Microinsurance

Plea for viable business models

Andreas Kleiner

Microinsurance is a young sector. If you had attended a meeting on microinsurance as an insurance professional ten years ago, you would have been a rarity. Until a few years ago, microinsurance was chiefly associated with issues like development aid, corporate social responsibility and self help.

Now the microinsurance sector has made significant progress and caught the attention of professional insurers. Microinsurance is also a politically driven issue in many countries these days, although it has not yet been possible to develop viable business models on a major scale.

Microinsurance can improve the living conditions of countless millions of poor people. Estimates refer to a potential 1.5 to three billion customers globally, and a premium volume of €30bn to €35bn. However, only 5 % of this global market potential has been tapped to date. According to recent ILO estimates, some 500 million people worldwide are now covered by microinsurance products, 60 % in India alone. In general, strong geographical differences can be observed in the way microinsurance is becoming established.

For example, the market is dynamic in India, where the introduction of "rural obligations" has been instrumental in stimulating rapid growth. Since 2005, India's insurance regulator, IRDA, has laid down a minimum premium quota that Indian insurers are required to generate from microinsurance solutions. Nevertheless, well over half the population has no real access to insurance.

Microinsurance is on the advance. Once a month, insurance agents and villagers in the south of Bangladesh meet to deal with microloans and microinsurance matters.

Substantial administrative costs stand in the way of profitable business. Often no computer is available in poor countries and each step has to be painstakingly noted in handwritten lists.

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According to China's CIRC insurance regulator, a pilot programme launched in 19 provinces in late 2009 to develop microinsurance solutions for some 11 million people generated €30m in microinsurance premium volume in 2010. In Southeast Asia there is huge diversity of microinsurance initiatives, and the market penetration rate in the Philippines in particular is as much as 5.4%. Almost half of the premium volume is accounted for by statutory credit life insurance.

In Africa, numerous programmes introduced in recent years have boosted the sector's rapid growth. At the end of 2010, approximately 14.7 million people had taken out microinsurance cover, premium volume being in the order of €200m.

There are no reliable statistics for Latin America. Whereas countries like Colombia or Peru have enjoyed high market penetration rates in recent years thanks to favourable regulatory conditions, microinsurance products are scarce in markets such as Mexico.

Why is microinsurance growth so sluggish despite its remarkable market potential? One of the main reasons is doubt about its ability to generate sustained profits. Even now, microinsurance covers are primarily sold for charitable rather than economic reasons.

To cover the costs, a number of conditions have to be fulfilled. Microinsurance is in many respects a sector that does not follow traditional insurance rules. As sums insured and premiums are low, sales, administration and loss-processing costs, for example, have to be kept to a minimum. The needs of customers, who often have no regular income and a low level of education, always have to be borne in mind. The products need to cater for irregular premium payments and be very easy to understand. It is important to foster cooperation with well-respected people holding positions of trust in the local community because understanding of and confidence in insurance solutions has to be developed in the target groups to serve potential demand.

All this can only be achieved if normal insurance conventions are abandoned and innovative solutions applied. This is true not only of the insurers but also of the regulatory environment, which will have to develop special conventions for microinsurance.

I am firmly convinced that, in the long term, microinsurance can and must become an economically viable sector if it is to establish a lasting place in the market. There are a number of encouraging examples, and I am confident that it will, in time, be possible to realise its global potential and thus create a unique combination: a mechanism that can help prevent the poverty gap between industrialised and developing countries from widening, and the development of a market with breath-taking potential.