

## Facts on Microinsurance

*There is growing evidence of the impact of microinsurance. The number of risks covered by microinsurance has more than doubled since 2009. Yet, billions of low-income persons remain excluded from quality insurance services. Since its launch in 2008, the ILO's Microinsurance Innovation Facility has tackled this need. With initial support from the Bill & Melinda Gates Foundation, and subsequent support from Z Zurich Foundation and AusAID, the Facility has pursued a vision of a world in which billions of low-income people will be better able to manage risks, helping to break the cycle of poverty.*

### Background

Today microinsurance covers an estimated 500 million risks worldwide, up from 135 million in 2009. The potential market for microinsurance is 4 billion people (Swiss Re, 2010).

In Africa, microinsurance grew by 200 per cent between 2008 and 2012, with more than 44.4 million low-income lives and properties covered in 39 countries. (McCord et al, 2012). The market is dominated by life cover, particularly funeral insurance, and concentrated in Southern and East Africa. Increasing government involvement, the implementation of new business models, and the spread of technology such as mobile phones herald change in the landscape over the next few years.

In [Asia and Oceania](#) <sup>[1]</sup>, microinsurance coverage has reached 172 million lives and properties, representing a 40 per cent annual growth rate between 2010 and 2012 (Munich Re Foundation, GIZ, 2013). India is leading the market at over 100 million risks, while Malaysia and Indonesia have growth rates of 185 per cent and more than 100 per cent respectively over the same time period. However, the microinsurance sector still covers less than 5 per cent of the people living in Asia and Oceania.

In [Latin America and the Caribbean](#) <sup>[2]</sup>, coverage is highly concentrated in a few countries. While nearly 45 million people (and properties) in 19 countries are covered by microinsurance, 90 per cent are in just five countries, with more than 55 per cent in Mexico and Brazil alone. Coverage for personal accident, health and property has increased, suggesting an evolution toward the products that clients most demand.

In addition to collaboration with national governments, the growth in microinsurance also reflects more active interest by [commercial insurers](#) <sup>[3]</sup>. In 2011, 33 of the world's 50 largest insurance companies offered microinsurance, up from just seven in 2005. Growth is also attributed to the emergence of alternative delivery channels ? including retailers, utility and cell phone companies, cooperatives and labour unions ? which provide new access points to reach the low-income market.

### Microinsurance, risk and development

When coupled with risk prevention and mitigation, and supplemented by other risk managing financial services such as savings and emergency loans, microinsurance can play a critical role in efficient risk management and contribute to poverty alleviation. In 2012, the Facility published 18 research papers and other knowledge products contributing to the expanding knowledge base about the impact of microinsurance.

Health microinsurance remains the most researched type of microinsurance. Several rigorous studies have demonstrated that insured persons visited health facilities more often than uninsured persons, and that policyholders spent less on out-of-pocket expenses for health care. Access to health services and insurance is associated with a reduction in maternal and child mortality. Studies have also found that extending accident and health insurance to all members of a household lowered the incidence of child labour.

The benefits of insurance are not limited to health. [New evidence](#) <sup>[4]</sup> shows that small-scale farmers and micro entrepreneurs take more risk and invest more in their businesses when they know they are protected. Insurance can also be a vehicle to extend or supplement social protection benefits, particularly for workers in the informal economy.

Microinsurance also supports sustainable development and contributes to achieving the Millennium Development Goals (MDGs). 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. Insurers are an important source of long-term investment capital, and can stimulate the development of debt and equity markets.

*When low-income people are unable to manage risk, they cannot break out of the cycle of poverty? says Craig Churchill, Chair of the [Microinsurance Network](#) <sup>[5]</sup> and Head of the [Microinsurance Innovation Facility](#) <sup>[6]</sup>. For this reason, ? **access to effective insurance by low income people is essential to sustainable development.** ?*

### The current challenges

A delicate balance is needed for microinsurance success. Microinsurance can be profitable, but under certain circumstances. Group insurance schemes are generally viable, as are products bundled with other services (e.g. loans, mobile phone minutes, fertilizer) to reward customer loyalty and/or increase

usage.

Although microinsurance is developing rapidly in countries such as India, South Africa and the Philippines, outreach in many other developing countries remains meagre. Commercial insurers have vast expertise, but adapting established systems and processes, designed for traditional clients, to the requirements of the low-income market can be difficult. There is an urgent need to accelerate the development of insurance markets so they can live up to their potential to stimulate development and alleviate poverty.

Lessons and experiences from mature markets can be slow to reach practitioners elsewhere. Consequently, market development is protracted as practitioners often repeat the same mistakes. In addition, the regulatory environment in many countries may not be able to accommodate innovative products or alternative distribution channels. More skilled insurance professionals who understand the needs and preferences of the working poor are needed to design appropriate products and processes.

## Pushing the frontier of microinsurance

*Our vision is a world in which people manage their risks and break the cycle of poverty by getting better access to effective insurance services.*

*-- Craig Churchill, ILO's Microinsurance Innovation Facility*

The Facility's main activity has been to stimulate the improvement of microinsurance products and processes through innovation grants and expansion of the knowledge base about the impact of microinsurance. With more than 60 grantees across Africa, Asia and Latin America serving as research partners, the Facility has become the leading source of knowledge and guidance regarding microinsurance worldwide.

The Facility plays a critical role in rectifying market failures, to bridge the chasm between the capacities of the insurance industry and the needs of the working poor. Furthermore, the ILO's relationship with ministries of labour and other policymakers provides opportunities to develop public-private partnerships.

The Facility's team of insurance and development experts closely collaborates with others, including the 200-member Microinsurance Network and think tanks such as the Centre for Insurance and Risk Management (CIRM) in India, the Centre for Financial Regulation and Inclusion (Cenfri) in South Africa, and the USA-based MicroInsurance Centre. Through the Access to Insurance Initiative (A2ii), it works closely with the International Association of Insurance Supervisors (IAIS), the global standard setting body for the insurance industry.

## The next five years: The pursuit of quality at scale

After 6 years of leading the quest to enhance access to insurance, the Facility is embarking on a new journey with a 5-year (2014-2018) Quality at Scale programme designed to reduce the vulnerability of 100 million low-income persons.

The Quality at Scale programme includes:

- **Intensive country initiative:** Engage with stakeholders to catalyse their microinsurance efforts. Through training and consulting services, policy dialogue and consumer education, the Facility will stimulate market development and promote public-private partnerships.
- **Capacity building programme:** Leverage knowledge to repackage the lessons and experiences of the Facility's current and future innovation partners into capacity building tools for use by multipliers, such as insurance institutes and consultants.
- **Innovation laboratory:** Partner with a dozen leading microinsurers and support their efforts to experiment with alternative approaches, including leveraging technology to enhance client value.

The Quality at Scale strategy rests on assumptions that market development can be accelerated; competitive markets are necessary; viability and client value reinforce each other; public-private partnerships are a key for scale; transfer of knowledge enables success; and monitoring and evaluation support implementation.

The Facility believes in the power of insurance to change people's lives, protect their health and their assets, and give them peace of mind to make investments for the future. Through a coordinated and systematic approach, the Facility will make a major contribution to enhancing the availability of quality insurance services for the working poor. This will benefit their communities and their countries, and play a pivotal role in delivering on the promise of microinsurance.

For more information, see: [www.microinsurancefacility.org](http://www.microinsurancefacility.org) [6]

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Links:

- [1] [http://www.munichre-foundation.org/dms/MRS/Documents/Microinsurance/2013MILandscape/2013\\_AsiaOceaniaLandscape\\_BriefingNote\\_E\\_Web.pdf](http://www.munichre-foundation.org/dms/MRS/Documents/Microinsurance/2013MILandscape/2013_AsiaOceaniaLandscape_BriefingNote_E_Web.pdf)
- [2] [http://www5.iadb.org/mif/Portals/0/LACdata/MIF2012\\_Landscape-Microinsurance-LAC\\_Briefing-Note.pdf](http://www5.iadb.org/mif/Portals/0/LACdata/MIF2012_Landscape-Microinsurance-LAC_Briefing-Note.pdf)
- [3] [http://www.microinsurancenetwork.org/publication/fichier/MiN\\_Commercial\\_insurers\\_study\\_2011.pdf](http://www.microinsurancenetwork.org/publication/fichier/MiN_Commercial_insurers_study_2011.pdf)
- [4] <http://www.microinsurancefacility.org/publications/rp23>
- [5] <http://www.microinsurancenetwork.org/index.php?PHPSESSID=bfb5a51dc31134c5a4cd0c5b387cdb2>
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