Micro-Insurance: Making Insurance Work for the Poor

— Dirk Reinhard

Micro-finance is regarded as an important tool to reduce poverty. Experience shows that poor people are usually extremely vulnerable to disaster. Since there is a link between poverty and vulnerability, there is consequently a link between micro-finance and vulnerability.

However, micro-finance alone is not sufficient; it needs to be supplemented by micro-insurance. What is needed are several products for different kinds of people affected and different levels (from the individual [small scale] to the government [large scale]). Furthermore, micro-insurance and other tailor-made insurance products have to be strengthened by reinsurance.

The challenges of micro-insurance are many. It is vital to know the local conditions. Premium income is low, administrative costs are relatively high, and infrastructure for insurance is lacking. That is why commercial insurers have not taken more interest in this market. Reaching poor people, many of whom are illiterate and make a living in the informal economy, is difficult. And the benefit of insurance is often misinterpreted since the low-income market does not understand why the premium is not reimbursed if no claims are made.

How can the cost of handling a large number of small contracts be reduced, and is there legislation to facilitate the insurance of poor people and to protect them against fraud?

In its quest to be more useful at a smaller cost to more poor people, micro-insurance got a macro-boost when about a hundred experts from around the world gathered to thrash out obstacles and opportunities at the 2005 Microinsurance Conference in Munich, Germany, from October 18 to 20, 2005. The conference was organised by the Munich Re Foundation in cooperation with the CGAP Working Group on Micro-insurance. CGAP (the Consultative Group to Assist the Poor), a consortium of donors, including the World Bank, is based in
Washington DC. Its Working Group on Micro-insurance, set up four years ago, comprises consultants and experts as well as representatives of donor agencies and organisations committed to extending insurance protection to low-income people.

Aside from preparing micro-insurance guidelines for donors and having a number of sub-groups look in depth at topics ranging from demand to regulations, the CGAP Working Group on Micro-insurance has carried out some 20 case studies of existing micro-insurance programmes in many countries (e.g. Benin, Bangladesh, Peru and Poland) to identify good and bad practices. The case studies were funded by SIDA, GTZ, DFID and ILO.

Cooperation is the Key
“Only by pulling together,” Dr. Schinzler, chairman of the supervisory board of Munich Re and chairman of the Board of Trustees of the Munich Re foundation said, “will we – the insurance industry, local NGOs, development agencies as well as regulatory authorities – be able to provide appropriate solutions. Munich Re has, therefore, taken an important step in identifying micro-insurance as a strategic topic for its innovation teams.”

Learning From Experience
The focus of the conference was to analyse the findings of these case studies and fine-tune the emerging solutions: what has worked, in which settings, how does it benefit the poor, and is it likely to be a model for other programmes in the years ahead?

Micro-insurance can be defined as the protection of low-income people against specific perils in exchange for premium payments proportionate to the likelihood and cost of the risk involved. It has the potential of providing a new market for the private sector while complementing the public sector’s efforts towards social security for workers in the informal economy, according to Dr. Schinzler.

There are government policies and programmes to reduce poverty and vulnerability by diminishing people’s exposure to risks and enhancing their capacity to protect themselves, he added, but in most developing countries, these programmes are not particularly effective. "The main obstacles are: no mechanisms to systematically reach informal workers; no employer contributions; the poor cannot afford the full cost; insufficient government resources to cover recurring expenses; and inadequate infrastructure to provide appropriate services."

In six plenary and 18 parallel sessions, overcoming these challenges required technical assistance providers' bread-and-butter functions such as underwriting, payment, product design, management and governance.

A key element is how entrants, whether private or public – have gone about their programmes. The case studies
- Partner-agent model.
- Credit unions and cooperatives.
- Direct sales model.
- Community-based model.

Partner-Agent Model
The partner-agent model involves using a distribution channel, a microfinance institution (MFI) that can serve the low-income clients. The MFI collects the premiums, supervises claims and collects the required contributions. The agent institution is provided with the expertise and training needed.

It is a "win-win-win" arrangement, according to Munich Re's chairman and another example of this model is AIG in the developing countries.

AIG's early years ago. It now covers 17 million lives and brings in US$ 800,000 in premiums for the sector.

The study, however, takes note of the premium as excessive and suggests the task for not upgrading the policy is made up by the training of the agents. The case study of the project found that, for the customer, the agency with a high commission; and the area’s economy.
In six plenary and 18 parallel sessions, participants discussed ways of overcoming these challenges by considering the roles of insurers, reinsurers, technical assistance providers, regulators and governments as well as analysing bread-and-butter functions such as underwriting, premium collection and claims payment, product design, marketing and distribution channels, and financial management and governance to develop strategies for sustainability.

A key element is how entrepreneurs – micro or macro, individuals or groups, private or public – have gone about setting up and operating micro-insurance programmes. The case studies point to four institutional options:

- Partner-agent model.
- Credit unions and cooperative/mutual insurers.
- Direct sales model.
- Community-based model.

**Partner-Agent Model**

The partner-agent model involves an established insurance company working with a distribution channel, a micro-finance institution (MFI) or any other that is actively serving low-income clients. The insurance company maintains the reserves, sets premiums, supervises claims and manages compliance with regulatory requirements. The agent institution facilitates the rational transfer of risk, resources and expertise between the informal and formal sectors.

It is a "win-win-win" arrangement: for the insurer which is able to reach a market (through the MFI) that it cannot reach on its own; for the MFI that can provide members with better services at lower risk; and for low-income households which get valuable protection that otherwise would not be accessible to them. An oft-cited example of this model is AIG Uganda which started its micro-insurance programme eight years ago. It now covers 1.6 million lives through 26 MFIs, with an estimated US$ 800,000 in premiums for 2004.

The study, however, takes exception to its profit level of around 20 per cent on the premium as excessive and takes both AIG Uganda and its partner institutions to task for not upgrading the product and claims payment processes and for neglecting client education as a key part of marketing.

The need for more or better training for field staff in the MFIs – so that they can do a better job of explaining insurance to their clients – is also recommended by a case study in Zambia. There, Madison Insurance, with both life and non-life licences, partners with four MFIs to insure roughly 100,000 lives. Notable in this case: one MFI has a profit-sharing arrangement with Madison instead of a commission; and the availability of insurance seems to have increased
acceptance among borrowers of members suspected of being HIV-positive.

While the partnership model eliminates most regulatory complications, often the distribution channel must still be licensed as an agent. A point made at the conference was that, where warranted, some flexibility by regulators and supervisors could facilitate partner-agent relationships.

Credit Unions and Cooperative/Mutual Insurers

Savings and credit cooperatives, or credit unions as they are called in many countries, often offer loan protection insurance – usually referred to as credit life – to ensure that "the debt dies with the debtor," so that an unpaid loan balance does not adversely affect either the surviving family or the institution that granted the loan. Credit unions also offer life insurance coverage to stimulate savings, and some provide housing or funeral insurance, disability, health and, in a few cases, even casualty insurance. These products are added onto existing credit and savings services. Many are provided informally although in some countries they are legally recognised as member-benefit products.

In addition to savings and loans cooperatives, micro-insurance services under this model may also be provided by insurance companies that are stand-alone enterprises. In fact, some 140 cooperative and mutual insurers in 70 countries serving low-income as well as higher-end segments of their markets are members of a global association called ICMIF (International Cooperative and Mutual Insurance Federation).

La Equidad, created 35 years ago as a cooperative in Colombia to serve other cooperatives and their members, exemplifies the main difference between the partner-agent and cooperative insurance models. Besides a broad range of products for the general market, it now offers two group-based micro life insurance products through two partners: an MFI called Women's World Foundation (WWF), and a group of its own affiliated cooperatives. More than 10,000 of WWF's micro-credit customers and 18,000 of the cooperatives' members have so far taken up this insurance.

The case of ServiPeru, however, demonstrates that affiliation with a movement can be a double-edged sword. This insurer lived by this sword for some 30 years, but almost died by it in the early 1990s when sponsoring cooperatives, along with the country's economy, took a nose-dive. It restructured as a provider of health and funeral services, and created a subsidiary brokerage to manage its insurance portfolio. Even now, its micro health insurance product has little support from cooperatives, with their members accounting for only 10 per cent of the insured. Not every country has cooperative soil fertile enough for micro-insurance.

The conference noted that cooperative insurance differs from the insurer – has in practice in micro-insurance. The ownership and running of not only the cooperated partner insurer itself and interest. A point made in insurance model demonstrated by the World Bank, regarded as important. It must not be done to the proper design and running of programs.

Direct Sales Model

Insurance companies can also individual agents who are on.

The conference paid close attention to agents as a new delivery channel, encouraging: that each insurer their and social sectors. To access, with a direct marketing approach, women to form insurance agents.

A prime example of the Bangladesh, serving the low-to-middle technical assistance. A for-profit model is regarded as the "Grameen model," that pinpoints specific needs of poor insurance, all in a 10- or 15-year period, than a million people.

The popularity of endowment assets is something Delta has and policies as well. Interesting to endowment policies that seek.

The two cases demonstrate an income market directly, at least some of the problems where some insurers may not, and may be separated from.
of being HIV-positive.

Lack of treatment can lead to serious complications, often fatal. A point made at the conference by regulators and supervisors is that they are called in many countries simply referred to as credit life – the unpaid loan balance does not represent the institution that granted the credit, and the remaining loan balance is not a capital loss. In some cases, even the existing credit and savings in countries they are legally entitled to.

Micro-insurance services underwritten by insurers that are stand-alone mutual insurers in 70 countries where their markets are members of the Global Cooperative and Mutual Insurers Federation (ACBU).

Located in Colombia to serve other countries, the main difference between the countries is the market. Besides a broad range of group-based micro life insurance policies, for example the World Bank (WWF), which has over 10,000 of WWF’s micro-insurers, have so far taken up this challenge.

With affiliation with a movement like this for some 30 years, the group cooperatives, along with the small bank, is a provider of health and life insurance. The product has little support from the regulator, with less than 10 per cent of the insured. Not micro-insurance.

The conference noted nevertheless that the seemingly small way in which cooperative insurance differs from the partner-agent model – the agent’s stake in the insurer – has in practice made a big difference in complying with the spirit of micro-insurance. The ownership stake gives the agent institution a say in the design and running of not only the insurance programme but also in the democratically operated partner insurer itself, ensuring that it remains responsive to clients’ needs and interest. A point made in a plenary session was that the cooperative/mutual insurance model demonstrates what James Wolfensohn, former president of the World Bank, regarded as important in the fight against poverty – that development must not be done to the poor but by them, and that they should have a say in the design and running of programmes.

Direct Sales Model

Insurance companies can also serve low-income policy-holders directly through individual agents who are on salary or commission or both.

The conference paid close attention to the joint venture Tata-AIG in India, which has gone further than the partner-agent model and introduced so-called micro-agents as a new delivery channel. India requires what some other countries only encourage: that each insurer has a set percentage of its business coming from the rural and social sectors. To achieve (and surpass) its quota, Tata-AIG is innovating with a direct marketing approach that involves assisting hand-picked low-income women to form insurance agencies.

A prime example of the direct sales model is the 15-year-old Delta Life of Bangladesh, serving the low-income market on its own without donor support or technical assistance. A for-profit company listed on the Dhaka Stock Exchange, it is regarded as the “Grameen Bank” of micro-insurance, having pioneered a policy that pinpoints specific needs of the poor for credit as well as savings and insurance, all in a 10- or 15-year term endowment package. Delta now serves more than a million people.

The popularity of endowment policies that help the poor gradually build up assets is something Delta has in common with Tata-AIG, which offers separate term policies as well. Interestingly, and unlike developed markets, it is Tata-AIG’s endowment policies that seem to be in much greater demand.

The two cases demonstrate that insurance companies can reach the low-income market directly, at least in Bangladesh and India. Direct selling helps overcome some of the problems in the partner-agent and credit union models, where some insurers may not have good control over their distribution channels and may be separated from the market segment. Nevertheless, this advantage to
an insurer comes with the higher costs of a new delivery structure that only serves an insurance function (whereas the other models involve building on a delivery structure that already exists for savings and credit, so additional transaction costs for insurance are minimal).

Community-Based Model
In sub-Saharan African countries, where up to 90 per cent of working people have informal employment, lacking even the most basic social protection, communities of poor people have been banding together to create micro-health insurance schemes. The schemes are non-profit in character and have a voluntary membership. Policy-holders pre-pay premiums into a fund and are entitled to specified benefits. The community plays an important role in the design and running of the programme. A network support organisation provides technical assistance and general supervision, while it negotiates fees with one or more health care providers.

One case study reviewed at the conference is of a mutual micro-finance network in Benin, Association d'Entraide des Femmes (AssEF), with an inhouse health insurance scheme. The network has 27 savings and credit funds and 240 groups serving poor women in the capital city of Cotonou and its outskirts. Close monitoring and good management have helped the health insurance programme achieve strong growth since it was founded in 2002, and have ensured its sustainability. A General Assembly and a Board of Directors of 13 women elected by members lead the organisation. The conference noted that although this scheme in Benin and a similar one in Senegal have succeeded in serving the poor, many of the poorest may still be beyond their outreach, and that there is a need for greater government involvement to protect the destitute and reduce the burden on the poor.

Though mutual in character and theoretically within the overarching mutuality movement, community-based health insurance associations – mutuelles de sante – are also operationally different from micro-insurers in the credit union and cooperative/mutual category. Among the estimated 300 such schemes in West Africa, three are subjects of case studies yet to be completed: Union des Mutuelles de Sante de Guinee Foretise, Union Technique de Mali, and Union des Mutuelles de Sante de Thies.

Some Basics to Keep in Mind
Lessons learnt and conclusions reached from a number of cases studied around the world were pointed out in various sessions at the conference and would be of particular interest to insurers contemplating the low-income market:

- Understand the demands of clients' needs, particularly to limit the administrative costs.
- Gather critical information on clients' ability to pay and sustainability.
- Target not only clients and their families but also those who would pay themselves, will not.

If a product cannot be easily explainable, the simpler the product, the better.

Dos and Don'ts:
- Cover fewer peril.
- Avoid loading policies.
- Avoid large deductibles.
- Don't avoid contestability.
- Avoid clients do not have.
- Have one price for everyone.

Health insurance, for example, is best delivered in large geographically dispersed rural areas where health care is available only as part of the public or private and non-profit. Coverage and strategies to extend health insurance should concentrate first on building policy systems, and coordinate actuarial, efficiency and cost-effectiveness.

Agricultural insurance, with government support, was an illustration. Following the conference, a number of steps were taken, among other measures, securing a lasting framework.

For micro-insurance programs, facilitating the involvement of ethical boards and conference participants. After all, insurance is a risk only if it is passed on from one insurer to the next formal or informal micro-insurer.
There is a greater need for better structures that can serve the building on a delivery system to reduce additional transaction costs. The number of working people have been growing, and the importance of protection, communities and individual micro-health insurance plans and have a voluntary fund and are entitled to play an important role in the design and development. An association provides technical assistance to clients with one or more health problems.

The micro-financing network (MFIs), with an inhouse health services, credit funds and 240 groups from you and its outskirts. Close to 100,000 health insurance programme was activated in 2002, and have ensured its access to the women's sectors of 13 women elected by the health sector. Although this scheme in serving the poor, many of the cases studied around the conference and would be of interest to the income market.

- Understand the demand through quantitative and qualitative research of clients' needs, preferences and familiarity with insurance.
- Gather critical information about key product features and the clients' ability to pay and service expectations.
- Target not only clients but field staff who, if not buying into the product themselves, will not be able to persuade clients either.

**The Simpler the Better**

If a product cannot be easily explained in a few sentences, it will not succeed. But the simpler the product, the harder it may be to design.

**Dos and Don'ts:**

- Cover fewer risks more completely, instead of many risks partially.
- Avoid loading policies with riders and benefits difficult to claim.
- Minimise the number of exclusions.
- Avoid contestability so that pre-existing conditions are covered and clients do not have to answer medical questions.
- Have one price for all ages (as long as sums assured are small).

Health insurance, followed by agricultural insurance, stood out in panel discussions as the most urgent and largely unmet need of the poor. Without insurance and with meagre means, low-income groups have a far greater proportion of "catastrophic levels" of health care spending. Even in countries where health care is available, there are barriers between sub-systems, public, private and non-profit. One conclusion drawn by the panel on challenges and strategies to extend health care to the poor was that governments and donors should concentrate first on integrating micro-health insurers into the overall systems, and coordinate and combine different sources of health care for improved efficiency and cost-effectiveness.

Agricultural insurance, widely regarded as a risky line, not sustainable without government support, was also singled out for greater attention and innovation. Following the conference, the CGAP Working Group on Micro-insurance met and, among other measures, set up sub-groups dedicated to agriculture and health.

For micro-insurance generally, and health and agriculture lines in particular, facilitating the involvement of reinsurers was seen as a key priority by many conference participants. A formal industry requirement is that a reinsurer can cover risk only if it is passed on from a direct insurer that is properly licensed—a condition most informal micro-insurers do not meet. It was suggested that regulators and
donors work together to provide partial guarantees to reinsurers, similar to the schemes between banks and MFIs - guarantees that might be structured as a stop-loss policy for the reinsurer.

Although the role of the reinsurer, regional or global, is at the end of the value chain, it has to follow the local national regulation. A priority should be to enable informal micro-insurance schemes, through whichever institutional model, to comply within local regulations and deal with reinsurers. Micro-insurance as a concept is in its early stages, although awareness is increasing for particular needs and opportunities. Yet, the level of discussion needed on insuring the poor is not taking place in the insurance and reinsurance world. Insurers are sitting on an enormous pile of knowledge. They could help shorten the micro-insurers' learning curve.

Donors, too, were urged to facilitate linkages and share knowledge - to coordinate their efforts with the micro-insurance activities of other donors, the government's social protection schemes, and initiatives of private sector insurers. Their attention was drawn also to the need for a combination of on and off-site monitoring of the performance of existing micro-insurance programmes that they choose to support.

There were several reminders to governments to heed their role in the provision of micro-insurance. The government was seen as carrying out three functions: providing coverage through social protection programmes; creating a suitable regulatory environment; and promoting formal-sector entry into the low-income market.

Overall, the conference outcome was to reinforce the importance of further developing micro-insurance as a key tool to reduce the vulnerability of the poor.

Micro-Finance and Disaster Risk Reduction:

The December 26, 2004, tsunami, the most devastating natural disaster in living memory, was a reminder that disaster risk cannot be managed away. Yet, the tsunami underscores the importance of micro-insurance in better managing the financial risks faced by those most vulnerable, in particular, women and children.

Conferences on micro-insurance like the one held in India in February 2005 are helping to advance the cause. The conference was attended by some 100 delegates from the public and private sectors involved with micro-insurance in the developing world. Some of the speakers included representatives from the United Nations and the United Nations Development Programme.

The December 26, 2004, tsunami was an extreme event, surging waters killed at least 160,000 people and displaced some 1.6 million. Some 2,500 people who had escaped the waves were found dead. The World Bank and the United Nations Development Bank report that 70% of the tsunami survivors fell below the national poverty line - some as a result of the tsunami. But the actual numbers are likely much higher.

The massive waves from the December 26, 2004, tsunami were generated by an undersea earthquake. The waves were generated off the coast of Sumatra, Indonesia. The waves travelled at speeds of up to 1000 miles per hour and were displaced by the earthquake. The tsunami hit the Indian coast, displaced 25,149 people. The greatest impact was seen in Tamil Nadu because large numbers of people live along the coast. The tsunami hit coastal women and girls in these areas particularly hard.

The economic losses were staggering. Reconstruction costs are expected to exceed Rs. 400 crore and in Tamil Nadu alone. The tsunami-related reconstruction costs alone could have increased these two states' debt burden by $2.8 billion.

The impact of the tsunami has been devastating globally, but in South Asia, the impact has been particularly hard. The impact of the tsunami on South Asia, especially in India - with relatively higher earthquake risk compared to other states - is a reminder that disaster risk cannot be managed away.

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