Microinsurance - Transferring the risks of the world's most vulnerable people

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Poor households are highly vulnerable to risks and economic shocks, and their ability to cope with a crisis can be severely reduced by their lack of resources. Microinsurance can assist them to maintain a sense of financial confidence even in the face of significant vulnerability.

Microinsurance can be broadly defined as risk-pooling mechanisms that are designed to be appropriate for the low-income market in relation to cost, terms, coverage, and delivery.[1] There are numerous forms of microinsurance to cover a variety of risks.

Types of microinsurance

The most common forms of microinsurance are 'Credit Life' and 'Term Life'. *Credit Life* covers the lending institution against the inability of the borrower to repay the loan as a result of death or disability. The policy is owned by the lender, often a microfinance institution (MFI), and, from a client perspective, it ensures that the family of the deceased/disabled person will not inherit a debt. From a lending perspective, it enables the lender to transfer the risk of client loan default due to death, and improve portfolio performance. *Term Life* microinsurance also covers death (and sometimes disability) however the policy is owned by the client, and it is usually designed to pay for funeral costs and the immediate expenses of the bereaved family. The spouse and children of the client may also be covered, usually for a smaller sum insured.

Health microinsurance is less common, even though it can be very valuable to poor people, because of the complexity in overcoming issues of moral hazard[i], adverse selection[ii] and fraud[iii]. As an example of this, one of Uganda's largest general insurance companies, Panworld, collapsed within a few months of introducing health insurance, largely due to significant levels of fraud.[2]

Other forms of microinsurance specifically target region or sector specific risks. Some examples include insurance that covers death of livestock, crops, property, fire, flood or drought.

Creating client-focused products

Most microinsurance experts consider simplicity, and a client-centric approach, to be the keys to successful product design. While microinsurance is often linked to a loan, it is still very important to understand all of the client's needs. If a compulsory insurance product does not meet clients' needs, they will become dissatisfied and loans will start to fall into arrears.[3]

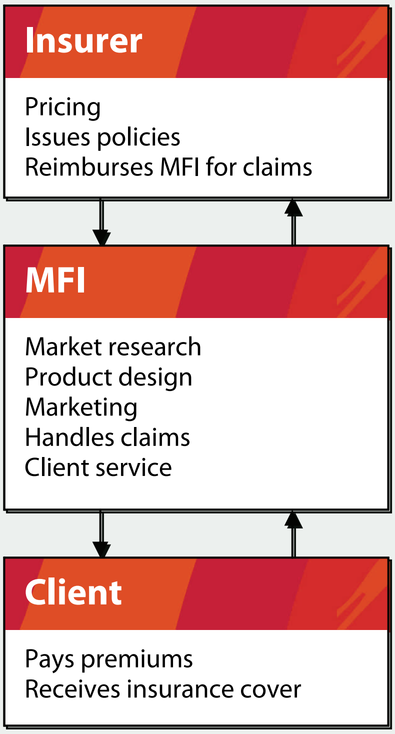
Market research is generally considered to be an important tool when designing products to meet client needs. An excellent example of this can be found in Taytay Sa Kauswagan Inc (TSKI), an MFI in the Philippines, who now package a term life policy with all loans. Respondents were very enthusiastic about insurance, and they wanted a death benefit of A$2,550 for themselves, A$1,530 for their spouse, and A$1,275 for each child. All clients indicated they would be willing to pay A$1 per month for life insurance, and many indicated they would be willing to pay more.[4] This market research enabled TSKI to introduce a product for their clients that was

i **Moral hazard** refers to the possibility that the redistribution of risk changes people's behaviour. For example, a person whose car is insured against theft may be less vigilant in locking the vehicle than an individual who is not insured.
ii **Adverse selection** in health insurance describes a situation where people who know they have worse than average health problems are more likely to seek insurance cover.
iii **Fraud** is a deliberate deception for personal gain.

affordable and met their clients needs.

The most common model of product delivery is known as the 'partner-agent model', where the MFI acts as an agent on behalf of an established insurance company. The advantage to the MFI is that their clients can be insured, without carrying any of the risk themselves. The advantage for insurance companies, is that they can issue a batch of policies to an established network of clients, even though it would not be cost effective to service low-income clients individually.[5] One of the potential disadvantages of this model can be that the insurance company is unwilling to invest in developing products that truly meet the needs of poor people.

Figure A: Partner-Agent Model



The Micro Insurance Agency, a subsidiary of Opportunity International, overcame this problem by assisting MFIs conduct market research, designing an appropriate product, and approaching insurance companies to reach an agreement on exact product specifications and price. The product developed for TSKI, described in the above paragraph, is an example of this process in action.

Introducing products to the poor

A critical part of any successful product launch is that they have the full understanding and support of the issuing field staff, eg loan officers. As such, the internal marketing of products, alongside external promotion, should not be overlooked.

An example of a lack of staff training affecting product acceptance can be found in the experience of CETZAM, an MFI in Zambia, southern Africa. The geography of the locations meant that staff and clients in the north were well aware of the pilot product and were very happy to introduce it to clients. By comparison, the branches in the south were unaware of the new product and it was met with hostility when it was introduced. When clients started to question staff, they were not willing or able to defend the company's policy, and as a result, clients lost faith, not only in the new product, but also in the institution. It is essential that staff are trained in advance so they are equipped to discuss the features and benefits of the product with the clients.

While the main method of client education must be through the loan officers, various institutions have initiated innovative, culturally appropriate marketing strategies to inform clients of new products, such as microinsurance. In India, Tata-AIG, one of India's largest insurers, embraced the local film culture by creating a 20-minute Bollywood style short film, complete with tragedy, comic moments, and song. The main character of the film experiences the unexpected death of the famiy's sole income earner, however thanks to an insurance policy, the household can weather the hardships. The film is shown from branded vans and at the conclusion of the film, company representatives answer questions and accept applications.[6]

To enable the provision of microinsurance at minimal cost, products are often provided on a compulsory basis with all loans. While most clients can understand the benefits of the insurance, occasionally, individuals may be hostile to the introduction of compulsory new products. For this reason, group lending methodologies can play an important part as individuals often experience a change of heart once the idea is discussed as a group. Clients are particularly compelled when they actually witness families in their community receiving the benefits of the insurance when they make a claim. For this reason it is critical that an efficient claims process is established.

Claims and technology

Just as microinsurance products need to be simple, the process of making a claim must also be. These two notions are inherently linked as any product that has many eventualities or a large amount of exclusions, can lead to a complex claims process and delays in providing the claim to the client. Many MFIs now have agency agreements in place with insurers that allow the MFI to assess and pay death claims. If the product is simple and has few exclusions, then it is easy for loan officers to verify that the claim is payable.

One of the biggest difficulties in attempting to pay claims quickly is the common incidence of fraud. Even with the most simple of life insurance products, some parts of Africa have seen numerous false claims, leading to a verification procedure, whereby once receiving a death claim, the loan officer would have to physically visit the hospital and check with the doctor who signed the death certificate.[8] While this reduces fraud, it also leads to delays in claim payments.

Some MFIs do not have a suitable management information system (MIS). Claims are often reported for individuals that are not listed as family members, or for loans that are no longer active. As many MFIs use paper records, claims may be incorrectly accepted for processing by the branch, and the branch staff do not realise that the claim is not payable until the claimant has left the building. However, if the MFI has a suitable MIS, then the branch staff can immediately check records to see that the deceased was covered and the policy was active at the date of death. This significantly reduces misunderstandings and client dissatisfaction.

To increase administration capacity and lower costs so that products can be rolled out across an entire network, efficient MIS systems are required. An example of innovation in this area, is the "Automated Insurance Management System" (AIMS) developed by Opportunity International. AIMS is an insurance-specific software package that can be integrated with eMerge, a derivative of the Globus banking software, which is becoming the most common software platform in the Opportunity International Network. AIMS eliminates any need for double keying of loan and insurance policies. It can automate many of the functions that used to be performed manually such as deduction of premiums from a client loan account, and formulating reports for the insurance company. This has the benefits of lowering administration costs, as well as minimising human error.

HIV/AIDS and life insurance

Due to the prevalence of HIV/AIDS in Africa, some insurers have issued life insurance policies that exclude HIV/AIDS. Most now consider this an impractical solution for two reasons. First, HIV/AIDS is rarely listed as an official cause of death, but rather pneumonia, tuberculosis or other diseases. Second, insurance is mostly tied to short-term loans, so the borrower has already fulfilled the lenders credit criteria, and is unlikely to be seeking a loan if they are very unwell.

The future of microinsurance

Microinsurance is a relatively new concept, and a large amount of capacity building of providers is required. A large part of this will involve technological innovation which can enhance efficiency. MFIs need to make difficult decisions, trading off between long-term investment in technology and the low start up costs of manual and paper-based processes. The former is certainly necessary if the industry is to establish a sustainable and scalable foundation for expansion.

In terms of product evolution, health insurance is the next priority, particularly in countries where governments do not provide adequate healthcare facilities. There may also soon be demand for retirement insurance or old-age pensions. Some pilot projects for products that cover livestock or crops are also already in place.

As the reach of microinsurance expands, the need for reinsurance will also increase, particularly if the poor are to be guarded against catastrophic risks they often face, such as natural disasters. They are also more susceptible to disease, such as HIV/AIDS and avian influenza.[9]

In addition to the above developments, for microinsurance to thrive, a sound regulatory and corruption-free political foundation is required. Some national insurance regulators have taken positive steps towards increasing insurance access to low-income groups. In India, the national insurance regulator introduced legislation in 2002 that all insurers must obtain a minimum specified percentage of premiums collected from rural and social sectors.[10] Whether other countries follow India's approach, or explore less prescriptive ways of making insurance markets more inclusive, it is important that regulators take an active approach in promoting microinsurance.

For microinsurance to realise its potential, it is necessary to develop an insurance culture among poor communities. Greater market education is required, but the most rapid expansion of microinsurance will take place when clients can see the value that it can bring to members of their community. Attitudes will be affected by the ability of providers to continually improve processes, services, benefits and costs for clients.

Microinsurance can effectively cover many of the biggest risks that many poor people face; but can't produce a major dent in poverty reduction on its own. However, as part of an integrated approach involving other forms of microfinance and enterprise development services, microinsurance will increasingly be a powerful tool in the fight against poverty.

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Opportunity International is a global leader and pioneer with over 35 years experience in providing microfinance and enterprise development to the working poor in developing countries. Microfinance includes the provision of collateral-free loans, savings, insurance and money transfers. Enterprise development incorporates a variety of training and support services for establishing and growing small businesses. Our desire is to see clients, their families and their communities transformed with dignity, empowerment and hope. Opportunity is inspired by Jesus Christ's call to serve the poor without regard to ethnicity, gender or religious affiliation. We are guided by four core values: respect, commitment to the poor, integrity and stewardship.

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