

Current Status and Issues in Microinsurance in Asia

Presentation by
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“Expanding the Frontiers of Commercial Microfinance”

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Outline

1. Risks and Risk Management
2. The Range of MI Products
3. Commercializing Microinsurance
4. Regulatory Issues for Microinsurance
5. 10 Challenges



To what risks and economic stresses are low-income persons vulnerable?

- Life cycle needs (e.g., education, wedding)
- Illness, accidents
- Death
- Fire, theft
- Natural disasters

1. Risks and Risk Management

From the clients' perspective...

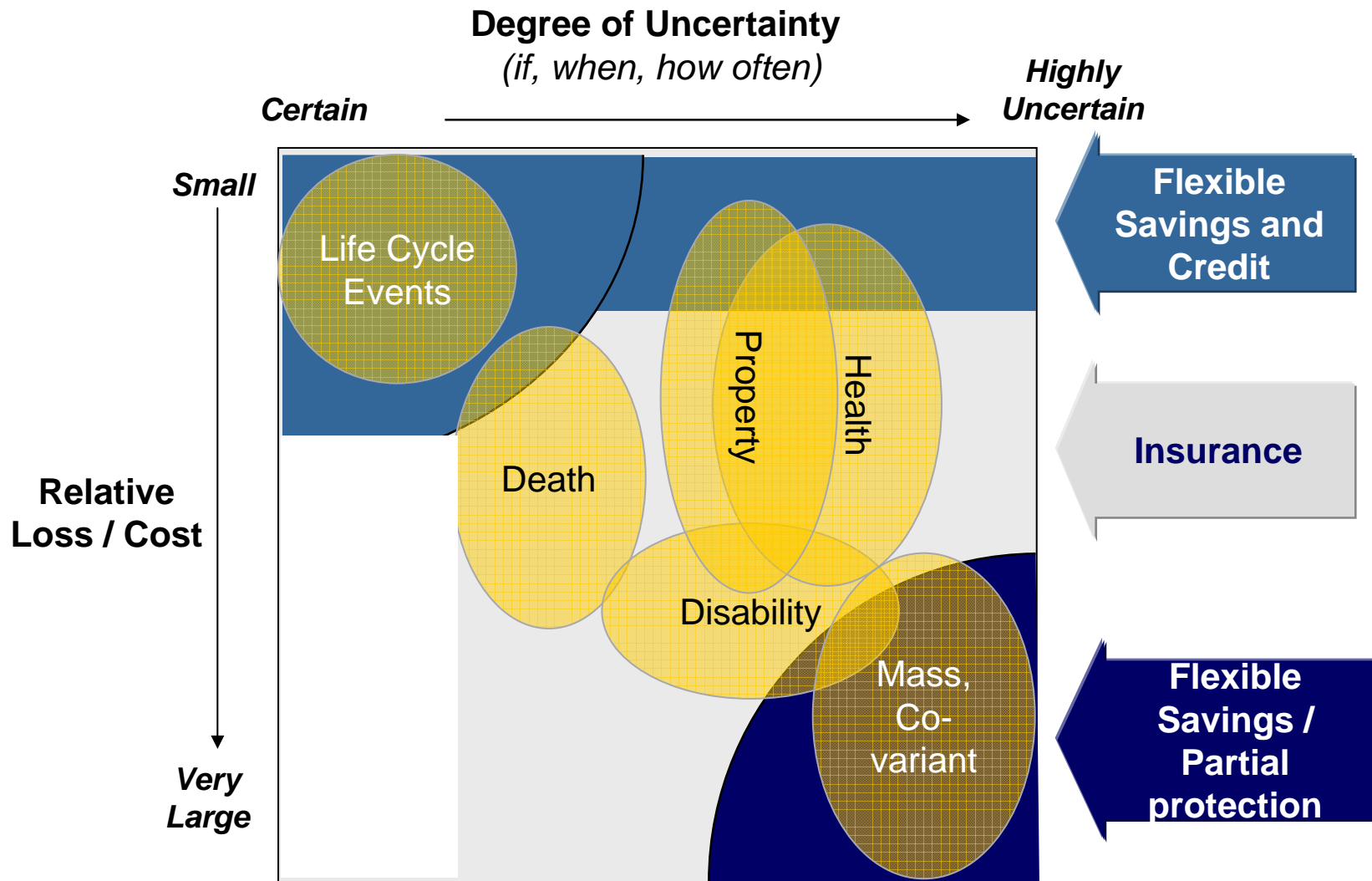
if insurance were readily available to low-income persons...

for what risks and economic stresses would it be most appropriate to manage through which risk-managing financial service:

savings, credit or insurance?



1. Risks and Risk Management



Savings, Credit or Insurance?

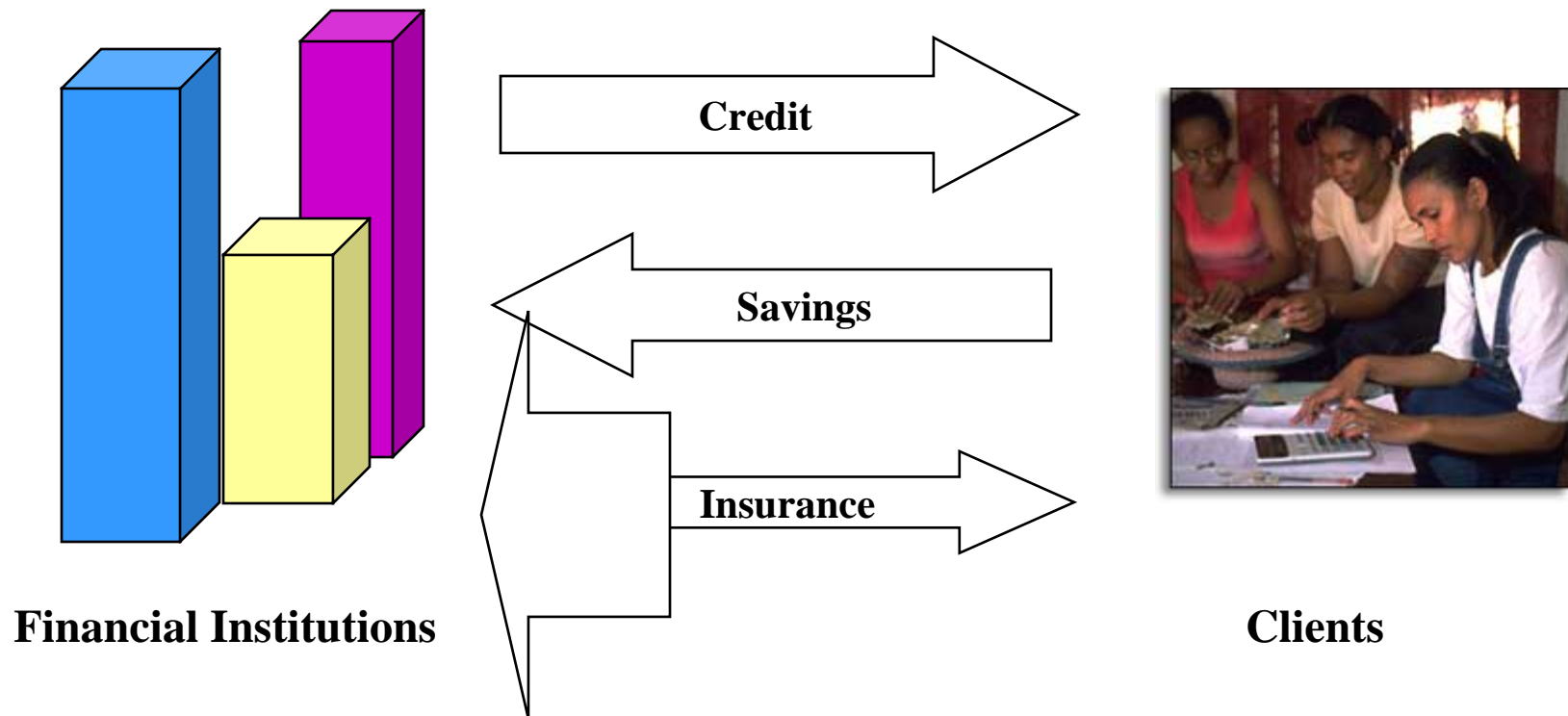
- Savings and credit are much more flexible than insurance
- S&C cannot address large losses
- Natural disinclination toward insurance
- Each product requires a different trust relationship with the customer



1. Risks and Risk Management

Trust Relationships

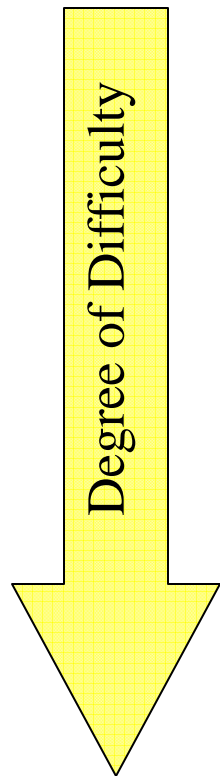
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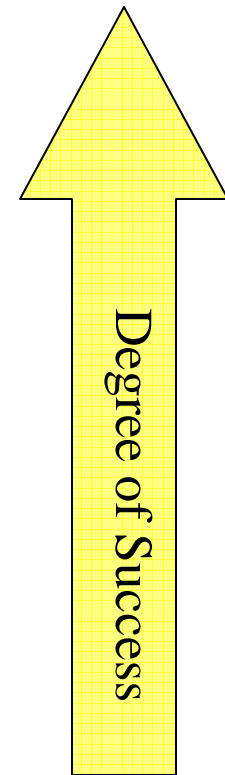
Picture Source: <http://www.unctf.org/english/microfinance/images/microfinance-photo001.jpg>

2. The Range of MI Products

Most common types of microinsurance products



- Credit life
- Term life/Personal accident
- Savings life
- Property insurance
- Endowment life
- Agriculture
- Health insurance



Credit Life

- Most common and successful
- Ensures that “debt dies with the debtor”
- Primarily benefits the lender
- Often offered in-house (e.g., MFI charges a separate fee but without separate insurance accounting or actuarial pricing)



2. The Range of MI Products

Term Life/Personal Accident

- Most commonly offered with credit life to provide a payout if the borrower dies
- Sometimes also covers spouse and dependents
- Term is linked to the loan term
- CARD example: premium is PhP 5 (\$0.09) per week covering spouse and 3 dependents

CARD MBA, Philippines			
Duration of membership	Cause of Death	Member (US\$)	Legal spouse and dependents (US\$)
Under 1 year	Pre-existing condition	18	-
Under 1 year	Natural	55	55
Under 1 year	Accident	182	55
1 - 2 years	Natural	55	55
1 - 2 years	Accident	236	55
2 - 3 years	Natural	302	110
2 - 3 years	Accident	575	110
Over 3 years	Natural	302	110
Over 3 years	Accident	665	110



2. The Range of MI Products

Life Savings Insurance

- Common credit union product
- Simple to manage
- Low transaction costs
- Stimulates savings
- Member benefit

Available in many Credit Unions

- Pays client's family 1-2 times the balance in their savings account at the time of death
- Size of benefit varies based on client's age
- Premiums paid by reducing the interest rate on savings
- Distributed for insurance company by local credit unions



Property Insurance

- Almost always linked to a loan (exception: hut insurance rider)
- May not help with replacement, just repayment
- Most common examples are for livestock

Network Leasing Corporation, Pakistan

- Repays outstanding balance on asset loans (leases) if asset is damaged or destroyed
- Risks covered include: fire, theft, floods and civil disturbances
- Borrower pays a % of loan balance as a premium, built into loan repayments
- Coverage is provided by the private insurer through a single, group policy for all NLC clients



2. The Range of MI Products

Endowment

- Combines long-term savings and insurance with emergency loans against the savings balance
- Premium payments accumulate value
- Potentially powerful product if introduced elsewhere

Delta Life, Bangladesh

- Commercial company
- Targets the most vulnerable segments
- Serves the market directly (e.g., without an MFI agent)
- Provides long-term savings (10 to 15 years) with insurance if the depositor dies before the end of the term



2. The Range of MI Products

Agriculture Insurance

- No evidence yet of sustainable agriculture insurance
- Prone to moral hazard problems: farmers were less likely to pursue sound practices
- Expected loss calculations were virtually impossible due to the number of potential causes of reduced crop yields
- Affordable premiums tend to be insufficient to cover claims and administration costs
- Recent innovations such as rainfall insurance show some potential to make agriculture insurance measurable, objective and viable

BASIX And ICICI LOMBARD, India

- Pay on rainfall levels
- Not vulnerable to adverse selection and moral hazard
- Relatively good data available
- Pilot started in 2003 so too early to generalize from it but very promising



Health Insurance

- Product for which there is the greatest demand
- Several different delivery models: mutuals, HMO, coverage limited to hospitalization
- Straddles the gray area between social protection and commercial insurance
- Limited pure commercial potential:
 - Additional player involved
 - Prone to moral hazard, adverse selection and overusage problems
 - On a commercial basis, can only be made affordable to the poor by severely limiting benefits



3. Commercializing microinsurance

Commercializing microinsurance in Indian

Insurance Liberalized in 1990s: New Opportunities for Microinsurance

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- During the 1980s and 1990s there was a massive growth in Microfinance Institutions and NGOs the provided finance services typically credit (not only in India).
- These institutions had established a network to collect money from poor people.
- They are looking for ways to expand their product range and sources of income.

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- Insurance companies - Looking for new markets. Low income people in developing countries a potential market.
- But transaction costs for low premium, high volume insurance products prohibitive. Especially the costs of establishing a distribution channel
- In India part of the conditions applied with liberalisation was that all new insurance companies had to sell a percentage of the premiums to low-income people



3. Commercializing
microinsurance

Indian Insurance Liberalised in 1990s: New Opportunities for Microinsurance

... birth of the partner-agent model

Regulated Insurers



MFIs/NGOs

3. Commercializing
microinsurance?

Other Microinsurance Models in India

Micro-Agent Model (Tata-AIG)

Insurer

Asks NGO to select entrepreneurial women

Women form partnerships groups
and then sell insurance on
Commission for their own account

Non-Commercial Model

In-House model
MFI/NGO sells and runs
insurance on its own account

Non-Commercial Model

Community based
provision
owned and run
by local groups



Potential Regulatory Obstacles

- No entry level insurance category (e.g., Friendly Societies Act)
- Capital requirements inappropriate for small policies
- Onerous agent licensing requirements – agent a person not an institution

Commercializing microfinance in India – A Quota System

- In India the regulator passed the Obligations Of Insurers To Rural Social Sectors Regulations, 2002
- Benefits: Massive unprecedented involvement of commercial insurers in microinsurance – major new innovations.
- Costs: Insurers sometimes sell ill-conceived loss making products to meet their quota
- The jury is out

10 Challenges for Commercializing Microinsurance

1. Reducing transactions costs
2. Managing adverse selection, moral hazard, fraud and over-usage
3. Creating an enabling regulatory environment
4. Developing sustainable health, agriculture and property products
5. Overcoming natural resistance and educational barriers

10 Challenges for Commercializing Microinsurance

6. Providing reinsurance for microinsurance
7. Helping states collect useful data
8. Conducting sufficient actuarial analysis given limited information and limited supply of actuaries
9. Distinguishing between commercial insurance and social protection
10. Getting commercial insurers interested in the low-income market



Sites to Download Microinsurance Documents

- www.ilo.org/socialfinance
- www.microinsurancecentre.org
- www.cgap.org – Microfinance Gateway
- Making Insurance Work for Microinsurance Institutions
- CGAP Working Group on Microinsurance – Country Case Studies

