Microinsurance: Providing Profitable Risk Management Options for the Low-Income Market

- New Innovations for Microfinance
“Emerging markets will be at the frontier of insurance in the 21st century.

Non-life premiums collected in emerging markets are expected to double ….. by 2014.

Life premiums will increase even faster ….. over the same period.”
Risks and the low-income market

- Most stressful risks:
  - Loss of an income earner by death
  - Health expenses
  - Property loss due to fire and theft

- Other risks:
  - Crop loss
  - Animal loss
  - Enterprise risk
  - Risk of a loan
Risk options

Identify Risks
Assess risk impact
(frequency and severity)

Risk Management Strategies

Avoid Risk
(conservatism)
Retain risk
(savings, credit, sacrifice)

Share Risk
(social groups)
Transfer Risk
(insurance)

Reduce Risk
(preparation)
Social Protection
(reliance on the state)
“Microinsurance”

- Risk-pooling products that are designed to be appropriate for the low-income market in relation to cost, terms, coverage, and delivery mechanisms

- MicroFinance can help people improve

- MicroInsurance helps them protect the gains
Microinsurance types

LIFE
- Term-Life
- Endowments
- Credit Life
- Funeral
- Education
- Support

HEALTH
- Hospitalization
- Out-patient
- Dread Disease

PROPERTY
- Fire
- Theft
- Floods

OTHERS
- Rainfall indexing
- Livestock
What is the market?
An example from India

Classification of Indian Consumer Market
(% of 165 million households, with income ranges in USD per day)

- **The rich**: 1%
  - >USD16.75

- **Consumers**: 20%
  - USD3.50-16.75

- **Climbers**: 32%
  - USD1.70-3.50

- **Destitutes**: 20%
  - <USD1.25

- **Aspirants**: 27%
  - USD1.25-1.70

At least 235 million families worldwide (in the upper half of those under the poverty level - microcredit summit)
Sales to the low-income market require some balancing

Lack of knowledge
Bad attitude
Limited resources
Difficult Access

Appropriate Products
Good price
Education
Accessibility
Basic premium components, or How do we make this work?

Risk Premium

- Probability of occurrence
- Benefit amount
  - administrative costs
  - marketing & sales costs
  - underwriting & actuaries
  - premium collection
  - claims management

Operating Costs

Profit Margin / Surplus → board objective
(Investment Income) → can reduce premium
(Short-Term Subsidies) → reduce operating costs
Options for Investors

- Microinsurance Brokerage
- Microinsurance Company Replication
- Development of Efficiency Enhancing Infrastructure
- Efficient Claims Settlement Companies
- Long-Term Savings Custodian
- New Delivery Channels
A role for donors

- Working with existing institutions
  - Research and development
    - Market research
    - Prototype development and testing
    - Pilot test preparation
  - Limited operating subsidies
  - Matchmaking
- Regional technical assistance
- Investments in greenfield microinsurers
- Investment in microinsurance brokerage
Key considerations for the future:

New delivery channels

- Current channels
  - Partnerships
  - Community-based
  - Mutuels

- New channels
  - Expanded partnerships
  - Non-traditional agents
Key considerations for the future: Remittances

- Current insurance use
  - Some on USA West Coast
  - Some discussion
  - Very limited links in developing countries
- New remittance uses
  - Focused products for migrants and families
    - Life cover for migrant and family
    - Transport for funeral
  - Family health cover
Key considerations for the future:
Electronic efficiency

- Current issues
  - Still high operating cost ratios
  - Too many transactions still manual
  - Need greater efficiency
- Where to go
  - Customer identification technology
  - Transaction controls
  - Paperless transactions
  - Premium and claims management
Conclusions

- There is great demand for microinsurance in the low-income markets
- Insurers have an opportunity to gain hundreds of millions of low-income insured, at a profit
- Investors have an opportunity for profit, while providing a critical development input
- Donors have a role in product development
- Efficiencies are key to making microinsurance successful
  - New delivery channels, remittance links, and use of advanced technologies are essential