

IntoAction

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Microinsurance

Making insurance work for the poor

Report Summary
Microinsurance Conference

Schloss Hohenkammer
Munich, 18–20 October 2005

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Of the four billion people
on earth today who live on
less than two dollars a day,
fewer than ten million
currently have access to
insurance.

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In its quest to be more useful at a smaller cost to more poor people, microinsurance got a macro boost when about a hundred experts from around the world gathered to thrash out obstacles and opportunities at the conference facility of Munich Re in Germany from 18 to 20 October 2005.

The challenges of microinsurance are many, delegates were reminded in the welcoming address by Dr. Hans-Jürgen Schinzler, Chairman of the Supervisory Board of Munich Re and Chairman of the Board of Trustees of the Munich Re Foundation, which hosted the conference jointly with the CGAP Working Group on Microinsurance. "Premium income is low, administrative costs are relatively high, and infrastructure for insurance is lacking; that's why commercial insurers have not taken more interest in this market."

Cooperation is key

Reaching poor people, many of whom are illiterate and make a living in the informal economy, is difficult, he added, and the benefit of insurance is often misinterpreted since the low-income markets do 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, he asked, and is there legislation to facilitate the insurance of poor people and to protect them against fraud?

"Only by pulling together," Dr. Schinzler 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 microinsurance as a strategic topic for its innovation teams."

Thomas Loster, Chairman of the Munich Re Foundation, also touched on the long-term, results-oriented approach: "For us this is not a one-day business that will be taken care of by hosting a conference. To help improve living conditions for those who do not have access to financial services, a concerted effort is needed to find solutions to problems and then turn these solutions into action, step by step. The Munich Re Foundation will be a reliable partner in facilitating this process."

As a key initial step, the conference lived up to its billing: "Making Insurance Work for the Poor – Current Practices and Lessons Learnt." Dirk Reinhard, Deputy Chairman of the Munich Re Foundation, worked with Craig Churchill of the ILO's Social Finance Programme (International Labour Organization), who serves as Chairman of the CGAP Working Group on Microinsurance, to organise the event.

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 Microinsurance, 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 microinsurance 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 Microinsurance has carried out some 20 case studies of existing microinsurance programmes in different countries (e.g., Benin, Bangladesh and Peru) to identify good and bad practices. The case studies were funded by SIDA (Swedish International Development Cooperation Agency), GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit, Germany), DFID (Department for International Development, UK) and the ILO.

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?

Craig Churchill defined microinsurance as "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." 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, he said.

Microfinance is a way to extend the same rights and services to low-income households that are available to everyone else.

It protects people against shocks, and allows the majority of the population to become part of a country's economic activity.

It can help to build markets, and show that profits and principles can reinforce each other.

**Kofi Annan, UN Secretary General,
10 October 2005**

Why insurers shy away from insuring low-income people:

- Premiums small
- Costs high
- Infrastructure lacking

Why microinsurance can be good business:

- Vast new segment for insurers whose own markets are saturating
- Today's low-income customers are tomorrow's high-end clients

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, participants discussed ways of overcoming these challenges by considering the role of clients, 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.

The conference sessions were planned and designed to enable participants to serve as a sounding board for the CGAP Working Group on Microinsurance, which will synthesise the results of its work in a comprehensive book to be published by the ILO and Munich Re Foundation in 2006.

This publication will be a compendium involving some 30 authors, a seminal work that is expected to shape the development and growth of microinsurance in years to come.

Institutional options

A key element is how entrepreneurs – micro or macro, individuals or groups, private or public – have gone about setting up and operating microinsurance 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 microfinance institution (MFI) or 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 often-cited example of this model is AIG Uganda which started its microinsurance 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% 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 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 up 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.

For MFIs a key priority, as agents of partner insurers, should be training staff to explain insurance in ways the illiterate poor can understand.

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-savings coverage to stimulate saving, 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, microinsurance 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).

The mutuality model is in line with the advice of former World Bank President James Wolfensohn that development must not be done to the poor but by them.

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 microcredit customers and 18,000 of cooperatives’ members have so far taken up this insurance.

The case of ServiPerú, 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 ‘90s 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% of the insured. Not every country has cooperative soil fertile enough for microinsurance.

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 microinsurance. 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 policyholders directly through individual agents that are on salary or commission or both. The conference paid close attention to the joint venture Tata-AIG in India, which has introduced so-called microagents as a new delivery channel. India requires what some other countries only encourage: that each insurer have 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 persons.

Direct sales can overcome some of the control problems of partner-agent and cooperative/mutual models.

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).

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.

Community-based model

In sub-Saharan African countries, where up to 90% 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. Policyholders prepay 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 oversight, while it negotiates fees with one or more healthcare providers.

Community micro health insurance schemes – *mutuelles de santé* – in West Africa need to reach not only the poor but also more of the poorest.

One case study reviewed at the conference is of a mutual micro-finance network in Benin, Association d'Entraide des Femmes (AssEF), with an in-house 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.

The scheme, for poor women making a living in the informal sector of the economy, uses the third-party payment mechanism and offers its 25,000 members a 70% coverage of health expenses for a premium of roughly 75 US cents a month. AssEF's microinsurance program is about three years old and in its critical formative stage is serving some 3,500 policyholders, or one out of every seven members. 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.

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 santé* – 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: Union des Mutuelles de Santé de Guinée Forestière, Union Technique de Mali, and the Union des Mutuelles de Santé de Thiès.

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 and would be of particular interest to insurers contemplating the low-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.

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 healthcare spending. Even in countries where healthcare is available, there are barriers between subsystems – public, private and non-profit.

One conclusion drawn by the panel on challenges and strategies to extend healthcare 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 healthcare 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 Microinsurance met and, among other measures, set up sub-groups dedicated to agriculture and health.

For microinsurance 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 microinsurers 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 microinsurance schemes, through whichever institutional model, to comply with local regulations and deal with reinsurers.

Microinsurance 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 microinsurers' learning curve.

Donors, too, were urged to facilitate linkages and share knowledge – to coordinate their efforts with the microinsurance 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 microinsurance programmes that they choose to support.

There were several reminders to governments to heed their role in the provision of microinsurance. 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.

There were positive opinions aplenty about the synergy the conference produced and how the get-together of specialists helped clarify and crystallise the pool of knowledge. Generally, participants shared the view that many organisations have shown interest in microinsurance, and it was encouraging to see the Munich Re Foundation pursuing a long-term plan of action with specific steps to get results – for example, local conferences to better reach the targeted people in countries like India.

That is something the Munich Re Foundation and the CGAP Working Group on Microinsurance are keeping in mind for work and action to follow the conference – an expert meeting that was not an end in itself but marked the beginning of a process. Overall, the conference outcome was to reinforce the importance of further developing microinsurance as a key tool to reducing the vulnerability of the poor.

Product design lessons:

- Cover fewer perils 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 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)

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