



- Challenges and solutions in the microinsurance space
- Specificities of catastrophe and index-based insurance in emerging economies

A Resilient Future: Science and Technology for Disaster Risk Reduction

Welcome to this video about inclusive insurance. This particular video is produced for this MOOC by SDC, the Swiss Agency for Development and Cooperation. I'm Roland Steinmann, a senior consultant on microinsurance with the Microinsurance Centre. For this session, my goals are to help you understand the challenges and solutions in the microinsurance space. Furthermore, you will learn about the specificities and challenges of catastrophe and index-based insurance in the context of emerging economies.

Notes

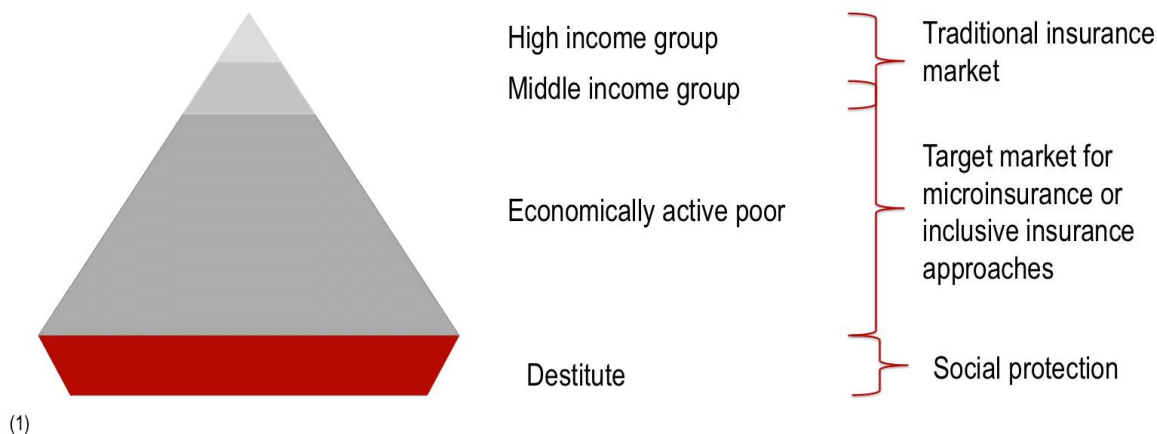
Summary



0m 04s

Inclusive insurance for low-income people

Income groups within population



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When we look at the insurance market in a typical emerging economy setting then we observe that only about the top 5-10% of the total population, in terms of income, are served by traditional insurance markets. In other words, the vast majority of people have no insurance, nor do smaller and medium-sized businesses. Yet, the lower middle income and economically active poor could benefit from insurance services. Looking at the graph, you'll notice that there is also a population group that can't be served with private insurance services as they are simply too poor to afford buying them. These people need protection through social safety nets.

Notes

Summary



0m 36s

Inclusive insurance for low-income people



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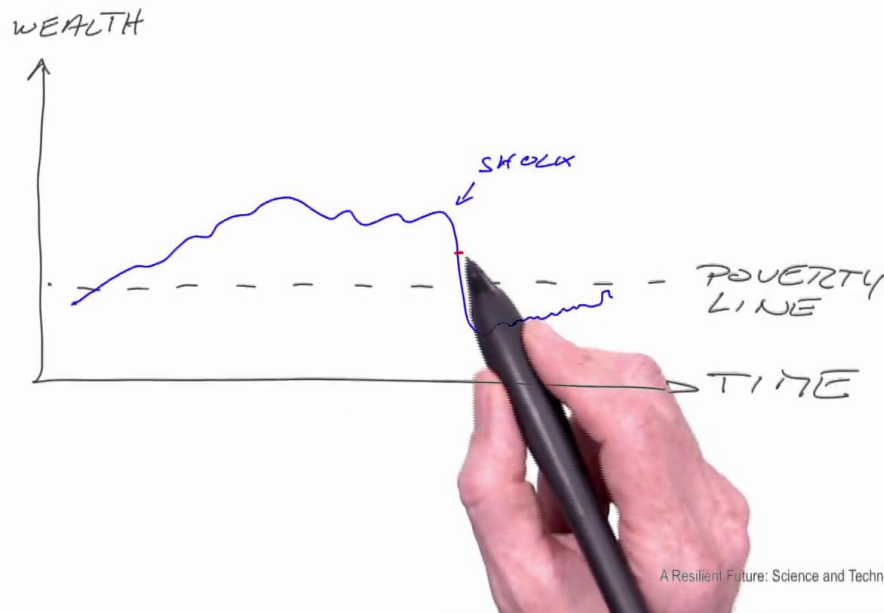
This huge un- or under-served market segment has caught the attention of both the development aid sector and private insurance alike. Both are increasingly pushing for the development of microinsurance products. The development aid sector is eager to find market-based mechanisms to reduce the vulnerability of low-income people, thus contributing to poverty reduction. And insurers increasingly realize that if they want to expand their market they have to start serving this segment as competition at the top of the pyramid is fierce and the market-size limited. Now all these people face a wide variety of risks: health, accidents, natural calamities, theft, loss of property, fire, death of the bread-winner, etc. Many of these risks are directly responsible for poverty and reduced economic development. And they could be insured.

Notes

Summary



The protective and productive aspects of insurance



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Microinsurance, as it is often called, is not a very precisely defined concept, as such. Some players are not using this term anymore, instead talking of "emerging consumers" or of the "mass market". However, the intention behind it is basically the same-- bringing formal insurance services to a population segment that has been neglected by the insurance industry so far. When thinking of insurance, and why insurance should play a role in poverty reduction, we always should consider the two sides of insurance: the protective aspect, as well as the productive aspect. Let me explain this with a simple graph showing the hypothetical evolution of wealth of a potential microinsurance client. Let's assume the customer starts out-- here we have time and we have wealth and we have the poverty line. Let's assume that our customer starts just below the poverty line, moves slowly out of poverty with some minor setbacks, and then something bad happens. So here, we have a shock. And after that, she falls back under the poverty line and will struggle to get back above poverty. Now if she had had insurance here that would protect her, she would have been able to continue her life above the poverty line and recover much quicker.

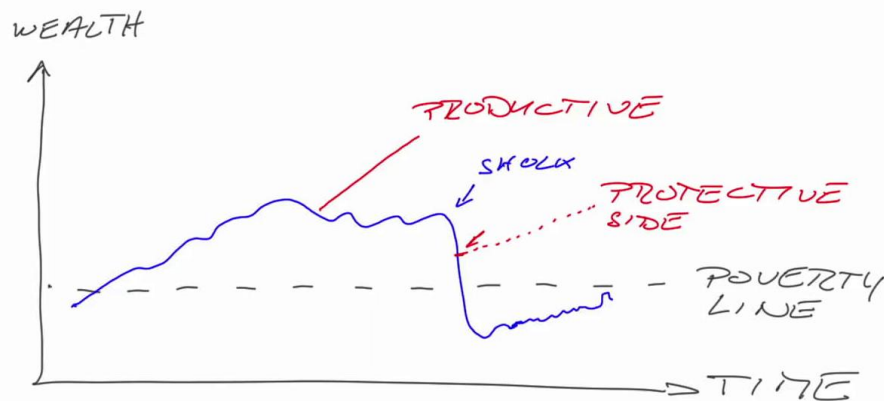
Notes

Summary



2m 16s

The protective and productive aspects of insurance



Example: having her crops insured, a farmer can take higher investment risks by buying high quality seeds, thus raising yields and ultimately increasing income more rapidly than without insurance.

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Now the productive side of insurance. We can imagine that somewhere here, if she would have been able to get insurance of her assets, or insurance of her crop, or whatever, then she would have had a much steeper evolution of her wealth.

Notes

Summary



4m 09s

Demand and supply of microinsurance



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Now, let's have a closer look at demand and supply of microinsurance. When you go out and do market research on typical risks people worry about, you will almost always find that people are worried about falling sick and not being able to afford decent healthcare. Second, if you talk to farmers under emerging economies, farming is still the sector that employs a good, or even the biggest part of the population. You hear that farmers worry about their crop and livestock. Finally, you will find that in many households or even extended families income depends essentially on one single person: the breadwinner. And if she dies, the whole family is in deep economic trouble. In addition, funeral costs are very high in several cultural contexts.

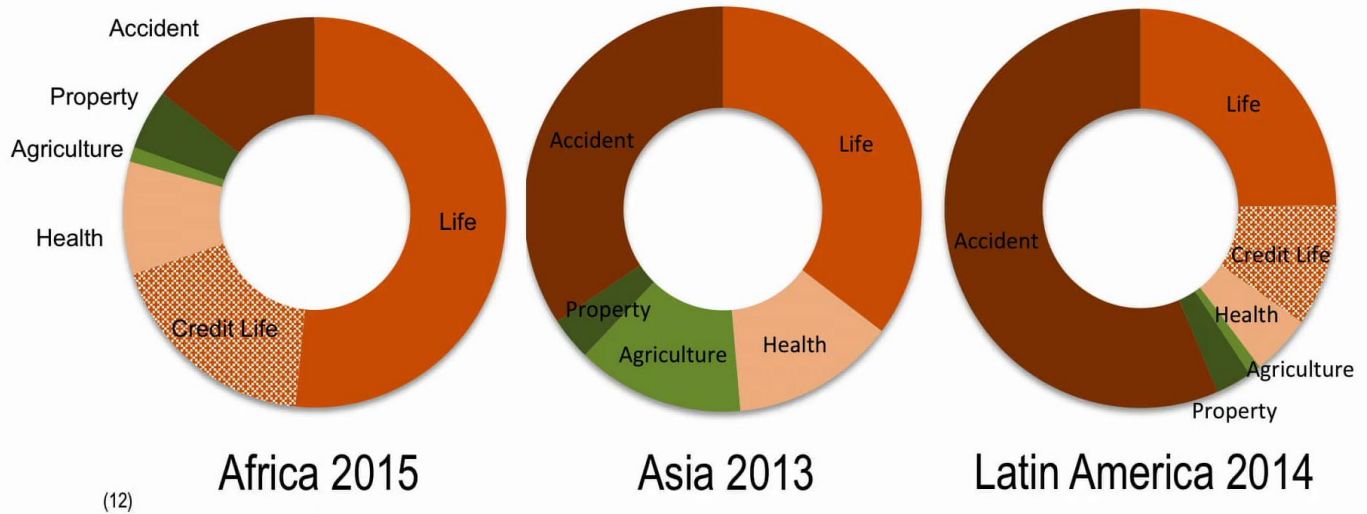
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4m 37s

Demand and supply of microinsurance



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Now, compare this with the supply of microinsurance and you immediately see the huge mismatch between demand and supply. This mismatch can be explained from two angles. First, microinsurance is in most markets still supply-led, and for insurers it is much easier to come up with a simple life and accident product than with property, agriculture, or health products. Secondly, we have to be careful not to take need for demand. Health and crop insurance, for example, tend to be costly and affordability quickly becomes an issue. Furthermore, we have to acknowledge that insurance against natural catastrophes is almost absent in emerging economies and has a relatively low uptake rate in developed economies, too. Important factors to explain this are linked to behavioral economics and the fact that we tend to underestimate the importance of low frequency but high impact events.

Notes

Summary



5m 26s

The distribution challenge



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From a theoretical point of view, there are many good reasons to promote the increased use of insurance services to transfer risks away from vulnerable communities. In practice, however, a number of formidable challenges have to be addressed. One of them, all the players in microinsurance face, is distribution. Finding ways to cost-effectively explain, market, sell and service insurance at scale is key to reach low-income people sustainably. Traditionally, insurance is sold through agents that contact individuals. This person-to-person model is very costly and mostly not adapted to the reality of low-income earners in emerging economies.

Notes

Summary



6m 29s

The distribution challenge



Tigo

Family Care Insurance

Offered to you for being loyal to Tigo

When you use the Tigo network, Tigo will give you free life insurance for you and one family member.

You can choose to DOUBLE your insurance cover and pay only Gp5 a day.

Dial *900*20# to confirm your registration

Xtra-Life:
Dial *900*21# to confirm your Xtra-Life

Use at least this much Tigo airtime in a month...

GHc 5	GHc 200
GHc 15	GHc 400
GHc 30	GHc 600
GHc 50	GHc 800
GHc 80	GHc 1000

get this much life insurance for you and a family member - for free!

GHc 400
GHc 800
GHc 1200
GHc 1600
GHc 2000

Xtra-Life
Get DOUBLE cover for only 5Gp a day



I spent GHc 6 with Tigo last month and just received an SMS saying I have GHc 200 of insurance this month for my sister and for me.

If I use Tigo more next month instead of switching my SIM cards, I could earn GHc 600 or even GHc 1000 cedis of insurance.

And with Xtra-Life we could get double cover up to GHc 2000. That would really help my family if my sister or I were to pass away.

tigo

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With selling individual policies to low-income earners not possible, the microinsurance sector has emerged in partnership with microcredit banks, which played a huge role in the beginning of the microinsurance movement. They have a captive market and can relatively easily add additional financial services to their loan products. Attempts to sell catastrophe insurance at the retail or micro level are relatively new. For example, we have seen pilot projects on flood insurance in Jakarta or Bangladesh, crop insurance in Kenya, and earthquake insurance in Guatemala and El Salvador, designed for individual low-income clients. A few years ago, around 2011 or 2012, first attempts were made to offer and sell insurance through mobile phones. This has quickly led to huge volumes, though it is too early to assess the success in terms of customer understanding and what type of insurance products can, or cannot, be sold through mobile channels, especially as this goes to a population segment that has very little experience with insurance.

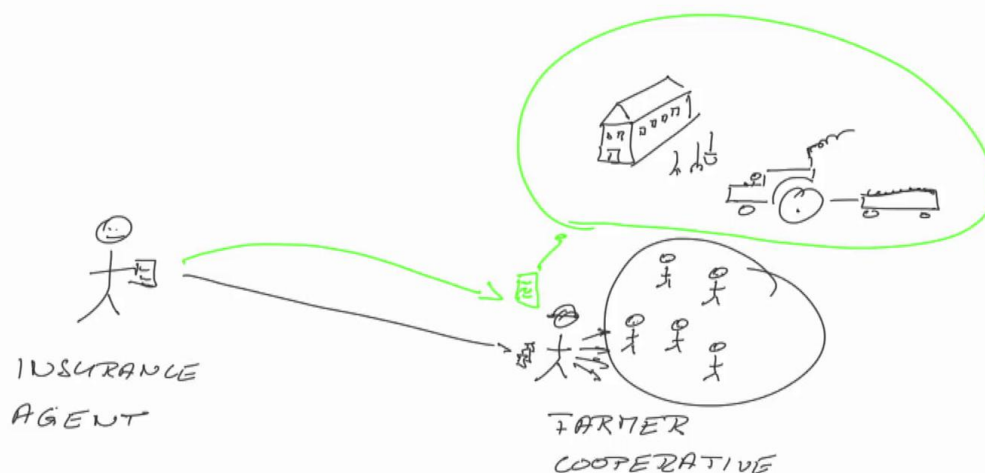
Notes

Summary



7m 14s

Insurance through aggregators



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Aggregators of client and client demand are essential to the success of microinsurance. For example, you can imagine a farmer cooperative that offers a variety of insurance products to its members. The cooperative management then becomes the agent of an insurance company, earning commissions and making the cooperative more attractive to its members, as they get additional services. A different way to extend the benefits of insurance to the same group of people is to place the cover at the level of the cooperative, and *not* selling individual policies to each and every person. This meso-level approach would protect the assets of the cooperative, thus keeping it afloat after a natural calamity. Members of the cooperative would benefit indirectly through a more resilient cooperative.

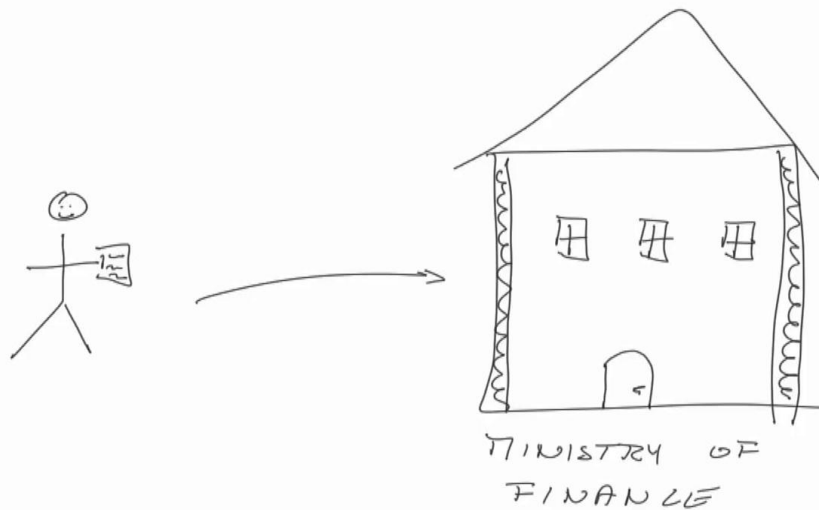
Notes

Summary



8m 24s

Macro level insurance



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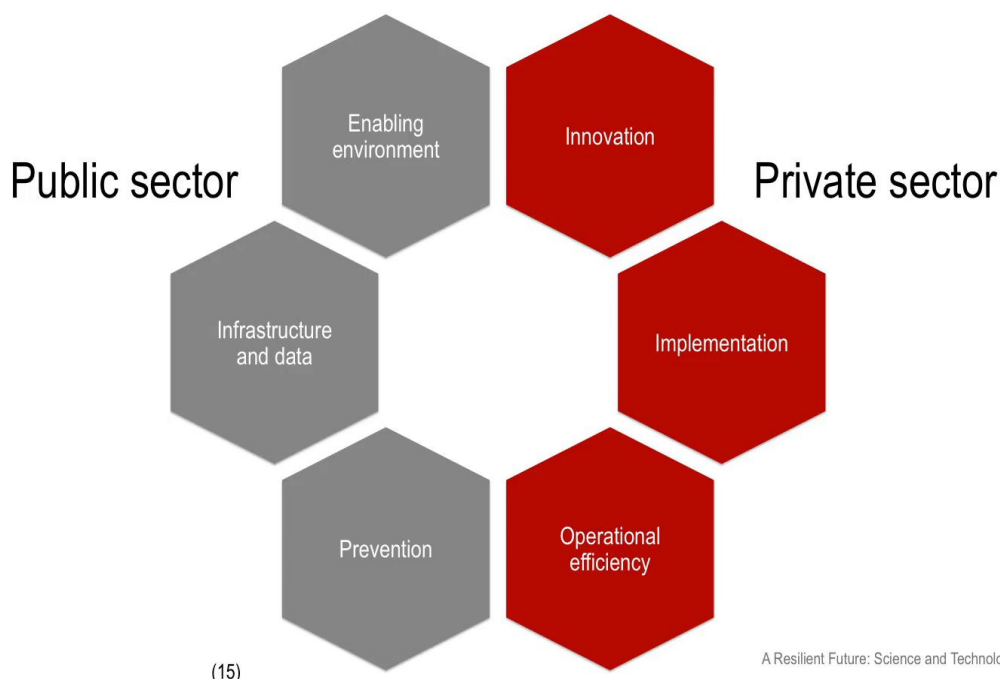
Especially in the face of large-scale natural disasters, such meso-level covers provide valuable services keeping the local economic actors solvent after an event, and thus helping to rebuild quickly. In the area of catastrophe insurance we have examples from Indonesia and Peru, where microcredit banks protect their credit portfolio against shocks linked to natural disasters. And their clients benefit indirectly from the fact that this extra liquidity will allow banks to restructure their loans after a catastrophe and simply stay in business. You can even go one step further and insure a whole country. While this may sound a bit strange at first, it happens increasingly often and provides governments with quick access to cash, which is important to finance relief efforts. This has been successfully introduced in the Caribbean, through CCRIF, and in Africa, where the African Risk Capacity, or ARC, has taken the concept a step further, making it mandatory for countries that buy cover to have emergency plans prepared so that it is clear upfront how insurance payouts will be used.

Notes

Summary



The need for public-private cooperation



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As mentioned before, the market for insurance against natural catastrophes for low-income customers is rather unlikely to develop without significant outside push. The challenges related to product development, demand, affordability and distribution are simply too big to make this an interesting case for private insurance actors. And as there are important market imperfections, there is a strong argument for the public sector to get active, not necessarily to support the private sector *per se*, but to allow the private sector to play its role in providing protection and help better cope with the financial losses due to natural disasters.

Notes

Summary



10m 36s

The need for public-private cooperation

REPUBLIQUE TUNISIENNE

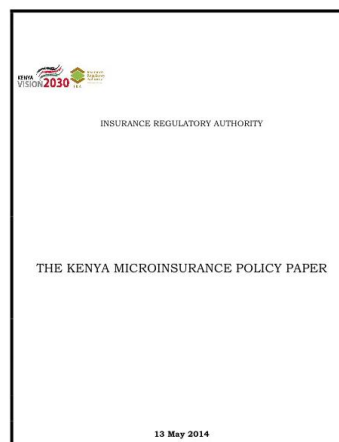
CODE DES ASSURANCES

En annexe

Ensemble des textes se rapportant aux
assurances et non insérés dans le code

Publications de l'imprimerie Officielle de la République Tunisienne
2008

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The public sector can support the development of catastrophe insurance markets in many forms, collecting and sharing exposure and loss data, which is the necessary basis for quality insurance products. Insurance regulation needs in many countries to be adapted to the new realities, including dealing with the index-based insurance.

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Summary



11m 19s

Technologies pushing the insurance frontier



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And then there is a huge need for loss preventive measures, which will reduce the exposure and make insurance for the residual risk much more affordable-- or, affordable at all. Finally, targeted and time-bound subsidies can make sense to cover start-up costs of private sector-led programs. Data, technology and especially data obtained through remote sensing are indispensable in this game. They are the very foundation of index-based insurance which currently is the way to go. The access to, and use of, remotely-sensed data is evolving rapidly with new opportunities offered through recently launched satellite programs. The European Sentinel program, for example, offers free access to data and has allowed using radar data to assess rice production across South and Southeast Asia at a very granular level. These new possibilities are exciting and, indeed, I expect to see many more approaches to be developed and tested in the near future. At the same time we should also be realistic. Such products and programs require time to develop and mature. It is about creating a whole new market segment, and not an easy one. Patience and long-term commitment are therefore absolutely key.

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Summary



11m 41s

Main points



- Growing consensus that **insurance** has a place and **should play a larger role** in a holistic approach to DRR
- The rapid advances in science and technology open up **new opportunities**
- These possibilities should allow us to create **better index products** and hence help to bring insurance into the fold

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From the perspective of integrated disaster risk management, it is a rather new phenomenon to include insurance into the mix of approaches. However, there is a growing consensus that insurance has a place and should play a larger role in a holistic approach to disaster risk reduction. The rapid advances in science and technology open up new opportunities. These possibilities should allow to create better index products and hence help bring insurance into the fold. It's all about finding the optimal combination of a variety of approaches to make the world more resilient.

Notes

Summary



13m 07s

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Notes

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13m 47s