An Introduction to Microinsurance

Microinsurance Conference

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International Labour Organization

What is the ILO?

- Specialized UN agency created in 1919
- Promotes social justice and human and labour rights
- Forum for governments to engage with employers and workers organizations (tripartite structure)
- Formulates international labour standards (Conventions and Recommendations)
- Provides assistance to member states and social partners in implementing standards

ILO's interest in microinsurance

The ILO is concerned about:

- The promotion of decent work: more and better jobs
- The availability of social protection for workers and their families
- The impact of financial polices on social justice, i.e. toward more inclusive financial markets

The ILO: A microinsurance microcosm

In the ILO, and elsewhere, microinsurance can be seen from two complementary perspectives…

1) A way of extending social protection to excluded populations
2) A new market for the insurance industry

The microinsurance continuum

Social Protection

• Benefits are a human right (e.g. health, pension)

• Contains a redistributive element

New Market

• 4 billion persons living on less than $2/day

• Product and distribution innovations can make the poor a viable market for insurers

What is microinsurance?

The social dimension of finance

Microinsurance is…

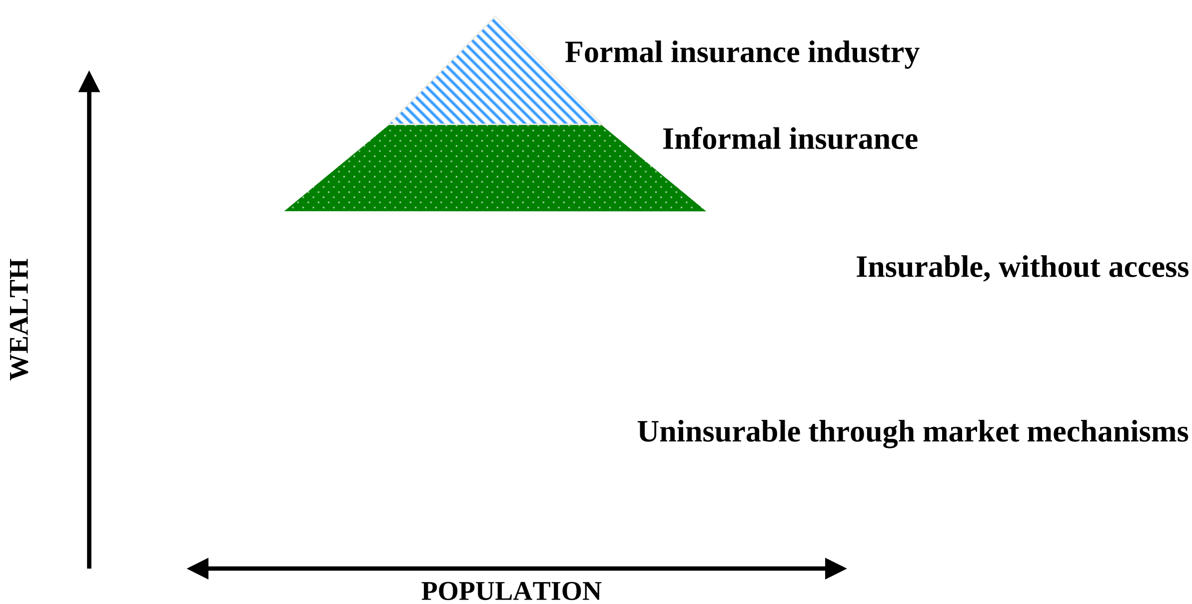
"…the protection of **low-income people** against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved"

~ *Draft Donor Guidelines, CGAP Working Group (2003)*

"…not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e. **low-income persons**."

~ *IAIS Issues Paper (2007)*

Who is insured by whom?



The social dimension of finance

Characteristics of the insurable poor

- Vulnerable to risks
- Often work in the informal economy
- Irregular cash flows
- Manage risks through myriad of informal means, including social networks
- Limited familiarity with formal insurance
- May not trust insurance companies

To what risks and economic stresses are low-income persons vulnerable?

The social dimension of finance

The social dimension of finance

What risks are they concerned about?

Country	Priority risk
Uganda	Illness, death, disability, property loss, risk of loan
Malawi	Death, food insecurity, illness, education
Philippines	Death, old age, illness
Viet Nam	Illness, natural disaster, accidents, livestock disease
Indonesia	Illness, children’s education, poor harvest
Lao P.D.R.	Illness, livestock disease, death
Georgia	Illness, business losses, theft, death, retirement income
Ukraine	Illness, disability, theft
Bolivia	Illness, death, property loss (including crop loss in rural areas)

Adapted from Cohen and Sebstad (2006)

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How is insurance delivered to the poor?

Structure of microinsurance schemes

1. Partnerships between insurers and distribution agents like cooperatives and MFIs
2. Self-insuring MFIs or cooperatives that assume the risk of offering insurance to their clients
3. Informal mutual assistance schemes
4. Healthcare providers offering health care schemes
5. Regulated insurance companies that serve the low-income market directly or through micro-agents
6. Insurance companies that target the low-income market through retailers
7. Community-based schemes that pool funds, carry risk and manage a relationship with a healthcare provider
8. Formalization of informal schemes, i.e., insurance companies created by credit union/cooperative federations

Most common types of microinsurance products

Degree of Difficulty

- Credit life
- Term life/Personal accident
- Savings life
- Property insurance
- Endowment life
- Health insurance
- Agriculture

Degree of Success

Key differences between micro and conventional insurance

Conventional Insurance	Microinsurance
Premium collected mostly from deductions in bank account	Premium often collected in cash or associated with another financial transaction
Regular premium payments	Premiums should be designed to accommodate customers' irregular cash flows
Agents and brokers are primarily responsible for sales	Agents may manage the entire customer relationship, perhaps including premium collection
Market is largely familiar with insurance	Market is largely unfamiliar with insurance

Continued…

Key differences between micro and conventional insurance (cont.)

Conventional Insurance	Microinsurance
Screening requirements may include a medical examination	If there are any screening requirements, they would be limited to a declaration of good health
Limited eligibility with standard exclusions	Broadly inclusive, with few if any exclusions
Sold by licensed intermediaries	Often sold by unlicensed intermediaries
Large sums insured	Small sums insured
Priced based on age/specific risk	Community or group pricing
Complex policy document	Simple, easy to understand policy document

Ten Factors for Success in Microinsurance

1. Understand the market's needs
2. Involve the market in designing simple products
3. Educate the market
4. Earn the trust of the market
5. Maximize efficiencies
6. Leverage existing relationships
7. Reach huge numbers of people, and keep them
8. Encourage claims
9. Create institution space to form a microinsurance culture
10. Adopt a long-term perspective

Concluding Thought

The challenge for all of these stakeholders is to…

Create a culture of insurance among low-income persons

Thank you!

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