with under-developed financial systems.

[By Dirk Reinhard]

In 2002, the Consultative Group to Assist the Poor (CGAP), a body with close ties to the World Bank, launched its Working Group on Microinsurance, which was renamed Microinsurance Network in 2008. The Network's goal is to increase knowledge of microinsurance and to make it easily accessible. Important impulses have also come from the ILO Microinsurance Facility and the Microinsurance Centre, an independent initiative in the USA.

Until now, only a few donor organisations have given significant support to microinsurance. The Bill & Melinda Gates Foundation is at the vanguard of the movement since 2007. Its publication "Lessons and recommendations for donors supporting microinsurance" (Chandani, 2008) spells out important principles and explains basic issues donor organisations need to pay attention to when supporting microinsurance. For instance, they should focus first and foremost on the needs and livelihoods of potential clients.

A few years ago, the International Association of Insurance Supervisors (IAIS) and the Microinsurance Network established a common working group. In 2008, it assessed how different regulations and administrative procedures affect the spread of microinsurance. This study is based on the examples of Colombia, India, the Philippines, South Africa and Uganda (Bester/Chamberlain/Hougaard, 2009). It makes clear what kind of legal framework is required to support the development of microinsurance. That a government can positively influence the propagation of microinsurance with a proactive approach to regulation has been proven. Legal uncertainty, on the other hand, has a negative impact.

Late last year, several of these actors, in cooperation with Germany's Federal Ministry for Economic Cooperation and Development, launched the initiative Access to Insurance. The initiative's secretariat is run by the GTZ.

Practical tips

Following the Good and Bad Practices -project, the Microinsurance Network published 25 case studies of existing microinsurance schemes (CGAP Working Group on Microinsurance, 2004-2006). This was the first ever attempt to study the factors that support the introduction of microinsurance, and which ones impede it.

The compendium "Protecting the poor" (Churchill, 2006) summarises the most important insights and offers the most comprehensive overview of the topic to date. The book is a free download from the internet and is available in English, French, Spanish and Portuguese. It clarifies various institutional options, explains the roles of the most important players and considers what is necessary for a sustainable and efficient administration of microinsurance.

Indicators are necessary to assess the performance of microinsurance. Such metrics were developed in 2006 by a joint project of the Belgian Raiffeisen foundation (BRS) and the Luxembourg-based NGO ADA. After comprehensive testing, the taskforce defined nine principles and 10 indicators that were published in "Performance indicators for microinsurance" (Garand/Wipf, 2008). The book explains how to calculate and use these indicators. It has become an important tool for microinsurance practitioners. Both BRS and ADA also offer seminars on the

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topic.

So far, one of the biggest impediments to the expansion of microinsurance has been the administration costs, which tend to be quite high – in contrast to the very small premiums clients can afford. Thanks to information technology, microinsurance providers can significantly cut costs. Indeed, providers of health insurance are increasingly using smart cards to store relevant information. In South Africa, moreover, providers are working on using mobile phones to collect insurance payments.

Studies show, however, that technology is not always made best use of (Berende/Gerelle, 2008). Some micro-insurers develop their own solutions from scratch, although the same or nearly equivalent systems already exist somewhere else. The ILO study “Technology for microinsurance” uses case studies to describe the efficient use of technology in practice. It also highlights important factors influencing the cost-benefit analysis.

Huge potential

What exactly is the potential market for microinsurance, and how many people already have access? The study “The landscape of microinsurance in the world’s poorest 100 countries” (Roth/McCord/Liber, 2007) brought answers to both questions, showing that, in 2007, less than 80 million people (less than three percent of the population of those countries) used insurance. About three-quarters of the insured were living in China and India. Life and health insurance were the most commonly used insurance products.

Microinsurance is also gaining attention in the context of climate change because agricultural insurance can make a difference in poor peoples lives. However, this instrument is extremely complex, which explains why there are only very few well-designed schemes. The book “Agricultural microinsurance: global practices and prospects” (Roth/McCord, 2008) is an introduction to the topic. It describes case studies and lists the pivotal factors determining the success of this instrument.

Another interesting publication is “The landscape of microinsurance in Africa” -(Matul/McCord/Phily/Harms, 2009), an update of a 2007 data collection. Some forms of informal insurance have existed in Africa for decades, for instance the Friendly Societies in South Africa that help to cover funeral costs. Following the Bamako Initiative that was geared to improving healthcare systems, many cooperative healthcare insurance organisations were established at the end of the 1980s. In the mid-90s, commercial insurers – particularly in South Africa – started to discover that market.

In practice, however, low-cost life insurance linked to microloans is by far the most common insurance product in Africa. It helps MFIs to shield themselves from losses when a borrower dies. Health care, agriculture and property insurance represent only a minute part of the signed contracts. In most of the continent, microinsurance is hardly available, though there is a real need. At the end of 2008, only 14 million poor people were insured. While this represents an increase of 80 % since 2005, it still means that only 3.5 % of the potential 400 million clients were covered.

The need is enormous and the growth rate high. But access to insurance products still remains very limited. In the long run, microinsurance will not be successful without active engagement in particular of the commercial insurance industry, as elaborated in “Visions of the future of microinsurance” (McCord, 2008). Only if significantly more people can be reached over the long term will costs drop enough, and that needs to happen to make sure well-designed insurance policies can sustainably protect poor people from the consequences of life’s major risks.

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Roth, J., M.J. McCord and D. Liber, 2007: The landscape of microinsurance in the world's poorest 100 countries. The MicroInsurance Centre.

Roth, J. and M.J. McCord, 2008: Agricultural microinsurance: global practices and prospects. The MicroInsurance Centre

»» www.microinsurancecompendium.org

Relevant links:

Microinsurance Network:

You can download „Good and Bad Practices case studies“, CGAP.

»» www.microinsurancenet.org

Working Group on Microinsurance, 2004-2006:

»» <http://www.microinsurancenet.org/networkpublication41.php>

MicroInsurance Centre:

»» www.microinsurancecentre.org

ILO Microinsurance Innovation Facility:

»» www.ilo.org/microinsurance

International Microinsurance Conference:

Includes free downloads of results of past conferences.

»» www.microinsuranceconference.org

Access to Insurance Initiative:

»» www.access-to-insurance.org

Micro-agro insurance

A comprehensive overview of on micro-agro insurance.

»» www.munichre-foundation.org/.../MIC_Agriculture_Bibliography.htm

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