

# Microinsurance Products and Delivery Channels

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*Cartagena, Colombia*

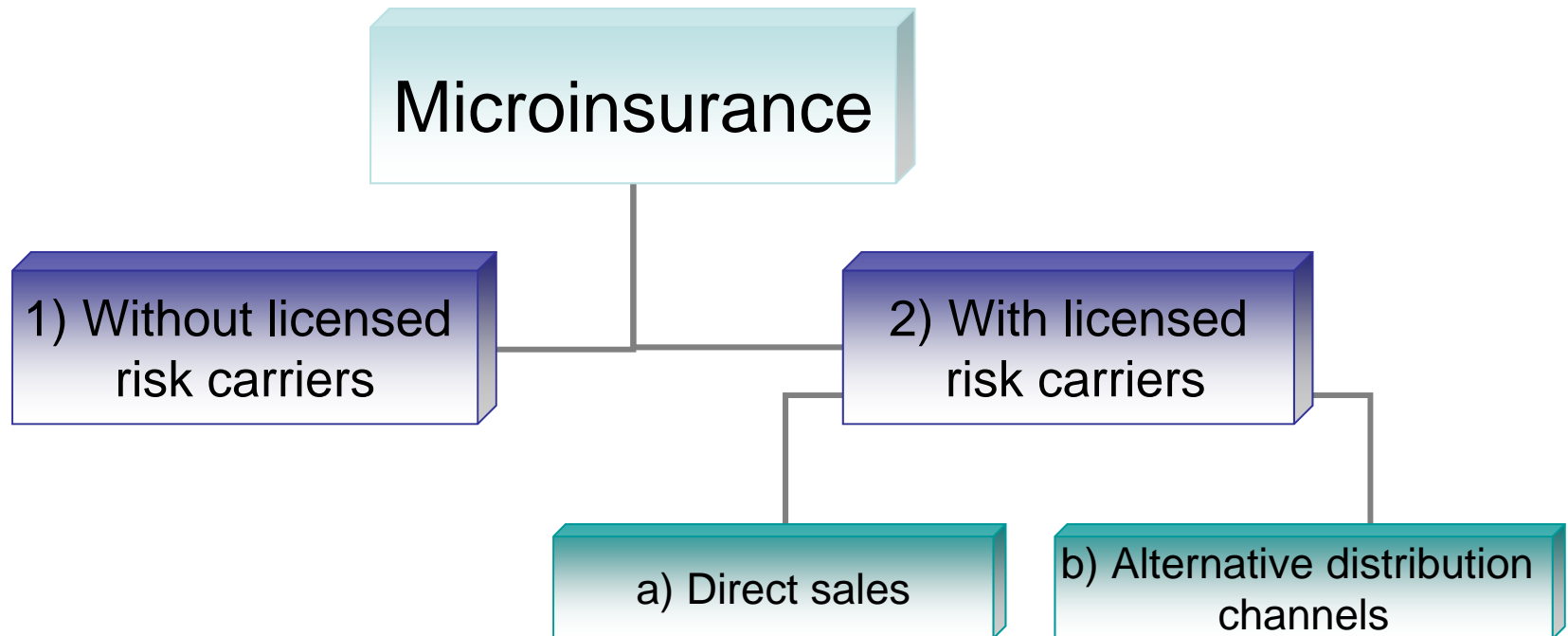
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# Overview of Presentation

- Describe how insurance is delivered to the low-income market
- Provide an overview of microinsurance products

# Delivery Channels

# How is insurance delivered to the poor?



# 1. Unlicensed microinsurance channels

- Informal mutual assistance schemes, such as burial or friendly societies
- Microfinance institutions providing coverage to members through self-insurance
- NGO microinsurance schemes
- Healthcare providers offering health care schemes

## Delivery channels



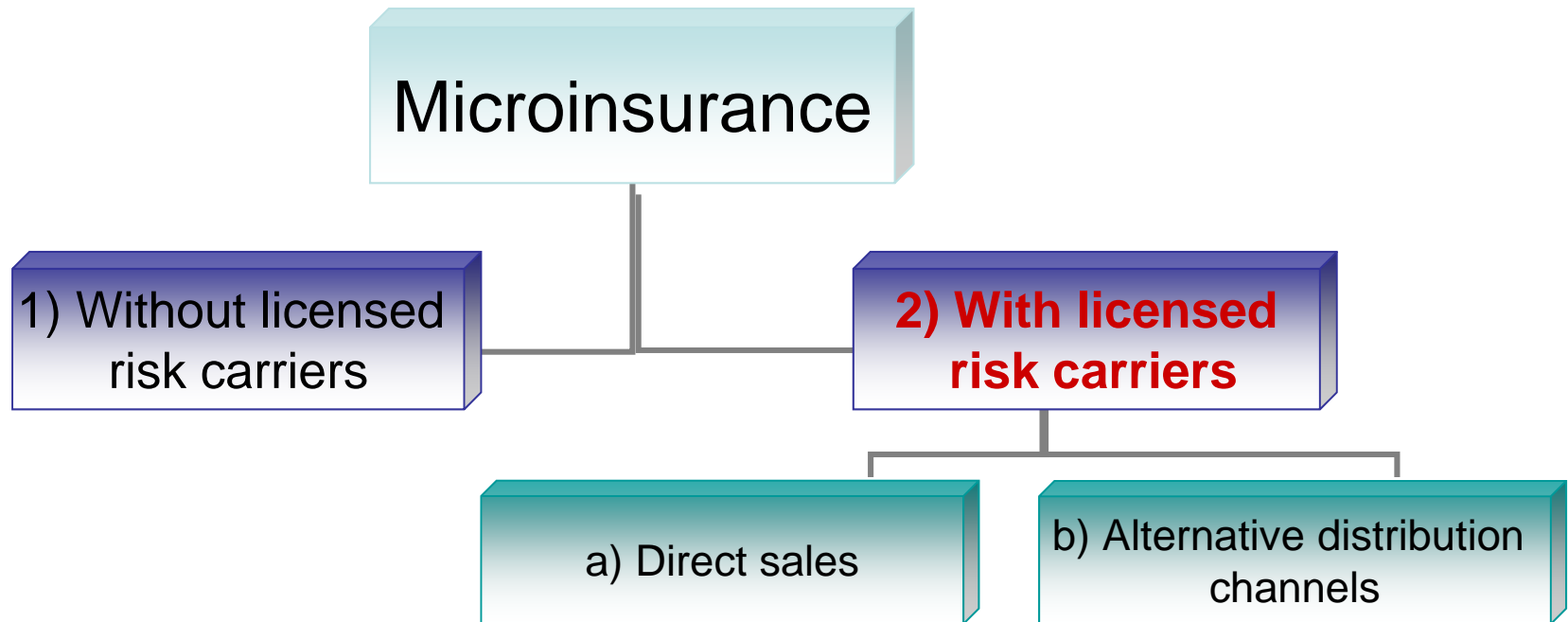
Community-based schemes (e.g. mutuelles santé) that pool funds, carry risk and manage a relationship with a healthcare provider

# 1. Unlicensed microinsurance channels

A large volume of informal insurance coverage suggests:

- Regulatory barriers inhibiting insurers from going down market
- Market imperfections: Formal products do not meet the needs of the low-income market
- Lessons for licensed insurers who interested in serving this market

# How is insurance delivered to the poor?







2a) Regulated insurance companies that serve the low-income market directly

- Delta Life, Bangladesh
- Tata-AIG, India

## 2b) Alternative distribution channels for licensed insurers

Partnerships between insurers and distribution agents like cooperatives and MFIs

- AIG and Ugandan MFIs
- Zurich Venezuela and BanGente
- Equidad and MFIs/Coops (Colombia)





Insurance companies that target the low-income market through retailers

- Hollard, South Africa
- Colseguros and Carrefour, Colombia
- Max New York Life, India



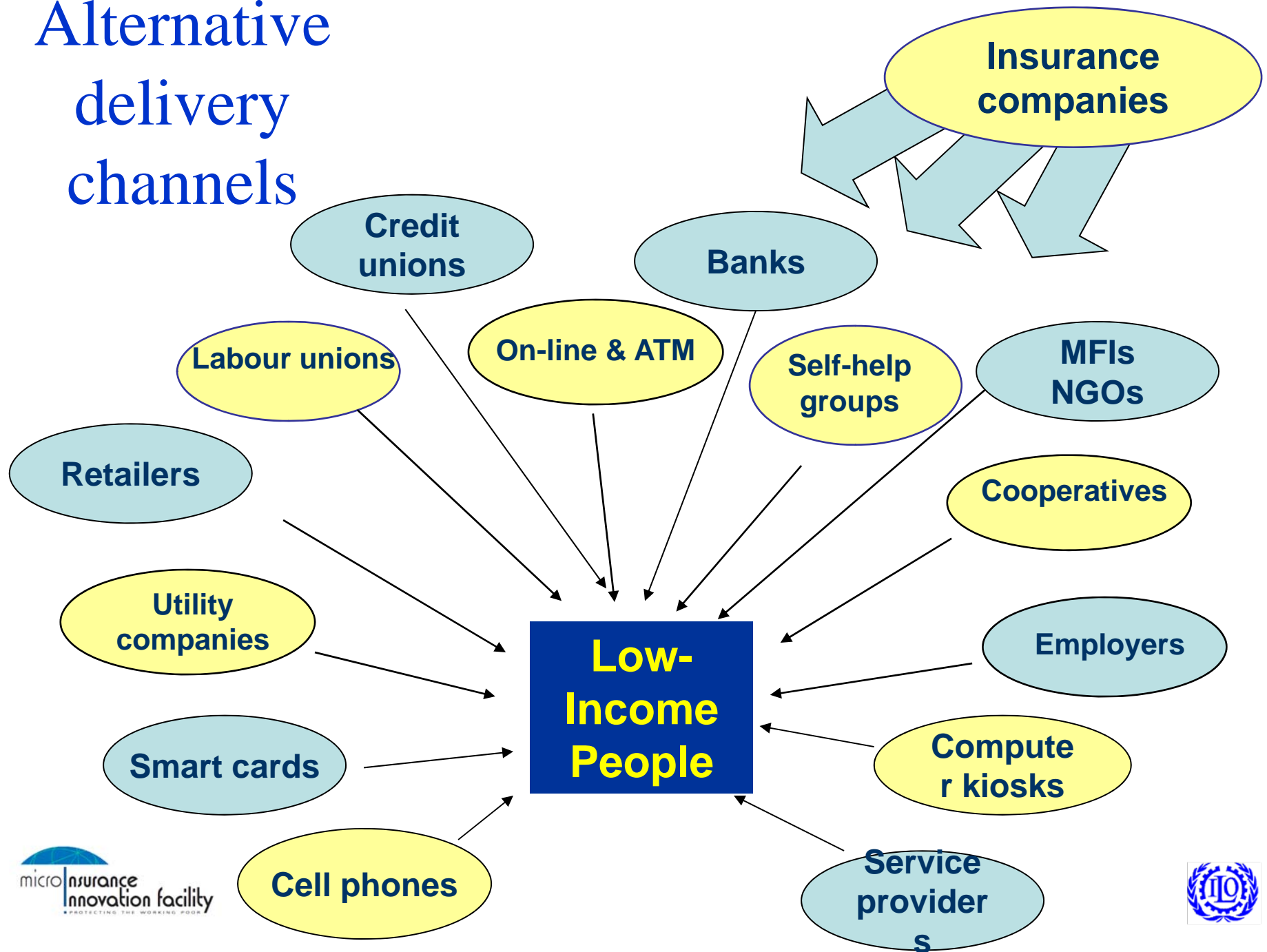


## Partnerships with utility companies or service providers

- La Positiva (Peru) and water associations
- MAPFRE Seguros and CODENSA, Colombia
- Philam Life, and cell phones (Philippines)



# Alternative delivery channels

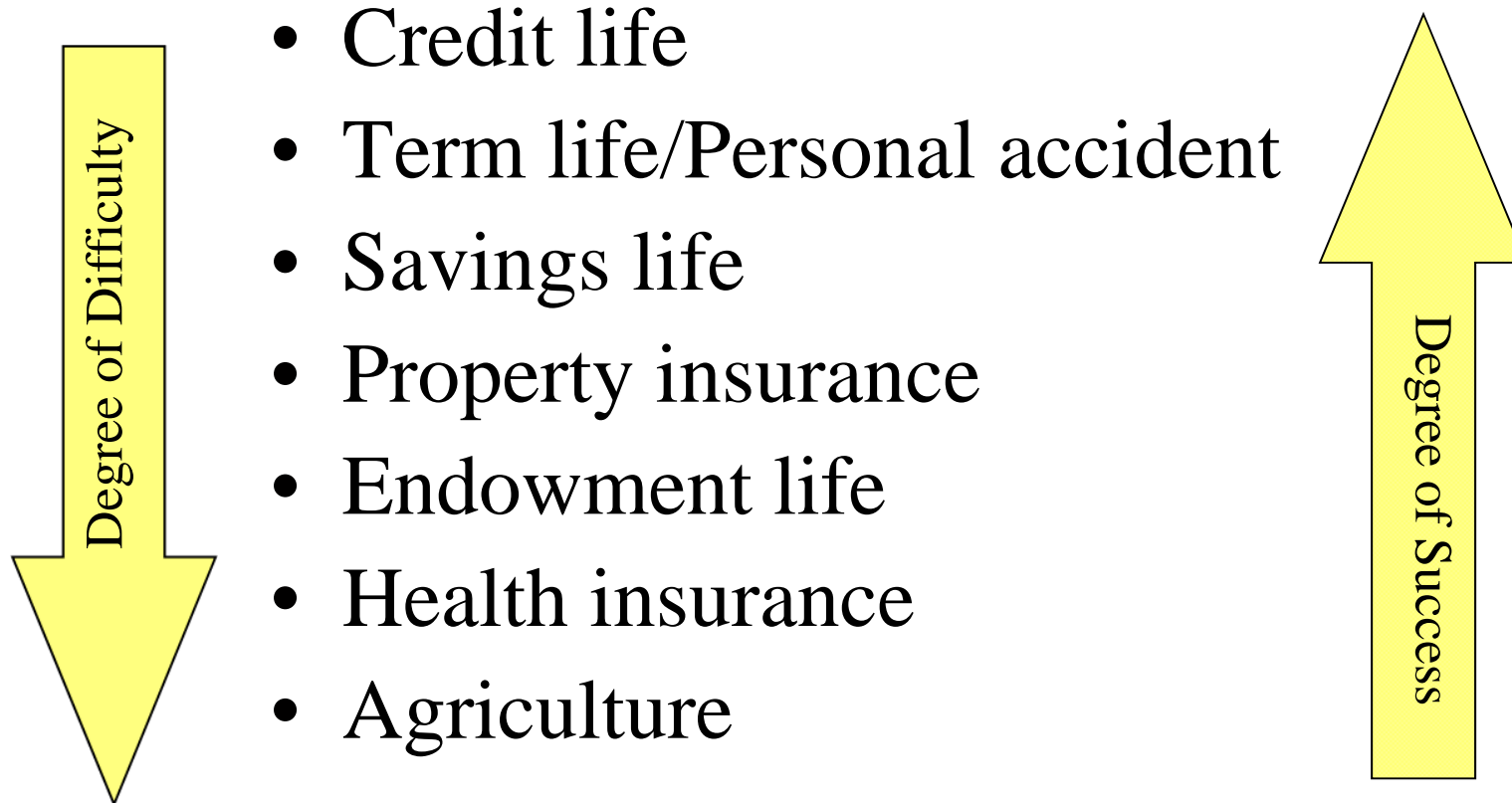


# Four key characteristics of effective microinsurance delivery channels

- 1) Engages in financial transactions with the low-income market
- 2) Serves large volumes of low-income people
- 3) Has the trust of the poor
- 4) Represents the interests of its clients/members

# Products

## Most common types of microinsurance products





# Credit-linked insurance

- Most common and “successful”
- Primarily benefits the lender and insurer
- Often mandatory: Low claims rate
- Typically provides limited value to the poor
- Starting point for many microinsurers

# Savings-linked insurance

- Provides coverage
- Simple to manage
- Low transaction costs

## **COLUMNA, Guatemala**

- Life savings pays beneficiary a multiple of the balance in the account at the time of death
- Size of benefit varies based on client's age
- Premiums paid by reducing the interest rate on savings

## **Zurich Bolivia and BancoSol**

- Term life insurance, hospitalization
- Paid through monthly deductions from savings account

# Accumulating-value insurance

- Combines savings and insurance
- Usually long-term products
- Potentially powerful, but not generally providing sufficient value to clients

## **Delta Life, Bangladesh**

- Commercial company
- Endowment product
- Provides long-term savings (5 to 15 years) with insurance if the depositor dies before the end of the term
- High lapse rate, high commissions

## **Max Vijay, India**

- Business unit of Max NY Life
- Developed unlapsable policy
- Initial premium of Rs 1000
- Additional savings top ups available
- Benefit a multiple of accumulated value

# Property insurance

- Often linked to a loan
- May not help with replacement, just repayment
- Most common examples are for livestock, huts

## Hollard, South Africa

- Exception to typical property insurance
- Experimenting with voluntary property cover
- Households and contents
- Pre-underwritten

# Health insurance

- Product for which there is the greatest demand
- Often coverage limited to hospitalization, or even a daily payment not linked to health care costs
- Straddles the gray area between social protection and commercial insurance
- Difficult to offer because:
  - Additional player involved (health care provider)
  - Prone to moral hazard, fraud, adverse selection and over-usage problems
  - Skewed incentives
  - On a commercial basis, can only be made affordable to the poor by severely limiting benefits

# Composite products

- Combines multiple benefits in one product, sometimes with different risk carriers
- Efficient mechanism for protecting the poor if kept simple and understandable
- Prone to abuse with “window dressing” benefits

## CIC, Kenya

- Cooperatiave insurance company
- Targets the most vulnerable segments through SACCOs, MFIs
- Provides life, disability and health cover (linked to National Health Insurance Fund)

## SEWA, India

- Trade union for informal workers
- Serves as an intermediary
- Links with life and general insurers to provide composite product (and carries some of the risk itself)
- Coverage includes death, hospitalization and hut

# Agriculture insurance

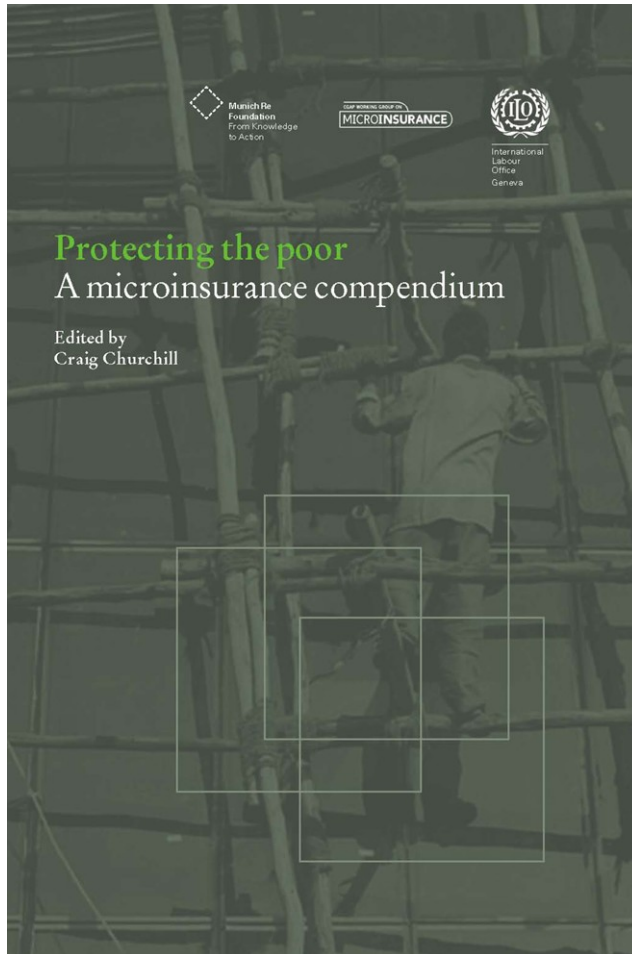
- No evidence yet of sustainable agriculture insurance (for the poor), all heavily government subsidized
- Prone to moral hazard problems: farmers were less likely to pursue sound practices
- Recent innovations such as rain-fall **index insurance** show some potential to make agriculture insurance measurable, objective and viable...although most experiences are only in the pilot stage

## Key product issues

1. Piggyback or standalone
2. Mandatory or voluntary
3. Group or individual
4. Long or short term
5. Inclusive vs. cherry picking risks
6. Premium collection timing and mechanism
7. Fast claims payments
8. KISS



# Recommended reading



- Based on 25 case studies of 40 microinsurance providers
- Soon available in Spanish
- Available online at [www.microinsurancecompendium.org](http://www.microinsurancecompendium.org)
- Or on sale from the ILO

Thank you!

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