

The role of reinsurance companies in commercializing insurance for the low income market

Andreas Kleiner
Munich Reinsurance of Africa

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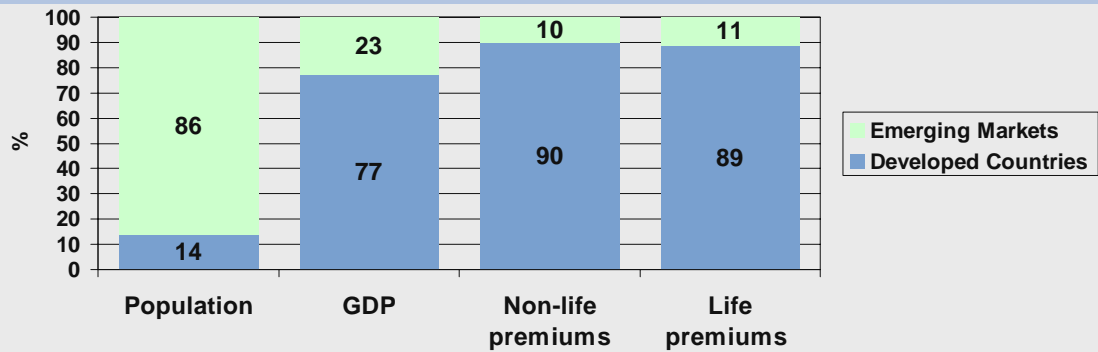
Agenda



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- The insurance opportunity
- Focus areas for microinsurance solutions
- The challenges
- The role of reinsurance

The insurance opportunity: Underutilization of financial services in emerging markets



- ✓ 86% of the world population live in emerging markets. This includes populous nations, like China (1.3 bn) and India (1.1bn),
- ✓ but emerging markets account for only 23% of the GDP and
- ✓ in 2003, emerging markets accounted for 10% of the worldwide non-life premium and for 11% of life premium, only.

Emerging markets imply an enormous economic potential

**Microfinance / Microinsurance:
A unique opportunity to serve untapped markets with financial solutions and to alleviate global poverty**

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Focus areas for microinsurance solutions: Linking needs of the poor to basic insurance covers

The general priorities of the poor are:

- sustaining their sources of livelihood,
- securing food, shelter and clothing,
- preparing for the impact of natural disasters,
- and maintaining the health of the breadwinner, in particular.

Linking the needs to the coverage of:

Life/Health

Loss of Life: Most household members contribute to household income, except those too old, young or unfit to work.

Critical Illness: This has the dual impact of loss of earnings per household labour as well as treatment expenses.

Sickness: Reduces the working days and thus productivity, and generates expenses, though at a smaller level than critical illness.

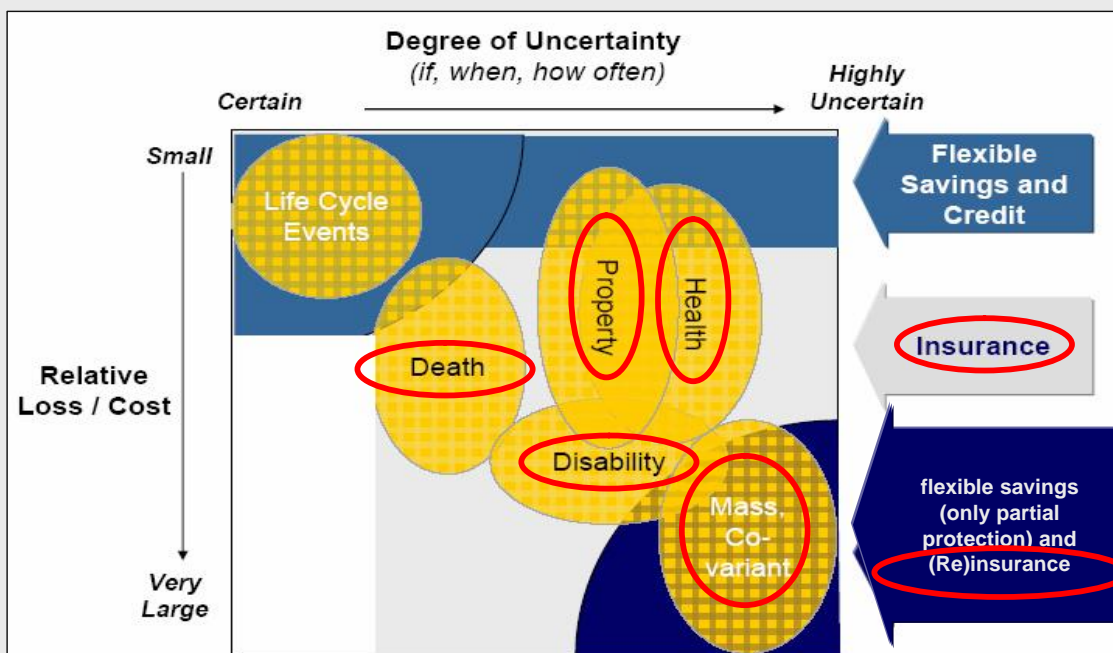
Property

Risks of lowered agricultural productivity or returns, e.g. low levels of rainfall or natural catastrophes (farmers/landless farmers).

Loss of asset, especially those assets used to generate income.

Focus areas for microinsurance solutions: Areas of demand

Risk management



Adapted from: Warren Brown and Craig F. Churchill, *Insurance Provision in Low-Income Communities*, Part I.

Focus areas for microinsurance solutions: The willingness to buy microinsurance products

Factors influencing a person's willingness to buy insurance:

- The extent to which the needs are felt;
- Self-evaluation of capacities to pay;
- Intra-household decision making processes;
- Preferences for specific product features;
- Knowledge & financial literacy;
- Previous experience and attitude towards insurance;
- Trust in insurers.

India

A survey conducted by PwC* in India identified that:

64% of the respondents demand some form of insurance,

50% want life cover,

30% have a need for livestock cover,

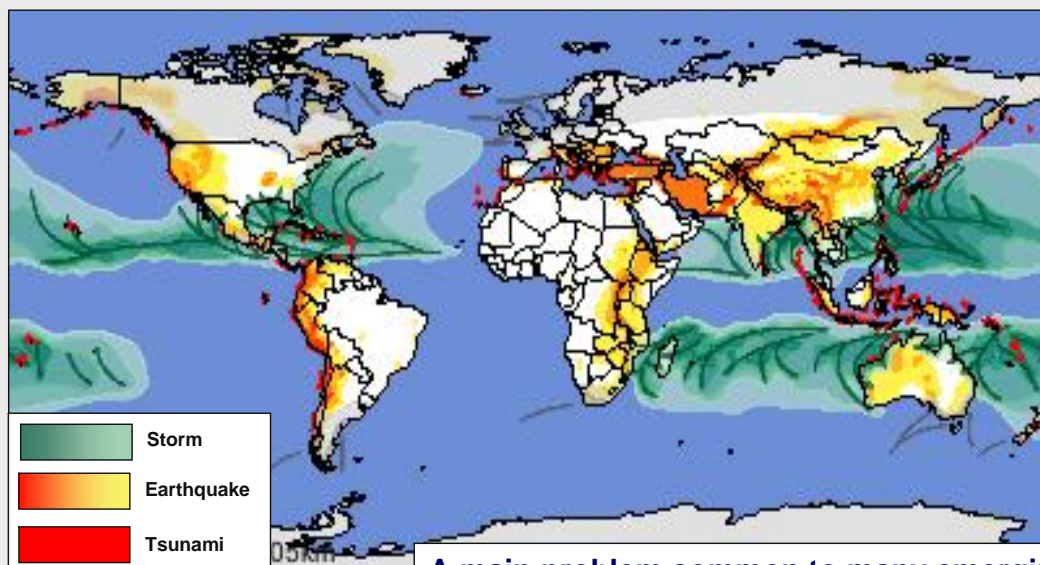
20% are interested in crop and other asset insurance.

Only 15% had any insurance at all, mainly due to the reason that it was a pre-condition for applying for a loan.

* Source: PricewaterhouseCoopers; Financial Services to the rural poor and women in India, Client Survey, 1997, New Delhi, pp. 11-15.

Focus areas for microinsurance solutions: Natural catastrophe exposure

The World Map of Natural Catastrophes



Source: MunichRe NATHAN.

A main problem common to many emerging markets is the high exposure to natural hazards.

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The challenges: Key success factors for commercial microinsurance

Affordable

- Premium vs. transaction costs
- Adverse selection
- Risk analysis and risk calculation
- Administration and control

Accessible

- Alternative sales methods
- Complementary goods
- Consumer education

Appropriate

- Responds to needs and possibilities

Sustainable

- Insurance/reinsurance capacity
- High frequency of loss events
- Humanitarian vs. commercial interests
- Regulatory frameworks, partnerships

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The role of reinsurance: Traditional reinsurance business model adds limited value

Reinsurance is a B2B model which generally caters for the protection of peak risks. Individual financial exposures from microinsurance covers are low for direct insurers and can be retained on their own balance sheets. Generic reinsurance demand from microinsurance generally only exists for accumulation risks (mainly natural catastrophes)

To play a meaningful role in the microinsurance field, reinsurers must expand the value chain

Reinsurance services to facilitate expansion of the value chain

- **Global expertise (product development, distribution channels, premium collection mechanisms)**
- **Access to global resources (within reinsurance groups as well as to external cooperation partners)**
- **Intrinsic local market knowledge**
- **Pricing capabilities**
- **Risk sharing**

Global perspective of involvement, work and research

- **Munich Re Foundation. "From knowledge to action"**
Focuses on subjects concerned with humans in risk situations
- **Involvement with CGAP**
- **Munich Climate Insurance Initiative (MCII)**
- **Partner in the ProVention Consortium**
- **Projects in Asia (India, Indonesia, Philippines) Latin America (Columbia) and Africa (South Africa)**

- **Infancy**
- **Potential to grow**
- **Assist the poor**
- **Commercially viable**
- **Reinsurance expertise & expansion of the value chain**

Thank you !

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