Microinsurance

"The protection of low-income people against specific perils in exchange for regular monetary payments (premiums) proportionate to the likelihood and cost of the risk involved."

Microfinance clients are familiar with risk. Their low income means that they regularly face unexpected events such as sickness, loss of livestock, natural disaster and death. Insurance is about addressing these risks. Without insurance, low-income households often use their savings and working capital to meet the cost of life's unexpected events. As a result, a single event can have a devastating effect upon the family's financial well-being.

What are some of the difficulties in providing insurance to poor people?

- Technical specialisation: Insurance requires specialised actuarial capacity (i.e. sophisticated mathematics), complicated by lack of reliable data on low-income, informal markets.
- Marketing and sales: Most poor people do not understand insurance or are even biased against it. Creating awareness is time consuming and costly.
- Distribution channels: Microinsurance requires a distribution system that can both efficiently handle small financial transactions in convenient locations and engender trust.

What are the typical risks addressed by insurance products?

- Credit linked risks: These are directly associated with the lending activities of the MFI (e.g. death of a client, loss or damage to property that has been used as collateral for a loan etc). Such risks are mitigated by having an agreement with a local insurance company who agrees to provide coverage for all an MFI's loans. Usually, the cost of the insurance is recovered from the client via a fee or interest rate associated with the loan.
- Termed client risks: These are directly associated with areas of identified client need (e.g. theft of property, funeral or medicine costs etc). These products are purchased directly by the clients, once the MFI has registered as an agent for a local insurance company.

How many Opportunity clients have insurance?

By the end of 2005, 550,000 clients had insurance policies and 2,500,000 lives were being covered across Ghana, Uganda, Malawi, Mozambique, Zambia, Zimbabwe, Mexico, Philippines, India, Indonesia and Colombia. This number is set to increase dramatically with the launch of the Microinsurance Agency (MIA). Essentially, the MIA will offer insurance to poor people who are not necessarily loan clients.

What are the benefits of insurance for MFIs?

- If clients are protected from unexpected events, they should repay their loans more easily.
- Client satisfaction will increase, as will sustainability, as the client dropout rate is reduced.
- Some products receive commissions from the insurance companies, which are used to cover internal cost and generate profits for the MFI.

The following table highlights areas of risk that have been addressed within Opportunity via the development of insurance products. The products that are listed have been developed in response to identified client need and it is therefore likely that additional products will be developed as new areas of risk and need are identified.

Risk	Insurance product	Brief product description
Client dying with loan	Credit life (credit linked risk)	An agreement with a local insurance company is created to provide automatic coverage for all loan clients for the duration of the loan. The Partner pays premiums monthly for those loans that are active and recovers the cost from the client via a fee or the interest rate. Alternatively an internal fund can be created depending upon a Partner's regulatory status.
Sickness of credit client	Critical illness (credit linked risk)	In some instances this can be purchased as an additional benefit under a credit life agreement depending upon availability.
Damage to collateral (either property or livestock)	Property or Livestock (either credit linked or client risk)	Applicable to any loan that uses a client's property (e.g. buildings or belongings) as collateral. As clients rarely purchase insurance for items offered as security, an agreement with a local insurance company can be created to protect the lender should the collateral be lost or damaged as a result of theft, fire, riot or natural disaster.
Unemployment of client	Unemployment (credit linked risk)	Applicable to consumer loans that utilise payroll repayments. An agreement with a local insurance company can be created to pay the lender a set number of instalments if the borrower becomes unemployed.
Cost of funeral	Funeral benefit (client risk)	Product designed to meet local needs and sold to both credit and non-credit clients. Requires Partner to be registered as an insurance agent or broker on behalf of local insurance company who supply the risk capital.
Cost of medicine	Medical expense (client risk)	As per "funeral benefit" but with the added complication of requiring negotiation with health care institutions to deliver the medical facilities.

Briefing paper kindly provided by Opportunity International – February 2007