

sigma

No 6/2010

Microinsurance – risk protection for 4 billion people

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Published by:
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The editorial deadline for this study was
4 November 2010.

sigma is available in English (original language),
German, French, Spanish, Chinese and Japanese.

sigma is available on Swiss Re's website:
www.swissre.com/sigma

The internet version may contain slightly
updated information.

Translations:
CLS Communication

Graphic design and production:
Swiss Re Logistics/Media Production

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Executive summary

Microinsurance represents a potential market of 4 billion customers and USD 40 billion in premium income.

It can help low-income households to manage their risk exposure and supports insurers' long-term growth, particularly in emerging markets.

Various emerging regions, in particular developing Asia markets, offer promising microinsurance opportunities.

Health and agriculture microinsurance offer a strong value proposition to low-income households.

The realisation of microinsurance potential will depend on stakeholders' success in overcoming major obstacles.

The global microinsurance market has a potential of covering up to 4 billion people through market-based risk transfer solutions and public private partnerships (PPP). This translates into a potential premium volume of up to USD 40 billion. The last decade has seen increasing institutional activity in microinsurance, with fast growth observed in many regional markets. The key drivers are increasing microfinance penetration, a focused approach by market practitioners, the active involvement of governments and innovative product offerings.

Microinsurance offers a viable alternative for low-income households to manage their risks. At the same time, it is increasingly being viewed as a vast untapped growth segment for the insurance sector. Insurers targeting microinsurance are not only serving current unmet risk protection needs, but are also creating a strong brand value, building a large client base and supporting the economic and insurance growth of emerging markets.

The Asia-Pacific region, which is home to around 70% of the world's low-income population, is the largest microinsurance market. Microinsurance has grown rapidly particularly in India and Bangladesh, while new initiatives are being observed in other key markets including China and the Philippines. Africa is a vast and largely untapped market and offers tremendous growth potential. Strong growth has also been observed in Latin America, particularly in Brazil, Mexico, Peru and Columbia. However, growth has been slower in Central and Eastern Europe.

Credit life is the dominant microinsurance product, driven by its simplicity and a strong push from microfinance institutions to bundle life protection with microcredit. However, the product provides limited protection to low-income families. Increasingly, risk carriers, including insurers, are designing products that offer more comprehensive life/property protection and help mobilise savings. Health and agriculture microinsurance are highly pertinent to the low-income population; however, they are also more complex in terms of their design, pricing and administration. Innovation – in product design, distribution and technology – is therefore important in improving the viability of microinsurance. Index-based weather products, for instance, are examples of innovative product design that help overcome the challenges of traditional agriculture insurance.

For the extremely poor segment of the society where commercial microinsurance may not be viable, government support through public private partnership (PPP) projects can help to improve the viability of microinsurance products. Governments and/or developmental agencies can also enter into innovative disaster risk transfer solutions with the (re)insurance industry. Such mechanisms help manage the increasing costs of natural disasters and their impact on the society, as well as mitigate contingent liabilities on state budgets. Though the outlook for microinsurance is highly favourable, there are nonetheless major challenges to growth which need to be addressed. Some of the key challenges include:

- creating an insurance-buying culture among low-income households
- developing sustainable low-cost operation models, and leveraging innovative distribution channels and administrative procedures
- adopting regulations that can help to facilitate microinsurance market development
- encouraging active participation of various stakeholders including insurers, reinsurers, NGOs and government

Introduction:

How is microinsurance different from conventional insurance?

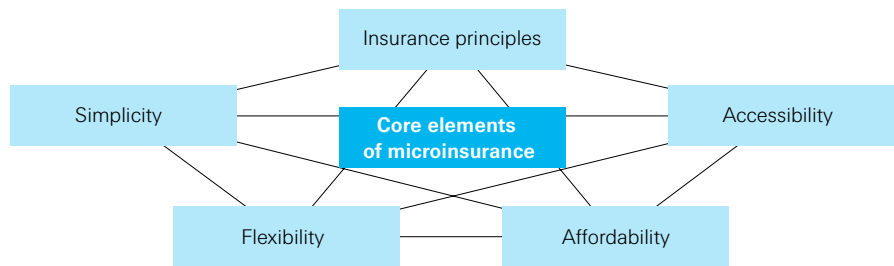
Microinsurance is a market-based risk transfer solution for low-income individuals.

Microinsurance typically refers to insurance products designed for low-income individuals. The word 'micro' represents the relatively small transaction size or lower premiums, a concept similar to microfinance with small ticket loans. Microinsurance differs from traditional insurance in many ways, such as the size of premiums, coverage limits, product features, distribution, policy administration and target customers. The objectives of microinsurance also vary amongst different stakeholders. For governments and policymakers, for instance, microinsurance is a way to ensure inclusive growth and support the livelihoods of the vulnerable segment of the society. For social and developmental organisations, microinsurance can be an effective tool to help alleviate poverty. For insurers and other market participants, it is an opportunity to tap into new market segments and support economic and insurance growth of emerging markets.

Characteristics of microinsurance

Though the concept of microinsurance is gaining in popularity across the globe, there is no commonly accepted definition. This *sigma* study defines microinsurance by the following characteristics (see Figure 1):

Figure 1
Core elements/characteristics of microinsurance



Source: Swiss Re Economic Research & Consulting

- **Insurance principles:** It is based on insurance principles and involves payment of premiums by the policyholders (or on the policyholder's behalf by governments, developmental agencies and donors) in exchange for the promise of indemnification by the insurer in the event of a covered loss.
- **Accessibility:** Microinsurance targets the segment of society with low and unstable incomes who would not otherwise be able to afford conventional insurance. It extends the reach of insurance to the remote sections of the society, thus ensuring the availability of risk protection for a wider segment of the society.
- **Affordability:** Premiums and coverage are kept at a low level in order to make products affordable for the target population. Premium subsidies provided by governments or developmental agencies also help to ensure products are affordable.
- **Flexibility:** Since the low-income segment of the society is not a homogeneous cluster, microinsurance products require customisation to meet the community requirements in an effective way. For instance, premium collections can be tailored to suit the irregular income stream of policyholders.
- **Simplicity:** Microinsurance should be structured simply in terms of product design, underwriting conditions, premiums collection, policy language and claims handling. This takes into consideration the lack of actuarial data in many cases and helps to make the products easy to understand and more acceptable.

Figure 2 highlights the key distinguishing features of microinsurance compared to conventional insurance

Figure 2
Key distinguishing features of microinsurance across the insurance value chain

	Microinsurance	Conventional insurance
Target market	<ul style="list-style-type: none"> Low-income individuals Extremely limited insurance awareness/knowledge 	<ul style="list-style-type: none"> High and medium income individuals Market is largely aware of insurance benefits
Product design	<ul style="list-style-type: none"> Simple product design with easy-to-understand features Community or group pricing; limited actuarial data 	<ul style="list-style-type: none"> Multiple coverage and features Risk-based pricing driven by multiple parameters; good data quality
Marketing and distribution	<ul style="list-style-type: none"> Innovative distribution with multiple tie-ups Usually sold as combined product through microfinance institutions 	<ul style="list-style-type: none"> Employs conventional channels including agents, banks, internet Insurance sold by licensed intermediaries
Underwriting	<ul style="list-style-type: none"> Simple underwriting practices (often no screening); small sum assured Simple policy language with minimal or no exclusions 	<ul style="list-style-type: none"> Comprehensive underwriting; large sum assured Complex language with multiple exclusions and terms and conditions
Administration	<ul style="list-style-type: none"> Irregular premium payments, by cash or bundled with other products 	<ul style="list-style-type: none"> Regular payments paid by cheque, direct bank debit, credit card
Claims handling	<ul style="list-style-type: none"> Simple and quick claims turnaround process; limited documentation 	<ul style="list-style-type: none"> Comprehensive process; detailed documentation
Asset management	<ul style="list-style-type: none"> As per regulatory norms or investment rules of the risk-carrier 	<ul style="list-style-type: none"> As per regulatory norms or investment rules of the risk-carrier

Source: Swiss Re Economic Research & Consulting

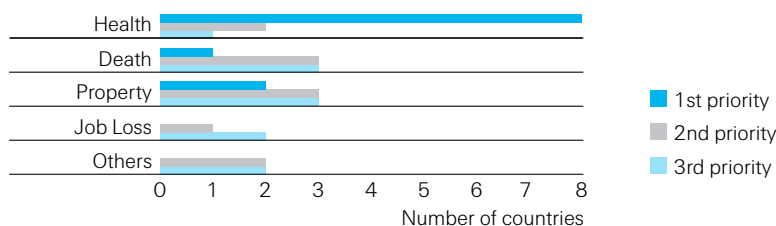
Microinsurance benefits the society and the insurance sector

Low-income individuals face numerous risks that impact their livelihood.

Strong need for financial and risk protection at the bottom of the pyramid

Based on World Bank statistics, around 4 billion people are living under \$4/day (in 2005 international dollars based on purchasing power parity). This figure includes 2.6 billion people living under \$2/day. This vast section of the population is usually under-served and has very limited access to the basic necessities of life. Their livelihoods are dependent largely on informal sectors with no regular income flows and limited or negligible financial resources. In addition, they face numerous risks and usually do not have access to formal risk coping solutions, including conventional insurance products. As a result, it becomes extremely difficult for such households to manage unforeseen expenditures or loss of income, rendering them highly vulnerable to life, health and financial shocks. Health risk in particular is often the biggest concern for low-income families (see Figure 3), but other risks are also important considerations.

Figure 3
Risk management needs prioritised by low-income individuals in 11 countries



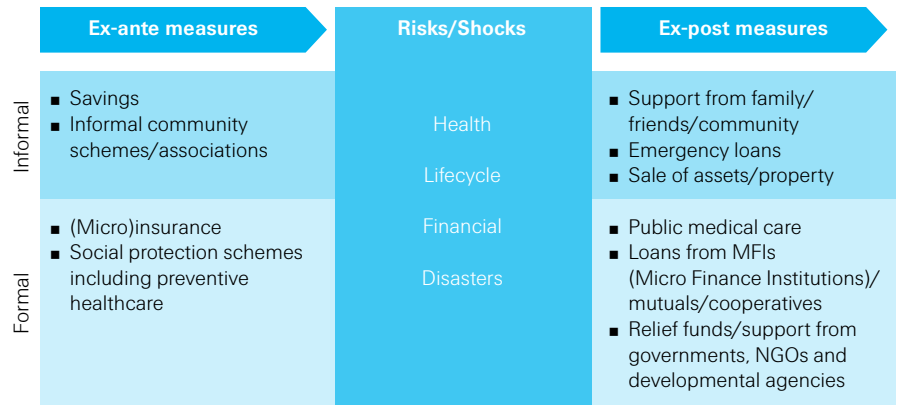
Source: The Landscape of Microinsurance in the World's 100 poorest countries, The Microinsurance Centre, LLC, April 2007.

- *Health risks*: such as illness, accidents and disability can result in high expenditure on medical treatment and also indirect costs including loss of income.
- *Lifecycle risks*: the death of the breadwinner can lead to acute poverty conditions for family members with no or limited alternative sources of income. Many low-income households are also not prepared to face major life cycle events such as old-age and retirement.
- *Financial risks*: such as crop spoilage, lower market prices for the produce, death of livestock or loss of business properties can significantly impact the earnings of low-income families.
- *Disaster risks*: events such as windstorm, flood, tsunami and earthquake will not only result in casualties, but also widespread economic damages that impact the livelihood of low-income individuals.

Significant unmet demand exists for financial and risk protection in the poorest segment of society.

Low-income individuals usually have limited access to formal risk solutions (see Figure 4). Ex-ante measures such as precautionary savings help in mitigating the impact; however, savings – if any – are seldom sufficient to compensate for the loss of property or life. As such, they usually resort to support from family and their community, sell off their assets or take emergency loans. At the same time, the availability of formal mechanisms, including social protection schemes and mutual/ cooperative programmes, is often limited to low-income families. In effect, the weakest segment of the society is usually the least protected and could suffer the most due to the limited range of available risk management tools. They have significant unmet demand for financial protection against risks related to health, life events, crop harvest failure and loss of assets.

Figure 4
Strategies to cope with key risks and shocks faced by low-income families



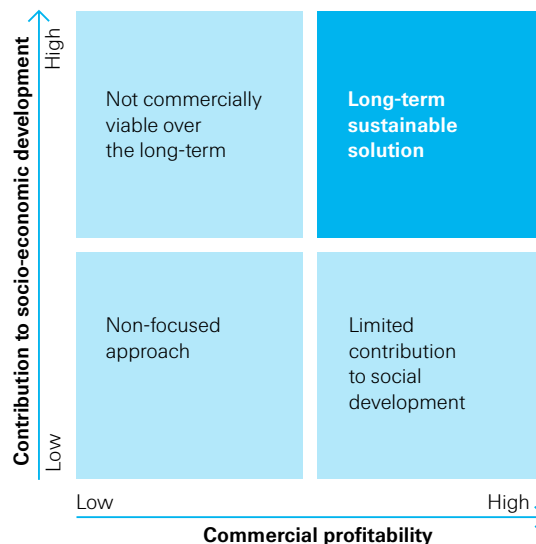
Source: Swiss Re Economic Research & Consulting; Cohen, Monique and Pamela Young, Using Microinsurance and Financial Education to Protect and Accumulate Assets - Reducing Global Property: The Case for Asset Accumulation, The Brookings Foundation, Spring 2007.

Value propositions of microinsurance

Microinsurance contributes to social and economic development, and creates long-term growth opportunities for the insurance sector.

Insurers that offer microinsurance aim to contribute to the socio-economic development of emerging markets as well as tap into new business segments (see Figure 5). Both objectives need to be balanced in order to achieve sustainable growth. In case the organisations are too focused on short-term profits, the overarching objective of providing access to formal risk management solutions to the low income population is largely unmet. Alternatively, if organisations operate on extremely thin margins, sustainability will become a serious issue. The development of any sector is dependent on long-term sustainability. Profits provide the motivation for long-term success. In order to ensure the long-term growth of microinsurance and to develop sustainable solutions, organisations should strive from the beginning to design schemes to achieve both the socio-economic and commercial objectives.

Figure 5
Value proposition of microinsurance: providers should aim to achieve long-term sustainable solutions



Source: Swiss Re Economic Research & Consulting

Value proposition of microinsurance: supporting social and economic development

Social security schemes often fail to provide adequate support for those with low incomes.

Governments and developmental agencies have been heavily involved in launching and implementing social security schemes to improve the livelihood of low-income individuals. However, it is believed that many low-income households have yet to benefit from such schemes and available benefits could be insufficient. At the same time, the use of conventional insurance to manage risks, after having improved significantly in emerging markets in the past, still remains less prevalent among low-income households who either do not have access to or cannot afford insurance.

Microinsurance offers a viable alternative for low-income households to manage their risks.

Microinsurance has thus emerged as a viable alternative for low-income households to manage their risks. Risks related to health, lifecycle events, natural disasters and loss of property can be covered at affordable premiums with microinsurance. The development of microinsurance was largely driven through microfinance as life insurance has been increasingly bundled with credit products to limit uncertainties related to the death of loan-holders. This not only resulted in increased awareness of insurance, but also created a platform to develop other microinsurance products. The development of microfinance over the last two decades has shown that the low-income population is a commercially viable segment as well as a huge potential market for financial services.

Microinsurance contributes to social and economic development.

A key objective of microinsurance is to offer insurance and risk management products to the low-income population. By reducing the vulnerability of low-income households, microinsurance supports the macroeconomic development of emerging markets and limits the impact of shocks. It also helps protect the income streams of low-income families, thus reducing their vulnerability of falling back into extreme poverty. These families can therefore begin to focus on the education of their children, health, improving their quality of life, upgrading skill sets and launching entrepreneurial ventures that result in the social uplift of the rural areas.

Expanding access of financial services creates economic opportunity that helps drive inclusive growth.

Providing access to financial services across all segments of the society is vital to ensure broad level economic development. Through credit, savings and insurance products, low-income households are able to mitigate their risks, gain access to credit that can be used to establish new business ventures, and expand their income-generating options. Financial services thus create economic opportunity, which enables people to manage their assets in a way that generates income and options¹.

Governments in partnership with private players can effectively channel subsidies through microinsurance programmes.

For the extremely poor segment of the society, where commercial microinsurance may not be viable, governments through public private partnerships (PPP) can engage insurers to administer microinsurance products by fully funding or subsidising premiums (see Box). Such mechanisms are highly relevant, especially in markets where social security schemes are inadequate. In fact, government-sponsored microinsurance programmes can be an effective alternative to social security schemes, especially in helping to cope with life and health risks. Such programmes extend the reach of social protection measures to a wider population. They also allow governments to leverage private sector involvement to improve effectiveness and efficiency. Government-sponsored programmes significantly reduce government expenditure and administrative expenses required to establish and sustain comprehensive social security schemes. Lastly, these programmes encourage infrastructural investments by the private sector, such as the setting up of healthcare facilities and enhancing service quality.²

¹ Sutton, Christopher N. and Beth Jenkins. "The role of the financial services sector in expanding economic opportunity". Corporate Social Responsibility Initiative report No. 19, Cambridge, MA: Kennedy School of Government, Harvard University, 2007.

² The section on "Role of Government and Private Public Partnership (PPP)" will present more details on the usefulness of PPP schemes.

Rashtriya Swasthya Bima Yojana (RSBY): health microinsurance for the poorest in India

With the objective of providing health insurance to the “below poverty line” (BPL) households, the Government of India in 2008 launched the RSBY initiative, which is a healthcare financing model making use of public private partnership (PPP). The model leverages government financing, legislation and private sector expertise to improve BPL households’ access to healthcare services.

The scheme provides cashless health insurance covers to BPL families who gain access to more than 700 in-patient medical procedures for a nominal registration fee. The health insurance providers are selected after a competitive bidding process. With their smart card, individuals can use the health service facilities in any of the empanelled hospitals (both public and private) across India. The insurance is also portable, benefiting migrant workers across India.

The initiative has now become one of the major government health insurance schemes in India with over 19 million families enrolled. It has successfully leveraged the PPP model and made use of information technologies to improve accessibility and efficiency. Initial findings suggest that the programme has led to improved access to healthcare, higher quality care, lower out-of-pocket medical expenditure and more investment in healthcare infrastructures. It has also resulted in the development of a better tracking mechanism for health services.

Microinsurance can help to mobilise long-term savings.

Furthermore, economic growth in emerging markets will also benefit from improving savings and investment flows. Uninsured low-income families usually keep small cash reserves to manage daily requirements and unforeseen risks; most do not save for the long-term. The availability of microinsurance helps to ensure that most major risks are covered and encourages long-term savings. Life products such as those with a savings component or pensions can also help to achieve this objective. At the macroeconomic level, funds collected by microinsurance operators are usually invested in government bonds and other corporate securities, to the benefit of the overall economy, particularly in infrastructure and capital market development.

Microinsurance is expected to become a new ‘growth’ market segment for the insurance sector.

Value proposition of microinsurance: Growth opportunity for the insurance sector

Offering insurance to the low-income segment of the society is no longer simply a part of corporate social responsibility, but is becoming a focused growth strategy of insurers. With the insurance markets in industrialised countries fast becoming saturated, insurers must identify new markets which can drive future business growth. Emerging markets offer enormous opportunities for the insurance sector. It is estimated that low-income individuals constitute a USD 5 trillion global consumer market.³ This is potentially a substantial market opportunity for the financial services sector, including insurance.

Insurers targeting microinsurance help support long-term growth by creating a strong brand value, building a large client base and developing an insurance-buying culture.

Microinsurance supports the insurance sector’s long-term development. With favourable trends, such as rising personal and household income, improving economic fundamentals and increased efforts on poverty reduction, it is expected that a high percentage of present low-income households will move into the middle-income segment in the near future. This socio-economic transformation will offer huge business opportunities to the financial services industry. In particular, insurers can look forward to a growing client base seeking higher premium/coverage conventional insurance products. Insurers targeting microinsurance are not only serving current unmet risk protection needs, but also creating for their long-term growth a strong brand value, a large client base, and credibility and recognition for future development.

³ “The next 4 billion”, World Resource Institute and International Finance Corporation, March 2007.

Efforts to raise insurance awareness among the low-income population will create long-term benefits.

A key contribution of microinsurance is the strong drive to raise insurance awareness by insurers, market practitioners and governments. Lack of insurance awareness has often been regarded as one of the major reasons for low insurance penetration in emerging economies, especially in the lower-income segment. Efforts to raise insurance awareness will not only result in immediate benefits, such as higher uptake of microinsurance products, but will also help in developing an insurance-buying culture amongst low-income individuals, supporting long-term demand for insurance products and thereby increasing the insurance penetration levels in emerging economies.

Microfinance in India- a sector in transition

The much thriving microfinance industry in India is now under increasing pressure from regulators, government and local political parties/organisations to adapt its business model to strike a better balance between profitability and social responsibility. The sector came into the spotlight when SKS Microfinance Ltd, the country's largest microfinance institution, went public in August 2010. The company's market capitalisation quickly soared to USD 2.4 billion, sparking the interest of other microfinance institutions (MFIs) and institutional investors. However, the sector's image was soon marred by reports that some firms charged exceptionally high interest rates and intimidated borrowers who fell behind in their payments.

The Andhra Pradesh state government tightened regulations by issuing an ordinance that restricted the operations of MFIs in a move to protect the interests of the low-income population (The state accounts for a large proportion of MFIs' loan portfolios). The provisions of the ordinance include, for example, the compulsory registration of MFIs, a change in how often payments are collected (from weekly to monthly), the prohibition of multiple loans to borrowers and the possible arrest of employees who use coercion to collect debts. This was accompanied by political pressure and moves to encourage public banks not to give loans to MFIs unless they lowered the interest rates they charged their borrowers. As a result, many of the MFIs reduced their interest rates from over 30% to around 24%. The financial results of the MFIs are likely to be adversely affected in the short-term as net interest rate margins narrow, loan growth slows and credit risks increase.

Although the microfinance sector has garnered negative publicity, the sector has played a significant role in increasing financial inclusion. The major MFIs have extended credit to the poor, built a strong distribution network and improved operational efficiency. The microfinance sector has also been successful in reaching out to an estimated 27 million low-income individuals - a feat which major commercial banks could not achieve on their own due to the lower penetration rate in rural areas and the high distribution and transaction costs.

The microfinance sector will benefit from sound regulations that protect the interests of borrowers and foster the development of the sector. The policies should promote the establishment of well-managed MFIs with sound corporate governance and ethical practices. Regulations that are too stringent could discourage market entry and increase costs, which may be passed on to millions of low-income individuals who rely on MFIs for funding. The microfinance sector is currently in transition despite its tremendous growth potential. Once sound regulations are in place, the scope of microfinance is likely to expand to include savings, remittances and microinsurance.

Market overview

The target market for commercial microinsurance includes those who can afford premiums that are commercially sustainable.

For the extremely poor population, government support and/or aid are required to extend microinsurance offerings.

The microinsurance market could cover 4 billion people, which translates into 2–3 billion policies or up to USD 40 billion in direct premiums.

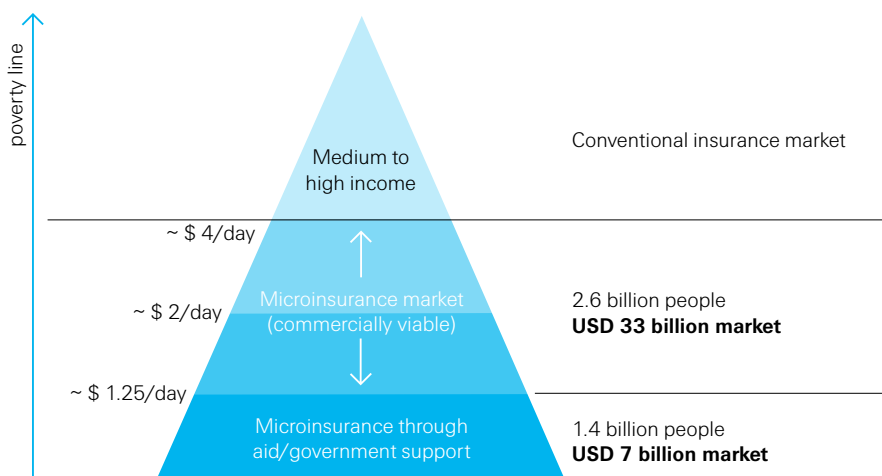
Market overview – sizing the potential

The *sigma* categorises the microinsurance market into two broad segments, based on the consumption level of the people and their ability to afford premiums. Those living above the international poverty line of \$ 1.25/day (in 2005 international dollars, based on purchasing power parity) and up to \$ 4/day represent the target market segment for commercially viable microinsurance. For this group, it is possible to have an independent market-based approach, whereby microinsurance products are sold at a price that is still affordable to the clients, but also commercially sustainable.

The other segment is at the bottom of the income pyramid, which includes people living below \$ 1.25/day, also referred to as the extremely poor population. The population falling into this category earn so little that they find it hard to afford even basic necessities for their families, let alone the cost of commercially viable micro-insurance products. However, there are other approaches to extend social protection and micro-insurance programmes to this group. For instance, governments can introduce large scale social security measures on their own or subsidise microinsurance premiums through public private partnership programmes. In addition, the extremely poor population can also indirectly benefit from insurance mechanisms that are implemented on a national level. Governments and/or developmental agencies can enter into innovative disaster risk transfer solutions with the (re)insurance industry. The received insurance payout can then be used, among other purposes, to support the affected target group immediately after a major catastrophe event. Alternatively, insurers may find it relevant to target microinsurance to this segment if they are highly efficient in reducing costs to match with clients' ability to pay premiums or as part of corporate social responsibility measures.

It is estimated that 2.6 billion people fall in the range of \$ 1.25/day and \$ 4/day. This is the potential target market for various commercially viable microinsurance products (see Figure 6). On the other hand, some 1.4 billion people live on less than \$ 1.25/day and require support from governments and developmental agencies to access micro-insurance products. In total, up to 4 billion people can potentially benefit from micro-insurance and/or public private partnerships. This translates into 2 to 3 billion policies globally, spanning across life, health, credit, agriculture/ livestock and catastrophe insurance products. In US dollar terms, the potential market is valued at up to USD 40 billion. The current market size, however, is far less. It is estimated that the current penetration of microinsurance is close to 2%–3% of the potential market, which translates into around USD 0.8–1.2 billion of direct premiums.

Figure 6
Potential market estimates of the global microinsurance market



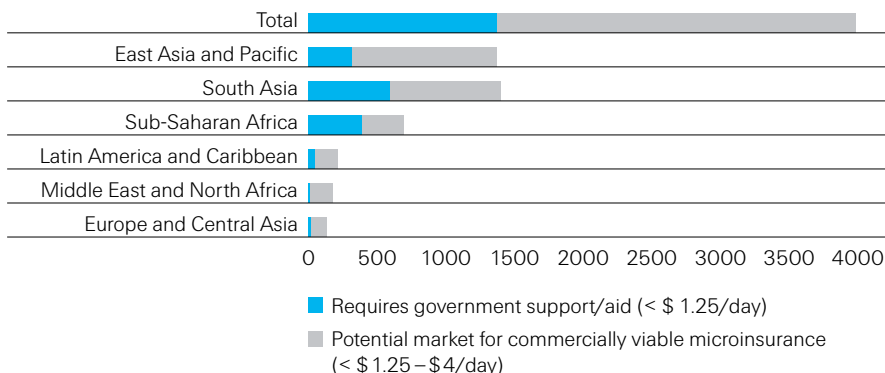
Note: \$ amounts refer to the poverty line in 2005 Purchasing Power Parity international dollars (PovcalNet/World Bank). The data may differ from other sources due to various possible reasons including number of countries covered.

Sources: Swiss Re Economic Research & Consulting; PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/>)

Asia-Pacific is a key potential market for microinsurance.

South Asia has the highest ratio of low-income individuals living under \$4/day to the total population. The entire Asia-Pacific region represents 70% of the world's low-income population (see Figure 7). Sub-Saharan Africa along with the Middle East and North Africa (MENA) are the next major regional markets with 865 million low-income individuals. Latin America and the Caribbean, where microinsurance is much more developed compared to Africa, accounted for some 5% of the world's low-income population. The incidence of extreme poverty is highest in South Asia and Sub-Saharan Africa, totalling almost a billion people.

Figure 7
Low-income population by region (data in millions)



Sources: Swiss Re Economic Research & Consulting; PovcalNet: the on-line tool for poverty measurement developed by the Development Research Group of the World Bank (<http://iresearch.worldbank.org/PovcalNet/>)

The market potential is highest for life and health products.

The market potential for life microinsurance is highest globally and includes credit life, funeral coverage, savings and pension products. Health protection, which is regarded as the most relevant coverage for the low-income population is a close second; penetration is expected to increase in the underdeveloped and emerging economies of Africa and Asia. Agriculture insurance including crop, livestock and index-based weather microinsurance has strong growth prospects and is expected to be further leveraged as an effective way to deal with agricultural risks in emerging markets. Asset microinsurance, which includes property coverage for households and personal/business assets, is likely to grow as the income and wealth of current low-income households increases. Those households may, however, then no longer be part of the target group for microinsurance as illustrated above.

Market overview – Business models and market trends

Reinsurers form an integral part of the microinsurance supply chain.

The microinsurance supply chain consists of reinsurers, risk carriers, distributors and policyholders (including beneficiaries). The risk carriers are mainly comprised of insurance providers, including private and public insurers, non-governmental organisations (NGOs), mutuals and community organisations/cooperatives. A study showed that 48% of lives were covered by commercial microinsurers, while a similar portion was covered by NGOs⁴. Reinsurers support underwriting capacity by assuming part of insurance risks. In disaster-prone business lines or regions, reinsurers play an important role in absorbing some of the peak risks and stabilising underwriting results. They also offer technical advice to help risk carriers design viable products.

Microinsurance providers use a range of intermediaries and distribution channels.

Efficiency in distribution is perhaps one of the key success factors in microinsurance. A major challenge for microinsurance operators is to secure the best and most cost-efficient channel to reach customers. Existing microinsurance channels include microfinance institutions (MFIs), NGOs, community organisations and cooperatives, retail/departmental stores, trade unions, utility companies, religious faith groups, post offices and commercial banks.

Effective microinsurance distribution requires continuous innovation in channels and practices.

The role and significance of different channels varies across regions and product segments. In India and the Philippines, for instance, MFIs play an important role in distributing microinsurance (more specifically credit life) insurance products, while utility and telecom companies are increasingly being used in Brazil. Retail distribution has gained significance in Latin American markets as well as in South Africa. Funeral insurance, on the other hand, continues to be dominated by informal burial societies, funeral parlours and cooperative societies. One of the noteworthy achievements in the microfinance sector has been the continuous innovation by risk carriers in designing channels and selecting intermediaries. New technology-based solutions (eg mobile banking) are increasingly being used in the operations and distribution process and are likely to drive also the mass market distribution of microinsurance products in the future.

Support institutions and donors contribute by extending expertise and resources.

Other key participants include governments, which are instrumental in setting up the appropriate regulatory framework as well as being sponsors of some microinsurance programmes. There are also supporting institutions and organisations such as services providers (eg claims administration, IT, market research), International Developmental Organisations (IDOs), donors and investors. Collectively, they play a key role in operations, market development, knowledge transfer and mobilising capital. IDOs and donors in particular have been instrumental in providing funding support in the launch and development of microinsurance schemes and supporting risk carriers and distributors.

There are multiple business models deployed by market practitioners to deliver microinsurance products.

A range of institutional and delivery models have been tested in the microinsurance space; however, the effectiveness has varied considerably across the schemes (see Table 1). The common models for microinsurance are partner agent and self-help arrangements, such as mutuals/cooperatives/community organisations launching their own microinsurance programmes. For insurers following a focused approach towards microinsurance, direct distribution has been successfully deployed while keeping costs under control.

⁴ The Landscape of Microinsurance in the World's 100 poorest countries, The Microinsurance Centre, April 2007.

Operational excellence is critical to success.

The microinsurance sector is also seeing innovative models that leverage brokers. Service providers are also entering the market. In this space, some organisations⁵ offer front and back-end services such as product and distribution design, claims handling and database management to risk carriers as well as support the search for suitable (re) insurance arrangements for microinsurance programmes. The international brokers are now showing increasing interest in the microinsurance sector and are offering placement and advisory services. While it is too early to tell which model is the best, success is largely dependent on understanding the needs and characteristics of the target population, ensuring a lean and efficient operational structure and selecting the best available channel.

Table 1
Different business models for microinsurance

Models	Details
Direct	Insurers develop products for the low-income segment and use own distribution channels (including alternative channels)
Partner Agent	Co-development of products by insurers and MFIs/NGOs/cooperatives. Insurers bear risk while other organisations distribute products
Mutuals/Communities/ Cooperatives	Local communities, member-based organisations, NGOs, co-operative organisations develop and distribute own products
Provider	Banks/microfinance institutions, for example, offer insurance to protect against default risk. Healthcare providers offer insurance with health services
Takaful	Takaful operators or other institutions offer takaful products compliant with the Islamic principles of shariah
Public Private Partnerships (PPP)	Government in partnership with private sector, NGOs/MFIs to offer subsidised products or directly buy catastrophe covers from re/insurers or capital markets

Source: Swiss Re Economic Research & Consulting

The last decade has seen increasing institutional activity in microinsurance, with fast growth observed in many markets.

Microinsurance is not a new concept; its history can be traced back to the numerous informal mechanisms that have been prevalent in developing markets, specifically for the benefit of the low-income population. Microinsurance in the institutional setup started off as a form of charity in the 1990s, when scaled down insurance policies were offered. However, it has been only in the past decade that there have been commercial interest and activities in microinsurance. In Africa, for instance, many of the microinsurance schemes grew by over 80% between 2006 and 2008⁶. Growth has also been strong in India and certain Latin American countries, while large scale pilots have been initiated in China. So what has changed in the past decade that is driving strong growth in microinsurance and facilitating increased market participation? It has been a confluence of factors, such as increasing microfinance penetration, the focused approach by market practitioners, the active involvement of governments in certain cases as well as innovative channel/product offerings corresponding to the needs of the target markets.

⁵ Eg, Paralife and Microensure

⁶ Matul, Michal, McCord, Michael J, Phily, Caroline and Job Harms, The Landscape of Microinsurance in Africa, International Labour Office, March 2010.

The development of microfinance provided a strong thrust to credit life products

Growth and development in the microfinance sector has had a major impact on the development of microinsurance. First, it led to the development of strong distribution networks that made it possible for private sector insurers and other institutions to deliver microinsurance products to the low-income population, which had been considered an inaccessible segment. Second, to mitigate credit risk, microfinance providers increasingly started to bundle life insurance along with credit products. This not only led to increased sales of credit insurance products, but also in a way created opportunity to cross-sell other easy-to-understand microinsurance products to low-income customers. Lastly, microinsurance has benefited from the success of microfinance.

Governments, through specific regulatory provisions and public private partnership programmes, have helped to develop microinsurance.

Specific regulatory provisions for microinsurance as well as the active involvement of governments and developmental agencies (including NGOs) have boosted the development of microinsurance in certain emerging markets. Microinsurance is increasingly being recognised as a market-based mechanism which can be effective in dealing with the risks faced by the low-income population, in directing subsidies and sustaining socio-economic development. Governments are trying to step up efforts to provide risk protection to a wider segment of the population by adopting favourable regulations, creating insurance awareness, developing public private partnership (PPP) models, funding premiums etc.

The role of reinsurers and capital providers is increasing in the microinsurance sector.

Reinsurers and capital markets are supporting the development of microinsurance, although their involvement is still limited at current stage. There have been instances of reinsurers' greater involvement in programmes, thereby providing risk capacity as well as technical expertise and innovative product knowledge. This is critical in order to manage risk accumulation at the institutional level, since many of the risk carriers operate at a small- to medium-scale at the regional level. Capital market support is also crucial when the microinsurance programmes need to be scaled up to cater to wider target markets and to launch new programmes. With LeapFrog, the first fund was established which focuses exclusively on the microinsurance sector, wherein its investments are made in emerging microinsurance institutions.

Market overview – Regional developments

The fast-paced development in South Asia, especially in India, is supported by microinsurance regulations and licensing conditions specifying rural and social obligations.

Asia – Fast-paced development

Asia has seen fast-paced development in microinsurance mostly resulting from the success of microfinance and favourable regulations that have made it the most advanced microinsurance market globally (on a relative basis). India was one of the first countries to formulate microinsurance regulations and set up licensing conditions which obligate insurers to source business from pre-defined rural and social sectors, thus creating strong incentives for insurers to reach the low-income population. The Indian market has also seen a rapid increase in innovative product offerings as well as large scale microinsurance schemes (especially in health) launched by the state and the central governments. Bangladesh, where microfinance was pioneered by the Grameen Bank, has witnessed tremendous growth in microinsurance as well. Almost all insurers offer microinsurance products to the low-income group, with total microinsurance premiums in 2008 amounting to around half the size of the conventional insurance market. Growth exceeded 20% annually for many of the players. The most popular products have been pensions, health, credit and personal accident.⁷ In Pakistan, microinsurance is still in the early stages of development, although health microinsurance programmes are now being designed with features such as cashless systems. These programmes have been strongly supported by IDOs, NGOs and foundations, including AKAM (Aga Khan Agency for Microfinance).

A large scale pilot initiative in China is underway with 19 provinces already covered.

Of late, China has seen strong interest in microinsurance (small-sum insurance) programmes. The China Insurance Regulatory Commission (CIRC) in 2008 initiated a pilot programme to encourage development of microinsurance products related to life insurance in rural areas. According to CIRC, as of the end of 2009, pilot programmes have been launched in 19 provinces providing CNY 170 billion in coverage for 11.1 million people. In 2009, premium income from microinsurance in China reached CNY 230 million. The pilot programmes include major insurance providers such as China Life, China Pacific Life, Ping An Pension, New China Life, China Post Life and PICC Life. In Taiwan, the Financial Supervisory Commission passed draft regulations in 2009 governing a microinsurance programme.⁸ It is believed that around 3 million people will benefit from this programme which offers term life and personal injury insurance.

South East Asia is seeing growth in the product offering and market outreach.

In the South East Asian region, the Philippines has regulations that outline microinsurance provisions as well as concessions for microinsurance Mutual Benefit Association (MBAs), which have played a key role in promoting microinsurance products. The microinsurance penetration rate is estimated to be around 5.4%, with compulsory credit life accounting for nearly half of the microinsurance products⁹. In Indonesia, the microfinance system is well established, but the microinsurance market is still underdeveloped. Nevertheless, increasing activities have been observed of late. For instance, Allianz's microinsurance portfolio in Indonesia has grown six-fold, on average, from 2006 to 2009, with nearly 350 000 policies sold in 2009 alone.¹⁰

⁷ Microtakaful – Microinsurance in Bangladesh: A promising sector, *MiddleEast Insurance Review*, July 2009

⁸ <http://www.fscey.gov.tw/> Taiwan Financial Supervisory Commission

⁹ "Making insurance markets work for the poor: microinsurance policy, regulation and supervision – Philippines case study". CGAP working group on microinsurance, January 2009.

¹⁰ <http://www.allianz.com>

Microinsurance activity is limited in the Middle East region.

The Middle East, which has very low insurance penetration levels in personal lines, is yet to see major developments in the area of microinsurance, although there are instances of new programmes being launched. There is an initiative in Jordan launched by Microfund for Women, which targets low-income women and covers incidental expenses associated with hospitalisation. In Kuwait, Warba Insurance Company has developed a microinsurance plan especially for low-income expatriates living in Kuwait. The product offers life protection, accident and disability coverage as well as repatriation benefits.

Microinsurance programmes have grown significantly in Africa.

Africa – Greenfield opportunity

Many African countries have high levels of poverty, and would benefit from microinsurance. Informal risk sharing mechanisms, such as funeral societies and community-based programmes, have been prevalent in Africa for decades; however, it has been only in the last decade that there has been increased activity from commercial (re)insurers, developmental agencies and other market players. An ILO study showed that the microinsurance market in Africa experienced strong growth during the period 2006–08 with an 80% increase in covered lives. It is estimated that currently 14.7 million people are covered by microinsurance, generating premium income of USD 257 million.¹¹ South Africa, which has one of the highest insurance penetration rates in the world (12.9% in 2009), is also a relatively advanced market in terms of microinsurance, with a large and fairly developed funeral insurance market. The market is likely to receive a further boost with the proposed microinsurance regulations that include provisions such as dedicated licenses and lower capital requirements. However, most of the other regional markets face challenges on the regulatory side, as the current supervisory framework is not geared towards enabling the development of microinsurance. There are lingering issues, for example, with acceptability and the licensing norms of informal distribution channels as well as high capital requirements.

Credit life and funeral insurance are the most popular products, with new initiatives in index covers and health programmes.

Credit life, funeral and personal accident insurance are widely sold on the continent as they are simple to design and distribute to the target market. Funeral insurance, which is usually provided by informal burial societies, continues to dominate many of the regional markets. Health microinsurance is gaining in importance mainly due to the absence of government social security programmes in most of the regional markets. It is usually delivered either through health mutuals or insurers. The health mutuals, which are more prevalent in West, Central and East Africa, are member-based organisations working at the community level. A number of index-based agricultural insurance initiatives and pilots have been launched across the region, eg in Ethiopia, Kenya, Rwanda, Tanzania and Malawi. Though the number of farmers covered by such programmes is low at this stage, participation is expected to increase as risk carriers enhance product design and begin to target “aggregator organisations” such as farmers’ associations, villages, and cooperatives in order to reduce operational costs and improve penetration. The microinsurance distribution channels are mainly comprised of MFIs, savings and credit cooperatives, health funds, funeral associations and other informal groups.¹² The role of technology, specifically the use of mobile phones, is already gaining importance in various African markets. For instance, it is being used to sign up new clients as well as facilitate premiums collection.

¹¹ Matul, Michal, McCord, Michael J, Phily, Caroline and Job Harms, The Landscape of Microinsurance in Africa, International Labour Office, March 2010.

¹² Microinsurance in Eastern Africa, Swedish Cooperative Centre & Vi Agroforestry, February 2008.

Horn of Africa Risk Transfer for Adaptation (HARITA)

In Ethiopia, Oxfam America, Swiss Re and other partners (such as the International Research Institute for Climate and Society at Columbia University) are working together to provide weather insurance to poor farmers through an innovative microinsurance scheme. The HARITA project provides a risk management package that combines risk reduction measures and drought insurance for vulnerable farmers. It innovates by giving people the initial option to pay for their premiums with their labour, engaging them in community-led and locally designed climate adaptation initiatives in return for insurance cover. These include reforestation, sanitation and crop irrigation projects.

The HARITA project aims to build climate resiliency in rural Ethiopia by educating local farmers about the benefits of insurance and developing the mechanisms of a nascent insurance market. Since its launch in 2008, the programme has rapidly expanded to new villages across the country – from an initial 200 households in the first year to 1 300 households in 2010. This innovative risk management approach has allowed a growing number of rural households, many led by women, to benefit from insurance. It is also featured as the project partners' joint commitment to the Clinton Global Initiative.

Microfinance development and supportive regulations are driving growth in Latin America.

Latin America – Mainly life microinsurance

The emerging insurance markets of Latin America grew strongly at 5.7% (real terms) in 2009. Similar strong growth is also being observed in the microinsurance sector of Brazil and Mexico as well as in the smaller markets of Peru and Colombia. Microfinance development and the favourable regulatory environment in certain markets played a significant role in the fast-paced growth of microinsurance in Latin America. In Brazil, the largest insurance market in the region, microinsurance is mostly offered by commercial insurers; the exception is funeral insurance, which is provided by funeral entities. In Colombia, supportive regulations resulted in favourable conditions for the sector, which have encouraged competition and extended the reach of products. As of April 2008, the microinsurance sector in Colombia covered 2.8 million people. Premiums from microinsurance products (excluding credit life and funerals) grew by 32% (in nominal terms) during the twelve months ending April 2010.¹³ The new microinsurance regulations in Peru resulted in premium growth of 17% in 2009 and an improved product offering. While currently 600 000 people are covered, the estimated market potential amounts to around 8.9 million clients.¹⁴ In Brazil, as well as in Mexico and Chile, governments have been working on specific microinsurance regulations for years.

¹³ Comité Microseguros, Fasesolda, 13 October 2010.

¹⁴ Business News Americas, 13 July 2009.

Life microinsurance products are the most popular in the region.

Life products, including credit life, funeral insurance, personal accident and savings products, are the most popular microinsurance products and are expected to be the biggest growth driver for the sector going forward. Bundled life products that cover life, personal accident, funeral assistance – while also having a savings component – are high in demand, particularly in Brazil.¹⁵ Demand for private health microinsurance faces strong competition from the public sector, which operates health microinsurance schemes in Bolivia, Paraguay and Peru. The region has seen a spike in the number of microinsurance providers, with a number of commercial insurers targeting the low-income population through varied product offerings and distribution channels. Bradesco Seguros e Previdência, the largest insurance group in Brazil, uses innovative distribution channels, including banks, MFIs, postal banks, the retail network, affiliates and varied forms of transport such as boats and planes to reach customers. Protecta, a specialised microinsurance company which launched its operations in Peru in 2008, already offers life and annuity products to over half a million clients.¹⁶ The Inter-American Development Bank recently approved a loan to the Federacion Interamericana de Empresas de Seguros (FIDES) to increase the use of microinsurance in Latin America. Ten companies will be part of the project which aims to design and sell life, casualty and health microinsurance products. There is also evidence of success using the cooperative models, such as La Equidad in Colombia and La Columna in Guatemala, which have focused on demand-driven products, efficient operations and reinsurance programmes as part of risk management.¹⁷

The microinsurance market has strong growth potential in CEE and Turkey.

Central and Eastern Europe (CEE) and Turkey – Untapped markets

The concept of microinsurance is relatively new in CEE and Turkey, even though there are an estimated 73 million people living under \$4. The five markets – ie the Russian Federation, Turkey, Romania, Ukraine and Poland – account for nearly 90% of the low-income population in the region, and can be considered potential major markets for microinsurance products. Moldova and Albania, on the other hand, have the highest proportion of low-income individuals to the total population, with 4 million people. The strong growth in microfinance in certain markets is a positive sign for the future development of microinsurance in the region. However, the success of microinsurance will be largely dependent on how effectively low-income customers can be educated about insurance and related products and convinced to buy them. Supportive government actions are also important to develop the market.

¹⁵ "Microinsurance in Brazil: Towards a strategy for market development", CENFRI, February 2010.

¹⁶ Business News Americas, February 2009.

¹⁷ Microinsurance matters in Latin America, The World Bank, November 2008.

Credit life products offer limited protection to low-income families.

Market overview – Product developments

Credit life protection is the largest selling microinsurance product globally (see Table 2). Though credit life often helped create initial awareness of insurance products, it is still primarily a product that originated to satisfy the needs of MFIs rather than the low-income population. It is believed that low-income households will need significantly higher and broader levels of protection and benefits than the loan outstanding coverage. In addition to life microinsurance, health and agriculture are the most significant microinsurance products that address the needs of the low-income population; however, they are also more complex when it comes to addressing operational and insurance challenges.

Table 2
Types of mainstay microinsurance products and benefits

Products	Sub-types	Benefits
Health	Hospitalisation, primary care, critical illness	Protects the beneficiaries against illness, injury, diseases; coverage often limited to hospitalisation
Life-Credit	Life protection (bundled with micro credit)	Protects the lender for credit loss resulting from the death of the borrower; offers limited value
Life-Protection	Term life, funeral, accident, disability	Provides monetary benefits to the beneficiary in the event of death/accident/disability of the policyholder
Life-Savings	Endowment, pensions, investments	Combination of savings and protection; mobilises savings for the policyholder/dependents
Agriculture/index	Crop insurance, livestock and index covers	Protects agricultural income/returns from weather events, pest infections, catastrophes etc.
Assets	House/huts, business assets	Usually linked with loans; indemnifies the beneficiary in case of loss of covered assets due to named perils
Microtakaful	Family takaful and general takaful	Offers shariah-compliant insurance to low-income Islamic population

Source: Swiss Re Economic Research & Consulting

A continued focus on innovation in product design, distribution and technology is vital to develop need-based products.

New microinsurance products are being designed and launched for the benefit of low-income individuals in emerging markets. Many of these products feature innovative designs, leverage extensively on new technologies and make use of various conventional and alternative channels. There is a continuous drive for innovation by risk carriers and distributors as they look for the optimal solutions to meet the needs of the low-income population, reduce transaction costs and expand the reach.

Increasingly, microinsurance providers are extending the life product range to include savings, pensions and comprehensive life protection.

Life microinsurance

Simple life insurance is the most popular and successful microinsurance offering across the world. Its success has been due to the following:

- a strong push from MFIs to bundle life protection with microcredit
- the relative ease in creating awareness and understanding of the product
- the profitability of risk carriers and distributors (as life products are comparatively easy to price)

Though credit life and funeral insurance remain the most popular life products, risk carriers are increasingly designing products that offer more comprehensive life protection, mobilise savings and enable wealth accumulation. Interestingly, as per the landscape study, pensions was the largest category of life products, though skewed by large scale institutions providing such offerings in China and India¹⁸. Aon Bolivia recently was reported to have launched a new retirement product targeting the working class population, which requires regular payments for 100 months and thereafter entitles policyholders to receive double the monthly payment for the next 70 months.¹⁹ In India, ICICI Prudential Life has partnered with a tea producer to offer unit-linked endowment products to company workers at tea plantations. The product comes with premium guarantee and flexible liquidity options.²⁰ There are also instances where providers are exploring links between remittances and insurance offerings. Seguros Futuro, a cooperative insurance company in El Salvador, is developing remittance-linked microinsurance products to cover the death and repatriation of migrant workers.²¹ PICC of China, meanwhile, initiated in 2009 a pilot microinsurance programme insuring internal migrants against accidents and diseases.²²

New initiatives in distribution include tie-ups with retailers, utility providers, postal offices and religious institutions.

There are numerous programmes which make extensive use of both formal and informal distribution channels. The objective is to improve accessibility to remote customers and help ease the process of premium collection/claims payment. Max New York Life Insurance Company in India developed 'Max Vijay', a simple life insurance product with a built-in savings component ensuring protection as well as wealth creation. It focuses on the retailer network for its distribution – eg telecom, grocery and retail stores – in addition to tie-ups with NGOs and MFIs. The company uses handheld terminals, mobile phones and portals to manage flexible payments that are small and irregular. Hollard in South Africa teamed up with PEP stores to distribute funeral insurance products. The product is a prepaid 'starter pack' available off the shelf, containing a policy card and document. Monthly premiums can be paid in the store.²³ Distribution is also being explored through the utility corporations, religious institutions, postal offices etc. Codenso, the largest power distribution company in Colombia leverages its client base to target microinsurance products in partnership with Seguros Mapfre.²⁴ Increasingly, mobile technology is also being leveraged by providers to ease premium payment.

¹⁸ The Landscape of Microinsurance in the World's 100 poorest countries, The Microinsurance Centre, April 2007.

¹⁹ "Aon to offer microinsurance retirement policy", Business News Americas, 21 April 2010.

²⁰ ICICI Prudential Life news release (30 January 2009) and media reports.

²¹ Microinsurance Innovation Facility Annual Report 2009.

²² According to PICC, seven branch offices have been chosen as pilot as of the end of June 2010.

²³ PEP stores website http://www.pepstores.com/cms/view/content/whats_in_store_insurance.

²⁴ Microinsurance matters in Latin America, The World Bank, November 2008.

Health products offer the highest value to low-income individuals, as health shocks are more frequent and impact heavily on their earnings capacity.

Governments can channel subsidies through health microinsurance products in partnership with private players.

Index-based covers help overcome the challenges of traditional agriculture insurance.

Health microinsurance

Health microinsurance offer a high value proposition to the low-income population, since health shocks are more frequent, impact household earnings capacity and result in recurring expenditure. On the other hand, the product is complex, since it is dependent on the availability of healthcare providers and infrastructure. Health products are also difficult to price due to limited actuarial data, susceptibility to adverse selection and abuse. Nevertheless, health microinsurance is emerging as an effective solution to manage health/financial shocks as it reduces out-of-pocket expenditure on health for low-income families, and provides a steady flow of revenues for providers, which ensures the feasibility of operations and drives investment in quality healthcare infrastructures. Health microinsurance is provided by private insurers, mutuals/cooperatives and other informal solidarity groups. In the case of solidarity groups, the contributions are collected from group members to set up a 'pot', which is then used for members requiring major medical expenses.²⁵

Health microinsurance can help in achieving social protection objectives since social security systems are either non-existent or lacking in many emerging economies. A recent study suggested that health microinsurance has had a major impact on improving the poverty status of rural households in Bangladesh.²⁶ RSBY in India (see earlier Box) is a case where government subsidies along with private sector expertise contribute towards improving access to healthcare services for the poor. There are numerous health initiatives which have been launched across emerging countries, especially in South Asia and Africa. Grameen Kalyan, a sister NGO of Grameen Bank in Bangladesh is both the insurer as well as provider of primary health services. It offers coverage for preventive and curative health services and requires co-payment which helps to reduce over-usage of services.²⁷ In Namibia, the Okambilimbili pilot project, which concluded in 2009, provided a low cost micro-health insurance scheme offering full coverage of HIV/AIDS treatment. The insurance was sold through employers who contribute at least 50% of premiums, thereby subsidising the premiums for the employees.²⁸

Agriculture microinsurance

Agricultural production is a mainstay for millions of low-income families across the world and contributes significantly to the national output of many emerging economies. Therefore protecting agricultural output from risks and uncertainties related to weather events (eg hail, drought or flood), pests and diseases, and adverse economic developments (eg price fluctuations, interest rates and change in demand) is critical. Agricultural microinsurance aimed at low-income farmers involves the transfer of agricultural risks through conventional and index-based parametric solutions. It provides a safety net to small-scale farmers by insuring them against loss of income. At the national level, it allows governments to shift from ex-post to ex-ante risk-coping mechanisms by transferring agricultural risks to the insurance sector and capital markets. Conventional agricultural insurance programmes face various challenges in supporting small-scale farmers, such as high administrative and loss assessment costs, risks of adverse selection, moral hazard and fraudulent claims. These challenges can be overcome through the use of index-based solutions with payouts defined as a function of a weather parameters or an index that is highly correlated with agricultural production. Examples of indices include rainfall (eg flood or drought), temperature (minimum or maximum), relative humidity, sunshine hours etc. To structure an index requires product design expertise, historical weather data from a dense network of weather stations and agriculture production statistics.

²⁵ Microinsurance and health care in developing countries, Cera Foundation, June 2004.

²⁶ Can micro health insurance reduce poverty? Evidence from Bangladesh; Sheffield Economic Research Paper Series, January 2010.

²⁷ www.microcapital.org

²⁸ International Institute of Social Studies of Erasmus University Rotterdam <http://www.iss.nl/DevISSues/Articles/A-Unique-Low-cost-Private-Health-Insurance-Program-in-Namibia-Protection-from-Health-Shocks-Including-HIV-AIDS>.

Pilot initiatives featuring innovative product designs are being tested in India, Kenya, Mexico and Malawi.

Against the backdrop of the wider use of index-based weather insurance, related innovative microinsurance projects are being developed globally. The Agriculture Insurance Company of India launched Weather Based Crop Insurance Schemes (WBCIS), which was implemented with financial support from the government in 2007. The coverage/trigger is mainly based on rainfall outputs and composite indices. The programme insured over 670 000 farmers in 2007–08.²⁹ In Mexico, a weather insurance product was developed based on satellite data using a vegetation index. The solution accurately reflects pastureland conditions and provides economic relief to supplement the purchase of additional feed to maintain an animal's minimum weight. In Kenya, 'Kilimo Salama', a weather index-based microinsurance programme, offers small-scale farmers protection against financial losses arising from drought or excess rainfall through the use of low-cost mobile phone payment systems and automated solar-powered weather stations. The programme uses a 'pay as you plant' approach that allows farmers to try out insurance and later expand the coverage as they get comfortable with the scheme and understand the benefits. It makes use of a network of local agrovet stores (agro dealer stores), which use mobile phone applications for paperless registration, premiums payment and payouts. This helps reduce transaction costs and enables real-time monitoring of policies and payments. The technology is also user-friendly and is usually accepted and trusted by customers.³⁰

Technology can help overcome challenges in livestock insurance.

To reduce fraudulent claims in the case of livestock insurance, IFFCO Tokio General Insurance Company in India initiated a project that uses a microchip, based on radio frequency identification (RFID) technology, which is injected beneath the animal's skin. The technology not only helps insurers to reduce moral hazard, but also aids the community with better cattle and disease management statistics.³¹

Property microinsurance is currently an underdeveloped market mainly due to low demand, product complexity and the high risk of fraud and moral hazard.

Assets microinsurance

Assets or property microinsurance protects against the loss of homes, business assets, equipment and other belongings. Such coverage can be relevant for low-income households as well as entrepreneurs running small businesses. However, asset microinsurance is an underdeveloped market segment relative to other microinsurance products. Some of the causes are supply-side driven due to the difficulty of pricing the product, the resource-intensive claims settlement processes, moral hazard as well as the high level of control required to minimise fraud. In addition, it is questionable to which extent low-income individuals are willing to spend part of their income on property insurance. Nevertheless, it is a large, untapped market that would require innovative approaches from market practitioners to address the insurance issues and generate demand.

Providing protection against disaster losses should be addressed.

Of late, there has been increasing emphasis – especially in emerging countries – on the need to protect low-income individuals against financial losses resulting from natural disasters, such as earthquake, flood, windstorm etc through the active involvement of governments. There have also been numerous programmes developed to provide protection from losses resulting from natural disasters. In India, a disaster microinsurance scheme, 'Afat Vimo' was developed by All India Disaster Management Institute to provide coverage for 19 disasters including earthquake, fire, explosion and cyclone. The scheme indemnifies its policyholders for damages up to USD 1 744 for non-life assets and USD 465 for life.³² There are also mandatory schemes, such as the one initiated by the Gujarat State Disaster Management Authority. The authority launched a compulsory group-based housing insurance scheme for households that were destroyed in the 2001 Gujarat earthquake and rebuilt with government assistance. It covers 14 types of natural and man-made disasters and transfers up to 55% of the risk to insurers.³³

²⁹ The Potential for Scale and Sustainability in Weather Index Insurance, WFP and IFAD, May 2010.

³⁰ <http://kilimosalama.wordpress.com>

³¹ "Maximizing information technology for microinsurance viability", IFFCO-Tokio, May 2010.

³² All India Disaster Mitigation Institute, <http://www.aidmi.org/risk-transfer-initiative.asp>

³³ "Disaster Insurance for the Poor? A review of microinsurance for natural disaster risks in developing countries", ProVention Consortium and IIASA, July 2006.

The microtakaful market is largely under-developed.

Microtakaful

Microtakaful is shariah-compliant insurance targeted at the low-income Islamic population. The system is based on the principle of mutual assistance (ta'awun) and voluntary contribution (tabarru), where the risk is shared collectively and voluntarily by a group of participants.³⁴ The microtakaful market is expected to develop mostly in the regions of Asia, the Middle East and North Africa (MENA), which includes Malaysia, Indonesia, Bangladesh, Pakistan, Saudi Arabia, Bahrain, Jordan, Lebanon and Morocco among others. Though the market is still in the early stages of development, there are already a number of programmes operational across certain markets (see Table 3).

Table 3
Select microtakaful programmes

Country	Company	Product focus
Lebanon	Agricultural Mutual Fund	Health
Malaysia	Takaful Ikhlas	Life
	Etiqa Takaful Berhad	Disability
Indonesia	PT Asuransi Allianz Life	Life, Family umbrella
	Takaful Mikro Sakinah	Life, debt coverage
	PT Asuransi Takaful Keluarga	Life
Sri Lanka	Amana Takaful	Death, disability
	Ceylinco Takaful	Livestock

Source: Company websites

³⁴ *sigma* No 5/2008, Insurance in the emerging markets: overview and prospects for Islamic insurance.

Key issues and challenges

Providing insurance products to the low-income population is much more complex than providing credit.

Though recent developments in the microinsurance sector have been encouraging in most regions and product segments, the actual reach is not yet broad-based and covers only a fraction of the potential market. Numerous challenges remain that need to be overcome before microinsurance growth accelerates. Fundamentally, market practitioners have to realise that providing insurance products to the low-income population is much more complex than providing credit.

Lack of insurance awareness, socio-cultural factors and the low perceived value proposition are key challenges.

On the demand side, the microinsurance sector faces the biggest challenge in creating insurance and product awareness at the bottom of the income pyramid. Socio-cultural factors, such as dependence on informal or traditional arrangements, religious practices, and negative perceptions of insurance also affect demand. Sometimes customers are not fully informed about the benefits of the insurance products, which results in lower utilisation. Insurance may even be seen as having limited value.

Many of the existing microinsurance offerings do not meet the needs of low-income families.

Microinsurance providers also need to provide need-based and relevant products rather than delivering standardised or scaled-down insurance products. For example, microinsurance providers tend to push credit and simple life insurance products. These products usually fail to provide adequate protection and are often issued to protect microfinance lenders. Providing additional value to low-income clients is also vital; this is often missing in many microinsurance offerings. This could involve for instance the provision of preventive healthcare services or consultation with doctors. It could also involve providing weather forecasts/data, advice on crops or farming technology. By addressing these issues, microinsurance providers can improve the product take-up and policy renewal rates.

Microinsurance providers need to build and sustain low-cost operation models and should focus on long-term results.

Building a cost-effective infrastructure is a major challenge for microinsurance providers, given the high operating and administrative costs involved in reaching remote areas. In the current market environment, a number of insurers resort to traditional business models to offer microinsurance. Exclusive microinsurance business models that provide microinsurance products at the lowest cost are required to ensure long-term success and sustainability. The costs need to be continuously reviewed and minimised across the entire value chain through use of technology and innovation. Limited knowledge of the low-income market segment is another barrier to entry for insurers and other practitioners. There are issues in the claims handling process which need to be simplified, such as faster settlement and less documentation to file claims. A short-sighted focus on results or attempts to exclude certain segments of the population to cap downside risk could restrict the expansion of microinsurance programmes.

Providers should aim at simplifying the underwriting processes with minimal restrictive clauses and documentation requirements.

On the underwriting side, the lack of quality data makes it challenging for risk carriers to effectively assess and price the risk. The issue becomes more complicated since the products need to be affordable, yet profitable. Also, certain risks are hard to insure at lower premiums, which results in products that provide narrow coverage and limited benefits to customers. The providers should aim to simplify the policy language with few or no restrictive clauses such as co-payments, exclusions and deductions. For products such as health and agriculture, a high level of operational expertise and scale are key success factors.

The selection of appropriate distribution channels as well as training and motivating staff remain key challenges.

There is a growing need for focused micro-insurance regulations across emerging markets.

Distribution models, infrastructure availability and institutional support are other challenges faced by microinsurance practitioners. Identification, availability and support of appropriate intermediaries remain major concerns for risk carriers as existing distribution channels tend to be weak. The staff of informal channels as well as local community/cooperative networks quite often are not trained or motivated to sell microinsurance products. MFIs, on the other hand, tend to focus their efforts on credit products. The feasibility of certain products is also dependent on the availability of infrastructure, which is often lacking or low in quality.

Conventional insurance regulations could hinder the development of microinsurance. Barriers such as high capital requirements or extensive compliance often limit the development of the sector. There is a need for a focused approach from policymakers to encourage participation by offering a regulatory framework that is conducive to the development of microinsurance. Table 4 below summarises the key issues and challenges facing microinsurance in emerging markets.

Table 4
Key issues and challenges faced by the microinsurance players

Issues and challenges related to microinsurance	
Demand	Lack of insurance awareness; socio-cultural factors; limited perceived value
Operational	Maintaining low-cost operational framework; providers' limited knowledge of low-income segment and lack of skilled staff and resources; non-diversified risk portfolios; claims settlement issues
Underwriting	Lack of quality data; coverage for hard-to-insure risks; policy language
Distribution	Selection of channel partners; training; motivation level
Market	Skepticism about profitability; short-sighted focus of providers; low renewal rate
Infrastructure	Lack of quality healthcare infrastructure/providers and weather stations
Regulatory	No specific provisions for microinsurance; lack of or limited government support
Insurance	Over-usage, fraud, adverse selection, moral hazard and covariant risk

Source: Swiss Re Economic Research & Consulting

The roles of government and Public Private Partnership (PPP)

Governments through their active participation and enabling regulations play a critical role in the development of microinsurance.

The focus on inclusive economic growth and improving the access of financial services is gaining significance.

Microinsurance can be developed by enabling regulations, providing financial support, engaging private sector players and raising insurance awareness.

Role of government in creating an enabling environment for microinsurance

The role of government is important in facilitating the development of microinsurance, especially since microinsurance contributes towards meeting socio-economic developmental goals. Given the fact that serving the low-income population may not be the first priority for many of the private sector participants due to concerns about profitability and operational hurdles, governments can play a critical role in shaping the development of the microinsurance sector in emerging economies. The key objectives for governments and policymakers in this regard should be to ensure:

- *Financial inclusion:* Governments can improve access to financial services for the low-income population and empowering them with risk management solutions to cope with uncertainties.
- *Development of sound regulatory framework:* Regulators, through market enabling policies and reforms, play a critical role in further developing the microinsurance market. At the same time, balance needs to be maintained since over-regulation tends to increase costs and operational obstacles.
- *Ease barriers and develop efficient markets that encourage innovation and competition:* Governments can lower barriers such as high capital requirements, licensing norms for intermediaries, stringent regulatory requirements, and restrictions on product offerings and reinsurance placement in order to facilitate further growth of the microinsurance market. A level playing field will result in increased participation/focus from private sector players and innovative practices which ultimately benefit consumers.
- *Increase awareness and ensure consumer protection:* By increasing insurance awareness amongst the low-income population, governments can help to create a market for demand-driven microinsurance products. Also, since this section of the society has very limited resources at their disposal, governments should formulate mechanisms to ensure that policyholders' interests are adequately protected.

The increased focus on financial inclusion and the role of policymakers in this regard has grabbed the attention at the highest level world forums such as the G-20, which has now developed a set of nine principles for innovative financial inclusion, derived from experiences of developing countries. It forms the basis of a pragmatic action plan for improving the access to financial services amongst the low-income population.³⁵ This is a major step towards establishing international best practices and principles, especially in the microinsurance space.

So how can policymakers help develop the microinsurance sector? The following are multiple approaches that can create a favourable environment:

- Adopting microinsurance regulations (eg lower capital requirements) that lead to more focused approaches by market players to address the needs of the low-income population;
- Requiring insurers to serve the low-income population in order to obtain a license;
- Offering financial assistance aimed at building up necessary infrastructure and insurance awareness; educating low-income individuals about the benefits of insurance through large scale initiatives;
- Sponsoring insurance schemes to better address the issues of effectiveness and penetration. Since commercially viable operations may not be feasible for the extremely poor segment of the population, sponsoring insurance schemes may be an effective way to give specific population groups access to insurance products. However, such support needs to be provided over the long-term and become part of a clear transition strategy in order to ensure sustainability.

³⁵ G-20 Toronto Summit Declaration, June 2010

Table 5 illustrates some of the recent regulatory initiatives taken by emerging markets to support the growth of microinsurance.

Table 5
Examples of government initiatives and proposals in the microinsurance sector

Country	Regulatory initiatives/proposals in microinsurance
India	Separate regulations for microinsurance; mandate on rural and social obligations as part of licensing conditions
Brazil	Proposed regulation with provisions including specific license for microinsurance providers and consumer protection regulations
South Africa	National treasury framework being proposed with measures such as dedicated microinsurance licenses, simplified distribution etc.
Philippines	Recent launch of National Strategy and Regulatory Framework for Microinsurance; allows second tier mutual benefit associations which are subject to separate rules and favorable treatment
West Africa	Microinsurance regulation in 8 countries for mutual social health organisations
Peru	Separate regulations for microinsurance
Taiwan	Proposed draft microinsurance regulations for a programme covering traditional life and personal injury insurance

Sources: Swiss Re Economic Research & Consulting; Presentation by Arup Chatterjee, IAIS on "The case for a regulatory framework to protect policyholders and develop an inclusive microinsurance market", June 2010.

PPP models can be effectively deployed in the start-up/expansion phases and in market segments which are not commercially viable.

Public private partnership (PPP) and microinsurance

PPP in the context of microinsurance involves a multi-stakeholder response from the private and public sectors in order to address the risk management and risk transfer needs of the low-income population (see Table 6). The rationale behind such partnerships is to create synergies by leveraging the capabilities of multiple stakeholders. The public sector has the power to set conditions that facilitate adaptive responses by individuals and private market participants. In contrast, the private sector often has the expertise, operational and financial capabilities, but generally lacks the power to set appropriate conditions. Hence such partnerships, if designed properly, can help to create market-based and commercially sustainable solutions for the low-income population. A PPP approach is of particular importance in the start-up and early expansion phase of microinsurance schemes, when offering products to the extremely poor population or market segments which are commercially unviable for private and economically driven operators. PPP is also important for the design and implementation of disaster risk transfer solutions.

Table 6
Effective risk management for low-income individuals requires a multi-stakeholder response

Contribution	Governments	NGOs, IDOs, multilaterals	Re/insurer
Education to raise awareness for risks and solutions	✓	✓	(✓)
Build/improve infrastructure and regulatory framework	✓	(✓)	✗
Distribution channels	✓	✓	(✓)
Improve product design and efficiencies	✗	✓	✓
Financial support, particularly in start-up phase and pilots	✓	✓	(✓)
Manage risks	✗	✗	✓

(✓) denotes part contribution

Source: Swiss Re

Major disasters can easily derail the economic growth path of emerging economies and significantly impact the livelihood of low-income families.

Governments should develop comprehensive national disaster solutions focusing on pro-active risk management strategies.

PPP – solution for disaster risk financing at a macro-level

Over the last few decades, heightened economic losses from natural disaster activity have impacted virtually all nations. Emerging economies are particularly vulnerable to disasters due to various factors such as insufficient urban planning, high population growth and continued environmental degradation. Major disasters have a tremendous effect on the socio-economic development of emerging economies and have the tendency to derail a specific region's or even the whole country's growth for a considerable period of time. Unfortunately, such disasters hit the bottom of the income pyramid even harder than others. People may become homeless, and farmers may need to deal with loss of agricultural output, which pushes people back or even deeper into poverty.

To mitigate the financial impact of natural disasters on low-income individuals, risk-transfer solutions can be implemented at different levels. Those with low incomes rarely have extra funds given their limited earnings capacity. They often have other priorities besides purchasing natural catastrophe insurance. Hence, disaster risk microinsurance at the individual level may be considered as an unreasonable and ineffective solution. Instead, governments at the macro level should develop comprehensive national disaster solutions focusing on pro-active risk management strategies, including both risk mitigation and loss financing measures. Such a comprehensive strategy can include additional efforts to identify, assess, mitigate, transfer and finance risk events. (see Figure 8)

Figure 8
Loss financing mechanisms and instruments for disaster risk financing

<p>Low frequency/ High severity event financing</p>	<p>Loss Financing Transfer</p> <ul style="list-style-type: none"> ■ Disaster insurance and reinsurance ■ CAT bonds ■ Exchange-traded instruments ■ Weather derivatives ■ Catastrophe pools 	<p>Conventional insurance</p> <ul style="list-style-type: none"> ■ Emergency loans from international bodies or through pre-arranged facilities ■ Reconstruction loans
<p>High frequency/ Low severity event financing</p>	<p>Prevention Funding</p> <ul style="list-style-type: none"> ■ Prevention and mitigations funds ■ Development funds; municipal, social etc ■ Mitigation loans ■ Prevention loans ■ International aid 	<p>Loss financing</p> <ul style="list-style-type: none"> ■ Self-financing ■ Calamity funds; reserve funds ■ Transfers of government budget ■ Development funds ■ Reformulation of existing loans ■ International aid ■ Contingent credit

Source: Swiss Re Economic Research & Consulting; Inter-American Development Bank

A number of insurance PPP initiatives have been launched around the world that provide innovative solutions to mitigate the impact of natural disasters.

Governments, development organisations and NGOs are increasingly interested in implementing insurance PPPs either on a country or regional level. A number of initiatives have been already launched with proven track records. The Caribbean Catastrophe Risk Insurance Facility (CCRIF), launched in June 2007, offers parametric hurricane and earthquake insurance policies to 16 CARICOM (Caribbean Community) governments. The parametric policies which are triggered by the intensity (eg magnitude or wind speed) of an event provide the highly vulnerable Caribbean states with immediate liquidity after an event as there is no long-lasting claims adjustment process needed. Another initiative was developed for Malawi, which suffers from recurring droughts. Droughts not only result in financial risks related to the agricultural produce, but also increase food insecurity in the region. Through public private partnership, a weather derivative deal has been structured to cover the drought-related shortfalls in maize production. Under the contract, the Government of Malawi will receive up to USD 5 million if an extreme drought occurs. If maize production falls 10% below the historical average, the cover is triggered.

Innovative solution to tackle agricultural catastrophe risks in China

In mid-2009, Beijing Municipal Government entered into an agreement with global reinsurers for catastrophe protection cover for Beijing's government-funded agricultural insurance programme. By transferring risk to the reinsurance sector, Beijing is the first regional government in China to professionally manage the risk of large agricultural losses. This innovative PPP facilitates the sustainable development of agricultural insurance which will help stimulate agricultural productivity in China amid rising global concerns over food security.

As part of the deal, the insurance companies will be responsible for losses below 160% of the annual premium. Reinsurers will take up the losses between 160% and 300%, while the losses above 300% will be covered by the Beijing Municipal Government's Agricultural Catastrophe Risks Reserve. The agreement provides tailor-made reinsurance protection for livestock, flood, hail, wind and rainstorms, covering about 400 000 farming households. As for the benefits to farmers, agricultural insurance helps stimulate investment in agriculture and stabilise farmers' income in China. Transferring risk to the reinsurance sector can help absorb large losses of the insurers that deliver agricultural insurance under the national programme. This may encourage insurers to make agricultural insurance more affordable and accessible to farmers.

The roles of insurers and reinsurers

Global and local (re)insurers are catering to the needs of low-income households with a number of small to large scale microinsurance projects initiated in the past few years across various product lines and major markets.

Private insurers currently provide the largest number of microinsurance products and have the largest outreach. However, their product offering is often skewed towards credit life, although there are increased efforts to provide a more diverse product range. In fact, the largest number of microinsurance products in the last decade were introduced by commercial insurers. The commercial insurers are not only engaged in the product design and delivery, but they also support NGOs, communities, cooperatives, governments and other providers of microinsurance.

For insurers, the low-income market segment is expected to become the driver of growth. As the sector expands, local insurers and other microinsurance providers will need capital support, catastrophic protection, holistic risk management solutions, technical expertise, and innovative solutions, all of which are provided by reinsurers. Reinsurance solutions offer loss stabilisation for microinsurance programmes, thereby limiting the loss impact and reducing underwriting costs. This greatly enhances the institutions' capability to build sustainable operations, increases their solvency and supports the expansion of microinsurance programmes. Reinsurance offers the following benefits:

- *Innovative risk transfer mechanisms:* Insurers can manage the risk of insuring the low-income population through innovative reinsurance arrangements, including those making use of parametric indices and capital market solutions. For large MFIs, which already absorb a variety of risks such as credit, investments and liquidity, insurance-related risks can be effectively transferred to reinsurers.
- *Hedging the corporate portfolio:* Insurers and other risk carriers such as mutuals and community-based microinsurance providers – at both the national and local level – face covariate risk in that their assets and operations can be severely impacted by a catastrophic event or large scale loss. They need protection at the institutional level to cope with such extreme events.
- *Capacity expansion:* To develop large scale microinsurance programmes or to scale up existing programmes, risk carriers require support from reinsurers to expand underwriting capacity. Reinsurers also provide capacity for peak risks or portfolios which are difficult to insure.
- *Disaster risk management:* With support from reinsurers, natural catastrophe protection can be provided through traditional as well as capital market solutions. Such mechanisms ensure guaranteed access to required funds for recovery, up to agreed cover limits, and are an efficient way to cope with the financial consequences of disasters.
- *Provision of technical and risk management expertise:* To make microinsurance profitable, insurers have to deal with major issues including lack of data, control of anti-selection, moral hazard and fraud. Reinsurers have the expertise and know-how to support insurance companies in adequately assessing and pricing risks and to design innovative and attractive products for both the providers and the policyholders.

Increasingly, insurers and other risk carriers are teaming up with reinsurers to co-develop microinsurance programmes or transfer the insurance risk. Reinsurance arrangements have not just been limited to private programmes, but also extended to public sector initiatives. Recently, micro reinsurance was used to protect a government-sponsored critical microinsurance scheme that covers 10 million low-income families in Tamil Nadu, India. The programme uses several reinsurance structures and has the support of major international reinsurers. The deal, believed to be the largest contractual transfer of microinsurance risk, highlights how reinsurers aid the development of the microinsurance market.

Outlook – microinsurance in the next decade

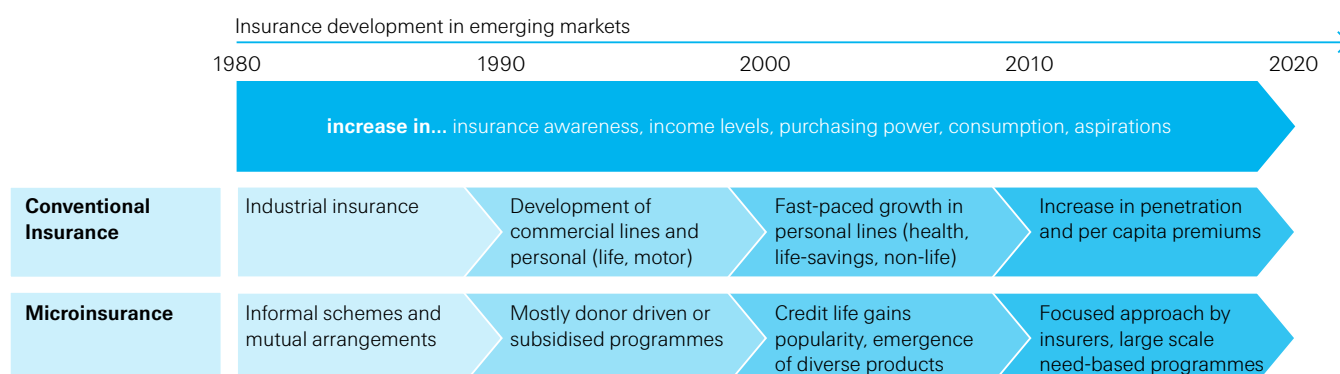
Microinsurance in the next decade – trends to watch out for!

A strong focus on financial inclusion initiatives, including banking, credit and insurance, will occur over the next decade.

Due to the rapid growth of microfinance in recent decades, there is now little doubt that demand for financial services among the low-income population exists and has huge potential. Given the strong growth of microinsurance in recent years and its role in meeting socio-developmental objectives, 2010-2020 can become a 'decade of further financial inclusion', where microinsurance, along with microcredit and other microfinance products, will change the way the world sees the low-income market segment (see Figure 9).

Figure 9

Development of traditional insurance and microinsurance across the decades



Source: Swiss Re Economic Research & Consulting

Insurers will strengthen their focus on the low-income segment.

There will be increased demand for health, savings and index covers.

The strong growth prospects of microfinance will continue to spur demand for credit life products.

Key microinsurance trends that may develop between 2010 and 2020 include the following:

- Insurers will continue to target low-income families. The heightened interest and more focused approach of insurers will result in more choices for policyholders. New players will enter the market, resulting in evolution and innovation in business models and product offerings. Rising incomes and reduction in poverty will result in higher demand for conventional insurance and risk management products.
- Demand will rise for health microinsurance (a priority for many governments in the emerging market countries), for savings/accumulation life products (including pension and education products) and for parametric solutions (index-based agriculture products for farmers as well as catastrophe covers). Also, there is likely to be a stronger focus on developing bundled microinsurance products that can offer comprehensive protection at low costs.
- Demand for microfinance will increase from the low-income groups, particularly as their needs expand from emergency credit to housing and educational loans.

Governments will increasingly engage private players to implement risk management solutions.

Disaster management solutions will require a holistic and collaborative approach.

Mobile technology and innovative solutions will have a major impact on microinsurance delivery models.

The penetration of formal risk management mechanisms will increase substantially.

Microtakaful will be an effective solution for the low-income Islamic population.

- Governments will play an increasingly important role in fulfilling the needs and requirements of the extremely poor segment of society. They will increasingly engage private sector (re)insurers to design and implement innovative mechanisms to serve the risk management needs of low-income households. Products such as health and agriculture insurance will continue to be subsidised by governments in order to keep premiums at a low level.
- The need for more sophisticated approaches to disaster risk management will become vital and lead to comprehensive national policies. Innovative risk transfer mechanisms will be adopted. As the need to deal with the financial consequences of large scale natural disasters on the low-income population increases, the use of PPP will become more important for governments and developmental agencies.
- Technological innovation will have a significant impact on the operational and distribution models, resulting in reduced transactional costs and increased efficiency across the microinsurance value chain. Mobile phones and related technologies will enable fast-paced growth and penetration of microinsurance products. Better technology and management information systems are also likely to result in improved data quality as required for effective pricing and risk assessment of microinsurance products.
- Formal mechanisms of risk management will gain in popularity and eventually take over the market for informal schemes. Institutions, which are currently not regulated for the purpose of providing microinsurance, will increasingly be controlled or monitored by the relevant supervisory authorities.
- Microtakaful is expected to become more popular in the Middle East North Africa (MENA) region and in certain Asian economies with huge Islamic populations such as Indonesia and Malaysia.

Conclusion

Up to four billion people could buy microinsurance products.

With the risk management needs of four billion low-income people largely unmet, the potential market for microinsurance is vast. Improvement in insurance penetration at the bottom of the income pyramid is expected to have a significantly positive impact on the socio-economic development of emerging markets. Through microinsurance, low-income families can better protect themselves against major risks and financial shocks.

Microinsurance is an effective and viable risk management mechanism for low-income individuals.

The low-income population is usually the most vulnerable to financial and life risks and the least protected segment of the society due to limited or no access to formal risk management mechanisms. Microinsurance as an ex-ante measure has now emerged as a viable risk management option for low-income households to reduce their vulnerability to adverse events. It is also a major tool for governments to pursue developmental objectives. It effectively fills the gap left between the conventional insurance market and those who receive social protection at the bottom of the income pyramid.

The providers should aim for a long-term sustainable solution.

The value proposition of microinsurance lies in its capacity to provide long-term sustainable solutions where providers of microinsurance strike a balance between contributing towards socio-economic developmental and maintaining commercially viable operations.

Microinsurance offers long-term growth opportunities for the insurance sector.

Microinsurance supports the long-term development of the insurance sector. With the strong drive to raise insurance awareness among low-income population, it will help in achieving long-term benefits – eg developing an insurance-buying culture, supporting demand of insurance and increasing penetration levels in the emerging economies. The socio-economic transformation of today's poor into tomorrow's middle class will create significant business opportunities for insurers.

Reinsurers can co-develop microinsurance programmes and offer capital support to the providers.

For insurers, the microinsurance segment is expected to become a meaningful avenue for growth going forward, thereby increasing their need for reinsurance and capital market solutions. Reinsurers through capital support, catastrophic protection, holistic risk management solutions, technical expertise, and innovative solutions will be able to play a meaningful role in supporting the development of microinsurance.

Governments can play an active role in microinsurance development, disaster risk management and meeting the needs of the poor.

The role of government is much more profound in the microinsurance sector as there is a growing need for a supportive regulatory framework that facilitates broad-based insurance growth. Governments looking to provide disaster risk protection to the public should develop comprehensive national disaster solutions focusing on pro-active risk management strategies. Additionally, government-sponsored programmes targeted at the extremely poor population can be an effective alternative to social security schemes and a way to channel subsidies, especially in helping to cope with life and health risks.

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