



Microfinance : Microinsurance

Microinsurance: Outgrowing Goodwill

Can NGOs and microfinance institutions increase access to insurance for poor people? Michael J. McCord, CEO of the MicroInsurance Centre, thinks commercial banks and retail outlets can better reach the world's billion potential insurance clients.



Michael J. McCord, CEO MicroInsurance Centre

"If we are going to have massification, it is going to happen with commercial insurers." (Photo: MicroInsurance Centre)

What are the fundamental differences between insurance in developed and developing countries?

In developed countries, we typically have a range of products that are accessible throughout the different levels of the market and these are sold in a manner that is generally appropriate at different economic levels.

In developing countries, insurance companies have focused almost exclusively on the upper income market of wealthy individuals and companies, as well as servicing the compulsory insurance market. That's where they've seen their potential client base.

Has that been changing?

Back in the early 2000s, I'd stop in to visit insurance companies' chief executive offices to discuss the potential in this market. When I'd leave their offices,, they would often have a much different view of the market and where they could fit into it. Typically, they had not even considered that this 70 percent of the market they are not looking at could be viable.

Now, we see high participation of insurers and insurance associations, as well as insurance supervisors, in numerous national, regional, and international microinsurance meetings. When I meet up with insurers at these meetings, they are no longer trying to understand what microinsurance is. They are coming to ask, "How do we get more clients and how do we get better products?" This has been a major transformation.



Access to financial Services

Click on the picture to find out what fraction of households in a given country has access to financial services.

Still, only around 2 percent of the households that could use microinsurance are reached by microinsurance programs. What are the main obstacles?

Microinsurance massification will be predicated on effective delivery channels. For a long time, people thought microfinance institutions were the way to go. But, even at best, MFIs will only be able to reach about 25% of the potential microinsurance market.

What you're seeing now is access to insurance through retail outlets like in Indonesia, and through post offices in the Philippines. You're seeing funeral homes selling insurance in South Africa, while computer-based life insurance sells in India, even way out in the bush. I think in the future, technology will play an important role in microinsurance delivery towards massification.

This directly leads us to market education. We know there is a demand for risk management tools. We have to help people bridge that link between "I need to find out how to prepare to pay for health costs" and the conclusion that health insurance is the right way to do that. If we can start to address these issues on a large scale, that will really help microinsurance to take off.

You've been talking about health insurance. Until recently, microinsurance has mostly meant credit and life insurance. Has that changed?

In terms of demand from the market, health risks almost always comes to the top of risk hierarchies. The issue is on the supply side, where we have seen a lot of credit life, as it is easy and insurers make a lot of money from it.

I guess the short answer is that there is an evolution. Microinsurance seems to be moving from the simple to the more complex. Additionally, you've got some companies now, for example CruzSalud in Venezuela and Microcare in Uganda, that have been offering health microinsurance on a commercial basis. These examples give the insurance sector some numbers and this helps them to understand quantitatively the risks in this market. We will continue to move more towards additional health insurance products as insurers become more comfortable with these markets and the risk inherent in them.

Will this development also take place in climate-relevant microinsurance?

A lot of people think that insurance should cover people from the effects of global warming. To a certain extent that's true. Weather-index products have a potential to help people with a co-variance in terms of, for example, no rainfall or flooding.

There are several pilot tests in parametric insurance around the developing world. Though outreach is still limited, these may have significant potential to provide risk management tools for low-income people in agriculture based economies.

Also, it is important to think about adaptation. If you are living right on the shore and you know that the water is going to rise, you need to move. Insurance shouldn't keep covering people that stay living on the shore. There should be mechanisms that help people to adapt. And one of the oft forgotten ways insurance is particularly helpful is in terms of the standards that they require for insurance coverage.

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What are the trends you have observed in microinsurance over the last decade or so?

Among the trends I see are commercial insurers continuing to become more and more active in this market. If we are going to have massification, it is going to happen with commercial insurers. It's not going to happen with community-based approaches, it's not going to happen with NGOs.

The good news is the commercial insurers seem very interested in this market, but their interest needs to be guided towards better products. Talking about credit life insurance, most people don't see it as a value for them. What we need are good quality microinsurance products that actually provide value to low-income people, given to them in a way that they can access effectively and efficiently. We are seeing more and more of such products as insurers and delivery channels recognize the necessity to respond to the low-income market's needs in the same way that they respond to market needs at other levels.

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