**THE GLOBAL OUTREACH OF MICRO INSURANCE**

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It is reported that approximately 70 per cent of the world’s 7 billion people live in poverty in under developed and developing nations.. In such a context there is significant demand for a certain range of insurance products from health and life, agricultural and property insurance, to make an all time expected catastrophe cover. The potential market for insurance in these countries is estimated to be between 1.5 and 3 billion policies. Currently micro-insurance already covers around 135 million people, which represents around 5% of the entire market potential, with an average of 10 per cent annual growth rate. The risks covered by such solutions are the typical ones of the traditional insurance market: life insurance, health insurance, accidental death and disability and property insurance. Latest estimates suggest that there are some 500 million micro insurance clients throughout the developing world. According to Craig Churchill; this could pass the one billion mark by the end of the decade (Micro Insurance Network, 2013).

About 70 per cent of micro insurance schemes are operated in Asia. For historical reasons, schemes have been concentrated in India and West Africa. In west Africa,”mutuelles” (i.e, community based micro insurance schemes) developed after some governments instituted user fees for health care services during structural adjustments programmes. In India, micro insurance schemes arose after implementing the obligation of insurers to rural and social sectors by the Indian Insurance Regulatory and Development Authority (IRDA) in 2002. But recently, micro insurance has expanded to all the developing countries and also too many affinity sections of developed countries, e.g., Zambia, Malawi, etc.

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**The Concept**

There are different approaches about how the concept micro in micro insurance can be understood**. First**, micro can be understood as a characteristic of the financial situation of the clientele, i.e., an insurance targeted at low income (and financially marginalized) people in developing countries. **Secondly**, micro can be understood as characteristic of the product, i.e., an insurance offering limited benefits for small premiums. **Thirdly**, micro can be understood as characteristic of the process by which the schemes are created and administered. All the three ways of interpreting the term micro leads to different definitions of micro insurance and to different answers about what micro insurance is. This does not mean that micro insurance units (MIUs) cannot have a large outreach. Consequently, micro does not imply that it cannot be replicated to very large numbers, but it does not imply the application of the principle of subsidiarity. Regardless of the definition used, what micro is not is, experts agree that micro does not refer to the size of a scheme’s membership or the total values of premiums amassed or assets insured which could be delivered under four modes of a delivery mechanism as follows.

1. Partner-Agent model
2. Provider-Driven model
3. Charitable -Insurance model
4. Mutual/cooperative insurance model.

**Difference between Traditional Insurance and Micro insurance**

Some of the differences between the Traditional Insurance and Micro Insurance are listed below.

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| **Subject** | **Traditional Insurance** | **Micro Insurance** |
| **Clients** | * Low risk environment * Established insurance culture | * Higher risk exposure high vulnerability * Weak insurance culture |
| **Distribution models** | * Sold by licensed intermediaries or by insurance companies directly to wealthy clients or companies that understand insurance. | * Sold by non-traditional intermediaries to clients with little experience |
| **Policies** | * Complete policy documents which many exclusions | * Simple language * Few, if any, exclusions. * Group policies |
| **Premium calculation** | * Good statistical data. * Pricing based on individual risk(age and other characteristics) | * Little historical data * Group pricing * Often higher premium to cover ratios * Very price sensitive market |
| **Premium collection** | * Monthly to yearly payments, often-paid by mail-based or an invoice, or by debit orders. | * Frequent and irregular payments adapted to volatile cash flows of clients * Often linked with other transactions(e.g. loan repayments) |
| **Control of insurance risk (adverse selection and hazard, fraud)** | * Limited eligibility * Significant documentation required * Screening, such as medical tests, may be required. | * Broad eligibility * Limited but effective controls(reduce costs) * Insurance risk included in premiums rather than controlled by exclusions * Link to other services(eg credit) |
| **Claims handlings** | * Complicated processes * Extensive verification documentation | * Simple and fast procedures for small sums. * Efficient fraud contol |

**The Outreach and Challenges of Micro Insurance around the World**

The success of the micro insurance sector is based on the three guiding principles of outreach, sustainability, and providing benefits for all. In order to achieve these milestones and to increase the penetration, or combination of regulation, technology, and risk management is required. In South America, micro insurance has successfully increased penetration, as well as enlarged into the middle class, by using a variety of retail distribution channels across Columbia, Mexico, Peru, Guatemala, Bolivia and especially Brazil. Across Asia, retail distribution has not been facilitated to a similar degree. However, this seems to be changing as new approaches are developing.

These include, for example a dengue fever insurance sold in supermarkets in Indonesia, various micro insurance products in 7/11 stores in Thailand, and multi-level marketing schemes in the Philippines, just to name a few cooperatives selling of insurance is a large portion of the distribution market for micro insurance and well illustrated in the micro sector which distributes Islamic *Shariah* - complaint insurance to the low income sectors in the Islamic regions of Asia, Africa and the Middle East, encompassing a charitable component by *Shariah* law. So the risk coverage is based on certain priorities which differ from country to country as follows.

**Priority Risks For Low Income People In Selected Countries.**

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| **Country** | **Priority risk** |
| **Uganda** | Illness, death, disability, property loss, risk of loan |
| **Malawi** | Death (especially in relation to HIV/AIDS), food insecurity, illness, education. |
| **Philippines** | Death, old age, illness |
| **Vietnam** | Illness, natural disaster, accidents, illness/death of livestock |
| **Indonesia** | Illness, children’s education, poor harvest |
| **Lao PDR** | Illness, livestock disease, death |
| **Georgia** | Illness, business losses, theft, death of family member, retirement income |
| **Ukraine** | Illness, disability, theft |
| **Bolivia** | Illness, death, property loss including crop loss in rural areas. |

1. **Regulation**

Micro insurance is a commercially viable market with 2.6 billion people living in the range between Int $1.15 and Int $ 4 per day giving rise to a US $33 billion market. Coupled with that is the government and aid-supported micro insurance market with 1.4 billion people on less than Int $1.15 per day, giving in rise to a US $ 7 billion market [Swiss Re 2010.9]. The principles of good governance apply to micro insurance the same way as other sectors. Regulation is required and will have an impact on how insurance is sold, bought, and distributed at base of the pyramid. A balance needs to be sought, as too little or too much regulation can negatively impact the sector. The ability of governments to move from constitution to charter to commercial implementation and to create adequate legal frameworks will greatly facilitate the practice of micro insurance. Recent success in this area has been seen in the Philippines as they published a charter based on their constitution.

1. **Technology**

Technology is the key, because without it there is no outreach to rural and no capability to adequately analyze, on a microeconomic and risk management basis, the sustainability and profitability of the schemes designed to help the base of the pyramid. It is these automated techniques that will allow the value creation of assets to appear on balance sheet and raise attention to the right stakeholders in public and private partnerships required to educate and finance the micro insurance sector. These would be simple procedures allowed by regulation. Good data is vital successful impact measurement at all levels. The micro insurance sector needs to leverage the advent of the global cloud computing networks and rise security of data offered within them. The rise of Internet and mobile technology

1. **Risk management**

Regulation and technology capabilities with the importance of risk management and risk transfer in the micro insurance sector. Insurance is the risk industry and risk transfer is a trodden path that has enabled the industry to survive in over 300 years of trading. Reinsurance is one of the risk transfer mechanism used in the industry and is vital to the micro insurance sector as a capital base can be offered to primary insurers or, indeed, direct to communities to handle their risk transfer affairs.

**Micro-Insurance - the development challenges - the World Bank’s Response**

Over the past decade, a number of projects have been supported by the World bank. They range from numerous targeted pilot projects covering a variety of insurance products that reach up to 1,00,000 people to scaled-up projects that reach more than 10 million people.

For example, the pilots include insurance for health in Nigeria, livestock in Mongolia, life in India, and index-based agriculture in Malawi. In India, and Brazil, the scale –up projects target a large number of people and are implemented through typical health, education, or agriculture World Bank loans or grants. In those projects, insurance facilitates reaching objectives such as access to finance, access to education or access to regulated markets. Additional projects have been structured around the concept of smart subsidies such as output-based aid, Conditional cash transfers, or performance-based grants where social transfer programs are bundled with market based micro –insurance. Looking more closely, World Bank funding has typically supported projects that aim at helping the poor (income levels from US $2 to US $ 4 per day).

The support takes the form of premium subsidies, market infrastructure (for example, increasing information technology capability or purchasing weather data)., consumer awareness campaigns, and traditional technical assistance enabling the environment (regulatory and policy support, product development and training). In many projects, previous successfully piloted community organization models have been leveraged as a key element for scaling up, as demonstrated in India, Brazil, and several African countries.

The Micro-Insurance Development Programme (MIDP) will provide advisory services, technical assistance, and capacity building to government agencies, insurance providers and regulatory authorities. MIDP will provide direct investments through micro-insurance risk carriers. MIDP will be jointly implemented by the World Bank and international finance corporation in the fiscal year 2013-2018. Its components include the following:

* 1. Raise consumer awareness.
  2. Invest in new product development and build market infrastructure.
  3. Build public-private partnerships.
  4. Strengthen the enabling environment.
  5. Catalyze investments in micro insurance providers and intermediaries.

**Micro Insurance Development Programme [MIDP]**

The MIDP will work at the macro (policies and institutions), ***meyyo*** (market), and micro (consumers) levels, while using the latest knowledge and technology available. Issues to be addressed include

(a) Deficiencies in market institutions and infrastructure,

(b) Inadequacies in the legal and regulatory framework,

(c) Lack of financial literacy among consumers and

(d) Poor product design.

To address these issues, the programme will provide advisory services, technical assistance, and capacity building to government agencies, insurance providers, and regulatory authorities. The program will offer direct investments through micro-insurance risk carriers. MIDP will also leverage complementary World Bank programmes, such as the agricultural insurance development programme , to cheapen certain insurance markets, with the following in mind.

1. Policy options and superior practices.
2. Motivating existing insurers to adapt or innovate their systems, products and sales strategies.
3. Motivating informal insurers to formalize and grow in a sound way.
4. Facilitating new micro insurers.
5. Motivating insurance take-up on the demand side.
6. Integration of micro insurance policy into financial sector and other policies.

**Strategies for Overcoming Key Challenges for the Growth of Micro insurance**

The following are stated to be some of the strategies for overcoming the challenges facing the micro insurance sector as a whole.

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| **Clients** | * Cultivating an insurance culture in low income markets. * Satisfying unmet needs and demands for new risk management tools. * Providing effective client education. * Offering real value for money. |
| **Insurers** | * Finding new business and distribution models * Building staff and management capacity. * Enhancing efficiency by organizational and technological innovation. * Managing and leveraging a paradigm shift to product and process simplicity. * Identifying profitable schemes. |
| **Regulators** | * Removing regulatory obstacles * Adopting a market development agenda * Incentivizing commercial insurers to more into lower-income markets * Developing systematic and comprehensive approaches to regulation. |
| **Environment** | * Generating and using reliable insurance data. * Contributing to stable macroeconomics conditions. * Preparing for climate change and catastrophic risks. * Developing an infrastructure to facilitate catastrophic risk insurance approaches. * Implementing effective market education programmes. * Improving healthcare facilities. |

**Conclusion**

It could be observed from the above that the micro insurance programme has tremendous scope around the world community, especially in the developing countries like our own. The people of the world have the open choice to opt or not to micro insurance for their own welfare, irrespective of caste, colour, creed, race and religion. Still in India, 90 per cent of the population and 88 per cent of the workforce are still excluded from any kind of insurance cover. It is a shot in the arm of any Government to protect their citizens through well organized micro insurance products and properly administered delivery mechanisms at their disposal. It is hoped that micro insurance could bring in an era of ‘equity and equality’ among the world community and so also a ‘new world order’ that can ensure ‘safety and security’ to the people of various countries. Earlier it is practiced, better for all concerned.

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