

Highlight Note “Workshop Report Hiv/Aids and Microinsurance in Africa”

15 July 2005, The Hague (The Netherlands)

Network AFMIN and co-financing agency HIVOS organised a workshop “**Hiv/Aids and Microinsurance in Africa**” in April 2005. During three days, microfinance and microinsurance experts shared experiences on strategies developed to reduce the effects of Hiv/Aids on their clients. Recently a report has become available covering the discussions and outcomes of this workshop. Various models were analysed and several lessons were drawn.

Below you will find a brief summary. The full report is available in PDF.

Hiv/Aids pandemic and the need for consorted efforts

Because of the high prevalence rate and the far-reaching social, cultural and economic consequences, the Hiv/Aids epidemic can no longer be ignored. It affects not only the health situation of individuals, but households, communities and society as a whole. As a result the market place of microfinance institutions (MFIs) and microinsurance companies (MICs) changes, and hence the demand for financial products. What can microfinance and microinsurance organisations do? It is not their task to provide Aids support services. However as said, fighting Hiv/Aids is complex as gender disparities, traditions, lack of access to information, poverty, structural insecurity all play a role in the spread of Hiv/Aids and its impact. Consorted efforts are therefore needed. MFIs and MICs can play a role given their contribution to poverty alleviation, reduced vulnerability and economic empowerment of women. In addition MFIs and MICs can contribute to providing access to health care via insurance products.

Different categories of strategies for MFIs and/or MICs to deal with Hiv/Aids are distinguished, being:

- Prevention strategies (for MFIs and MICs)
- Product adjustments (for MFIs)
- Introduction of new products other than insurance (for MFIs)
- Introduction of insurance services (MFIs and MICs).

There is not one best strategy. Which strategy is (most) appropriate depends on the situation in a country and/or area of operation, the concerned organisation, and on the needs of the clients.

Microinsurance is defined as: 'risk-pooling products that are designed to be appropriate for the low-income market in relation to cost, terms, coverage, and delivery mechanism'. Microinsurance is important to get balanced financial security. Whereas savings and credit can help people improve their income and move out of poverty, microinsurance helps them protect the gains and hence prevents them from falling back into poverty. Savings go a long way to protect people. However insurance helps to spread risks not only over time but also across individuals. Hence it offers a better protection and even the only appropriate protection in the case of low frequency, high costs events.

Four main categories of insurance products can be distinguished, namely: life insurance, including credit life (or loan) insurance and funeral insurance, health insurance, disability insurance, including permanent, temporary, total, partial, credit disability, and property, such as fire, theft, floods, earthquake. In the light of the Hiv/Aids pandemic the categories of life and health insurance products are most relevant obviously, with the note that these two are fundamentally different, with the first one being more straightforward as risks are easier to determine and the latter being more complex as much more information is required to determine risk premium, more possibilities for fraud, and dependence on national health systems and health care providers.

Health insurance is particular relevant for the poor and benefits MFIs and the health sector. But why is low-cost health insurance so rare?

- High barriers to entry: Capital requirements tend to be high as claim loads and costs can exceed premiums collected. To guarantee service delivery, large reserves are required. Furthermore costs (especially administration) can be high, especially for small scale insurers.
- Lack of knowledge/information on probability of risks, variance of risks, variance of unit costs. Health risks and costs are especially difficult to determine and hence required capacity to offer health insurance is high.

- Lack of “industrial infrastructure” for insurance illustrated by among others uncontrolled drug distribution resulting in high overhead cost and high cost of administration (collection, claims processing, and payments).

Lessons learned

- Product design should be done on the basis of market research, products should be kept simple, group based to deal with adverse selection, and price (premium) should be set by insurer. Small community based groups can ease product design. Furthermore it can be interesting to offer service instead of payment.
- Product delivery: staff training and appreciation of insurance is necessary for significant sales growth, spend money on client education and marketing, compulsory products can leave customers with very little understanding, compulsory products DO NOT reflect demand, performance of agent in delivering claims as well as payment of insurer is important.
- Importance of computerization for data mining and efficiency.
- Separate insurance and other business and focus on core competencies.
- Microinsurance must be treated with the same business approach as regular insurance.
- Limits to management capacity can be expanded with reinsurance or outsourcing.
- Follow your calculator, not your heart.

Future

As said, fighting Hiv/Aids asks for consorted efforts from different organisations building on each technical and institutional strengths. All presenters highlighted the need for cooperation. Cooperation between MFIs, networks of MFIs, Hiv/Aids organisations, insurance companies, clients, health service providers, re-insurers, technical assistance providers is crucial. A lot can be gained by all parties. Working from a win-win situation is crucial. Or in other words all efforts should be based on the five Cs: cooperation, coalition, communication, commitment and competences.

The workshop Hiv/Aids and microinsurance in the microfinance sector in Africa resulted in the start of several consorted efforts judging by the joint plans made during action planning. Both AFMIN and Hivos are confident that all participants are dedicated to follow-up their plans made and are looking forward to see the results of this work. On our turn, AFMIN and Hivos will continue raising awareness and promoting the development of strategies dealing with Hiv/Aids, promoting linkages between all relevant actors, increasing the capacity and knowledge to offer access to insurance services for the poor, sharing good practices and supporting promising initiatives in this field!

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