

Microinsurance Markets: An Overview

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Outline

- Introduction: What is Microinsurance?
- Why is microinsurance important?
- Microinsurance Markets: main characteristics
- What explains the characteristics?
- Current trends in the markets
- The Future
- Conclusions

Introduction

- What is microinsurance?
 - “protection of low-income people against specific perils in exchange for a pre-specified payment determined in proportionate to the likelihood and cost of the risk involved and made in advance”
 - Simply, “insurance services provided to low-income people”
 - Microinsurance is an integral part of financial services for the poor and low-income people

Why is microinsurance important?

- Poor people are subject to many risks. They are much the same as those faced by the non-poor.
- Death of breadwinner/illness/injury/loss of property/natural disasters like droughts and floods
- But the frequency of the risks greater, financial impact larger
- Their ability to cope with these risks lower.
- They are highly vulnerable.

Why is microinsurance important? (cont'd.)

- Poor use insurance substitutes widely
 - In-kind-savings
 - Diversification of income sources
- Substitutes have limitations
- Poor also try to avoid certain risks
 - This tends to reduce their welfare
- Ex post coping can also worsen their position (distress sale of assets)
- Lack of insurance and persistence poverty are intimately related
- Insurance improves the capacity to manage risks

Markets are at early stages...

- In most developing countries, insurance markets (let alone, microinsurance) are at an infant stage.
- Insurance penetration levels, very low.
- Insurance density levels, very low.

Data quoted in recent UNDP study

Country	Insurance Penetration (%)	Insurance Density (\$)
Bangladesh	0.61	2.5
People's Republic of China	2.7	46.3
India	3.14	22.7
Indonesia	1.52	19.4
Pakistan	0.67	4.6
Philippines	1.48	17.2
Sri Lanka	1.46	16.3

Microinsurance (MI) Markets' Parallels

- Parallels between MI markets today and microcredit markets 20 years ago
- Limited outreach; very high transaction costs; very high interest rates; absence of viable operations; few large-scale commercial operators; extensive government interventions
- And lots of skepticism about the future
- It was considered yet another development fad
- Today it is an industry with much different characteristics

MI Markets Today

- Potential markets is considered large
 - About 4 billion live on less than \$2 a day
 - In Asia, about 1.9 billion in this category
 - Many of these people are potential clients
 - High demand for health and life insurance products
 - Also for agricultural insurance
 - Small farmers in most countries cannot buy coverage against crop diseases
 - Poor and low-income people can benefit from a range of insurance services

Estimate of Potential Market - India

- Life Insurance:
 - \$342 mn - \$448 mn
- Non-life:
\$1,042 mn - \$1,425 mn

Source: UNDP 2007, Building Security for the Poor.

But the outreach remains extremely low

- Outreach data are limited.
- Market penetration estimates seems to vary.
- The number of poor people covered is very small.
- One estimate: fewer than 10 million low-income people have access to formal insurance from a regulated financial institution (World Bank).
 - This is about 0.25% of the people living on less than \$2 a day.
 - Another: about 78 million people in the 100 poorest countries (Microinsurance Center, 2007).
- Outreach in Asian region: 67.2 million (covered lives).

Country Level Outreach

- In 2001, about 86% of **Indonesians** were not covered by any health insurance scheme.
- In **India**, only 10% of the population has access to health insurance.
- Other developing countries also have high “exclusion” rates
 - **Bangladesh (93%)**
 - **Pakistan (97%)**
 - **Nepal (95%)**

Lop-sided expansion in outreach

- Outreach highly concentrated geographically
- Asian region accounts for 86% of the global outreach
- India and the People's Republic of China - 38% and 36% of the global outreach
- Most are small-scale operators
- Most operators lack skill staff
- Commercial operators: 48% of the global outreach and 42% of the Asian region's outreach

Lop-sided expansion in outreach (cont'd.)

- Biggest expansion is in credit-life insurance
- Many MFIs offer this; relatively simple
- Primarily benefits the MFI
- Second biggest, probably: life insurance, including accident disability
- Third is health insurance.
- Agricultural: limited outreach
- Catastrophic: little progress

What explains the characteristics?

- General factors
- Moral hazard is a significant issue in agricultural insurance
- Significant possibilities for “adverse selection”
- Poor financial infrastructure
- Ubiquitous information problems (health/demographic aspects/agricultural trends)

What explains the characteristics? (cont'd.)

- Other factors: demand-slide
 - Intense need, but relatively low demand
 - Mind-set among the poor: limited understanding of benefits
 - Or even negative attitudes
 - Low renewal rates are due to these
 - Ability to pay: this is an issue. “Customers may be particularly price-sensitive when it comes to buying insurance” [Murdoch]
 - However, the notion that “poor act rationally” is questionable.

What explains the characteristics? (cont'd.)

- Other factors: supply-side
 - High transaction cost: a fundamental constraint
 - Mind-set among mainstream suppliers: skepticisms about profit potential
 - Supply-driven products; complex/inappropriate policies
 - Mainstream insurance companies have little incentive to fund “disruptive innovations”
 - Limited delivery channels: “probably the biggest single constraint”
 - Limited reinsurance opportunities

What explains the characteristics? (cont'd.)

- In most, insurance markets are much less developed.
- Legal and regulatory constraints are important
- Regulations: targeted at serving the non-poor market segments
- High capital requirements
- Licensing requirements for agents
- Mandatory microinsurance (India)

Current Trends in the markets

- New thinking/approaches to tap the BOP market potential
- Greater recognition of risk-poverty nexus
- Increasing attention of funding organizations
- Innovative products in index-based insurance
- Government programs: seem to be increasing
- Increasing interest among mainstream insurers. Some already offering.
- Exclusive commercial microinsurers: emerging

The Future

- The outreach will grow; combined efforts of both social entrepreneurs and mainstream companies
- But unlikely to experience the historical growth rates of microcredit
- Consumer ignorance about insurance is a major hurdle.
- Crowding out the market by government programs will also be a serious problem.

Conclusions

- Microinsurance markets remain thin
- Developing pro-poor insurance markets is relatively much more complex
- Both demand and supply-side problems are complex
- Concerted efforts are necessary
- Development community needs to work together
- Microinsurance is important for poor people; but not a panacea

Thank you.

For more information on ADB's
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