

Microinsurance in Korea

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Profile

So Young LIM

<Academic Experience>

- 2009-2015 SungKyunKwan University Bachelor of French Literature, International Trade
- 2015-2017 SungKyunKwan University Master of International Trade
- 2017-Now SungKyunKwan University Ph.d Candidate in International Trade, Global Insurance

<Work Experience>

- 2015-2019 International Academy of Financial Consumers(IAFICO), Assistant
- 2015-2019 International Review of Financial Consumers(IRFC), Editorial Assistant
- 2017 KOICA-KAIDEC Incubating Program Regional Investigation(Laos), Cooperation Researcher
- 2017 National Research Foundation of Korea Research, Research Assistant
- 2018 Korea Workers' Compensation & Welfare Service Research, Research Assistant
- 2019 Seoul National University of Science and Technology, Lecturer(Principle of Insurance)
- 2019 University of Lausanne, Visiting Researcher

Introduction

- ✓ Finance has an indirect impact on poverty reduction and sustainable development in country.
- ✓ “Financial inclusion” is becoming a priority for policymakers, regulators and development agencies globally.
- ✓ Examples of financial inclusion include the development of digital financial services, the expansion of ATMs and bank branches, microfinance, microinsurance, financial education, and policy consulting (Soohyun Oh, Hanna Yim and Kyungseon Lee, 2017).

Financial Inclusion

- Financial inclusion means that individuals and businesses have access to useful and affordable financial products and services that meet their needs – transactions, payments, savings, credit and insurance – delivered in a responsible and sustainable way



- 38% of adults around the world are unable to access basic financial services
- In developing countries, only 54% of adults use formal financial services

Financial Inclusion

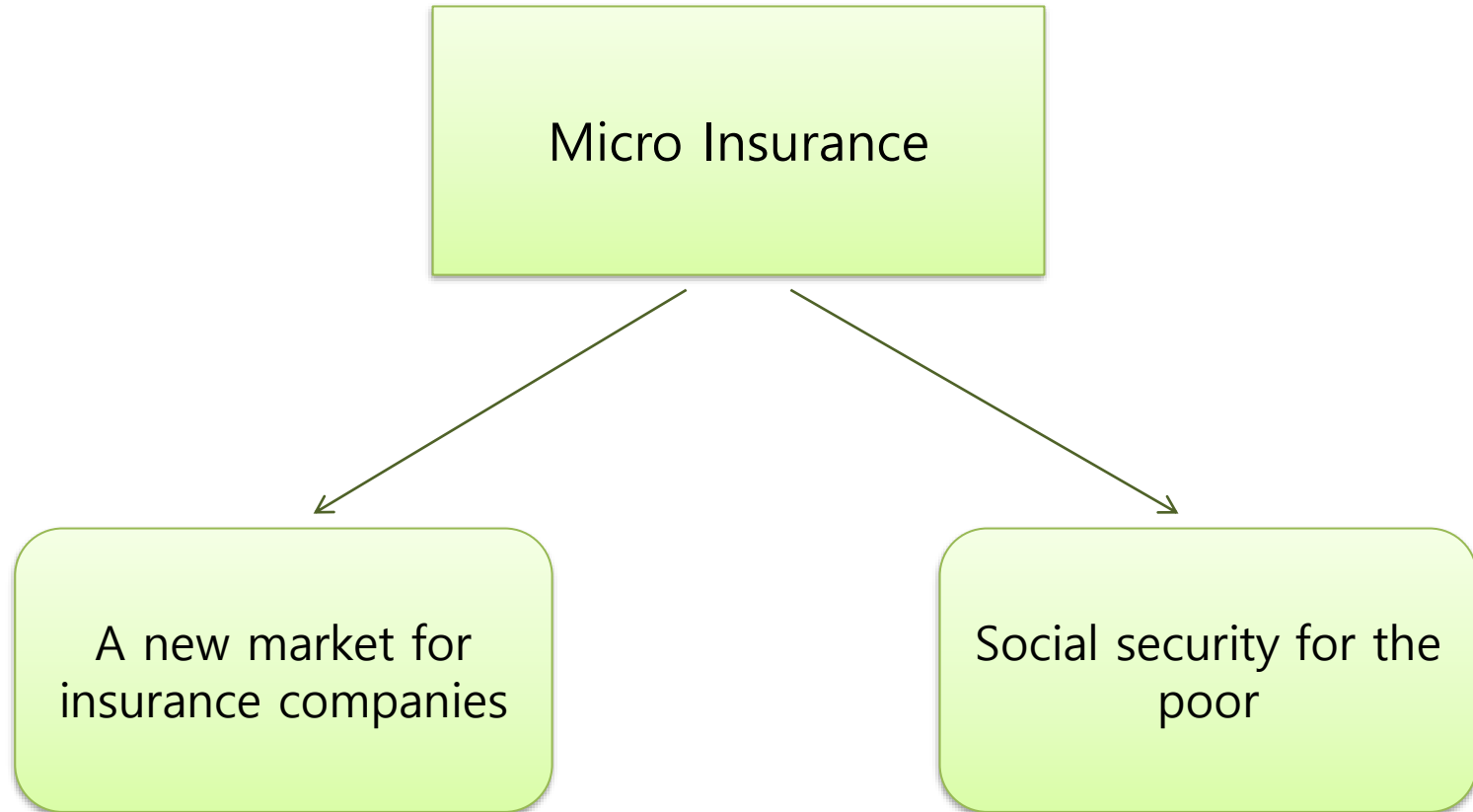
Why do we care about financial inclusion ?

- Poor households are vulnerable and lack access to opportunities
 - Live and work in the informal economy by necessity
 - Vulnerable to shocks (economic downturns, food shortages, natural disasters, death of a family member)
 - Spend most of their income on basics ; food, fuel
 - Poor people are both consumers and producers, and they need financial access to do both – to build assets, create and sustain livelihoods, manage risks, and smooth consumption.
 - Reliance on informal mechanisms such as family and friends, moneylenders, pawn brokers, money under mattress.

Definition

Microinsurance is a mechanism to **protect low income people** against risk, such as accident, illness, and natural disasters, in exchange for insurance premium payments tailored to their needs, income and level of risk. The microinsurance sector is a fast-growing industry with a potentially untapped market of over 2 billion people worldwide.

Micro Insurance



Need for Micro Insurance

- Low income household are predisposed
- To protect themselves and their families against different risks
- Poor need to be seen as a market
- Developed countries and Developing countries
- New concept for the bottom of pyramid

Who uses Microinsurance?

- Currently, microinsurance has already had some success in many third-world countries as a way for low-income families to afford insurance, particularly health insurance. It can be administered in any number of ways; through licensed insurance agents, community organizations, micro-finance institutions and other non-governmental organizations. Currently, microinsurance is very popular and successful in other parts of the world including South Africa, India, China and Brazil.

Need for Micro Insurance

- **Low-income households and micro, small and medium enterprises are particularly vulnerable to risks**, be they related to health, agriculture, property or death. These risks often carry heavy financial implications as individuals, businesses and households attempt to deal with them.
- **Microinsurance provides poor and low-income households with the means to protect themselves against the effects of risk.** The role of microinsurance must therefore be viewed alongside government provision of basic health services, employment and education, etc., all of which go towards alleviating poverty.
- **Microinsurance can also be a tool to extend social protection** in the context of providing security to populations in developing countries and contributing to poverty alleviation. Overall, strategies and mechanisms should ensure that microinsurance is not approached in isolation, thereby maximising impact

Characteristics of Micro insurance

- Sometimes called “Inclusive Insurance”
- Targeted protection for low-income people
- Simple products
- Affordable
- Work best when supported with advice & innovation
- Partner-Agent Model

SUAVE

- Simple
- Understood
- Accessible
- Valuable
- Efficient

Conventional Insurance vs Micro Insurance

Element	Conventional Insurance	Micro Insurance
Premiums	Typically regular annual, quarterly, monthly, based on age or other specific risk characteristics, and collected regularly	Frequent or irregular premium payments, group pricing with links to other services
Policies	Complex policy document, much exclusion, usually annual terms	Simple language, few to no exclusions, terms appropriate to market, may require life and non-life benefits
Claims	Claims process for large sums, insured may be quite difficult	Claims process for small sums, insured is simple yet still controls fraud, rapid claims processing
Distribution Channels	Sold by licensed agents or brokers to wealth, middle class, or companies that typically understand insurance	Often sold by unlicensed traditional agents to low-income persons, preferably in groups requiring significant consumer education
Control Efficiencies	Screening requirements may include a medical examination, or other test	If there are any screening requirements, they are very limited to keep costs low

Types of Microinsurance

- Micro insurance can apply to almost any kind of insurance product. Basically, most things that can be insured can be insured on a small scale or “micro” level. Pay-as-you-go (also referred to as usage-based) auto insurance is a popular form of microinsurance. With pay-as-you-go auto insurance, you only pay insurance for the miles you actually drive. Those who drive fewer miles, benefit by paying a lower auto insurance premium. Other examples of microinsurance products include crop, insurance disability insurance, natural disaster insurance, livestock or cattle insurance, etc.

Types of Microinsurance

- Life micro insurance
 - ✓ Covers not only the loan amount, also includes funerals benefits for the policyholder and family member sometimes
- Health micro insurance
 - ✓ Coverage against till health and maternity for direct and indirect medical costs
- Disability micro insurance
 - ✓ Linked with death cover in personal accident products
- Agriculture micro insurance
 - ✓ Aims at protecting farmers from seasonal variability
- Composite Products
 - ✓ Related to grouping of life, health and assets protections

Benefits of Microinsurance

- The greatest benefit of microinsurance is its affordability and also the sense of security it brings to low-income families who were previously unable to afford insurance. Think of the savings individuals can realize by never having to pay in money toward a deductible they will never use. Times are changing and as the millennial generation demands more choices when purchasing insurance, the insurance industry will have to learn how to embrace the change. Other benefits include transparency and the ability to handle claims quickly and accurately.
- Research also shows that when farmers and other small entrepreneurs feel they are protected by insurance, they are willing to take more risks and invest more in new business venture. This is good for the economy.

Microinsurance in Korea



금융위원회

Financial Services
Commission

서민금융  지원센터

Credit Counselling
& Financial Services



Korea Inclusive
Finance Agency



Credit Counselling
& Recovery Service



Happy Fund

Microinsurance in Korea

1. Credit Counselling & Financial Services



- One-stop service counter that provides services such as debt settlement, funding(microfinance, microinsurance, etc), and employment linkage in one place
- Financial counseling service support for ordinary people
- Installed in major cities, 33 branches
- Participating institution ; Korea Inclusive Finance Agency, Credit Counselling & Recovery Service, Happy Fund

Microinsurance in Korea

2. Korea Inclusive Finance Agency



- Established in 2016 based on 「Microfinance Support Act」
- Provide comprehensive supports for one-stop customized microfinance through various business links
- Counseling, education, provision of information concerning the financial life, recommendation of employment, financial products, etc. for supporting the economic independence of ordinary people
- Credit guarantees and fund loans

Microinsurance in Korea

2. Korea Inclusive Finance Agency ; Microinsurance Product

1) Low-income child insurance

- Target ; Children under 17 years old and family provider of single-parent households
- Characteristic ; Indemnity insurance
- Coverage
 - Injury
 - Disease
 - Hospitalization
 - Fracture diagnosis
 - Cancer diagnosis, etc

Microinsurance in Korea

2. Korea Inclusive Finance Agency ; Microinsurance Product

2) Child welfare center

- Target ; child welfare center
- Characteristic ; Package insurance, renew every year

Policyholder	Korea Inclusive Finance Agency
Insured	Center and user
Beneficiary	Center and user

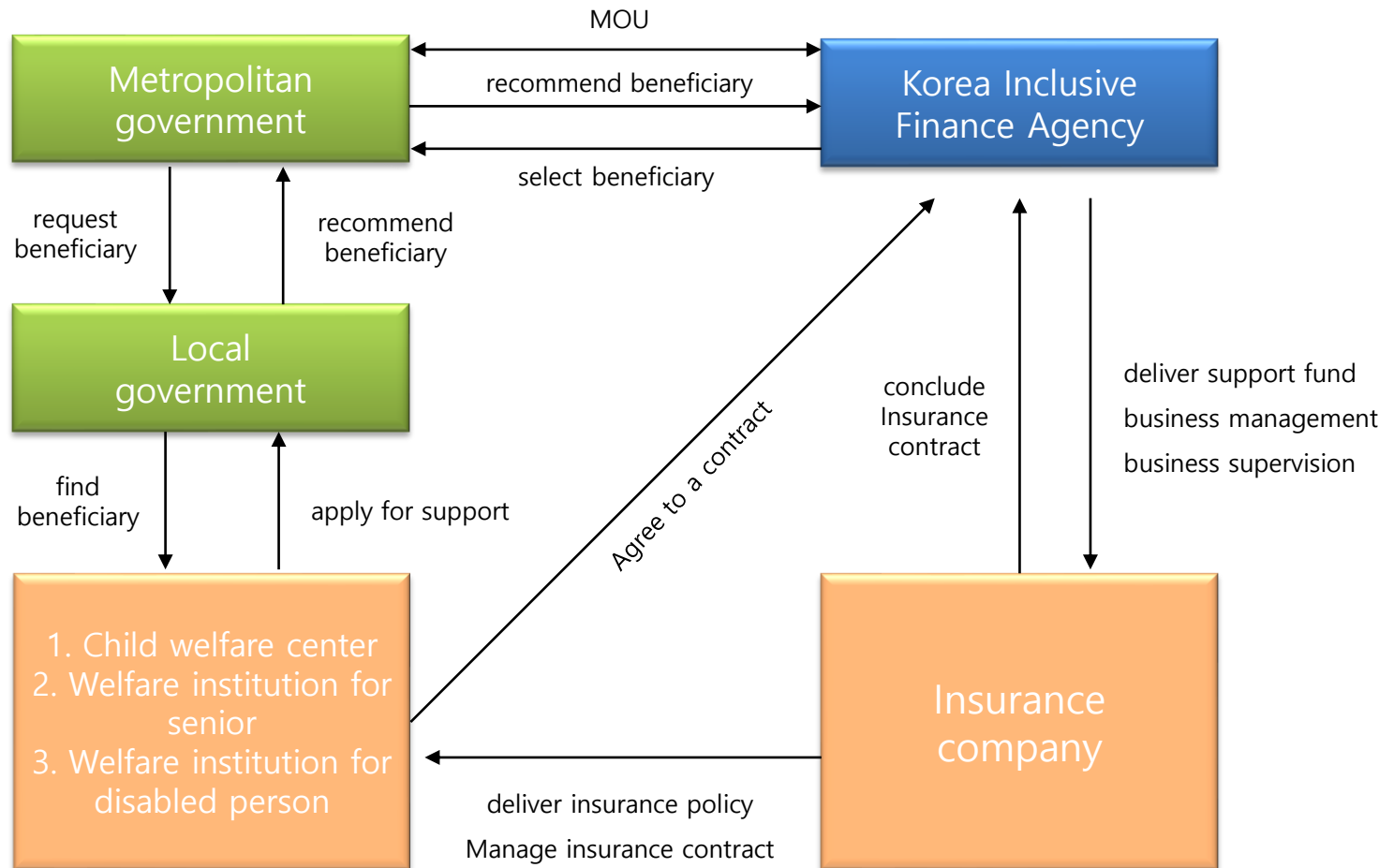
- Coverage
 - property insurance
 - liability insurance

3) Welfare institution for senior

4) Welfare institution for disabled person

Microinsurance in Korea

2. Korea Inclusive Finance Agency ; Microinsurance supporting system



Microinsurance in Korea

2. Korea Inclusive Finance Agency ; Microinsurance Product

5) Credit Personal Accident Insurance

- Target ; Person who get a loan from micro credit/finance
- Characteristic ; credit personal accident insurance

Policyholder	Korea Inclusive Finance Agency
Insured	Person who use micro credit/finance
Beneficiary	Korea Inclusive Finance Agency, Person who use micro credit/finance

- Coverage
 - Accident death or injury ; from 15 years old to 70 years old
 - Disease death or injury ; from 15 years old to 60 years old

Microinsurance in Korea

3. Credit Counselling & Recovery Service



- Established in 2002
- Support credit and economic recovery for debtors who are suffering from heavy debt and credit problems

Microinsurance in Korea

4. Happy Fund 국민행복기금

- Established in 2013
- To reduce excessive debt burden of financial exclusion people
- To give them a chance to revive financially
- Debt settlement, micro finance(loop), etc
- Financial support, Employment support, Welfare service guide, etc

Microinsurance in Korea

5. Korea Postbank - Postal Insurance



- Has been selling "10,000 KRW Happiness Insurance" since 2010
- Personal accident insurance(public interest) for low-income people
- From 15 years old to 65 years old
- Total insurance premium ; 35,000 KRW / year
 - low income people(Insured) pay 10,000 KRW
 - Korea post support 25,000 KRW

Microinsurance in Korea

- For energizing microinsurance business in Korea, it is important to secure stable financial resources
- Private insurance companies need to expand voluntary market participation
- Micro insurance business can be used as an opportunity to create new sources of revenue and enhance reliability

Thank you