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What is Microinsurance?

Craig Churchill

What is the ILO?

- Specialized UN agency created in 1919
- Promotes social justice and human and labour rights
- Forum for governments to engage with employers and workers organizations (tripartite structure)
- Formulates international labour standards (Conventions and Recommendations)
- Provides assistance to member states and social partners in implementing standards

ILO's interest in microinsurance

- The ILO is concerned about:
 - The promotion of decent work (more and better jobs)
 - The availability of social protection for workers and their families
 - The impact of financial policies on social justice (i.e. toward more inclusive financial markets)

What is microinsurance?

First, what is it not?



- Savings, credit, risk prevention...
- Small insurance companies
- Just another product offered by microfinance institutions



Microinsurance is...



“the protection of **low-income people** against specific perils in exchange for regular premium payments proportionate to the likelihood and cost of the risk involved”

~ *Draft Donor Guidelines*



Microinsurance defined (cont.)



- Involves a risk-pooling element
- Could cover a variety of different risks (i.e. illness, death, property loss, combination)
- Delivered through a variety of different channels...

Microinsurance delivery channels



- Partnerships between insurers and distribution agents like cooperatives and MFIs (e.g. AIG Uganda)
- Regulated insurance companies that serve the low-income market directly (e.g. Delta Life, Bangladesh)
- Insurance companies that target the low-income market through retailers (e.g. Ellerines, South Africa)
- Self-insuring MFIs that assume the risk of offering insurance to their clients (e.g. Spandana, India)

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Microinsurance delivery channels (cont.)



- Informal mutual assistance schemes (e.g. burial societies, South Africa)
- Community-based schemes that pool funds, carry risk and manage a relationship with a healthcare provider (L'Union Technique de la Mutualité Malienne, Mali)
- Mutual insurance companies created by credit union/cooperative federations (e.g. La Equidad, Colombia)
- Healthcare providers offering health care schemes (e.g. Nkoranza Community Health Insurance Plan, Ghana)

Who is this? →



- Janus, Roman God of Gates and Doors
- Also the God of Beginnings
- From whose name we get “January”
- Depicted with two faces

The Two Faces of Microinsurance

A new market
for the private
sector



Social security to
workers in the
informal economy

The social dimension of finance



A new market for the private sector

“The private sector, in its desire to ... gain market coverage, will invent new systems depending on the nature of the market. That is precisely what we need. We need the capacity to bring more people into the market system.”

CK Prahalad, Fortune at the Bottom of the Pyramid

The social dimension of finance





Key principles of innovation for BOP markets

- New understanding of price-performance relationship
- Scale of operation: basis for returns on investment is volume
- Utilize advanced technologies
- Significant investments in educating customers
- New distribution channels to accessing the customer
- Challenge the conventional wisdom



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Social security to workers in the informal economy



Government policies and programmes to reduce poverty and vulnerability by diminishing people's exposure to risks and enhancing their capacity to protect themselves, such as

- Unemployment and disability benefits
- Universal health care
- Old age pension

The social dimension of finance



Challenges to the provision of social security to informal workers



- No mechanisms to systematically reach informal workers...workers are unorganized
- No employer contribution
- The poor may not be able to afford the full cost
- Insufficient government resources to cover recurring expenses
- Inadequate infrastructure to provide appropriate services (e.g., health care)

The social dimension of finance



Microinsurance as social security...



- Fills the gap to provide coverage to the excluded
- Responds to an urgent need in the absence of formal social security
- Creates delivery mechanisms to extend government programmes (and subsidies) to the informal economy
- Strives to integrate the informal and the formal

The social dimension of finance



Either way, the intention is to reduce the vulnerability of the working poor by enticing the **public** (social security) and the **private sector** (new market)—or both—to do what neither has been particular effective in doing: providing insurance to the poor... microinsurance!



The social dimension of finance



Commercial Insurers and the Low-income Market: Ten Factors for Success

- 1. Understand the Market's Needs**
- 2. Involve the Market in Designing Simple Products**
- 3. Educate the Market**
- 4. Earn the Trust of the Market**
- 5. Maximize Efficiencies**
- 6. Leverage Existing Relationships**
- 7. Reach Huge Numbers of People, and Keep Them**
- 8. Encourage Claims**
- 9. Create Institution Space to form a Microinsurance Culture**
- 10. Adopt a Long-term Perspective**



Thank you!

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