

# Introduction to microinsurance

## Opportunities and barriers

**Craig Churchill**

*Microinsurance Innovation Facility  
International Labour Organization*



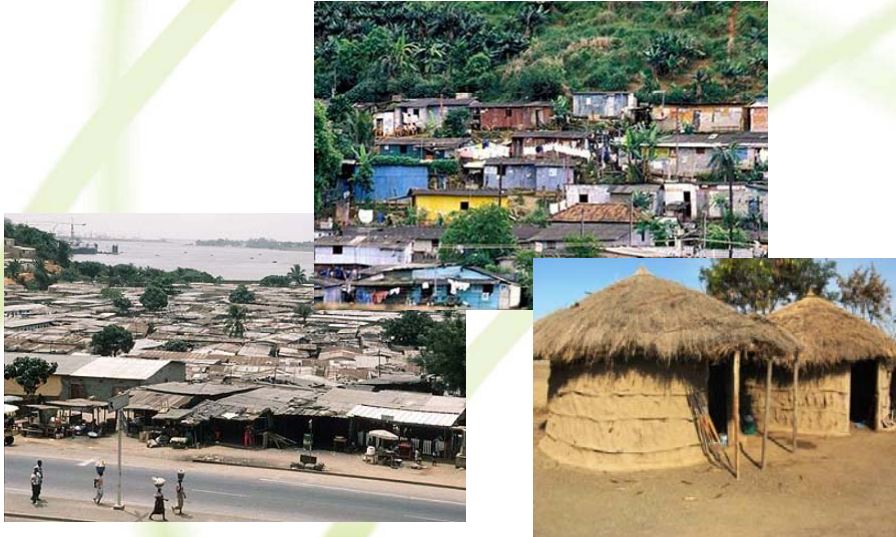
A member of the

micro  
insurance  
network

## Overview of Presentation

1. Microinsurance characteristics
2. Key challenges
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts

## Would you insure these houses?



## Would you insure these farmers?





## Would you insure these assets?



## Or these?



## Would you insure these lives?



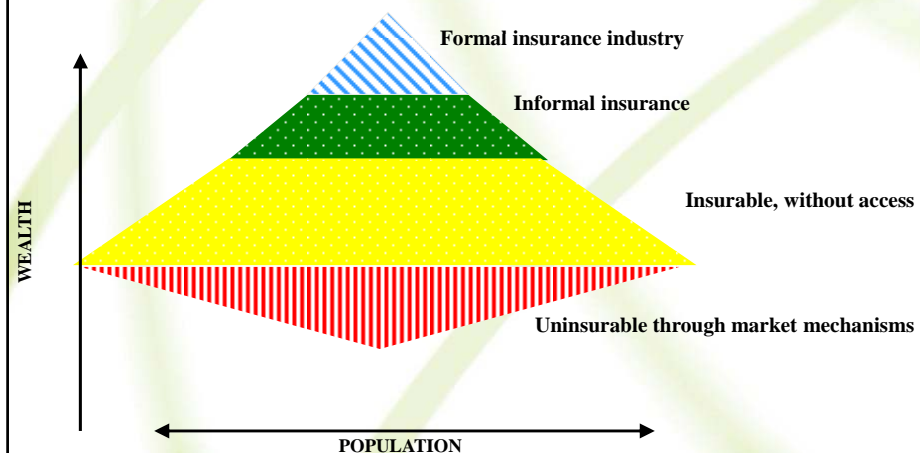
## Microinsurance is...

“...not a specific product or product line. It is also not limited to a specific provider type. Microinsurance is the provision of cover to a specific market segment, i.e., **low-income persons**.”

~ IAIS Issues Paper (2007)



## Who is insured by whom?





## Why is microinsurance different?

### What if the target group:

- Cannot read the policy document?
- Doesn't have a national identity document?
- Cannot afford to pay premiums every month?
- Doesn't have a bank account?
- A medical exam costs more than the sum assured of a life insurance policy?
- Doesn't have legal title to their ancestral homes?
- The next of kin cannot get a death certificate?
- Lives 50 km from the nearest health care facility?
- Doesn't trust insurance companies?

## Key characteristics of microinsurance

1. Physically accessible
2. Intellectually accessible: Simple, easy to understand policy document
3. Financially accessible: Small premiums that accommodate irregular cash flows
4. Make the intangible tangible
5. Broadly inclusive, with few if any exclusions
6. Small sums insured, often for short terms
7. Pre-underwritten, community or group pricing



8. Distributed through alternative channels: aggregators
9. “Agent” aggregators may manage the entire customer relationship, premium collection, claims payment
10. Often integrated with another financial transaction
11. Designed to minimize claims rejections
12. Bottom of the pyramid business model: small margins, large volumes



### Main Message:

Microinsurance is not just a scaled down version of regular insurance...the product and processes need to be completely reengineered to meet the characteristics and preferences of the low-income market.

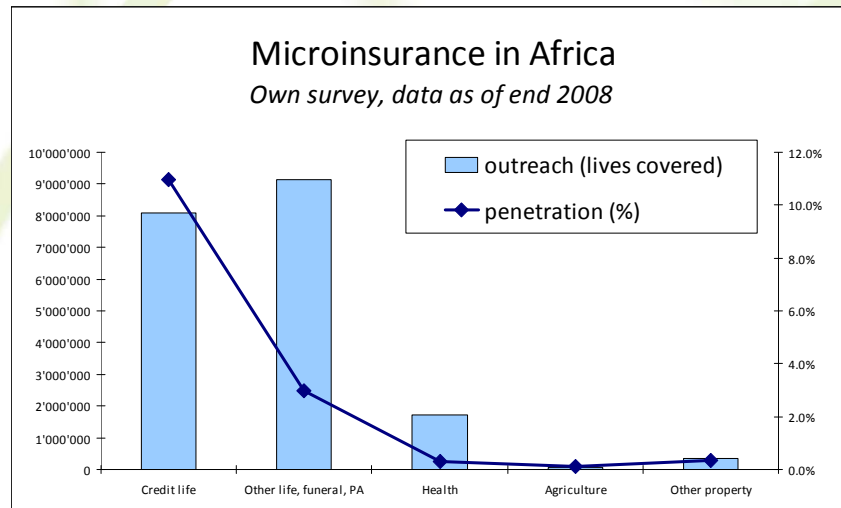
## Overview of Presentation

1. Microinsurance characteristics
2. Key challenges
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts

## Key challenges

- Distribution that reaches large numbers of low-income households, and has their trust
- Involving the market in designing simple products
- Educating the market
- Making insurance tangible to all, and beneficial to those who do not claim
- Maximizing efficiencies
- Reaching huge numbers of people, and keep them
- Encouraging claims!
- Developing appropriate institutional arrangements that are viable and provide value to the poor





## Overview of Presentation

1. Microinsurance characteristics
2. Key challenges
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts

## Product Evolution

### Phase I:

- Mandatory; Credit linked (MFIs)
- Simple products: Life, funeral
- Easier to administer

### Phase II:

- Greater product sophistication; voluntary
- New distribution channels
- Increasing benefits, choice, outreach
- Use of technology

### Phase III:

- Increasing innovation
- More complex products and choice: health, agriculture
- Multiple partners (e.g., hospitals; mobile phone provider; public-private partnerships)

## Product innovation: Life



- A simple, tangible savings and insurance product sold through small retailers
- Includes death and accident coverage based on account balance, irregular savings as low as USD 0.22
- Does not lapse

Crop insurance programme based on a weather or area-yield index to protect farmers, their assets and their crops



Sanasa Insurance  
Sri Lanka



ICICI Lombard  
India

Livestock insurance testing RFIDs to reduce fraud



Satellite index of vegetative cover for livestock insurance



## Cooperative Insurance Company, Kenya



- Offering Bima ya Jamii: “Basket” product covering life, disability and the National Health Insurance Fund (NHIF) coverage
- Family (up to 7 members) coverage: In-patient health, AD&D, loss of income due to accident, funeral expenses
- No age limits, no exclusions, covers pre-existing conditions
- Selling through MFIs, SACCOs and other cooperatives
- Emphasizing training and consumer education for distribution channels and their members

## Overview of Presentation

1. Microinsurance characteristics
2. Scope of microinsurance in Africa
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts



## Key characteristics for aggregators

1. Reaches large numbers of poor persons or households
2. Has some financial interaction with the target group
3. Has a trusted relationship with them
4. Can realize a benefit from providing insurance
5. Has adequate systems and staff capacity

*Not just banks, MFIs and financial cooperatives!*

## Distribution Channel Innovations



**La Positiva**  
Seguros

- Collaborating with national consumers' association for rural water rights to develop life, health, personal accident and funeral insurance products for farming families, with premium payments collected with water bills



**Hollard**

- Offers a property insurance product sold through retailers and suppliers of cell phone airtime



**PIONEER**

- Distributing life insurance and savings product for the families of migrant workers through churches and schools

## Overview of Presentation

1. Microinsurance characteristics
2. Scope of microinsurance in Africa
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts

## Innovations to establish trust

Strategies for establishing the trust of the market:

- Leveraging trust relationships
- Financial education
- Paying claims!
- Value-added benefits
- Strong brand
- Customer care

## Overview of Presentation

1. Microinsurance characteristics
2. Key challenges
3. Emerging innovations
  - a) Products
  - b) Delivery channels
  - c) Establishing trust
4. Concluding thoughts

## Concluding thoughts

- **Successful products:**
  - Overcome the wariness of customers
  - Adapt to the socio-economic situation of the poor
  - Create a new insurance mindset: help people manage risks
- **Pivotal time for sector development:**
  - Increasingly rapid expansion
  - Key stakeholders joining forces with more resources
  - Higher standards are expected (products, value)
- **To capitalize on developments the sector must scale up, but:**
  - Start small: Ensure product viability first
  - Build on lessons learned: Apply rigorous and objective testing
  - Innovate to add more value to products

*Innovation will drive development*

*Thank you!*

*Craig Churchill*

[churchill@ilo.org](mailto:churchill@ilo.org)

Tel +41 22 799 6242

[www.ilo.org/microinsurance](http://www.ilo.org/microinsurance)

A member of the

