Murugaru is a farmer in Kenya. She checks the market prices and pays her micro-health insurance premium by cell phone. In Africa, mobile phones are playing an increasingly important role in microinsurance.

Right: Over 90% of the households in Bangladesh have a mobile phone. Almost all migrant workers use them for fast and problem-free money transfers.
Microinsurance helps provide security for low-income inhabitants in developing countries and supports their economic development. However, only a small number of people have access to the products so far. The increasing use of mobile communication networks as a distribution channel gives reason for hope.

Dirk Reinhard
Even though the number of microinsurance holders has grown strongly around the world in recent years – of the estimated four billion potential customers, not even every fifth person has access to this instrument. The important role of microinsurance for economic development is uncontested: without insurance, many people can easily plunge back into the poverty from which they may just have escaped, because of sickness, a death in the family or natural disasters. A central problem still remains the relatively high transaction costs coupled with a low premium. Processing a contract with a high insurance sum normally does not require substantially more work than a microinsurance policy.

Mobile telephony as a solution

A great deal of hope is being placed in the use of mobile telephony. In Kenya, the pioneer in mobile banking, almost half the population today has a mobile bank account. Experts estimate that in this country alone, more money is transferred via cell phones than by the Western Union, which conducts money transfers for labour migrants all over the world. This is an example of how the so-called Third World demonstrates to the supposed First World how existing technologies can be used for innovative financing services.

The prerequisites for mobile money transfer are ideal in many countries. In Bangladesh more than 90% of the households can be reached by mobile telephone. In Nigeria, one of the richest and fastest growing economies in Africa, almost 100 million people, or two thirds of the population, own a cell phone. 80% of the working population count as poor, of these less than one per cent is microinsured. A huge potential, making the country one of the sleeping giants in the microinsurance sector.

A positive side effect is that mobile telephony can also be used for risk prevention, for example to warn people in good time of an imminent natural event. At the same time, the boundaries between micro and other insurances are becoming blurred. An insurance contract can be processed by mobile phone regardless of whether for affluent or for low-income clients.

Economic disequilibrium

In addition to the still inadequate number of microinsurance holders, there is a discrepancy in the balance between supply and demand. In most of the regions on the earth, micro life insurances, with a percentage of well over 50%, still dominate the market. In contrast to this, health or agricultural insurances are distinctly under-represented, even though people in the lower income bracket are exposed to major life risks.

The numerous pilot projects for the development of purely market-based instruments with small or no subsidies have achieved barely noticeable success in the agricultural sector in particular. In India – the country with the highest number of microinsured in the world – state-funded health and agricultural insurances today protect hundreds of billions of people, even though experts consider these coverages to be part of the social welfare system.

The example of India shows that success in the case of certain risks is hardly possible without cooperation with the government. The World Bank has also recognised this and is increasingly seeking appropriate partnerships. However, not all the donor organisations are taking this course. Further pilot projects for the mitigation of the impacts of drought and natural hazards that are not aimed at developing into larger or national systems are often funded. Whether this is well invested money or not remains to be seen.

The growing market for microinsurances has awakened the interest of numerous regulatory authorities. In October 2013, the Indonesian Financial Services Authority, for instance, announced the creation of an improved regulatory environment for microinsurances by 2016. The interest of the insurance industry is also increasing noticeably, particularly in Latin America. The traditional markets are often well supplied already so that new customer groups must be accessed for further growth. To facilitate this undertaking, the Latin American Federation of Insurance Companies, FIDES, is cooperating with the insurance associations of Brazil, Guatemala, Columbia, Mexico and Peru to analyse successful microinsurance systems.

The example of the Philippines demonstrates how successful cooperation between regulatory authorities, insurance companies and microfinancing organisations can be. Today, more than 20% of the population in the country are microinsured.

The extensive global potential and the positive development effects should be an incentive to work even more intensively on solutions. A glance at the insurance markets that have already been developed can be helpful. This process has, after all, taken many decades. Expecting huge steps in just a few years will certainly lead to disappointment. A long-term perspective probably not.

For further information on this issue:
Microinsurance Conference
www.microinsuranceconference.org
Beatrice Muzinga owns a small shop in Kinshasa in the Congo. Microfinancing and insurance allow the people in low-income countries to manage their finances effectively even though there is still a substantial backlog demand in the country.