



Photo: Micro Insurance Academy

Community-based microinsurance: localised and responsive

The supply of microinsurance through insurance companies or government programmes is often still limited or not matching local requirements. Community-based insurance schemes fill gaps and offer a potential to link up with the “formal” sector.

Community-based insurance schemes are widespread throughout the world and exist in different forms. A common denominator of these schemes is their proximity to their members, the clients

of the schemes. These clients are often involved in the administration and management of the schemes, although larger ones might contract professional management. It is the proximity to their members which makes these insurance schemes so valuable: they possess a deep understanding of the economic and social situation of their members and the risks they face.

products which are localised and responsive to local needs. While products of large insurance companies or government programmes are designed to fit a large number of people, often living in diverse geographies and following different occupations, community-based schemes are smaller by definition, and are thus much more responsive to the local setting. Their product design, terms of premium payment and claim settlement can be more flexible.

This intimate knowledge enables these schemes to offer processes and

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◀ *Insured members show their policy documents in Niramaya, a community-based insurance in Orissa.*

■ Closer and more trusted

Community-based schemes can also benefit from trust advantages. Let's face it, insurance can seem a strange concept: one pays a premium upfront in return for the promise that the recipient will compensate in case of a risk occurring. Such a transaction requires substantial trust, which community members might not have in external institutions. How should potential clients know that an insurer will indeed come back to settle a claim if needed? It is much easier to control a community-based insurance, which is felt to be more accessible.

This kind of local accessibility might also create a higher feeling of ownership among the insured – particularly when the community-based insurance is run as a mutual insurance scheme. In mutual insurance schemes, clients are the owners of the scheme, i.e. the insured are their own insurers. Filing fraudulent claims would mean cheating oneself and the neighbours – risking the good social relations in the community. This is different in the relation with an insurer: as there is hardly any threat of being penalised, fraudulent behaviour might happen more often. Community-based insurance can streamline incentives between insurer and insured and thus potentially reduce undesirable behaviour.

A further advantage of community-based schemes is that they can be established in remote places which are difficult to reach for conventional insurers. Such physical distance often creates substantial supply gaps, as the costs of reaching out to far-off places may be too high for conventional

Awareness raising: the Treasure Pot Game

The challenge of explaining the concept of insurance exists in all environments, including amongst well educated people in developed countries. However, it can be even more of a challenge when trying to reach resource-poor people in developing countries, who may have never been exposed to insurance.

To tackle this challenge, the Micro Insurance Academy (MIA) developed a tool called the Treasure Pot Game, which transforms this complex task of insurance education into a simple and effective game. This tool educates members on the need for insurance in their community (with particular focus on healthcare). Playing the treasure pot is fun and easy, while at the same time enabling the members to understand the notion of insurance and how pooling risks may offer better outcomes than out of pocket spending.

The game involves a simulation of real life using health event cards (simulating real-life events) and candy (symbolising money). Attention is drawn to the need for insurance when some members are bankrupt due to their high health costs, and need to borrow or forgo treatment. By discussing concepts such as poverty, debt, or the inability to access healthcare without insurance, facilitated through a story-telling session, participants are then encouraged to think about insurance as an intelligent solution to their vulnerability to risk.

The game is then repeated by asking each member to contribute a part of their funds to an insurance fund, or a "treasure pot". After this, the game is played with the same event cards, and the same number of candy pieces – but this time the outcomes are far more favourable to the group as a whole: Everyone can afford the care they need, nobody is bankrupt or needs to borrow funds, and each member has one piece of candy left at the end of the game.

The lesson is clear and intuitive for all: Through pooling resources and engaging in community-based insurance, the group is better off.

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Photo: Micro Insurance Academy

A treasure pot game facilitated by Dr. Iddo Dror (MIA) and UNDP representatives in Nadi, Fiji, July 2009.

To view a short movie on the Treasure Pot, please visit <http://www.youtube.com/microinsurance>. If you would like to use Treasure Pot to introduce the concept of insurance in your community, please email mia@mia.org.in for a detailed facilitator's guide.

insurers. Moreover, it is easier for community-based insurers to service the insured: their local presence makes availing services covered in the benefit package easier.

■ Engaging in partnerships to overcome weaknesses

It is however clear that community-based insurance schemes also have downsides. As they usually cover a relatively small number of insured, they are exposed to higher fluctuations in their claims, making them more vulnerable to collapse in bad years. Their ability to accumulate reserves or mobilise equity is also limited – and so is their ability to cope with events which affect everyone in the community. Take for instance a pandemic as a threat for a health insurance, a communicable cattle disease for a community-based livestock insurance, or drought for a community-based crop insurance: these events would affect many insured in the entire community, leading to a large number of claims and potential bankruptcy of the insurance scheme. Unlike larger conventional insurers, community-based insurers hardly access reinsurance. However, reinsurance (insurance of the insurance) could help overcome these problems, providing financial stability for community-based insurers. Conventional insurers (or governments) could take this role. Assuming

The Micro Insurance Academy

The Micro Insurance Academy (MIA) is a not-for-profit organisation dedicated to providing technical assistance in microinsurance domain-knowledge to organisations that focus on low-income communities. With over 40 professionals including researchers, training specialists and development experts, the MIA is the largest microinsurance resource centre globally.

In order to integrate microinsurance with existing financial and social protection frameworks, the MIA works in liaison with partners from civil society, academia, bilateral and multilateral development agencies, the (re)insurance industry and national governments in several regions of the world.

More information:

www.microinsuranceacademy.org

the role of a reinsurer provides conventional insurers an interesting business model to engage in the microinsurance market: instead of trying to settle every small claim, the conventional insurer only covers claims beyond a certain threshold and leaves smaller claims to the community-based insurer. This allows the conventional insurer to leverage its comparative advantages in dealing with “larger” claims (though still relatively small compared to insurance claims in developed markets), while the community-based insurer uses its better access to the target

group and intimate knowledge on the local context. This is a potential win-win partnership.

However, community-based insurers have a second big downside, which needs to be addressed for establishing the above elaborated potential win-win partnership or for stand-alone operations: lack of insurance domain knowledge. Particularly small community-based insurance schemes lack access to people trained in running insurance schemes. The risk of mismanagement is thus high; starting from inadequate design of the scheme or pricing of benefits and affecting daily operations. Some institutions provide training events or structure technical assistance to community-based schemes, helping them to overcome their weakness.

One such institution is the Micro Insurance Academy (MIA; see Box). MIA provides step-by-step training and stewardship to community-based microinsurance schemes and helps them link up with the formal sector when required.

Community-based insurance schemes can play an important role as a risk management tool for the poor or populations in remote areas. However, in order to leverage their full potential they need technical assistance and help in achieving financial stability.

Zusammenfassung

Gemeinschaftsbasierte („community-based“) Versicherungskonzepte sind in der Welt weit verbreitet, und es gibt sie in unterschiedlichen Formen. Sie sind ein wichtiges Instrument zur Beseitigung von Versorgungslücken, die entweder durch mangelndes Vertrauen in die konventionellen Versicherer, fehlende Deckung oder ungeeignete Prozesse oder Produkte verursacht werden. Beim Aufbau innovativer Partnerschaften mit den konventionellen Versicherern können Win-Win-Situationen erzielt werden, das heißt mehr finanzielle Stabilität für die Versicherer mit Gemeinschaftsmodellen und Zugang zu neuen Märkten für konventionelle Versicherer.

Wird die Eigenständigkeit der Versicherer mit gemeinschaftsbasierten Modellen gewahrt, so lassen sich ihre Vorteile in Bezug auf Vertrauen und Kundennähe sowie Rückhalt in der lokalen Bevölkerung erhalten. Gleichzeitig kann ein Versicherungssektor entstehen, der auf die Bedürfnisse der Armen eingeht.

Resumen

Los programas de seguros de base comunitaria tienen una amplia difusión en todo el mundo y se presentan en diversas modalidades. Constituyen una herramienta importante para superar los vacíos en la oferta causados por la falta de confianza en las aseguradoras convencio-

nales, la ausencia de cualquier cobertura de seguros o la inadecuación de los procesos y productos. Cuando se produce una asociación innovadora con aseguradoras convencionales, se crean situaciones que benefician a todas las partes: una mayor estabilidad financiera para las aseguradoras de base comunitaria y acceso a nuevos mercados para las aseguradoras convencionales. Si se respeta la autonomía de las aseguradoras de base comunitaria, éstas logran mantener sus ventajas de una mayor confianza y proximidad, así como la apropiación (*ownership*) local. De este modo resulta posible desarrollar un sector de seguros con mayor capacidad de respuesta para los pobres.