

Introducing MicroEnsure

In 2002 a group of insurance and reinsurance professionals set out to demonstrate that the low-income market was a viable insurance market. The initial aim was to better understand client needs and the willingness of insurers to provide products to this market. The team worked within Opportunity International, which, as a leading microfinance network, was able to provide the borrowers and seed capital needed to get started. Between 2002 and 2005 the team worked as an internal consultancy that designed products around the needs of Opportunity's clients; designed, discussed, and agreed upon insurance products; and set up a direct bank assurance or "partner-agent" relationship between the bank and insurers.

After three years, about 1.5 million borrowers and family members had access to microinsurance—simple insurance products with low benefits and affordable premiums. Although there had been some success in introducing more complex products such as weather index insurance, the majority of clients had access to simple life and property products. It seemed clear to the team that providing access to higher-impact products such as health insurance would require creating a specialized back-office function. In 2006 the team entered discussions with the Bill & Melinda Gates Foundation, which challenged the team to consider how high-impact products could be introduced through a range of distribution channels. The main output of the discussion was the creation within Opportunity International of the Micro Insurance Agency. Later, as a result of a US\$24.25 million grant, the agency became a separate company, which was renamed MicroEnsure.

Central to MicroEnsure's model is the concept that providing insurance to the poor involves performing three roles: first, carrying the risk; second, acting as the front sales office; and third, carrying out the back-office functions necessary to keep track of who is covered and to ensure a high level of service.

During the first three years of the microinsurance effort within Opportunity, it became clear that the weakest part of the link between microfinance institutions (MFIs) and insurers was the back office. Insurers wanted the MFIs to perform the back-office functions, and this approach worked well when the products were simple, such as credit life. When, however, the MFIs had to capture data on spouses and children, introduce a policy that ran for longer than the loan, or administer a significant volume of claims such as those arising from health insurance, the cracks started to appear. In response, the insurance companies took on the back-office functions, and although they were capable, management expenses rose as high as 40 percent, resulting in a higher cost to the client or a reduction in how fast claims were paid out. It seemed that one of the missing components in a functioning microinsurance market was a specialized back-office provider—a void that MicroEnsure set out to fill.

The MicroEnsure model uses a range of entities to carry the risk. For life and property insurance, there is an ample supply of

local insurance companies in most countries where MicroEnsure works. With more complex products like weather index insurance, MicroEnsure has had to use international reinsurers, such as Swiss Re. To provide health products, MicroEnsure has formed cell captive structures, which are essentially reinsurance pools formed using insurance companies' capital. Although MicroEnsure does not seek to carry risk on its own balance sheet, it does get heavily involved in designing products on behalf of others.

The partnership approach extends to how MicroEnsure reaches out to the poor; by working with a range of front-office partners, it now reaches more than 3.5 million people with a range of life, health, and weather index products. MicroEnsure's partners include MFIs, child-sponsorship organizations, NGOs, retailers (such as mobile phone companies), and individuals who serve as independent sales representatives (following the Avon business model). With average revenues of US\$0.23 per policy, MicroEnsure has no option but to partner with others in order to reach out to the poor. Currently 98 percent of policies are sold to groups.

MicroEnsure also plays a key role in training front-office staff and educating clients, using comic books to ensure that people understand the products they are purchasing.

Weather index products

MicroEnsure, one of the pioneers in weather index insurance, launched its first products in 2004 in Malawi, working with the World Bank. The original motivation for these products was that smallholder farmers in Malawi were excluded from obtaining credit for purchasing inputs such as fertilizer and seeds owing to lenders' concerns over drought. When weather index insurance became available to mitigate the climatic risk, lenders were willing to advance credit to the farmers, who in turn purchased better inputs and increased their yields (in some cases by 300 percent). The experience of MicroEnsure has been that farmers' main motivation for purchasing weather insurance is to unlock rural credit; there has been minimal success in selling weather insurance as stand-alone products.

Over the past few years MicroEnsure has developed index products using a range of triggers, including drought, typhoon, and excess rain, and for a range of crops and countries, including India, the Philippines, Rwanda, and Tanzania, as well as continued work in Malawi. The focus has always been to use weather index insurance to unlock rural credit for groups of farmers rather than to cover whole countries. Insuring a whole country would quickly cover a larger number of people, but it would require government involvement, and, following a disaster, the government may not be a safe conduit of funds to the rural poor. Furthermore, the poor cannot use an insurance policy applied to the whole country to secure loans.

Although MicroEnsure believes that weather index policies can have a significant impact on the rural poor, especially in the face

of changing climatic patterns, it also has a number of concerns regarding these products. In light of these issues, its focus in 2009 has been to prove that these products can be implemented in a range of countries for a range of trigger events and crops. In 2010 the challenge will be to demonstrate that these products can be scaled up to reach a large number of farmers, with action required in a number of areas:

- **Insure weather, not the crop:** MicroEnsure's approach to date has focused on designing contracts around specific crop varieties. This approach limits outreach because many smallholders are engaged in multicropping. It also requires extensive on-the-ground farm input networks, which are not ubiquitous. In 2010 MicroEnsure will experiment with providing index products that are triggered by the date that rains start or the number of days of rain in a specific period. This approach opens the products up to a range of companies such as farm input suppliers, seed manufacturers, and others in the rural community that are not directly involved in farming but that can be affected by a weather event.
- **Reduce basis risk:** In the Philippines MicroEnsure sells a weather index product combined with coverage for pest losses on a yield basis in order to reduce basis risk.
- **Improve affordability:** Currently weather index products are too expensive for farmers. Experience shows that the cost needs to fall to 3–5 percent of the sum insured. This reduction can be achieved either by reducing coverage (but this step increases basis risk significantly), by subsidizing premiums, or by allowing clients to buy coverage for only the months they are concerned about rather than the whole season.
- **Obtain weather data:** Weather stations are lacking, especially in Africa. Without investment in infrastructure, it may prove hard to scale up drought-related insurance products. The Global Humanitarian Forum is building automated weather stations in East Africa using phone masts. It may also be possible to use remote sensing data, especially if the trigger for payout is based on the number of days of rain rather than on the precipitation received.
- **Improve project management:** These complex products require on-the-ground project management to ensure that all stakeholders perform and that clients understand what they are buying.

Health insurance

In thousands of focus groups over the past eight years, the poor have expressed their desire for access to health insurance. This desire makes perfect sense considering the potential frequency of use—people die only once, but they go to the doctor several times a year! Ironically, it is this frequency of use that makes provision of health insurance difficult. Health insurance requires a way to administer a significant volume of low-value transactions combined with a way to control fraud by patients and hospitals. Experience shows that these products need to be on a "cashless" basis for the poor, because cash flow is an issue for them. Cashless products are essential because they enable the poor to gain access to healthcare without having to pay cash.

Cashless service requires a third-party administration (TPA) system to identify clients and preauthorize hospital treatments. TPA infrastructure does not exist in many developing countries. As a result, MicroEnsure has licensed TPA software for use outside of India. Within India, the TPA system has enabled MicroEnsure to sell and service health insurance that costs US\$8 a year for a family of four people.

In addition to a TPA to administer claims and fraud, health insurance requires a risk carrier. Local insurers are reluctant to offer health insurance, in contrast to life and property insurance, because it is a specialty business, underwriting data are scarce, and previous efforts have resulted in failure. To overcome this shortage, MicroEnsure has designed a dedicated cell captive that can underwrite the health risk working through a fronting insurer. In 2010 MicroEnsure will introduce micro-health insurance operations in Africa and Asia using the TPA and cell captive as key infrastructure.

In India, MicroEnsure's health insurance offers comprehensive in-patient coverage, but the cost of providing healthcare in Africa means that a comprehensive in-patient product costs US\$50 a year per family. Market research has demonstrated that the target market can afford around US\$30–\$40 a year per family. MicroEnsure thus intends to offer a product by working out what ailments can be treated at that price point. This approach turns the concept of insurance upside down—instead of covering health events with certain exclusions, the insurance covers nothing except certain specific ailments.

Some question whether the poor can afford US\$30–\$40 a year, but if current out-of-pocket expenditures are taken into account, then this sum is in fact affordable. For the poorest and most vulnerable, subsidies will be required, but at least health insurance can guarantee that the intended recipient is provided care. ■

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