

**INTRODUCTION TO  
MICROINSURANCE:  
Historical Perspective**

**4<sup>th</sup> International Microinsurance  
Conference  
Cartagena, Colombia  
November 5, 2008**

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# Contents

- **What is Microinsurance?**
- How did it evolve?
- Closing thoughts



## 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)*

“...is a mechanism to protect **poor people** against risk (accident, illness, death in the family, natural disasters, etc.) in exchange for insurance premium payments **tailored to their needs, income and level of risk**. It is aimed primarily at the developing world’s **low-income** workers, especially those in the informal economy who tend to be underserved by mainstream commercial and social insurance schemes.”

~ *ILO, Microinsurance Innovation Center (2008)*

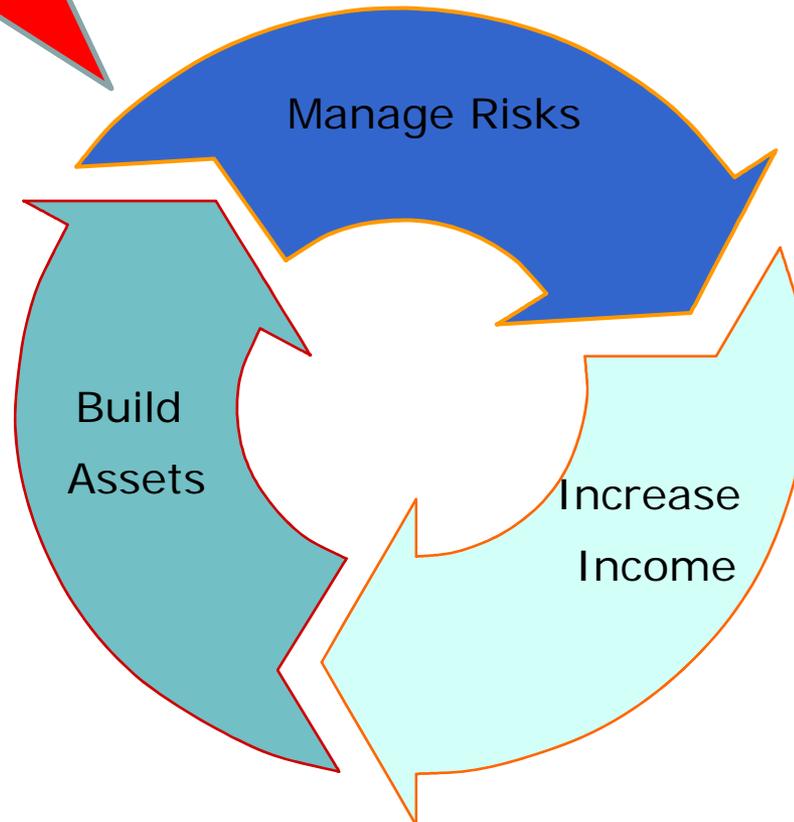
**As the sector progresses, the definition of microinsurance is evolving**



Microinsurance is...

## A Risk Management Tool for Low-Income People

**Risks:** Illness,  
Death, Property  
Loss, Natural  
disasters...



### Risk Coping Mechanisms include:

- Insurance
- Savings
- Loans
- Selling Assets
- Government Assistance
- Self help groups

children out school,  
untreated health problems)

- Depletion of assets and/or savings
- Indebtedness
- Loss of income
- Exclusion from financial markets



## What risks are clients most concerned about?

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

*Adapted from Cohen and Sebstad (2006)*

**Today, the products in highest demand are in the least supply**



So... what is Microinsurance?

Products tailored to meet the most important needs of low-income people

How? Understanding clients' realities

- Work in the informal economy
- Have irregular cash flows
- Manage risks through a variety of informal means, including social networks
- Have limited familiarity with formal insurance
- May not trust insurance companies
- Are highly exposed to risks

**Create innovative risk management solutions**



## Why is microinsurance important?

- **Financial Inclusion:** One of several risk management tools to protect the most vulnerable populations and help them retain the assets they work so hard to build.
- **Social Protection:** Complement or substitute for government protection mechanisms such as health insurance and pensions for low income workers.
- **Commercial:** New markets for commercial sector which has relatively low penetration worldwide and needs to expand to grow.
- **Macroeconomic:** Insurance is a vital precondition for economic development, as it provides a reliable mechanism for individuals, institutions and governments to assume risks.

**Countries with higher insurance protection are less vulnerable societies**



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How did it evolve?

## Microinsurance goes back to the origins of insurance

- The principles of Microinsurance are not new: risk pooling and risk transfer trace back to some of the precursors of insurance, such as the Roman burial guilds
- And the products are not new. Small policies, such as industrial life, and mutual protection schemes were offered in the 19th and early 20th century
- The mechanisms of Microinsurance were preceded by cooperatives and credit unions, some of which created their own insurance companies
- The term Microinsurance is new. It was developed as part of Microfinance in the 90's when MFIs started offering insurance products, primarily credit life, to protect their loan portfolios. Some of these policies were eventually underwritten by commercial insurers thus beginning their involvement in MI
- Since then, MFIs have sought to expand their offerings of financial services, including more complex insurance products, and the commercial sector has responded with increasing involvement

**What is new? The technical expertise and innovative technology to facilitate the development of new business models**



# What is different? Key Differences Between Micro and Conventional Insurance

Conventional Insurance	Microinsurance
• Complex policy document	• Simple, easy to understand policy document
• Limited eligibility with standard exclusions	• Broadly inclusive, with few if any exclusions
• Regular premium payments as banking transaction	• Premiums accommodate customers' irregular cash flows, paid in cash or with another financial transaction
• Usually minimum of 12 months	• Period of coverage can be as short as 4 months
• Screening requirements may include a medical examination	• Any screening requirements would be limited to a declaration of good health
• Small and large sums insured	• Only small sums insured
• Priced based on age/specific risk	• Community or group pricing
• Agents and brokers are primarily responsible for sales	• Distribution channel may manage the entire customer relationship, perhaps including premium collection and claims payment
• Market is largely familiar with insurance	• Market is largely unfamiliar with insurance



# Since 2000, Microinsurance has gained tremendous momentum





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# Closing Thoughts

- As microinsurance evolves, there will be increasingly higher standards for quality products tailored to meet client needs
- The foundation of the sector is expanding quickly with key stakeholders joining forces and unparalleled resources, making this a pivotal time in the development of Microinsurance
- By scaling poorly developed products we risk the failure of the industry and a loss of the trust of low income clients
- Reaching scale is fundamental but will only be possible with a solid platform of well developed business models built on lessons learned

**Everyone in this room has the opportunity to shape history and ensure the sound development of the industry**



**THANK YOU**

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