

Fair insurance for low-income people

The living situation of the poor shapes their demand for microinsurance. They are usually self-employed in the informal sector, illiterate and not familiar with the concept of insurance, and they often live in rural areas with weak infrastructure. Fair insurance services have the potential to enable the rural and urban poor to mitigate the effects of shocks that threaten their lives, productivity, and assets.

Microinsurance is insurance that is accessed by the low-income population. It is financed by insurance premiums. It differs from traditional insurance in that it is adapted to the circumstances and demand of the poor: premiums are low, products have simple designs, it is offered through well-trusted and innovative channels, premium payments are flexible, and claims are settled promptly.

Microinsurance is geared to poor households and micro and small enterprises in the informal sector

that are able to pay premiums on an ongoing basis. The variety of products range from simple credit life to personal insurance policies for death, disability and illness. They also include asset insurance such as house or vehicle insurance, and bundled products covering a variety of risks in one policy. To ensure rapid and sound market development, stakeholders from the public and private sector need to address both supply of appropriate and affordable insurance products and inhibitors of the demand for these products.

■ Who are the microinsurance providers?

Microinsurance providers are divided into insurers and intermediaries. The insurers bear the risk cover while the latter only mediate between policy-holder and insurer. Insurers can range from capital-based insurance companies like national or international corporations; state-owned insurers to community- and member-based insurers like co-operatives, death benefit funds and mutual companies as well as non-governmental organisations and Microfinance Institutions (MFIs). Many smaller insurers are not subject to the insurance law and remain informal. However, as soon as they reach out to a critical mass of clients, it is important for them to be integrated into the formal insurance sector. This calls for an adequate regulatory framework and, often, wide-ranging organisational adjustments as well as changes in governance.

The liaison function of the intermediaries includes information, sales and consumer care, as well as assistance

A fair microinsurance enables the poor to mitigate the effects of shocks like the death of a family member or an unforeseen crop-loss.

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Enabling policies to facilitate market development

In an increasing number of jurisdictions, policy-makers, regulators and supervisors have been adapting their policies and regulations to accommodate insurance for the poor. The Philippines, India, Peru and Mexico have already made such a regulatory move, for example by adjusting delivery regulations; and Brazil and Ghana are working on it among others. South Africa aims to integrate thousands of informal burial societies into the mainstream insurance sector.

In the Philippines, the Insurance Commission provided a definition of microinsurance and spelled out the requirements for registering a microinsurance mutual benefit association in 2006. At end 2009, microinsurance mutuals covered two million policy-holders. More recently, the Philippine government has been pursuing a wider approach that aims to increase access to microinsurance products and services by including different kinds of formal and informal insurers.

Another example of a dedicated microinsurance regulation can be found in India, which was the first country to pass regulations covering microinsurance products and agents in 2005. In addition, India made it compulsory for all insurers to provide microinsurance to the rural and social sectors (the "social sector" includes the unorganised sector, informal sector, economically vulnerable or backward classes and other categories of persons, both in rural and urban areas).

Today, insurance supervisors all over the world are expressing strong interest in sharing experiences and understanding the dynamics of an enabling regulatory and policy environment. In response to this interest, the International Association of Insurance Supervisors (IAIS), in partnership with the Consultative Group to Assist the Poor, the International Labour Organization, the German Federal Ministry for Economic Cooperation and Development, and Finmark Trust, created the global "Access to Insurance Initiative" (www.access-to-insurance.org) to foster capacity development and standard setting for insurance supervisors and their access agendas. The secretariat of the initiative is hosted by GTZ.

with data processing. In microinsurance, insurers work with intermediaries such as MFIs, NGOs, grocery stores, cooperatives, trade unions or individuals like teachers or religious leaders, as this gives them the opportunity to reach out to areas and population groups that are difficult to access, and to work with distribution partners who are not only close to poor consumers but also enjoy their trust.

■ What role does consumer protection play?

Consumer protection is a key challenge for the development of microinsurance markets. In recognition of the huge business potential at the bottom of the pyramid, insurers have been addressing this market segment. In many developing countries and emerging markets, the volume and

diversity of microinsurance products is growing steadily. In these countries, the insurance sector counts among the poorly developed sub-sectors of the financial system. Policy-makers from Finance Ministries or Central Banks, and Insurance Supervisors demand support on good practices and model frameworks to orient and control their industries to comply with their role of advancing market development and protect consumers as their mandate requires.

Insurance is a business of trust. Poor people know little about the insurance concept, and their rights and responsibilities. Consumer protection safeguards trustworthy and sound organisations and ensures the delivery of fair products and services. It includes simple and transparent products in terms of prices, services and rights, the prompt settlement of claims, and

accessible grievance and redressal options in case of disputes.

■ What role does the enabling environment play?

Adequate policy and regulatory frameworks and supervisory systems are the essential precondition to achieve consumer protection, encourage sound markets and competition, facilitate technical and institutional innovations and increase the availability of a broad range of insurance products. This includes the adaptations of policy and regulation (see Box), the installation of essential infrastructure such as personal identification systems, or the production of public goods such as market information and financial education. The development of the enabling environment needs to be dealt with in parallel to the improvements in insurance provision.

■ What factors make access to insurance work for the poor?

Following the BMZ Position Paper (Strategy 179) "Security at little cost – Microinsurance in Financial Systems Development", published in May 2009, the subsequent principles need to be considered to make sure that microinsurance works efficiently and effectively:

- 1. A financial systems view:** Microinsurance is an integral part of the financial sector. The quality of providers and products is thereby assured, and synergies with other fields in financial sector development are harnessed to leverage impact, for example branchless banking.
- 2. Viability and demand orientation:** Aspects of effective microinsurance that vouch for its quality, such as financial viability of providers, demand-orientation and fairness

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of products and services as well as breadth of impact guide all action.

3. The development of a broad-based diversified insurance market is based on a wide range of insurance products, depending on the priorities of the individual household.

4. Sound market development requires huge investments in institution building, product innovation, delivery channels and literacy work. Sound providers and intermediaries require regulatory dedication and innovation.

5. Market approach: The support is based on a free-market approach that encourages competition and cost recovery. Market distortions and the bandwagon effect as side effects of publicly subsidised premiums should, as a rule, be kept to a minimum.

6. Coherent policies: Sector policies are coherently designed within the framework of financial sector policy,



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social policy and social security, agricultural policy, etc.

7. Consumer protection is a cross-cutting task where public and private actors join hands to advance financial literacy, the provision of fair products and sustainability of providers.

8. Regulators as key drivers can take a lead in engaging in an informed national dialogue with industry and policy makers. Sequencing of country policy processes and regulatory

reforms are implemented to speed-up regulatory innovations while ensuring consumer protection and creating an enabling environment for the private sector.

9. Concertation: Public and private sector actors, i.e. policy-makers, regulators, supervisors, service providers and international development co-operation agencies need to work in a concerted way. This will help to cater those billions more rapidly with microinsurance, which provides true client value.

Zusammenfassung

Die Lebenssituation der Armen bestimmt ihren Bedarf an Mikroversicherungen. In den meisten Fällen sind sie selbstständig im informellen Sektor tätig, sind Analphabeten und mit dem Versicherungskonzept an sich nicht vertraut; häufig leben sie in ländlichen Gegenden mit schwacher Infrastruktur. Durch gerechte Versicherungsdienstleistungen kann es der armen Bevölkerung auf dem Land und in den Städten ermöglicht werden, die Folgen unvorhersehbarer Risiken für ihr Leben, ihre Produktivität und ihren Besitz zu begrenzen. Versicherungen können helfen zu verhindern, dass Arme durch Notsituationen ihre Ersparnisse oder andere Werte verlieren und sich noch mehr verschulden müssen. Besonders in wirtschaftlich schwierigen Zeiten, in denen Millionen

Menschen auf der ganzen Welt ihre Arbeit aufgrund der Finanz- und Wirtschaftskrise verlieren und der Druck auf Arbeitsmärkte und soziale Sicherungssysteme wächst, sind Versicherungen wichtig. Herausforderungen stellen sich dabei auf allen Ebenen des Finanzsystems und müssen von privaten und öffentlichen Akteuren gemeinsam bewältigt werden.

Resumen

La situación de vida de los pobres es la que determina su demanda de microseguros. Usualmente se trata de personas auto-empleadas en el sector informal, analfabetas y no familiarizadas con el concepto de seguros, dado que a menudo viven en áreas rurales con una infraestructura deficiente. Los servicios de seguros en condiciones justas tienen el potencial

de dar a los pobres rurales y urbanos la oportunidad de mitigar los efectos de eventos impactantes que amenazan sus vidas, su productividad y sus activos. Los seguros pueden ayudar a prevenir que las emergencias agoten los ahorros de las personas pobres y sus demás activos, acrecentando sus deudas. Los seguros son de particular importancia en los tiempos económicamente difíciles, que llevan a millones de personas en todo el mundo a perder sus puestos de trabajo debido a las crisis financieras y económicas, incrementando la presión sobre los mercados laborales y los sistemas de seguridad social. Los desafíos se sitúan en todos los niveles del sistema financiero y deben ser afrontados por las partes interesadas – tanto públicas como privadas – de una manera concertada.