



# Micro Insurance


Business or Charity?

Manjula de Silva



# Micro Insurance is Insurance for the Poor!

- ▶ Why is it important to offer micro insurance?
  - ▶ Because the poor people need insurance more than the rich.
- ▶ Is the provision of micro insurance an act of charity or can it be done in a commercially viable manner?
  - ▶ If it is done as an act of charity, it will not be sustainable in the long run.
  - ▶ It has to be done in a commercially viable manner creating value for the Insurer, Intermediary and Customer, if it is to be sustainable.
- ▶ Are there long-term benefits to be gained by entering the micro insurance market?
  - ▶ Yes, since today's micro customers may be your mainstream customers tomorrow!



“If we stop thinking of the poor as victims or as a burden and start recognizing them as resilient and creative entrepreneurs and value-conscious consumers, a whole new world of opportunity will open up”

C.K. Prahalad

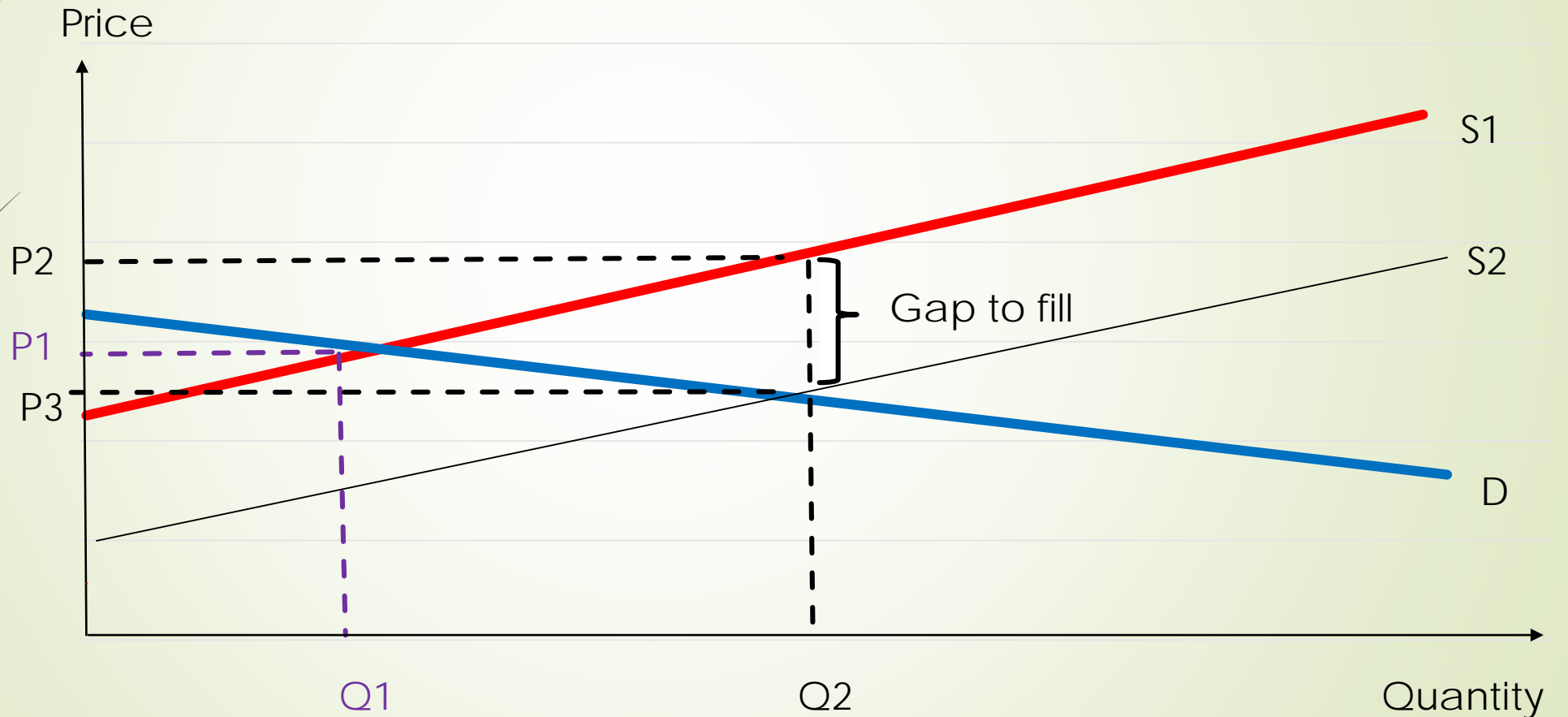
(The Fortune at the Bottom of the Pyramid)



# Challenges faced in promoting Micro Insurance as a business

- ▶ Pricing – Affordability vs Commercial Viability
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# How to fill gap between affordable price and commercially viable price






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- ▶ Premium Subsidy from Government
- ▶ Backing by a Reinsurer with the capacity to support a lower price due to larger, more diversified pool of risks



# Challenges faced in promoting Micro Insurance

- Pricing – Affordability vs Commercial Viability
  - Distribution – Channels to reach out to a large number of customers (micro enterprises and low income households) in a cost effective manner
  - Keeping administration costs low through aggregation and technology
  - Investing in awareness creation
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# Distribution Efficiency

- Critical Success Factor
- Need to reach a large number of customers at a very low cost
- Can the traditional channels do this?
- What is the experience in Sri Lanka?
  - 76% of micro enterprises have not taken any insurance protection.
  - 65% of households of employees working in the SME sector do not use insurance of any kind.
  - Over 70% of insurance bought is through insurance agents.

Source : IFC Market Study of Insurance Demand in MSMEs, 2012





# How to achieve higher penetration

- ▶ Alternate channels need to be used.
  - ▶ Micro Finance Institutions (MFIs)
  - ▶ Internet and Mobile phone networks
  - ▶ Community Organizations – Making community groups responsible for collection of premium, claims management and mobilization of new members
  - ▶ Regularize by appointing them as Institutional Agents under RII Act
- ▶ Can the traditional channels play a role?
  - ▶ Yes, they can work with community based organizations.
  - ▶ May have to settle for a lower rate of remuneration as the acquisition costs have to be shared with the community organizations.



# Awareness Creation

- ▶ Three main reasons for not buying insurance by MSMEs
  - ▶ High Cost of Insurance (39%)
  - ▶ Perceived non-necessity of Insurance (33%)
  - ▶ Lack of trust in Insurance Companies or their Insurance Schemes (25%)

Source : IFC Market Study of Insurance Demand in MSMEs, 2012

- ▶ In order to address the 2<sup>nd</sup> and 3<sup>rd</sup> issues, it is important to create awareness and enhance understanding on Insurance among target groups.
- ▶ Mediums to be used
  - ▶ Traditional media
  - ▶ Social Media
  - ▶ Outdoor promotions and face to face interactions at community level
- ▶ Can this be done at national level? (IBSL/IASL/Reinsurers/NGOs)



“What is needed is a better approach to help the poor, an approach that involves partnering with them to innovate and achieve sustainable win-win scenarios where the poor are actively engaged and, at the same time, the companies providing products and services to them are profitable.”

C.K. Prahalad

(The Fortune at the Bottom of the Pyramid)



Thank You.