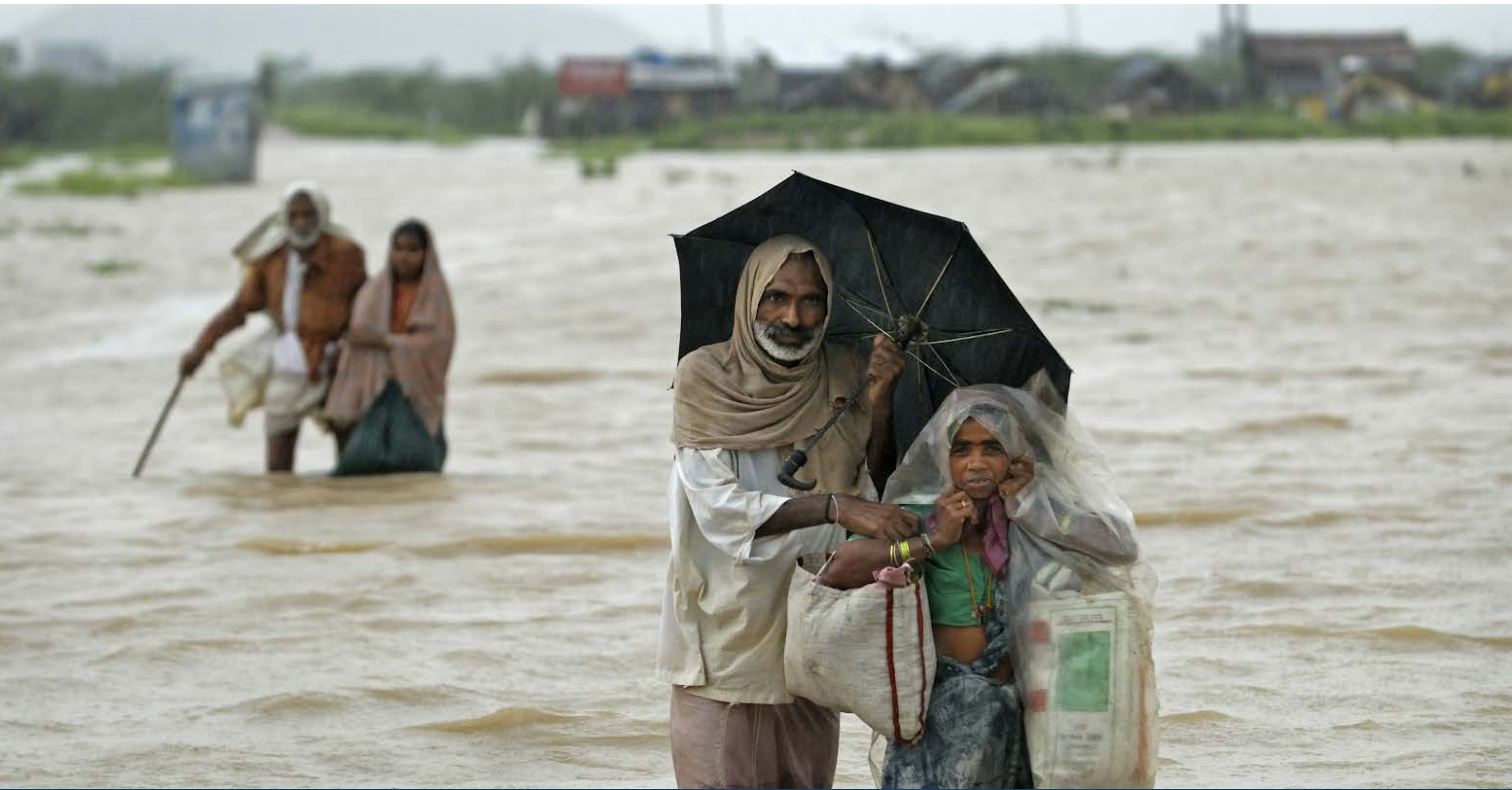


Guide to microinsurance for ICMIF members

By The ICMIF Foundation - October 2021

The purpose of this guide

The ICMIF Foundation works to support mutual and cooperative insurers to develop and scale up their microinsurance programmes. To do this well, it needs the engagement and support of the ICMIF membership. However, as microinsurance is not a familiar business line for many ICMIF members, it is important that answers to the following common questions are clear: What is microinsurance? How many people are covered by microinsurance and what helps it to expand its reach? How does microinsurance differ from traditional insurance? How is mutual microinsurance different from commercial microinsurance? What impact does mutual microinsurance have on the United Nations Sustainable Development Goals (SDGs)?

This guide provides answers to these commonly asked questions and serves as a starting point for future discussion on the work of The ICMF Foundation and the role of mutual microinsurance as a tool to help build resilience in low-income, vulnerable populations across the world.

What is microinsurance? And why is it needed?

"Microinsurance" has been defined as insurance that is accessed by low-income populations.[1] Low- income populations are unable to access traditional insurance because they cannot afford the premiums. What little disposable income low-income households have is spent on securing the families basic needs such as housing, food and children's education. There is also often a lack of understanding and a negative perception about insurance among these populations. However, it is the low-income populations who are often the most exposed to risk and when a catastrophe happens, like the death of a breadwinner or the destruction of the home from a typhoon, they have nothing to fall back on and are often plunged further into poverty.

How many people are covered by microinsurance and what is helping it to spread?

According to The Microinsurance Network's World Map of Microinsurance from 2020, almost 290 million people worldwide are covered by at least one microinsurance policy[2]. Many factors play a role in helping to deepen microinsurance penetration across the world, some of these are explained below.

Bundling

Given the limited disposable income that low-income households have, purchasing microinsurance as a standalone product is often not an option. Therefore, bundling microinsurance with other products eg loans, can make microinsurance more accessible to vulnerable populations.

Value-added services

Providing regular, tangible benefits to policyholders eg health camps, regardless of whether or not people make a claim, can help to make insurance seem more 'real' and worthwhile to the beneficiary.

Influence and support from external organisations

Several organisations across the world are working to promote the effectiveness of microinsurance; to lobby for regulatory changes to support the provision of microinsurance at national level (where it is lacking/ inadequate); and supporting microinsurance projects through the provision of both financial and technical support. Such organisations include the ICMIF (International Cooperative and Mutual Insurance Federation) Foundation, The International Labour Organisation's Impact Insurance Facility (ILO), The Microinsurance Network (MiN), the Insurance Development Forum (IDF) and the United Nations Development Programme (UNDP).

Technology

The use of technology eg mobile phones, helps to keep microinsurance premiums low and also improves the management of claims, renewal process and correspondence with policyholders.

Literacy/education campaigns

Significant consumer education is needed to support the provision of microinsurance to low-income populations and is often done in groups or at community meetings.

Non-traditional delivery channels

It is essential that distribution channels work for the target low-income populations. For microinsurance, this often means using non-traditional distribution channels, such as microfinance networks, unlicensed non-traditional agents like churches, self-help groups and non-governmental organisations (NGOs).

How does microinsurance differ from traditional insurance?

There are several distinct differences between microinsurance and traditional insurance which are summarised in the table below[3].

	Traditional insurance	Microinsurance
Premiums	Typically regular annual, quarterly, monthly payments. Based on age or other specific risk characteristics, and collected regularly. Mostly from bank deductions.	Frequent or irregular premium payments. Manner and frequency of premium collections should not be burdensome and should coincide with the cash-flow of the policyholder. Group pricing with links to other services.
Policies	Complex policy document, many exclusions, usually annual terms.	Simple language. Few to no exclusions. Terms appropriate to market.
Claims	Claims process for large sums insured may be quite difficult.	Claims process for small sums insured is simple yet still controls fraud. Rapid claims processing.
Delivery channels	Sold by licensed agents or brokers.	Often sold by unlicensed non-traditional agents preferably in groups requiring significant consumer education eg churches, self-help groups, NGOs.
Controls	Screening requirements may include a medical examination, or other tests Death certificates confirming event.	If there are any screening requirements, they are very limited to keep costs low Confirmation of death by local leaders.
Policyholders	Usually sold to wealthy and/or middle-class people or companies that typically understand insurance.	Low-income persons.
Products	Offer protection from a variety of risks, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and man-made varieties.	Similar to traditional insurance, offers protection from a variety of risks, including illness, accidental death and disability, loss of property due to theft or fire, agricultural losses, and disasters of both the natural and man-made varieties.

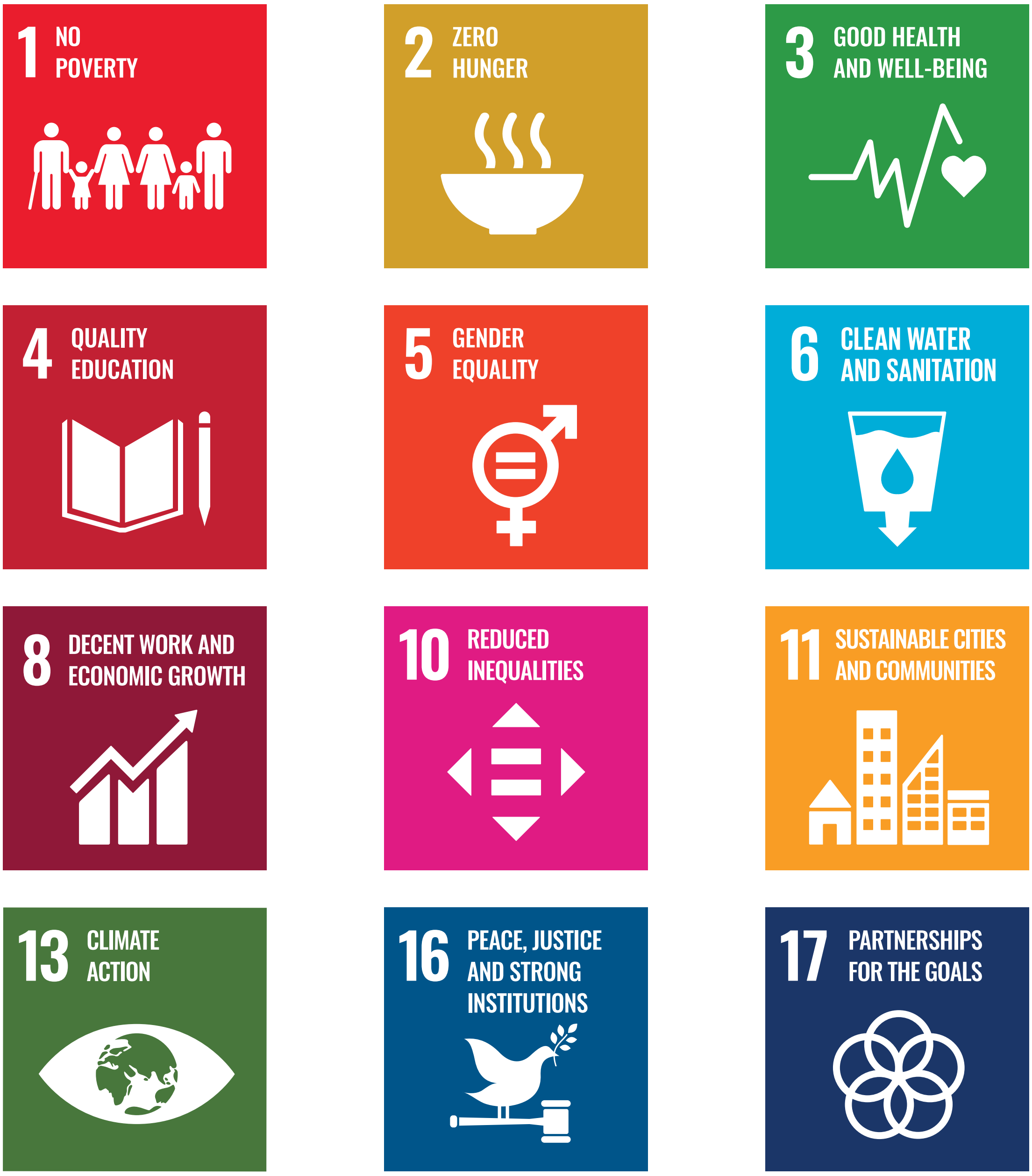
How is mutual microinsurance different from commercial microinsurance?

Mutual microinsurance is microinsurance provided by a mutual[4] insurer rather than by a commercial insurer. Here are some of the key characteristics of mutual microinsurance.

- **Empowering the individual.** Policyholders are often at the heart of all aspects of the organisation. For example, they are involved in the product design, assessment and payment of claims, ownership and governance of the organisation.
- **Customer-centric and needs-based products.** The proximity to and empowerment of the policyholders means the microinsurance products and services on offer are more tailored to meet the needs of their policyholders.
- **Holistic, long-term approach.** Mutual insurers take a holistic approach to risk, looking at the risk profile of their target customers and identifying where insurance fits in as a tool to help build overall long-term resilience. Consequently, mutual microinsurance programmes provide more than just the insurance product but educate the community on risk reduction, risk prevention and risk management techniques. In addition, many programmes provide additional services such as health camps, financial literacy workshops and access to veterinary care. The mutual empowers the individual to manage their risk and secure the future of their families.

Mutual microinsurance and the SDGs: Impacting poverty eradication

The exercise of documenting which SDGs mutual microinsurance impacts is ongoing. However, based on the evidence available to date, mutual microinsurance is impacting on the following 12 SDGs[5].



i. See: Issues Paper on Conduct of Business in Inclusive Insurance (IAIS, 2015), Page 5

ii. www.iii.org/article/background-on-microinsurance-and-emerging-markets, 8 April 2021

iii. The majority of content for this table has been taken from: Thorburn, C., n.d. *What is MicroInsurance*?.

iv. Mutuals are sometimes referred to as MCCOs (mutuals, cooperatives and other community-based organisations). See: Issues Paper on the Regulation and Supervision of Mutuals, Cooperatives and other Community-based Organisations in increasing access to Insurance Markets (IAIS and Microinsurance Network, 2010), Page 5 for a detailed explanation of MCCOs.

v. A 2019 report, Mutual microinsurance and the Sustainable Development Goals: an impact assessment following Typhoon Haiyan, by The University of Cambridge Institute for Sustainability Leadership (CISL), explored how mutual microinsurance, enabled by adequate regulation, can contribute to the United Nations Sustainable Development Goals (SDGs) by increasing the protection and resilience of low-income communities. The report documented for the first time how mutual microinsurance has the potential to contribute towards the SDGs by building financially literate, insurable, resilient, and empowered communities.

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