



ESAF Program
Expanded and Sustained
Access to Financial Services

Introduction to Microinsurance

Presented at the ESAF Conference “Microinsurance Opportunities in Palestine”

**Palestine Red Crescent Society
Ramallah, West Bank
20 May 2009**

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Introduction to Microinsurance, Part 1:

- Definition
- Rational
- State of the Microinsurance World

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“Insurance”

“Covers an individual / company / household for **some or all** of a **financial loss** that is linked to an **unpredictable event** or risk, via **risk pooling** and the **payment of a premium**”

“Microinsurance”

WHAT

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

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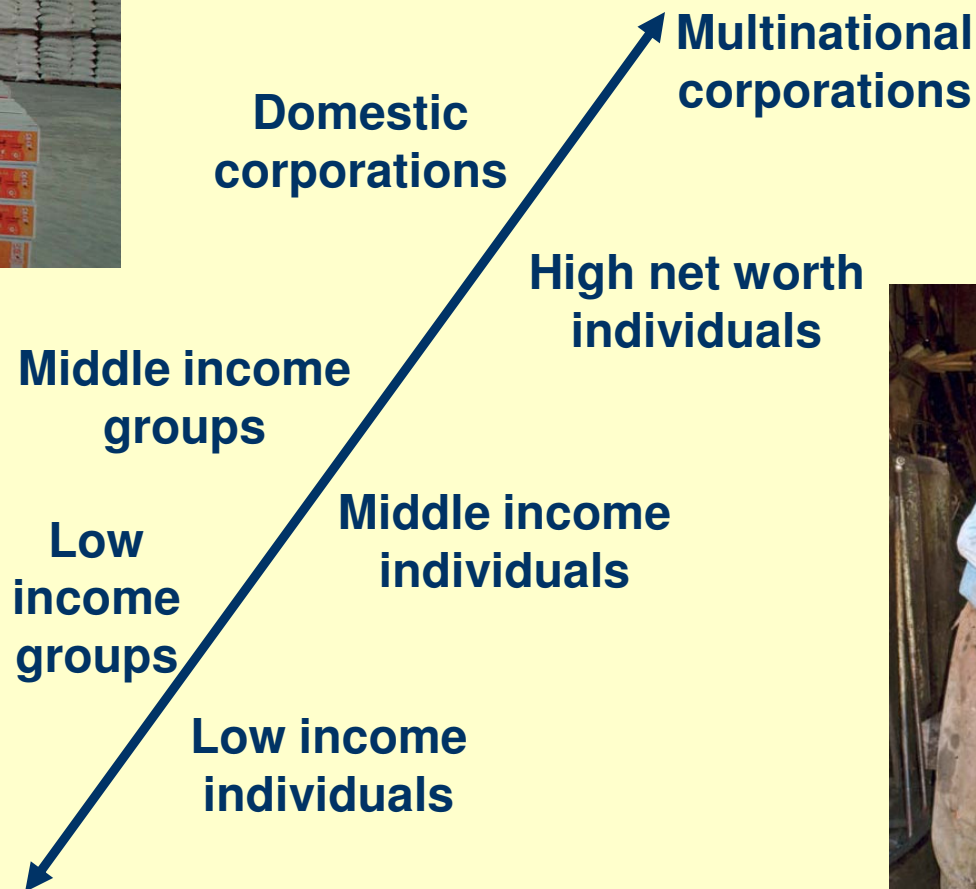
- MicroCredit can help people improve
- MicroInsurance helps them protect the gains

MICROINSURANCE?

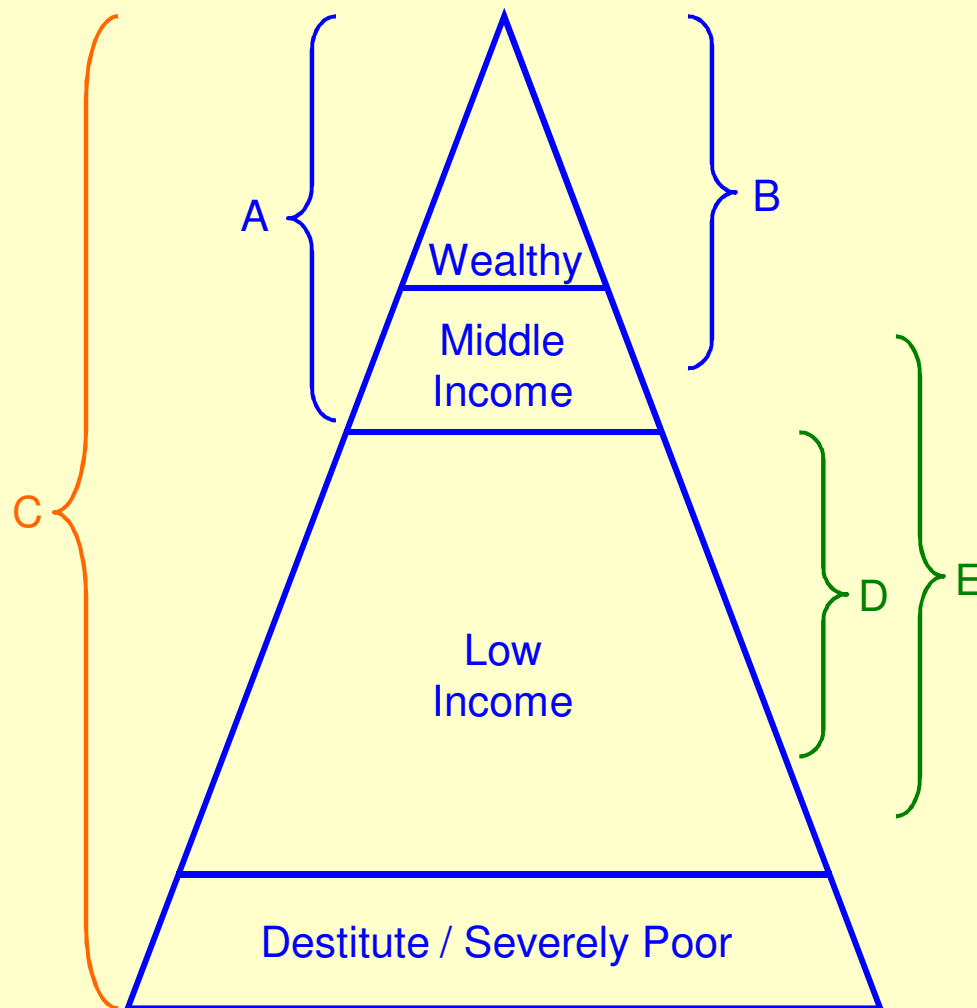
Why look at MI operations differently?

Microinsurance is ...

... part of the insurance market continuum



Market for Microinsurance



A Commercial Insurance for wealthy individuals and companies, as well as compulsory products

B Most of non-motor related commercial insurance

C Social security and public health services

D Aggregate market for microfinance providers

E Potential market for microinsurance

Conventional and Microinsurance

	Conventional Insurance	Microinsurance
Delivery Channels	Sold by licensed agents or brokers to wealthy, middle class individuals, or companies that typically understand insurance	Often sold by unlicensed non-traditional agents to low-income persons, preferably in groups requiring significant consumer education
Control efficiencies	Screening requirements may include a medical examination or other tests Death certificates confirming event	If there are any screening requirements, they are very limited to limit costs Confirmation by local leaders
Premiums	Typically regular annual, quarterly, monthly. Based on age or other specific risk characteristics, and collect regularly	Frequent or irregular premium payments. Group pricing with links to other services. Different risk structures
Policies	Complex policy document, many exclusions, usually annual terms	Simple language, few to no exclusions, terms appropriate to market
Claims	Claims process for large sums insured may be quite difficult	Claims process for small sums insured is simple yet still controls fraud

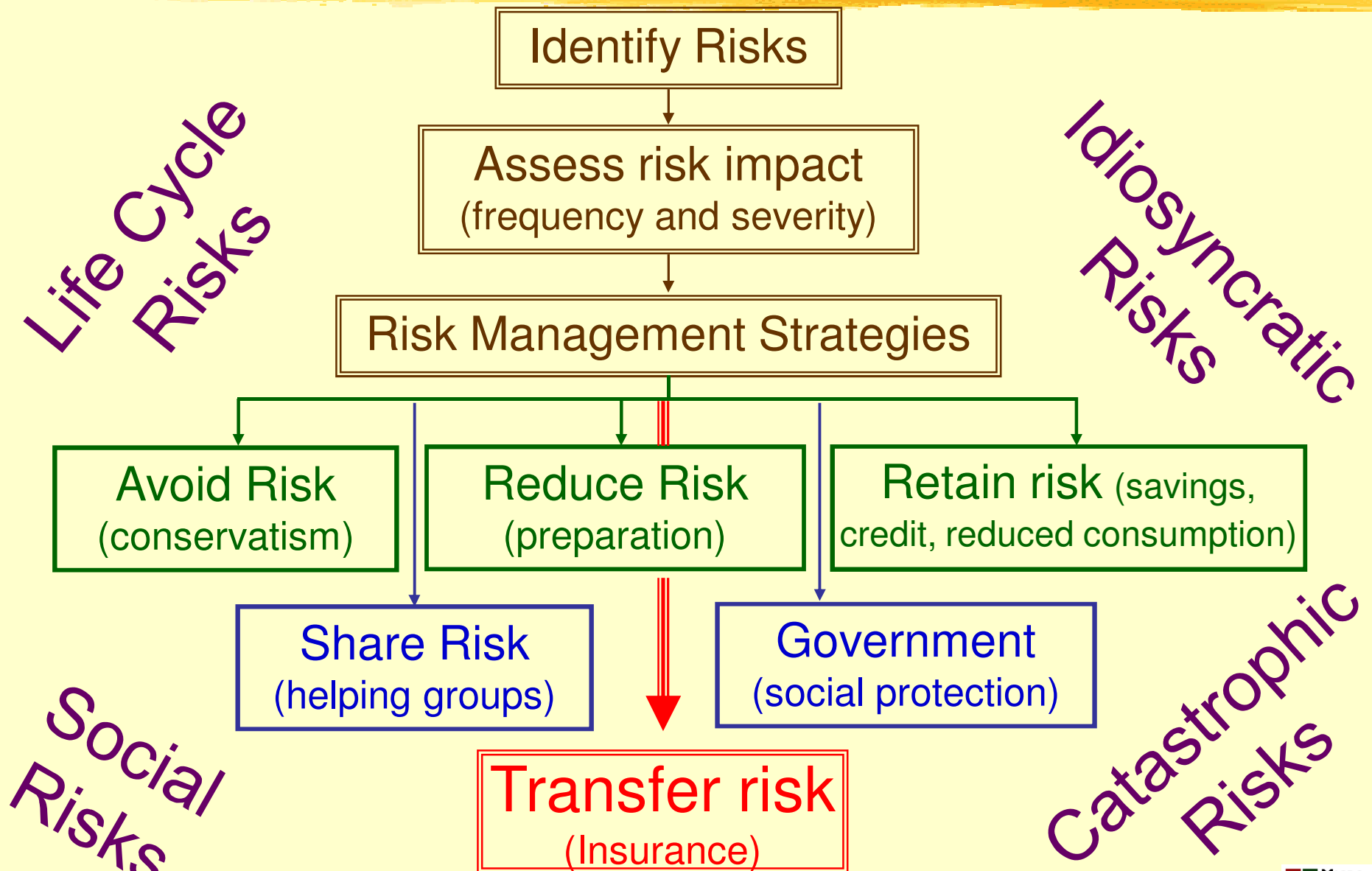
Insurance risks

Risk	Definition	Controls
Adverse Selection	People with a higher than average risk getting cover at the average premium rate	
Moral Hazard	Change towards riskier behaviour because of insurance	
Fraud	Intentional perversion of the truth	
Covariant Risk	Affects large numbers at once	

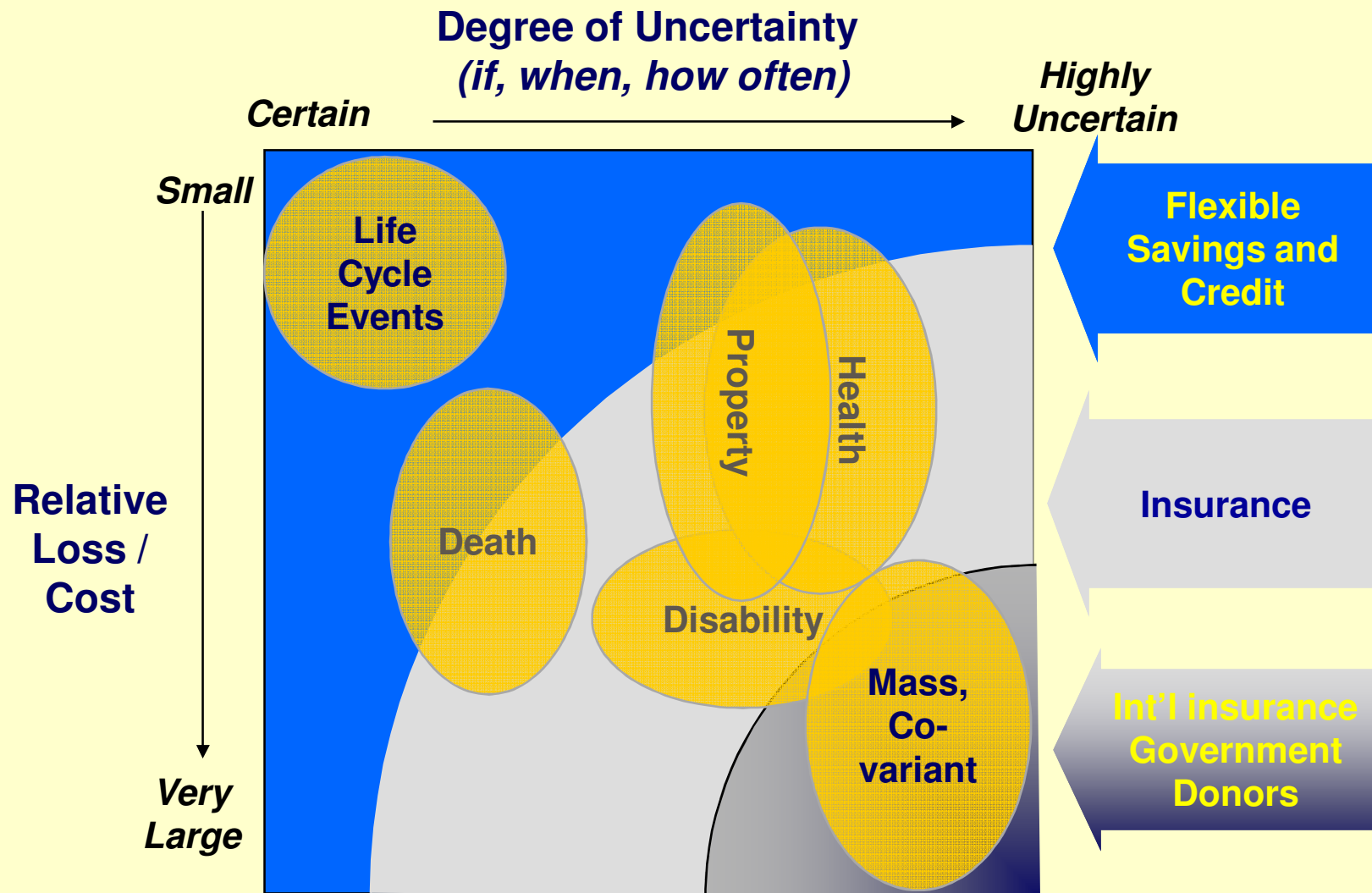
Risks to insurers



Risk Management Options



Savings, Credit, and Insurance



Adapted from Brown and Churchill, 2000

Two Reasons for (Micro)insurance

Wealthy

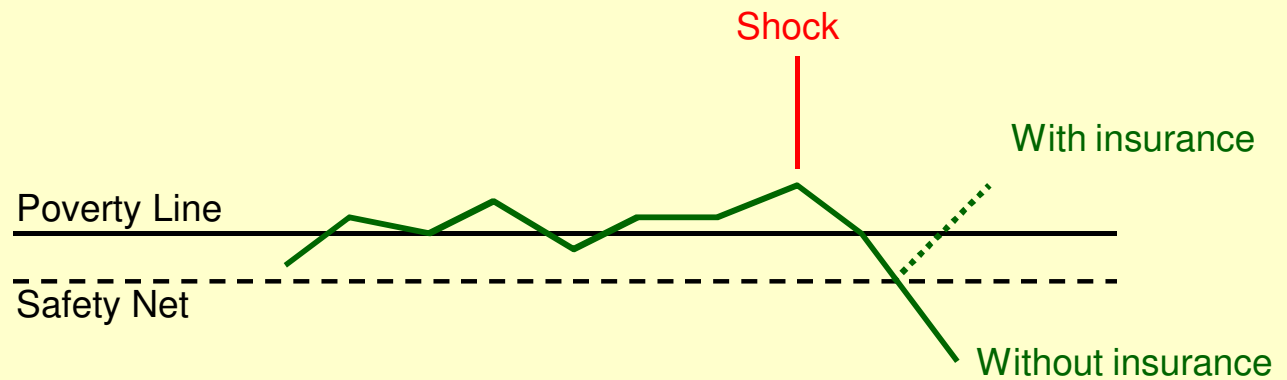
Non-poor

Vulnerable non-poor

Moderately Poor

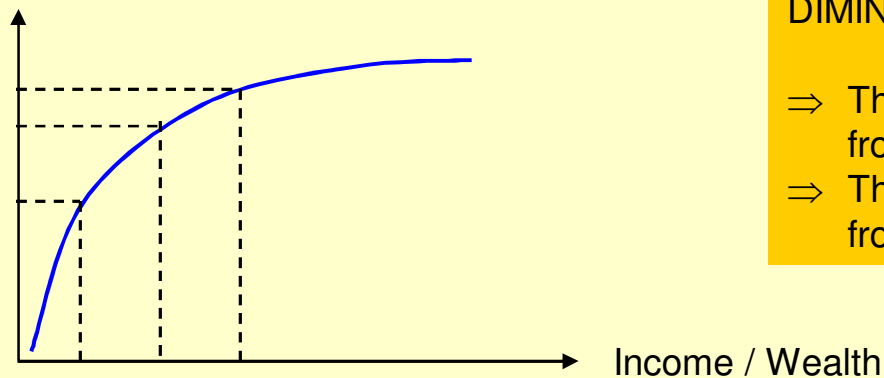
Extreme Poor

Destitute



EVOLUTION OF HOUSEHOLD INCOME AND ASSETS OVER TIME

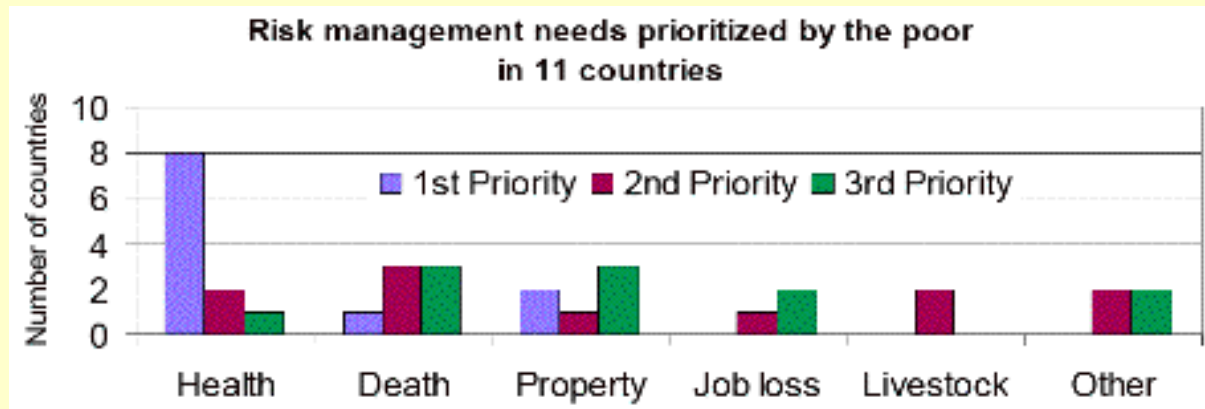
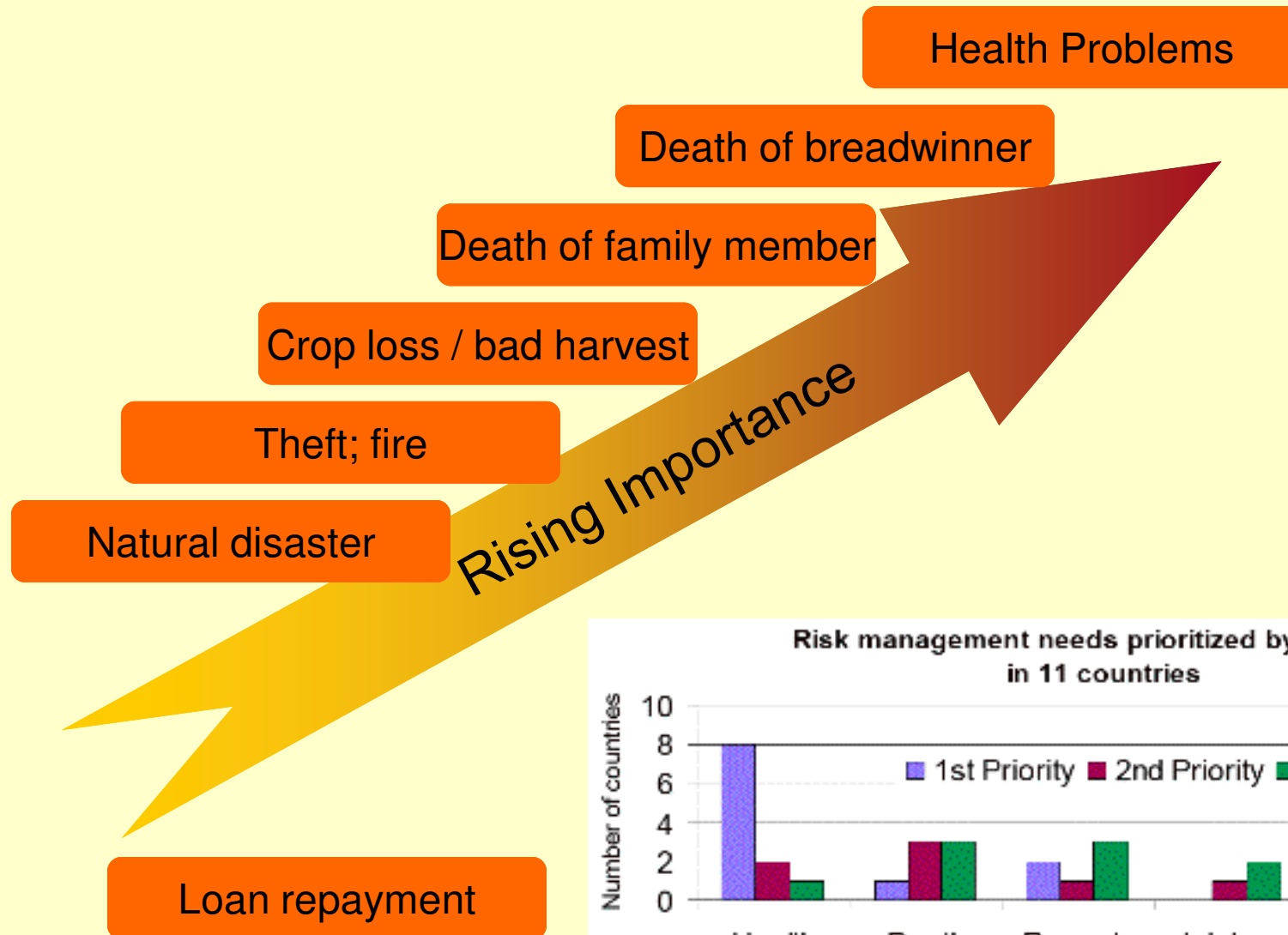
Utility



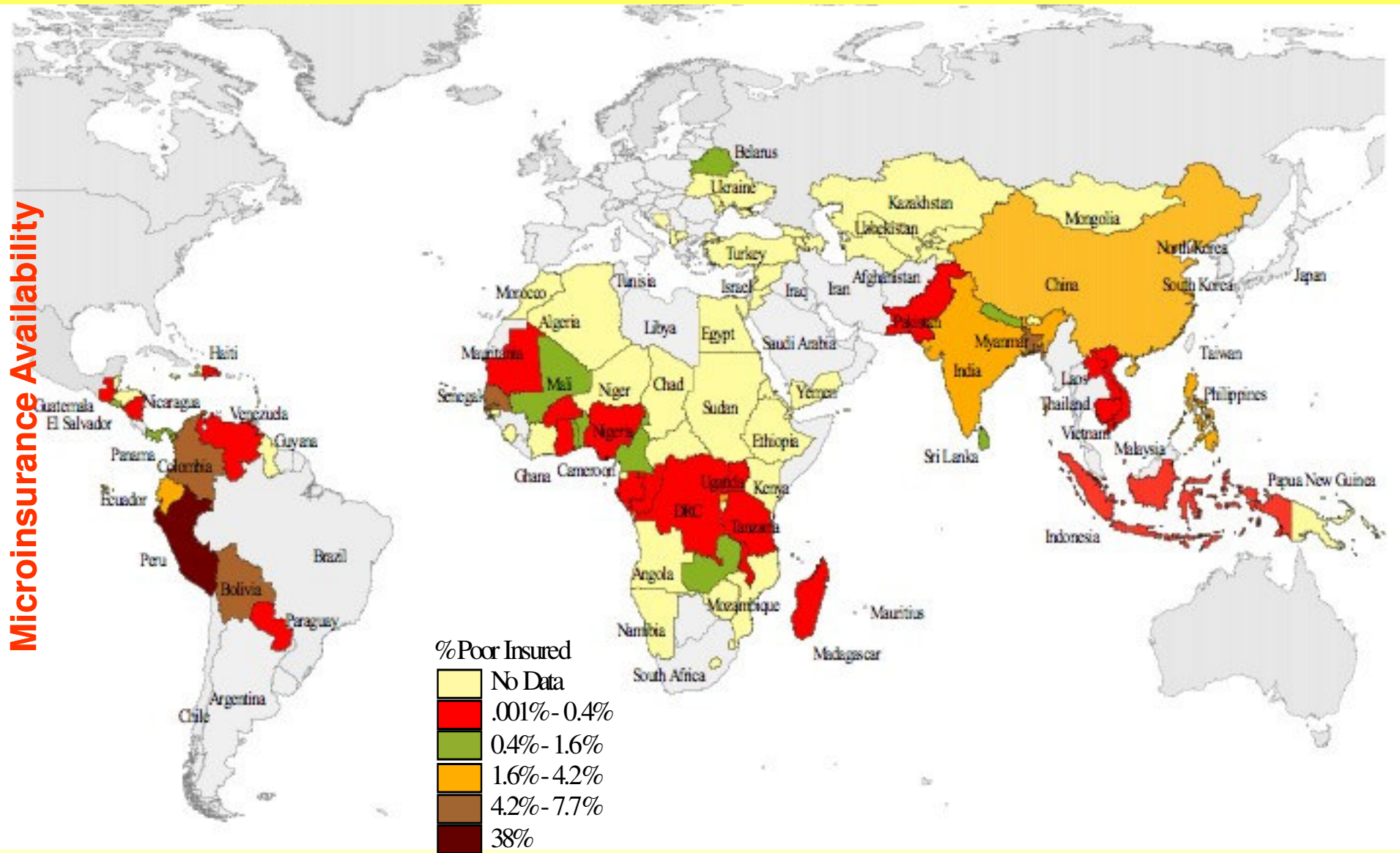
DIMINISHING MARGINAL UTILITY OF INCOME

- ⇒ The **more** you earn, the **less** value you get from additional income
- ⇒ The **less** you have, the **more** value you get from additional income

Risk Priorities by low-income people



A comprehensive landscape study of low-income people in the world's 100 poorest countries found that **only 3% (78m)** of the low-income population are covered by formal microinsurance.
(data from mid-2006)



Microinsurance types

Life Insurance

"Transition funds"

Credit Life

Pensions

Funeral

Education Life

Endowments

Health

Disability

Credit Disability

Permanent

Temporary

Re-employment

Total

Partial

QUALITY???

Surgical

Out-patient

Optical

Hospitalisation

Comprehensive

Dread Disease

Dental

Property

Livestock

Fire

Rainfall

Theft

Floods

Agriculture

Prices

Pricing Example

Example: Health Microinsurance

History and Products

- 2000: start as medical NGO
- 2004: transformation into licensed insurance company, specialized in health
- 2008: serving 76'000 formal sector clients and 29'000 informal sector clients on a commercial basis
- Offer: 3 health insurance packages at premium levels 70 - 225 \$ per person/year
- Cover limits: 450 - 45'000 \$/y
- optional: PA / worker's compensation and emergency treatment in India

Factors of success

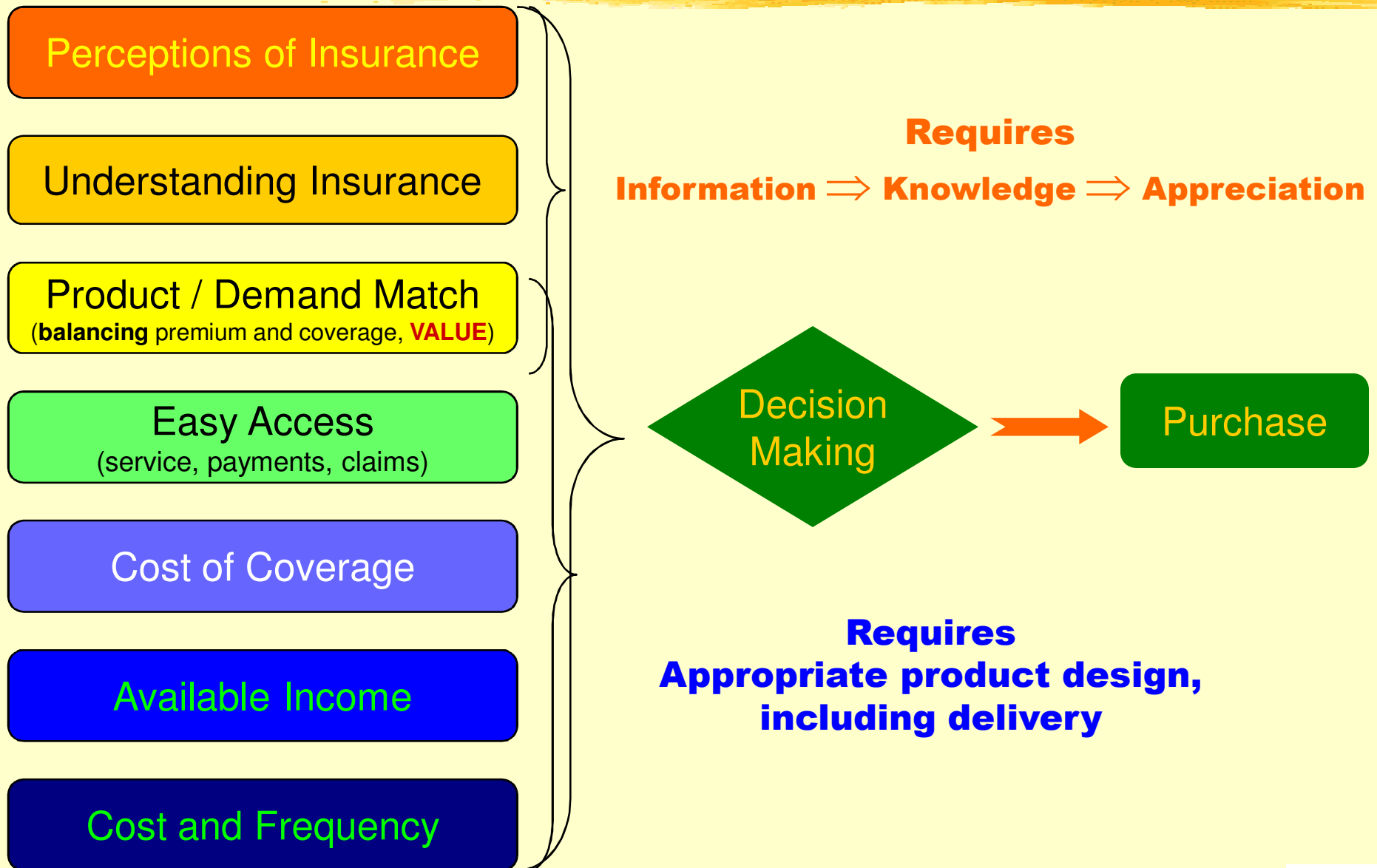
- products developed together with the target clients
- group policies only
-> min 25 covered lives
- medical knowledge
- controls save 30% claims cost
- Extensive use of technology:
 - smart cards for client identification and online claims processing
 - statistical analysis of claims pattern -> preventive actions, fraud detection, price adjustments

More at: www.microcare.co.ug

Policyholders (the market)

- People do respond to “good” products
- Generally lack understanding of insurance and thus require knowledge and appreciation
- Education, marketing, policy documents **MUST** be simple and appropriate
- We need to help people link needs with insurance as an appropriate response

Factors in MI Purchases



Marketing lessons

- **Standardized approach to marketing** (education for all, marketing statement, FAQs, Consistent messages from all)
- **Simplicity (pictures)** Explain process, exclusions, limitations, and answer the question “what if I never make a claim?” – simple product design
- **Renewals start with the initial contact** (understanding)
- **Front line staff, and *efficient processes* are the key to making this work**
- **Staff without targets or incentives will not sell well, motivate them** Not everyone is a salesperson

Recommended Literature

- McCord & Roth (2006): What Is Microinsurance?
- ILO (2007): Protecting The Poor - A Microinsurance Compendium
- Churchill et al. (2003): Making Insurance Work for Microfinance Institutions
- Churchill (2007): Microinsurance Lessons For Microfinance Institutions
- McCord (2008): Visions of the Future of Microinsurance and Thoughts on Getting There

- Wipf & Garand (2007): Performance Indicators for Microinsurance
- IAIS (2007): Issues in Regulation And Supervision of Microinsurance
- World Bank (2008): Finance For All

- www.ilo.org/microinsurance
- www.microinsurancenetwork.org
- www.munichre-foundation.org
- www.microinsurancecentre.org