Microinsurance

Microinsurance is a mechanism to protect low-income households against risks, such as illness[^1], a death in the family[^2], or crop failure[^3]. The costs and benefits of this kind of insurance are specifically adapted to suit the needs and incomes of low-income households. Microinsurance is particularly important for those in the informal economy who tend to be underserved by mainstream commercial and social insurance schemes.

Microinsurance provides a critical safety net, preventing households from falling into poverty by avoiding the damaging costs of emergencies. It helps low-income people avoiding difficult, often devastating risk coping measures such as putting children to work, eating less food, or selling productive assets. But microinsurance can deliver many other benefits to low-income households, even in the absence of a shock:

**Access to vital services**

Insurance can allow low-income people to access vital services like health care and agricultural services.

**More productive decisions**

Evidence has shown that low-income workers invest more in their livelihoods[^4], and get higher returns, if they are protected by insurance;

**Tangible benefits**

Insurance often also provides important tangible benefits[^5], such as a hot line for medical advice[^6] or health camps[^7] that provide vaccinations;

**Reduced risk**

Insurers can play a critical role in reducing risk, since they have an incentive to prevent risks from occurring.

Recent developments and challenges

Microinsurance has grown and changed dramatically in recent years, with many encouraging results.

- **Growth:** Today microinsurance covers half a billion risks, up from 135 million in 2009, largely due to collaboration with national governments, but also because of more active interest by commercial insurers. In 2011, 33 of the world’s 50 largest insurance companies offered microinsurance, up from just seven in 2005.

- **New delivery channels:** Growth is partly attributed to the emergence of alternative delivery channels including retailers[^8], utility and cell phone companies[^9], cooperatives, and labour unions which provide new access points to reach the low-income market.
Demonstrated business case: Microinsurance can be profitable under certain circumstances. Group insurance schemes are generally viable, as are products that are bundled with other services (e.g., loans, mobile phone minutes or fertilizer). It is more difficult to generate a profit from health and agricultural microinsurance products, but public-private partnerships are increasingly finding viable ways to offer such protection.

Impact: Research has demonstrated a positive impact of insurance on the lives of the poor and, more broadly, in their communities. For instance, health insurance can reduce out-of-pocket expenditure and increase use of health services. Property insurance, on the other hand, allows entrepreneurs to take more risk and invest more in their businesses. Furthermore, various studies demonstrate a causal link between the development of the insurance industry and national economic development by putting a price on risk and supporting entrepreneurship. Indeed, it is not possible to have meaningful social and economic development without insurance. Find out more in our review of 38 studies on the impact of microinsurance.

Despite recent developments, the insurance industry in many countries is not achieving its potential. Millions of poor households still lack access to good-value products. This lack of coverage has significant ramifications for the insurance industry itself as well as the global economy. A range of challenges and market failures still inhibit the development of inclusive insurance markets.

Patchy progress: Microinsurance is developing rapidly in countries such as India, South Africa, and the Philippines, serving tens of millions of low-income households. Outreach in many other developing countries remains meagre. There is an urgent need to accelerate the development of many more markets.

More innovation: Even in mature markets there remains significant scope for innovations. In particular there is a need for innovations in health and agriculture insurance, as well as innovations to realise the potential of alternative distribution, mobile technology, and bunding with other financial services.

Reinventing the wheel: The lessons and experiences most evident in mature markets are slow to reach practitioners elsewhere. Consequently, market development is protracted as practitioners often repeat the same mistakes. More skilled insurance professionals who understand the needs and preferences of the working poor are needed, as well as opportunities for stakeholders in diverse countries to learn from one another.

Regulation and policy: The regulatory environment in many countries is not able to accommodate innovative products or alternative distribution channels. Although many countries have greatly improved their approach, many others are yet to find the right balance between innovation and consumer protection.

Financial literacy: To stimulate demand, it is necessary to help the poor appreciate the value of insurance. More effective and coordinated approaches to financial education are needed.

Given these challenges, a more holistic approach involving the full range of stakeholders is needed: this is where the work of the ILO’s Impact Insurance Facility fits in. Find out more.