A tailor pictured in front of his shop in Mirpur, Pakistan: in developing countries microinsurance offers a way for small entrepreneurs to protect their livelihoods.
Emerging from the niche

Dirk Reinhard

The pioneering work is bearing fruit: microinsurance is not just making headway, it is positively forging ahead in some regions. Slowly but surely, commercial providers are appearing on the scene – an indication of the potential. However, progress may falter without external support.

New financial ideas are not readily accepted, and rarely meet with success from the outset. This was true of the forerunners of the modern insurance companies – burial societies and mutual organisations – when they were first established in the mid-19th century in Europe. It was also true of microcredits, which only achieved the international distinction of a Nobel Peace Prize some 30 years after their introduction in the early 1970s. And the same is also true of microinsurance, an important complement to microcredits. Despite the fact that the number of schemes and insureds has doubled annually in the last few years, it is still on a very low scale.

According to the MicroInsurance Centre’s Landscape report, at the end of 2006, fewer than 3% of the poor in the world’s 100 poorest countries had access to insurance. However, thanks to the clever strategy employed by the CGAP Working Group on Microinsurance, set up in 2002 and co-organiser of the annual International Microinsurance Conference with the Munich Re Foundation, the issue attracted more attention in 2007 than ever before.

As people wish to safeguard their families’ livelihoods, potential policyholders give priority to sickness and death cover. Accordingly, these are the risks covered by most products.

Microinsurance is moving forward primarily in Asia. In India alone, over six million people are covered by 70 different types of insurance.

Nobel Peace Prize
winner, Muhammad Yunus – who has specialised in microcredits since 1976 – has granted seven million microcredits. Some 97% of the money has gone to women borrowers. The repayment rate is over 98%.

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The 60-strong CGAP Working Group, chaired by the International Labour Organization’s Craig Churchill, is the main source of expertise worldwide. It has produced groundbreaking case studies and publications, including “Protecting the poor”, published at the end of 2006 and now established as the standard reference work on microinsurance. The working group has also published performance indicators and donor guidelines for potential financial backers and sponsors. Furthermore, together with the International Association of Insurance Supervisors, it succeeded in putting microinsurance on the agenda of the regulatory authorities in 2007. Another major step forward achieved at the end of the same year was that the Micro Insurance Academy of India became the first prominent educational institution to include microinsurance on its syllabus.
However, the pace of development would be slow if adequate resources were not available. The German Agency for Technical Cooperation (gtz), an international development aid organisation, has assumed a leading role, backing CGAP Working Group projects since 2002. The Bill & Melinda Gates Foundation has also emerged as a major sponsor. Over the next few years, it will provide funding of several hundred million dollars in support of a number of projects, including the Microinsurance Agency, an organisation which will act as a broker, providing microinsurance for some 25 million people in the next five years. The Gates Foundation also supports the Microinsurance Innovation Facility, set up by the CGAP Working Group to provide start-up capital, technical and research backing for viable new microinsurance projects.

Commercial insurers are also taking a growing interest. Swiss Re, Munich Re and insurance companies such as Allianz and Zurich Financial Services are entering this potential growth market. Life and health insurance continue to attract most interest, but property and agricultural covers are becoming more common. US insurer AIG already has over 1.5 million customers in Uganda and has established a joint venture with India’s TATA insurance company. It is expected to have more than 100,000 new customers by 2008 and as many as a million altogether by 2012. Given the growth opportunities, there are legitimate expectations that further commercial players will appear on the scene as the sector gathers momentum.

Microinsurance is also attracting attention on the investments front. For instance, Leapfrog Investments, a UK company, has plans to canvass support for such projects among institutional investors in the near future.

The current trends are exciting. To ensure that the schemes will also work on a larger scale, the various players – people at risk, governments, donor and aid organisations, academics and insurers – will have to work even more closely together. The Munich Re Foundation will maintain its efforts and continue to provide a platform for this important issue until microinsurance has outgrown its niche.

Dick Reinhard is Vice-Chairman of the Munich Re Foundation. Prior to joining the foundation, he worked as an expert on socially responsible investment and emissions trading in the field of environmental management.
Microinsurance on the advance

In India and China alone, there are nearly 60 million microinsurance contracts. At current growth rates, the number of contracts will rise above all in South America, but the situation is also starting to look more promising in Africa, starting with Uganda.

Percentage of poor without microinsurance

- No data
- 62–90%
- 90–94%
- 94–98%
- 98%+

Source: Microinsurance Centre, 2007

Munich Re Foundation 2007 report